

OFFICIAL STATEMENT

NEW AND RENEWAL ISSUES: SERIAL BONDS AND
BOND ANTICIPATION NOTES

MOODY'S RATING: Aaa⁺
ASSURED GUARANTY INSURED
(SEE "RATING" HEREIN)

BOOK-ENTRY-ONLY
NOT BANK QUALIFIED

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds and Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Bonds and Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. Interest on the Bonds and Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including the City of New York). See "Tax Exemption" herein for a discussion of certain Federal taxes applicable to corporate owners of the Bonds and Notes.

The Bonds and Notes will not be designated "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

\$11,510,000 CITY OF WATERTOWN JEFFERSON COUNTY, NEW YORK GENERAL OBLIGATIONS

\$7,345,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2008
(the "Bonds")

DATED: FEBRUARY 15, 2008

DUE: FEBRUARY 15, 2009-2023

MATURITIES

Year	Amount	Coupon	Yield	Year	Amount	Coupon	Yield	Year	Amount	Coupon	Yield
2009	\$745,000	3.250%	1.80%	2014	\$475,000	3.375%	2.80%	2019	\$350,000*	3.50%	3.55%
2010	775,000	3.250	2.00	2015	475,000	3.375	3.00	2020	375,000*	3.75	3.65
2011	675,000	3.250	2.25	2016	475,000	3.375	3.15	2021	375,000*	4.00	3.80
2012	625,000	3.250	2.45	2017	475,000	3.375	3.30	2022	325,000*	4.00	3.90
2013	525,000	3.375	2.65	2018	400,000*	3.500	3.45	2023	275,000*	4.00	4.00

*The scheduled payment of principal of and interest on the Bonds maturing when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty. See Appendix D relating to Assured Guaranty insurance herein.



*Subject to redemption prior to maturity.

\$4,165,000 BOND ANTICIPATION NOTES, 2008
At an Interest Rate of 2.00% - Priced to Yield 1.27%
(the "Notes")

DATED: FEBRUARY 25, 2008

DUE: FEBRUARY 25, 2009

The Bonds and Notes are general obligations of the City of Watertown, Jefferson County, New York, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Bonds and Notes and interest thereon, without limitation as to rate or amount.

The Bonds and Notes will be issued in registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York which will act as the securities depository for the Bonds and Notes. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds and Notes. Interest on the Bonds will be payable semi-annually on February 15 and August 15 in each year until maturity, commencing February 15, 2009. The Bonds will be subject to optional redemption prior to maturity as described herein. Interest on the Notes will be payable on the maturity date shown above. The Notes will not be subject to redemption prior to maturity. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds and Notes, as described herein.

The Bonds and Notes are offered when, as and if issued and received by the purchasers and subject to the receipt of the respective unqualified legal opinions as to the validity of the Bonds and Notes of Fulbright & Jaworski L.L.P., Bond Counsel, of New York, New York. It is anticipated that the Bonds and Notes will be available for delivery through the facilities of DTC in New York, New York on or about February 25, 2008.

February 14, 2008

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE CITY DATED FEBRUARY 6, 2008 RELATING TO THE BONDS AND NOTES BY INCLUDING CERTAIN INFORMATION OMITTED FROM SUCH OFFICIAL STATEMENT IN ACCORDANCE WITH SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). OTHER THAN AS SET FORTH ON THIS REVISED COVER PAGE, THE INCLUSION OF APPENDIX C ("BOND RATING") AND APPENDIX D ("BOND INSURANCE"), THERE HAVE BEEN NO REVISIONS TO SAID OFFICIAL STATEMENT.

ROOSEVELT & CROSS, INC. & ASSOCIATES

CITY OFFICIALS

JEFFREY E. GRAHAM

Mayor

CITY COUNCIL

ROXANNE M. BURNS
JOSEPH M. BUTLER JR.

PETER L. CLOUGH
JEFFREY M. SMITH

MARY M. CORRIVEAU

City Manager

JAMES E. MILLS
City Comptroller

DONNA M. DUTTON
City Clerk

FULBRIGHT & JAWORSKI L.L.P.
New York, New York
Bond Counsel



NYMAC

NEW YORK MUNICIPAL ADVISORS CORPORATION

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No dealer, broker, salesman or other person has been authorized by the City of Watertown to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of Bonds and Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information, estimates and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Watertown.

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OFFICIAL STATEMENT
of the
CITY OF WATERTOWN
JEFFERSON COUNTY, NEW YORK
Relating To

\$7,345,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2008
\$4,165,000 BOND ANTICIPATION NOTES, 2008

This Official Statement, which includes the cover page and appendices hereto, has been prepared by the City of Watertown, Jefferson County, New York (the "City," "County" and "State," respectively), in connection with the sale by the City of \$7,345,000 Public Improvement (Serial) Bonds, 2008 (the "Bonds") and \$4,165,000 Bond Anticipation Notes, 2008 (the "Notes").

All quotations from and summaries and explanations of provisions of the Constitution and Laws of the State and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Bonds and Notes and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and Notes and such proceedings.

DESCRIPTION OF THE BONDS AND NOTES

The Bonds and Notes are general obligations of the City, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Bonds and Notes as required by the Constitution and laws of the State (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Bonds and Notes and interest thereon, without limitation as to rate or amount.

The Bonds and Notes will be issued in registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds and Notes. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds and Notes. Interest on the Bonds will be payable February 15 and August 15 in each year until maturity, commencing February 15, 2009. Interest on the Notes will be payable at maturity. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds and Notes, as described herein. The Bonds will be subject to redemption prior to maturity as described herein. The Notes will not be subject to redemption prior to maturity. The Record Date for the Bonds is the last business day of the calendar month preceding each interest payment date.

Optional Redemption – the Bonds

The Bonds maturing on or before February 15, 2017 will not be subject to redemption prior to maturity. The Bonds maturing on or after February 15, 2018 will be subject to redemption prior to maturity, at the option of the City, on February 15, 2017 and thereafter on any date, as a whole or in part, and if in part in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at the price equal to the par amount, plus accrued interest to the date of redemption.

If less than all the Bonds of any maturity are to be redeemed, the particular bonds of such maturity to be redeemed shall be selected by the City by lot or in any customary manner of selection as determined by the Comptroller of the City. Notice of such a call for redemption shall be given by mailing such notice to the registered owner thereof not more than sixty (60) days nor less than thirty (30) days prior to such date by regular United States mail. Notice of redemption having been given as aforesaid, the Bonds so called for redemption shall, on the date of redemption set forth in such notice, become due and payable, together with interest accrued to such redemption date, and interest on such Bonds shall cease to be paid after such redemption date.

Purpose of the Bond Issue

The Bonds are issued pursuant to the Constitution and statutes of the State of New York, including, among others, the General City Law and the Local Finance Law, for following purposes and in the following amounts:

<u>Purpose</u>	<u>Amount</u>
Construction of a New Water Pump Station located in Thompson Park	360,000 ¹
Water, Sanitary and Storm Sewer Upgrades on Iroquois Ave West, Knowlton Ave. and Cosgrove St. - storm sewers	591,000 ¹
Construction of Department of Public Works Facility and Bus Transfer Site	120,000 ¹
Replacement of Various Refrigeration Equipment at the Fairgrounds Arena	152,000 ^{1,2}
Development of City Riverfront along the Black River	100,000 ¹
Recreational Improvements to the Black River Shoreline at the Route 3 Wave	130,000 ^{1,2}
Equipment for use by the Department of Public Works for Construction and Maintenance	150,000 ¹
Side Load Refuse Packer	90,000 ¹
Acquisition of a Street Sweeper for the Department of Public Works	90,000 ¹
Fire Pumper Truck	365,000 ¹
Replacement of a Portion of the Water Main on Arsenal Street	252,000 ¹
Replacement of Roofs on the Sludge Thickener and Sludge Disposal Buildings	99,000 ¹
Replacement of Incinerator Venturi Scrubber at the Waste Water Treatment Plant	45,000 ¹
Fire Rescue Truck	216,000 ¹
Reconstruction of Ten Eyck Street	3,200,000 ²
Greensview/Ives Hill Sanitary Sewer	315,000 ²
Sidewalk special assessment district #2	100,000 ²
Water Treatment Plant motor drives	240,000 ²
Ontario Drive water main	395,000 ²
Marble Street park facilities	172,000 ²
Riverfront improvements at Bicentennial Park	<u>163,000²</u>
Total	\$7,345,000

¹Proceeds of the Bonds in the amount of \$2,635,000 together with \$585,000 available funds will redeem \$3,220,000 of the \$5,555,000 bond anticipation notes currently outstanding for the aforementioned purposes and matures on February 27, 2008.

²Proceeds of the Bonds in the amount of \$4,710,000 will provide new monies for the aforementioned purposes.

Purpose of the Note Issue

The Notes are issued pursuant to the Constitution and statutes of the State of New York, including, among others, the General City Law and the Local Finance Law, for following purposes and in the following amounts:

<u>Purpose</u>	<u>Amount</u>
Downtown Streetscape Project	\$2,375,000 ^{1,2}
Reconstruction of State Street between Public Square and Eastern Boulevard	1,245,000 ^{1,2}
Reconstruction of Sterling Street	47,000 ¹
Sewer Overflow Study	88,000 ¹
Paving at the Department of Public Works Facility	37,500 ¹
Combined Sanitary Sewer Replacement Between Chestnut and Holcomb Streets	106,500 ¹
Sanitary Sewer Replacement on Algonquin Avenue West	114,000 ¹
Sanitary Sewer Replacement from Butterfield to Barben Avenues	<u>152,000¹</u>
Total	\$4,165,000

¹Proceeds of the Notes in the amount of \$1,915,000 together with \$420,000 available funds will redeem \$2,335,000 of the \$5,555,000 bond anticipation notes currently outstanding for the aforementioned purposes and matures on February 27, 2008.

²Proceeds of the Notes in the amount of \$2,250,000 will provide new monies for the aforementioned purposes.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds and Notes (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sample offering document language supplied by DTC, and the City takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company

Certificated Bonds

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: such Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. Principal of the Bonds when due will be payable upon presentation at the office of a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the City upon termination of the book-entry-only system. Interest on the Bonds will remain payable February 15 and August 15 in each year until maturity, commencing February 15, 2009. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent. The Record Date of the Bonds will remain the last business day of the calendar month preceding each such interest payment date. Bonds may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Certificate of Determination of the City Comptroller authorizing the sale of the Bonds and fixing the details thereof and in accordance with the Local Finance Law. The fiscal agent shall not be obligated to make any such transfer or exchange of Bonds between the Record Date preceding an interest payment date and such interest payment date.

Certificated Notes

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: the Notes will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. Principal and interest on the Notes when due will be payable upon presentation at the office of a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the City upon termination of the book-entry-only system.

THE CITY

General Information

The City of Watertown (the "City"), is located in the northern part of New York State, eleven miles east of Lake Ontario and twenty-two miles south of the St. Lawrence River (and Canadian border). The City covers an area of nine square miles. With a population of 26,705, it is the largest population center in Jefferson County or within seventy miles.

Watertown is the county seat. This has led to it being the region's government and legal center. The federal, state, county and city governments have offices here. Federal Court, State Supreme Court, County and Family Court, and City Court also have chambers here. There are approximately 40 law firms located within the City.

County-wide, the largest industry sectors, as measured by the number of civilian employees, are government (23%), wholesale/retail trade (24%), and services (23%). Manufacturing represents 10% of the employment.

Nearly a quarter of the government employees work at Fort Drum. Most of the remaining employees work in offices in downtown Watertown.

While no single wholesale/retail trade employer makes the list of major employers, in total they are significant employers in the area. Their primary location has shifted over the last 20 years from downtown Watertown to near the interstate.

Over half of the service employees work in the health and social fields. Watertown is the center for health service providers in the “North Country”, with one hospital, two major nursing homes, an outpatient facility, a cancer treatment center, a Veterans Administration Center and a mental health treatment facility. There are more than 50 physician’s and 20 dentist’s offices within the City.

Manufacturers within the City make specialty paper products, railroad/subway brakes, electric motors, medical instruments and irrigation systems.

While it only represents 3.2% of the county’s employment, the finance, insurance and real estate sector is important to Watertown. The City has four commercial banks, one savings bank, one savings and loan, and three credit unions, plus branch facilities. There are two insurance companies in Watertown and more than 30 insurance agencies.

On a county-wide basis, agriculture is an important sector. While it employs less than 4% of the workers, it has sales of \$77,000,000 per year.

Transportation needs to and from the area are served by Interstate Route 81 and Watertown International Airport. Watertown is served by one independent bus line and several interstate trucking firms. CSX provides rail freight service. Within Watertown, the City operates a fleet of four public buses and provides paratransit services.

Ownership of the Watertown International Airport was transferred to Jefferson County effective March 1, 2006. In exchange for the County taking ownership, the City agreed to amend the sales tax distribution agreement and not receive any distribution on the .75% increase to the County sales tax rate. The County agreed to fund the payment of certain outstanding City debt issued for airport purposes.

The City maintains its own police and fire protection. Electricity and natural gas are furnished by National Grid (formerly Niagara Mohawk Power Corp.) Major telecommunication services are provided by Verizon.

Fort Drum

Following activation of the 10th Mountain Division at Fort Drum in 1984, the military related population in the area has grown to around 31,551. Based upon the Economic Impact Statement for fiscal year 2006, 17,438 soldiers and 3,712 civilians were employed at Fort Drum. The Soldiers have an additional 12,500 family members. Approximately 1/3 of the total military-related population live on Fort Drum with the remainder scattered among the various jurisdictions within 30 miles of the base. The City, as an urban center and located only 7 miles from the Fort, houses the next largest percentage. An estimated 4,300 indirect jobs have been created to support the area’s military population. The Economic Impact Statement for fiscal year 2005 indicates that Fort Drum’s economic impact on the tri-county area for 2006 was \$1,247,658,930.

In May 2004, the Army announced that the 10th Mountain Division will receive a third brigade and convert the two existing brigades to Brigade Combat Teams. Collectively this generated an increase of over 6,000 Soldiers at Fort Drum. Fort Drum sustained no losses due to the 2005 Base Realignment and Closure decisions.

The Army has privatized the on post family housing, the Residential Communities Initiative. The Army plans on building 845 new homes on Fort Drum and renovating all the existing 2,272 older homes. This construction and renovation will be completed by 2009.

In 2007, the military construction defense bill funded well over \$335M in construction at Fort Drum. The projects receiving funding are additional barracks (\$62M), unit headquarters buildings (\$61M), vehicle maintenance facilities (\$51M), the combined arms collective training facility (\$15M), the combined arms range (\$15M), a dental clinic (\$8M), a school age child development center (\$6M), Commissary interior reconfiguration (\$22M), an AAFES main store expansion (\$15M), an AAFES shoppette (\$5M) and additional family housing construction (\$75M).

Housing Development

The following is a table listing the various types of housing built within the City in a recent 10 year period.

<u>Housing Type</u>	<u>Units Built</u>
Senior Citizens	25
Single Family Home	73
Multi-family	<u>126</u>
Total	224

Source: Annual Building Permit Reports, 1997-2006.

Larger Employers

The following are major employers located within the City.

<u>Name</u>	<u>Type</u>	<u>Approximate # of Employees</u>
Samaritan Medical Center/Keep Home	Hospital/Nursing Home/Health Services	1,700
Jefferson County	Government Services	856
Stream International	Customer Relationship Management Services	850
Watertown City School District	Primary Education	735
Jefferson Rehab. Center	Services for Disabled	550
Mercy of Northern New York	Health Services	540
Jefferson Community College	Post-secondary Education	400
State of New York	Government Services	359
City of Watertown	Government Services	324
New York Air Brake Company	Manufactures air brakes for freight and passenger railroad cars, hydraulic pumps and motors for aircraft and missiles	320
Covidien	Manufactures Medical Devices	310
Johnson News Corporation	Daily News Papers - Job Printing	241
Statur Electric	Manufacturers Fractional Power Motors	169
Purcell Construction	Construction	140

Source: Jefferson County Job Development Corporation.

Population Trends

	<u>City of Watertown</u>	<u>Jefferson County</u>	<u>New York State</u>
1970	30,787	88,508	18,236,882
1980	27,861	88,151	17,558,072
1990	29,429	106,784	17,990,455
2000	26,705	111,738	18,976,457
2004	26,240	116,384	19,254,630

Source: U.S. Census 1970, 1980, 1990, 2000 and 2004 population estimates.

Form of City Government

The City has had the Council-Manager form of local government since 1920. The five member Council is elected at large for four year terms. Elections are non-partisan as provided by the City Charter. A full time City Manager, appointed by the Council, is the Chief Executive Officer of the City Government.

Financial Organization

The City Comptroller is the Chief Fiscal Officer and is responsible for receiving, collecting and disbursing funds. It is also the responsibility of the City Comptroller to audit bills for all financial transactions.

Budgetary Procedures

Under the City Charter, the City Manager prepares the annual proposed budget. It is presented to the City Council and the public about mid-April of each year, approximately six weeks before the budget must be adopted. A public hearing on the budget must be held by the City Council before the adoption of the budget. Through its adopted budget, the City Council establishes the kind and level of services and projects for the following fiscal year, July 1 through June 30. The Council sets the real property tax rate. Throughout the year, the City Manager exercises administrative budgetary controls. Money can be spent only for services, materials, and projects established in the budget. Unexpended appropriations are closed to the appropriate fund balance at the end of the fiscal year and are then used in estimating the anticipated surplus items in the budget for the following year.

State Aid

The City receives financial assistance from the State. In its budget for the 2007-2008 fiscal year, approximately 16.28% of the general fund revenues of the City are estimated to be received from the State as State aid. If the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments. Additionally, if the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the City, may be affected by a delay in the payment of State aid.

The State is not constitutionally obligated to maintain or continue State aid to the City. Accordingly, no assurance can be given that present State aid levels will be maintained in the future. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the City, requiring either a counter-balancing increase in revenues from other sources to the extent available, or a curtailment of expenditures. (See also "Market and Risk Factors" herein.)

Employees

The City currently employs approximately 336 full-time and 37 to 101 part-time or seasonal employees. Police and Fire Department employees, and general City employees are each represented by a collective bargaining agent. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>No. of Employees</u>	<u>Contract Expiration Dates</u>
Civil Service Employees Association	145	June 30, 2008
Watertown Firefighters Association	79	June 30, 2009
Watertown Police Benevolent Association	70	June 30, 2009
International Brotherhood of Electrical Workers	3	June 30, 2008

Status and Financing of Employee Pension Benefits

All employees of the City eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York ("Retirement System Law") are members of the New York State and Local Employees' Retirement System ("ERS") or the New York State and Local Police and Fire Retirement System ("PFRS"). (These systems are referred to collectively hereinafter as the "Retirement Systems" where appropriate). These Retirement Systems are cost-sharing multiple public employer retirements systems. The Retirement Systems offer a wide range of plans and benefit which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after ten years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement Systems. The Retirement Systems are non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 must contribute 3% of gross annual salary toward the cost of retirement programs. However, effective October 1, 2000, all members with 10 years or more of service who were hired after July 27, 1976, will not be required to contribute 3% of their gross annual salary toward the cost of retirement.

Historically there has been a state mandate requiring full (100%) funding of the annual actuarially required local governmental contribution out of current budgetary appropriations. With the strong performance of the Retirement System in the 1990s, the locally required annual contribution declined to zero. However, with the subsequent decline in the equity markets, the pension system became underfunded. As a result, required contributions increased substantially to 15% to 20% of payroll for the employees' and the police and fire retirement systems, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments.

In 2003, Chapter 49 of the Laws of 2003 amended the Retirement and Social Security Law and the Local Finance Law. The amendments empowered the State Comptroller to implement a comprehensive structural reform program for the ERS. The reform program established a minimum contribution for any local governmental employer equal to 4.5% of pensionable salaries for bills which were due December 15, 2003 and for all fiscal years thereafter, as a minimum annual contribution where the actual rate would otherwise be 4.5% or less due to the investment performance of the fund. In addition, the reform program instituted a billing system to match the budget cycle of municipalities and school districts that will advise such employers over one year in advance concerning actual pension contribution rates for the next annual billing cycle. Under the

previous method, the requisite ERS contributions for a fiscal year could not be determined until after the local budget adoption process was complete. Under the new system, a contribution for a given fiscal year will be based on the valuation of the pension fund on the prior April 1 of the calendar year preceding the contribution due date instead of the following April 1 in the year of contribution so that the exact amount may now be included in a budget.

On July 30, 2004, Governor Pataki signed into law Chapter 260 of the Laws of 2004 ("Chapter 260"). Chapter 260 contains three components which alter the way municipalities and school districts contribute to the state pension system: (1) revision of the payment due date, (2) extension of the period of time for pension debt amortization, and (3) authorization to establish a pension reserve fund. Prior to the effective date of the provisions of Chapter 260, the annual retirement bill sent to municipalities and school districts from the state has reflected pension payments due between April 1 and March 31, consistent with the state fiscal year.

Chapter 260 provides for the following changes:

Contribution Payment Date Change: The law changes the date on which local pension contributions are due to the state. Effective immediately, the annual required contribution is due Feb. 1 annually instead of Dec. 15. As a result, no payment will be due in calendar year 2004. With many municipalities in the state on a calendar fiscal year end, this adjustment provides, a significant one-time benefit for fiscal 2004, allowing certain municipalities to use 2004 resources otherwise meant for pension expenditures for other budgeting purposes or to add to fund balance. Since the City is on a June 30 fiscal year end no such benefit was available to the City.

Pension Cost Amortization-Extension of Payout Period: The law also extends the ability of municipalities and school districts to amortize a portion of the current year pension cost over a period of 10 years, extending the term from five years as authorized under the 2003 Chapter 49 legislation. Municipalities and school districts can amortize, either directly through the state retirement system at a fixed interest rate annually determined by the state comptroller or through the capital markets, pension payments in excess of 7% of payroll in 2005, 9.5% in 2006, and 10.5% in 2007.

Pension Contributions Reserve Fund: The law creates special authorization to create a new category of reserve fund under the General Municipal Law. Municipalities and school districts may now establish a retirement contribution reserve fund that can be funded from other available current government resources.

The investment of monies, and assumptions underlying same, of the Retirement Systems covering the City's employees is not subject to the direction of the City. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALs"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the City which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

The following table presents the amount of payments by the City to the New York State Retirement Systems for the past five years and the current year:

<u>FY Ending</u> <u>June 30</u>	<u>ERS</u>	<u>PFRS</u>
2003	\$ 82,559	\$ 8,217
2004	381,004	330,499
2005	852,793	1,211,751
2006	790,665	1,155,635
2007	762,350	1,133,628
2008	737,283	1,094,456

It should also be noted that the City provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. There is now an accounting rule that will require governmental entities, such as the City, to account for post-retirement healthcare benefits as it accounts for vested pension benefits. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), described below, requires such accounting. Although GASB 45 encourages earlier adoption, implementation is required by the following dates, based on the size of government measured by annual revenue:

<u>Annual Revenue</u>	<u>Effective for Fiscal Year Ending After:</u>
Greater than \$100 million	December 15, 2006
Between \$10 million and \$100 million	December 15, 2007
Less than \$10 million	December 15, 2008

GASB 45 and OPEB. OPEB refers to "other post-employment benefits," meaning other than pension benefits, disability benefits and OPEB consist primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements.

GASB 45 will require municipalities and school districts to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC. The City expects to be in compliance with the requirements of GASB 45 by or before the applicable effective date.

Actuarial Valuation will be required every 2 years for OPEB plans with more than 200 members, every 3 years if there are less than 200 members.

Unemployment Rate Statistics

	<u>Year Average</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Watertown	6.0%	6.2%	6.2%	5.1%	4.7%
Jefferson County	6.8%	6.9%	6.9%	6.1%	5.5%
New York State	6.2%	6.4%	5.8%	5.0%	4.5%

	<u>2007 Monthly Figures</u>											
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
City of Watertown	4.9%	5.1%	4.9%	4.2%	4.5%	5.0%	5.0%	4.7%	4.5%	4.2%	4.4%	4.9%
Jefferson County	6.8%	7.2%	6.5%	5.4%	4.8%	4.8%	4.8%	4.3%	4.4%	4.6%	5.4%	6.3%
New York State	4.9%	4.9%	4.3%	4.0%	4.1%	4.5%	5.0%	4.7%	4.4%	4.4%	4.4%	4.7%

Source: Department of Labor, State of New York. (Note: Figures not seasonally adjusted).

National Grid (formerly Niagara Mohawk Power Corp.) and the City's Electrical Distribution System

On October 15, 1990, the City Council approved and authorized the execution of a Letter of Understanding between the City and National Grid (formerly Niagara Mohawk Power Corporation) in connection with the purchase of the City's Electrical Distribution System and future purchases of surplus power generated by the City's Hydroelectric Generating Plant. A major condition of the contract signed in March, 1991 was National Grid's \$7,000,000 payment to the City for title to the distribution system's street lighting facilities. Of that amount, a portion was put in a Mandatory Reserve for the payment of debt service on Bonds previously issued, with the remaining amount transferred to a Capital Projects Fund for the reconstruction of the City's Dams, Headgates and Power Canal.

The Hydroelectric Project

The City owns and operates the Hydroelectric Project, which is located on the Black River. The principal features of the Hydroelectric Project consist of two dams (the diversion dam and the Delano Island dam), a headgate, a power channel and forebay, a powerhouse, an impoundment and appurtenant facilities.

The Federal Energy Regulatory Commission ("FERC") issued a new license to the City for a major facility upgrade on June 16, 1995. Under that license, the City proposed to replace all existing electrical and mechanical equipment with new generating units. This would have increased the nameplate capacity of the Hydroelectric Project from 5.4 MW with an average annual generation of approximately 28,000 MWh to a nameplate capacity of 10.8 MW with an average annual generation of approximately 49,900 MWh. The City estimated that the construction cost of the facility upgrade to the 10.8 MW level would be \$25,000,000 to \$30,000,000.

In November 1996, the City filed an Application for License Amendment (the "Amendment") with the FERC under which the City proposed to renovate rather than replace certain of the major elements of the Hydroelectric Project. Under the Amendment, the City proposed to retain the existing powerhouse, rewind the existing generators and replace portions of the turbines rather than replace all of the existing equipment. This was expected to result in a facility with a nameplate capacity of 7.0 MW with an average annual generation of approximately 30,300 MWh. The FERC approved the Amendment on January 6, 1997.

The project was completed in January 2000, with all three turbines on line. The facility now has a nameplate capacity of 6.54 MW and an average annual generation of approximately 24,970 MWh. The total approximate cost of the project was \$9,500,000. The City has signed a contract with Upstate Testing and Control, LLC (formerly Mercer Management Incorporated), Albany, New York, for operation and maintenance of the plant through June 30, 2009. The City will pay Upstate Testing and Control, LLC \$202,635 in fiscal year 2007-2008 and \$206,685 in fiscal year 2008-2009. The City had gross revenues from electric power sales of approximately \$3,201,606 and net revenues of \$2,898,402 after operating expenses and wheeling charges for the fiscal year ending June 30, 2007.

Power Purchase Agreement

On March 19, 1991 the City entered into a Power Purchase Agreement (the "PPA") with National Grid (formerly Niagara Mohawk Power Corporation) that requires National Grid to purchase all of the power and energy (the "Excess Energy") generated by the Hydroelectric Project in excess of the power and energy required by certain municipal accounts (the "Municipal Accounts") of the City. The Municipal Accounts are all of the City owned users of electricity, such as City departments (DPW, water, sewer) and other units (the pool, parks, library, City buildings). National Grid has agreed to deliver power to the Municipal Accounts pursuant to a separate Transmission and Distribution Agreement. The PPA further obligates National Grid to sell energy to the Municipal Accounts at its published Rate Schedule PSC No. 207 Electricity, Service Classification No. 7 for any times during which the Hydroelectric Project is not able to produce sufficient energy to supply the Municipal Accounts. During the period in which the City was upgrading the Hydroelectric Project and all units were offline (June-September 1997), the City arranged to buy power from New York Power Authority ("NYPA"). Additional requests for power above that provided by NYPA were supplied by National Grid.

The PPA requires National Grid to purchase power at rates set forth therein, which range from 10.11 cent/KWh in 2000 to 34.78 cents/KWh in 2029 with annual increases of approximately 4.3%. The PPA terminates on December 31, 2030, the Termination Date. The PPA may not be terminated by either party prior to the Termination Date; however, there are provisions under which National Grid is not required to purchase Excess Energy and the City is not required to deliver energy by reasons of maintenance, repair, emergency or safety.

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

Sewer Agreement

By resolution adopted July 7, 1986, the City Council approved an agreement between the City and the Development Authority of the North Country, in order to provide wastewater treatment to Fort Drum and outlying communities at the City's Water Pollution Control Plant. The Development Authority of the North Country and United States Army executed an agreement on June 13, 1986 requiring sewage to be delivered for treatment at the Watertown Water Pollution Control Plant by April 1, 1987. In order to provide service for the Army's sewage, it was necessary for the City of Watertown to let two major construction projects at the Water Pollution Control Plant to be constructed.

The total project cost for the completed construction expansion was \$11,897,372, financed through the issuance of bonds. On June 15, 2007 the final principal payment was made on the expansion debt. Previously, the City had recouped these expenditures through service fees charged to the Development Authority of the North Country.

Water Agreement

In the spring of 1987, construction began on the renovations and new additions to the existing Water Treatment Plant Facility to provide for a plant capable of producing 10 million gallons per day of treated water.

The new facility was designed so that with some additional construction and equipment it could be upgraded to produce 15 million gallons per day.

The City Council, by resolution adopted on January 24, 1990, approved an Agreement between the City and the Development Authority of the North Country in order to produce and deliver treated fresh water to Fort Drum and future outside water districts. On January 16, 1990, the Development Authority and the United States Army executed an agreement for water service to Fort Drum.

After entering into the agreement with the Development Authority, the City entered into additional construction contracts to upgrade the facility from 10 million to 15 million gallons per day production capacity. The project was completed at a total cost of \$15,650,000 and was financed through bonding.

On May 16, 1991, the City began selling water to the Development Authority. The revenue derived is being used to offset the cost of capital construction of the plant and annual operation and maintenance expense. The revenue received by the City is based on a pro rata share of water purchased.

The following table sets forth the revenues received by the City over the last five years from such sales:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2003	\$585,395
2004	610,500
2005	614,807
2006	505,978
2007	640,132

Other Information

The statutory authority for the power to spend money for the object or purpose, or to accomplish the object or purpose for which the Bonds and Notes are to be issued, is the Charter of the City of Watertown, the General City Law and the Local Finance Law.

The procedure for the validation of the Bonds and Notes has complied with Title 6 of Article 2 of the Local Finance Law.

No principal or interest upon any obligation of this City is past due. The City has never defaulted in the payment of principal and interest on any indebtedness.

The fiscal year of the City is July 1 through June 30.

This Official Statement does not include the financial data of any political subdivision having power to levy taxes within the City except under the sub-caption "Estimated Overlapping Indebtedness."

Financial Statements

The City retains certified public accountants for the purposes of an independent audit. The last such audit covers the period ending June 30, 2006 and is incorporated as a part of this Official Statement as Appendix B. Certain financial information of the City is attached hereto as Appendix A to this Official Statement.

City Investment Policy

The City has authorized the City Comptroller to invest moneys not required for immediate expenditure, pursuant to the statutes of the State of New York, in the following investments: (1) special time deposits in, or certificates of deposits issued by, a bank or trust company located and authorized to do business in the State of New York; (2) obligations of the United State of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by any New York municipality or district corporation, other than the City; (6) obligations of New York public benefit corporations which are made lawful investments in which the City may invest pursuant to another provision of law; (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York; and, (8) in the case of City moneys held in certain reserve funds established pursuant to law, obligations issued by the City. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law.

TAX INFORMATION

Valuations

<u>Fiscal Year Ending June 30:</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assessed Valuation	\$603,747,154	\$615,964,181	\$622,236,617	\$833,804,521	\$965,989,235
New York State					
Equalization Rate	100.00%	100.00%	95.00%	100.00%	100.00%
Full Valuation	\$603,747,154	\$615,964,181	\$654,985,913	\$833,804,521	\$965,989,235
Tax Rate Per \$1,000					
Assessed Valuation	\$15.18	\$15.18	\$14.38	\$9.82	\$7.13

Tax Collection Record

<u>Fiscal Year Ending June 30:</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Tax Levy ¹	\$9,340,209	\$9,617,750	\$9,179,927	\$8,488,407	\$7,084,246
Additions (Cancellations)					
During the Year	<u>(9,912)</u>	<u>(9,738)</u>	<u>(12,045)</u>	<u>(6,783)</u>	<u>(5,236)</u>
Net Tax Levy	9,330,297	9,608,012	9,167,882	8,481,624	7,079,010
Collections ¹	<u>9,268,664</u>	<u>9,363,128</u>	<u>8,953,168</u>	<u>8,472,880</u>	<u>6,878,707</u> ²
Uncollected End of Year	\$61,633	\$244,884	\$214,714	\$8,744	\$200,303 ²
% Collected	99.34%	97.45%	97.66%	99.90%	97.17% ²

¹ Includes water, sewer and public service charges.

² As of December 31, 2007.

Tax Collection Procedure

The City's fiscal year is July 1 through June 30. The City tax rate is based on an amount per \$1,000 assessed valuation. City Real Property tax invoices are prepared based on an Annual Assessment Roll prepared by the City Assessor as of January 1 of each year. The City Comptroller receives the bulk of the tax payments between July 5 - August 5, the regular annual collection period. The City Comptroller receives late payments throughout the year until June 1, at which time delinquent invoices are listed for the annual tax sale conducted at the end of June. All properties not purchased by others must, by City Charter requirements, be purchased by the City. Properties so purchased by the City may be redeemed upon payment of taxes, interest, and penalties up to a period of two years from the tax sale date. If still unredeemed at the end of two years from the tax sale date, the property becomes City owned on the basis of a Tax Sale Deed issued by the City Comptroller. Delinquent taxes are subject to penalty and interest of 6% for the first month and an additional 1/2 of 1% per month thereafter.

The City is responsible for the collection of Jefferson County taxes in the City, and must pay the County in full by March 1 of the current year. The City is also responsible for the collection of delinquent Watertown City School District taxes, and pays these taxes to the School District as they are collected.

Larger Taxpayers

<u>Name</u>	<u>Type</u>	2008-09 ¹ <u>Assessed Valuation</u>
National Grid (formerly Niagara Mohawk Power Corp.)	Utility	\$35,053,240
Erie Boulevard Hydropower	Utility	15,404,150
Arsenal Street Associates (Price Chopper Plaza)	Shopping Center	12,519,900
Arsenal Housing Associates	Apartments	10,519,000
MGNH Inc. (Mercy)	Health Services	9,504,500
Ontario Apartments LLC	Apartments	9,090,300
Eastern Housing Associates	Apartments	9,084,000
Allen Spevack (Stateway Plaza)	Shopping Center	8,303,480
Home Depot	Shopping Center	6,926,300
Verizon	Utility	5,849,979
Ives Hill Retirement Community	Senior Living Facility	4,878,700
200 Washington Street Assoc. LLC	Bank	4,712,100
Prime LLC	Auto dealerships, golf course, apartments	4,622,650
Affordable Hospitality	Motel	4,546,800
Watertown Savings Bank	Bank	4,399,039
Academy Housing Associates	Apartments	4,346,000
RE Alexander Partnership	Motel	4,081,200
Hotel 45 Inc	Motel	4,061,700
Palmer Apartments Co.	Apartments	3,237,500
North Country Affordable Housing	Apartments	3,219,750

¹ Tentative

Constitutional Tax Margin

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2007</u>	<u>June 30, 2008</u>
Five Year Average Full Valuation	\$616,179,225	\$664,597,842
Tax Limit - 2% of Five Year Average	12,323,585	13,291,957
Add: Exclusions From Tax Limit	<u>5,767,391</u>	<u>6,625,998</u>
Maximum Taxing Power	18,090,976	19,917,955
Less Total Levy	<u>8,324,435</u>	<u>6,909,651</u>
Tax Margin	<u>\$ 9,766,541</u>	<u>\$ 13,008,304</u>

Sales and Compensating Use Taxes

Effective September 1, 2004, Jefferson County increased the County-wide sales tax rate from 3.00% to 3.75%. Based on an agreement reached with Jefferson County, the City continued to receive 28.0% of the original 3.00% and the County retained all of the additional 0.75%. These distribution percentages remained in effect through December 31, 2005. From January 1, 2005 through December 31, 2005 the City received 23.0% of the entire 3.75% County sales tax. From January 1, 2006 through December 31, 2006 the City received 23.5% of the entire 3.75% County sales tax. From January 1, 2007 forward the City will receive 24.0% of the entire 3.75% County sales tax. The sales and compensating use tax collections as recorded by the City for each of the last five fiscal years are as follows:

<u>Year</u>	<u>Amount Received</u>
2003	\$ 9,771,951
2004	11,351,598
2005	11,897,671
2006	13,454,172
2007	14,159,944
2008 (Budget)	15,570,000

CITY INDEBTEDNESS

Constitutional Requirements

The New York State Constitution limits the power of the City (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations in summary form, and as generally applicable to the City and the Bonds and Notes include the following:

Purpose and Pledge. Subject to certain enumerated exceptions, the City shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The City may contract indebtedness only for a City purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute, and unless substantially level or declining annual debt service is authorized and utilized, no installment may be more than fifty per centum in excess of the smallest prior installment. The City is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and such required annual installments on its notes.

Debt Limit. The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional method for determining full valuation is by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the State Board of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

Pursuant to Article VIII of the State Constitution and Title 9 of Article 2 of the Local Finance Law, the debt limit of the City is calculated by taking 7% of the latest five year average of the full valuation of all taxable real property.

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the City to borrow and incur indebtedness by the enactment of the Local Finance Law subject, of course, to the provisions set forth above. The power to spend money, however, generally derives from other law, including specifically the City Law and the General Municipal Law.

Pursuant to the Local Finance Law, the City authorizes the issuance of bonds by the adoption of a bond resolution approved by at least two-thirds of the members of the Common Council, the finance board of the City. Customarily, the Common Council has delegated to the City Comptroller, as chief fiscal officer of the City, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) Such obligations are authorized for a purpose for which the City is not authorized to expend money, or
- (2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations

and an action contesting such validity, is commenced within twenty days after the date of such publication,
or,

- (3) Such obligations are authorized in violation of the provisions of the constitution.

Except on rare occasions the City complies with this estoppel procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The City Council, as the finance board of the City, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may delegate the power to sell the obligations to the City Comptroller, the chief fiscal officer of the City, pursuant to the Local Finance Law.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first of such notes and provided that such renewals do not exceed five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the City with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

Debt Outstanding End of Fiscal Year

Fiscal Years Ending June 30:	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Bonds ¹	\$35,829,600	\$31,069,400	\$34,774,700	\$35,646,000	\$30,403,800
Bond Anticipation Notes	<u>6,215,000</u>	<u>10,387,000</u>	<u>0</u>	<u>0</u>	<u>5,555,000</u>
	\$42,044,600	\$41,456,400	\$34,774,700	\$35,646,000	\$35,958,800

¹Does not include various refunded bond issues.

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of January 28, 2008.

	<u>Maturity</u>	<u>Amount</u>
<u>Bonds</u> ¹	2008-2026	\$27,798,600
<u>Bond Anticipation Notes</u>		<u>5,555,000</u> ²
	Total Debt Outstanding	<u>\$33,353,600</u>

¹ Excluding various refunded bonds.

² To be redeemed with part of the Bond and Note proceeds in the amount of \$4,550,000 together with \$1,005,000 available funds.

Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of January 28, 2008:

Five-Year Average Full Valuation of Taxable Real Property	\$734,898,201
Debt Limit - 7% thereof	51,442,874

Inclusions:

Serial Bonds	\$27,798,600
Bond Anticipation Notes	5,555,000
1991 Refunded Bonds	89,400
1992 Refunded Bonds	285,000
1992 Refunded Bonds	<u>167,000</u>
Total Inclusions	<u>33,895,000</u>

Exclusions:

Self-Liquidating Debt ¹	\$8,339,650
Water Debt ²	4,372,556
Sewer Debt ³	893,045
Cash on Hand in Man. Res. ⁴	256,678
Refunded Bonds ⁵	541,400
Appropriations	<u>499,851</u>
Total Exclusions	<u>14,903,180</u>

Total Net Indebtedness	<u>18,991,820</u>
Net Debt-Contracting Margin	<u>\$32,451,054</u>
Percent of debt contracting power exhausted	36.92%

The issuance of the Bonds and Notes will increase the Total Net Indebtedness of the City by \$4,235,000.

- ¹ Debt related to the City's Hydro-electric facility is excluded pursuant to Section 123.000 of the Local Finance Law
² Water Debt is excluded pursuant to Article VIII, Section 5B of the New York State Constitution.
³ Sewer Debt is excluded pursuant to Section 124.10 of the Local Finance Law.
⁴ Cash on Hand from a Mandatory Reserve is excluded pursuant to Section 136.00(11) of the Local Finance Law.
⁵ Refunded Bonds are excluded pursuant to Section 136.00(10-a) of the Local Finance Law.

Authorized But Unissued Items

After the issuance of the Bonds and Notes, the City will have \$11,714,500 in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Downtown Streetscape Project	\$6,350,000	\$850,000
City Riverfront Parks Development	310,000	185,000
Reconstruction of State Street between Public Square & Eastern Blvd	13,470,000	8,620,000
Planning, Surveying and Design Costs of a new City Street and Related Infrastructure to Connect Arsenal Street and Coffeen Street	50,000	50,000
Paving at the Department of Public Works Facility	160,000	85,000
Sewer Overflow Study	150,000	40,000
Black River Shoreline Improvements at the Hole Brothers Site	200,000	160,000
Improvements to J.B. Wise parking lot	1,020,000	1,020,000
Sidewalk Installation on Washington Street	32,500	32,500
Marble Street Park Improvements	346,000	174,000
Bicentennial Park Improvements	326,000	163,000
Water Treatment Plant Motor Drives	500,000	260,000
Landfill Drainage Improvements	<u>75,000</u>	<u>75,000</u>
	\$22,989,500	\$11,714,500

Estimated Overlapping Indebtedness

In addition to the City, the following political subdivisions have the power to issue bonds and to levy taxes or cause taxes to be levied on taxable real property in the City. Estimated bonds and bond anticipation notes are listed as of the close of the latest available fiscal year of the respective municipalities.

<u>Unit</u>	<u>Total</u> <u>Indebtedness</u>	<u>Exclusions</u>	<u>Net</u> <u>Indebtedness</u>	<u>% Within</u> <u>City</u>	<u>Net Overlapping</u> <u>Indebtedness</u>
County of Jefferson	\$29,135,000	\$ 0	\$29,135,000	15.7%	\$ 4,574,195
City School District of the City of Watertown	24,847,000	0	24,847,000	69.8%	<u>17,343,206</u>
Total					<u><u>\$21,917,401</u></u>

Source: New York State Comptroller's Special Report on Municipal Affairs for Fiscal Year Ended in 2005.

Bonded Debt Service¹

Fiscal Year Ending June 30th	Excluding the Bonds			Principal This Issue	Principal All Issues
	Principal	Interest	Total Principal and Interest		
2008	\$3,745,200	\$1,510,395	\$5,255,595	\$0	\$3,745,200
2009	3,506,200	1,328,338	4,834,538	745,000	4,251,200
2010	3,147,200	1,152,712	4,299,912	775,000	3,922,200
2011	2,665,200	1,001,772	3,666,972	675,000	3,340,200
2012	2,455,000	875,905	3,330,905	625,000	3,080,000
2013	1,685,000	770,908	2,455,908	525,000	2,210,000
2014	1,580,000	688,017	2,268,017	475,000	2,055,000
2015	1,500,000	611,075	2,111,075	475,000	1,975,000
2016	1,420,000	537,202	1,957,202	475,000	1,895,000
2017	1,305,000	467,658	1,772,658	475,000	1,780,000
2018	1,300,000	401,761	1,701,761	400,000	1,700,000
2019	1,170,000	336,826	1,506,826	350,000	1,520,000
2020	905,000	277,124	1,182,124	375,000	1,280,000
2021	880,000	226,509	1,106,509	375,000	1,255,000
2022	575,000	183,648	758,648	325,000	900,000
2023	610,000	146,385	756,385	275,000	885,000
2024	650,000	106,580	756,580	0	650,000
2025	640,000	64,135	704,135	0	640,000
2026	665,000	21,658	686,658	0	665,000
Totals	<u><u>\$30,403,800</u></u>	<u><u>\$10,708,608</u></u>	<u><u>\$41,112,408</u></u>	<u><u>\$7,345,000</u></u>	<u><u>\$37,748,800</u></u>

¹ Table does not reflect either payments made to date, fiscal year ending June 30, 2008.

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the City upon any judgment or accrued claim against it shall not exceed nine per centum per annum. This provision might be construed to have application to the holders of the Bonds and Notes in the event of a default in the payment of the principal of or interest on the Bonds and Notes.

In accordance with the general rule with respect to municipalities, judgments against the City may not be enforced by levy and execution against property owned by the City.

The Federal Bankruptcy Act permits recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of the City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such city of its faith and credit for the payment of such obligations.

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the City.

MARKET AND RISK FACTORS

The financial and economic condition of the City as well as the market for the Bonds and Notes could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurance that adverse events in the State or elsewhere, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Bonds and Notes. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction or of any of its agencies or political subdivisions, thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Bonds and Notes, could be adversely affected.

The City is also dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the City. (See "State Aid").

CONTINUING DISCLOSURE UNDRTAKING (BONDS)

In accordance with the requirements of Rule 15c2-12 as the same may be amended or officially interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the City has agreed to provide, or cause to be provided,

- (i) during any succeeding fiscal year in which the Bonds are outstanding, to each nationally recognized municipal securities information repository ("NRMSIR") designated by the Commission in accordance with the Rule, and to the New York State information depository, if New York State creates a depository ("SID"), certain annual financial information and operating data for the preceding fiscal year, in a form generally consistent with the information contained or cross-referenced under the headings "The City", "Tax Information", "City Indebtedness", "Litigation", "Appendix A, A-1, A-2 and A-3", and a copy of the audited financial statement (prepared in accordance with generally accepted accounting principles in effect at the time of audit) for the preceding fiscal year, if any; such information, data and audit, if any, will be so provided on or prior to the later of either the end of the sixth month of each such succeeding fiscal year or, if an audited financial statement is prepared, sixty days following receipt by the City of the audited financial statement for the preceding fiscal year, but, in no event, not later than the last business day of each such succeeding fiscal year.
- (ii) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of any of the following events with respect to the Bonds, if such event is material:
 - (a) principal and interest payment delinquencies
 - (b) non-payment related defaults
 - (c) unscheduled draws on debt service reserves reflecting financial difficulties
 - (d) unscheduled draws on credit enhancements reflecting financial difficulties
 - (e) substitution of credit or liquidity providers, or their failure to perform
 - (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds
 - (g) modifications to rights of Bond holders

- (h) bond calls
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Bonds
- (k) rating changes

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Bonds; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

- (iii) in a timely manner, to each NRMSIR or to the MSRB and to the SID, notice of its failure to provide the aforescribed annual financial information and operating data and such audited financial statement, if any, on or before the date specified.

The City reserves the right to terminate its obligations to provide the aforescribed annual financial information and operating data and such audited financial statement, if any, and notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Bonds within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Bonds (including holders of beneficial interests in the Bonds). The right of holders of the Bonds to enforce the provisions of the undertaking will be limited to a right to obtain specific performance of the City's obligations under its continuing disclosure undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Bonds nor entitle any holder of the Bonds to recover monetary damages.

The City reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that, the City agrees that any such modification will be done in a manner consistent with the Rule.

A Continuing Disclosure Undertaking Certificate to this effect shall be provided to the Underwriter at the closing.

The City is in compliance with all prior undertakings pursuant to the Rule.

MATERIAL EVENT NOTICES (NOTES)

In accordance with the requirements of Rule 15c2-12 as the same may be amended or officially interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the City has agreed to provide, or cause to be provided, during the period in which the Notes are outstanding, in a timely manner, to (i) each nationally recognized municipal securities information repository ("NRMSIR") designated by the Commission in accordance with the Rule, or to the Municipal Securities Rulemaking Board ("MSRB") and (ii) to the New York State Information Depository, if New York State creates a depository ("SID"), notice of the occurrence of any of the following events with respect to the Notes, if such event is material:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions or events affecting the tax-exempt status of the Notes
- (g) modifications to rights of Note holders
- (h) bond calls
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Notes and
- (k) rating changes.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Notes; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The City reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific performance of the City's obligations

under its material event notices undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

A Material Event Notices Certificate to this effect shall be provided to the purchaser at closing.

The City is in compliance with all prior undertakings pursuant to the Rule.

LITIGATION

The City is subject to a number of lawsuits in the ordinary conduct of its affairs. The City does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the City.

TAX EXEMPTION

In the opinion of Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds and Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under the existing statutes and court decisions. Moreover, interest on the Bonds and Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, interest on the Bonds and Notes is includable in the "adjusted current earnings" of a corporate owner of the Bonds and Notes and 75% of the interest on the Bonds and Notes is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax. Moreover, interest on the Bonds and Notes may be subject to a branch profits tax of up to 30% when held by certain foreign corporations. Furthermore, interest on the Bonds and Notes may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases. Interest on the Bonds and Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City of New York.

Among other things, the Code requires that, under certain circumstances, the yield on investments acquired with the proceeds of obligations be restricted and that an amount equal to the net arbitrage earnings from the investment of the proceeds thereof be paid to the Federal Government. If, in those circumstances, the City were to intentionally fail to restrict the yield of such investments, or to fail to make the required payments to the Federal Government within the periods and in the manner specified by the Code, or fail to comply with certain other provisions of the Code, interest on the Bonds and Notes would be subject to Federal income taxes from their date of issuance unless, in the case of a failure to make the required payments to the Federal Government on a timely basis, such noncompliance was not due to willful disregard and relief was sought from, and granted by, the Internal Revenue Service. The City will covenant in its arbitrage certificate with respect to the Bonds and Notes that it will take all actions on its part necessary under the Code to cause interest on the Bonds and Notes not to be includable in the gross income of the owners thereof for Federal income tax purposes, including compliance with the requirements set forth above, to the extent the same are applicable, and refrain from taking any action which would cause interest on the Bonds and Notes to be includable in the gross income of the owners thereof for Federal income tax purposes.

The opinion of Bond Counsel described herein with respect to the Federal income tax treatment of interest paid on the Bonds and Notes is based upon the current provisions of the Code. There can be no assurance that the Code will not be amended in the future so as to reduce or eliminate such favorable Federal income tax treatment on the Bonds and Notes. Any such future legislation would have an adverse effect on the market value of the Bonds and Notes.

Bond Counsel expresses no opinion regarding other Federal income tax consequences arising with respect to the Bonds and Notes.

LEGAL MATTERS

The legality of the authorization and issuance of the Bonds and Notes will be covered by the unqualified legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Bonds and Notes have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Bonds and Notes and interest thereon, without limitation as to rate or amount, provided, however, that the enforceability (but not the validity) of the Bonds and Notes: (a) may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal) affecting the enforcement of creditors' rights, and (b) may be subject to the exercise of judicial discretion in appropriate cases, (ii) the City has the power to comply with its covenants included in its arbitrage certificate with respect to the Bonds and Notes relating to compliance with the Code as it relates to the Bonds and Notes; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal) affecting the enforcement of creditors' rights; and (iii) assuming that the City complies with such covenants interest on the Bonds and Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and

court decisions. Moreover, interest on the Bonds and Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, interest on the Bonds and Notes is includable in the "adjusted current earnings" of a corporate owner of the Bonds and Notes and 75% of the interest on the Bonds and Notes is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax. Moreover, interest on the Bonds and Notes may be subject to a branch profits tax of up to 30% when held by certain foreign corporations. Furthermore, interest on the Bonds and Notes may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases. Interest on the Bonds and Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof including the City of New York. Bond Counsel will express no opinion regarding other Federal income tax consequences arising with respect to the Bonds and Notes.

Such legal opinion also will state that (i) in rendering the opinions expressed therein, Bond Counsel has assumed the accuracy and truthfulness of all public records, documents and proceedings examined by Bond Counsel which have been executed or certified by public officials acting within the scope of their official capacities, and has not verified the accuracy or truthfulness thereof, and Bond Counsel also has assumed the genuineness of the signatures appearing upon such public records, documents and proceedings, and such certifications; (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Bonds and Notes has extended solely to the examination of the facts and law incident to rendering the opinions expressed therein; (iii) the opinions expressed therein are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the City, together with other legally available sources of revenue, if any, will be sufficient to enable the City to pay the principal of and interest on the Bonds and Notes as the same respectively become due and payable; (iv) reference should be made to the Official Statement for factual information which, in the judgment of the City, would materially affect the ability of the City to pay such principal and interest; and (v) while Bond Counsel has participated in the preparation of the Official Statement, Bond Counsel has not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, no opinion is expressed by Bond Counsel as to whether the City, in connection with the sale of the Bonds and Notes, has made any untrue statement of a material fact, or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

FINANCIAL ADVISOR

New York Municipal Advisors Corporation (NYMAC) has acted as Financial Advisor to the City in connection with the sale of the Bonds and Notes.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion or estimates whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Bonds and Notes.

New York Municipal Advisors Corporation (NYMAC) may place a copy of this Official Statement on its website at www.nymac.net. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. NYMAC has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original sourced documents to digital format, and neither the City nor NYMAC assumes any liability or responsibility for errors or omissions on such website. Further, NYMAC and the City disclaims any duty or obligation either to update or to maintain the information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. NYMAC and the City also assumes no liability or responsibility for any errors or omissions or for any updates to dated website information.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of the City Comptroller, at (315) 785-7754; or from the office of NYMAC, at (516) 364-6363, as financial advisor to the City.

The Official Statement has been duly executed and delivered by the City Comptroller of the City of Watertown.

CITY of WATERTOWN

**Dated: Watertown, New York
February 6, 2008**

**JAMES E. MILLS
City Comptroller**

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**City of Watertown
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund**

APPENDIX A

Year Ended June 30:	2003	2004	2005	2006	2007 (1)
REVENUES					
Real Property Taxes	\$8,662,877	\$9,154,088	\$9,642,760	\$9,181,268	\$8,280,452
Real Property Tax Items	721,110	628,583	605,181	611,783	547,658
Non-Property Tax Items	10,384,773	11,998,996	12,576,311	14,194,078	14,939,506
Departmental Income	3,050,117	3,793,619	3,625,999	3,599,266	4,412,816
Intergovernmental Charges	36,598	32,347	347,709	520,614	40,866
Use of Money and Property	217,140	226,584	266,478	459,367	738,095
Licenses and Permits	81,453	62,905	63,609	83,865	54,603
Fines and Forfeitures	87,219	105,784	121,821	104,186	87,376
Sale of Property and Compensation for Loss	95,627	51,454	162,766	98,025	81,158
Miscellaneous	393,595	560,235	483,591	680,023	988,705
Interfund Revenues	57,024	159,712	726,323	654,540	874,697
State Aid	3,867,501	3,822,377	5,396,172	4,785,094	5,226,370
Federal Aid	225,063	163,361	188,727	192,845	116,840
Total Revenues	27,880,097	30,760,045	34,207,447	35,164,954	36,389,142
EXPENDITURES					
General Government Support	3,377,661	3,681,785	3,892,943	4,917,297	4,408,249
Education	7,182	4,222	4,235	3,733	0
Public Safety	10,141,706	11,205,527	11,820,698	12,051,594	12,507,948
Transportation	3,220,366	3,353,510	3,568,136	3,694,958	3,567,747
Economic Assistance and Opportunity	115,130	127,010	68,175	94,272	119,392
Culture and Recreation	1,024,009	904,295	925,983	986,096	1,051,814
Home and Community Services	879,940	889,079	1,029,637	1,063,405	981,521
Employee Benefits	4,220,263	4,847,289	4,695,117	5,922,695	6,201,337
Debt Service	3,945,487	4,019,733	4,026,178	3,830,393	4,021,472
Total Expenditures	26,931,744	29,032,450	30,031,102	32,564,443	32,859,480
Excess revenue over (under) expenditure	948,353	1,727,595	4,176,345	2,600,511	3,529,662
Other financing sources (uses)					
Retirement System Credits					
Operating transfers in	716,557	818,300	244,570	286,895	130,169
Operating transfers out	(660,677)	(705,418)	(1,428,664)	(1,772,702)	(1,848,498)
Total other financing sources (uses)	55,880	112,882	(1,184,094)	(1,485,807)	(1,718,329)
Excess revenue and other sources over (under) expenditures and other uses	1,004,233	1,840,477	2,992,251	1,114,704	1,811,333
Fund balance (deficit) beginning of year	3,746,418	4,768,127	6,620,524 ¹	9,612,775 ¹	10,727,479
Adjustments (net)	17,476	0	0	0	250,000
Fund balance (deficit) end of year	\$4,768,127	\$6,608,604 ¹	\$9,612,775	\$10,727,479	\$12,788,812

(1) Tentative

¹ Difference in closing and opening fund balance is due to changes in accounting procedures.

Source: Annual audited financial statements of the City of Watertown. This summary itself not audited.

**City of Watertown
Budget Results
General Fund**

APPENDIX A-1

Year Ended June 30:	2007	2008
	Adopted Budget	Adopted Budget
REVENUES		
Real Property Taxes	\$7,982,230	\$6,809,651
Real Property Tax Items	717,000	476,500
Non-Property Tax Items	13,895,000	16,365,000
Departmental Income	3,735,000	4,013,950
Intergovernmental Charges	37,965	98,230
Use of Money and Property	394,400	472,880
Licenses and Permits	67,625	71,150
Fines and Forfeitures	105,000	100,000
Sale of Property and Compensation for Loss	62,100	48,100
Miscellaneous	16,000	13,500
Interfund Revenues	114,500	162,600
State Aid	5,357,148	5,619,635
Federal Aid	306,200	275,000
Total Revenues	32,790,168	34,526,196
EXPENDITURES		
General Government Support	4,115,868	4,339,728
Public Safety	10,301,653	10,973,164
Transportation	3,080,397	3,052,642
Economic Assistance & Opportunity	80,000	70,000
Culture and Recreation	971,270	1,084,477
Home and Community Services	1,554,958	1,540,544
Employee Benefits	8,053,892	9,117,943
Debt Service	4,027,436	4,155,451
Total Expenditures	32,185,474	34,333,949
Excess revenue over (under) expenditures	604,694	192,247
Other financing sources (uses)		
Operating transfers in	0	0
Operating transfers out	(2,064,694)	(2,397,247)
Total other financing sources (uses)	(2,064,694)	(2,397,247)
Excess revenue and other sources over (under) expenditures and other uses	(1,460,000)	(2,205,000)
Fund balance (deficit) beginning of year	1,460,000 ¹	2,205,000 ¹
Adjustments (net)	N/A	N/A
Fund balance (deficit) end of year	<u>\$0</u>	<u>\$0</u>

¹Appropriated fund balance budgeted as revenue.

Source: Annual budgets of the City of Watertown.

**City of Watertown
Balance Sheets
General Fund**

APPENDIX A-2

As of June 30:	<u>2006</u>	<u>2007 (1)</u>
<u>ASSETS</u>		
Unrestricted cash and cash equivalents	\$9,390,925	\$11,213,427
Restricted cash and cash equivalents	\$384,471	\$649,299
Accounts receivables - net	619,771	573,141
Taxes receivable - net	85,796	39,015
Interest receivable - net	0	76,681
Due from other governments	133,860	118,843
State and Federal receivables	1,584,271	1,577,881
Due from Other Funds	1,174,209	948,654
Prepaid Expenses	<u>78,327</u>	<u>93,649</u>
TOTAL ASSETS	<u>13,451,630</u>	<u>15,290,590</u>
<u>LIABILITIES</u>		
Accounts Payable	1,066,405	1,088,094
Accrued Liabilities	290,498	290,860
Compensated Absences	556,937	577,290
Other Liabilities	3,976	5,038
Due to Other Funds	115,049	5,897
Due to Other Governments	133,853	60,889
Due to Retirement System	475,927	430,189
Deferred Revenue	<u>81,506</u>	<u>43,520</u>
TOTAL LIABILITIES	<u>2,724,151</u>	<u>2,501,777</u>
<u>FUND EQUITY</u>		
Reserved for:		
Encumbrances	73,245	251,364
Capital Projects	380,971	625,734
Workers' Compensation	282,016	296,545
Insurance	676,083	647,256
Unreserved:		
Designated	1,460,000	2,000,000
Undesignated	<u>7,855,164</u>	<u>8,967,914</u>
TOTAL FUND EQUITY	<u>10,727,479</u>	<u>12,788,813</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$13,451,630</u>	<u>\$15,290,590</u>

(1) Tentative

Source: Annual audited financial statements of the City of Watertown. This summary itself not audited.

**City of Watertown
Change In Fund Balance and
Changes in Net Assets**

APPENDIX A-3

Fiscal Year Ended June 30: 2003 2004 2005 2006 2007 (1)

SPECIAL REVENUE FUND

Balance Beginning of Year	<u>\$1,033,787</u>	<u>\$675,868</u> ³	<u>\$587,412</u> ³	<u>\$400,285</u> ³	<u>\$561,561</u> ³
Prior period adjustments (net)	0	0	0	0	0
Revenues	1,331,947	1,456,268	1,211,734	1,643,586	2,319,602
Expenditures	<u>1,327,369</u>	<u>1,532,804</u>	<u>1,398,861</u>	<u>1,482,310</u>	<u>2,160,529</u>
Balance End of Year	<u>\$1,038,365</u>	<u>\$599,332</u>	<u>\$400,285</u>	<u>\$561,561</u>	<u>\$720,634</u>

WATER FUND

Net Assets Beginning of Year	<u>\$10,083,367</u> ²	<u>\$10,755,097</u> ²	<u>\$11,107,232</u> ²	<u>\$11,789,414</u> ²	<u>\$12,312,010</u> ²
Prior period adjustments (net)	0	0	0	0	(40,683)
Revenues	4,194,256	4,056,372	4,520,214	4,202,605	4,488,960
Expenditures	<u>3,522,526</u>	<u>3,704,237</u>	<u>3,838,032</u>	<u>3,680,009</u>	<u>3,912,668</u>
Net Assets End of Year	<u>\$6,560,841</u>	<u>\$7,050,860</u>	<u>\$7,269,200</u>	<u>\$8,109,405</u>	<u>\$12,847,619</u>

SEWER FUND

Net Assets Beginning of Year	<u>\$6,732,739</u> ²	<u>\$10,036,406</u> ²	<u>\$10,399,739</u> ²	<u>\$11,213,119</u> ²	<u>\$11,815,097</u> ²
Prior period adjustments (net)	0	0	0	0	(128,870)
Revenues	3,832,633	4,009,093	4,588,615	4,333,017	4,503,545
Expenditures	<u>3,359,177</u>	<u>3,645,760</u>	<u>3,775,235</u>	<u>3,731,039</u>	<u>3,911,370</u>
Net Assets End of Year	<u>\$3,373,562</u>	<u>\$6,390,646</u>	<u>\$6,624,504</u>	<u>\$7,482,080</u>	<u>\$12,278,402</u>

(1) Tentative

⁴ Due to changes in accounting procedures changes in net assets may serve over time as a useful indicator of a government's financial position. The City decided to implement in Fiscal Year 2003 the requirement of GASB Statement No. 34 with the exception of the piping for the storm and sanitary system. The values of those assets were retroactively included in Fiscal Year 2004.

³ Prior to 2004, the Trustees of the Roswell P. Flower Memorial Library had been included as a blended component unit. Starting with 2004, the Trustees of the Roswell P. Flower Memorial Library are presented as a discrete component unit.

Source: Annual audited financial statements of the City of Watertown. This summary itself not audited.

APPENDIX B

CITY OF WATERTOWN, NEW YORK

**Financial Statements
and Supplemental Information**

June 30, 2006

“Such Financial Statements and opinion were prepared as of the date thereof and have not been reviewed and/or updated in connection with the preparation and dissemination of this Official Statement.”

CITY OF WATERTOWN, NEW YORK

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June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

**Senior Management, Mayor and
Members of the City Council
City of Watertown, New York**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watertown, New York's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Senior Management, Mayor and
Members of the City Council
City of Watertown, New York**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 16 and the budgetary comparison information on page 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Green & Seifter, CPAs

December 1, 2006

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

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, 2006. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets of the City of Watertown exceeded its liabilities at June 30, 2006 by \$76,155,287. Of this amount unrestricted net assets of \$14,407,128 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$942,605 in fiscal year 2005-06, (\$181,969) in governmental activities and \$1,124,574 in business-type activities. The governmental activities loss was due to the recording of a \$6,794,300 loss on the disposal of airport assets resulting from the transfer of the Watertown International Airport to Jefferson County.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$14,183,774.
- General fund revenues of \$35,451,849 on a budgetary basis exceeded budgeted revenues by \$2,620,820 or 7.98% while budgetary basis expenditures finished \$22,995 lower than budgeted expenditures. These results negated the use of \$1,285,000 in appropriated fund balance that was budgeted in the 2005-06 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$9,315,164, or 27.13% of total general fund expenditures.
- The City issued \$5,700,000 in serial bonds at an interest rate starting at 4.00% through 4.375% at maturity (priced to yield 4.15%) to provide financing for various capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The financial statement's focus is on both the City as a whole (government-wide) and on the major individual

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (interperiod or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements, which further explains and supports the information presented in these statements.

Government-Wide Financial Statements

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

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

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

The City of Watertown maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balance for the general 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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

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.

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 assets may serve over time as a useful indicator of a government's financial position. At June 30, 2006, the City's assets exceeded liabilities by \$76,155,287 compared to \$75,212,682 at June 30, 2005. By far the largest portion of the City's net assets (80.19%) reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets (0.27%) represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone and the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund. The unrestricted net assets, \$14,407,128 compared to \$11,094,444 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

City of Watertown's Net Assets

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>
Current and other assets	\$19,094,219	\$16,876,424	\$2,356,440	\$2,302,158	\$21,450,659	\$19,178,582
Capital Assets	<u>66,942,157</u>	<u>67,588,777</u>	<u>29,932,921</u>	<u>31,174,258</u>	<u>96,875,078</u>	<u>98,763,035</u>
Total Assets	<u>\$86,036,376</u>	<u>\$84,465,201</u>	<u>\$32,289,361</u>	<u>\$33,476,416</u>	<u>\$118,325,737</u>	<u>\$117,941,617</u>
Long-term liabilities outstanding	\$28,758,624	\$25,699,462	\$7,701,997	\$9,918,576	\$36,460,621	\$35,618,038
Other liabilities	<u>5,249,572</u>	<u>6,555,590</u>	<u>460,257</u>	<u>555,307</u>	<u>5,709,829</u>	<u>7,110,897</u>
Total liabilities	<u>\$34,008,196</u>	<u>\$32,255,052</u>	<u>\$8,162,254</u>	<u>\$10,473,883</u>	<u>\$42,170,450</u>	<u>\$42,728,935</u>
Net Assets:						
Invested in Capital Assets, net of related debt	\$38,818,513	\$42,564,586	\$22,250,034	\$21,248,135	\$61,068,547	\$63,812,721
Restricted	586,768	244,220	92,844	61,297	679,612	305,517
Unrestricted	<u>12,622,899</u>	<u>9,401,343</u>	<u>1,784,229</u>	<u>1,693,101</u>	<u>14,407,128</u>	<u>11,094,444</u>
Total Net Assets	<u>\$52,028,180</u>	<u>\$52,210,149</u>	<u>\$24,127,107</u>	<u>\$23,002,533</u>	<u>\$76,155,287</u>	<u>\$75,212,682</u>

As of June 30, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

The following table provides a summary of the City's operations for the year ended June 30, 2006.

City of Watertown's Changes in Net Assets

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>
Revenues:						
Program Revenues:						
Charges for services	\$5,335,713	\$5,315,483	\$8,483,202	\$9,065,836	\$13,818,915	\$14,381,319
Operating grants and contributions	2,091,633	1,214,532	-	-	2,091,633	1,214,532
Capital grants and contributions	5,614,132	6,584,515	-	-	5,614,132	6,584,515
General revenues:						
Property taxes	9,793,051	10,247,941	-	-	9,793,051	10,247,941
Sales tax	13,454,172	11,897,681	-	-	13,454,172	11,897,681
Utilities gross receipts tax	457,929	417,570	-	-	457,929	417,570

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

Franchise tax	185,193	171,659	-	-	185,193	171,659
Other taxes	96,786	89,401	-	-	96,786	89,401
Grants and Entitlements not restricted to specific programs	4,147,545	5,057,142	-	-	4,147,545	5,057,142
Investment earnings	<u>505,145</u>	<u>349,889</u>	<u>35,024</u>	<u>34,835</u>	<u>540,169</u>	<u>384,724</u>
Total revenues	<u>\$41,681,299</u>	<u>\$41,345,813</u>	<u>\$8,518,226</u>	<u>\$9,100,671</u>	<u>\$50,199,525</u>	<u>\$50,446,484</u>
Expenses:						
General government support	\$11,072,146	\$8,917,089	-	-	\$11,072,146	\$8,917,089
Hydroelectric production	504,260	481,844	-	-	504,260	481,844
Fire	6,596,071	6,651,058	-	-	6,596,071	6,651,058
Police	5,722,467	5,679,675	-	-	5,722,467	5,679,675
Other Public Safety	334,816	307,547	-	-	334,816	307,547
Public Works	4,555,774	5,100,239	-	-	4,555,774	5,100,239
Airport	7,247,997	750,907	-	-	7,247,997	750,907
Bus	790,873	688,921	-	-	790,873	688,921
Watertown Empire Zone	94,272	61,727	-	-	94,272	61,727
Other Economic Assistance	62,474	92,342	-	-	62,474	92,342
Library	790,972	882,459	-	-	790,972	882,459
Other Culture and Recreation	1,436,225	1,362,258	-	-	1,436,225	1,362,258
Refuse and Recycling	731,115	655,032	-	-	731,115	655,032
Other Home and Community Services	492,752	454,623	-	-	492,752	454,623
Interest on Debt Service	1,421,281	1,250,649	-	-	1,421,281	1,250,649
Water	-	-	3,672,386	3,809,489	3,672,386	3,809,489
Sewer	-	-	<u>3,731,039</u>	<u>3,757,089</u>	<u>3,731,039</u>	<u>3,757,089</u>
Total Expenses	<u>\$41,853,495</u>	<u>\$33,336,370</u>	<u>\$7,403,425</u>	<u>\$7,566,578</u>	<u>\$49,256,920</u>	<u>\$40,902,948</u>
Excess of Revenues over Expenses	(172,196)	8,009,443	1,114,801	1,534,093	942,605	9,543,536
Transfers	<u>(9,773)</u>	<u>38,531</u>	<u>9,773</u>	<u>(38,531)</u>	-	-
Increase in Net Assets	(181,969)	8,047,974	1,124,574	1,495,562	942,605	9,543,536
Net Assets - Beginning	<u>52,210,149</u>	<u>44,162,175</u>	<u>23,002,533</u>	<u>21,506,971</u>	<u>75,212,682</u>	<u>65,669,146</u>
Net Assets - Ending	<u>\$52,028,180</u>	<u>\$52,210,149</u>	<u>\$24,127,107</u>	<u>\$23,002,533</u>	<u>\$76,155,287</u>	<u>\$75,212,682</u>

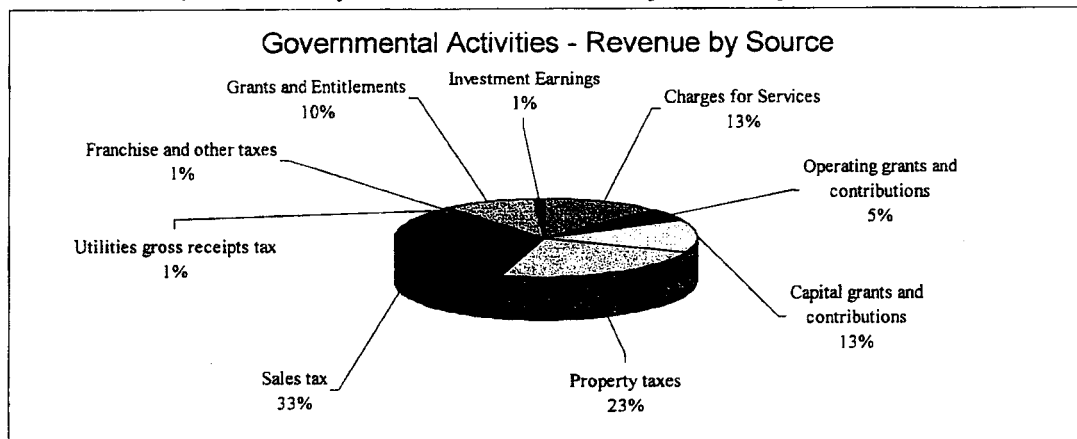
Governmental activities. Governmental activities decreased the City's net assets by \$ 181,969 compared to an increase of \$8,047,974 last year. Excluding the loss on airport assets transferred to Jefferson County, the governmental activities would have increased the City's net assets by \$6,612,331. Key elements of the decrease are as follows:

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- Sales tax revenue increased by \$1,556,491 (13.08%) compared to fiscal year ended June 30, 2005. Sales tax revenue represented 33% of the governmental activities' revenue in FY 05/06 compared to 28% in FY 04/05. Due to Fort Drum's growth after the Army added a third brigade in 2004, Jefferson County has been one of the fastest growing counties in New York State. The City also benefited from an increased distribution of the Jefferson County sales tax based upon the new distribution agreement related to the City's transfer of the Watertown International Airport to Jefferson County.
- Per the New York State 2005-06 Budget, the City received a 12.75% increase of \$405,086 in State Aid revenue for a total of \$3,582,234.
- The City received \$3,140,171 in Federal and State Aid for various Public Works capital projects. Some of the major projects include the State Street reconstruction (\$2,127,811), Consolidated Local Street and Highway Improvement Program for various streets (\$192,457), the Downtown Streetscape project (\$377,530) and the completion of the construction of the new Department of Public Works Facility (\$347,387).
- The City received \$1,335,249 in grants from the Federal Aviation Administration and New York State Department of Transportation for various projects at the Watertown International Airport. Some of the major projects included the general aviation apron reconstruction (\$887,900), completion of the perimeter security fence (\$90,653), runway 10 drainage improvements (\$246,136), and continued work on the airport master plan (\$19,605).
- The City received \$521,920 in grants for fire department projects such as traffic signal pre-emption equipment (\$176,663), in-vehicle computers (\$135,000), safety trailer (\$44,100) and confined space rescue equipment (\$166,157).
- Due to the transfer of ownership of the Watertown International Airport to Jefferson County on March 1, 2006 the City recorded a loss on the disposal of airport assets of \$6,794,300.



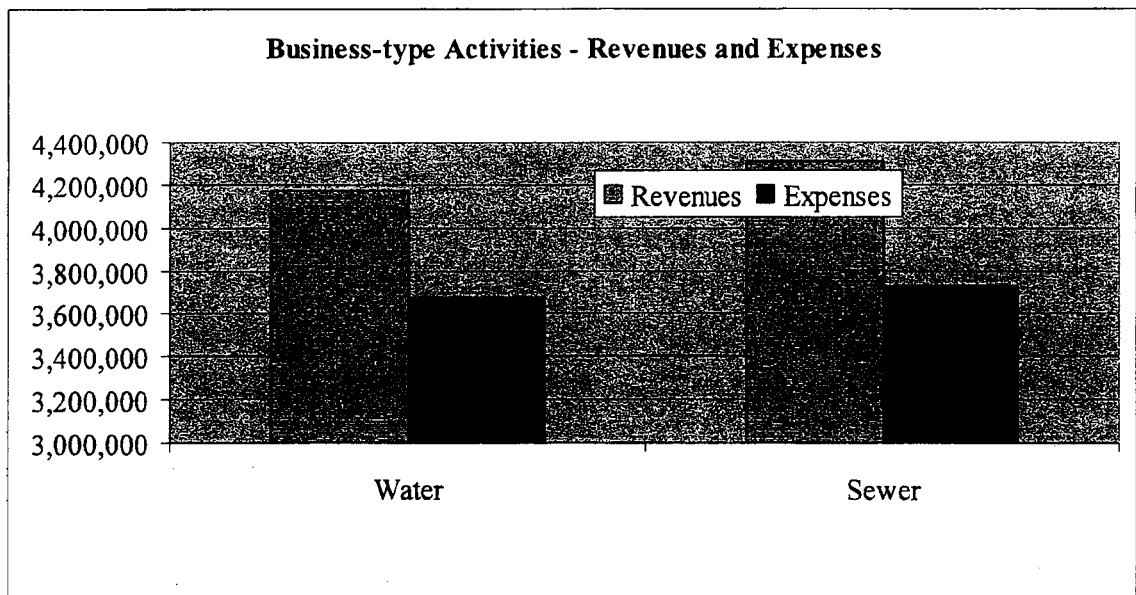
CITY OF WATERTOWN, NEW YORK

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Business-type activities. Business-type activities increased the City's net assets by \$1,124,574 compared to \$1,495,562 last year. Key elements in this increase are as follows:

- Water revenues decreased by \$326,672 or 7.26% to \$4,170,275 while expenses decreased by \$137,103 or 3.60% to \$3,672,386. Sewer revenues decreased by \$255,962 or 5.60% to \$4,312,927 and expenses decreased \$26,050 or 0.69% to \$3,731,039.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts. In the current fiscal year the revenue derived from this agreement was \$505,978 or 12.13% of total water operating revenues. Revenues from this agreement decreased by \$108,829 or 17.70% over last year's total of \$614,807. This was due in part to the Fort Drum troop deployments and Fort Drum's decision to utilize more of their own wells for their water supply.
- The City also 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 \$1,450,631 or 33.63% of total sewer operating revenues. Revenues from this agreement decreased by \$103,014 or 6.63% over last year's total of \$1,553,645. Of this decrease, \$67,187 can be attributed to the sewer fund's decreased debt service costs that are reimbursed by the Development Authority of the North Country.



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Financial Analysis of the Government's Funds

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

At June 30, 2006 the City's governmental funds reported combined ending fund balances of \$14,183,774, an increase of \$3,720,963 in comparison with the prior year. The increase is most attributable to a \$2,444,983 increase in fund balance in the capital projects fund due to the issuance of \$5,950,000 in serial bonds. Excluding the capital projects fund, the City has an unreserved fund balance of \$9,264,754. Of the unreserved fund balance, \$1,460,000 has been designated by the City Council for subsequent years expenditures leaving an unreserved undesignated fund balance of \$7,804,754. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate \$13,644,059 of contracts and purchase orders of the prior period (2) to pay \$337,250 of debt service (3) to pay \$958,099 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$652,767.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$9,315,164 compared to \$7,910,314 in 2004-05, while the total general fund balance equaled \$10,727,479 compared to \$9,612,775 in the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures and other financing uses. Unreserved fund balance represents 27.13% of total general fund expenditures and other financing uses compared to 25.14% last year, while total fund balance represents 31.24% of that same amount compared to 30.56% in the prior year.

During the current fiscal year, the fund balance of the City's general fund increased by \$1,114,704 compared to last year's increase of \$2,992,251. The increase in sales tax revenue of \$1,556,491 along with the decrease in property tax revenues of \$454,890 accounted for the majority of this increase.

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 \$2,894,734 compared to \$449,751 in the previous year. Of this amount \$13,567,889 was encumbered for construction contracts compared to \$2,505,017 in the prior year. The City recorded serial bond proceeds of \$5,950,000 to finance various capital projects.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. This is the fourth year in which the water and sewer funds have been reported as proprietary funds. Previously they had been reported as special revenue funds.

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Unrestricted net assets at the end of the fiscal year of the water fund were \$1,287,017 compared to \$1,331,525 in fiscal year 2004-05. The water fund had an increase in net assets in the amount of \$522,596 compared to \$682,182 in the previous year.

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$497,212 compared to \$361,576 in the prior year. The sewer fund had an increase in net assets in the amount of \$601,978 compared to \$813,380 in fiscal year 2004-05. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The general fund budget was re-adopted once during the fiscal year to increase appropriations related to the operating of the Watertown International Airport. Jefferson County agreed to take over the financial responsibility effective January 1, 2005. However, the official transfer of ownership was delayed and did not occur prior to March 1, 2006. Budget amendments between departmental expenditure accounts did also occur throughout the year.

General fund revenues of \$35,451,849 on a budgetary basis, exceeded budgeted revenues of \$32,830,989 by \$2,620,860 or 7.98% while budgetary basis expenditures of \$34,337,145 were \$22,995 or 0.07% lower than the budgeted expenditures of \$34,360,140. The excess of revenues over budgeted revenues is primarily due to the increase in sales tax revenues of \$1,556,491 and in State Aid revenues of \$405,086. There was no specific issue that caused the actual expenditures to be lower than the budgeted expenditures. These combined results negated the use of \$1,285,000 in appropriated fund balance that was budgeted in the 2005-06 general fund budget.

Capital Assets and Debt Administration

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2006, amounts to \$61,068,547. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

City of Watertown's Capital Assets, Net of Accumulated Depreciation

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>
Land	\$2,912,170	\$1,946,682	\$ -	\$ -	\$2,912,170	\$1,946,682
Construction in Progress	6,227,484	10,459,155	-	-	6,227,484	10,459,155
Land Improvements	2,243,268	3,028,158	57,461	69,990	2,300,729	3,098,148
Building and Improvements	21,261,494	17,975,184	15,995,195	16,530,259	37,256,689	34,505,443
Infrastructure	28,566,099	28,915,452	9,470,178	9,668,256	38,036,277	38,583,708
Machinery and Equipment	3,744,657	2,825,993	4,303,716	4,753,248	8,048,373	7,579,241
Vehicles	<u>1,986,985</u>	<u>2,438,153</u>	<u>106,371</u>	<u>152,505</u>	<u>2,093,356</u>	<u>2,590,658</u>
Total Net Assets	<u>\$66,942,157</u>	<u>\$67,588,777</u>	<u>\$29,932,921</u>	<u>\$31,174,258</u>	<u>\$96,875,078</u>	<u>\$98,763,035</u>

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

- Construction was completed on the Transit Bus / Department of Public Works Storage and Maintenance Facility and Bus Transfer Station. The total cost of the project was \$5,513,356. Total Federal and State reimbursements received for the project were \$2,200,252.
- Reconstruction of State Street began in the current fiscal year and is expected to finish in FY 2007-08. Federal and New York State reimbursements are expected to pay approximately 95% of the project's estimated cost of \$12 million excluding the cost of betterments that are estimated at \$3 million. Construction in progress as of the close of the fiscal year was \$4,603,840 with Federal and State reimbursements totaling \$3,011,578.
- Reconstruction of Main Avenue, which included the street, sidewalks, and storm sewer main was completed at a cost of \$587,891.
- The Roswell P. Flower Memorial Library began its major project of facility renovations and historical restorations at an estimated cost of \$1,415,000. Phase I of the project was completed in the current year at a cost of \$938,679. Phase II is expected to begin sometime in FY 2006-07. Gifts have been received in the amount of \$482,739 and NYS grants are expected to contribute another \$550,000 to complete Phase II of the project.

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- Construction work for the Downtown Streetscape Enhancement Project began in the current fiscal year. The estimated \$5.5 million project includes reconstructing Public Square streets, replacing water, sanitary sewer and storm sewer lines, replacing sidewalks, and installing many landscaping enhancements. The City has secured Federal and State funding in the amount of \$4,775,000 through Federal and State grants. Construction in progress at June 30, 2006 was \$747,452. Construction is planned to end in FY 07/08.

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$35,646,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>	<u>6/30/06</u>	<u>6/30/05</u>
General obligation bonds	\$27,920,238	\$24,788,012	\$7,725,762	\$9,986,688	\$35,646,000	\$34,774,700
Bond anticipation notes	-	-	-	-	-	-
Other loans	<u>269,808</u>	<u>312,067</u>	<u>11,183</u>	<u>13,089</u>	<u>280,991</u>	<u>325,156</u>
	<u>\$28,190,046</u>	<u>\$25,100,079</u>	<u>\$7,736,945</u>	<u>\$9,999,777</u>	<u>\$35,926,991</u>	<u>\$35,099,856</u>

The City of Watertown maintains an A3 rating from Moody's Investor Services.

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, 2006, the City's debt limit was \$43,132,546 with non-excludable debt of \$15,877,522, thus exhausting 36.81% 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 2006-07 budget, most importantly the state and local economy.

CITY OF WATERTOWN, NEW YORK

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June 30, 2006

The City of Watertown is the county seat of Jefferson County. The unemployment rate in June 2006 for Jefferson County was 4.7% compared to the New York State rate of 4.4% and the United States rate of 4.8%. The unemployment rates in June 2005 were 5.1% for Jefferson County, 4.7% for New York State and 5.0% for the United States.

Fort Drum did not sustain any losses due to the 2005 Base Realignment and Closure Rounds. The City and surrounding areas continue to face a housing shortage due to the expansion of Fort Drum. The Army has received funding for its own housing project, the Residential Communities Initiative Project, to build approximately 700 new homes on the base as well as renovate almost 2,000 other homes.

With the continued uncertainties in Afghanistan and Iraq, as was the case over the last few years, it was difficult to predict how many of the 12,000 soldiers of the 10th Mountain Division would be deployed and for how long they would be gone fighting the War on Terrorism. Accordingly, the City budgeted sales tax revenues conservatively at \$13,315,000. This amount included an adjustment due to the new distribution percentages that were implemented in Fiscal Year 2005-2006 as part of the agreement with Jefferson County to take over of the financial responsibility of the Watertown International Airport effective January 1, 2005.

Like most local governments, the City's 2006-07 budget was impacted by continued high costs for retirement benefits and health insurance. The contribution to the Employees' Retirement System will range from 9.8% to 13.3% of salaries while the contribution the Police and Fire Retirement System will range from 15.0% to 20.2% of salaries. Appropriations in the self-insurance fund increased \$377,655 or a 7.0% increase to the premium rate.

The City saw a significant increase of \$211,567,904 or 34.00% in taxable assessed value. The residential tax burden has increased to a ten year high of 60.11% compared to last year's percentage of 57.90%. The average assessment for a single-family home in Watertown increased 34.82% to \$82,805 compared to \$61,420 in FY 2005-06.

Although the City was able to hold increases in operating costs to a minimum, the adopted fiscal year 2006-07 General Fund budget increased \$1,985,680 or 6.15% over the 2005-06 budget to \$34,250,168. Two main reasons for the increase can be attributed to the demolition of an abandoned apartment complex to make the area available for new housing construction (\$640,000) and an increase to the transfer to the capital projects fund minimizing the need to incur more City debt (\$770,300). The City appropriated \$1,460,000 of fund balance, an increase of \$175,000 over FY 2005-06, which when combined with the revenue increases budgeted for sales tax (\$1,165,000) and State Aid (\$863,811), resulted in a 31.72% decrease to the property tax rate. The property tax rate decrease was the result of a property tax levy decrease of \$738,949 or 8.24% and an increase in taxable assessed values of 34.00% to \$833,804,521.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

Appropriations for the Water Fund increased \$315,315 or 6.77% and the Sewer Fund appropriations increased \$377,471 or 8.85%. The Water Fund appropriated \$501,300 of fund balance while the Sewer Fund was not in a position to appropriate any fund balance. Even with the use of fund balance, the water rates were proposed to increase 6.0% due to decreasing consumption and rising costs. The Sewer Fund is proposing to increase rates 11.8% as it faces the same challenges as the Water Fund. Unless revenues and costs change significantly, the Water Fund will be faced with a potential double-digit rate increase in fiscal year 2007-08.

Requests for Information

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted cash and cash equivalents	\$ 9,977,824	\$ 655,698	\$ 10,633,522	\$ 95,277
Restricted cash and cash equivalents	2,129,388	92,844	2,222,232	273,163
Receivables (net of allowance for uncollectibles):				
Accounts	1,694,113	1,298,019	2,992,132	-
Taxes	100,228	-	100,228	-
Other receivables	-	-	-	169,696
Due from other governments	172,918	433,447	606,365	-
State and federal aid receivables	4,803,129	-	4,803,129	-
Prepaid expenses	61,271	31,780	93,051	-
Internal balances	155,348	(155,348)	-	-
	<u>19,094,219</u>	<u>2,356,440</u>	<u>21,450,659</u>	<u>538,136</u>
Capital Assets:				
Non-depreciable	9,139,654	-	9,139,654	10,208
Depreciable, net	57,802,503	29,932,921	87,735,424	29,881
Total capital assets	<u>66,942,157</u>	<u>29,932,921</u>	<u>96,875,078</u>	<u>40,089</u>
Total Assets	\$ <u>86,036,376</u>	\$ <u>32,289,361</u>	\$ <u>118,325,737</u>	\$ <u>578,225</u>
LIABILITIES				
Accounts payable	\$ 2,151,610	\$ 67,845	\$ 2,219,455	\$ 9,526
Accrued interest payable	309,630	171,790	481,420	-
Accrued liabilities	311,428	44,627	356,055	-
Retainage payable	58,655	-	58,655	-
Compensated absences	568,897	104,164	673,061	-
Other liabilities	3,976	-	3,976	-
Due to other governments	133,853	240	134,093	19,695
Due to retirement system	490,176	71,591	561,767	-
Deferred revenue	1,221,347	-	1,221,347	-
Other long-term debt	904,788	22,217	927,005	-
Serial bonds	27,920,238	7,739,378	35,659,616	-
Less: deferred amount on advance refunding	(66,402)	(59,598)	(126,000)	-
	<u>34,008,196</u>	<u>8,162,254</u>	<u>42,170,450</u>	<u>29,221</u>
NET ASSETS				
Investment in capital assets, net of related debt	38,818,513	22,250,034	61,068,547	-
Restricted for:				
Economic development and assistance	205,797	-	205,797	-
Capital projects	380,971	92,844	473,815	433,918
Unrestricted	<u>12,622,899</u>	<u>1,784,229</u>	<u>14,407,128</u>	<u>115,086</u>
Total Net Assets	<u>52,028,180</u>	<u>24,127,107</u>	<u>76,155,287</u>	<u>549,004</u>
Total Liabilities and Net Assets	\$ <u>86,036,376</u>	\$ <u>32,289,361</u>	\$ <u>118,325,737</u>	\$ <u>578,225</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

FUNCTIONS/PROGRAMS	<u>Expenses</u>	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government support:				
General government support	\$ 11,072,146	\$ 1,640,353	\$ 138,423	\$ 26,771
Hydroelectric production	504,260	2,449,038	-	-
Public safety:				
Fire	6,596,071	-	-	521,920
Police	5,722,467	13,683	44,865	-
Other public safety	334,816	74,566	-	-
Public Works	4,555,774	168,768	-	3,273,439
Transportation:				
Airport	7,247,997	28,928	790,788	1,339,635
Bus	790,873	92,928	268,224	96,684
Economic opportunity and development:				
Other economic assistance	94,272	-	-	-
Empire Zone	62,474	-	76,228	-
Culture and recreation:				
Library	790,972	41,976	-	306,681
Other culture and recreation	1,436,225	221,236	-	49,002
Home and community services:				
Refuse and recycle	731,115	591,965	-	-
Other home and community services	492,752	12,272	773,105	-
Interest on debt	1,421,281	-	-	-
Total Governmental Activities	<u>41,853,495</u>	<u>5,335,713</u>	<u>2,091,633</u>	<u>5,614,132</u>
Business-Type Activities:				
Water	3,672,386	4,170,275	-	-
Sewer	3,731,039	4,312,927	-	-
Total Business-Type Activities	<u>7,403,425</u>	<u>8,483,202</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 49,256,920</u>	<u>\$ 13,818,915</u>	<u>\$ 2,091,633</u>	<u>\$ 5,614,132</u>
Component Unit:				
The Trustees of the R.P. Flower Memorial Library	395,208	-	80,152	107,688
Total Component Unit	<u>\$ 395,208</u>	<u>\$ -</u>	<u>\$ 80,152</u>	<u>\$ 107,688</u>
				(continued)
Net (Expense) Revenue and Changes in				
Net Assets brought forward				

The accompanying notes are an integral part of the financial statements.

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

(continued)	Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Governmental Activities	Business- Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
FUNCTIONS/PROGRAMS				
Governmental Activities:				
General government support:				
General government support	\$ (9,266,599)	\$ -	\$ (9,266,599)	\$ -
Hydroelectric production	1,944,778	-	1,944,778	-
Public safety:				
Fire	(6,074,151)	-	(6,074,151)	-
Police	(5,663,919)	-	(5,663,919)	-
Other public safety	(260,250)	-	(260,250)	-
Public Works	(1,113,567)	-	(1,113,567)	-
Transportation:				
Airport	(5,088,646)	-	(5,088,646)	-
Bus	(333,037)	-	(333,037)	-
Economic opportunity and development:				
Other economic assistance	(94,272)	-	(94,272)	-
Empire Zone	13,754	-	13,754	-
Culture and recreation:				
Library	(442,315)	-	(442,315)	-
Other culture and recreation	(1,165,987)	-	(1,165,987)	-
Home and community services:				
Refuse and recycle	(139,150)	-	(139,150)	-
Other home and community services	292,625	-	292,625	-
Interest on debt	(1,421,281)	-	(1,421,281)	-
Total Governmental Activities	(28,812,017)	-	(28,812,017)	-
Business-Type Activities:				
Water	-	497,889	497,889	-
Sewer	-	581,888	581,888	-
Total Business-Type Activities	-	1,079,777	1,079,777	-
Total Primary Government	(28,812,017)	1,079,777	(27,732,240)	-
Component Unit:				
The Trustees of the R.P. Flower Memorial Library	-	-	-	(207,368)
Total Component Unit	-	-	-	(207,368)
Net (Expense) Revenue and Changes in Net Assets brought forward	(28,812,017)	1,079,777	(27,732,240)	(207,368)
GENERAL REVENUES				
Property taxes	9,793,051	-	9,793,051	-
Sales taxes	13,454,172	-	13,454,172	-
Utilities Gross Receipts Tax	457,929	-	457,929	-
Franchise Tax	185,193	-	185,193	-
Other taxes	96,786	-	96,786	-
Grants and entitlements not restricted to specific programs	4,147,545	-	4,147,545	-
Investment earnings	505,145	35,024	540,169	9,089
Total General Revenues	28,639,821	35,024	28,674,845	9,089
Transfers	(9,773)	9,773	-	-
Change in Net Assets	(181,969)	1,124,574	942,605	(198,279)
Total Net Assets - Beginning of year	52,210,149	23,002,533	75,212,682	747,283
Total Net Assets - End of year	\$ 52,028,180	\$ 24,127,107	\$ 76,155,287	\$ 549,004

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Unrestricted cash and cash equivalents	\$ 9,390,925	\$ -	\$ 586,899	\$ 9,977,824
Restricted cash and cash equivalents	384,471	1,653,068	91,849	2,129,388
Receivables (net of allowance for uncollectibles):				
Accounts	619,771	282,586	791,606	1,693,963
Taxes	85,796	14,432	-	100,228
Due from other governments	133,860	37,205	1,853	172,918
State and federal aid receivables	1,584,271	3,150,391	68,467	4,803,129
Prepaid expenses	78,327	12,000	441	90,768
Due from other funds	1,174,209	5,540	-	1,179,749
 Total Assets	 \$ 13,451,630	 \$ 5,155,222	 \$ 1,541,115	 \$ 20,147,967
LIABILITIES				
Accounts payable	\$ 1,066,405	\$ 1,019,757	\$ 65,448	\$ 2,151,610
Accrued liabilities	290,498	658	20,272	311,428
Retainage payable	-	58,655	-	58,655
Compensated absences	556,937	-	11,960	568,897
Other liabilities	3,976	-	-	3,976
Due to other funds	115,049	871,706	37,496	1,024,251
Due to other governments	133,853	-	-	133,853
Due to retirement system	475,927	-	14,249	490,176
Deferred revenue	81,506	309,712	830,129	1,221,347
 Total Liabilities	 2,724,151	 2,260,488	 979,554	 5,964,193
FUND BALANCES:				
Reserve for encumbrances	73,245	13,567,889	2,925	13,644,059
Reserve for capital projects	380,971	-	-	380,971
Reserve for economic development	-	-	205,797	205,797
Reserve for community development projects	-	-	65,999	65,999
Reserve for debt service	-	-	337,250	337,250
Reserve for worker's compensation	282,016	-	-	282,016
Reserve for insurance-general	615,162	-	-	615,162
Reserve for insurance-health	60,921	-	-	60,921
Unreserved - designated for subsequent year's expenditures	1,460,000	-	-	1,460,000
Unreserved - undesignated	7,855,164	(10,673,155)	(50,410)	(2,868,401)
 Total Fund Balances	 10,727,479	 2,894,734	 561,561	 14,183,774
 Total Liabilities and Fund Balances	 \$ 13,451,630	 \$ 5,155,222	 \$ 1,541,115	 \$ 20,147,967

The accompanying notes are an integral part of the financial statements.

**CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

Total governmental fund balances	\$ 14,183,774
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	66,942,157
Deferred assets for refunded bonds	66,402
Liability for accrued interest	(309,630)
Long term liabilities, including serial bonds and other long term debt, are not due and payable in the current period and therefore are not reported in the funds.	<u>(28,854,523)</u>
Net assets of governmental activities	<u>\$ 52,028,180</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 9,181,268	\$ -	\$ -	\$ 9,181,268
Real property tax items	611,783	-	-	611,783
Nonproperty taxes	14,194,078	-	-	14,194,078
Departmental income	3,599,266	-	354,047	3,953,313
Intergovernmental charges	520,614	4,386	-	525,000
Use of money and property	459,367	66,784	11,448	537,599
Licenses and permits	83,865	-	-	83,865
Fines and forfeitures	104,186	-	24,776	128,962
Sale of property and compensation for loss	98,025	133,812	-	231,837
Miscellaneous local sources	680,023	415,295	67,517	1,162,835
Interfund revenue	654,540	-	-	654,540
State sources	4,785,094	908,094	31,237	5,724,425
Federal sources	192,845	4,152,546	346,403	4,691,794
Total Revenues	<u>35,164,954</u>	<u>5,680,917</u>	<u>835,428</u>	<u>41,681,299</u>
EXPENDITURES				
General government support	4,917,297	877,788	-	5,795,085
Education	3,733	-	-	3,733
Public safety	12,051,594	933,140	-	12,984,734
Transportation	3,694,958	6,730,852	-	10,425,810
Economic assistance and opportunity	94,272	-	62,474	156,746
Culture and recreation	986,096	1,186,957	545,552	2,718,605
Home and community services	1,063,405	321,622	376,196	1,761,223
Employee benefits	5,922,695	-	89,257	6,011,952
Debt service	3,830,393	-	212,282	4,042,675
Total Expenditures	<u>32,564,443</u>	<u>10,050,359</u>	<u>1,285,761</u>	<u>43,900,563</u>
Excess of (Expenditures) Revenue	2,600,511	(4,369,442)	(450,333)	(2,219,264)
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	286,895	1,034,522	808,158	2,129,575
Interfund transfers out	(1,772,702)	(170,097)	(196,549)	(2,139,348)
Serial bonds	-	5,950,000	-	5,950,000
BANS redeemed from appropriations	-	-	-	-
Total Other Financing Sources (Uses)	<u>(1,485,807)</u>	<u>6,814,425</u>	<u>611,609</u>	<u>5,940,227</u>
Net change in fund balances	1,114,704	2,444,983	161,276	3,720,963
Fund Balances - Beginning of year	9,612,775	449,751	400,285	10,462,811
Fund Balances - End of year	<u>\$ 10,727,479</u>	<u>\$ 2,894,734</u>	<u>\$ 561,561</u>	<u>\$ 14,183,774</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 3,720,963
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 capital outlays (\$9,549,687) were less than depreciation (\$3,351,069).	6,198,618
Reporting principal and similar payments in the Statement of Net Assets as increases/reductions of liabilities instead of uses/expenditures.	(3,111,176)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(177,139)
Contributions of capital assets to enterprise funds.	(5,424)
Loss on disposal of assets	(6,807,811)
Change in Net Assets of governmental activities	<u>\$ (181,969)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business - Type Activities Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 645,702	\$ 9,996	\$ 655,698
Accounts receivable, net of allowance for uncollectible accounts	772,785	525,234	1,298,019
Due from other governments	-	433,447	433,447
Prepaid expenses	26,249	5,531	31,780
Total current assets	<u>1,444,736</u>	<u>974,208</u>	<u>2,418,944</u>
Non-Current Assets			
Restricted cash and cash equivalents	92,844	-	92,844
Due from other funds	143,635	15,539	159,174
Capital assets, net of accumulated depreciation	15,724,661	14,208,260	29,932,921
Total non-current assets	<u>15,961,140</u>	<u>14,223,799</u>	<u>30,184,939</u>
Total assets	<u>\$ 17,405,876</u>	<u>\$ 15,198,007</u>	<u>\$ 32,603,883</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 33,702	\$ 34,143	\$ 67,845
Accrued interest payable	100,389	71,401	171,790
Accrued liabilities	23,698	20,929	44,627
Compensated absences	53,091	51,073	104,164
Due to retirement system	36,459	35,132	71,591
Due to other funds	43,504	271,018	314,522
Due to other governments	240	-	240
Current portion of long-term liabilities	1,143,622	1,165,983	2,309,605
Total current liabilities	<u>1,434,705</u>	<u>1,649,679</u>	<u>3,084,384</u>
Long-Term Liabilities:			
Serial bonds payable	3,708,299	1,721,474	5,429,773
Less: deferred amount on refunding	(54,471)	(5,127)	(59,598)
Retirement incentive liability	5,333	7,466	12,799
NYPA loan payable	-	9,418	9,418
Total long-term liabilities	<u>3,659,161</u>	<u>1,733,231</u>	<u>5,392,392</u>
Total liabilities	<u>5,093,866</u>	<u>3,382,910</u>	<u>8,476,776</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,932,149	11,317,885	22,250,034
Restricted for maintenance	92,844	-	92,844
Unrestricted	1,287,017	497,212	1,784,229
Total net assets	<u>12,312,010</u>	<u>11,815,097</u>	<u>24,127,107</u>
Total liabilities and net assets	<u>\$ 17,405,876</u>	<u>\$ 15,198,007</u>	<u>\$ 32,603,883</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 3,652,425	\$ 2,833,662	\$ 6,486,087
Intergovernmental charges	505,978	1,450,631	1,956,609
Other operating revenue	<u>11,872</u>	<u>28,634</u>	<u>40,506</u>
Total operating revenues	<u>4,170,275</u>	<u>4,312,927</u>	<u>8,483,202</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	1,588,915	1,369,598	2,958,513
Contractual services	1,116,999	1,392,561	2,509,560
Depreciation	597,855	700,779	1,298,634
Loss on disposal of fixed asset	<u>-</u>	<u>3,201</u>	<u>3,201</u>
Total operating expenses	<u>3,303,769</u>	<u>3,466,139</u>	<u>6,769,908</u>
Income from operations	<u>866,506</u>	<u>846,788</u>	<u>1,713,294</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	25,523	9,501	35,024
Interest expense	(368,617)	(264,900)	(633,517)
Transfers in	6,807	10,589	17,396
Transfers out	<u>(7,623)</u>	<u>-</u>	<u>(7,623)</u>
Total non-operating revenue (expenses)	<u>(343,910)</u>	<u>(244,810)</u>	<u>(588,720)</u>
Change in net assets	522,596	601,978	1,124,574
Net assets - beginning of year	<u>11,789,414</u>	<u>11,213,119</u>	<u>23,002,533</u>
Net assets - end of year	<u>\$ 12,312,010</u>	<u>\$ 11,815,097</u>	<u>\$ 24,127,107</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,207,041	\$ 4,214,316	\$ 8,421,357
Cash payments for contractual expense	(1,212,301)	(1,421,008)	(2,633,309)
Cash payments for personnel services and benefits	(1,766,758)	(1,404,706)	(3,171,464)
Other operating revenue	11,872	3,169	15,041
Net cash provided by operating activities	<u>1,239,854</u>	<u>1,391,771</u>	<u>2,631,625</u>
Cash flows from non-capital and financing activities			
Transfers to/from other funds	<u>(816)</u>	<u>10,589</u>	<u>9,773</u>
Cash flows from capital and related financing activities			
Proceeds of capital debt	16,000	16,000	32,000
Principal paid on capital debt	(1,138,482)	(1,156,349)	(2,294,831)
Interest paid on capital debt	(336,489)	(228,149)	(564,638)
Capital contributed by other funds	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,458,971)</u>	<u>(1,368,498)</u>	<u>(2,827,469)</u>
Cash flows from investing activities			
Purchase of capital assets	(18,712)	(41,787)	(60,499)
Interest income	<u>23,440</u>	<u>9,501</u>	<u>32,941</u>
Net cash provided by investing activities	<u>4,728</u>	<u>(32,286)</u>	<u>(27,558)</u>
Net increase (decrease) in cash and cash equivalents	(215,205)	1,576	(213,629)
Cash and cash equivalents, beginning of year	<u>953,751</u>	<u>8,420</u>	<u>962,171</u>
	<u>\$ 738,546</u>	<u>\$ 9,996</u>	<u>\$ 748,542</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	\$ 866,506	\$ 846,788	\$ 1,713,294
Depreciation	597,855	700,779	1,298,634
Loss on disposal	-	3,201	3,201
Change in assets:			
Accounts receivable	12,763	(44,317)	(31,554)
Due from other governments	34,809	(62,019)	(27,210)
Due from other funds	(133,033)	10,894	(122,139)
Prepaid expenses	(25,756)	(5,122)	(30,878)
Change in liabilities:			
Accounts payable	(17,732)	(21,761)	(39,493)
Accrued liabilities	(40,885)	(29,314)	(70,199)
Compensated absences	(1,699)	(5,073)	(6,772)
Due to retirement system	(670)	(721)	(1,391)
Due to other governments	180	-	180
Due to other funds	(52,484)	(1,564)	(54,048)
Net cash provided by operating activities	<u>\$ 1,239,854</u>	<u>\$ 1,391,771</u>	<u>\$ 2,631,625</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 645,702	\$ 9,996	\$ 655,698
Non-current assets - restricted cash and cash equivalents	<u>92,844</u>	<u>-</u>	<u>92,844</u>
Total cash and cash equivalents	<u>\$ 738,546</u>	<u>\$ 9,996</u>	<u>\$ 748,542</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose <u>Trusts</u>	Agency <u>Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ <u>44,575</u>	\$ <u>152,916</u>	\$ <u>197,491</u>
LIABILITIES			
Deposits held and due to others	\$ -	\$ 118,403	\$ 118,403
Cafeteria plan	-	18,254	18,254
Other accrued liabilities	<u>-</u>	<u>16,259</u>	<u>16,259</u>
Total Liabilities	<u>-</u>	<u>152,916</u>	<u>152,916</u>
NET ASSETS			
Held in trust for other purposes	17,241	-	17,241
Held in trust for scholarships	<u>27,334</u>	<u>-</u>	<u>27,334</u>
Total Net Assets	<u>44,575</u>	<u>-</u>	<u>44,575</u>
Total Liabilities and Net Assets	\$ <u>44,575</u>	\$ <u>152,916</u>	\$ <u>197,491</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF WATERTOWN, NEW YORK
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

	Private Purpose Trusts
ADDITIONS	
Interest revenue	\$ <u>609</u>
Total Additions	<u>609</u>
DEDUCTIONS	
Scholarships awarded	<u>500</u>
Total Deductions	<u>500</u>
Change in Net Assets	109
Net Assets- Beginning of Year	<u>44,466</u>
Net Assets-End of Year	\$ <u><u>44,575</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

I. Summary of Significant Accounting Policies:

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

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

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

A. Financial Reporting Entity

The City of Watertown, New York (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 and snow removal, an airport, and general administrative services.

The financial reporting entity consists of:

1. The primary government which is the City of Watertown
2. Organizations for which the primary government is financially accountable
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

Based on the foregoing criteria and the significant factors presented below, the following organization is 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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

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.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provides additional guidance to determine whether certain organizations for which the City is not financially accountable should be reported as component units based on the nature and significance of their relationship with the City. The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Trustees of the Roswell P. Flower Memorial Library is included as a discretely presented component unit.

B. Basic Financial Statements

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

1. Government-wide Statements

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

In the government-wide Statement of Net Assets, 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 assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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.).

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

2. 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:

a. Governmental Funds

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

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

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

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

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

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest for the mandatory reserve fund. See Note regarding electrical distribution agreement. The debt service fund also accumulates interest earned on borrowed money.

b. Proprietary Funds

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

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

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

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

c. 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 assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

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

C. 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.

1. **Accrual Basis** – The government-wide financial statements and the proprietary fund financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.
2. **Modified Accrual Basis** – The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. Expenditures are recorded when incurred except for prepaid expenditures and inventory items, which are recognized at the time of purchase; principal and interest on indebtedness, which are not recognized as expenditures until due; and compensated absences, such as vacation, which vests or accumulates and is charged as expenditures when paid.

Note I – Summary of Significant Accounting Policies (continued)

D. Property Taxes

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$74,247 and is included in “Due to other Governments”. Another portion of the receivable \$81,506 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$937,073 has been included in the General Fund accounts receivable balance at June 30, 2006.

E. Budget Policies

The budget policies are as follows:

1. Prior to April 30 of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted to obtain taxpayers’ comments.
3. Prior to June 1, the budget is adopted by the City Council. Prior to June 30, the budget is legally enacted through City Council resolution.
4. City taxes included in the budget are levied on July 5. The collection period is July 5 through August 5.
5. The Comptroller is authorized to approve certain budget transfer requests within departments or within a fund; however, any revisions that alter total expenditures of any department of fund must be approved by the City Council.
6. For year-end financial reporting, adjustments are made to actual results to conform with modified budget classifications and reflect year-end encumbrances.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

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

G. Receivables

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

H. Investments

Investments are stated at fair value.

I. Capital Assets

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

Buildings	50 years
Water and sewer system	60-65 years
Machinery and equipment	5-30 years
Building improvements	5-25 years
Land improvements	20-50 years
Other infrastructure	10-50 years

J. Compensatory 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 general long-term debt account group 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, police and electrical workers and 5 days for all other employees. The liability will be liquidated with expendable available financial resources; therefore, it is accounted for in the respective governmental fund type.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

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.

K. Post-Employment Benefits

In addition to the pension benefits provided through the NYS Retirement System, the City provides certain health care benefits for retired employees. Substantially all the employees may become eligible for those benefits upon retirement. Those and similar benefits for active employees are provided through the City's self-insurance program whose premiums are based on the historical experience and projected costs. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which for fiscal year 2005-06 were \$2,613,578 for 258 retired employees.

L. Insurance and Risk Management

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

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – The City recognizes workers' compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council.
- c. 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, 2006 were \$9,043.
- d. 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 \$100,000. 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 \$391,480 has been recorded in the self-insurance fund for claims incurred as of June 30, 2006 but not reported based upon historical experience.

M. Fund Balance

Reserves and Designations

The City's fund balance reserves represent those portions of fund balance not available for appropriation or expenditure. Designations of unreserved fund balances in governmental funds indicate the use of these resources in the ensuing year's budget or tentative plans for future use.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

II. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. 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. At year-end and during fiscal year 2006, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

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

Deposits are valued at cost or cost plus interest and are categorized as either:

- 1) 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
- 2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
- 3) 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, 2006 per the banks were \$13,690,989. These deposits are categorized as follows:

(1)	(2)	(3)
\$700,112	\$12,990,877	\$0

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

As of June 30, 2006 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit	\$3,500,000
Certificates of Deposit-Trust & Agency Funds	25,939
State and Local Government Series Securities	301,168
Total	<u>\$3,827,107</u>

2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2006 follows:

Governmental Activities:

	<u>Balance June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Non-depreciable capital assets:				
Land	\$ 1,946,682	\$ 965,488	\$ -	\$ 2,912,170
Construction in Progress	<u>10,459,155</u>	<u>6,771,446</u>	<u>(11,003,117)</u>	<u>6,227,484</u>
Total	<u>\$ 12,405,837</u>	<u>\$ 7,736,934</u>	<u>(\$11,003,117)</u>	<u>\$ 9,139,654</u>
Depreciable capital assets:				
Land improvements	9,045,815	543,140	(3,103,472)	6,485,483
Buildings and improvements	25,920,000	4,819,032	(1,559,834)	29,179,198
Infrastructure	44,388,385	843,679	-	45,232,064
Machinery and equipment	9,284,766	1,822,016	(1,322,030)	9,784,752
Vehicles	<u>9,960,532</u>	<u>149,757</u>	<u>(1,067,160)</u>	<u>9,043,129</u>
Total	<u>98,599,498</u>	<u>8,177,624</u>	<u>(7,052,496)</u>	<u>99,724,626</u>
Less accumulated depreciation for:				
Land improvements	6,017,657	379,262	(2,154,704)	4,242,215
Buildings and improvements	7,944,816	579,714	(606,826)	7,917,704
Infrastructure	15,472,933	1,193,032	-	16,665,965
Machinery and equipment	6,458,773	620,410	(1,039,088)	6,040,095
Vehicles	<u>7,522,379</u>	<u>578,651</u>	<u>(1,044,886)</u>	<u>7,056,144</u>
Total	<u>43,416,558</u>	<u>3,351,069</u>	<u>(4,845,504)</u>	<u>41,922,123</u>
Depreciable capital assets, net:	<u>\$55,182,940</u>	<u>\$4,826,555</u>	<u>(\$2,206,992)</u>	<u>\$57,802,503</u>
 Grand total	 <u>\$67,588,777</u>	 <u>\$12,563,489</u>	 <u>\$(13,210,109)</u>	 <u>\$66,942,157</u>

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 149,402
Hydroelectric production	227,413
Police	163,059
Fire	342,629
Other public safety	14,977
Public Works	1,522,001
Airport	128,560
Bus	224,395
Library	100,914
Other culture and recreation	446,540
Refuse and recycling	30,859
Other home and community services	320
Total	<u>\$3,351,069</u>

Business-Type Activities:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,248,078	-	-	27,248,078
Infrastructure	13,647,130	-	-	13,647,130
Machinery and equipment	15,004,477	61,122	(20,664)	15,044,935
Vehicles	776,075	-	(33,858)	742,217
Total	<u>56,926,328</u>	<u>61,122</u>	<u>(54,522)</u>	<u>56,932,928</u>
Less accumulated depreciation for:				
Land improvements	180,579	12,528	-	193,107
Buildings and improvements	10,717,819	535,064	-	11,252,883
Infrastructure	3,978,874	198,078	-	4,176,952
Machinery and equipment	10,247,632	510,426	(16,839)	10,741,219
Vehicles	627,166	42,538	(33,858)	635,846
Total	<u>25,752,070</u>	<u>1,298,634</u>	<u>(50,697)</u>	<u>27,000,007</u>
Depreciable capital assets, net:	<u>\$31,174,258</u>	<u>\$(1,237,512)</u>	<u>\$ (3,825)</u>	<u>\$29,932,921</u>

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

Water	\$ 597,855
Sewer	700,779
Total	<u>\$1,298,634</u>

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

3. Restricted Cash, Cash Equivalents and Investment:

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

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 84,246	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 300,225	Reserve for capital projects
Water – Cash	\$ 92,844	Reserve for coagulation basin maintenance
Special Revenue – Cash	\$ 91,849	Federal and State community development grants
Capital – Cash	\$ 1,653,068	Reserve for capital project acquisitions and construction

4. Notes Receivable

In an effort to provide affordable homes for low and moderate-income families in the City, the City applied for, and was awarded, a grant for a “Homeownership Assistance Project”. Under the terms of the grant, eligible new homeowners received a deferred loan using Community Development Block Grant Funds. The entire loan will be forgiven if the property is retained for a period of ten years; however, a pro-rated share will be payable if the property is sold prior to the tenth year. The balance of these loans at June 30, 2006 was \$55,554. These loans mature at various dates between 2006-2008, are non-interest bearing, and are being collateralized by second liens. Deferred revenue has also been recorded equivalent to the amount of the loans outstanding.

To assist in the rehabilitation of homes of low and moderate-income persons in the City, the City applied for, and was awarded grants for a “Housing Improvement Program”. Under the grant terms, eligible homeowners receive a grant and/or loan not to exceed \$20,000 using Community Redevelopment Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period 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. Loans and grants of \$151,645 were awarded during the current year. The balance of the total loans outstanding at June 30, 2006 was \$18,222. The balance of the grants subject to repayment at June 30, 2006 was \$666,308.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for rehab to an apartment building. This loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. The balance of this loan at June 30, 2006 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

The City applied for and was awarded \$200,000 from the North Country HOME Consortium to fund an owner occupied housing rehabilitation program in the north side of the City. The purpose of this program is to improve neighborhood conditions 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. Assistance is available under this program for rehabilitation improvements in any eligible property located in the designated target area that is occupied by a lower income household. Grants of \$12,271 were awarded during the current year.

The City applied for and was awarded \$230,000 from the North Country HOME Consortium to assist first time home buyers with the purchase and rehabilitation of homes in the City. The purpose of this program is to promote home ownership in the City. Assistance will be available to eligible lower income households who will buy existing homes that are for sale in the City. Where needed, improvements will be made to those properties to eliminate any problems that might be a financial hardship to the owner in the future. Grants of \$106,657 were awarded during the current year.

B. Liabilities

1. Short-Term Debt

There were no bond anticipation note transactions for the year ended June 30, 2006.

2. Long-Term Debt

During the year ended June 30, 2006, the following changes occurred in long-term obligations:

Governmental Activities:

	Balance			Due	
	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Within</u>
				<u>June 30, 2006</u>	<u>One Year</u>
General Obligation Bonds	\$24,788,012	\$5,950,000	(\$2,817,774)	\$27,920,238	\$2,946,211
Compensated Absences	220,465	12,457	-	232,922	30,000
Landfill Monitoring	342,000	-	(18,000)	324,000	18,000
NYS Retirement Incentive	112,806	-	(34,748)	78,058	37,528
NYPA Loan Payable	<u>312,067</u>	-	<u>(42,259)</u>	<u>269,808</u>	<u>42,578</u>
Total	<u>\$25,775,350</u>	<u>\$5,962,457</u>	<u>(\$2,912,781)</u>	<u>\$28,825,026</u>	<u>\$3,074,317</u>

The Statement of Net Assets at June 30, 2006 includes a deferred amount of \$66,402 on the advance refunding of bonds in fiscal year ended June 30, 2003.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Business-type Activities

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation					
Bonds:					
Water	\$ 5,969,465	\$41,000	(\$1,163,482)	\$ 4,846,983	\$1,138,684
Sewer	4,017,223	20,500	(1,158,944)	2,878,779	1,157,305
NYS Retirement Incentive	35,623	-	(10,973)	24,650	11,851
NYPA Loan Payable	<u>13,089</u>	-	<u>(1,906)</u>	<u>11,183</u>	<u>1,765</u>
Total	<u>\$10,035,400</u>	<u>\$61,500</u>	<u>(\$2,335,305)</u>	<u>\$7,761,595</u>	<u>\$2,309,605</u>

The Statement of Net Assets at June 30, 2006 includes a deferred amount of \$59,598 on the advance refunding of bonds in fiscal year ended June 30, 2003.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2006 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original</u> <u>Amount</u>	<u>Paid</u> <u>6/30/06</u>	<u>Outstanding</u> <u>6/30/06</u>	<u>Maturity</u> <u>Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 775,000	12/2017
Reservoir Covers					
and Sanitary Sewers	9.10%	3,320,000	175,000	175,000	9/2006
Water Filtration	7.40-7.60%	4,100,000	225,000	675,000	4/2009
Sewer Improvements	7.60%	2,900,000	175,000	175,000	4/2007
Public Improvements	6.90-7.00%	5,471,000	75,000	300,000	5/2010
Public Improvements	7.20-7.30%	3,810,000	300,000	300,000	6/2007
Public Improvements	6.30-6.375%	10,518,000	445,200	2,376,000	10/2011
Public Improvements	5.50-5.70%	3,599,000	200,000	1,050,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	82,500	255,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	175,000	700,000	7/2011
Public Imp. Refunding	2.45-5.00%	6,235,000	355,000	270,000	5/2007
Public Improvements	4.60-5.25%	4,220,000	101,000	380,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	340,000	8,200,000	11/2025
Sewage Tr. Refunding	3.55-4.55%	2,525,000	295,000	285,000	1/2007
Public Imp. Refunding	3.50-4.85%	3,908,466	325,000	1,285,000	7/2010
Public Improvements	5.125-5.50%	6,105,000	450,000	2,440,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	150,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	225,000	1,410,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	230,000	1,170,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	820,000	7,325,000	1/2024
Public Improvements	4.625-7.5%	250,000	-	250,000	11/2015
Public Improvements	4.0-4.375%	5,700,000	-	<u>5,700,000</u>	11/2020
Total Serial Bonds				<u>\$35,646,000</u>	

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

On November 15, 2005 the City of Watertown issued \$5,700,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 4.00% to 4.375%. The net interest cost was at a rate of 4.15%.

On May 1, 2006 the City of Watertown issued \$250,000 of General Obligation Bonds to finance a special assessment district for sidewalk replacements at interest rates ranging from 7.50% to 4.625%. The net interest cost was at a rate of 4.74%. Individual property owners will have their applicable portion of the debt service charged annually to the City property tax bills for the next ten years.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,946,211	\$1,444,356	\$ 4,390,567
2008	2,624,296	1,202,777	3,827,073
2009	2,400,122	1,092,231	3,492,353
2010	2,300,027	983,788	3,283,815
2011	1,948,687	889,451	2,838,138
Thereafter	<u>15,700,895</u>	<u>5,443,558</u>	<u>21,144,453</u>
	<u>\$27,920,238</u>	<u>\$11,056,161</u>	<u>\$38,976,399</u>

Business-type Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,295,989	\$ 417,931	\$ 2,713,920
2008	1,120,904	289,774	1,410,678
2009	1,106,078	224,403	1,330,481
2010	847,173	163,222	1,010,395
2011	716,513	112,493	829,006
Thereafter	<u>1,639,105</u>	<u>271,998</u>	<u>1,911,103</u>
	<u>\$7,725,762</u>	<u>\$1,479,821</u>	<u>\$9,205,583</u>

Airport Debt

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Advance Refunding

On March 15, 1998, the City issued \$3,908,466 in Environmental Improvement Refunding Bonds with interest rates ranging from 3.5% to 4.85% to advance refund \$3,608,700 of outstanding 1991, 1992 and 1996 series bonds with interest rates ranging from 4.60% to 6.37%.

Also, on March 15, 1998, the City issued \$2,525,000 in Environmental Improvement Refunding Bonds with interest rates ranging from 3.55% to 4.55% to advance refund \$2,350,000 of outstanding 1998 series bonds with interest rates ranging from 7.50% to 7.70%. These bonds were called on May 1, 1998.

For both issuances, the City used net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds, and accordingly, these securities are not included in the balance sheet.

These advance refundings reduced total debt service payments over fourteen years by \$1,148,000.

The refunding bonds were issued through the New York State Environmental Facilities Corporation Clean Water and Drinking Water Revolving Funds Revenue Bonds (Pooled Loan Issue) Series 1998 A and B.

On August 27, 2002, the City issued \$2,155,000 in general obligation bonds with an average interest rate of 3.42% to advance refund \$1,975,000 of outstanding 1992 Serial bonds with an average interest rate of 6.009%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 series bonds. A difference in cash flow requirements of \$125,248 and a net present value savings of \$109,404 were a result of this advance refunding by the City.

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect this fiscal year ranged from 1.43% to 2.75%. The outstanding balance at June 30, 2006 is \$280,991. The estimated maturities over the next five years and thereafter are as follows:

2007	\$ 44,343
2008	45,578
2009	46,847
2010	48,152
2011	49,493
Thereafter	<u>46,578</u>
	<u>\$280,991</u>

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

3. Prior Years Defeasance of Debt

In prior years, the City defeased certain general obligation bonds by placing the 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 liability for defeased bonds are not included in the City's financial statements. On June 30, 2006, \$2,664,000 of bonds outstanding is considered defeased.

4. Deferred Revenue

Deferred revenue consists of the following:

General Fund:	
Deferred property tax revenue	<u>\$ 81,506</u>
Special Revenue Fund	
Outstanding notes receivable funded from grant proceeds	<u>\$ 830,129</u>
Capital Projects Fund	
Deferred State Aid	<u>\$ 309,712</u>

5. Retirement Benefits

Plan Description

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employers. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2006 and three preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2005-06	<u>\$ 790,665</u>	<u>\$ 1,155,635</u>
2004-05	<u>\$ 852,793</u>	<u>\$ 1,211,751</u>
2003-04	<u>\$ 381,104</u>	<u>\$ 330,499</u>
2002-03	<u>\$ 82,559</u>	<u>\$ 8,217</u>

The City's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

The government-wide statement of net assets is reporting a long-term liability for the remaining 2 years of the 2002 retirement incentive plan liability of \$102,708. The estimated maturities over the next two years are as follows:

Fiscal year ending June 30,	
2007	\$ 49,379
2008	<u>53,329</u>
	<u>\$102,708</u>

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 \$94,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

C. Fund Balances

1. Reserved Fund Balances

Reserved fund balances consist of the following:

General Fund

- Encumbrances – An amount reserved to satisfy purchase orders and other commitments for which goods and/or services will be received in the following year
- 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
- Workers Compensation – An amount reserved to pay workers' compensation claims
- Mandatory Reserve for Indebtedness – Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2006 was \$337,250.

2. Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance.

3. Excess of Expenditures over Appropriations

Expenditures for the fiscal year ended June 30, 2006 exceeded appropriations in the funds identified below:

<u>Fund</u>	<u>Appropriations As Modified</u>	<u>Expenditures and Encumbrances</u>	<u>Unfavorable Variance</u>
Mandatory Reserve – Transfer to General Fund	\$ 3,200	\$ 3,676	\$ (476) (1)
Debt Service Fund Transfers	\$ 43,310	\$ 43,343	\$ (33) (2)

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

- (1) Transferred residual fund balance related to electrical distribution system
- (2) Higher than expected interest earnings

D. Interfund Transactions

Operating Transfers

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

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2006 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$1,174,209	\$ 115,049
Water Fund	143,635	43,504
Sewer Fund	15,539	271,018
Library Fund	-	37,496
Capital Project Funds	5,540	871,706
Trust and Agency	-	150
	<u>\$1,338,923</u>	<u>\$1,338,923</u>

Inter-fund Eliminations

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

	<u>General Fund</u>	<u>Self- Insurance Fund</u>
Revenues	\$ -	\$4,079,988
Expenditures	4,079,988	-
Total	<u>\$4,079,988</u>	<u>\$4,079,988</u>

E. Operating Leases

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusho and Terry MacAdam. The term of the lease is for a ten-year period from October 22, 2001 through October 21, 2011. The annual rent is \$1,900.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Minimum future rentals to be paid over the term of the lease:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2007	\$ 1,900
2008	1,900
2009	1,900
2010	1,900
2011	<u>1,900</u>
	<u>\$9,500</u>

Fairgrounds Property Lease

The City is the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC. The lease dated July 28, 1998 is for a term of twenty-five years. The lease was amended on June 16, 2003. The tenant pays the City an additional amount of \$3,000 each year through 2007.

Minimum future rentals on the non-cancelable lease in the aggregate and for each of the next five years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2007	\$ 13,000
2008	10,000
2009	10,000
2010	10,000
2011	10,000
Thereafter	<u>120,000</u>
	<u>\$173,000</u>

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2006 were \$1,129,918.

Estimated minimum future rental payments under the non-cancelable operating lease for each of the next five years and in the aggregate are:

2007	\$ 210,996
2008	227,293
2009	217,331
2010	207,369
2011	197,405
Thereafter	<u>689,997</u>
Total	<u>\$1,750,391</u>

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

III. 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 arrests, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2006, 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 \$615,162 as of June 30, 2006 for un-funded general liability claims.

Grant Programs

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

The City has entered into a Cooperation Agreement with Neighbors of Watertown to assist in the determination of eligibility of first-time buyers for distribution of CDBG funds.

Environmental Concerns

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, 2006, the City is not aware of any significant environmental problems that should be disclosed in the general-purpose financial statements.

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2006, an estimated \$324,000 in post-closure care cost will be incurred over the remaining 20-year period. This liability is recorded in the long-term debt account group 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.

Municipal Water Agreement

The City has entered into a five-year agreement starting in fiscal year 1998 with the Town of Watertown, New York to provide water services at fixed established rates through fiscal year 2006. This agreement has been extended to September 30, 2006.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note III – Commitments and Contingencies (continued)

Black River Fund

The City of Watertown owns a hydroelectric facility on the Black River and has applied to the Federal Energy Regulatory Agency (FERC) for a new hydro-electric generation license. 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.

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 determines 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 are eligible to receive funding from the Black River Fund.

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2006 was \$80,806.

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.

On June 16, 1995, the FERC issued a new license to the City for the continued operation, maintenance and expansion of the City's existing hydro plant.

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:

- Niagara Mohawk 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.
- 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.
- The City will lease all of its surplus power to Niagara Mohawk 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.

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note III – Commitments and Contingencies (continued)

Watertown International Airport / Jefferson County Sales Tax Agreement

On May 3, 2004, the City agreed to a revised sales tax distribution with Jefferson County. Effective on September 1, 2004, Jefferson County increased the county's sales tax from 3.00% to 3.75%. Under the prior agreement the City received 28% of the County sales tax collections. The City agreed to forego receiving distributions on the additional revenue for the first five quarters that the new tax rate is in effect thus reducing its overall collection percentage of total sales tax collections to 22.4%. During the first five quarters, Jefferson County will retain all funds collected in excess of the original 3.00%. After the first five quarters, the City's overall collection percentage increases to 23.0% effective on 12/1/05, to 23.5% effective 12/1/06 and to 24.0% effective 12/1/07.

As part of the sales tax agreement, Jefferson County has agreed to take over the ownership of the Watertown International Airport, including all operating expenses and outstanding debt. The City/County transfer agreement was approved by the Federal Aviation Authority and New York State Department of Transportation. The transfer took place during 2006. Assets net of associated debt amounting to \$5,088,452 were transferred to the County on March 1, 2006.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

Supplemental Schedule #1

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows)				
Real property taxes	\$ 8,621,179	\$ 8,621,179	\$ 9,181,268	\$ 560,089
Real property tax items	816,000	816,000	611,783	(204,217)
Non-property taxes	12,773,000	12,773,000	14,194,078	1,421,078
Departmental income	3,545,300	3,576,300	3,599,266	22,966
Intergovernmental charges	134,600	515,270	520,614	5,344
Use of money and property	277,050	277,050	459,367	182,317
Licenses and permits	58,000	58,000	83,865	25,865
Fines and forfeitures	95,000	95,000	104,186	9,186
Sale of property and compensation for loss	51,100	51,100	98,025	46,925
Miscellaneous local sources	436,718	569,718	680,023	110,305
Interfund revenue	686,821	660,271	654,540	(5,731)
State source	4,443,484	4,443,484	4,785,094	341,610
Federal sources	105,600	157,030	192,845	35,815
Transfers from other funds	191,037	217,587	286,895	69,308
	<u>32,234,889</u>	<u>32,830,989</u>	<u>35,451,849</u>	<u>2,620,860</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,041,848	4,862,073	4,917,297	(55,224)
Education	-	4,000	3,733	267
Public safety	12,009,996	12,055,116	12,051,594	3,522
Transportation	3,259,322	3,727,947	3,694,958	32,989
Economic assistance and transportation	130,000	125,500	94,272	31,228
Culture and recreation	1,008,573	1,019,453	986,096	33,357
Home and community services	1,096,537	1,069,662	1,063,405	6,257
Employee benefits	5,061,586	5,876,711	5,922,695	(45,984)
Debt service	3,821,942	3,831,342	3,830,393	949
Transfers to other funds	1,729,836	1,788,336	1,772,702	15,634
	<u>33,159,640</u>	<u>34,360,140</u>	<u>34,337,145</u>	<u>22,995</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations	(924,751)	(1,529,151)	1,114,704	2,643,855
Appropriation of prior year fund balance	<u>1,285,000</u>	<u>1,920,900</u>	<u>-</u>	<u>(1,920,900)</u>
Excess of Resources Over Charge to Appropriations	<u>\$ 360,249</u>	<u>\$ 391,749</u>	1,114,704	<u>\$ 722,955</u>
Fund Balance, Beginning of year			<u>9,612,775</u>	
Fund Balance, End of year			<u>\$ 10,727,479</u>	

BOND RATING

Moody's Investors Service, Inc. ("Moody's") have given the Bonds the rating Aaa. Moody's has assigned such rating to the Bonds with the understanding that upon delivery of such Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on such Bonds will be insured by Assured Guaranty Corp.. For further details see Appendix D. Such rating reflects only the views of such organizations and an explanation of the significance of such rating may be obtained from such rating agency as follows: Moody's Investors Service, Inc., 7 World Trade at Greenwich Street, Public Finance Group, 23rd Fl, New York, New York 10007, (212) 553-0300; There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn by such rating agency, if in its judgment, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of such Bonds.

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BOND INSURANCE

The following information is not complete and reference is made to Appendix D for a specimen of the financial guaranty insurance policy (the “Policy”) of Assured Guaranty Corp. (“Assured Guaranty” or the “Insurer”).

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Bonds, effective as of the date of issuance of such Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the “Insured Payments”). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

“Due for Payment” means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

“Nonpayment” means the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the holder of such Bond in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty Corp. (“Assured Guaranty”) is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured

finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2007, Assured Guaranty had total admitted assets of \$1,324,414,515 (unaudited), total liabilities of \$1,073,740,147 (unaudited), total surplus of \$250,674,368 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$950,697,359 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2006 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 28, 2007), as amended by the Form 10-K/A filed by AGL on March 1, 2007;

The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (which was filed by AGL with the SEC on May 7, 2007);

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (which was filed by AGL with the SEC on August 9, 2007);

The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 (which was filed by AGL with the SEC on November 8, 2007); and

The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the

offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC are available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Recent Developments

On February 11, 2008, AGL issued a press release reporting a net loss of \$260.1 million, or \$3.77 per diluted share, for the quarter ended December 31, 2007, compared to net income of \$42.4 million, or \$0.58 per diluted share, for fourth quarter 2006. The decline in net income was primarily due to an after-tax unrealized mark-to-market loss on derivatives of \$297.5 million, or \$4.31 per diluted share. The after-tax unrealized mark-to-market loss on derivatives was largely due to a loss of \$302.9 million on financial guaranties written in credit default swap contract form that was previously announced on January 24, 2008. This mark-to-market loss in the fourth quarter was due to the decline in market values of the reference securities and is not due to rating agency downgrades of the reference securities. The mark-to-market loss does not reflect any case or portfolio loss reserves, policy claims or realized losses, nor does it affect AGL's claims-paying resources, rating agency capital or regulatory capital position. AGL's credit default swap contracts are substantially similar to AGL's financial guaranty insurance contracts and provide the counterparty with credit protection against payment default. AGL expects the net gain or loss on credit default swap exposure will amortize to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure.

In a December 12, 2007 press release, Fitch affirmed Assured Guaranty's "AAA" rating with a stable outlook. In a December 14, 2007 announcement, Moody's affirmed Assured Guaranty's "Aaa" rating with a stable outlook. On December 19, 2007, S&P affirmed Assured Guaranty's "AAA" financial strength rating with a stable outlook. On January 17, 2008, S&P maintained Assured Guaranty's "AAA" rating with a stable outlook. Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".



Assured Guaranty Corp.
 1325 Avenue of the Americas
 New York, NY 10019
 t. 212.974.0100
 www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the

next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

SPE

By: _____
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

Counsel

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