

OFFICIAL STATEMENT

**NEW ISSUES: SERIAL BONDS
BOOK-ENTRY-ONLY
NOT BANK QUALIFIED**

**MOODY'S RATING: Aa3
See "Rating" herein**

In the opinion of Fulbright & Jaworski LLP, New York, New York, a member of Norton Rose Fulbright, Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds will not be subject to the alternative minimum tax on individuals. In the further opinion of Bond Counsel, under existing law interest on the Bonds 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 MATTERS" herein for a description of the opinion of Bond Counsel and certain other tax consequences.

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

**CITY OF WATERTOWN
JEFFERSON COUNTY, NEW YORK**

GENERAL OBLIGATIONS

\$1,195,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES A

DATED: APRIL 10, 2014

**DUE: APRIL 1, 2015-2024
(as shown on inside cover)**

(the "Series A Bonds")

\$5,110,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES B

DATED: APRIL 10, 2014

**DUE: APRIL 1, 2015-2029
(as shown on inside cover)**

(the "Series B Bonds")

(the Series A Bonds and Series B Bonds combined herein referred to as the "Bonds")

The Bonds are general obligations of the City of Watertown, Jefferson County, New York. All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount, subject to the statutory limitations imposed by Chapter 97 of the Laws of 2011 (see "Tax Increase Procedural Limitation Legislation" herein).

Interest on the Bonds will be payable semi-annually on April 1 and October 1 of each year until maturity, commencing on April 1, 2015. The Series A Bonds will not be subject to prior redemption. The Series B Bonds are subject to redemption prior to maturity as described herein.

The Bonds 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 New York, New York ("DTC"), which will act as securities depository for the Bonds. Individual purchases will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Principal and interest on the Bonds will be paid by the City of Watertown to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein.

The Bonds are offered when, as and if issued and received by the purchaser and subject to the receipt of the unqualified legal opinions as to the validity of the Bonds of Fulbright & Jaworski LLP, New York, New York, a member of Norton Rose Fulbright, Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about April 10, 2014.

April 1, 2014

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE CITY DATED MARCH 24 2014 RELATING TO THE BONDS 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 INSIDE COVER, AND THE SECTION "RATING" ON PAGE 27, THERE HAVE BEEN NO REVISIONS MADE TO SAID OFFICIAL STATEMENT

ROOSEVELT & CROSS, INC. & ASSOCIATES

\$1,195,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES A

DATED: APRIL 10, 2014

DUE: APRIL 1, 2015-2024

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>
2015	\$145,000	1.500%	0.30%	2020	\$100,000	2.000%	1.85%
2016	150,000	1.500	0.55	2021	100,000	2.125	2.20
2017	150,000	1.500	0.85	2022	100,000	2.250	2.45
2018	150,000	1.625	1.15	2023	75,000	2.500	2.65
2019	150,000	2.000	1.45	2024	75,000	2.750	2.75

\$5,110,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES B

DATED: APRIL 10, 2014

DUE: APRIL 1, 2015-2029

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>
2015	\$280,000	2.000%	0.30%	2020	\$320,000	2.25%	1.85%	2025	\$370,000*	3.000%	2.90%
2016	280,000	2.125	0.55	2021	330,000	2.50	2.20	2026	380,000*	3.000	3.00
2017	290,000	2.125	0.85	2022	335,000	2.75	2.45	2027	390,000*	3.125	3.15
2018	300,000	2.250	1.15	2023	345,000	3.00	2.62	2028	405,000*	3.250	3.30
2019	310,000	2.250	1.45	2024	360,000*	3.00	2.75	2029	415,000*	3.250	3.40

*Subject to redemption prior to maturity as described herein.

CITY OFFICIALS

JEFFREY E. GRAHAM

Mayor

CITY COUNCIL

ROXANNE M. BURNS
JOSEPH M. BUTLER JR.

STEPHEN A. JENNINGS
TERESA R. MACALUSO

SHARON ADDISON

City Manager

JAMES E. MILLS

City Comptroller

ANN SAUNDERS

City Clerk

FULBRIGHT & JAWORSKI LLP, a member of NORTON ROSE FULBRIGHT
New York, New York
Bond Counsel



NYMAC

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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 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

\$1,195,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES A
and
\$5,110,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2014 SERIES B

This Official Statement (the "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 \$1,195,000 Public Improvement (Serial) Bonds, 2014 Series A (the "Series A Bonds") and \$5,110,000 Public Improvement (Serial) Bonds, 2014 Series B (the "Series B Bonds") (collectively hereinafter referred to as the "Bonds").

DESCRIPTION OF THE BONDS

The Bonds 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 as required by the Constitution and laws of the State of New York (State Constitution, Art. 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 interest thereon, without limitation as to rate or amount, subject to the statutory limitation imposed by Chapter 97 of the Laws of 2011. See "Tax Increase Procedural Limitation Legislation" herein.

The Bonds 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"), which will act as securities depository for the Bonds. 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. Interest on the Bonds will be payable April 1 and October 1 in each year until maturity, commencing April 1, 2015. 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, as described herein. The Record Date for the Bonds is the fifteenth day of the calendar month preceding each interest payment date. The Series A Bonds will not be subject to redemption prior to maturity. The Series B Bonds will be subject to redemption prior to maturity as described herein.

Purpose of the Bond Issues

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 the following purposes and in the following amounts:

Series A Bonds:

<u>Purpose</u>	<u>Amount</u>
Fairgrounds pre-engineered metal building	\$ 275,000
Clinton Street Reconstruction – Street	295,000
Water Meter Replacements	325,000
Equipment for hydro-electric facility	240,000
Sidewalk special assessment District #9	<u>60,000</u>
	\$1,195,000

Series B Bonds:

<u>Purpose</u>	<u>Amount</u>
Wastewater treatment plant disinfection system	<u>5,110,000</u>
	<u>\$5,110,000</u>

The proceeds of the Bonds will provide new monies for the above listed purposes.

Optional Redemption

The Series B Bonds maturing on or before April 1, 2023 will not be subject to redemption prior to maturity. The Series B Bonds maturing on or after April 1, 2024 will be subject to redemption prior to maturity, at the option of the City, on April 1, 2023 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) as may be determined by the City, at the price equal to the par principal amount, plus accrued interest to the date of redemption.

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

The Series A Bonds will not be subject to prior redemption.

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the City and the holder thereof.

The Bonds will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Bonds, the City has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to certain statutory limitations imposed by the Tax Levy Limit Law. See “Tax Increase Procedural Limitation Legislation” and “Enforcement of Remedies Upon Default,” herein.

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds, and the State is specifically precluded from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limit Law imposes a statutory limitation on the City’s power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limit Law. See “Tax Increase Procedural Limitation Legislation,” herein.

Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds 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 Bond certificate will be issued for each maturity of the Bonds, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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”). 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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by the Direct Participant in accordance with DTC's Money Market Instruments Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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, the City, 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 the City, 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 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company, New York, New York.

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 the City Clerk, as fiscal and paying agent for the Bonds, or, at the option of the City, at 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 semi-annually on April 1 and October 1 of each year until maturity, commencing on April 1, 2015. 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 fifteenth 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.

THE CITY

General Information

The City or "Watertown" 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 encompasses an area of approximately nine square miles. With a 2010 census population figure of 27,023, it is the largest population center in Jefferson County.

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 more than 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 (see "Fort Drum" herein). 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 Interstate Route 81.

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 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 two commercial banks, one savings bank, one savings and loan, and four 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 had sales of approximately \$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 on 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 a .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

Since activation of the 10th Mountain Division at Fort Drum in 1984, the military-related population in the area has grown to around 37,211. Based upon the Economic Impact Statement for fiscal year 2013, 18,060 soldiers and 3,895 civilians were employed at Fort Drum for a combined annual payroll of \$1,168,245,875. The Soldiers have an additional 19,151 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 located only 7 miles from the Fort, houses 42% of those Soldiers living off post. The Economic Impact Statement for fiscal year 2013 indicates that Fort Drum's economic impact on the tri-county area for 2012 was \$1,416,969,521.

In May 2004, the Army announced that the 10th Mountain Division would receive a third brigade and convert the two existing brigades to Brigade Combat Teams. Collectively this generated an increase of 8,000 additional Soldiers at Fort Drum. Fort Drum sustained no losses due to the 2005 Base Realignment and Closure decisions. In June 2013 the Army announced that the 3rd Brigade Combat Team of the 10th Mountain Division will be inactivated by 2017 as part of an Army reorganization plan to reduce the number of active-duty soldiers by 80,000. The Army expects additional maneuver battalions to be assigned to the remaining brigades resulting in an overall net loss of soldiers to Fort Drum between 1,500 and 2,000 soldiers.

The Army has privatized the on-post family housing, under the Residential Community Initiative. The project company, Mountain Community Homes, has built 1,565 new homes, 192 rental apartments for unaccompanied senior NCOs and officers, and renovated all of the existing 2,270 older homes on Fort Drum. This construction and renovation was completed in 2011 and cost approximately \$513,000,000.

The FY 2011 Military Construction Appropriations Bill contains \$252,000,000 in projects at Fort Drum. These construction projects include a new campus for the Air Force 20th ASOS detachment, a Training Support Center, hangar expansion for 3-10 AVN, phase 1 of the Organizational Readiness Training Center, aircraft fueling system upgrades, two barracks, several troop unit administrative facilities, vehicle maintenance shop, an infantry squad battle course and a solar wall energy project. In addition during FY 2011 the NY Air National Guard is building a \$5,000,000 facility to support their MQ9 Reaper unmanned aircraft operations. The FY 2012 Military Construction Appropriations Bill contains \$13,300,000 in projects including an ammunition supply point expansion and a chapel expansion.

The FY 2013 Military Construction Appropriations Bill funded \$95 million for an aircraft hangar, \$17.3 million for a soldier specialty care unit and \$25.9 million for a data terminal complex for the Missile Defense Agency. No construction is planned for FY 2014. Construction planned for FY 15-19 is an air support operations center and phase two of a training aids center valued at approximately \$15.8 million.

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	14
Single Family Home	58
Multi-family	<u>325</u>
Total	397

Source: Annual Building Permit Reports, 2004-2013. Does not include on-post housing noted above.

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	1,900
Watertown City School District	Primary Education	725
Jefferson County	Government Services	819
Stream International	Customer Relationship Management Services	500
Jefferson Rehab. Center	Services for Disabled	650
City of Watertown	Government Services	367
State of New York	Government Services	359
New York Air Brake Company	Manufactures air brakes for freight and passenger railroad cars, hydraulic pumps and motors for aircraft and missiles	420
Jefferson Community College	Post-secondary Education	268
Watertown family YMCA	Recreational and Childcare	249
Scholastic Structures	Manufacturing	230
Johnson News Corporation	Daily News Papers - Job Printing	210
Purcell Construction	Construction	140
Knowlton Technologies, LLC	Manufacturing	130
Guilfoyle Ambulance Service	Healthcare	123
Stebbins Engineering & Manufacturing Co.	Manufacturing	110
Bernier Carr & Associates	Engineering and architecture firm	104
Renzi Brothers	Distribution	95
North Country Children's Clinic	Health Services	93
Millennium Development, LLC	Hospitality	89
Cornell Cooperative Extension	Education	85
Statur Electric	Manufacturers Fractional Power Motors	80

Source: Jefferson County Job Development Corporation as of May 10, 2013.

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
2010	27,023	116,229	19,378,102

Source: U.S. Census 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 and Financial Condition of the State

The City receives financial assistance from New York State. In the City's General Fund for the 2013-2014 fiscal year, approximately 14% of the operating revenues of the City were received in the form of 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 in any year 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. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State aid reductions are likely. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the City, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures (see also "Market Factors Affecting Financing of the State and Municipalities of the State" herein).

Employees

The City currently employs approximately 323 full-time and 46 to 105 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	144	June 30, 2013 ¹
Watertown Firefighters Association	77	June 30, 2014
Watertown Police Benevolent Association	61	June 30, 2014
International Brotherhood of Electrical Workers	3	June 30, 2016

¹ Contract in negotiation.

Status and Financing of Employee Pension Benefits

Substantially all employees of the City 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"; with ERS, the "Retirement Systems"). The ERS and PFRS together are generally also known as the "Common Retirement Fund". The Retirement Systems are cost-sharing multiple public employer retirements systems. The obligation of employers and employees to contribute and the benefit to employees are governed by the New York State Retirement system and Social Security Law (the "Retirement System Law" or "NYSRSSL"). The Retirement Systems offer a wide range of plans and benefits 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, with less than 10 years experience, must contribute 3% of gross annual salary toward the cost of retirement programs.

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 ERS and PFRS, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments. While the City is aware of the potential negative impact on its budget and will take the appropriate steps to budget accordingly for the increase, there can be no assurance that its financial position will not be negatively impacted.

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 and PFRS. 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 and PFRS contributions for a fiscal year could not be determined until after the local budget adoption process was complete. Under the revised system, a contribution for a given fiscal year is based on the valuation of the pension fund on 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 changed the date on which local pension contributions are due to the state. The annual required contribution became due February 1 annually instead of December 15.
- **Pension Contributions Reserve Fund:** The law created 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.

On September 3, 2009, the New York State Comptroller announced that employer contribution rates for the ERS and PFRS would increase in 2011. Due to recent market performance, the New York State Common Retirement Fund (Fund) had a negative 26.3% return for the fiscal year ended March 31, 2009. The average ERS rate is 11.9% (up from 7.4% in 2010) and the average PFRS rates is 18.2% (up from 15.1% in 2010).

On December 10, 2009, then Governor Paterson signed into law pension reform legislation that will provide (according to a Division of the Budget analysis) more than \$35 billion in long-term savings to State taxpayers over the next thirty years. The legislation creates a new Tier 5 pension level, the most significant reform of the State's pension system in more than a quarter-century. Key components of Tier 5 include:

- Raising the minimum age at which most civilian can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62.

- Requiring employees to continue contribution 3% of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from 5 years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15% of non-overtime wages.

On March 16, 2012, the Governor signed into law the new Tier VI pension program, effective for ERS and PFRS employees who join on or after April 1, 2012. The Tier VI legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from three years to five years. Tier VI employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

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

<u>FY Ending</u> <u>June 30</u>	<u>ERS</u>	<u>PFRS</u>
2009	\$635,943	\$1,365,509
2010	618,718	1,127,720
2011	921,798	1,367,396
2012	1,232,403	1,936,189
2013	1,535,739	2,423,515
2014 (estimate)	1,732,000	2,885,334

Other Post Employment Benefits

The City provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB") requires governmental entities, such as the City, to account for the cost of certain non-pension post-employment benefits as such entities account for vested pension benefits.

OPEB refers to "other post-employment benefits," and refers to benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed as current expenses in the year paid and were not reported as a liability on governmental financial statements.

GASB 45 requires 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 Statement No. 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 .

Actuarial Valuation will be required every two years for OPEB plans with more than two hundred members, or every three years if there are less than two hundred members. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

The City hired an actuarial firm for the actuarial valuation which calculated an ARC of \$7,444,876 and an unfunded actuarial accrued liability of \$134,515,815, as of September 1, 2013. The City is in compliance with the requirements of GASB 45.

Unemployment Rate Statistics

	<u>Year Average</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
City of Watertown	8.4%	9.2%	9.5%	9.2%	8.7%
Jefferson County	9.0%	9.6%	10.0%	10.1%	9.5%
New York State	8.4%	8.6%	8.3%	8.5%	7.7%

	<u>2014 Monthly Averages</u>			
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
City of Watertown	7.7%	N/A	N/A	N/A
Jefferson County	10.0%	N/A	N/A	N/A
New York State	7.3%	N/A	N/A	N/A

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, which have matured, and the remaining amount transferred to a Capital Projects Fund for the reconstruction of the City's Dams, Headgates and Power Canal. See "Power Purchase Agreement", herein.

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, 2015. The City paid Upstate Testing and Control, LLC \$280,851 in fiscal year 2011-2012, \$253,351 in fiscal year 2012-2013 and will pay approximately \$239,000 in fiscal year 2013-2014. The City had gross revenues from electric power sales of approximately \$3,076,104 and net revenues of \$2,732,601 after operating expenses and wheeling charges for the fiscal year ending June 30, 2013.

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.

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.

By resolution adopted July 6, 2009, the City Council approved two twenty-year agreements retroactive to April 1, 2009 between the City and the Development Authority of the North Country to continue providing sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City’s Water Pollution Control Plant.

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. Under a separate agreement, on December 4, 1995, the City granted the Development Authority of the North County the right to sell City water from the Fort Drum water line to municipalities and water districts in Jefferson County. On November 7, 2011 City Council approved a new twenty year agreement for water services which combined the two agreements.

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. Such bonds are no longer outstanding.

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>
2009	\$688,420
2010	544,160
2011	546,326
2012	631,739
2013	730,203
2014 (estimate)	757,278

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 are to be issued, is the Charter of the City of Watertown, the General City Law and the Local Finance Law.

Any challenges to the validity of the Bonds would be limited by Section 82.00 of the Local Finance Law, because the estoppel procedure established by Title 6 of Article 2 of the Local Finance Law has been complied with with respect to the Bonds.

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, 2013 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 Increase Procedural Limitation Legislation

Although the State Legislature is limited by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay “interest on or principal of indebtedness theretofore contracted”, the State Legislature may from time to time impose additional limitations on the ability to issue new indebtedness or to raise taxes therefor.

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the “Tax Levy Limit Law” or the “Law”). The Tax Levy Limit Law generally applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities to levy certain year-to-year increases in real property taxes.

The City is subject to the Tax Levy Limit Law, beginning with the City’s budget for its fiscal year beginning January 1, 2012. Pursuant to the Tax Levy Limit Law, additional procedural requirements are imposed if a municipality seeks to increase the tax levy by more than the lesser of (1) two percent (2%) or (ii) the annual increase in the consumer price index, over the amount of the City’s prior year’s tax levy (the “Tax Levy Increase Limit”). In the event the City seeks to adopt a budget requiring a tax levy exceeding the Tax Levy Increase Limit, a favorable vote of at least five members of the seven-member City Council would be required. The City Council would also be required to act by Local Law rather than simply by resolution, and a public hearing would be required.

The Law permits certain exceptions to the Tax Levy Increase Limit. The City may levy taxes exceeding the Tax Levy Increase Limit, if necessary, to support the following expenditures: (i) funds needed to pay judgments arising out of tort actions that exceed five percent of the total tax levied by the City in the prior fiscal year and (ii) required pension payments (but only that portion of such payments attributable to the average actuarial contribution rate exceeding two percentage points). Taxes necessary for these expenditures will not be included in the calculation of the Tax Levy Increase Limit.

The Law also provides for adjustments to be made to the City’s Tax Levy Increase Limit based upon changes in the assessed value of the taxable real property in the City. Additionally, the City will be permitted to carry forward a certain portion of its unused tax levy capacity from the prior year.

Notes or bonds of the City issued prior to the June 24, 2011 effective date of the Tax Levy Limit Law are payable from real property taxes that can be levied as necessary without regard to any Constitutional or statutory limit. Inasmuch as the Law has no exclusion for principal and interest on notes and bonds, however, levies required to pay principal and interest on notes and bonds will be included in the calculation of the Tax Levy Increase Limit. In the absence of administrative or judicial guidance, and with a lack of any experience operating under the Law, the effect of the Law on the City’s finances and its ability to continue to levy taxes sufficient to both pay debt service on pre June 24, 2011 and post June 24, 2011 notes and bonds and meet its other governmental responsibilities is uncertain.

TAX INFORMATION

Valuations

<u>Fiscal Year Ending</u> <u>June 30:</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Assessed Valuation	\$990,720,368	\$999,381,290	\$1,009,575,758	\$1,020,156,961	\$1,028,442,629
New York State Equalization Rate	92.50%	95.00%	95.00%	89.00%	88.00%
Full Valuation	\$1,071,049,046	\$1,051,980,305	\$1,062,711,324	\$1,146,243,776	\$1,168,684,806
Tax Rate Per \$1,000 Assessed Valuation	\$7.39	\$7.48	\$7.22	\$7.21	\$7.29

Tax Collection Record

<u>Fiscal Year Ending</u>					
<u>June 30:</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Tax Levy ¹	\$7,709,500	\$7,835,394	\$7,562,342	\$7,657,911	\$7,895,263
Additions (Cancellations)					
During the Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Tax Levy	7,709,500	7,835,394	7,562,342	7,657,911	7,895,263
Collections ¹	<u>7,665,113</u>	<u>7,692,554</u>	<u>7,520,098</u>	<u>7,597,035</u>	<u>7,510,664</u> ²
Uncollected End of Year	\$ 44,387	\$ 142,840	\$ 42,244	\$ 60,876	\$ 384,599 ²
% Collected	99.42%	98.18%	99.44%	99.21%	95.13% ²

¹Includes water, sewer and public service charges.

²As of February 10, 2014.

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 the full amount levied by the County, irrespective of actual collection, 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>	<u>2013-14 Assessed Valuation</u>
National Grid (formerly Niagara Mohawk Power Corp.)	Utility	\$36,391,577
Erie Boulevard Hydropower	Utility	15,404,150
Arsenal Street Associates (Price Chopper Plaza)	Shopping Center	12,503,600
Arsenal Housing Associates	Apartments	10,519,000
Eastern Housing Associates	Apartments	9,100,200
Allen Spevack (Stateway Plaza)	Shopping Center	8,411,500
Ontario Apartments LLC	Apartments	8,100,000
Home Depot	Shopping Center	6,926,300
Watertown Savings Bank	Bank	5,114,650
200 Washington Street Assoc. LLC	Bank	4,712,100
First Columbia Samaritan LLC	Health Services	4,575,700
Waterberry Lodging Company	Hotel	4,546,800
Verizon	Utility	4,473,004
WGS A Housing Associates LLC	Apartments	4,346,000
Hotel 45 Inc	Hotel	4,294,185
RE Alexander Partnership	Hotel	4,081,200
Ives Hill Retirement Community	Senior Living Facility	3,800,000
Jon C. Lennox	Manufactured Housing Park	3,521,350

Millennium Development LLC	Hotel	3,505,515
Jefferson Heights LLC	Apartments	3,491,200
Furniture Executive No.8LP	Shopping Center	3,389,400
Rothschild/Breuer Assoc. LLC	Business Offices	3,204,444
Emmi Watertown LLC	Hotel	3,094,412
Golden Ocean Mgmt Inc.	Motel	3,039,950
Cole WG Watertown NY LLC	Retail	2,750,450
81 Land Co. LLC	Shopping Center	2,716,870
United Communication Corp.	Media Studio	2,714,800
North Country Affordable Housing	Apartments	2,653,400
Prime LLC	Golf Course	2,594,100
Thousand Island Hospitality LLC	Hotel	2,398,250

Constitutional Tax Margin

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Five Year Average Full Valuation	\$1,033,006,110	\$1,069,057,018
Tax Limit - 2% of Five Year Average	20,660,122	21,381,140
Add: Exclusions From Tax Limit	<u>5,774,767</u>	<u>5,490,234</u>
Maximum Taxing Power	26,434,889	26,871,374
Less Total Levy	<u>7,373,240</u>	<u>7,520,705</u>
Tax Margin	<u>\$ 19,061,649</u>	<u>\$ 19,350,669</u>

Sales and Compensating Use Taxes

From January 1, 2007 the City receives 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 by City</u>
2008	\$15,194,501
2009	14,466,732
2010	15,223,095
2011	16,007,070
2012	17,215,058
2013	17,247,801
2014 (estimate)	17,046,063

CITY INDEBTEDNESS

Constitutional Requirements

The 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 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.

General. The City is further subject to constitutional limitation by the general constitutionally imposed duty of the State Legislature to restrict the power of taxation and contracting indebtedness to prevent abuses in the exercise of such powers. The State Legislature is prohibited by a specific constitutional provision from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. Chapter 97 of the Laws of 2011 imposes a statutory limitation on the City's power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limit Law. See "Tax Increase Procedural Limitation Legislation," herein.

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 Titles 8 and 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 General 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 City 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Bonds	\$32,972,400	\$30,980,200	\$28,180,000	\$24,200,000	\$22,775,000
Bond Anticipation Notes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	\$32,972,400	\$30,980,000	\$28,180,000	\$24,200,000	\$22,775,000

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of March 13, 2014.

<u>Form of Indebtedness</u>	<u>Maturity</u>	<u>Amount</u>
Bonds	2014-2027	\$20,190,000
	Total Debt Outstanding	<u>\$20,190,000</u>

Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of March 13, 2014:

Five-Year Average Full Valuation of Taxable Real Property	\$1,100,133,851
Debt Limit - 7% thereof	77,009,369

Inclusions:

Serial Bonds	\$20,190,000	
Total Inclusions		<u>20,190,000</u>

Exclusions:

Self-Liquidating Debt ¹	\$4,786,000	
Water Debt ²	3,488,698	
Sewer Debt ³	2,761,173	
Cash on Hand in Man. Res. ⁴	28,250	
Appropriations	342,711	
Total Exclusions		<u>11,406,832</u>

Total Net Indebtedness	<u>8,783,168</u>
Net Debt-Contracting Margin	<u>\$68,226,201</u>
Percent of debt contracting power exhausted	11.41%

The issuance of the Bonds will increase the indebtedness of the City by \$870,000.

¹ Debt related to the City's Hydro-electric facility is excluded pursuant to Section 123.000 of the Local Finance Law. The City is currently in the process of getting the exclusion certificate renewed. The City believes it will be approved.

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.

Authorized But Unissued Items

After the issuance of the Bonds, the City had the following in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Factory Street reconstruction	\$2,200,000	\$2,200,000
Construction or reconstruction of sidewalks at various locations within the City	150,000	150,000
Design and installation of a new parallel transmission main to the Thompson Park reservoirs	1,000,000	1,000,000
Environmental clean-up and debris removal projects at the Ogilvie site	<u>400,000</u>	<u>400,000</u>
	\$3,750,000	\$3,750,000

The City currently anticipates on issuing approximately \$4.7 million in refunding bonds within the new few months.

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>% Within</u> <u>City</u>	<u>Total</u> <u>Applicable</u> <u>Indebtedness</u>
County of Jefferson	\$17,845,000	14.4%	\$ 2,569,680
City School District of the City of Watertown	48,288,000	69.7%	<u>33,656,736</u>
Total			<u>\$36,226,416</u>

Source: New York State Comptroller's Special Report on Municipal Affairs for Fiscal Year Ended in 2011.

Bonded Debt Service¹

Fiscal Year Ending June 30th	<u>Excluding the Bonds</u>			Principal of Series A&B Bond Issues	Principal All Issues
	Principal	Interest	Total Principal and Interest		
2014	3,045,000	819,479	3,864,479	0	3,045,000
2015	2,925,000	726,688	3,651,688	425,000	3,350,000
2016	2,765,000	624,393	3,389,393	430,000	3,195,000
2017	2,580,000	526,248	3,106,248	440,000	3,020,000
2018	2,495,000	431,683	2,926,683	450,000	2,945,000
2019	2,300,000	338,287	2,638,287	460,000	2,760,000
2020	1,730,000	256,003	1,986,003	420,000	2,150,000
2021	1,635,000	186,736	1,821,736	430,000	2,065,000
2022	1,105,000	124,369	1,229,369	435,000	1,540,000
2023	1,090,000	73,406	1,163,406	420,000	1,510,000
2024	370,000	35,581	405,581	435,000	805,000
2025	330,000	21,160	351,160	370,000	700,000
2026	255,000	10,069	265,069	380,000	635,000
2027	75,000	3,938	78,938	390,000	465,000
2028	75,000	1,313	76,313	405,000	480,000
2029	0	0	0	415,000	415,000
Totals	<u>\$22,775,000</u>	<u>\$4,179,353</u>	<u>\$26,954,353</u>	<u>\$6,305,000</u>	<u>\$29,080,000</u>

¹ Table does not reflect payments made to date for fiscal year ending June 30, 2014.

ENFORCEMENT OF REMEDIES UPON DEFAULT

The following description of factors affecting the possible enforcement of remedies upon a default by the City is not intended to constitute legal advice and is not a substitute for obtaining the advice of counsel on such matters. Factors governing the availability of remedies against the City are complex and the obligations of the City, under certain circumstances, might not be enforced precisely as written.

General Municipal Law Contract Creditors' Provision. Each Bond when duly issued and paid for will constitute a contract between the City and the purchaser. Such contracts, if not honored, would generally be enforceable through court action. 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 on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might apply if there were a default in the payment of the principal of and interest on the Bonds.

Unavailability of Remedies of Levy and Attachment. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. Under 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.

Constitutional Non-Appropriation Provision. The Constitution of the State, Article VIII, Section 2, contains the following provision relating to the annual appropriation of monies for the payment of principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any owner of obligations issued for any such indebtedness." If the City were to fail to make a required appropriation, however, the ability of affected owners of City indebtedness to enforce this provision as written could be compromised or eliminated as described below under "Bankruptcy", "State Debt Moratorium Law" and "Possible Priority of Continuation of Essential Public Services".

Bankruptcy. The Federal Bankruptcy Code allows municipalities, such as the City, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Should the City file for relief under the Federal Bankruptcy Code there could be adverse effects on the owners of the Bonds.

The State, in Section 85.80 of the Local Finance Law, has authorized any municipality in the State to file a petition with the United States District Court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness. Subject to such State consent, under the United States Constitution, Congress has jurisdiction over such matters and has enacted amendments to the existing federal bankruptcy statute, being Chapter 9 thereof, generally to the effect and with the purpose of affording municipal corporations, under certain circumstances, with easier access to judicially approved adjustment of debt including judicial control over identifiable and unidentifiable creditors.

Under the United States Constitution, Federal law is supreme and may be enforced irrespective of contrary state law. Accordingly, proceedings in accordance with the Federal Bankruptcy Code could result in an allocation of funds that fails to honor the faith and credit pledge required by the State Constitution.

No current State law purports to create any collateral or priority for owners of the Bonds should the City be under the jurisdiction of any court, pursuant to the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness. The Bonds could be deemed unsecured obligations of the City in a bankruptcy case.

Under the Federal Bankruptcy Code, a petition may be filed in the Federal Bankruptcy court by a municipality that is insolvent, which generally means the municipality is unable to meet its debts as they mature. Generally, the filing of such a petition operates as a stay of any proceeding to enforce a claim against the municipality. The Federal Bankruptcy Code also requires that a plan be filed for the adjustment of the municipality's debt, which may modify or alter the rights of creditors. Any plan of adjustment can be confirmed by the court over the objections of creditors if the plan is found to be "fair and equitable" and in the "best interests of creditors." The City may be able, without the consent and over the objection of owners of the Bonds, to impair and alter the terms and provisions of the Bonds, including the payment terms, interest rate,

maturity date, and payment sources, as long as the bankruptcy court finds that the alterations are “fair and equitable.” If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it.

The rights of the owners of Bonds to receive interest and principal from the City and the enforceability of the City’s faith and credit pledge to pay such interest and principal could be adversely affected by the restructuring of the City’s debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of owners of debt obligations issued by the City (including the Bonds) to payment from monies retained in any fund or from other sources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code. Such monies might, under such circumstances, be paid to satisfy the claims of all creditors generally, or might even be directed to satisfy other claims instead of being paid to the owners of the Bonds.

Regardless of any specific adverse determinations in a bankruptcy proceeding of the City, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Bonds.

State Debt Moratorium Law. Unless the Federal Bankruptcy Code or other Federal Law applies, as described above, enforcement of the rights of Bond owners will generally be governed by State Law. In 1975, a general State law debt service moratorium statute was enacted.

Under that legislation, 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 was suspended. 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, in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 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 obligations.

Accordingly, State legislation materially limiting the timing or manner of actions to enforce the faith and credit pledge against an issuer of general obligation debt (including that portion of Title 6-A of Article 2 of the Local Finance Law enacted in 1975 authorizing any municipality in a State-declared financial emergency period to petition to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality) could be determined to conflict with the State Constitution and may not be enforceable.

The Constitutional provision providing for first revenue set asides applies to the payment of interest on all indebtedness and to the payment of principal payments on Bonds, but does not apply to pay payment of principal due on tax anticipation notes, revenue anticipation notes or bond anticipation notes.

Possible Priority of Continuation of Essential Public Services. In prior years, certain events and legislation affecting remedies upon default on municipal obligations have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of owners of such obligations, such courts might hold that future events, including financial crises as they may occur in the State and in political subdivisions of the State, require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

No Past Due Debt. No principal of or interest on City indebtedness is past due. The City has never defaulted in the payment of the principal of and interest on any indebtedness.

MARKET FACTORS AFFECTING FINANCINGS OF THE STATE AND MUNICIPALITIES OF THE STATE

The financial condition of the City as well as the market price of and the market for the Bonds could be affected by a variety of factors, many of which are beyond the City’s control, including, for example: (i) certain adverse events in the domestic and world economy; (ii) a significant default or other financial crisis occurring in the affairs of the State or its agencies or political subdivisions; and (iii) a seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code. These events may affect the acceptability of obligations issued by borrowers within the State or the ability of the City to arrange for additional borrowings. In addition, the market for and the market value of the Bonds could be adversely affected if the City encountered real or perceived difficulty in marketing Bonds or Bonds to pay principal on the Bonds at maturity. The City, like other issuers, is dependent on the orderly functioning of the municipal debt markets to refinance existing debt coming due, and could be unable to pay the Bonds at maturity if market access proved unavailable.

The City is dependent in part on financial assistance from the State. 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, the City may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State in order to make State aid payments to the City. If for any reason the City anticipates not receiving payment of such State aid as needed, the City is permitted by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of any uncollected 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. The elimination of or any substantial reduction in State aid would have a materially adverse effect upon the City requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "State Aid")

Additionally, if in any year 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. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State Aid reductions are likely. State budgetary restrictions which eliminate or substantially reduce State Aid could have a material adverse effect upon the City, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures.

ANNUAL AND CONTINUING DISCLOSURE UNDERTAKING

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, at the time of delivery of the Bonds, an executed Annual and Continuing Disclosure Undertaking in substantially the form attached as Appendix C.

The City is in compliance with all prior undertakings pursuant to the Rule. In certain years, the City has filed its annual financial information and audited financial statements later than sixty days following the receipt of the audited financial statements for the preceding fiscal year but within the twelve months following the close of a preceding fiscal year filing requirement.

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 MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate (the "Tax Certificate") dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of

the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Tax Certificate subsequent to the issuance of the Bonds. The Tax Certificate contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

In the opinion of Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as described above, Bond Counsel expresses no opinion with respect to any federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change so as to reduce or eliminate the benefit to holders of the Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. Proposed legislative or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other

taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds.

The purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL MATTERS

The legality of the authorization and issuance of the Bonds will be covered by the unqualified legal opinions of Fulbright & Jaworski LLP, New York, New York, Bond Counsel, a member of Norton Rose Fulbright. Such legal opinions will be delivered in substantially the form attached hereto as "Appendix D".

RATING

Moody's Investors Service, Inc. (Moody's) has assigned the Bonds the rating of Aa3. The City currently has underlying ratings of Aa3 from Moody's. Such ratings reflect only the view of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies as follows: Moody's Investors Service, Inc., 7 World Trade Center and 250 Greenwich Street, Public Finance Group – 23rd Floor, New York, New York 10007, (212) 553-0300. There is no assurance that such ratings will continue for any given period of time or that one or more ratings will not be revised downward or withdrawn entirely by the rating agency that issued it, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

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

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.

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, James E. Mills, 245 Washington Street, Room 203, Watertown, New York at (315) 785-7754; or from the office of NYMAC, at (516) 364-6363, as financial advisor to the City.

Except for its review of the descriptions of the terms of the Bonds and its approving legal opinion to be rendered on the Bonds as Bond Counsel to the City, Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, has not participated in the preparation of this Official Statement, nor verified the accuracy, completeness or fairness of the information contained herein, and accordingly, expresses no opinion with respect thereto.

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
April 1, 2014**

**JAMES E. MILLS
City Comptroller**

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

APPENDIX A

Year Ended June 30:	2009	2010	2011	2012	2013
REVENUES					
Real Property Taxes	\$7,101,270	\$7,316,832	\$7,054,030	\$7,307,193	\$7,425,473
Real Property Tax Items	2,528,544	243,461	315,952	292,558	316,811
Non-Property Tax Items	15,464,169	16,185,100	17,054,098	18,217,972	18,240,151
Departmental Income	4,022,744	4,050,469	4,940,166	4,321,479	4,624,830
Intergovernmental Charges	163,224	149,317	117,157	160,387	125,391
Use of Money and Property	302,054	153,597	145,689	103,682	67,049
Licenses and Permits	127,073	84,181	93,916	105,309	66,534
Fines and Forfeitures	117,660	106,463	100,533	131,737	143,708
Sale of Property and Compensation for Loss	322,899	528,187	475,533	560,378	300,975
Miscellaneous	639,974	751,113	706,592	743,454	763,317
Interfund Revenues	1,074,812	1,065,423	1,012,040	993,026	1,045,413
State Aid	5,939,385	5,786,618	5,627,714	5,368,524	8,667,448
Federal Aid	553,451	498,086	675,655	523,068	467,463
Total Revenues	38,357,259	36,918,847	38,319,075	38,828,767	42,254,563
EXPENDITURES					
General Government Support	4,935,144	5,214,956	4,956,825	5,231,571	5,171,962
Public Safety	13,510,962	12,706,872	13,859,362	14,383,533	15,110,431
Transportation	3,967,467	3,847,422	3,927,197	3,868,349	4,259,335
Economic Assistance and Opportunity	84,088	97,029	94,554	118,984	116,232
Culture and Recreation	1,114,563	1,066,431	1,126,600	1,270,304	1,772,114
Home and Community Services	1,093,377	1,167,025	1,072,073	1,218,839	1,195,126
Employee Benefits	6,222,736	7,286,561	8,004,881	7,319,167	7,435,778
Debt Service	4,033,133	3,794,158	4,546,364	3,303,601	2,762,927
Total Expenditures	34,961,470	35,180,454	37,587,856	36,714,348	37,823,905
Excess revenue over (under) expenditure	3,395,789	1,738,393	731,219	2,114,419	4,430,658
Other financing sources (uses)					
Operating transfers in	239,520	490,283	273,034	178,566	116,035
Operating transfers out	(1,483,832)	(1,365,614)	(1,521,521)	(3,180,708)	(1,708,455)
Total other financing sources (uses)	(1,244,312)	(875,331)	(1,248,487)	(3,002,142)	(1,592,420)
Excess revenue and other sources over (under) expenditures and other uses	2,151,477	863,062	(517,268)	(887,723)	2,838,238
Fund balance (deficit) beginning of year	11,420,112	13,637,070	14,558,066	14,133,689	13,308,140
Adjustments (net)	65,481	57,934	92,891	62,174	39,757
Fund balance (deficit) end of year	\$13,637,070	\$14,558,066	\$14,133,689	\$13,308,140	\$16,186,135

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:

	2013	2014
	<u>Adopted Budget</u>	<u>Adopted Budget</u>
<u>REVENUES</u>		
Real Property Taxes	\$7,320,740	\$7,461,055
Real Property Tax Items	269,300	282,850
Non-Property Tax Items	18,608,500	18,836,000
Departmental Income	4,866,600	4,958,050
Intergovernmental Charges	134,175	144,360
Use of Money and Property	90,585	70,585
Licenses and Permits	77,600	83,600
Fines and Forfeitures	120,000	151,000
Sale of Property and Compensation for Loss	59,100	60,100
Miscellaneous	13,500	25,000
Interfund Revenues	304,675	338,450
State Aid	8,468,280	5,433,875
Federal Aid	144,590	310,600
Total Revenues	<u>40,477,645</u>	<u>38,155,525</u>
<u>EXPENDITURES</u>		
General Government Support	4,393,576	4,657,536
Public Safety	11,398,950	11,948,893
Transportation	3,545,091	3,997,874
Economic Assistance & Opportunity	59,200	57,000
Culture and Recreation	1,377,229	1,522,883
Home and Community Services	1,399,392	1,064,492
Employee Benefits	11,743,602	12,531,970
Debt Service	2,762,930	2,654,119
Total Expenditures	<u>36,679,970</u>	<u>38,434,767</u>
Excess revenue over (under) expenditures	<u>3,797,675</u>	<u>(279,242)</u>
Other financing sources (uses)		
Operating transfers in	0	0
Operating transfers out	(5,432,902)	(2,586,868)
Total other financing sources (uses)	<u>(5,432,902)</u>	<u>(2,586,868)</u>
Excess revenue and other sources over (under) expenditures and other uses	(1,635,227)	(2,866,110)
Fund balance & reserve beginning of year	<u>1,635,227</u> ¹	<u>2,866,110</u> ¹
Adjustments (net)	N/A	N/A
Fund balance (deficit) end of year	<u><u>\$0</u></u>	<u><u>\$0</u></u>

¹Appropriated fund balance budgeted as revenue.

Source: Adopted budgets of the City of Watertown.

City of Watertown
Balance Sheets
General Fund

APPENDIX A-2

As of June 30:	<u>2012</u>	<u>2013</u>
<u>ASSETS</u>		
Unrestricted cash and cash equivalents	\$11,971,696	\$13,316,508
Restricted cash and cash equivalents	105,110	3,152,475
Accounts receivables - net	1,212,876	979,457
Taxes receivables - net	0	169,537
Due from Other Governments	2,158,449	1,782,368
State and Federal receivables	241,772	301,191
Due from Other Funds	1,680,223	439,866
Inventory	2,863	2,362
Prepaid Expenses	32,053	45,991
TOTAL ASSETS	<u>17,405,042</u>	<u>20,189,755</u>
<u>LIABILITIES</u>		
Accounts Payable	1,127,210	883,882
Accrued Liabilities	745,608	1,107,079
Compensated Absences	612,729	674,278
Other Liabilities	7,475	7,835
Due to Other Funds	207,896	190,670
Due to Other Governments	45,588	50,581
Due to Retirement System	916,488	823,947
Deferred Revenue	433,908	265,348
TOTAL LIABILITIES	<u>4,096,902</u>	<u>4,003,620</u>
<u>FUND BALANCE</u>		
Nonspendable	6,279	48,353
Restricted	944,581	4,105,125
Assigned	2,390,828	3,888,043
Unassigned	9,966,452	8,144,614
TOTAL FUND EQUITY	<u>13,308,140</u>	<u>16,186,135</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$17,405,042</u>	<u>\$20,189,755</u>

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: 2009 2010 2011 2012 2013

SPECIAL REVENUE FUND

Balance Beginning of Year	<u>\$772,944</u>	<u>\$612,915</u>	<u>\$747,211</u>	<u>\$702,285</u>	<u>\$558,757</u>
Revenues	1,942,950	3,671,767	2,166,483	2,044,479	1,707,338
Expenditures	<u>2,102,979</u>	<u>3,537,471</u>	<u>2,211,409</u>	<u>2,188,007</u>	<u>1,743,209</u>
Balance End of Year	<u><u>\$612,915</u></u>	<u><u>\$747,211</u></u>	<u><u>\$702,285</u></u>	<u><u>\$558,757</u></u>	<u><u>\$522,886</u></u>

WATER FUND

Net Assets Beginning of Year	<u>\$14,321,797</u>	<u>\$14,994,363</u>	<u>\$15,000,101</u>	<u>\$15,277,687</u>	<u>\$15,531,783</u>
Prior period adjustments (net)	0	0	277,586	0	0
Revenues	4,976,684	4,520,934	4,546,654	4,705,202	4,934,866
Expenditures	<u>4,304,118</u>	<u>4,515,196</u>	<u>4,546,654</u>	<u>4,451,105</u>	<u>4,745,359</u>
Net Assets End of Year	<u><u>\$14,994,363</u></u>	<u><u>\$15,000,101</u></u>	<u><u>\$15,277,687</u></u>	<u><u>\$15,531,784</u></u>	<u><u>\$15,721,290</u></u>

SEWER FUND

Net Assets Beginning of Year	<u>\$12,433,480</u>	<u>\$12,745,422</u>	<u>\$13,296,035</u>	<u>\$14,031,710</u>	<u>\$15,237,555</u>
Prior period adjustments (net)	0	0	735,675	0	0
Revenues	4,451,224	4,848,582	5,100,719	5,528,906	5,338,512
Expenditures	<u>4,139,282</u>	<u>4,297,969</u>	<u>5,100,719</u>	<u>4,323,061</u>	<u>5,046,682</u>
Net Assets End of Year	<u><u>\$12,745,422</u></u>	<u><u>\$13,296,035</u></u>	<u><u>\$14,031,710</u></u>	<u><u>\$15,237,555</u></u>	<u><u>\$15,529,385</u></u>

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

APPENDIX B

FINANCIAL STATEMENTS

Such Financial Statements and opinions 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

FINANCIAL STATEMENTS

June 30, 2013

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CITY OF WATERTOWN, NEW YORK

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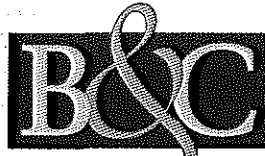
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**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information (page 70) and the supplementary schedule of the funding progress of the post employment healthcare benefit plan (page 73) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watertown, New York's internal control over financial reporting and compliance.

Burns & Company

Watertown, New York
December 17, 2013

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. 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, 2013 by \$94,849,395. Of this amount unrestricted net assets of \$5,806,695 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased \$93,263 in fiscal year 2012-13, with a decrease of \$574,600 in governmental activities and an increase of \$481,337 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$17,312,501.
- General Fund revenues of \$42,370,598 on a budgetary basis fell short of budgeted revenues by \$261,824 or 0.65% while budgetary basis expenditures finished \$5,551,308 lower than budgeted expenditures. These results reduced the need to use the full \$2,277,096 in appropriated fund balance budgeted for in the 2012-13 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,144,614 or 20.60% of total General Fund expenditures.
- The City issued \$1,645,000 in serial bonds dated June 12, 2013 maturing October 15, 2027 at interest rates ranging from 3.00% through 3.50% (priced to yield 3.13%) to provide financing for various capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Governmental Funds

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Governmental Funds - Continued

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. This section includes the budgetary comparison schedule for the General Fund.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2013, the City's assets exceeded liabilities by \$94,849,395 compared to \$94,942,658 at June 30, 2012. By far the largest portion of the City's net position (88.95%) 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 \$4,677,758 or 4.93% of the net position represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net position represents the net position of the Watertown Empire Zone, Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, Capital Reserve Fund, Tourism Fund, Community Development Fund, Capital Projects Fund, Workers Compensation Fund, Insurance Liability Fund and Debt Service Fund. The unrestricted net assets, \$5,806,695 compared to \$9,600,814 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, 2013

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Current and other assets	\$23,367,213	\$21,728,609	\$6,116,422	\$5,755,133	\$29,483,635	\$27,483,742
Capital Assets	71,413,449	71,979,446	34,878,644	33,927,819	106,292,093	105,907,265
Total Assets	\$94,780,662	\$93,708,055	\$40,995,066	\$39,682,952	\$135,775,728	\$133,391,007
Long-term liabilities outstanding	\$22,828,710	\$21,011,859	\$8,134,162	\$7,481,113	\$30,962,872	\$28,492,972
Other liabilities	8,353,232	8,522,876	1,610,229	1,432,501	9,963,461	9,955,377
Total liabilities	\$31,181,942	\$29,534,735	\$9,744,391	\$8,913,614	\$40,926,333	\$38,448,349
Net Position:						
Invested in Capital Assets, net of related debt	\$55,824,359	\$55,046,244	\$28,540,583	\$27,513,338	\$84,364,942	\$82,559,582
Restricted	4,514,880	2,551,679	162,878	230,583	4,677,758	2,782,262
Unrestricted	3,259,481	6,575,397	2,547,214	3,025,417	5,806,695	9,600,814
Total Net Position	\$63,598,720	\$64,173,320	\$31,250,675	\$30,769,338	\$94,849,395	\$94,942,658

As of June 30, 2013, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

The following table provides a summary of the City's operations for the year ended June 30, 2013.

CITY OF WATERTOWN, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

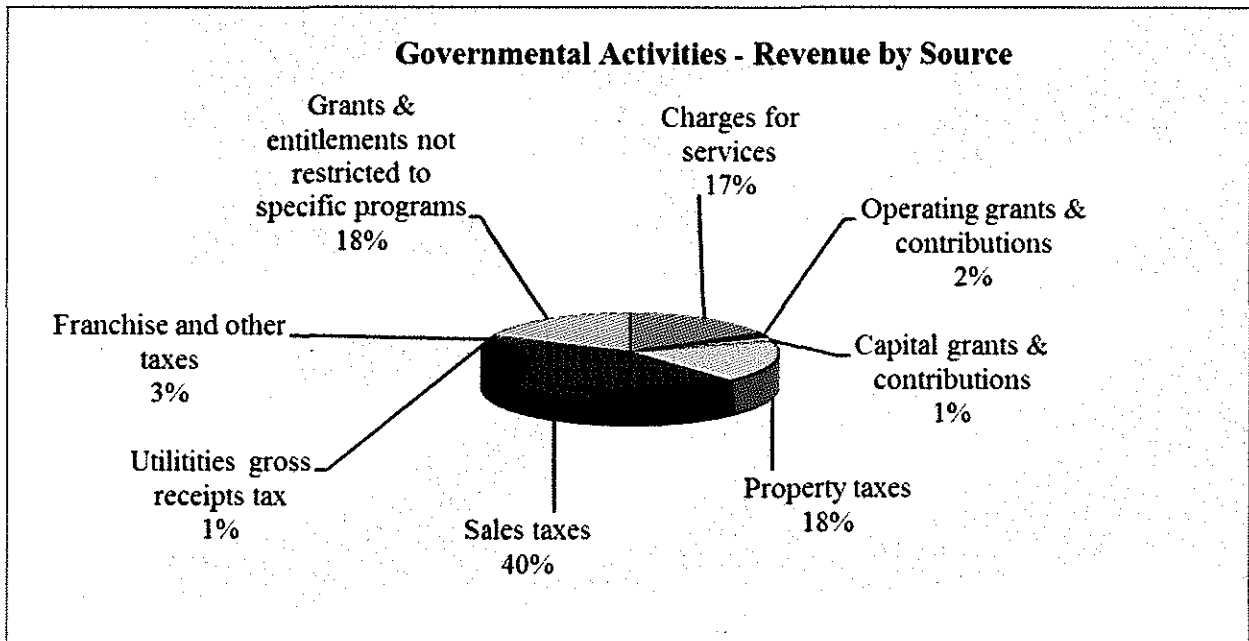
City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Revenues:						
Program Revenues:						
Charges for services	\$7,203,333	\$7,120,316	\$10,107,067	\$10,119,094	\$17,310,400	\$17,239,410
Operating grants and contributions	863,653	1,186,708	-	-	863,653	1,186,708
Capital grants and contributions	629,919	2,209,424	164,190	104,187	794,109	2,313,611
General revenues:						
Property taxes	7,733,866	7,589,639	-	-	7,733,866	7,589,639
Sales tax	17,247,801	17,215,058	-	-	17,247,801	17,215,058
Utilities gross receipts tax	329,528	351,716	-	-	329,528	351,716
Franchise tax	412,138	429,250	-	-	412,138	429,250
Mortgage tax	480,981	307,384	-	-	480,981	307,384
Hotel occupancy tax	250,684	221,947	-	-	250,684	221,947
Grants and Entitlements not restricted to specific programs	7,803,208	4,703,208	-	-	7,803,208	4,703,208
Investment earnings	18,568	58,787	2,502	10,826	21,070	69,613
Total revenues	\$42,973,679	\$41,393,437	\$10,273,759	\$10,234,107	\$53,247,438	\$51,627,544
Expenses:						
General government support	\$14,032,867	\$12,440,712	\$ -	\$ -	\$14,032,867	\$12,440,712
Hydroelectric production	631,684	592,900	-	-	631,684	592,900
Fire	8,274,802	8,347,846	-	-	8,274,802	8,347,846
Police	7,282,227	7,430,795	-	-	7,282,227	7,430,795
Other Public Safety	565,548	336,295	-	-	565,548	336,295
Public Works	6,780,642	6,357,799	-	-	6,780,642	6,357,799
Bus	885,209	841,388	-	-	885,209	841,388
Watertown Empire Zone	5,681	8,228	-	-	5,681	8,228
Other Economic Assistance	116,232	118,984	-	-	116,232	118,984
Library	1,110,602	935,944	-	-	1,110,602	935,944
Other Culture and Recreation	1,977,977	1,596,795	-	-	1,977,977	1,596,795
Refuse and Recycling	936,054	1,056,053	-	-	936,054	1,056,053
Other Home and Community Serv.	342,932	489,438	-	-	342,932	489,438
Interest on Debt Service	635,822	728,192	-	-	635,822	728,192
Water	-	-	4,730,740	4,436,105	4,730,740	4,436,105
Sewer	-	-	5,031,682	4,308,061	5,031,682	4,308,061
Total Expenses	\$43,578,279	\$41,281,369	\$9,762,422	\$8,744,166	\$53,340,701	\$50,025,535
Excess of Revenues over Expenses	(604,600)	112,067	511,337	1,489,941	(93,263)	1,602,009
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	(574,600)	142,068	481,337	1,459,941	(93,263)	1,602,009
Net Position - Beginning	64,173,320	64,031,252	30,769,338	29,309,397	94,942,658	93,340,649
Net Position - Ending	\$63,598,720	\$64,173,320	\$31,250,675	\$30,769,338	\$94,849,395	\$94,942,658

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Governmental activities. Governmental activities decreased the City's net position by a total \$574,600 compared to last year's increase of \$142,068. Key elements of the year are as follows:

- Sales tax revenue totaled \$17,247,801 which was an increase of only \$32,743 or 0.19% over last year's total of \$17,215,058. Sales tax revenue represented 40.14% of the governmental activities' revenue in FY 12/13 compared to 41.59% in FY 11/12.
- The base level of New York State Aid to Municipalities (AIM) remained unchanged from the FY 2011-12 level of \$4,703,208. However the City received a one-time AIM spin-up payment of \$3,100,000 due to the State offering to adjust the City's payment cycle. The City placed the amount in a Capital Reserve Fund to be used to mitigate the costs of the City's multi-year capital plan.
- The City received \$564,887 in Federal and State Aid for various capital projects which is a decrease of \$1,257,522 from the amount received last year for Federal and State grants for capital projects. Some of the major projects include the Consolidated Local Street and Highway Improvement Program for various streets (\$174,935), Sewall's Island environmental rehabilitation (\$140,193), the Soldiers and Sailors Monument rehabilitation (\$74,950) and the Factory Street reconstruction project (\$242,913).



MANAGEMENT'S DISCUSSION AND ANALYSIS

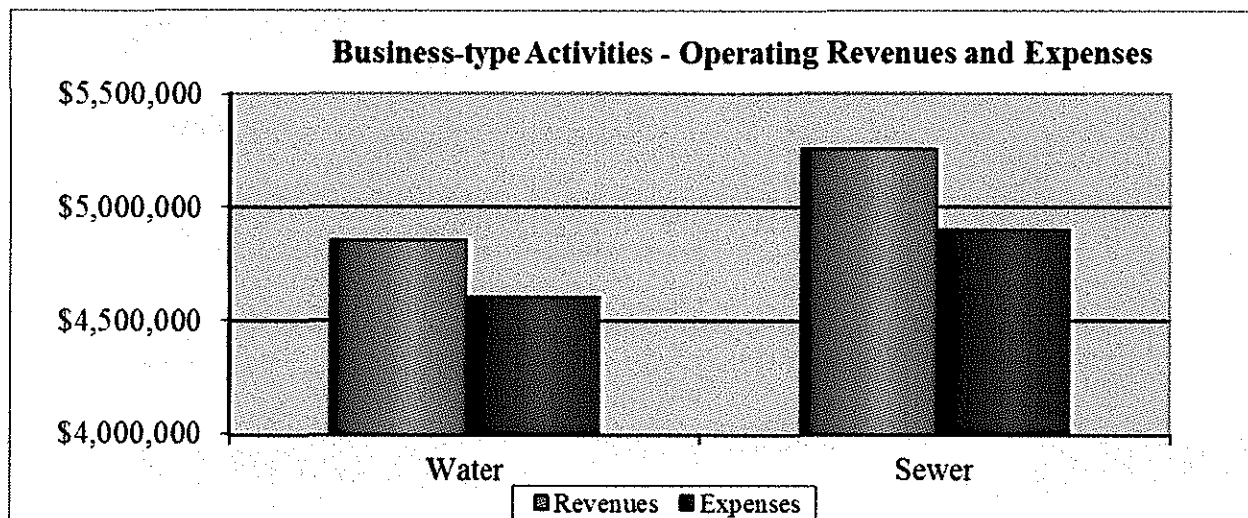
June 30, 2013

Business-type activities. Business-type activities increased the City's net position by \$481,337 compared to \$1,459,941 last year. Key elements for this year are as follows:

- Water operating revenues increased by \$196,722 or 4.22% to \$4,853,525 while operating expenses increased by \$314,627 or 7.33% to \$4,605,169.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year the revenue derived from this agreement was \$730,203 or an increase of \$98,464 or 15.59% over last year's total of \$631,739. Water revenues from this agreement accounted for 15.04% of the total water revenues compared to 13.57% last year.
- Total revenues from water sales to outside of the City customers such as the Development Authority of the North Country and Town of Watertown water districts was \$1,331,556 or an increase of \$178,607 or 15.49% over last year's total of \$1,152,949. Water revenues to outside of the City customers represented 27.43% of the water operating revenues compared to 24.76% last year.
- Sewer operating revenues decreased by \$208,749 or 3.82% to \$5,253,542 and operating expenses increased by \$741,181 or 17.82% to \$4,900,201. Revenues related to the City's tanker hauled waste program decreased \$249,085 with the leachate revenue from the Development Authority of the North Country increasing \$134,690 or 130.24% and the revenue from the Seneca Meadows landfill decreasing \$215,225 or 37.77% due to a change in their operations that has significantly reduced the volume of leachate delivered to the City's treatment plant. Transfers to the Sewer Fund capital projects increased by \$124,143 to \$906,158 as the Sewer Fund continues to be able to afford paying more of its capital projects on a pay-as-you-go method and avoid the issuance of debt.
- The City has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$720,289 or a decrease of \$1,605 or 0.22% over last year's total of \$721,894. Sewer revenues from this agreement accounted for 13.71% of the total sewer revenues compared to 13.22% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,622,978 or an increase of \$25,352 or 1.59% over last year's total of \$1,597,626. Sewer revenues to outside of the City customers represented 30.89% of the sewer operating revenues compared to 29.25% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013



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, 2013 the City's governmental funds reported combined ending fund balances of \$17,312,501 an increase of \$1,704,601 or 10.92% in comparison with the prior year. Approximately 47% or \$8,144,614 represents the unassigned fund balance which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for inventories (\$2,362) and prepaid expenditures (\$45,991), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$4,514,880).

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8,144,614, while the total General Fund balance equaled \$16,186,135 compared to \$13,308,140 in the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures and other financing uses. Unassigned fund balance represents 20.60% of total General Fund expenditures and other financing uses compared to 21.02% last year, while total fund balance represents 40.94% of that same amount compared to 33.36% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

During the current fiscal year, the fund balance of the City's General Fund increased by \$2,838,238 compared to last year's decrease of (\$887,723) due to the receipt of the one-time NYS AIM spin-up of \$3,100,000.

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 \$603,480 compared to \$1,741,003 in the previous year. Within the current year no amount is considered restricted due to debt financing and \$603,480 is considered assigned due to the funding being from operating fund transfers.

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

Unrestricted net position at the end of the fiscal year of the Water Fund was \$1,134,704 compared to \$922,441 in the prior fiscal year. The water fund had an increase in net position in the amount of \$189,507 compared to an increase of \$254,096 in the previous year.

Unrestricted net position at the end of the fiscal year of the Sewer Fund was \$1,412,510 compared to \$2,102,976 in the prior year. The Sewer Fund had an increase in net position in the amount of \$291,830 compared to an increase of \$1,205,845 in the prior fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was re-adopted three times during the fiscal year which resulted in a total increase in appropriations by \$209,800 to provide additional funding for Parks and Recreation personnel and equipment costs related to the 1000 Islands Privateers making the Watertown Municipal Arena their home ice for the 2012-13 hockey season (\$140,450) and to increase the transfers to the Capital Projects Fund for the Library HVAC upgrade (\$38,000) and the masonry and fountain restoration (\$31,350). As part of the budget re-adoptions Arena concession revenues were increased by \$45,000 due to the 1000 Islands Privateers games. Appropriated fund balance was increased \$164,800. Other budget amendments between departmental expenditure accounts also did occur.

General Fund revenues of \$42,370,598 on a budgetary basis fell short of final budgeted revenues of \$42,632,422 by \$261,824 or 0.65% while budgetary basis expenditures of \$39,532,360 were \$5,551,308 or 12.31% lower than the final budgeted expenditures of \$45,083,668. The shortage of actual revenues to budgeted revenues is primarily due to the lower than anticipated sales tax

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

General Fund Budgetary Highlights - Continued

revenue (\$612,199), sale of hydro-electric power (\$269,896) and insurance recoveries on large self-insurance claims (\$209,958). Revenues that did exceed budgetary expectations were the sale of real property (\$174,403), and mortgage recording tax revenue (\$180,981). Actual expenditures were lower than the budgeted expenditures due mostly to the \$3,100,000 of NYS AIM spin-up funds that were placed in a Capital Reserve within the General Fund but were budgeted as an expenditure, health insurance claim costs (\$601,053), health insurance stop loss insurance (\$112,129), transfers to the Capital Projects Fund (\$626,019) that were delayed due to under-performing sales tax and hydro-electric sales. These combined results reduced the use of \$2,277,096 in appropriated fund balance that was budgeted in the 2012-13 General Fund original adopted budget to \$261,762.

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, 2013, amounts to \$84,364,942. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation						
	Governmental Activities		Business-type Activities		Total	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Land	\$2,601,285	\$2,601,285	\$ -	\$ -	\$2,601,285	\$2,601,285
Construction in Progress	1,936,343	3,835,880	868,030	281,986	2,804,373	4,117,866
Land Improvements	3,681,210	2,186,393	1,765	4,852	3,682,975	2,191,245
Building and Improvements	19,456,780	18,767,777	12,461,576	12,866,970	31,918,356	31,634,747
Infrastructure	39,747,865	40,099,734	18,676,203	18,162,946	58,424,068	58,262,680
Machinery and Equipment	2,290,783	2,520,334	2,557,156	2,269,053	4,847,939	4,789,387
Vehicles	1,699,183	1,968,043	313,914	342,012	2,013,097	2,310,055
Total Net Assets	\$71,413,449	\$71,979,446	\$34,878,644	\$33,927,819	\$106,292,093	\$105,907,265

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

- Completed reconstruction of the J.B. Wise parking lot including a partially covered pedestrian walkway, new vehicle drives, lighting, landscaping, and the construction and separation of a storm and sanitary sewer at a cost of \$2,280,101.
- Reconstructed Clinton Street at a cost of \$1,931,154 which included reconstruction of 2,300 LF of street including curbs, sidewalks, water main and storm and sanitary sewers.
- Completed Marble Street Park (\$176,860) and Bicentennial Park improvements (\$266,037).
- Replaced multi-media filters at the Water treatment Plant at a cost of \$435,269.
- Replaced the cooling tower at the Flower Memorial Library at a cost of \$360,822.
- Continued environmental investigations and interim remedial measures on Sewall's Island. Construction in progress at year-end totaled \$900,545.
- Continued design of the Factory Street reconstruction project which is estimated to cost over \$9,000,000 and include the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer. Construction in progress at year-end was \$682,490.
- Continued design of a disinfection system for both treatment outfalls at the wastewater treatment plant. The system is mandated in the renewed State Pollutant Discharge Elimination System (SPDES) permit provided by the New York State Department of Environmental Conservation. The estimated cost of the project is \$5,900,000. Construction in progress at fiscal year-end was \$445,046.

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

CITY OF WATERTOWN, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$22,775,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
General obligation bonds	\$15,722,706	\$17,091,962	\$7,052,294	\$7,108,038	\$22,775,000	\$24,200,000
	\$15,722,706	\$17,091,962	\$7,052,294	\$7,108,038	\$22,775,000	\$24,200,000

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2013, the City's debt limit was \$74,833,991 with total net indebtedness of \$9,627,680 thus exhausting 12.87% of the City's debt limit.

The City issued \$1,645,000 in serial bonds dated June 12, 2013 maturing October 15, 2027 at interest rates ranging from 3.00% through 3.50% (priced to yield 3.13%) to provide financing for various capital projects.

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

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2013-14 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2013 were 8.8% for the City of Watertown, 8.8% for Jefferson County, 7.6% for New York State and 7.4% for the United States. The unemployment rates in June 2012 were 9.4% for the City of Watertown, 9.4% for Jefferson County, 8.7% for New York State and 8.2% for the United States.

Budget factors considered during the preparation of the FY 2013-14 budget included the national and state economies, low interest rates, high unemployment and escalating NYS Retirement System contribution rates. With the continued uncertainties overseas, as has been the case for the past ten years, it was difficult to predict how many of the 18,416 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. The proximity of the City to Canada and the favorable exchange rate for Canadian shoppers has helped keep sales tax revenue the largest revenue source in the General Fund Budget and is projected to increase \$440,000 from the FY 2012-13 budgeted level.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

Like most local governments, the City's 2013-14 budget was impacted by the escalating high costs for retirement benefits. The contribution to the Employees' Retirement System will range from 11.5% to 28.8% of salaries, up from a range of 15.1% to 25.4% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 16.0% to 28.4% of salaries, up from 20.1% to 25.1% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Due to the NYS Retirement System's smoothing techniques the retirement rates have been steadily climbing since the downturn. The rates are expected to peak with the payment due in FY 2014-15. Due to the better than expected claims history over the last few years the self-insurance fund appropriated \$200,000 of fund balance to minimize the premium rate increase to 4.15%.

The City saw an increase of \$8,285,666 or 0.81% in taxable assessed value. The residential tax burden has decreased slightly to 60.64% from 60.71% last year. The average assessment for a single-family home in Watertown increased slightly to \$106,786 from \$106,292 in FY 2012-13.

The City's FY 2013-14 General Fund operating costs decreased by \$1,091,237 or 2.59% to \$41,021,635. The reason for the decrease was due to the FY 2012-13 Capital Reserve Fund appropriation of \$3,100,000 that was funded by a change in the payment cycle of the New York State Aid payments to the City which provided a one-time infusion of additional State Aid that will be used for upcoming capital projects identified in the City's five-year capital plan. Excluding the Capital Reserve Transfer expenditures are up \$2,008,763 or 5.15%. The City appropriated \$1,564,310 of fund balance, a decrease of \$16,717 over FY 2012-13. The sales tax revenue budget was increased to \$18,300,000 which represented an increase of \$440,000 or 2.5% over the sales tax budget for FY 2012-13. The State Aid revenue budget remained at the City's base amount of \$4,703,208. The increase in the real property tax levy of \$147,454 or 2.00% and the increase in taxable assessed values resulted in a 1.23% increase to the property tax rate. The City adopted a budget within the limits of the New York State Property tax cap that essentially limits the growth in the real property tax levy to two percent or the rate of inflation, whichever is less, with some exceptions.

Appropriations for the Water Fund increased by \$281,724 or 6.04%. The Water Fund appropriated \$55,000 of fund balance. The Sewer Fund appropriations increased \$162,342 or 3.05%. The Sewer Fund appropriated \$179,151 of fund balance of which \$11,853 was from the debt reserve fund to pay for the Algonquin Street sanitary sewer reconstruction debt service. The water and sewer rates were not modified.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

AUDITED FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2013

	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	\$ 13,610,864	\$ 3,381,285	\$ 16,992,149	\$ 186,750
Restricted Cash and Cash Equivalents	4,623,642	1,191,614	5,815,256	192,075
Receivables (Net of Allowance for Uncollectibles)				
Accounts	2,261,684	1,368,174	3,629,858	-
Taxes	171,111	-	171,111	-
Due from Other Governments	1,803,120	236,858	2,039,978	-
State and Federal Aid Receivables	731,335	51,682	783,017	-
Inventory	2,362	-	2,362	-
Prepaid Expenses	45,991	-	45,991	1,654
Internal Balances	117,104	(113,191)	3,913	-
	<u>23,367,213</u>	<u>6,116,422</u>	<u>29,483,635</u>	<u>380,479</u>
Capital Assets				
Non-Depreciable	4,537,628	868,030	5,405,658	14,516
Depreciable, Net	66,875,821	34,010,614	100,886,435	48,764
Total Capital Assets	<u>71,413,449</u>	<u>34,878,644</u>	<u>106,292,093</u>	<u>63,280</u>
TOTAL ASSETS	<u>\$ 94,780,662</u>	<u>\$ 40,995,066</u>	<u>\$ 135,775,728</u>	<u>\$ 443,759</u>
LIABILITIES				
Accounts Payable	\$ 1,619,082	\$ 268,794	\$ 1,887,876	\$ 6,034
Accrued Interest Payable	119,732	58,384	178,116	-
Accrued Liabilities	1,141,474	103,203	1,244,677	-
Retainage Payable	100,428	31,391	131,819	-
Current Debt Obligations Due Within One Year	2,178,788	914,212	3,093,000	-
Compensated Absences	693,349	103,990	797,339	-
Workers Compensation Liability	561,998	393,573	955,571	-
Accrued Post Employment Benefits	8,452,543	1,602,507	10,055,050	-
Other Liabilities	7,835	12,965	20,800	-
Due to Other Governments	52,175	335	52,510	-
Due to Retirement System	850,534	116,955	967,489	-
Deferred Revenue	1,589,835	-	1,589,835	-
Other Long-Term Debt	355,867	-	355,867	-
Serial Bonds	13,591,918	6,138,082	19,730,000	-
Less: Deferred Amount on Advance Refunding	(133,616)	-	(133,616)	-
Total Liabilities	<u>31,181,942</u>	<u>9,744,391</u>	<u>40,926,333</u>	<u>6,034</u>
NET POSITION				
Investment in Capital Assets, Net of Related Debt	55,824,359	28,540,583	84,364,942	-
Restricted for				
Capital Reserves	3,120,107	-	3,120,107	-
Workers Compensation Reserve	317,175	-	317,175	-
Insurance Reserve - General	330,644	-	330,644	-
Tourism Reserve	51,963	-	51,963	-
Economic Development and Assistance	235,763	-	235,763	-
Community Development	139,303	-	139,303	-
Capital Projects	-	137,117	137,117	-
Debt Service	319,925	25,761	345,686	-
Library	-	-	-	192,075
Unrestricted	3,259,481	2,547,214	5,806,695	245,650
Total Net Position	<u>63,598,720</u>	<u>31,250,675</u>	<u>94,849,395</u>	<u>437,725</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 94,780,662</u>	<u>\$ 40,995,066</u>	<u>\$ 135,775,728</u>	<u>\$ 443,759</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit The Trustees of the Roswell P. Flower Memorial Library
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government Support								
General Government Support	\$ 14,032,867	\$ 2,490,026	\$ 110,192	\$ 30,664	\$ (11,401,985)	\$ -	\$ (11,401,985)	\$ -
Hydroelectric Production	631,684	3,076,104	-	-	2,444,420	-	2,444,420	-
Public Safety								
Fire	8,274,802	-	-	-	(8,274,802)	-	(8,274,802)	-
Police	7,282,227	105,106	117,516	-	(7,059,605)	-	(7,059,605)	-
Other Public Safety	565,548	56,712	-	-	(508,836)	-	(508,836)	-
Public Works	6,780,642	104,219	6,174	466,316	(6,203,933)	-	(6,203,933)	-
Transportation								
Bus	885,209	169,987	396,229	1,640	(317,353)	-	(317,353)	-
Economic Opportunity and Development								
Other Economic Assistance	116,232	-	-	-	(116,232)	-	(116,232)	-
Empire Zone	5,681	-	-	-	(5,681)	-	(5,681)	-
Culture and Recreation								
Library	1,110,602	19,306	48,794	402	(1,042,100)	-	(1,042,100)	-
Other Culture and Recreation	1,977,977	324,652	-	44,019	(1,609,306)	-	(1,609,306)	-
Home and Community Services								
Refuse and Recycle	936,054	783,380	-	-	(152,674)	-	(152,674)	-
Other Home and Community Services	342,932	73,841	184,748	86,878	2,535	-	2,535	-
Interest on Debt	635,822	-	-	-	(635,822)	-	(635,822)	-
Total Governmental Activities	<u>43,578,279</u>	<u>7,203,333</u>	<u>863,653</u>	<u>629,919</u>	<u>(34,881,374)</u>	<u>-</u>	<u>(34,881,374)</u>	<u>-</u>
Business-Type Activities								
Water	4,730,740	4,853,525	-	81,341	-	204,126	204,126	-
Sewer	5,031,682	5,253,542	-	82,849	-	304,709	304,709	-
Total Business-Type Activities	<u>9,762,422</u>	<u>10,107,067</u>	<u>-</u>	<u>164,190</u>	<u>-</u>	<u>508,835</u>	<u>508,835</u>	<u>-</u>
Total Primary Government	<u>\$ 53,340,701</u>	<u>\$ 17,310,400</u>	<u>\$ 863,653</u>	<u>\$ 794,109</u>	<u>(34,881,374)</u>	<u>508,835</u>	<u>(34,372,539)</u>	<u>-</u>
Component Unit								
The Trustees of the R.P. Flower Memorial Library	\$ 66,679	\$ -	\$ 101,540	\$ -	-	-	-	34,861
Total Component Unit	<u>\$ 66,679</u>	<u>\$ -</u>	<u>\$ 101,540</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,861</u>
Net (Expense) Revenue and Changes in Net Position Brought Forward					<u>(34,881,374)</u>	<u>508,835</u>	<u>(34,372,539)</u>	<u>34,861</u>
			GENERAL REVENUES					
			Property Taxes		7,733,866	-	7,733,866	-
			Sales Taxes		17,247,801	-	17,247,801	-
			Utilities Gross Receipts Tax		329,528	-	329,528	-
			Franchise Tax		412,138	-	412,138	-
			Hotel Occupancy Tax		250,684	-	250,684	-
			Mortgage Tax		480,981	-	480,981	-
			Grants and Entitlements Not Restricted to Specific Programs		7,803,208	-	7,803,208	-
			Investment Earnings		18,568	2,502	21,070	1,033
			Total General Revenues		<u>34,276,774</u>	<u>2,502</u>	<u>34,279,276</u>	<u>1,033</u>
			Transfers		30,000	(30,000)	-	-
			Change in Net Position		<u>(574,600)</u>	<u>481,337</u>	<u>(93,263)</u>	<u>35,894</u>
			Total Net Position - Beginning of Year		<u>64,173,320</u>	<u>30,769,338</u>	<u>94,942,658</u>	<u>401,831</u>
			Total Net Position - End of Year		<u>\$ 63,598,720</u>	<u>\$ 31,250,675</u>	<u>\$ 94,849,395</u>	<u>\$ 437,725</u>

See notes to financial statements.

CITY OF WATERTOWN, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted Cash and Cash Equivalents	\$ 13,316,508	\$ -	\$ 294,356	\$ 13,610,864
Restricted Cash and Cash Equivalents	3,152,475	1,332,629	138,538	4,623,642
Receivables (Net of Allowance for Uncollectibles)				
Accounts	979,457	21,567	1,260,660	2,261,684
Taxes	169,537	1,574	-	171,111
Due from Other Governments	1,782,368	-	20,752	1,803,120
State and Federal Aid Receivables	301,191	357,360	72,784	731,335
Inventory	2,362	-	-	2,362
Prepaid Expenses	45,991	-	-	45,991
Due from Other Funds	439,866	3,505	180,650	624,021
TOTAL ASSETS	<u>\$ 20,189,755</u>	<u>\$ 1,716,635</u>	<u>\$ 1,967,740</u>	<u>\$ 23,874,130</u>
LIABILITIES				
Accounts Payable	\$ 883,882	\$ 633,173	\$ 102,027	\$ 1,619,082
Accrued Liabilities	1,107,079	10,415	23,980	1,141,474
Retainage Payable	-	100,428	-	100,428
Compensated Absences	674,278	-	19,071	693,349
Other Liabilities	7,835	-	-	7,835
Due to Other Funds	190,670	310,568	5,679	506,917
Due to Other Governments	50,581	1,574	20	52,175
Due to Retirement System	823,947	-	26,587	850,534
Deferred Revenue	265,348	56,997	1,267,490	1,589,835
Total Liabilities	<u>4,003,620</u>	<u>1,113,155</u>	<u>1,444,854</u>	<u>6,561,629</u>
Nonspendable				
Inventory	2,362	-	-	2,362
Prepaid Expenses	45,991	-	-	45,991
Restricted for				
Capital Reserve - General	3,100,022	-	-	3,100,022
Capital Reserve - Fairgrounds	20,085	-	-	20,085
Workers Compensation Reserve	317,175	-	-	317,175
Insurance Reserve - General	330,644	-	-	330,644
Tourism Reserve	51,963	-	-	51,963
Debt Service Reserve	285,236	-	34,689	319,925
Community Development Reserve	-	-	139,303	139,303
Economic Development Reserve	-	-	235,763	235,763
Assigned to				
Self-Funded Health Insurance Plan	2,070,609	-	-	2,070,609
General Government Support	57,542	-	-	57,542
Fire	37,512	-	-	37,512
Police	370	-	-	370
Other Public Safety	85,666	-	-	85,666
Public Works	62,306	-	-	62,306
Bus	1,085	-	-	1,085
Other Culture and Recreation	7,608	-	-	7,608
Refuse and Recycle	1,035	-	-	1,035
Library	-	-	20,431	20,431
Capital Projects	-	603,480	-	603,480
Subsequent Year's Expenditures	1,564,310	-	92,700	1,657,010
Unassigned	<u>8,144,614</u>	<u>-</u>	<u>-</u>	<u>8,144,614</u>
Total Fund Balances	<u>16,186,135</u>	<u>603,480</u>	<u>522,886</u>	<u>17,312,501</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,189,755</u>	<u>\$ 1,716,635</u>	<u>\$ 1,967,740</u>	<u>\$ 23,874,130</u>

See notes to financial statements.

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

Year Ended June 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES \$ 17,312,501

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

The Cost of Capital Assets is	136,206,992
Accumulated Depreciation is	(64,793,543)
	71,413,449

Deferred Assets for Refunded Bonds	133,616
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Long-term liabilities, including serial bonds and other Long-term debt, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(15,722,706)
Accrued Interest on Bonds Payable	(119,732)
Compensated Absences	(205,867)
Workers Compensation Liability	(561,998)
Landfill Post-Closure Liability	(198,000)
Accrued Post-Employment Benefits	(8,452,543)
	(25,260,846)

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 63,598,720
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CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real Property Taxes	\$ 7,425,473	\$ -	\$ -	\$ 7,425,473
Real Property Tax Items	316,811	-	-	316,811
Nonproperty Taxes	18,240,151	-	-	18,240,151
Departmental Income	4,624,830	-	-	4,624,830
Intergovernmental Charges	125,391	-	-	125,391
Use of Money and Property	67,049	293	2,558	69,900
Licenses and Permits	66,534	-	-	66,534
Fines and Forfeitures	143,708	-	19,296	163,004
Sale of Property and Compensation for Loss	300,975	-	-	300,975
Miscellaneous Local Sources	763,317	54,975	119,395	937,687
Interfund Revenue	1,045,413	-	-	1,045,413
State Sources	8,667,448	351,107	-	9,018,555
Federal Sources	467,463	213,780	165,305	846,548
	<u>42,254,563</u>	<u>620,155</u>	<u>306,554</u>	<u>43,181,272</u>
EXPENDITURES				
General Government Support	5,171,962	270,166	-	5,442,128
Public Safety	15,110,431	-	-	15,110,431
Transportation	4,259,335	1,708,333	-	5,967,668
Economic Assistance and Opportunity	116,232	-	5,681	121,913
Culture and Recreation	1,772,114	1,038,376	720,123	3,530,613
Home and Community Services	1,195,126	164,154	176,676	1,535,956
Employee Benefits	7,435,778	-	366,072	7,801,850
Debt Service	2,762,927	-	82,185	2,845,112
	<u>37,823,905</u>	<u>3,181,029</u>	<u>1,350,737</u>	<u>42,355,671</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,430,658</u>	<u>(2,560,874)</u>	<u>(1,044,183)</u>	<u>825,601</u>
OTHER FINANCING SOURCES AND (USES)				
Serial Bond Proceeds	-	849,000	-	849,000
Interfund Transfers In	116,035	706,953	1,400,784	2,223,772
Interfund Transfers Out	<u>(1,708,455)</u>	<u>(92,845)</u>	<u>(392,472)</u>	<u>(2,193,772)</u>
Total Other Financing Sources (Uses)	<u>(1,592,420)</u>	<u>1,463,108</u>	<u>1,008,312</u>	<u>879,000</u>
Net Change in Fund Balances	2,838,238	(1,097,766)	(35,871)	1,704,601
Fund Balances, Beginning of Year	<u>13,308,140</u>	<u>1,741,003</u>	<u>558,757</u>	<u>15,607,900</u>
Fund Equity Transfer	<u>39,757</u>	<u>(39,757)</u>	<u>-</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 16,186,135</u>	<u>\$ 603,480</u>	<u>\$ 522,886</u>	<u>\$ 17,312,501</u>

See notes to financial statements.

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

Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 1,704,601

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

	Capital Outlays	\$ 3,340,867	
	Depreciation Expense	<u>3,906,104</u>	(565,237)

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Position, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 2,218,256

Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Position. (849,000)

Loss on Disposal of Assets (760)

Bond premiums/discounts and issuance costs associated with long-term bonds are recognized as expenditures and other financing sources/uses in the governmental funds at the time the debt issued. However, those items are capitalized on the Statement of Net Position and amortized over the life of the bonds on the Statement of Activities since they do not require the use of current financial resources.

Amortization of Advanced Refunding Issuance Costs (25,144)

Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities. 16,178

In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used. (3,066,903)

Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Position. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities. (6,591)

Change in Net Position of Governmental Activities \$ (574,600)

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

Year Ended June 30, 2013

	Business - Type Activities Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	\$ 1,812,476	\$ 1,568,809	\$ 3,381,285
Accounts Receivable,			
Net of Allowance for Uncollectible Accounts	799,277	568,897	1,368,174
Due from Governmental Funds	14,879	76,653	91,532
Due from Other Governments	-	236,858	236,858
State and Federal Aid Receivables	25,841	25,841	51,682
Total Current Assets	<u>2,652,473</u>	<u>2,477,058</u>	<u>5,129,531</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	186,225	1,005,389	1,191,614
Capital Assets, Net of Accumulated Depreciation	18,349,968	16,528,676	34,878,644
Total Non-Current Assets	<u>18,536,193</u>	<u>17,534,065</u>	<u>36,070,258</u>
TOTAL ASSETS	<u>\$ 21,188,666</u>	<u>\$ 20,011,123</u>	<u>\$ 41,199,789</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 119,009	\$ 149,785	\$ 268,794
Accrued Interest Payable	27,580	30,804	58,384
Retainage Payable	18,443	12,948	31,391
Accrued Liabilities	54,357	48,846	103,203
Compensated Absences	55,033	48,957	103,990
Due to Retirement System	63,073	53,882	116,955
Due to Governmental Funds	114,759	89,964	204,723
Due to Other Governments	335	-	335
Other Liabilities	12,965	-	12,965
Current Portion of Long-term Liabilities	465,558	448,654	914,212
Total Current Liabilities	<u>931,112</u>	<u>883,840</u>	<u>1,814,952</u>
LONG-TERM LIABILITIES			
Workers Compensation Liability	152,888	240,685	393,573
Other Post Employment Benefits Liability	978,864	623,643	1,602,507
Serial Bonds Payable	3,404,512	2,733,570	6,138,082
Total Long-Term Liabilities	<u>4,536,264</u>	<u>3,597,898</u>	<u>8,134,162</u>
Total Liabilities	<u>5,467,376</u>	<u>4,481,738</u>	<u>9,949,114</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	14,449,469	14,091,114	28,540,583
Restricted for Maintenance	137,117	-	137,117
Restricted for Debt	-	25,761	25,761
Unrestricted	1,134,704	1,412,510	2,547,214
Total Net Position	<u>15,721,290</u>	<u>15,529,385</u>	<u>31,250,675</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 21,188,666</u>	<u>\$ 20,011,123</u>	<u>\$ 41,199,789</u>

See notes to financial statements.

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

Year Ended June 30, 2013

	Business - Type Activities Enterprise funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 3,511,336	\$ 3,597,564	\$ 7,108,900
Intergovernmental Charges	1,331,556	1,622,978	2,954,534
Other Operating Revenue	10,633	33,000	43,633
Total Operating Revenues	<u>4,853,525</u>	<u>5,253,542</u>	<u>10,107,067</u>
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,354,976	2,219,750	4,574,726
Contractual Services	1,556,703	2,092,364	3,649,067
Depreciation	689,165	585,034	1,274,199
Loss on Disposal of Fixed Asset	4,325	3,053	7,378
Total Operating Expenses	<u>4,605,169</u>	<u>4,900,201</u>	<u>9,505,370</u>
Income from Operations	<u>248,356</u>	<u>353,341</u>	<u>601,697</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	381	2,121	2,502
Interest Expense	(125,571)	(131,481)	(257,052)
Total Non-Operating Revenue (Expenses)	<u>(125,190)</u>	<u>(129,360)</u>	<u>(254,550)</u>
Income Before Contributions and Transfers	123,166	223,981	347,147
Capital Contributions	81,341	82,849	164,190
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	189,507	291,830	481,337
Net Position, Beginning of Year	<u>15,531,783</u>	<u>15,237,555</u>	<u>30,769,338</u>
Net Position, End of Year	<u>\$ 15,721,290</u>	<u>\$ 15,529,385</u>	<u>\$ 31,250,675</u>

See notes to financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2013

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 4,727,912	\$ 5,359,387	\$ 10,087,299
Cash Payments for Contractual Expense	(1,488,281)	(2,051,320)	(3,539,601)
Cash Payments for Personal Services and Benefits	(1,979,168)	(1,830,801)	(3,809,969)
Other Operating Revenue	10,633	33,000	43,633
Net Cash Provided by Operating Activities	<u>1,271,096</u>	<u>1,510,266</u>	<u>2,781,362</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(15,000)	(15,000)	(30,000)
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	796,000	-	796,000
Principal Paid on Capital Debt	(400,450)	(451,294)	(851,744)
Interest Paid on Capital Debt	(120,481)	(134,808)	(255,289)
Capital Grants	123,630	82,851	206,481
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>398,699</u>	<u>(503,251)</u>	<u>(104,552)</u>
Cash Flows from Investing Activities			
Purchase of Capital Assets	(1,095,623)	(1,066,532)	(2,162,155)
Interest Income	381	2,121	2,502
Net Cash Used In Investing Activities	<u>(1,095,242)</u>	<u>(1,064,411)</u>	<u>(2,159,653)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>559,553</u>	<u>(72,396)</u>	<u>487,157</u>
Cash and Cash Equivalents, Beginning of Year	\$ 1,439,148	\$ 2,646,594	\$ 4,085,742
Cash and Cash Equivalents, End of Year	<u>\$ 1,998,701</u>	<u>\$ 2,574,198</u>	<u>\$ 4,572,899</u>
Reconciliation of Income from Operations to Net			
Cash Provided By Operating Activities	\$ 248,356	\$ 353,341	\$ 601,697
Depreciation	689,165	585,034	1,274,199
Loss on Disposal of Fixed Asset	4,325	3,053	7,378
Change in Operating Assets			
Accounts Receivable	(27,279)	206,326	179,047
Due from Other Governments	(85,174)	(21,786)	(106,960)
Due from Other Funds	(3,492)	(45,696)	(49,188)
Change in Operating Liabilities			
Accounts Payable	22,826	25,816	48,642
Accrued Liabilities	3,175	(10,268)	(7,093)
Compensated Absences	1,890	(128)	1,762
Due to Retirement System	1,797	5,547	7,344
Due to Other Governments	146	-	146
Other Liabilities	30,703	205,951	236,654
OPEB Liability	338,243	187,847	526,090
Customer Deposits and Overpayments	965	-	965
Due to Other Funds	45,450	15,229	60,679
Net Cash Provided By Operating Activities	<u>\$ 1,271,096</u>	<u>\$ 1,510,266</u>	<u>\$ 2,781,362</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 1,812,476	\$ 1,568,809	\$ 3,381,285
Non-Current Assets - Restricted Cash and Cash Equivalents	186,225	1,005,389	1,191,614
Total Cash and Cash Equivalents	<u>\$ 1,998,701</u>	<u>\$ 2,574,198</u>	<u>\$ 4,572,899</u>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

Year Ended June 30, 2013

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 45,843	\$ 169,253	\$ 215,096
TOTAL ASSETS	<u>\$ 45,843</u>	<u>\$ 169,253</u>	<u>\$ 215,096</u>
LIABILITIES			
Due to Governmental Funds	\$ -	\$ 3,914	\$ 3,914
Deposits Held and Due to Others	-	134,072	134,072
Cafeteria Plan	-	27,362	27,362
Other Accrued Liabilities	-	3,905	3,905
Total Liabilities	<u>-</u>	<u>169,253</u>	<u>169,253</u>
NET POSITION			
Held in Trust for Other Purposes	15,942	-	15,942
Held in Trust for Scholarships	29,901	-	29,901
Total Net Position	<u>45,843</u>	<u>-</u>	<u>45,843</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 45,843</u>	<u>\$ 169,253</u>	<u>\$ 215,096</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS

Year Ended June 30, 2013

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Interest Revenue	\$ 125
	<u> </u>
Total Additions	125
	<u> </u>
DEDUCTIONS	
Scholarships Awarded	50
	<u> </u>
Total Deductions	50
	<u> </u>
Change in Net Position	75
Net Position, Beginning of Year	45,768
	<u> </u>
Net Position , End of Year	<u><u>\$ 45,843</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Financial Reporting Entity

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

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

The financial reporting entity consists of:

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Financial Reporting Entity - Continued

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

Watertown Empire Zone

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

The Trustees of Roswell P. Flower Memorial Library

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

Government-Wide and Fund Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

Government-Wide Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

Fund Financial Statements

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

1. Governmental Funds

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

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

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

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.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

Fund Financial Statements - Continued

2. Proprietary Funds

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

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

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

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

3. Fiduciary Funds

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Basis of Accounting / Measurement Focus

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

Accrual Basis - The government-wide financial statements and the proprietary fund financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all 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.

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

Property Taxes

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Property Taxes - Continued

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$3,902 and is included in "Due to other Governments". A portion of the receivable \$166,580 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$608,879 has been included in the General Fund accounts receivable balance at June 30, 2013.

Budget Policies

The budget policies are as follows:

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Budget Policies - Continued

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

Cash and Cash Equivalents

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

Receivables

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Capital Assets

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

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

Compensated Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10 - 30 days

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Insurance and Risk Management

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

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$955,571 as of June 30, 2013 has been recorded on the Statement of Net Position representing the long-term liability of open workers compensation cases.
3. Unemployment Insurance - The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2013 were \$6,451.
4. Health Care Benefits - On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$150,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$422,078 has been recorded in the self-insurance fund for claims incurred as of June 30, 2013 but not reported based upon historical experience.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Fund Balance

During the prior year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB issued Statement No. 54 in February 2009 and is intended to enhance the usefulness of the financial statements prepared by governmental entities specifically with regard to their reporting of fund balances. The standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government must observe spending constraints imposed upon how resources reported in governmental funds can be used. The City Council adopted a fund balance policy on June 20, 2011.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Fund Balance - Continued

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

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

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

NOTE 2 – CASH AND INVESTMENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts, certificates of deposits and permissible investments. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. During the fiscal year ended June 30, 2013, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 – CASH AND INVESTMENTS - Continued

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

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2013 per the banks were \$23,216,128. These deposits are categorized as follows:

	(a)	(b)	(c)
\$	1,037,300	\$ 22,178,828	\$ -

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 2 – CASH AND INVESTMENTS - Continued

As of June 30, 2013, the City had the following investments:

Certificates of Deposit-Trust & Agency Funds	\$ 25,939
State and Local Government Series Securities	<u>34,585</u>
Total	\$ <u>60,524</u>

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year ended June 30, 2013 follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Governmental Activities				
Non-Depreciable Capital Assets				
Land	\$ 2,601,285	\$ -	\$ -	\$ 2,601,285
Construction in Progress	3,835,880	3,015,912	(4,915,449)	1,936,343
Total	<u>6,437,165</u>	<u>3,015,912</u>	<u>(4,915,449)</u>	<u>4,537,628</u>
Depreciable Capital Assets				
Land Improvements	8,078,113	1,721,289	(235,000)	9,564,402
Buildings and Improvements	30,746,702	1,405,684	-	32,152,386
Infrastructure	66,645,569	1,638,982	(3,286)	68,281,265
Machinery and Equipment	11,434,571	221,348	(31,927)	11,623,992
Vehicles	9,858,320	253,100	(64,102)	10,047,318
Total	<u>126,763,275</u>	<u>5,240,403</u>	<u>(334,315)</u>	<u>131,669,363</u>
Less: Accumulated Depreciation				
Land Improvements	5,891,720	226,472	(235,000)	5,883,192
Buildings and Improvements	11,978,925	716,680	-	12,695,605
Infrastructure	26,545,835	1,990,091	(2,526)	28,533,400
Machinery and Equipment	8,914,237	450,900	(31,928)	9,333,209
Vehicles	7,890,277	521,961	(64,102)	8,348,136
Total	<u>61,220,994</u>	<u>3,906,104</u>	<u>(333,556)</u>	<u>64,793,542</u>
Depreciable Capital Assets, Net	<u>65,542,281</u>	<u>1,334,299</u>	<u>(759)</u>	<u>66,875,821</u>
Total	\$ <u>71,979,446</u>	\$ <u>4,350,211</u>	\$ <u>(4,916,208)</u>	\$ <u>71,413,449</u>

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$ 113,753
Hydroelectric Production	257,357
Police	98,250
Fire	315,812
Public Works	2,488,586
Bus	89,718
Library	125,809
Other Culture and Recreation	345,337
Refuse and recycling	71,482
	<hr/>
Total	\$ 3,906,104

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Business-Type Activities				
Non-Depreciable Capital Assets				
Construction in Progress	\$ 281,986	\$ 2,002,851	\$ (1,416,807)	\$ 868,030
Total	<hr/> 281,986	<hr/> 2,002,851	<hr/> (1,416,807)	<hr/> 868,030
Depreciable Capital Assets				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	27,358,675	137,859	-	27,496,534
Infrastructure	24,008,019	876,765	-	24,884,784
Machinery and Equipment	15,695,913	593,589	(57,942)	16,231,560
Vehicles	1,054,743	38,145	(14,790)	1,078,098
Total	<hr/> 68,367,918	<hr/> 1,646,358	<hr/> (72,732)	<hr/> 69,941,544
Less: Accumulated Depreciation				
Land Improvements	245,716	3,087	-	248,803
Buildings and Improvements	14,491,705	543,253	-	15,034,958
Infrastructure	5,845,073	363,508	-	6,208,581
Machinery and Equipment	13,426,860	298,107	(50,564)	13,674,403
Vehicles	712,731	66,244	(14,790)	764,185
Total	<hr/> 34,722,085	<hr/> 1,274,199	<hr/> (65,354)	<hr/> 35,930,930
Depreciable Capital Assets, Net	<hr/> 33,645,833	<hr/> 372,159	<hr/> (7,378)	<hr/> 34,010,614
Total	<hr/> \$ 33,927,819	<hr/> \$ 2,375,010	<hr/> \$ (1,424,185)	<hr/> \$ 34,878,644

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 3 – CAPITAL ASSETS - Continued

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

Water	\$ 689,165
Sewer	<u>585,034</u>
Total	<u>\$ 1,274,199</u>

NOTE 4 – RESTRICTIONS ON ASSETS

Restricted Cash, Cash Equivalents and Investments

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

Fund	Restricted Balance	Restriction
General - Cash	\$ 20,085	Reserve for Duffy Fairgrounds Stadium repairs
General - Cash	\$ 3,100,022	Reserve for capital projects
General - Cash	\$ 32,368	Reserve for special assessment sidewalk program debt
Special Revenue - Cash	\$ 138,538	Federal and State community development grants
Capital - Cash	\$ 1,332,629	Reserve for capital project acquisitions and construction
Water - Cash	\$ 137,117	Reserve for coagulation basin maintenance
Water - Cash	\$ 49,108	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 979,628	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 25,761	Excess debt proceeds reserved for debt service

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 – NOTES RECEIVABLE

To assist in the rehabilitation of homes of low and moderate-income persons, the City was awarded various grants for its "Housing Improvement Program". The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. 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 the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to thirty years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the grants subject to repayment at June 30, 2013 was \$557,698.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a City-wide home ownership program that combines CDBG and North Country HOME Consortium funds to allow Neighbors of Watertown to purchase existing homes and rehabilitate those properties before selling them to qualified low or moderate income buyers who have completed a home ownership counseling program and secured appropriate bank mortgage financing. Under the grant terms, eighteen eligible homebuyers received a loan not exceeding \$20,000 to be repaid to the City at zero percent interest in monthly installments over twenty to thirty years. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. The balance of these loans outstanding at June 30, 2013 was \$272,225.

The City was awarded \$200,000 through a Fiscal Year 2006 Small Cities Community Development Block Grant to support a City-wide owner-occupied housing rehabilitation program. Under the grant terms, eligible homeowners received a loan not exceeding \$20,000 to be repaid over five years at a rate of \$18 per \$1,000 loan to the City. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. The balance of these loans outstanding at June 30, 2013 was \$3,719.

The City issued a loan to a limited partnership using Community Development Block Grant Funds for rehabilitation 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, 2013 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 – NOTES RECEIVABLE - Continued

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a City-wide rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments throughout the City. Under the grant terms, eligible property owners would receive CDBG financing of eligible improvements up to a maximum of \$20,000. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid over five to ten years in monthly installments at a rate of \$18 per \$1,000. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. The balance of the total loans outstanding at June 30, 2013 was \$120,057.

The City was awarded \$400,000 through a Fiscal Year 2009 Small Cities Community Development Block Grant to support a rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments or the creation of new apartments on the upper floors of commercial buildings in downtown Watertown. Under the grant terms, eligible property owners would receive CDBG funds in the form of direct grants to cover up to 75% of the cost of eligible improvements up to a maximum of \$15,000 per unit and the property owners will contribute cash to cover the balance of the cost. These funds will be available throughout the City but preference will be given to projects located in the downtown area. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid in monthly installments over a term of up to twenty years at zero percent interest for downtown apartments and loans up to ten years at zero percent for City-wide rental rehabilitations. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. The balance of the total loans outstanding at June 30, 2013 was \$159,000.

The City was awarded a North-Country HOME Consortium Fiscal Year 2011 grant in the amount of \$121,824 to assist approximately five income eligible homeowners to repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation, and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$27,917 were awarded during the current year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 – NOTES RECEIVABLE - Continued

The City was awarded \$400,000 through a Fiscal Year 2011 Small Cities Community Development Block Grant to support a program to rehabilitate existing substandard apartments throughout the City and create new apartments on the upper floors of commercial buildings in the downtown area. Under the grant terms, eligible property owners would receive CDBG funds in the form of direct grants to cover up to 50% of the cost of eligible improvements up to a maximum of \$20,000 per unit for rehabilitation of rental properties and up to \$30,000 per unit of newly developed rental apartments and the property owners will contribute cash to cover the balance of the cost. These funds will be available throughout the City but preference will be given to projects located in the downtown area. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid in monthly installments over a term of up to twenty years at zero percent interest for newly developed rental apartments and loans up to ten years at zero percent for City-wide rental rehabilitations. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Grant expenditures for the fiscal year ending June 30, 2013 were \$94,654. There were no loans issued as of June 30, 2013 for this grant.

The City was awarded a North Country HOME Consortium Fiscal Year 2012 grant in the amount of \$75,000 to assist approximately three income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grant expenditures for the fiscal year ending June 30, 2013 were \$30,511.

The City was awarded \$400,000 through a Fiscal Year 2012 Small Cities Community Development Block Grant to support a program to rehabilitate existing substandard apartments throughout the City and create new apartments on the upper floors of commercial buildings in the downtown area. Under the grant terms, eligible property owners would receive CDBG funds in the form of direct grants to cover up to 50% of the cost of eligible improvements up to a maximum of \$20,000 per unit for rehabilitation of rental properties and up to \$30,000 per unit of newly developed rental apartments and the property owners will contribute cash to cover the balance of the cost. These funds will be available throughout the City but preference will be given to projects located in the downtown area. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5 – NOTES RECEIVABLE - Continued

The balance of the financing will be repaid in monthly installments over a term of up to twenty years at zero percent interest for newly developed rental apartments and loans up to ten years at zero percent for City-wide rental rehabilitations. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Grant expenditures for the fiscal year ending June 30, 2013 were \$15,085. There were no loans issued as of June 30, 2013 for this grant.

NOTE 6 – SHORT-TERM DEBT

The City did not issue or retire any short-term debt during the fiscal year and had none outstanding at June 30, 2013.

NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2013, the following changes occurred in long-term obligations:

Governmental Activities

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
General Obligation Bonds	\$ 17,091,962	\$ 849,000	\$ (2,218,256)	\$ 15,722,706	\$ 2,130,788
Compensated Absences	229,537	-	(23,670)	205,867	30,000
Landfill Monitoring	216,000	-	(18,000)	198,000	18,000
Total	\$ 17,537,499	\$ 849,000	\$ (2,259,926)	\$ 16,126,573	\$ 2,178,788

The Statement of Net Position at June 30, 2013 includes a deferred amount of \$133,616 on the advance refunding of bonds.

Business-Type Activities

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
General Obligation Bonds:					
Water	\$ 3,474,520	\$ 796,000	\$ (400,450)	\$ 3,870,070	\$ 465,558
Sewer	3,633,518	-	(451,294)	3,182,224	448,654
Total	\$ 7,108,038	\$ 796,000	\$ (851,744)	\$ 7,052,294	\$ 914,212

The Statement of Activities for the fiscal year ending June 30, 2013 includes the final deferred amortization amount of \$8,514 on the advance refunding of bonds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2013 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2013	Outstanding June 30, 2013	Maturity Date
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 75,000	\$ 250,000	12/2017
Public Improvements	5.125-5.50%	6,105,000	20,000	-	6/2020
Public Improvements	4.00-5.00%	2,310,000	10,000	50,000	5/2021
Public Improvements	2.75-4.25%	8,145,000	550,000	2,925,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	2,900,000	11/2020
Public Improvements	4.625-7.5%	250,000	25,000	75,000	11/2015
Public Improvements	3.25-4.00%	7,345,000	525,000	4,000,000	2/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	1,950,000	9/2018
Public Improvements	3.125-4.00%	2,225,000	225,000	1,575,000	12/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	125,000	1,935,000	11/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	310,000	715,000	5/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	255,000	3,205,000	11/2022
Public Improvements	2.00-3.00%	2,035,000	225,000	1,550,000	6/2021
Public Improvements	3.00-3.50%	1,645,000	-	1,645,000	10/2027
Total Serial Bonds			\$ 3,070,000	\$ 22,775,000	

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

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

Governmental Activities

	Principal	Interest	Total
2014	\$ 2,130,788	\$ 575,430	\$ 2,706,218
2015	2,037,502	509,852	2,547,354
2016	1,881,502	439,523	2,321,025
2017	1,714,731	373,680	2,088,411
2018	1,655,800	310,509	1,966,309
2019 - 2023	5,403,383	737,024	6,140,407
2024 - 2028	899,000	57,102	956,102
	<hr/>	<hr/>	<hr/>
Totals	\$ 15,722,706	\$ 3,003,120	\$ 18,725,826

Business-type Activities

	Principal	Interest	Total
2014	\$ 914,212	\$ 244,048	\$ 1,158,260
2015	887,498	216,836	1,104,334
2016	883,498	184,872	1,068,370
2017	865,269	152,566	1,017,835
2018	839,200	121,174	960,374
2019 - 2023	2,456,617	241,781	2,698,398
2024 - 2028	206,000	14,959	220,959
	<hr/>	<hr/>	<hr/>
Totals	\$ 7,052,294	\$ 1,176,236	\$ 8,228,530

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LONG-TERM DEBT - Continued

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2013 was \$ 33,750.

Advance Refunding

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7 – LONG-TERM DEBT - Continued

Advance Refunding - Continued

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

NOTE 8 – DEFERRED REVENUE

General Fund

Deferred Property Tax Revenue, Refuse Tote Revenue and Prepaid Interest Installments on Special Assessments	<u>\$ 265,348</u>
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Capital Projects Fund

Deferred State Aid and Other Miscellaneous Sources	<u>\$ 56,997</u>
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Special Revenue Fund

Notes receivable Funded from Grant Proceeds	<u>\$ 1,267,490</u>
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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – 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: New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9 – RETIREMENT BENEFITS- Continued

Funding Policy - Continued

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2013 and two preceding years were:

	FYE 6/30/13	FYE 6/30/12	FYE 6/30/11
Employer Contributions			
ERS	\$ 1,535,739	\$ 1,232,403	\$ 921,798
PFRS	\$ 2,423,515	\$ 1,936,189	\$ 1,367,396
Employee Contributions			
ERS	\$ 104,819	\$ 90,324	\$ 86,370
PFRS	\$ 8,954	\$ 1,136	\$ -

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

Bonus Retirement Plan

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

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

The City has reported \$11,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10 – POST EMPLOYMENT BENEFITS

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

Plan Description

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

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2013, the City contributed approximately \$6,725,263 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$579,751.

Annual OPEB Cost and Net Obligation

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

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10- POST EMPLOYMENT BENEFITS- Continued

Annual OPEB Cost and Net Obligation - Continued

	Governmental Activities	Business-type Activities - Water Fund	Business-type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 6,614,209	\$ 442,758	\$ 323,778	\$ 7,380,745
Interest on Net OPEB Obligation	214,478	25,625	17,432	257,535
Adjustment to ARC	<u>(204,893)</u>	<u>(24,480)</u>	<u>(16,653)</u>	<u>(246,026)</u>
Annual OPEB Cost	6,623,794	443,903	324,557	7,392,254
Contributions Made	<u>(3,533,220)</u>	<u>(105,659)</u>	<u>(136,710)</u>	<u>(3,775,589)</u>
Change in Net OPEB Obligation	3,090,574	338,244	187,847	3,616,665
Net OPEB Obligation - Beginning of Year	<u>5,361,969</u>	<u>640,620</u>	<u>435,796</u>	<u>6,438,385</u>
Net OPEB Obligation - End of Year	<u>\$ 8,452,543</u>	<u>\$ 978,864</u>	<u>\$ 623,643</u>	<u>\$ 10,055,050</u>

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
FYE 6/30/13			
Governmental Activities	\$ 6,623,794	53.34%	\$ 8,452,543
Business-type Activities - Water Fund	\$ 443,903	23.80%	\$ 978,864
Business-type Activities - Sewer Fund	\$ 324,557	42.12%	\$ 623,643
FYE 6/30/12			
Governmental Activities	\$ 4,209,426	83.92%	\$ 5,361,969
Business-type Activities - Water Fund	\$ 294,660	41.84%	\$ 640,620
Business-type Activities - Sewer Fund	\$ 239,634	61.53%	\$ 435,796
FYE 6/30/11			
Governmental Activities	\$ 4,874,268	74.60%	4,685,133
Business-type Activities - Water Fund	\$ 338,629	35.04%	469,258
Business-type Activities - Sewer Fund	\$ 275,915	55.60%	343,614

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Funded Status and Funding Progress

As of September 1, 2012, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$130,841,681 and there were no plan assets. Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

Actuarial Methods and Assumptions

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

In the September 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis. The actuarial assumptions include 4.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was estimated at 7.5% for the next fiscal year and decreasing each fiscal year thereafter until reaching 6.10% for the fiscal year ending June 30, 2018. The rate was then adjusted every five years through 2083 at 4.40%.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 – FUND BALANCES

Non-spendable Fund Balances

Non-spendable fund balances consist of prepaid expenses and inventory at the Municipal Arena concession stand. It also consists of the prepaid stop loss insurance on the City's health insurance plan.

Restricted Fund Balances

Restricted fund balances consist of the following:

General Fund

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

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

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

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

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

Other Governmental Funds

Mandatory Reserve for Indebtedness - Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2013 was \$319,925.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 11 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

Proprietary Funds

Mandatory Reserve for Indebtedness - Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest in the sewer fund at June 30, 2013 was \$25,761.

Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2013.

Excess of Expenditures over Appropriations

There were no excess of expenditures over appropriations for the fiscal year ended June 30, 2013.

NOTE 12 – INTERFUND TRANSACTIONS

Operating Transfers

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 12 – INTERFUND TRANSACTIONS - Continued

Operating Transfers - Continued

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2013 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 439,866	\$ 190,670
Water Fund	14,879	114,759
Sewer Fund	76,653	89,964
Library Fund	180,650	5,679
Capital Project Funds	3,505	310,567
Trust & Agency Fund	-	3,914
	<hr/>	<hr/>
Total	\$ 715,553	\$ 715,553

Inter-fund Eliminations

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

	General Fund	Self-funded Health Insurance Fund
Revenues	\$ -	\$ 5,799,693
Expenditures	5,799,693	-
	<hr/>	<hr/>
Total	\$ 5,799,693	\$ 5,799,693

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – OPERATING LEASES

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusbo and Terry MacAdam. The term of the original lease is for a five-year period from October 22, 2011 through October 21, 2016. The annual rent for the current fiscal year is \$2,500. The lease payment is payable in advance by September 15th of the previous year. On October 17, 2011, the City Council approved a new lease for the period from October 22, 2011 through October 21, 2016.

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

2014	\$	2,700
2015		2,800
2016		2,900
Total	\$	<u>8,400</u>

Fairgrounds Property Lease

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

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

2014	\$	24,900
2015		25,800
2016		25,800
2017		25,800
2018		25,800
Thereafter		<u>460,907</u>
Total	\$	<u>589,007</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – OPERATING LEASES - Continued

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2013 were \$355,118.

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

2014	\$ 167,518
2015	<u>157,555</u>
Total	<u>\$ 325,073</u>

Equipment Lease

The City is the lessor of certain office equipment. The lease dated September 30, 2008 is for a term of five years. Minimum future rentals on the lease as of June 30, are as follows:

2014	\$ 649
Total	<u>\$ 649</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 13 – OPERATING LEASES - Continued

Equipment Lease - Continued

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

2014	\$	4,059
2015		<u>338</u>
Total	\$	<u>4,397</u>

Vehicle Leases

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

2014	\$	<u>10,310</u>
Total	\$	<u>10,310</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2013, 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 \$330,644 as of June 30, 2013 for un-funded general liability claims.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 – COMMITMENTS AND CONTINGENCIES -

Continued

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.

Environmental Concerns

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2013, the City is not expected to have any liability for this potential environmental clean-up due to the "safe harbor" provisions of the ERP grant.

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage) in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2013, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 – COMMITMENTS AND CONTINGENCIES -

Continued

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2013, an estimated \$198,000 in post-closure care cost will be incurred over the remaining 12-year period. This liability is recorded as long-term debt in the Statement of Net Position and is amortized in the General Fund at approximately \$18,000 each year.

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

Black River Fund

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 – COMMITMENTS AND CONTINGENCIES -

Continued

Black River Fund - Continued

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2013 was \$47,902.

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

Electrical Distribution System Agreement

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 14 – COMMITMENTS AND CONTINGENCIES -

Continued

Metropolitan Planning Organization

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

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

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

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

CITY OF WATERTOWN, NEW YORK

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2013

	<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	\$ 7,320,740	\$ 7,320,740	\$ 7,425,473	\$ 104,733
Real Property Tax Items	269,300	269,300	316,811	47,511
Non-Property Taxes	18,819,500	18,819,500	18,240,151	(579,349)
Departmental Income	4,866,600	4,911,600	4,624,830	(286,770)
Intergovernmental Charges	134,175	134,175	125,391	(8,784)
Use of Money and Property	97,075	97,075	67,049	(30,026)
Licenses and Permits	77,600	77,600	66,534	(11,066)
Fines and Forfeitures	120,000	120,000	143,708	23,708
Sale of Property and Compensation for Loss	309,100	309,100	300,975	(8,125)
Miscellaneous Local Sources	700,874	700,874	763,317	62,443
Interfund Revenue	1,052,888	1,044,488	1,045,413	925
State Source	8,468,280	8,468,280	8,667,448	199,168
Federal Sources	304,590	304,590	467,463	162,873
Transfers from Other Funds	55,100	55,100	116,035	60,935
Amounts Available for Appropriation	<u>42,595,822</u>	<u>42,632,422</u>	<u>42,370,598</u>	<u>(261,824)</u>
Charges to Appropriations (Outflows)				
General Government Support	5,808,498	5,569,528	5,171,962	397,566
Public Safety	15,256,841	15,333,166	15,110,431	222,735
Transportation	4,581,037	4,511,407	4,259,335	252,072
Economic Assistance and Development	113,575	127,300	116,232	11,068
Culture and Recreation	1,658,079	1,967,654	1,772,114	195,540
Home and Community Services	1,294,174	1,294,499	1,195,126	99,373
Employee Benefits	8,049,882	8,056,932	7,435,778	621,154
Debt Service	2,762,930	2,762,930	2,762,927	3
Transfers to Other Funds	5,347,902	5,460,252	1,708,455	3,751,797
Total Charges to Appropriations	<u>44,872,918</u>	<u>45,083,668</u>	<u>39,532,360</u>	<u>5,551,308</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	<u>(2,277,096)</u>	<u>(2,451,246)</u>	<u>2,838,238</u>	<u>5,289,484</u>
Appropriation of Prior Year Fund Balance	<u>2,277,096</u>	<u>2,451,246</u>	<u>-</u>	<u>(2,451,246)</u>
Excess / (Deficiency) of Resources Over Charge to Appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>2,838,238</u>	<u>\$ 2,838,238</u>
Fund Balance, Beginning of Year			13,308,140	
Fund Equity Transfer			<u>39,757</u>	
Fund Balance, End of Year			<u>\$ 16,186,135</u>	

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

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor #	Federal Expenditures
US Department of Housing & Urban Development			
Passed Through New York State Homes & Community Renewal:			
Community Development Block Grant / State's Loan	14.228	1207HR57-12	\$ 15,085
Community Development Block Grant / State's Loan	14.228	1207HR57-11	94,654
Community Development Block Grant / State's Loan (Program Income)	14.228		8,509
Total Community Development Block Grant / State's Loan			<u>118,248</u>
Passed Through Development Authority of the North Country:			
HOME Investment Partnerships Program	14.239	M12-DC360512	\$ 30,511
HOME Investment Partnerships Program	14.239	M11-DC360512	27,917
Total Department of Housing & Urban Development			<u>176,676</u>
US Department of Transportation			
Passed Through New York State:			
State and Community Highway Safety	20.600	PD-00220-(023)	7,001
Highway Planning and Construction	20.205	7753.15.221	340,931
Formula Grants for Other Than Urbanized Areas	20.509	PIN 7790.40.403	137,300
Formula Grants for Other Than Urbanized Areas	20.509	PIN 7798.06.303	600
Formula Grants for Other Than Urbanized Areas	20.509	PIN 7797.10.303	13,120
Total Department of Transportation			<u>498,952</u>
US Department of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2012-FO-02364	18,657
Homeland Security Grant Program	97.067	C835902	25,297
Homeland Security Grant Program	97.067	C190319	37,622
			<u>81,576</u>
US Department of Environmental Protection Agency			
Passed Through New York State:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-97211311	8,621
US Department of Justice			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-1135	6,555
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BJ11-1199-D00	26,500
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B9-3147	2,105
Total Department of Justice			<u>35,160</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 800,985</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

NOTE 1 - SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT LOANS

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

CFDA #	Balance at July 1, 2012	Issuance	Forgiveness	Balance at June 30, 2013
14.228	<u>\$ 1,017,504</u>	<u>\$ 83,292</u>	<u>\$ 459,806</u>	<u>\$ 640,990</u>

NOTE 3 - SUBRECIPIENTS

No amounts were provided to subrecipients.

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

Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/2010	\$ -	\$112,726,495	\$112,726,495	0%	\$ 17,329,092	650.50%
9/1/2011	-	98,650,932	98,650,932	0%	18,022,256	547.38%
9/1/2012	-	130,841,681	130,841,681	0%	N/A	N/A

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



BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Watertown, New York's basic financial statements, and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

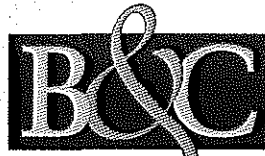
As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

Purpose of this Report

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

Bowers & Company

Watertown, New York
December 17, 2013



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Watertown, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Watertown, New York's major federal programs for the year ended June 30, 2013. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Watertown, New York's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Watertown, New York, complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bowers & Company

Watertown, New York
December 17, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2013

NOTE A - SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Watertown, New York
2. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the Highway Planning and Construction program expresses an unmodified opinion.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major federal program was – Highway Planning and Construction - CFDA #20.205.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS

There were no findings to report.

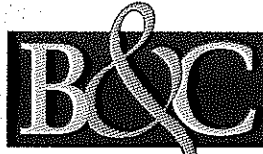
**NOTE C - MAJOR FEDERAL AWARD PROGRAMS
FINDINGS AND QUESTIONED COSTS**

There were no findings to report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2013

There were no prior year audit findings.



**BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

Report on Compliance For Each State Transportation Assistance Program Tested

We have audited the compliance of City of Watertown, New York with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended June 30, 2013. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each State Transportation Assistance Program Tested

In our opinion, City of Watertown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs tested. In planning and performing our audit of compliance, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures that are appropriate for the purpose of expressing an opinion on compliance for each state transportation assistance program tested and to test and report on the internal control over compliance in accordance with Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

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

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

Report on Schedule of State Transportation Assistance Expended

We have audited the financial statements of City of Watertown, New York as of and for the year ended June 30, 2013, and have issued our report thereon dated December 17, 2013, which contained an unmodified opinion on those financial statements. . Our audit was conducted for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state transportation assistance expended is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Banner & Company

Watertown, New York
December 17, 2013

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2013

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement / CHIPS	732059	\$ 182,222
Formula Grants for Other Than Urbanized Area - DPW Maintenance Facility (Bus Shelters)	C003695	1,640
DPW Maintenance Facility	C003695	<u>75</u>
Total		<u>\$ 183,937</u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2013

NOTE A - GENERAL

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

NOTE B - BASIS OF ACCOUNTING

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

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

June 30, 2013

Summary of Audit Results

Internal control over state transportation assistance expended:

Material weaknesses identified None reported

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

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

Summary of Audit Findings: N/A

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

Compliance Findings and Questioned Costs

No matters were reported.

**DISCLOSURE UNDERTAKING CERTIFICATE
PURSUANT TO RULE 15c2-12 OF THE
SECURITIES AND EXCHANGE COMMISSION**

On the date hereof, the City of Watertown, Jefferson County, New York (the “City”) is issuing its \$1,195,000 Public Improvement (Serial) Bonds, 2014 Series A and \$5,110,000 Public Improvement (Serial) Bonds, 2014 Series B, both dated April 10, 2014 (the “Bonds”). To facilitate compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “SEC”) promulgated under the Securities Exchange Act of 1934, as amended by the underwriter (as defined in the Rule), the City hereby undertakes for the benefit of the record and beneficial owners from time to time of the Bonds (the “Holders”) to provide:

A. Definitions. As used in this Undertaking, the following terms have the meanings ascribed to such terms below:

“*Bonds*” means the Issuer’s \$1,195,000 Public Improvement (Serial) Bonds, 2014 Series A and \$5,110,000 Public Improvement (Serial) Bonds, 2014 Series B, both dated April 10, 2014.

“*Issuer*” means the City of Watertown, Jefferson County, New York.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Rule*” means SEC Rule 15c2-12, as amended from time to time.

“*SEC*” means the United States Securities and Exchange Commission.

“*Undertaking*” means this Disclosure Undertaking.

B. Annual Reports. The Issuer shall provide annually to the MSRB, (1) within six months after the end of each fiscal year ending after the date hereof, financial information and operating data with respect to the Issuer of the general type contained in or cross referenced in the Issuer’s final Official Statement, dated April ____, 2014 under the headings “**THE CITY**”, “**TAX INFORMATION**”, “**CITY INDEBTEDNESS**” and “**LITIGATION**” and in **Appendices A, A1, A2, A3 and B**, and (2) if not provided as part such financial information and operating data, financial statements of the Issuer, when and if available. Any financial statements so to be provided shall be prepared in accordance with the accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation, and shall be audited, if the Issuer commissions an audit of such statements and the audit is completed within the period during which they must be provided.

If the Issuer changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer otherwise would be required to provide financial information and operating data pursuant to this Undertaking.

The financial information and operating data to be provided pursuant to this Undertaking may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the SEC.

C. Event Notices. The Issuer shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of holders of the Bonds, if material;
- (8) Bond or Note calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the Issuer, which shall occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

The Issuer shall notify the MSRB, in a timely manner, of any failure by the Issuer to provide a notice described in “B”, above, by the time required by this Undertaking.

D. Filings with the MSRB. All notices and other documents provided to the MSRB in accordance with this Undertaking shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

E. Limitations, Disclaimers, and Amendments. The Issuer shall be obligated to observe and perform the covenants specified in this Undertaking for so long as, but only for so long as, the Issuer remains an “obligated person” with respect to the Bonds within the meaning of the Rule.

The provisions of this Undertaking are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Issuer undertakes to provide only the notices which it has expressly agreed to provide pursuant to this Undertaking and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Issuer’s financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Undertaking or otherwise, except as expressly provided herein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY NOTE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITH OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS UNDERTAKING, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Issuer in observing or performing its obligations under this Undertaking shall constitute a breach of or default on the Bonds.

Nothing in this Undertaking is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

The provisions of this Undertaking may be amended by the Issuer from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, but only if (1) the provisions of this Undertaking, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of the Bonds consent to such amendment or (b) a person that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Issuer may also repeal or amend the provisions of this Undertaking if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the provisions of this Undertaking in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule.

APPENDIX D

April 10, 2014

City of Watertown,
County of Jefferson,
State of New York

Fulbright & Jaworski LLP
666 Fifth Avenue, 31st Floor
New York, New York 10103-3198
United States

Tel +1 212 318 3000
Fax +1 212 318 3400
nortonrosefulbright.com

Re: City of Watertown, Jefferson County, New York
\$1,195,000 Public Improvement (Serial) Bonds, 2014 Series A

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of \$1,195,000 Public Improvement (Serial) Bonds, 2014 Series A (the "Obligation"), of the City of Watertown, Jefferson County, State of New York (the "Obligor"), dated April 10, 2014.

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986 (the "Code"), including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder;
- (3) a tax certificate (the "Tax Certificate") executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligation that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligation not to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligation and investment earnings thereon, making required payments to the federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligation to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligation and investment earnings thereon on certain specified purposes; and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or ordinance applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligation, including the form of the Obligation. In rendering the opinions expressed herein we have assumed (i) the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or

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certified by public officials acting within the scope of their official capacity cities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Tax Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligation has been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitutes a valid and legally binding general obligation of the Obligor, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Obligation and interest thereon, without limitation as to rate or amount, except as to certain statutory limitations which may result from the application of Chapter 97 of the Laws of 2011, provided, however, that the enforceability (but not the validity) of the Obligation: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights; and (ii) may be subject to the exercise of judicial discretion in certain cases.
- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligation; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights.
- (c) Under existing law, interest on the Obligation (1) will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes, pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions, assuming continuing compliance after the date hereof by the Obligor with the provisions of the Tax Certificate, and (2) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals. We call to your attention that interest on the Obligation owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code is computed. Under existing law, interest on the Obligation is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

We express no opinion with respect to any other federal, state or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligation. Ownership of tax-exempt obligations such as the Obligation may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax

credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The scope of our engagement in relation to the issuance of the Obligation has extended solely to the examination of the facts and law incident to rendering the opinion expressed herein. Such opinion is 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 Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligation as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligation for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligation, 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.

Very truly yours,

APPENDIX D Continued

April 10, 2014

City of Watertown,
County of Jefferson,
State of New York

Fulbright & Jaworski LLP
666 Fifth Avenue, 31st Floor
New York, New York 10103-3198
United States

Tel +1 212 318 3000
Fax +1 212 318 3400
nortonrosefulbright.com

Re: City of Watertown, Jefferson County, New York
\$5,110,000 Public Improvement (Serial) Bonds, 2014 Series B

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of \$5,110,000 Public Improvement (Serial) Bonds, 2014 Series B (the "Obligation"), of the City of Watertown, Jefferson County, State of New York (the "Obligor"), dated April 10, 2014.

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986 (the "Code"), including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder;
- (3) a tax certificate (the "Tax Certificate") executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligation that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligation not to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligation and investment earnings thereon, making required payments to the federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligation to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligation and investment earnings thereon on certain specified purposes; and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or ordinance applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligation, including the form of the Obligation. In rendering the opinions expressed herein we have assumed (i) the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or

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certified by public officials acting within the scope of their official capacity cities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Tax Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligation has been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitutes a valid and legally binding general obligation of the Obligor, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Obligation and interest thereon, without limitation as to rate or amount, except as to certain statutory limitations which may result from the application of Chapter 97 of the Laws of 2011, provided, however, that the enforceability (but not the validity) of the Obligation: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights; and (ii) may be subject to the exercise of judicial discretion in certain cases.
- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligation; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights.
- (c) Under existing law, interest on the Obligation (1) will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes, pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions, assuming continuing compliance after the date hereof by the Obligor with the provisions of the Tax Certificate, and (2) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals. We call to your attention that interest on the Obligation owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code is computed. Under existing law, interest on the Obligation is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

We express no opinion with respect to any other federal, state or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligation. Ownership of tax-exempt obligations such as the Obligation may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax

credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The scope of our engagement in relation to the issuance of the Obligation has extended solely to the examination of the facts and law incident to rendering the opinion expressed herein. Such opinion is 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 Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligation as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligation for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligation, 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.

Very truly yours,