

**REFUNDING ISSUES: SERIAL BONDS  
BOOK-ENTRY-ONLY  
TAX-EXEMPT BONDS: BANK QUALIFIED**

**BOND RATING: MOODY'S "Aa3"\*\*\*  
UNDERLYING RATING: MOODY'S "A1"  
See "Rating" herein**

*In the opinion of Fulbright & Jaworski L.L.P., New York, New York, Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Series A Bonds and the Series B Bonds (collectively, the "Tax-Exempt Bonds") will be excludable from gross income for federal income tax purposes under existing law, and interest on the Tax-Exempt 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 Series A Bonds, the Series B Bonds and the Series C 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 Tax-Exempt Bonds will be designated by the City as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.*

**\$7,505,000**  
**CITY OF WATERTOWN**  
**JEFFERSON COUNTY, NEW YORK**  
**GENERAL OBLIGATIONS**

**\$2,175,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES A  
(the "Series A Bonds")**

**\$1,635,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES B  
(the "Series B Bonds")**

**\$3,695,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES C (FEDERALLY  
TAXABLE)  
(the "Series C Bonds")**

**DATED: Date of Delivery**

**DUE: As Shown on Inside Cover**



\*\* The scheduled payment of principal of and interest on the Bonds maturing on May 15 and November 15 of the years 2013 through 2025, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp.

The Series A Bonds, Series B Bonds and Series C Bonds (collectively the "Bonds") are general obligations of the City of Watertown, Jefferson County, New York, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount. The Series A Bonds will be subject to redemption prior to maturity as described herein. The Series B Bonds and Series C Bonds will not be subject to redemption prior to maturity.

Interest on the Series B Bonds will be payable on May 15, 2011, November 15, 2011 and semi-annually thereafter on May 15 and November 15 in each year until maturity. Interest on the Series A Bonds and the Series C Bonds will be payable on November 15, 2011 and semi-annually thereafter on May 15 and November 15 in each year until maturity. The Bonds will be issued in registered form and, when issued, will be registered in the name of Cede & Co., as partnership nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. The City Comptroller will be the fiscal and paying agent for the Bonds while the Bonds are in registered form. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. 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 Bonds are offered when, as and if issued and received by the Underwriter and subject to the receipt of the respective unqualified legal opinions as to the validity of the Bonds of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. Certain legal matters will be passed on for the Underwriter by its counsel Orrick, Herrington & Sutcliffe LLP, New York, New York. 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 15, 2011.

**ROOSEVELT & CROSS, INCORPORATED**

March 30, 2011

**\$2,175,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES A**

<u>Maturity</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
November 15, 2011	\$115,000	2.00%	0.87%	942095 V98
November 15, 2012	125,000	2.00%	1.15%	942095 W22
November 15, 2013	125,000	2.00%	1.35%	942095 W30
November 15, 2014	125,000	2.50%	1.70%	942095 W48
November 15, 2015	130,000	2.75%	2.15%	942095 W55
November 15, 2016	130,000	3.00%	2.45%	942095 W63
November 15, 2017	135,000	3.00%	2.80%	942095 W71
November 15, 2018	140,000	3.25%	3.15%	942095 W89
November 15, 2019	145,000	3.50%	3.45%	942095 W97
November 15, 2020	155,000	3.50%	3.70%	942095 X21
November 15, 2021	155,000*	4.00%	3.90%	942095 X39
November 15, 2022	165,000*	4.00%	3.95%	942095 X47
November 15, 2023	170,000*	4.00%	4.00%	942095 X54
November 15, 2024	180,000*	4.00%	4.10%	942095 X62
November 15, 2025	180,000*	4.00%	4.20%	942095 X70

\* Subject to optional redemption.

**\$1,635,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES B**

<u>Maturity</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
May 15, 2011	\$265,000	2.000%	0.80%	942095 X88
May 15, 2012	345,000	2.000%	1.00%	942095 X96
May 15, 2013	310,000	2.000%	1.20%	942095 Y20
May 15, 2014	225,000	2.000%	1.56%	942095 Y38
May 15, 2015	165,000	2.250%	2.05%	942095 Y46
May 15, 2016	140,000	2.500%	2.36%	942095 Y53
May 15, 2017	80,000	3.000%	2.90%	942095 Y61
May 15, 2018	50,000	3.125%	3.25%	942095 Y79
May 15, 2019	35,000	3.500%	3.55%	942095 Y87
May 15, 2020	20,000	3.750%	3.75%	942095 Y95

**\$3,695,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES C  
(FEDERALLY TAXABLE)**

<u>Maturity</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
November 15, 2011	\$235,000	2.00%	1.50%	942095 Z29
November 15, 2012	255,000	2.50%	2.30%	942095 Z37
November 15, 2013	265,000	3.25%	3.15%	942095 Z45
November 15, 2014	275,000	3.75%	3.50%	942095 Z52
November 15, 2015	285,000	4.00%	3.80%	942095 Z60
November 15, 2016	290,000	4.10%	4.10%	942095 Z78
November 15, 2017	305,000	4.50%	4.50%	942095 Z86
November 15, 2018	320,000	5.00%	5.00%	942095 Z94
November 15, 2019	335,000	5.40%	5.40%	942095 2A7
November 15, 2020	355,000	5.60%	5.60%	942095 2B5
November 15, 2021	375,000	5.80%	5.80%	942095 2C3
November 15, 2022	400,000	6.00%	6.00%	942095 2D1

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

*Fulbright & Jaworski L.L.P. and Orrick, Herrington & Sutcliffe LLP, New York, New York have not participated in the preparation of the demographic, financial or statistical data contained in this Official Statement, nor verified the accuracy, completeness or fairness thereof, and, accordingly, express no opinion with respect thereto.*

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “APPENDIX D – BOND INSURANCE” and “APPENDIX D - Specimen Municipal Bond Insurance Policy”.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 the 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 inference that there has been no change in the affairs of the City of Watertown.

THE CITY DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE “RULE”), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH SAID RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE OBLIGATIONS HEREIN DESCRIBED. THE CITY WILL COVENANT IN AN UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE AS DEFINED IN THE RULE WITH RESPECT TO THE BONDS (SEE “DISCLOSURE UNDERTAKING” HEREIN).

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MY BE DISCONTINUED AT ANY TIME.

## CITY OFFICIALS

JEFFREY E. GRAHAM

Mayor

## CITY COUNCIL

ROXANNE M. BURNS  
JOSEPH M. BUTLER JR.

TERESA R. MACALUSO  
JEFFREY M. SMITH

MARY M. CORRIVEAU

City Manager

JAMES E. MILLS

City Comptroller

DONNA M. DUTTON

City Clerk

FULBRIGHT & JAWORSKI L.L.P.

New York, New York

Bond Counsel



**NYMAC**

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

**\$2,175,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES A**

**\$1,635,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES B**

**and**

**\$3,695,000 PUBLIC IMPROVEMENT REFUNDING (SERIAL) BONDS, 2011 SERIES C (FEDERALLY TAXABLE)**

This Official Statement, which includes the cover page, inside cover pages 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 \$2,175,000 Public Improvement Refunding (Serial) Bonds, 2011 Series A (the “Series A Bonds”), \$1,635,000 Public Improvement Refunding (Serial) Bonds, 2011 Series B (the “Series B Bonds”) and \$3,695,000 Public Improvement Refunding (Serial) Bonds, 2011 Series C (Federally Taxable) (the “Series C Bonds”) (collectively, 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 thereof and interest thereon as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount.

The Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as partnership nominee of the Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. The City Comptroller will be the fiscal agent for the Bonds while the Bonds are registered in the name of Cede & Co. Individual purchases will be made in book-entry-only form, 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 Series B Bonds will be payable on May 15, 2011, November 15, 2011 and semi-annually thereafter on May 15 and November 15 of each year until maturity. Interest on the Series A Bonds and the Series C Bonds will be payable on November 15, 2011 and semi-annually thereafter on May 15 and November 15 of each year until maturity. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein. The Record Date for the Bonds is the last business day of the calendar month preceding each interest payment date. The Series A Bonds will be subject to redemption prior to maturity as described herein. The Series B Bonds and Series C Bonds will not be subject to redemption prior to maturity.

**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, a refunding bond ordinance adopted by the City Council on March 21, 2011 (the “Refunding Bond Resolution”) and other proceedings and determinations related thereto. The Refunding Bond Resolution authorizes the refunding of up to \$2,140,000 outstanding principal amount of the \$4,895,000 Public Improvement (Serial) Bonds, 1997 Tax Exempt Series B (the “1997B Bonds”); the refunding of up to \$1,075,000 (of which \$1,015,000 are being refunded) outstanding principal amount of the \$6,105,000 Public Improvement (Serial) Bonds, 2000 (the “2000 Bonds”); the refunding of up to \$635,000 (of which \$560,000 are being refunded) outstanding principal amount of the \$2,310,000 Public Improvement (Serial) Bonds, 2002 (the “2002 Bonds”); and the refunding of up to \$4,625,000 outstanding principal amount of the \$6,115,000 Public Improvement (Serial) Bonds, 1997 Taxable Series A (the “Taxable 1997A Bonds”); (the portions of said bond issues that are to be refunded by the Bonds as described in “The Refunding Financial Plan”, collectively referred to as the “Refunded Bonds”) and authorizes the issuance of the Bonds to provide funds necessary to effect the refunding of the Refunded Bonds.

The proceeds of the Bonds together with \$1,000,000 available funds are intended to be used to purchase a portfolio of non-callable direct obligations of the United States of America (the "Government Obligations") and pay certain costs of issuance related to the Bonds. The principal of and investment income on the portfolio of Government Obligations together with other available cash on deposit in the Escrow Deposit Fund (as hereinafter defined) are expected to be sufficient to pay the maturing principal of, interest on, and redemption premiums of the Refunded Bonds.

The Refunded Bonds were issued to provide funds for the following purposes and amounts:

**\$6,115,000 Public Improvement (Serial) Bonds – 1997 Taxable Series A**

<u>Purpose and Resolution Date</u>	<u>Amount</u>
Reconstruction of the municipal hydroelectric facility on the Black River (6/3/96)	\$6,115,000

**\$4,895,000 Public Improvement (Serial) Bonds – 1997 Tax Exempt Series B**

<u>Purpose and Resolution Date</u>	<u>Amount</u>
Reconstruction of the municipal hydroelectric facility on the Black River (6/3/96)	\$3,053,000
Improvements to Fairgrounds Arena (6/3/96)	110,000
Fire Pumper (3/18/96)	220,000
City Hall Roof (10/7/96)	169,000
Michigan-Wyoming Street Reconstruction (1/6/97)	833,000
Sherman Street Sanitary Sewer (6/3/96)	34,000
Vehicles (11/18/96)	420,000
Western Outfall Sewer Project (1/6/97)	<u>56,000</u>
Total	\$4,895,000

**\$6,105,000 Public Improvement (Serial) Bonds, 2000**

<u>Purpose and Resolution Date</u>	<u>Amount</u>
Reconstruction of the municipal hydroelectric facility on the Black River (6/3/96)	\$90,000
Reconstruction of Coffeen Street (4/6/98)	637,000
Reconstruction of Coffeen Street, including portions of the street (11/2/98)	99,000
Reconstruction of Coffeen Street, including the water mains thereat (4/6/98, 11/2/98)	222,000
Reconstruction of Coffeen Street, including the sanitary sewer mains thereat (4/6/98, 11/2/98)	126,000
Acquisition of a parcel of land located at 337 Engine Street (4/6/98)	24,000
Acquisition of a building located at 337 Engine Street (4/6/98)	28,000
Purchase of a parcel of land at 522 Newell Street (4/6/98)	4,200
Reconstruction and improvement of the building on Engine Street (4/6/98)	55,800
Reconstruction and improvement of the building at 377 Engine St. (11/2/98)	49,000
Replacement of an existing underground fuel tank (4/6/98, 6/21/99, 11/15/99)	248,000
Refurbishment of the aerial fire truck (4/6/98)	30,000
Purchase of motor vehicles (4/6/98)	304,000
Reconstruction of the Stone St. Parking Lot (4/6/98, 5/17/99, 11/15/99)	232,000
Purchase and installation of computer hardware (11/2/98)	350,000
Purchase and installation of computer software (11/2/98, 11/15/99)	236,000
Reconstruction of the municipally-owned Thompson Park Zoo (11/16/98, 11/15/99)	580,000
Purchase of motor vehicles, machinery & apparatus (12/21/98)	363,000
Improvement & embellishment of Thompson Park (12/21/98)	68,000
Reconstruction of the Flower Memorial Library (10/21/97, 5/17/99)	172,000
Reconstruction of sanitary sewer mains (5/17/99)	90,000
Reconstruction of sewer lines on Riggs avenue (5/17/99, 11/15/99)	41,000
Construction of a storm sewer outlet on Bellew Ave. (5/17/99, 11/15/99, 2/7/00)	408,000
Construction of improvements to & reconstruction of Fairgrounds (5/17/99, 11/15/99)	228,000
Upgrading of the Dept of Public Works Facility on Newell Street (5/17/99)	200,000
Purchase of skateboard & playground equipment (5/17/99)	25,000
Purchase of recycling vehicles (5/17/99)	112,000
Upgrading of the Fairgrounds Arena Ice Plant (11/15/99)	25,000
Reconstruction of roads & related site improvements (11/15/99)	20,000
Purchase of paratransit buses (11/15/99)	15,000
Demolition of a City-owned building at 401 Mill St. (11/15/99)	200,000

Improvements & embellishments to the bathhouse (11/15/99)	50,000
Reconstruction of roads at Thompson Park (11/15/99)	50,000
Purchase of motor vehicles for construction & maintenance purposes (11/15/99)	523,000
Purchase of a new fire pumper truck (11/15/99)	<u>200,000</u>
Total	\$6,105,000

**\$2,310,000 Public Improvement (Serial) Bonds, 2002**

<u>Purpose and Resolution Date</u>	<u>Amount</u>
Flower Memorial Library Reconstruction (6/5/00)	\$25,000
Fairgrounds Ice Arena (4/6/98)	116,000
International Airport Improvements – Fuel Tanks (11/15/99)	45,000
International Airport Improvements – Hangar Roof (11/15/99)	90,000
International Airport Improvements – Engineering Services (11/15/99)	14,000
Pearl Street Bridge Design Work (11/15/99)	76,000
Wastewater Treatment Plant Improvement (11/15/99)	80,000
South Rutland Street Reconstruction – Streets (6/5/00)	190,000
South Rutland Street Reconstruction – Storm Sewers (6/5/00)	70,000
South Rutland Street Reconstruction – Water Mains (6/5/00)	85,000
South Rutland Street Reconstruction – Sanitary Sewers (6/5/00)	90,000
Fire Rescue Vehicle (10/2/00)	140,000
Computer Hardware (10/2/00)	60,000
Computer Software (10/2/00)	40,000
Construction & Maintenance Vehicles – 15 Years (10/2/00)	63,000
Department Vehicles – 5 Years (10/2/00)	40,000
Airport Fuel Storage Tank Replacement (1/16/01)	18,000
North Orchard Street Water Main (8/6/01)	178,000
Fire Station Furnishings & Ventilation System (8/6/01)	59,000
Airport Contaminated Soil Removal (8/6/01)	100,000
Thompson Park Road Paving (8/6/01)	50,000
Vehicles – 5 Years (8/6/01)	35,000
Vehicles – 10 Years (8/6/01)	83,000
Vehicles – 15 Years (8/6/01)	37,000
Arsenal Street Sanitary Sewer (8/6/01)	152,000
Transit Buses (9/17/01)	110,000
Waste Water Treatment Plant Equipment Replacement (9/17/01)	30,000
117 Arsenal Street Demolition (11/15/01)	86,000
337 Engine Street Roof Replacement (4/1/02)	88,000
Mobile Data Computers for Police Vehicles (11/19/01)	<u>60,000</u>
Total	\$2,310,000

**Optional Redemption**

The Series A Bonds maturing on or before November 15, 2020 will not be subject to redemption prior to maturity. The Series A Bonds maturing on or after November 15, 2021 will be subject to redemption, prior to maturity, at the option of the City, on November 15, 2020 and thereafter on any date, as a whole or in part, and if in part in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at the price equal to the par amount, plus accrued interest to the date of redemption.

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

The Series B Bonds and the Series C Bonds will not be subject to redemption prior to maturity.



**The Refunding Financial Plan**

The Bonds are being issued to effect the refunding of all or a part of the Refunded Bonds pursuant to the City’s refunding plan (the “Refunding Financial Plan”). The Refunding Financial Plan provides for the payment of the principal of and redemption premiums, if any, on the outstanding Refunded Bonds, together with interest payable thereon to the earliest dates set for optional redemption of the Refunded Bonds and the payment of expenses to be incurred in connection with the issuance of the Bonds. The issuance of the Bonds pursuant to the Refunding Financial Plan is expected to permit the City to restructure its annual debt service such that savings in both the total debt service and in the present value thereof will be realized.

The proceeds of the Bonds, after payment of certain costs of issuance and other costs related to the issuance of the Bonds, are to be deposited, together with \$1,000,000 of current funds appropriated by the City, in an escrow fund and applied to the purchase of Government Obligations (as that term is defined in the Escrow Contract, hereinafter defined), the principal and interest payments on which will be in amounts sufficient and timely to make payments when due of the principal of, interest on, and redemption premiums if any payable with respect to, the Refunded Bonds. The Government Obligations are required to be purchased by and held, together with certain uninvested cash, if any, remaining after the purchase of the Government Obligations, in an escrow fund (the “Escrow Deposit Fund”) by The Bank of New York Mellon (the “Escrow Holder”), pursuant to the terms of an escrow contract to be dated the date of delivery of the Bonds by and between the City and the Escrow Holder (the “Escrow Contract”).

The Refunding Financial Plan calls for the Escrow Holder, pursuant to the Escrow Contract, to pay to the paying agent for the Refunded Bonds moneys from the Escrow Deposit Fund sufficient to pay when due the principal of, interest on, and redemption premiums, if any, payable with respect to, the Refunded Bonds and, in accordance with the terms of the Refunded Bonds, to call the Refunded Bonds for early redemption when possible. Upon payment of all of the Refunded Bonds, the Escrow Contract, subject to certain conditions, shall terminate.

Under the Refunding Financial Plan, the Refunded Bonds will continue to be general obligations of the City and will continue to be payable from City funds legally available therefor. However, since the maturing Government Obligations, together with interest earnings thereon and cash held in the Escrow Deposit Fund will be sufficient to meet all required payments of principal of, interest on, and redemption premiums payable with respect to, the Refunded Bonds, it is not anticipated that other sources of payment will be utilized. See “Verification of Arithmetical and Mathematical Computations.”

The list of Refunded Bonds is set forth below.

**\$6,115,000 Public Improvement (Serial) Bonds - 1997 Taxable Series A**

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
11/15/2011	\$ 180,000	7.00%	5/15/11	100.0%
11/15/2012	195,000	7.10	5/15/11	100.0%
11/15/2013	210,000	7.10	5/15/11	100.0%
11/15/2014	225,000	7.10	5/15/11	100.0%
11/15/2015	240,000	7.10	5/15/11	100.0%
11/15/2016	255,000	7.10	5/15/11	100.0%
11/15/2017	275,000	7.10	5/15/11	100.0%
11/15/2018	295,000	7.10	5/15/11	100.0%
11/15/2019	315,000	7.10	5/15/11	100.0%
11/15/2020	340,000	7.10	5/15/11	100.0%
11/15/2021	365,000	7.10	5/15/11	100.0%
11/15/2022	390,000	7.10	5/15/11	100.0%
11/15/2023	420,000	7.10	5/15/11	100.0%
11/15/2024	450,000	7.10	5/15/11	100.0%
11/15/2025	<u>470,000</u>	7.10	5/15/11	100.0%
	\$4,625,000			

\$4,895,000 Public Improvement (Serial) Bonds – 1997 Tax Exempt Series B

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
11/15/2011	\$ 100,000	5.00%	5/15/11	100.0%
11/15/2012	105,000	5.00	5/15/11	100.0%
11/15/2013	110,000	5.00	5/15/11	100.0%
11/15/2014	115,000	5.00	5/15/11	100.0%
11/15/2015	120,000	5.00	5/15/11	100.0%
11/15/2016	125,000	5.00	5/15/11	100.0%
11/15/2017	130,000	5.00	5/15/11	100.0%
11/15/2018	140,000	5.00	5/15/11	100.0%
11/15/2019	145,000	5.00	5/15/11	100.0%
11/15/2020	155,000	5.00	5/15/11	100.0%
11/15/2021	160,000	5.00	5/15/11	100.0%
11/15/2022	170,000	5.10	5/15/11	100.0%
11/15/2023	180,000	5.10	5/15/11	100.0%
11/15/2024	190,000	5.10	5/15/11	100.0%
11/15/2025	<u>195,000</u>	5.10	5/15/11	100.0%
	\$2,140,000			

\$6,105,000 Public Improvement (Serial) Bonds, 2000

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
6/15/2011	\$ 230,000	5.20%	5/15/11	100.5%
6/15/2012	230,000	5.20	5/15/11	100.5%
6/15/2013	205,000	5.25	5/15/11	100.5%
6/15/2014	125,000	5.30	5/15/11	100.5%
6/15/2015	75,000	5.40	5/15/11	100.5%
6/15/2016	50,000	5.50	5/15/11	100.5%
6/15/2017	40,000	5.50	5/15/11	100.5%
6/15/2018	25,000	5.50	5/15/11	100.5%
6/15/2019	25,000	5.50	5/15/11	100.5%
6/15/2020	<u>10,000</u>	5.50	5/15/11	100.5%
	\$1,015,000			

\$2,310,000 Public Improvement (Serial) Bonds, 2002

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
5/15/2012	\$85,000	4.125%	5/15/11	100.0%
5/15/2013	90,000	4.250	5/15/11	100.0%
5/15/2014	90,000	4.375	5/15/11	100.0%
5/15/2015	90,000	4.500	5/15/11	100.0%
5/15/2016	90,000	4.500	5/15/11	100.0%
5/15/2017	45,000	5.000	5/15/11	100.0%
5/15/2018	30,000	5.000	5/15/11	100.0%
5/15/2019	20,000	5.000	5/15/11	100.0%
5/15/2020	<u>20,000</u>	5.000	5/15/11	100.0%
	\$560,000			

## SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources:	Par Amount of the Bonds .....	\$7,505,000.00
	Original Issue Premium .....	32,637.10
	Contributed Funds – Taxable 97A .....	<u>1,000,000</u>
	Total .....	\$8,537,637.10
Uses:	Deposit to Escrow Deposit Fund .....	\$8,379,836.94
	Underwriter’s Discount .....	39,138.60
	Other Costs of Issuance (Inc. Bond Insurance) .....	<u>118,661.56</u>
	Total .....	\$8,537,637.10

### Book-Entry-Only System

DTC, New York, NY, will act as securities depository for the Bonds (the “Bonds”). The Bonds will be issued as fully-registered bonds 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 each series 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”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by the Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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).

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 bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 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.

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Source: DTC, 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 Comptroller, 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 on May 15, 2011, November 15, 2011 and semi-annually on May 15 and November 15 of each year until maturity. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent. The Record Date of the Bonds will remain the last business day of the calendar month preceding each such interest payment date. Bonds may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the respective 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 population 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 four commercial banks, one savings bank, one savings and loan, and three credit unions, plus branch facilities. There are two insurance companies in Watertown and more than 30 insurance agencies.

On a county-wide basis, agriculture is an important sector. While it employs less than 4% of the workers, it has 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 10<sup>th</sup> Mountain Division at Fort Drum in 1984, the military-related population in the area has grown to around 31,551. Based upon the Economic Impact Statement for fiscal year 2010, 19,447 soldiers and 4,826 civilians were employed at Fort Drum for a combined annual payroll of \$1,210,237,040. The Soldiers have an additional 19,810 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. An estimated 4,300 indirect jobs have been created to support the area’s military population. The Economic Impact Statement for fiscal year 2010 indicates that Fort Drum’s economic impact on the tri-county area for 2010 was \$1,505,857,420.

In May 2004, the Army announced that the 10<sup>th</sup> 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.

The Army has privatized the on-post family housing, under the Residential Community Initiative. The project company, Mountain Community Homes, has built 1,399 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 \$525,000,000.

In 2010, the Military Construction Appropriations Bill funded approximately \$93,000,000 in new construction at Fort Drum. The projects receiving funding include barracks, water system expansion, an all weather marksmanship facility indoor range, and warrior in transition barracks, battalion headquarters, and a Soldier & Family Assistance Center. 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 20<sup>th</sup> 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.

**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	18
Single Family Home	74
Multi-family	<u>229</u>
Total	321

Source: Annual Building Permit Reports, 2001-2010. 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	1,800
Watertown City School District	Primary Education	822
Jefferson County	Government Services	819
Stream International	Customer Relationship Management Services	700
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	320
Mercy of Northern New York	Health Services	300
Jefferson Community College	Post-secondary Education	268
Johnson News Corporation	Daily News Papers - Job Printing	200
Purcell Construction	Construction	140
North Country Children’s Clinic	Health Services	126
Knowlton Technologies, LLC	Manufacturing	107
Bernier Carr & Associates	Engineering and architecture firm	104
Renzi Brothers	Distribution	95
Stebbins Engineering & Manufacturing Co.	Manufacturing	91
Cornell Cooperative Extension	Education	85
Statur Electric	Manufacturers Fractional Power Motors	80

Source: Jefferson County Job Development Corporation as of February 10, 2011.

## Population Trends

	<u>City of Watertown</u>	<u>Jefferson County</u>	<u>New York State</u>
1970	30,787	88,508	18,236,882
1980	27,861	88,151	17,558,072
1990	29,429	106,784	17,990,455
2000	26,705	111,738	18,976,457
2004	26,240	116,384	19,254,630
2007	27,443	117,201	19,429,316
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

The City receives financial assistance from New York State. In its budget for the 2010-2011 fiscal year, approximately 16% of the operating revenues of the City are estimated to be 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 this year or future years, 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, including revenue reductions resulting from recent economic developments, immediate and future State aid reductions are possible. 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 and Risk Factors Affecting Financings of the State and Municipalities of the State").

There can be no assurance that the State appropriation for State aid to municipalities will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid appropriated and apportioned to the City can be paid only if the State has such monies available therefor. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget. In any event, State aid appropriated and apportioned to the City can be paid only if the State has such monies available therefor.

Should the City fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies and not by a cut in State aid, the City is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid.

**Employees**

The City currently employs approximately 314 full-time and 54 to 114 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	135	June 30, 2013
Watertown Firefighters Association	77	June 30, 2011
Watertown Police Benevolent Association	63	June 30, 2012
International Brotherhood of Electrical Workers	3	June 30, 2013

**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.

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

FY Ending <u>June 30</u>	<u>ERS</u>	<u>PFRS</u>
2007	\$762,350	\$1,133,628
2008	737,283	1,094,456
2009	635,943	1,365,509
2010	618,718	1,127,720
2011	921,798	1,367,396

**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 it accounts for vested pension benefits.

GASB 45 and OPEB. 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 had 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 \$5,433,877 and an unfunded actuarial accrued liability of \$106,324,770, as of June 30, 2010. The City is in compliance with the requirements of GASB 45.

**Unemployment Rate Statistics**

	<u>Year Average</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
City of Watertown	4.9%	4.9%	6.0%	8.2%	9.2%
Jefferson County	5.6%	5.5%	6.7%	8.7%	9.6%
New York State	4.6%	4.5%	5.3%	8.4%	8.6%

	<u>2011 Monthly Figures</u>		
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
City of Watertown	10.7%	10.3%	N/A
Jefferson County	11.8%	11.7%	N/A
New York State	8.9%	8.7%	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, with the remaining amount transferred to a Capital Projects Fund for the reconstruction of the City’s Dams, Headgates and Power Canal.

## **The Hydroelectric Project**

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

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

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

The project was completed in January 2000, with all three turbines on line. The facility now has a nameplate capacity of 6.54 MW and an average annual generation of approximately 24,970 MWh. The total approximate cost of the project was \$9,500,000. The City has signed a contract with Upstate Testing and Control, LLC (formerly Mercer Management Incorporated), Albany, New York, for operation and maintenance of the plant through June 30, 2011. The City intends to seek a renewal of the agreement for one additional year. The City will pay Upstate Testing and Control, LLC \$211,836 in fiscal year 2009-2010 and \$217,128 in fiscal year 2010-2011. The City had gross revenues from electric power sales of approximately \$2,706,571 and net revenues of \$2,404,095 after operating expenses and wheeling charges for the fiscal year ending June 30, 2010.

## **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. The City is currently in negotiations with the Development Authority of the North Country on a new agreement for water services to Fort Drum and surrounding communities.

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

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2006	\$505,978
2007	640,132
2008	802,096
2009	688,420
2010	544,160

### **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, 2010 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 States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by any New York municipality or district corporation, other than the City; (6) obligations of New York public benefit corporations which are made lawful investments in which the City may invest pursuant to another provision of law; (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York; and, (8) in the case of City moneys held in certain reserve funds established pursuant to law, obligations issued by the City. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law.

**TAX INFORMATION**

**Valuations**

<u>Fiscal Year Ending</u> <u>June 30:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Assessed Valuation	\$833,804,521	\$965,989,335	\$982,901,620	\$990,720,368	\$999,381,290
New York State Equalization Rate	100.00%	100.00%	97.00%	92.50%	95.00%
Full Valuation	\$833,804,521	\$965,989,335	\$1,013,300,639	\$1,071,049,046	\$1,051,980,305
Tax Rate Per \$1,000 Assessed Valuation	\$9.82	\$7.13	\$7.23	\$7.39	\$7.48

**Tax Collection Record**

<u>Fiscal Year Ending</u> <u>June 30:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Tax Levy <sup>1</sup>	\$8,488,407	\$7,084,246	\$7,387,618	\$7,709,500	\$7,835,394
Additions (Cancellations) During the Year	<u>(6,783)</u>	<u>(3,739)</u>	<u>(3,196)</u>	<u>0</u>	<u>0</u>
Net Tax Levy	8,481,624	7,080,506	7,384,422	7,709,500	7,835,394
Collections <sup>1</sup>	<u>8,472,880</u>	<u>7,070,278</u>	<u>7,376,325</u>	<u>7,665,113</u>	<u>7,546,510</u> <sup>2</sup>
Uncollected End of Year	\$ 8,744	\$ 10,228	\$ 8,097	\$ 44,387	\$ 288,884 <sup>2</sup>
% Collected	99.90%	99.86%	99.89%	99.42%	96.31% <sup>2</sup>

<sup>1</sup> Includes water, sewer and public service charges.

<sup>2</sup> As of February 28, 2011.

**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>	2010-11 <u>Assessed Valuation</u>
National Grid (formerly Niagara Mohawk Power Corp.)	Utility	\$40,214,403
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
Ontario Apartments LLC	Apartments	9,090,300
Eastern Housing Associates	Apartments	9,084,000
Allen Spevack (Stateway Plaza)	Shopping Center	8,323,444
Home Depot	Shopping Center	6,926,300
Verizon	Utility	5,951,490
200 Washington Street Assoc. LLC	Bank	4,712,100
Watertown Savings Bank	Bank	4,685,283
Prime LLC	Auto dealerships, golf course, apartments	4,622,650
First Columbia Samaritan LLC	Health Services	4,575,700
Waterberry Lodging Company	Motel	4,546,800
WGS A Housing Associates LLC	Apartments	4,346,000
RE Alexander Partnership	Motel	4,081,200
Ives Hill Retirement Community	Senior Living Facility	3,800,000
Hotel 45 Inc	Motel	3,600,135
Furniture Executive No.8LP	Shopping Center	3,389,400
North Country Affordable Housing	Apartments	3,219,750
Rothschild Breuer Associates LLC	Health Services	3,097,207
Golden Ocean Mgmt Inc.	Motel	3,039,950
Palmer Apartments Co.	Apartments	3,000,000

**Constitutional Tax Margin**

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Five Year Average Full Valuation	\$816,808,898	\$907,825,871
Tax Limit - 2% of Five Year Average	16,336,178	18,156,517
Add: Exclusions From Tax Limit	<u>5,062,660</u>	<u>4,642,704</u>
Maximum Taxing Power	21,398,838	22,799,221
Less Total Levy	<u>7,344,073</u>	<u>7,487,424</u>
Tax Margin	<u>\$ 14,054,765</u>	<u>\$ 15,311,797</u>

**Sales and Compensating Use Taxes**

Effective September 1, 2004, Jefferson County increased the County-wide sales tax rate from 3.00% to 3.75%. Based on an agreement reached with Jefferson County, the City continued to receive 28.0% of the original 3.00% and the County retained all of the additional 0.75%. These distribution percentages remained in effect through December 31, 2005. From

January 1, 2005 through December 31, 2005 the City received 23.0% of the entire 3.75% County sales tax. From January 1, 2006 through December 31, 2006 the City received 23.5% of the entire 3.75% County sales tax. From January 1, 2007 forward the City will receive 24.0% of the entire 3.75% County sales tax. The sales and compensating use tax collections as recorded by the City for each of the last five fiscal years are as follows:

<u>Year</u>	<u>Amount Received by City</u>
2006	\$13,454,172
2007	14,159,944
2008	15,194,501
2009	14,466,732
2010	15,223,095
2011 (Budget)	15,300,000

## CITY INDEBTEDNESS

### Constitutional Requirements

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

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

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

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

*Debt Limit.* The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional method for determining full valuation is by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the Office 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 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 City 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Bonds <sup>1</sup>	\$35,646,000	\$30,403,800	\$34,003,600	\$32,972,400	\$30,980,200
Bond Anticipation Notes	<u>0</u>	<u>5,555,000</u>	<u>4,165,000</u>	<u>0</u>	<u>0</u>
	\$35,646,000	\$35,958,800	\$38,168,600	\$32,972,400	\$30,980,200

<sup>1</sup>Does not include various refunded bond issues.

**Details of Outstanding Indebtedness**

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of March 21, 2011.

<u>Bonds</u> <sup>1</sup>	<u>Maturity</u> 2011-2026	<u>Amount</u>
		\$27,500,000
<u>Bond Anticipation Notes</u>		<u>0</u>
	Total Debt Outstanding	<u>\$27,500,000</u>

<sup>1</sup> Excluding the refunding bonds.



**Other Short-Term Indebtedness**

The City does not presently intend to borrow any funds for cash flow purposes and has not done so in over ten years.

**Debt Statement Summary**

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of March 21, 2011:

Five-Year Average Full Valuation of Taxable Real Property .....		\$987,224,769
Debt Limit - 7% thereof .....		69,105,733
<u>Inclusions:</u>		
Bonds (Not being refunded).....	\$19,160,000	
Bonds (To be refunded).....	8,340,000	
Refunding Bonds .....	<u>7,505,000</u>	
Total Inclusions.....		<u>35,005,000</u>
<u>Exclusions:</u>		
Self-Liquidating Debt <sup>1</sup> .....	\$7,039,855	
Water Debt <sup>2</sup> .....	3,873,940	
Sewer Debt <sup>3</sup> .....	4,158,490	
Cash on Hand in Man. Res. <sup>4</sup> .....	131,006	
Refunded Bonds <sup>5</sup> .....	8,340,000	
Appropriations .....	<u>271,451</u>	
Total Exclusions .....		<u>23,814,742</u>
Total Net Indebtedness .....		<u>11,190,258</u>
Net Debt-Contracting Margin .....		<u>\$57,915,475</u>
Percent of debt contracting power exhausted .....		16.19%

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

**Authorized But Unissued Items**

After the issuance of the Bonds, the City will have \$5,345,000 in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Design & Construction of relining a portion of the North Side Trunk Sewer	\$250,000	\$40,000
Breen Avenue Reconstruction	2,270,000	1,295,000
Improvements to J.B. Wise parking lot	2,595,000	2,595,000
Construction or Reconstruction of Sidewalks at various locations within the City	300,000	300,000
Dosing Station Dam Rehabilitation	335,000	335,000
Riggs Avenue Reconstruction	430,000	430,000
Greensview/Ives Hill Sanitary Sewer Reconstruction	<u>665,000</u>	<u>350,000</u>
	\$6,845,000	\$5,345,000

The City currently anticipates on borrowing approximately \$2.5-\$3.1 million in serial bonds prior to June 30, 2011.

**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 Indebtedness</u>	<u>% Within City</u>	<u>Total Applicable Indebtedness</u>
County of Jefferson	\$23,003,627	14.6%	\$ 3,358,529
City School District of the City of Watertown	41,460,000	69.7%	<u>28,897,620</u>
<b>Total</b>			<b><u>\$32,256,149</u></b>

Source: New York State Comptroller’s Special Report on Municipal Affairs for Fiscal Year Ended in 2009.

**Bonded Debt Service<sup>1</sup>**

<u>Fiscal Year Ending June 30th</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Less: All Refunded Debt Service</u>	<u>Plus: All Refunding Debt Service</u>	<u>Total New Debt Service</u>
2011	\$3,865,200	\$1,353,116	\$5,218,316	\$269,363	\$268,004	\$5,216,957
2012	3,630,000	1,190,546	4,820,546	1,088,896	979,796	4,711,446
2013	2,760,000	1,050,079	3,810,079	1,055,083	940,148	3,695,144
2014	2,605,000	933,908	3,538,908	960,742	848,954	3,427,120
2015	2,525,000	824,966	3,349,966	899,113	782,179	3,233,032
2016	2,370,000	719,858	3,089,858	863,630	754,260	2,980,488
2017	2,255,000	619,846	2,874,846	798,132	680,377	2,757,091
2018	2,175,000	523,074	2,698,074	763,493	651,195	2,585,776
2019	1,995,000	428,794	2,423,794	753,632	635,470	2,305,632
2020	1,430,000	346,686	1,776,686	732,478	617,388	1,661,596
2021	1,330,000	278,353	1,608,353	705,175	602,402	1,505,580
2022	975,000	217,961	1,192,961	702,272	595,775	1,086,464
2023	960,000	164,885	1,124,885	702,135	601,500	1,024,250
2024	725,000	111,080	836,080	704,455	187,800	319,425
2025	715,000	65,635	780,635	704,135	190,800	267,300
2026	665,000	21,658	686,658	686,658	183,600	183,600
<b>Totals</b>	<b><u>\$30,980,200</u></b>	<b><u>\$8,850,445</u></b>	<b><u>\$39,830,645</u></b>	<b><u>\$12,389,392</u></b>	<b><u>\$9,519,648</u></b>	<b><u>\$36,960,901</u></b>

<sup>1</sup> Table does not reflect either payments made to date, fiscal year ending June 30, 2011.

**SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT**

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

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

The Federal Bankruptcy Code (the “Bankruptcy Code”) allows public bodies recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness.

Under the Bankruptcy Code, a petition may be filed in Federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. Generally, the filing of such petition operates as a stay of any proceeding to enforce

a claim against the municipality. The Bankruptcy Code also requires the municipality to file a plan for the adjustment of debts, which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the municipality to issue certificates of indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The City has the legal capacity to file a petition under the Bankruptcy Code.

It might be asserted that under the Bankruptcy Code interest and principal payments made by the City in respect of its indebtedness within ninety days of the filing of the bankruptcy petition with respect to the City were voidable preferences. If these assertions were made and sustained by the bankruptcy court, the recipients of those preferential payments could be required to refund them, and their claims would then be treated as if the preferential payments had not been made.

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

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

#### **MARKET AND RISK FACTORS AFFECTING FINANCINGS OF THE STATE AND MUNICIPALITIES OF THE STATE**

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

The City is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in this year or future years, the City may be affected by a delay, until sufficient State taxes have been received by the State 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.

The State is currently under considerable financial stress. In the State's Annual Information Statement Update, dated November 9, 2010 (the "AIS"), the State Division of the Budget indicated that the projected General Fund Budget Gaps are approximately \$9.0 billion, \$14.6 billion and \$17.2 billion in State fiscal years 2011-12, 2012-13 and 2013-14, respectively. The AIS and other information about the State's finances are provided by the State Division of the Budget on its website.

#### **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 Disclosure Undertaking in substantially the form attached as Appendix C.

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

## LITIGATION

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

## TAX MATTERS

### **Tax-Exempt Bonds – the Series A Bonds and the Series B Bonds**

#### *Tax Exemption*

The delivery of the Series A Bonds and the Series B Bonds (collectively, the “Tax-Exempt Bonds”) is subject to the opinion of Bond Counsel to the effect that interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds pertaining to the use, expenditure, and investment of the proceeds of the Tax-Exempt Bonds and will assume continuing compliance by the City with the provisions of the Tax Certificate subsequent to the issuance of the Tax-Exempt Bonds. The Tax Certificate contains covenants by the City with respect to, among other matters, the use of the proceeds of the Tax-Exempt Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Tax-Exempt 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 Tax-Exempt 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” or the “Service”) 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 Tax-Exempt Bonds is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Tax-Exempt 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 Tax-Exempt Bonds, the City may have different or conflicting interests from the owners of the Tax-Exempt Bonds. Public awareness of any future audit of the Tax-Exempt Bonds could adversely affect the value and liquidity of the Tax-Exempt Bonds during the pendency of the audit, regardless of its ultimate outcome.

In the opinion of Bond Counsel, under existing law interest on the Tax-Exempt 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 Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should be aware that the ownership of tax-exempt obligations such as the Tax-Exempt 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.

#### *Tax Accounting Treatment of Discount and Premium on Certain Bonds*

The initial public offering price of certain Tax-Exempt Bonds (the “Discount Bonds”) may be less than the amount payable on such Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds (the “Premium Bonds”) paid by an owner may be greater than the amount payable on such Tax-Exempt 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.

#### *Qualified Tax-Exempt Obligations for Financial Institutions*

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. However, section 265(b) of the Code provides that this interest disallowance rule for financial institutions does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Tax-Exempt Bonds as “qualified tax-exempt obligations” and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Tax-Exempt Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Tax-Exempt Bonds will be reduced by 20% pursuant to section 291 of the Code.

### **Taxable Bonds – the Series C Bonds**

*State Tax Exemption.* In the opinion of Bond Counsel, under existing law interest on the Series C Bonds (the “Taxable 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).

*Certain Federal Income Tax Considerations.* The following is a general summary of certain federal income tax consequences of the purchase and ownership of the Taxable Bonds. The discussion is based upon the Code, U.S. Treasury Regulations, rulings, and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretation. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with federal income tax consequences applicable to all categories of investors and generally does not address consequences relating to the disposition of a Taxable Bond by a beneficial owner thereof. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in the Taxable Bonds in light of the investor’s particular circumstances (for example, persons subject to the alternative minimum tax provisions of the Code), or to certain types of investors subject to special treatment under the federal income tax laws (including insurance companies, tax-exempt organizations and entities, financial institutions, broker-dealers, persons who have hedged the risk of owning the Taxable Bonds, traders in securities that elect to use a mark-to-market method of accounting, thrifts, regulated investment companies, pension and other employee benefit plans, partnerships and other pass-through entities, certain hybrid entities and owners of interests therein, persons who acquire Taxable Bonds in connection with the performance of services, or persons deemed to sell Taxable Bonds under the constructive sale provisions of the Code). The discussion below also does not discuss any aspect of state, local, or foreign law or U.S. federal tax laws other than U.S. federal income tax law. The summary is limited to certain issues relating to initial investors who will hold the Taxable Bonds as “capital assets” within the meaning of Section 1221 of the Code, and acquire such Taxable Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Taxable Bonds who are United States persons within the meaning of Section 7701(a)(30) of the Code (“United States persons”) and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the Service with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

**ALL PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN, AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF THE TAXABLE BONDS.**

*Internal Revenue Service Circular 230 Notice.* Prospective investors should be aware that:

- (a) the discussion in this Official Statement with respect to certain U.S. federal income tax consequences of purchasing and owning the Taxable Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed under the Code;
- (b) such discussion was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed in this Official Statement; and
- (c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230 with respect to the discussion below regarding the Taxable Bonds.

*Stated Interest and Reporting of Interest Payments.* The stated interest on the Taxable Bonds will be included in the gross income, as defined in Section 61 of the Code, of the beneficial owners thereof as ordinary income for federal income tax purposes at the time it is paid or accrued, depending on the tax accounting method applicable to the beneficial owners

thereof. Subject to certain exceptions, the stated interest on the Taxable Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address, and taxpayer identification number (“TIN”) of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Taxable Bond for federal income tax purposes.

*Original Issue Discount.* If the first price at which a substantial amount of the Taxable Bonds of any stated maturity is sold at original issuance (the “Issue Price”) is less than the face amount by more than one quarter of one percent times the number of complete years to maturity, the Taxable Bonds of that maturity will be treated as being issued with “original issue discount”. The amount of the original issue discount on each Taxable Bond of that maturity will equal the excess of the principal amount payable on that Taxable Bond at maturity over the Issue Price, and the amount of the original issue discount on such Taxable Bond will be accrued over its term using the “constant yield method” provided in the Treasury Regulations. As original issue discount on a Taxable Bond accrues under the constant yield method, the beneficial owner of a Taxable Bond with original issue discount will be required to include as interest each such accrual in its gross income regardless of its regular method of accounting. This can result in taxable income to the beneficial owner of a Taxable Bond issued with original issue discount that exceeds actual cash distributions on that Taxable Bond in the taxable year. The amount of any original issue discount that accrues on the Taxable Bonds each year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner’s gross income while the beneficial owner holds a Taxable Bond will increase the adjusted tax basis of the Taxable Bond in the hands of such beneficial owner.

*Premium.* If a beneficial owner purchases a Taxable Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Taxable Bond with “amortizable bond premium” equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Bond and may offset interest otherwise required to be included in respect of the Taxable Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Taxable Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Taxable Bond. However, if the Taxable Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Taxable Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

*Defeasance.* Persons considering the purchase of a Taxable Bond should be aware that a defeasance of a Taxable Bond by the City could result in the realization of gain or loss by the beneficial owner of the Taxable Bond for federal income tax purposes, without any corresponding receipts of monies by the beneficial owner. Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange. Owners are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

*Backup Withholding.* Under Section 3406 of the Code, a beneficial owner of the Taxable Bonds who is a United States person may, under certain circumstances, be subject to “backup withholding” (currently at a rate of 28 percent) on current or accrued interest on the Taxable Bonds or with respect to proceeds received from a disposition of the Taxable Bonds. This withholding applies if such beneficial owner of Taxable Bonds: (i) fails to furnish to the payor such beneficial owner’s social security number or other TIN; (ii) furnishes the payor an incorrect TIN; (iii) fails to report interest properly; or (iv) under certain circumstances, fails to provide the payor or such beneficial owner’s broker with a certified statement, signed under penalty of perjury, that the TIN provided to the payor or broker is correct and that such beneficial owner is not subject to backup withholding. To establish status as an exempt person, a beneficial owner will generally be required to provide certification on IRS Form W-9 (or substitute form).

Backup withholding will not apply, however, if the beneficial owner is a corporation or falls within certain tax-exempt categories and, when required, demonstrates such fact. **BENEFICIAL OWNERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH EXEMPTION, IF APPLICABLE.** The backup withholding tax is not an additional tax and taxpayers may use amounts withheld as a credit against their federal income tax liability or may claim a refund as long as they timely provide certain information to the Service.

*Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.* Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding of U.S. federal income tax by the payor at the rate of 30 percent on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the

interest income of such a beneficial owner of the Taxable Bonds is not treated as effectively connected income within the meaning of Section 864 of the Code, such interest will be subject to 30 percent withholding, or any lower rate specified in an income tax treaty, unless such income is treated as “portfolio interest.” Interest will be treated as portfolio interest if (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner, (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business, (iii) interest payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion, (iv) interest payable with respect to the Taxable Bonds is not deemed contingent interest within the meaning of the portfolio debt provision, (v) such beneficial owner is not a controlled foreign corporation within the meaning of Section 957 of the Code, and (vi) such beneficial owner is not a bank receiving interest on the Taxable Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments on the Taxable Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no withholding under Section 1441 and 1442 of the Code, and no backup withholding under Section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP, or Form W-8 IMY, as applicable, provided the payor has no actual knowledge or reason to know that such person is a United States person.

*The preceding discussion of certain U.S. federal income tax consequences is for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning, and disposing of the Taxable Bonds, including the applicability and effect of any state, local, or foreign tax laws, and of any proposed changes in applicable laws.*

## LEGAL MATTERS

### **Tax-Exempt Bonds**

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

### **Taxable Bonds**

The legality of the authorization and issuance of the Taxable Bonds will be covered by the unqualified legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Taxable Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Taxable Bonds and interest thereon, without limitation as to rate or amount, provided, however, that the enforceability (but not the validity) of the Taxable Bonds may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal) affecting the enforcement of creditors’ rights, and (ii) interest on the Taxable 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). No opinion will be rendered by Bond Counsel regarding Federal income tax consequences arising with respect to the Taxable Bonds.



## **The Bonds**

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

## **UNDERWRITING**

Roosevelt & Cross, Inc. (the "Underwriter") will be performing underwriting services in connection with the Bonds. The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all the Bonds if any of the Bonds are delivered at a price of \$7,498,498.50 being the par amount of the Bonds plus an original issue premium of \$32,637.10 less the underwriting discount of \$39,138.60. The Bonds may be offered and sold to certain dealers at prices lower than the public offering prices as set forth on the cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

## **RATING**

Based on the Assured Guaranty insurance commitment, Moody's Investors Service, Inc. ("Moody's") has assigned the Insured Bonds an enhanced rating of "Aa3" (negative outlook). Moody's has assigned the Bonds a rating of "A1" and has assigned the Insured Bonds an underlying rating of "A1".

Such rating reflects only the view of such organization and an explanation of the significance of such rating may be obtained from such rating agency as follows: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich St., Public Finance Group, 23rd floor, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that one or the other or all 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 effect on the market price of the Bonds.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP (the "Verification Agent") will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the City and its representatives. Included in the scope of its engagement will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations used to fund the Escrow Deposit Fund to be established by the Escrow Holder to pay, when due, the maturing principal of and interest on the Refunded Bonds; and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the City and its representatives. The Verification Agent reports its verification will state the Verification Agent has no obligations to update the report because of events occurring, or information coming to their attention, subsequent to the date of the report.

## **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.

New York Municipal Advisors Corporation (NYMAC) may place a copy of this Official Statement on its website at [www.nymac.net](http://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 St-Rm 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 L.L.P., 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  
March 30, 2011**

**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:	2006	2007	2008	2009	2010
<b>REVENUES</b>					
Real Property Taxes	\$9,181,268	\$8,280,453	\$6,953,263	\$7,101,270	\$7,316,832
Real Property Tax Items	611,783	547,658	504,784	2,528,544	243,461
Non-Property Tax Items	14,194,078	14,939,506	16,116,929	15,464,169	16,185,100
Departmental Income	3,599,266	4,412,816	3,582,948	4,022,744	4,050,469
Intergovernmental Charges	520,614	40,866	112,159	163,224	149,317
Use of Money and Property	459,367	738,095	552,762	302,054	153,597
Licenses and Permits	83,865	54,603	73,720	127,073	84,181
Fines and Forfeitures	104,186	87,376	91,069	117,660	106,463
Sale of Property and Compensation for Loss	98,025	81,158	455,794	322,899	528,187
Miscellaneous	680,023	988,705	563,429	639,974	751,113
Interfund Revenues	654,540	874,697	1,017,687	1,074,812	1,065,423
State Aid	4,785,094	5,226,370	5,764,861	5,939,385	5,786,618
Federal Aid	192,845	116,840	315,809	553,451	498,086
<b>Total Revenues</b>	<b>35,164,954</b>	<b>36,389,143</b>	<b>36,105,214</b>	<b>38,357,259</b>	<b>36,918,847</b>
<b>EXPENDITURES</b>					
General Government Support	4,917,297	4,408,249	4,936,098	4,935,144	5,214,956
Education	3,733	0	0	0	0
Public Safety	12,051,594	12,507,948	13,397,190	13,510,962	12,706,872
Transportation	3,694,958	3,567,747	3,967,729	3,967,467	3,847,422
Economic Assistance and Opportunity	94,272	119,392	108,633	84,088	97,029
Culture and Recreation	986,096	1,051,814	1,095,867	1,114,563	1,066,431
Home and Community Services	1,063,405	981,521	1,119,591	1,093,377	1,167,025
Employee Benefits	5,922,695	6,201,337	6,875,545	6,222,736	7,286,561
Debt Service	3,830,393	4,021,472	4,091,499	4,033,133	3,794,158
<b>Total Expenditures</b>	<b>32,564,443</b>	<b>32,859,480</b>	<b>35,592,152</b>	<b>34,961,470</b>	<b>35,180,454</b>
Excess revenue over (under) expenditure	2,600,511	3,529,663	513,062	3,395,789	1,738,393
Other financing sources (uses)					
Operating transfers in	286,895	130,169	119,012	239,520	490,283
Operating transfers out	(1,772,702)	(1,848,498)	(2,000,775)	(1,483,832)	(1,365,614)
<b>Total other financing sources (uses)</b>	<b>(1,485,807)</b>	<b>(1,718,329)</b>	<b>(1,881,763)</b>	<b>(1,244,312)</b>	<b>(875,331)</b>
Excess revenue and other sources over (under) expenditures and other uses	1,114,704	1,811,334	(1,368,701)	2,151,477	863,062
Fund balance (deficit) beginning of year	9,612,775	10,727,479	12,788,813	11,420,112	13,637,070
Adjustments (net)	0	250,000	0	65,481	57,934
<b>Fund balance (deficit) end of year</b>	<b>\$10,727,479</b>	<b>\$12,788,813</b>	<b>\$11,420,112</b>	<b>\$13,637,070</b>	<b>\$14,558,066</b>

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:	2010	2011
	Adopted Budget	Adopted Budget
<b><u>REVENUES</u></b>		
Real Property Taxes	\$7,286,373	\$7,410,974
Real Property Tax Items	249,310	236,770
Non-Property Tax Items	15,563,000	16,052,700
Departmental Income	4,279,900	4,484,870
Intergovernmental Charges	127,250	123,870
Use of Money and Property	161,850	180,550
Licenses and Permits	80,700	79,600
Fines and Forfeitures	135,000	135,000
Sale of Property and Compensation for Loss	42,100	37,000
Miscellaneous	18,500	11,000
Interfund Revenues	525,050	529,850
State Aid	5,829,754	5,668,594
Federal Aid	275,957	135,100
<b>Total Revenues</b>	<b>34,574,744</b>	<b>35,085,878</b>
<b><u>EXPENDITURES</u></b>		
General Government Support	4,311,868	4,133,949
Public Safety	10,921,279	11,025,301
Transportation	3,318,202	3,270,176
Economic Assistance & Opportunity	57,000	57,000
Culture and Recreation	1,048,874	984,631
Home and Community Services	1,371,186	1,328,139
Employee Benefits	9,739,345	10,258,009
Debt Service	3,792,780	3,444,674
<b>Total Expenditures</b>	<b>34,560,534</b>	<b>34,501,879</b>
Excess revenue over (under) expenditures	14,210	583,999
Other financing sources (uses)		
Operating transfers in	0	0
Operating transfers out	(1,535,210)	(1,681,499)
<b>Total other financing sources (uses)</b>	<b>(1,535,210)</b>	<b>(1,681,499)</b>
Excess revenue and other sources over (under) expenditures and other uses	(1,521,000)	(1,107,500)
Fund balance (deficit) beginning of year	1,521,000 <sup>1</sup>	1,107,500 <sup>1</sup>
Adjustments (net)	N/A	N/A
<b>Fund balance (deficit) end of year</b>	<b>\$0</b>	<b>\$0</b>

<sup>1</sup>Appropriated fund balance budgeted as revenue.

Source: Annual budgets of the City of Watertown.

**City of Watertown  
Balance Sheets  
General Fund**

**APPENDIX A-2**

As of June 30:	<u>2009</u>	<u>2010</u>
<u>ASSETS</u>		
Unrestricted cash and cash equivalents	\$11,442,795	\$13,871,382
Restricted cash and cash equivalents	693,412	712,609
Accounts receivables - net	671,753	886,312
Taxes receivable - net	51,487	101,018
Interest receivable - net	1,489	2,631
Due from other governments	1,673,912	1,885,416
State and Federal receivables	263,501	197,311
Due from Other Funds	1,958,765	587,938
Prepaid Expenses	<u>118,200</u>	<u>171,968</u>
<b>TOTAL ASSETS</b>	<b><u><u>16,875,314</u></u></b>	<b><u><u>18,416,585</u></u></b>
<u>LIABILITIES</u>		
Accounts Payable	1,576,517	1,317,913
Accrued Liabilities	435,985	1,203,348
Compensated Absences	624,498	592,009
Other Liabilities	7,707	6,107
Due to Other Funds	14,757	5,689
Due to Other Governments	43,636	45,357
Due to Retirement System	433,090	542,594
Deferred Revenue	<u>102,054</u>	<u>145,502</u>
<b>TOTAL LIABILITIES</b>	<b><u><u>3,238,244</u></u></b>	<b><u><u>3,858,519</u></u></b>
<u>FUND EQUITY</u>		
Reserved for:		
Encumbrances	190,390	132,944
Capital Projects	657,504	655,842
Workers' Compensation	312,394	314,352
Insurance	696,249	127,300
Unreserved:		
Designated	1,265,000	800,000
Undesignated	<u>10,515,533</u>	<u>12,527,628</u>
<b>TOTAL FUND EQUITY</b>	<b><u><u>13,637,070</u></u></b>	<b><u><u>14,558,066</u></u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u><u>\$16,875,314</u></u></b>	<b><u><u>\$18,416,585</u></u></b>

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:                      2006                      2007                      2008                      2009                      2010

**SPECIAL REVENUE FUND**

Balance Beginning of Year	<u>\$400,285</u>	<u>\$561,561</u>	<u>\$720,633</u>	<u>\$772,944</u>	<u>\$612,915</u>
Revenues	1,643,586	2,319,602	1,787,865	1,942,950	3,671,767
Expenditures	<u>1,482,310</u>	<u>2,160,530</u>	<u>1,735,554</u>	<u>2,102,979</u>	<u>3,537,471</u>
Balance End of Year	<u><u>\$561,561</u></u>	<u><u>\$720,633</u></u>	<u><u>\$772,944</u></u>	<u><u>\$612,915</u></u>	<u><u>\$747,211</u></u>

**WATER FUND**

Net Assets Beginning of Year	<u>\$11,789,414</u>	<u>\$12,312,010</u>	<u>\$12,847,619</u>	<u>\$14,321,797</u>	<u>\$14,994,363</u>
Prior period adjustments (net)	0	(40,683)	0	0	0
Revenues	4,202,605	4,488,960	5,535,740	4,976,684	4,520,934
Expenditures	<u>3,680,009</u>	<u>3,912,668</u>	<u>4,061,562</u>	<u>4,304,118</u>	<u>4,515,196</u>
Net Assets End of Year	<u><u>\$8,109,405</u></u>	<u><u>\$12,847,619</u></u>	<u><u>\$14,321,797</u></u>	<u><u>\$14,994,363</u></u>	<u><u>\$15,000,101</u></u>

**SEWER FUND**

Net Assets Beginning of Year	<u>\$11,213,119</u>	<u>\$11,815,097</u>	<u>\$12,278,403</u>	<u>\$12,433,480</u>	<u>\$12,745,422</u>
Prior period adjustments (net)	0	(128,870)	0	0	0
Revenues	4,333,017	4,503,545	4,158,318	4,451,224	4,848,582
Expenditures	<u>3,731,039</u>	<u>3,911,369</u>	<u>4,003,241</u>	<u>4,139,282</u>	<u>4,297,969</u>
Net Assets End of Year	<u><u>\$7,482,080</u></u>	<u><u>\$12,278,403</u></u>	<u><u>\$12,433,480</u></u>	<u><u>\$12,745,422</u></u>	<u><u>\$13,296,035</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 opinion were prepared as of the date thereof and have not been reviewed and/or updated in connection with the preparation and dissemination of this Official Statement

**CITY OF WATERTOWN, NEW YORK**



**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2010**



CITY OF WATERTOWN, NEW YORK  
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JUNE 30, 2010

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# POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Watertown, New York as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Watertown, New York's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-16), budgetary comparison information (page 57) and schedule of funding progress for "the plan" (page 60) 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relate 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 and other 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Poulsen & Podvin, CPA, P.C.*

January 20, 2011

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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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, 2010. 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, 2010 by \$92,692,401. Of this amount unrestricted net assets of \$13,051,708 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased \$749,203 in fiscal year 2009-10, with a decrease of \$1,305,554 in governmental activities and an increase of \$556,351 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$16,511,089.
- General fund revenues of \$37,409,130 on a budgetary basis exceeded budgeted revenues by \$820,270 or 2.24% while budgetary basis expenditures finished \$1,904,495 lower than budgeted expenditures. These results negated the use of \$1,521,000 in appropriated fund balance budgeted in the 2009-10 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$13,327,628 or 36.47% of total general fund expenditures.
- The City issued \$2,225,000 in serial bonds dated June 15, 2010 maturing December 15, 2024 at interest rates ranging from 3.125% through 4.00% (priced to yield 3.39%) to provide financing for various capital projects.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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### Government-Wide Financial Statements

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

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

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

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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### Governmental Funds

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

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

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

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

### Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Watertown has two proprietary or enterprise funds. The City's proprietary funds are 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.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

### Notes to the Financial Statements

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

### Other Information

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

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2010, the City's assets exceeded liabilities by \$92,692,401 compared to \$93,732,107 at June 30, 2009. By far the largest portion of the City's net assets (84.27%) 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 \$1,525,431 or 1.65% of the net assets represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone, the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, a Capital Reserve Fund and a Debt Service Fund. The unrestricted net assets, \$13,051,708 compared to \$13,563,945 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

### City of Watertown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>
Current and other assets	\$23,370,005	\$21,765,183	\$4,951,576	\$4,619,704	\$28,321,581	\$26,384,887
Capital Assets	<u>74,377,771</u>	<u>76,481,851</u>	<u>34,062,135</u>	<u>33,960,086</u>	<u>108,439,906</u>	<u>110,441,937</u>
Total Assets	<u>\$97,747,776</u>	<u>\$98,247,034</u>	<u>\$39,013,711</u>	<u>\$38,579,790</u>	<u>\$136,761,487</u>	<u>\$136,826,824</u>
Long-term liabilities outstanding	\$26,284,942	\$26,271,572	\$9,950,866	\$10,230,950	\$36,235,808	\$36,502,522
Other liabilities	<u>7,066,568</u>	<u>5,983,140</u>	<u>766,709</u>	<u>609,055</u>	<u>7,833,277</u>	<u>6,592,195</u>
Total liabilities	<u>\$33,351,510</u>	<u>\$32,254,712</u>	<u>\$10,717,575</u>	<u>\$10,840,005</u>	<u>\$44,069,085</u>	<u>\$43,094,717</u>



# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

**Net Assets:**

**Invested in Capital**

**Assets, net of related**

debt	\$52,642,828	\$53,419,622	\$25,472,434	\$25,614,012	\$78,115,262	\$79,033,634
Restricted	967,366	1,016,454	558,065	118,074	1,525,431	1,134,528
Unrestricted	<u>10,786,071</u>	<u>11,556,246</u>	<u>2,265,637</u>	<u>2,007,699</u>	<u>13,051,708</u>	<u>13,563,945</u>
<b>Total Net Assets</b>	<b><u>\$64,396,265</u></b>	<b><u>\$65,992,322</u></b>	<b><u>\$28,296,136</u></b>	<b><u>\$27,739,785</u></b>	<b><u>\$92,692,401</u></b>	<b><u>\$93,732,107</u></b>

As of June 30, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

The following table provides a summary of the City's operations for the year ended June 30, 2010.

### City of Watertown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/10	6/30/09	6/30/10	6/30/09	6/30/10	6/30/09
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$6,775,610	\$6,505,983	\$8,953,687	\$9,061,726	\$15,729,297	\$15,567,709
Operating grants and contributions	3,119,620	1,754,290	70,342	22,221	3,189,962	1,776,511
Capital grants and contributions	912,020	4,018,797	258,216	278,961	1,170,236	4,297,758
General revenues:						
Property taxes	7,549,829	9,618,931	-	-	7,549,829	9,618,931
Sales tax	15,223,095	14,466,732	-	-	15,223,095	14,466,732
Utilities gross receipts tax	346,709	376,670	-	-	346,709	376,670
Franchise tax	415,047	406,570	-	-	415,047	406,570
Mortgage tax	398,710	418,469	-	-	398,710	418,469
Other taxes	200,250	214,197	-	-	200,250	214,197
Grants and Entitlements not restricted to specific programs	4,988,373	5,090,175	-	-	4,988,373	5,090,175
Investment earnings	<u>148,490</u>	<u>344,943</u>	<u>14,556</u>	<u>54,332</u>	<u>163,046</u>	<u>399,275</u>
<b>Total revenues</b>	<b><u>\$40,077,753</u></b>	<b><u>\$43,215,757</u></b>	<b><u>\$9,296,801</u></b>	<b><u>\$9,417,240</u></b>	<b><u>\$49,374,554</u></b>	<b><u>\$52,632,997</u></b>
<b>Expenses:</b>						
General government support	\$12,900,136	\$11,952,934	-	-	\$12,900,136	\$11,952,934
Hydroelectric production	540,933	462,321	-	-	540,933	462,321
Fire	7,069,685	7,503,676	-	-	7,069,685	7,503,676
Police	6,202,072	6,539,319	-	-	6,202,072	6,539,319
Other Public Safety	347,838	391,839	-	-	347,838	391,839
Public Works	6,285,656	6,232,815	-	-	6,285,656	6,232,815

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

Bus	980,947	913,945	-	-	980,947	913,945
Watertown Empire Zone	20,830	26,739	-	-	20,830	26,739
Other Economic Assistance	97,029	79,088	-	-	97,029	79,088
Library	923,695	945,702	-	-	923,695	945,702
Other Culture and Recreation	1,511,917	1,641,441	-	-	1,511,917	1,641,441
Refuse and Recycling	903,248	799,221	-	-	903,248	799,221
Other Home and Community Services	2,485,608	1,060,959	-	-	2,485,608	1,060,959
Interest on Debt Service	1,055,998	1,174,244	-	-	1,055,998	1,174,244
Water	-	-	4,507,696	4,296,618	4,507,696	4,296,618
Sewer	-	-	4,290,469	4,139,282	4,290,469	4,139,282
Total Expenses	<u>\$41,325,592</u>	<u>\$39,724,243</u>	<u>\$8,798,165</u>	<u>\$8,435,900</u>	<u>\$50,123,757</u>	<u>\$48,160,143</u>
Excess of Revenues over Expenses	(1,247,839)	3,491,514	498,636	981,340	(749,203)	4,472,854
Transfers	<u>(57,715)</u>	<u>(3,168)</u>	<u>57,715</u>	<u>3,168</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(1,305,554)	3,488,346	556,351	984,508	(749,203)	4,472,854
Net Assets - Beginning	65,992,322	62,503,976	27,739,785	26,755,277	93,732,107	89,259,253
Prior Period Adjustment	<u>(290,503)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(290,503)</u>	<u>-</u>
Net Assets - Ending	<u>\$64,396,265</u>	<u>\$65,992,322</u>	<u>\$28,296,136</u>	<u>\$27,739,785</u>	<u>\$92,692,401</u>	<u>\$93,732,107</u>

**Governmental activities.** Governmental activities decreased the City's net assets by a total \$1,596,057 which includes a prior period adjustment of (\$290,503) compared to an increase of \$3,488,346 last year. Key elements of the year are as follows:

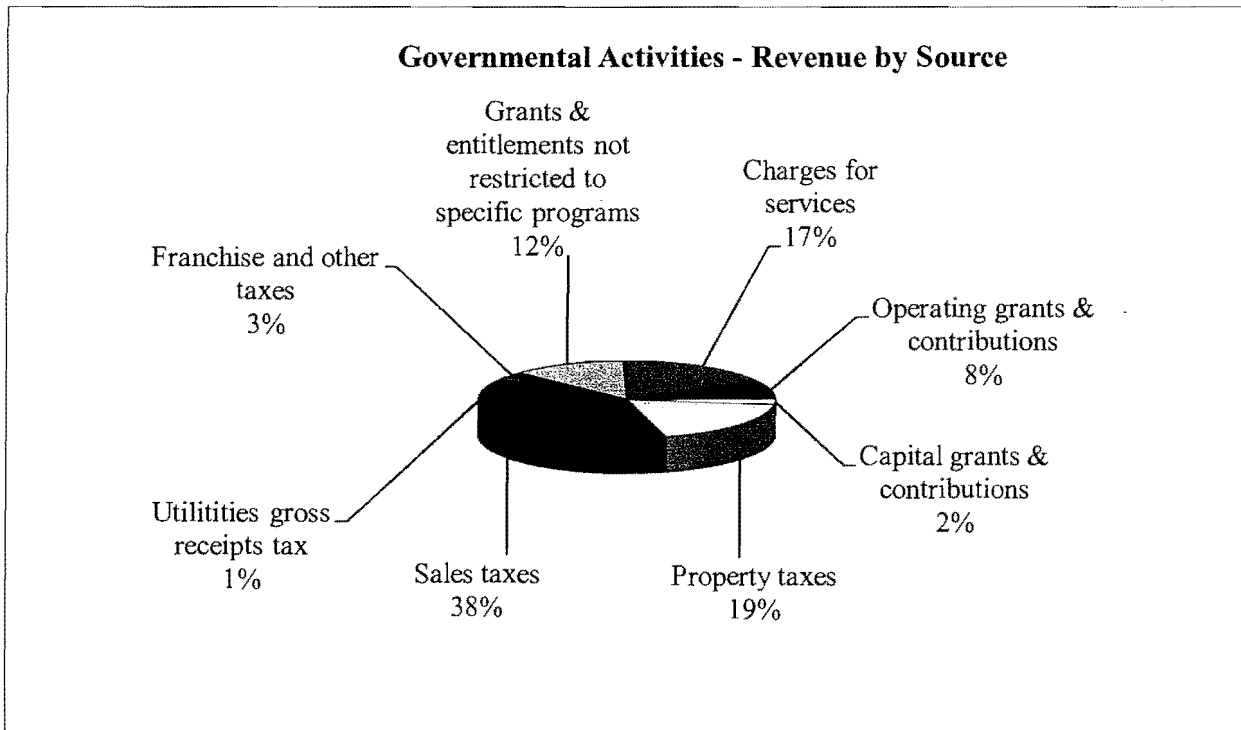
- Sales tax revenue totaled \$15,223,095 which was an increase of \$756,363 or 5.23% over last year's total of \$14,466,732. Sales tax revenue represented 38% of the governmental activities' revenue in FY 09/10 compared to 33% in FY 08/09.
- Due to the fiscal condition of New York State, the City's State Aid revenue was cut \$101,802 or 2% to \$4,988,373 compared to \$5,090,175 last year.
- The City's revenues from payments- in-lieu-of-taxes decreased \$2,298,397 compared to last year which included the final payment of \$2,270,641 from the section 801 properties payment-in-lieu-of-taxes agreement.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

- The City settled a lawsuit with Ryan Dorr in the amount of \$600,000.
- The City received \$821,186 in Federal and State Aid for various capital projects which is a decrease of \$3,007,040 from the amount received last year from Federal and State grants for capital projects. Some of the major projects include the Arsenal Street stimulus paving project (\$55,048), the Consolidated Local Street and Highway Improvement Program for various streets (\$388,831), the Sewalls Island environmental rehabilitation (\$328,515), and the Bicentennial Parks project (\$28,386).



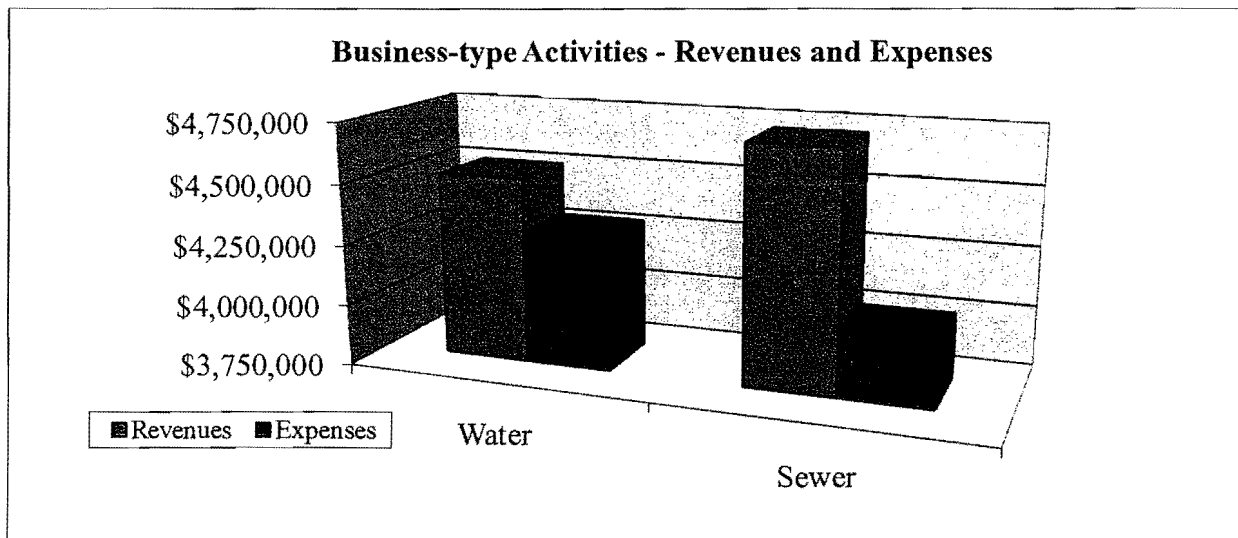
# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

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**Business-type activities.** Business-type activities increased the City's net assets by \$556,351 compared to \$984,508 last year. Key elements for this year are as follows:

- Water operating revenues decreased by \$205,635 or 4.36% to \$4,514,218 while operating expenses increased by \$272,270 or 6.77% to \$4,294,474. Sewer operating revenues increased by \$145,717 or 3.34% to \$4,509,811 and operating expenses increased by \$165,328 or 4.19% to \$4,110,959.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts. In the current fiscal year the revenue derived from this agreement was \$544,160 or 12.05% of the total water operating revenues as compared to \$688,420 or 14.59% of the total water operating revenues in the prior year. Revenues from this agreement decreased by \$144,260 or 20.96% over last year's total. The debt service related to the water treatment plant for which the Development Authority of the North Country is contractually responsible for decreased by \$58,945.
- The City also has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$1,118,282 or 24.80% of the total sewer operating revenues. Revenues from this agreement increased by \$78,179 or 7.52% over last year's total of \$1,040,103.



# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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

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

At June 30, 2010 the City's governmental funds reported combined ending fund balances of \$16,511,089, an increase of \$491,587 in comparison with the prior year. The increase is most attributable to a \$794,347 increase in the fund balance of the City's self-funded health insurance fund due to less than anticipated claims. Excluding the capital projects fund, the City's governmental funds have a fund balance total of \$15,305,277 of which the unreserved fund balance is \$13,630,083. Of the unreserved fund balance, \$1,081,053 has been designated by the City Council for subsequent year's expenditures leaving an unreserved undesignated fund balance of \$12,549,030. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate \$133,225 of contracts and purchase orders of the prior period (2) to pay \$132,951 of debt service (3) to pay \$441,652 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$967,366.

**General fund.** The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$13,327,628 compared to \$11,780,533 in 2008-09, while the total general fund balance equaled \$14,558,066 compared to \$13,637,070 in the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures and other financing uses. Unreserved fund balance represents 36.47% of total general fund expenditures and other financing uses compared to 32.32% last year, while total fund balance represents 39.83% of that same amount compared to 37.42% in the prior year.

During the current fiscal year, the fund balance of the City's general fund increased by \$863,062 compared to last year's increase of \$2,151,477. The less than anticipated expenditures in the City's self-funded health insurance plan accounted for \$794,347 of the increase.

**Capital projects fund.** The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$1,205,812 compared to \$1,769,517 in the previous year. Within this amount was \$711,013 of encumbrances for construction contracts compared to \$962,715 in the prior year.

**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 assets at the end of the fiscal year of the water fund were \$1,017,641 compared to \$1,143,142 in fiscal year 2008-09. The water fund had an increase in net assets in the amount of \$5,738 compared to an increase of \$672,566 in the previous year.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

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Unrestricted net assets at the end of the fiscal year of the sewer fund were \$1,247,996 compared to \$864,557 in the prior year. The sewer fund had an increase in net assets in the amount of \$550,613 compared to \$311,942 in fiscal year 2008-09. 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 during the fiscal year to react to the decrease in NYS Aid of \$101,805, accept bus and fire grants in the amount of \$194,130 and increase the transfer to the capital projects fund in the amount of \$168,200 to cover the increased cost of the Washington Street sidewalk project and the portion of the hydro crane project cost that was not to be borrowed. The re-adopted budget increased revenues by \$181,158 in part due to the grants and an increase in inter-fund transfers in the amount of \$79,283. Expenditures were increased by \$278,150 and the appropriated fund balance increased \$96,992. Other budget amendments between departmental expenditure accounts also did occur.

General fund revenues of \$37,409,130 on a budgetary basis exceeded final budgeted revenues of \$36,588,860 by \$820,270 or 2.24% while budgetary basis expenditures of \$36,546,068 were \$1,904,495 or 4.95% lower than the final budgeted expenditures of \$38,450,563. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenue (\$468,095), insurance recoveries on large self-insurance claims (\$421,529), inter-fund transfers (\$209,000) to close various capital projects primarily the Ten Eyck Street reconstruction project, prescription reimbursements including the Medicare Part D program (\$132,089), State transportation assistance for the bus system (\$85,509), mortgage recording tax revenues (\$28,710), and occupancy tax revenues (\$25,250). Revenues that did not meet budgetary expectations included the sale of surplus hydro-power (\$213,429), utilities gross receipts taxes (\$38,291), fines (\$28,537) and interest earnings (\$21,963). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$302,796) for projects not undertaken by fiscal year-end such as the municipal building chiller and tower replacement (\$235,000) and the Thompson Park administration building roof replacement (\$80,000), health insurance claim costs for pharmaceutical services (\$270,228), health insurance claim costs for medical services (\$32,675), street light utility costs (\$64,847) and planning department projects that did not occur as planned such as brownfield projects (\$56,000). The City did settle a lawsuit in October 2010 with Ryan Dorr in the amount of \$600,000 that was not originally in the budget. These combined results negated the use of \$1,521,000 in appropriated fund balance that was budgeted in the 2009-10 general fund original adopted budget.

### **Capital Assets and Debt Administration**

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2010, amounts to \$78,115,262. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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

	Governmental Activities		Business-type Activities		Total	
	6/30/10	6/30/09	6/30/10	6/30/09	6/30/10	6/30/09
Land	\$2,601,285	\$2,952,170	\$ -	\$ -	\$2,601,285	\$2,952,170
Construction in Progress	1,434,897	1,087,948	803,149	238,253	2,238,046	1,326,201
Land Improvements	2,397,376	2,612,915	11,566	19,876	2,408,942	2,632,791
Building and Improvements	19,868,117	20,552,456	13,942,902	14,483,441	33,811,019	35,035,897
Infrastructure	42,313,874	43,478,015	16,045,412	15,677,742	58,359,286	59,155,757
Machinery and Equipment	3,298,642	3,256,429	3,136,716	3,379,189	6,435,358	6,635,618
Vehicles	<u>2,463,580</u>	<u>2,541,918</u>	<u>122,390</u>	<u>161,585</u>	<u>2,585,970</u>	<u>2,703,503</u>
Total Net Assets	<u>\$74,377,771</u>	<u>\$76,481,851</u>	<u>\$34,062,135</u>	<u>\$33,960,086</u>	<u>\$108,439,906</u>	<u>\$110,441,937</u>

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

- Installation of an intake crane and trolley system at the City's hydro-electric plant on the Black River at a cost of \$310,697 to enhance the City's hydro power generation capabilities from increased water flows from year-round debris removal.
- Replacement of a portion of the Western Outfall Trunk Sewer between Chestnut Street and Holcomb Street at a cost of \$289,712. The project replaced approximately 200 LF of 18" sewer trunk line with a 24" line to improve flow characteristics.
- Replacement of a portion of the Western Outfall Trunk Sewer between Butterfield Avenue and Barben Avenue at a cost of \$300,578. The project replaced approximately 1,150 LF of 18" and 21" sewer trunk line with a 24" line to improve flow characteristics.
- Completed relining of Mill Street storm sewer at a cost of \$230,483 after a storm caused a portion of the brick sewer to collapse.
- Vehicle and equipment purchases in the amount of \$1,478,329 for items such as a sewer vacuum (\$300,366), snowplow (\$196,756), fire traffic pre-emption system (\$158,280) and two refuse packer trucks (\$273,599).
- Construction of Washington Street sidewalks between Hudson Lane and Iroquois Avenue West at a cost of \$119,207 due to the construction of Summit Wood Apartments.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

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

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,980,200. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

**City of Watertown's Outstanding Debt**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>
General obligation bonds	\$21,671,082	\$22,960,609	\$9,309,118	\$10,011,791	\$30,980,200	\$32,972,400
Other loans	<u>92,319</u>	<u>139,565</u>	<u>3,827</u>	<u>5,785</u>	<u>96,146</u>	<u>145,350</u>
	<u>\$21,763,401</u>	<u>\$23,100,174</u>	<u>\$9,312,945</u>	<u>\$10,017,576</u>	<u>\$31,076,346</u>	<u>\$33,117,750</u>

In May 2010 Moody's Investor Services recalibrated its long-term United States municipal ratings to its global rating scale. Accordingly the City of Watertown's rating changed from an A3 to an A1 rating.

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, 2010, the City's debt limit was \$63,547,811 with total net indebtedness of \$14,200,791, thus exhausting 22.35% of the City's debt limit.

The City issued \$2,225,000 in serial bonds dated June 15, 2010 maturing December 15, 2024 at interest rates ranging from 3.125% to 4.00% (priced to yield 3.39%) 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 2010-11 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2010 were 8.1% for the City of Watertown, 8.1% for Jefferson County, 8.1% for New York State and 9.5% for the United States. The unemployment rates in June 2009 were 8.1% for the City of Watertown, 8.1% for Jefferson County, 8.6% for New York State and 9.5% for the United States.



# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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As with the FY 2009-10 budget factors considered during the preparation of the FY 2010-11 budget included the national recession, the potential effects to our area from the American Recovery and Reinvestment Act, falling interest rates, rising unemployment and uncertainties regarding State Aid. In addition rising NYS Retirement System contribution rates and uncertain implications of the Health Care Reform Act are factors the City will have to deal with for the foreseeable future. With the continued uncertainties in Afghanistan and Iraq, as has been the case since 2001, it was difficult to predict how many of the 18,023 soldiers of the 10<sup>th</sup> Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. With the decrease in the value of the American dollar and the proximity of the City to Canada sales tax revenue has seen a rebound and is projected to increase \$545,000 from the FY 2009-10 budgeted level.

Like most local governments, the City's 2010-11 budget was impacted by continued high costs for retirement benefits and health insurance costs. The contribution to the Employees' Retirement System will range from 9.0% to 15.3% of salaries, up from a range of 7.0% to 9.3% in the previous year. The contribution rate for the Police and Fire Retirement System will be 16.8% of salaries, up from a range of 13.9% to 14.3% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Accordingly retirement rates are likely to double over the next four to as much as 30% of payroll for Police and Fire employees and 20% of payroll for all other employees. Due to lower than anticipated claims in FY 2008-09 the self-insurance fund appropriated \$290,000 of fund balance to lower the premium rate by 5.0%.

The City saw an increase of \$8,660,922 or 0.87% in taxable assessed value. The residential tax burden has decreased slightly to 60.55% from 60.97% last year. The average assessment for a single-family home in Watertown increased slightly to \$104,574 from \$104,285 in FY 2009-10.

The City's FY 2010-11 General Fund operating costs increased slightly by \$97,634 or 0.27% to \$36,193,378. The City appropriated \$1,107,500 of fund balance, a decrease of \$413,500 over FY 2009-10. The sales tax revenue budget was increased to \$15,300,000 which represented an increase of \$545,000 or 3.7% over the sales tax budget for FY 2009-10. The State Aid revenue budget was lowered by 5.0% or \$254,510 from the FY 2009-10 budget to \$4,835,667 based on New York State's FY 2010-11 budget. The increase in the real property tax levy of \$143,351 or 1.95% and the increase in taxable assessed values resulted in a 1.14% increase to the property tax rate.

Appropriations for the Water Fund increased minimally by \$16,859 or 0.36%. The Water Fund held the water rates constant at the FY 2009-10 levels for the first three tiers but eliminated the fourth tier. The water fund appropriated \$156,227 of fund balance of which \$130,000 was from the coagulation reserve fund to pay for the coagulation basin dredging that was planned for FY 2010-11. The Sewer Fund appropriations increased \$131,877 or 3.14%. The Sewer Fund was also able to hold the FY 2010-11 sewer rates constant at the FY 2009-10 levels with the exception of eliminating the fourth tier and projects to generate a surplus of \$130,649.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2010

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### **Requests for Information**

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

CITY OF WATERTOWN, NEW YORK  
STATEMENT OF NET ASSETS  
June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>ASSETS</b>				
Unrestricted cash and cash equivalents	\$ 14,651,755	\$ 1,408,975	\$ 16,060,730	\$ 110,148
Restricted cash and cash equivalents	2,063,667	1,556,611	3,620,278	216,617
Receivables (net of allowance for uncollectibles):				
Accounts	1,966,408	1,663,225	3,629,633	-
Taxes	103,931	-	103,931	-
Interest	3,045	876	3,921	-
Other receivables	-	-	-	5,250
Due from other governments	1,894,182	388,194	2,282,376	-
State and federal aid receivables	2,401,471	40,946	2,442,417	-
Prepaid expenses	173,025	5,270	178,295	176
Internal balances	112,521	(112,521)	-	-
	<u>23,370,005</u>	<u>4,951,576</u>	<u>28,321,581</u>	<u>332,191</u>
Capital Assets:				
Non-depreciable	4,036,181	803,149	4,839,330	14,516
Depreciable, net	70,341,590	33,258,986	103,600,576	48,864
Total capital assets	<u>74,377,771</u>	<u>34,062,135</u>	<u>108,439,906</u>	<u>63,380</u>
<b>Total Assets</b>	<u>\$ 97,747,776</u>	<u>\$ 39,013,711</u>	<u>\$ 136,761,487</u>	<u>\$ 395,571</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,609,009	\$ 380,171	\$ 1,989,180	\$ 5,805
Accrued interest payable	207,653	93,220	300,873	-
Accrued liabilities	2,643,827	79,384	2,723,211	-
Retainage payable	385	31,940	32,325	-
Compensated absences	605,666	105,063	710,729	-
Workers compensation liability	557,510	193,051	750,561	-
Accrued post employment benefits	3,446,853	470,413	3,917,266	-
Other liabilities	6,107	10,624	16,731	5,496
Due to other governments	187,885	671	188,556	-
Due to retirement system	555,894	65,636	621,530	-
Deferred revenue	1,250,143	-	1,250,143	-
Other long-term debt	637,955	3,826	641,781	-
Serial bonds	21,671,082	9,309,118	30,980,200	-
Less: deferred amount on advance refunding	(28,458)	(25,542)	(54,000)	-
Total Liabilities	<u>33,351,511</u>	<u>10,717,575</u>	<u>44,069,086</u>	<u>11,301</u>
<b>NET ASSETS</b>				
Investment in capital assets, net of related debt	52,642,828	25,472,434	78,115,262	-
Restricted for:				
Economic development and assistance	260,321	-	260,321	-
Community development	51,203	-	51,203	-
Capital projects	655,842	148,817	804,659	218,123
Debt Service	-	409,248	409,248	-
Unrestricted	<u>10,786,071</u>	<u>2,265,637</u>	<u>13,051,708</u>	<u>166,147</u>
Total Net Assets	<u>64,396,265</u>	<u>28,296,136</u>	<u>92,692,401</u>	<u>384,270</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 97,747,776</u>	<u>\$ 39,013,711</u>	<u>\$ 136,761,487</u>	<u>\$ 395,571</u>

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

CITY OF WATERTOWN, NEW YORK  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>Governmental Activities:</b>								
General government support:								
General government support	\$ 12,900,136	\$ 2,652,585	\$ 105,690	\$ 17,762	\$ (10,124,099)	\$ -	\$ (10,124,099)	\$ -
Hydroelectric production	540,933	2,706,571	-	-	2,165,638	-	2,165,638	-
Public safety:								
Fire	7,069,685	-	-	-	(7,069,685)	-	(7,069,685)	-
Police	6,202,072	95,923	133,921	-	(5,972,228)	-	(5,972,228)	-
Other public safety	347,838	74,237	-	-	(273,601)	-	(273,601)	-
Public Works	6,285,656	116,910	7,516	525,035	(5,636,195)	-	(5,636,195)	-
Transportation:								
Bus	980,947	163,745	445,203	4,455	(367,544)	-	(367,544)	-
Economic opportunity and development:								
Other economic assistance	97,029	-	795	-	(96,234)	-	(96,234)	-
Empire Zone	20,830	-	-	-	(20,830)	-	(20,830)	-
Culture and recreation:								
Library	923,695	16,672	51,540	-	(855,483)	-	(855,483)	-
Other culture and recreation	1,511,917	229,234	-	35,253	(1,247,430)	-	(1,247,430)	-
Home and community services:								
Refuse and recycle	903,248	698,933	-	1,000	(203,315)	-	(203,315)	-
Other home and community services	2,485,608	20,800	2,374,955	328,515	238,662	-	238,662	-
Interest on debt	1,055,998	-	-	-	(1,055,998)	-	(1,055,998)	-
Total Governmental Activities	<u>41,325,592</u>	<u>6,775,610</u>	<u>3,119,620</u>	<u>912,020</u>	<u>(30,518,342)</u>	<u>-</u>	<u>(30,518,342)</u>	<u>-</u>
<b>Business-Type Activities:</b>								
Water	4,507,696	4,443,876	70,342	136	-	6,658	6,658	-
Sewer	4,290,469	4,509,811	-	258,080	-	477,422	477,422	-
Total Business-Type Activities	<u>8,798,165</u>	<u>8,953,687</u>	<u>70,342</u>	<u>258,216</u>	<u>-</u>	<u>484,080</u>	<u>484,080</u>	<u>-</u>
Total Primary Government	<u>\$ 50,123,758</u>	<u>\$ 15,729,298</u>	<u>\$ 3,189,961</u>	<u>\$ 1,170,236</u>	<u>(30,518,342)</u>	<u>484,080</u>	<u>(30,034,262)</u>	<u>-</u>
<b>Component Unit:</b>								
The Trustees of the R.P. Flower Memorial Library	\$ 66,272	\$ -	\$ 57,239	\$ -	-	-	-	(9,033)
Total Component Unit	<u>\$ 66,272</u>	<u>\$ -</u>	<u>\$ 57,239</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,033)</u>
Net (Expense) Revenue and Changes in Net Assets brought forward					(30,518,342)	484,080	(30,034,262)	(9,033)
<b>GENERAL REVENUES</b>								
					7,549,829	-	7,549,829	-
					15,223,095	-	15,223,095	-
					346,709	-	346,709	-
					415,047	-	415,047	-
					200,250	-	200,250	-
					398,710	-	398,710	-
					4,988,373	-	4,988,373	-
					148,490	14,556	163,046	2,066
Total General Revenues					<u>29,270,503</u>	<u>14,556</u>	<u>29,285,059</u>	<u>2,066</u>
					(57,715)	57,715	-	-
Change in Net Assets					<u>(1,305,554)</u>	<u>556,351</u>	<u>(749,203)</u>	<u>(6,967)</u>
Total Net Assets - Beginning of year					<u>\$ 65,992,322</u>	<u>\$ 27,739,785</u>	<u>\$ 93,732,107</u>	<u>391,237</u>
					(290,503)	-	(290,503)	-
Prior period adjustment								
Total Net Assets - End of year					<u>\$ 64,396,265</u>	<u>\$ 28,296,136</u>	<u>\$ 92,692,400</u>	<u>\$ 384,270</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2010**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Unrestricted cash and cash equivalents	\$ 13,871,382	\$ -	\$ 780,373	\$ 14,651,755
Restricted cash and cash equivalents	712,609	1,295,583	55,475	2,063,667
Receivables (net of allowance for uncollectibles):				
Accounts	886,312	76,313	1,003,783	1,966,408
Taxes	101,018	2,913	-	103,931
Interest	2,631	327	87	3,045
Due from other governments	1,885,416	-	8,766	1,894,182
State and federal aid receivables	197,311	622,290	1,581,870	2,401,471
Prepaid expenses	171,968	-	1,057	173,025
Due from other funds	587,938	-	-	587,938
	<u>\$ 18,416,585</u>	<u>\$ 1,997,426</u>	<u>\$ 3,431,411</u>	<u>\$ 23,845,422</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,317,913	\$ 252,992	\$ 38,104	1,609,009
Accrued liabilities	1,203,348	4,181	1,436,298	2,643,827
Retainage payable	-	385	-	385
Compensated absences	592,009	-	13,657	605,666
Other liabilities	6,107	-	-	6,107
Due to other funds	5,689	463,559	6,169	475,417
Due to other governments	45,357	-	142,528	187,885
Due to retirement system	542,594	-	13,300	555,894
Deferred revenue	145,502	70,497	1,034,144	1,250,143
	<u>3,858,519</u>	<u>791,614</u>	<u>2,684,200</u>	<u>7,334,333</u>
<b>FUND BALANCES:</b>				
Reserve for encumbrances	132,944	711,013	281	844,238
Reserve for capital projects	655,842	-	-	655,842
Reserve for economic development	-	-	260,321	260,321
Reserve for community development projects	-	-	51,203	51,203
Reserve for debt service	-	-	132,951	132,951
Reserve for worker's compensation	314,352	-	-	314,352
Reserve for insurance-general	127,300	-	-	127,300
Unreserved - designated for subsequent year's expenditures	800,000	-	281,053	1,081,053
Unreserved - undesignated	12,527,628	494,799	21,402	13,043,829
	<u>14,558,066</u>	<u>1,205,812</u>	<u>747,211</u>	<u>16,511,089</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 18,416,585</u>	<u>\$ 1,997,426</u>	<u>\$ 3,431,411</u>	<u>\$ 23,845,422</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**June 30, 2010**

<b>Total governmental fund balances</b>	<b>\$ 16,511,089</b>
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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	\$ 128,585,453	
Accumulated depreciation is	<u>54,207,682</u>	74,377,771

Deferred assets for refunded bonds	28,458
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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	\$ (21,671,082)	
Loan payable	(92,319)	
Accrued interest on bonds payable	(207,653)	
Compensated absences	(293,636)	
Workers compensation liability	(557,510)	
Landfill post-closure liability	(252,000)	
Accrued post-employment benefits	<u>(3,446,853)</u>	<u>(26,521,053)</u>

<b>Net assets of governmental activities</b>	<b><u><u>\$ 64,396,265</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Real property taxes	\$ 7,316,832	\$ -	\$ -	\$ 7,316,832
Real property tax items	243,461	-	-	243,461
Nonproperty taxes	16,185,100	-	-	16,185,100
Departmental income	4,050,469	-	-	4,050,469
Intergovernmental charges	149,317	-	-	149,317
Use of money and property	153,597	18,679	9,330	181,606
Licenses and permits	84,181	-	-	84,181
Fines and forfeitures	106,463	-	16,672	123,135
Sale of property and compensation for loss	528,187	-	-	528,187
Miscellaneous local sources	751,113	74,370	69,415	894,898
Interfund revenue	1,065,423	-	-	1,065,423
State sources	5,786,618	762,178	1,824,535	8,373,331
Federal sources	498,086	59,008	526,632	1,083,726
<b>Total Revenues</b>	<u>36,918,847</u>	<u>914,235</u>	<u>2,446,584</u>	<u>40,279,666</u>
<b>EXPENDITURES</b>				
General government support	5,214,956	7,548	-	5,222,504
Public safety	12,706,872	13,458	-	12,720,330
Transportation	3,847,422	1,388,820	-	5,236,242
Economic assistance and opportunity	97,029	-	20,830	117,859
Culture and recreation	1,066,431	82,108	670,094	1,818,633
Home and community services	1,167,025	1,058,872	2,397,180	4,623,077
Employee benefits	7,286,561	-	292,069	7,578,630
Debt service	3,794,158	-	140,931	3,935,089
<b>Total Expenditures</b>	<u>35,180,454</u>	<u>2,550,806</u>	<u>3,521,104</u>	<u>41,252,364</u>
Excess of (Expenditures) Revenue	1,738,393	(1,636,571)	(1,074,520)	(972,698)
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Interfund transfers in	490,283	447,608	1,225,183	2,163,074
Interfund transfers out	(1,365,614)	(838,808)	(16,367)	(2,220,789)
Serial Bonds	-	1,522,000	-	1,522,000
<b>Total Other Financing Sources (Uses)</b>	<u>(875,331)</u>	<u>1,130,800</u>	<u>1,208,816</u>	<u>1,464,285</u>
<b>Net change in fund balances</b>	863,062	(505,771)	134,296	491,587
Fund Balances - Beginning of year	13,637,070	1,769,517	612,915	16,019,502
Fund equity transfer	57,934	(57,934)	-	-
<b>Fund Balances - End of year</b>	<u>\$ 14,558,066</u>	<u>\$ 1,205,812</u>	<u>\$ 747,211</u>	<u>\$ 16,511,089</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**Net change in fund balances - total governmental funds** \$ 491,587

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 depreciation expense exceeded capital outlays in the period.

Capital outlays	\$	2,457,046	
Depreciation expense		4,209,223	(1,752,177)

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 2,858,773

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 Assets. (1,522,000)

Loss on disposal of assets (61,400)

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 Assets 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 (9,486)

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. 29,806

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. (1,326,284)

Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Assets. 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. (14,373)

**Change in Net Assets of governmental activities** \$ (1,305,554)

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



CITY OF WATERTOWN, NEW YORK  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2010

	Business - Type Activities Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 719,526	\$ 689,449	\$ 1,408,975
Accounts receivable, net of allowance for uncollectible accounts	917,225	746,000	1,663,225
Interest receivable	372	504	876
Due from governmental funds	9,019	20,958	29,977
Due from other governments	2,260	385,934	388,194
State and federal aid receivables	40,688	258	40,946
Prepaid expenses	2,861	2,409	5,270
Total current assets	<u>1,691,951</u>	<u>1,845,512</u>	<u>3,537,463</u>
<b>Non-Current Assets</b>			
Restricted cash and cash equivalents	540,366	1,016,245	1,556,611
Capital assets, net of accumulated depreciation	18,251,692	15,810,443	34,062,135
Total non-current assets	<u>18,792,058</u>	<u>16,826,688</u>	<u>35,618,746</u>
Total assets	<u>\$ 20,484,009</u>	<u>\$ 18,672,200</u>	<u>\$ 39,156,209</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 221,125	\$ 159,046	\$ 380,171
Accrued interest payable	48,505	44,715	93,220
Retainage payable	8,461	23,479	31,940
Accrued liabilities	42,762	36,622	79,384
Compensated absences	56,248	48,815	105,063
Due to retirement system	36,446	29,190	65,636
Due to governmental funds	57,206	85,292	142,498
Due to other governments	671	-	671
Other liabilities	10,624	-	10,624
Current portion of long-term liabilities	811,782	521,189	1,332,971
Total current liabilities	<u>1,293,830</u>	<u>948,348</u>	<u>2,242,178</u>
<b>Long-Term Liabilities:</b>			
Workers compensation liability	115,387	77,664	193,051
Other post employment benefits liability	249,296	221,117	470,413
Serial bonds payable	3,848,740	4,129,365	7,978,105
Less: deferred amount on refunding	(23,345)	(2,197)	(25,542)
NYPA loan payable	-	1,868	1,868
Total long-term liabilities	<u>4,190,078</u>	<u>4,427,817</u>	<u>8,617,895</u>
Total liabilities	<u>5,483,908</u>	<u>5,376,165</u>	<u>10,860,073</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	13,660,789	11,811,645	25,472,434
Restricted for maintenance	148,817	-	148,817
Restricted for debt	172,854	236,394	409,248
Unrestricted	1,017,641	1,247,996	2,265,637
Total net assets	<u>15,000,101</u>	<u>13,296,035</u>	<u>28,296,136</u>
Total liabilities and net assets	<u>\$ 20,484,009</u>	<u>\$ 18,672,200</u>	<u>\$ 39,156,209</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 3,889,873	\$ 3,369,248	\$ 7,259,121
Intergovernmental charges	544,160	1,118,282	1,662,442
Other operating revenue	80,185	22,281	102,466
	<u>4,514,218</u>	<u>4,509,811</u>	<u>9,024,029</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages and employee benefits	2,263,845	1,674,499	3,938,344
Contractual services	1,373,361	1,668,445	3,041,806
Depreciation	657,268	768,015	1,425,283
	<u>4,294,474</u>	<u>4,110,959</u>	<u>8,405,433</u>
Income from operations	<u>219,744</u>	<u>398,852</u>	<u>618,596</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest revenue	\$ 6,580	\$ 7,976	\$ 14,556
Interest expense	(213,222)	(179,510)	(392,732)
Total non-operating revenue (expenses)	<u>(206,642)</u>	<u>(171,534)</u>	<u>(378,176)</u>
Income (loss) before contributions and transfers	13,102	227,318	240,420
Capital contributions	136	258,080	258,216
Transfers in	-	72,715	72,715
Transfers out	<u>(7,500)</u>	<u>(7,500)</u>	<u>(15,000)</u>
<b>Change in net assets</b>	5,738	550,613	556,351
Net assets - beginning of year	<u>14,994,363</u>	<u>12,745,422</u>	<u>27,739,785</u>
<b>Net assets - end of year</b>	<u>\$ 15,000,101</u>	<u>\$ 13,296,035</u>	<u>\$ 28,296,136</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
June 30, 2010

	Business - Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Cash flows from operating activities</b>			
Cash received from providing services	\$ 4,431,852	\$ 4,386,428	\$ 8,818,280
Cash payments for contractual expense	(1,377,661)	(1,688,832)	(3,066,493)
Cash payments for personal services and benefits	(1,962,212)	(1,539,109)	(3,501,321)
Other operating revenue	110,127	22,281	132,408
Net cash provided by operating activities	<u>1,202,106</u>	<u>1,180,768</u>	<u>2,382,874</u>
<b>Cash flows from non-capital and financing activities</b>			
Transfers to/from other funds	(7,500)	65,215	57,715
<b>Cash flows from capital and related financing activities</b>			
Proceeds of capital debt	217,000	486,000	703,000
Principal paid on capital debt	(902,992)	(504,639)	(1,407,631)
Interest paid on capital debt	(216,744)	(185,033)	(401,777)
Capital grants	136	258,080	258,216
Net cash provided (used) by capital and related financing activities	<u>(902,600)</u>	<u>54,408</u>	<u>(848,192)</u>
<b>Cash flows from investing activities</b>			
Purchase of capital assets	(117,108)	(1,222,761)	(1,339,869)
Interest income	6,556	8,015	14,571
Net cash provided by investing activities	<u>(110,552)</u>	<u>(1,214,746)</u>	<u>(1,325,298)</u>
Net increase (decrease) in cash and cash equivalents	181,454	85,645	267,099
Cash and cash equivalents, beginning of year	1,078,438	1,620,049	2,698,487
Cash and cash equivalents, end of year	<u>\$ 1,259,892</u>	<u>\$ 1,705,694</u>	<u>\$ 2,965,586</u>
<b>Reconciliation of income from operations to net</b>			
Income from operations	\$ 219,744	\$ 398,852	\$ 618,596
Depreciation	657,268	768,015	1,425,283
Change in assets:			
Accounts receivable	(11,221)	(4,740)	(15,961)
Due from other governments	2,152	(101,551)	(99,399)
Due from other funds	1,561	5,214	6,775
Due from Federal and State governments	31,458	-	31,458
Prepaid expenses	(2,304)	(1,843)	(4,147)
Change in liabilities:			
Accounts payable	(2,021)	(34,855)	(36,876)
Accrued liabilities	3,035	5,199	8,234
Compensated absences	(3,533)	982	(2,551)
Due to retirement system	8,518	6,789	15,307
Due to other governments	(173)	-	(173)
Other liabilities	109,373	(9,245)	100,128
OPEB liability	184,240	131,665	315,905
Customer deposits and overpayments	3,811	-	3,811
Due to other funds	198	16,286	16,484
Net cash provided by operating activities	<u>\$ 1,202,106</u>	<u>\$ 1,180,768</u>	<u>\$ 2,382,874</u>
<b>Reconciliation of total cash and cash equivalents</b>			
Current assets - unrestricted cash and cash equivalents	\$ 719,526	\$ 689,449	\$ 1,408,975
Non-current assets - restricted cash and cash equivalents	540,366	1,016,245	1,556,611
<b>Total Cash and cash equivalents</b>	<u>\$ 1,259,892</u>	<u>\$ 1,705,694</u>	<u>\$ 2,965,586</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2010**

	<b>Private Purpose <u>Trusts</u></b>	<b>Agency <u>Funds</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 45,552	\$ 131,393	\$ 176,945
	<u>\$ 45,552</u>	<u>\$ 131,393</u>	<u>\$ 176,945</u>
<b>LIABILITIES</b>			
Deposits held and due to others	\$ -	\$ 102,476	\$ 102,476
Cafeteria plan	-	21,620	21,620
Other accrued liabilities	-	7,297	7,297
	<u>-</u>	<u>131,393</u>	<u>131,393</u>
Total Liabilities	-	131,393	131,393
<b>NET ASSETS</b>			
Held in trust for other purposes	15,942	-	15,942
Held in trust for scholarships	29,610	-	29,610
	<u>45,552</u>	<u>-</u>	<u>45,552</u>
Total Net Assets	45,552	-	45,552
<b>Total Liabilities and Net Assets</b>	<u>\$ 45,552</u>	<u>\$ 131,393</u>	<u>\$ 176,945</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2010**

	<b>Private Purpose <u>Trusts</u></b>
<b>ADDITIONS</b>	
Interest revenue	\$ 434
Total Additions	<u>434</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>150</u>
Total Deductions	<u>150</u>
<b>Change in Net Assets</b>	284
Net Assets- Beginning of Year	<u>45,268</u>
<b>Net Assets-End of Year</b>	<u><u>\$ 45,552</u></u>

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

**CITY OF WATERTOWN, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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**I. Summary of Significant Accounting Policies:**

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

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

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

**A. Financial Reporting Entity**

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

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

The financial reporting entity consists of:

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

Based on the foregoing criteria and the significant factors presented below, the following organization is included in the reporting entity:

Watertown Empire Zone

Portions of the City of Watertown were designated as an Economic Development Zone on July 27, 1994. The program is designed to attract new businesses to the area and to enable existing businesses to expand and create jobs by offering a variety of financial incentives and 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.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**B. Basic Financial Statements**

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

1. Government-wide Statements

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

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

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

The net costs (by function or business-type activity) are normally covered by general revenue (property tax, sales tax, intergovernmental revenues, interest income, etc.).

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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2. Fund Financial Statements

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

a. Governmental Funds

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

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

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

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

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

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. See Note regarding electrical distribution agreement. 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.

b. Proprietary Funds

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



**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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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 benefited assessments used for debt retirement.

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

c. **Fiduciary Funds**

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

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

**C. Basis of Accounting/Measurement Focus**

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**D. Property Taxes**

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$2,004 and is included in "Due to other Governments". A portion of the receivable \$89,095 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$655,174 has been included in the General Fund accounts receivable balance at June 30, 2010.

**E. Budget Policies**

The budget policies are as follows:

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

**CITY OF WATERTOWN, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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The general fund budget was amended from \$38,053,602 to \$38,450,563 to reflect receipt and disbursement of the following:

Prior year encumbrances	\$ 146,811
Re-adoption of General Fund Budget	278,150
Original general fund health insurance appropriations not included in Supplemental Schedule #1 due to the inclusion of the self-funded health insurance fund as part of general fund for reporting purposes were re-appropriated to non-health insurance line items and therefore increased the appropriations in comparison to the original budget	(28,000)
	\$ 396,961

**F. Cash and Cash Equivalents**

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

**G. Receivables**

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

**H. Investments**

Investments are stated at fair value.

**I. Capital Assets**

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**J. Compensatory Absences**

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

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

**K. Insurance and Risk Management**

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

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – 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 \$750,561 as of June 30, 2010 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.
- c. Unemployment Insurance – The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2010 were \$13,326.
- d. Health Care Benefits – On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$100,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$537,893 has been recorded in the self-insurance fund for claims incurred as of June 30, 2010 but not reported based upon historical experience.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**L. Fund Balance**

Reserves and Designations

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

**II. Detailed Notes on All Funds**

**A. Assets**

**1. Cash and Investments -Concentration of Credit, Interest Rate and Foreign Currency Risks**

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2010, 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, other than stated above, and is not exposed to any material interest rate risk.

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.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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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, 2010 per the banks were \$20,192,060. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 1,059,836	\$ 19,132,224	\$ - 0 -

As of June 30, 2010 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit-Trust & Agency Funds	\$ 25,939
State and Local Government Series Securities	<u>132,744</u>
Total	<u>\$ 158,683</u>

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**2. Capital Assets**

A summary of the changes in capital assets for the fiscal year ended June 30, 2010 follows:

Governmental Activities:

	Balance <u>June 30, 2009</u>	Increases	Decreases	Balance <u>June 30, 2010</u>
Non-depreciable capital assets:				
Land	\$ 2,952,170	\$ -	\$ (350,885)	\$ 2,601,285
Construction in Progress	<u>1,087,948</u>	<u>2,366,477</u>	<u>(2,019,528)</u>	<u>1,434,897</u>
Total	<u>\$ 4,040,118</u>	<u>\$ 2,366,477</u>	<u>\$ (2,370,413)</u>	<u>\$ 4,036,182</u>
Depreciable capital assets:				
Land improvements	7,838,162	68,297	-	7,906,459
Buildings and improvements	30,446,799	8,133	-	30,454,932
Infrastructure	64,097,887	835,575	-	64,933,462
Machinery and equipment	10,781,734	568,472	( 21,281)	11,328,925
Vehicles	<u>9,925,391</u>	<u>629,619</u>	<u>( 629,517)</u>	<u>9,925,493</u>
Total	<u>123,089,973</u>	<u>2,110,096</u>	<u>( 650,798)</u>	<u>124,549,271</u>
Less accumulated depreciation for:				
Land improvements	5,225,247	283,836	-	5,509,083
Buildings and improvements	9,894,343	692,472	-	10,586,815
Infrastructure	20,619,872	1,999,716	-	22,619,588
Machinery and equipment	7,525,304	525,243	( 20,264)	8,030,283
Vehicles	<u>7,383,474</u>	<u>707,956</u>	<u>( 629,517)</u>	<u>7,461,913</u>
Total	<u>50,648,240</u>	<u>4,209,223</u>	<u>( 649,781)</u>	<u>54,207,682</u>
Depreciable capital assets, net:	<u>\$72,441,733</u>	<u>\$ (2,099,127)</u>	<u>(\$ 1,017)</u>	<u>\$70,341,589</u>
Grand total	<u>\$76,481,851</u>	<u>\$ 267,350</u>	<u>(\$2,371,430)</u>	<u>\$74,377,771</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 138,552
Hydroelectric production	242,600
Police	120,159
Fire	428,802
Other public safety	2,358
Public Works	2,416,115
Bus	253,594
Library	127,707
Other culture and recreation	425,297
Refuse and recycling	54,039
Other home and community services	-
Total	<u>\$ 4,209,223</u>

**CITY OF WATERTOWN, NEW YORK  
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Business-Type Activities:

	Balance <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2010</u>
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	<u>238,253</u>	<u>1,428,375</u>	<u>(863,479)</u>	<u>803,149</u>
Total	<u>\$ 238,253</u>	<u>\$ 1,428,375</u>	<u>\$ (863,479)</u>	<u>\$ 803,149</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,353,259	-	-	27,353,259
Infrastructure	20,546,750	676,782	-	21,223,532
Machinery and equipment	15,567,385	285,654	(168,200)	15,684,839
Vehicles	<u>827,397</u>	<u>-</u>	<u>(46,672)</u>	<u>780,725</u>
Total	<u>64,545,359</u>	<u>962,436</u>	<u>\$ (214,872)</u>	<u>65,292,923</u>
Less accumulated depreciation for:				
Land improvements	230,692	8,310	\$ -	239,002
Buildings and improvements	12,869,819	540,538	-	13,410,357
Infrastructure	4,869,007	309,113	-	5,178,120
Machinery and equipment	12,188,196	528,127	(168,200)	12,548,123
Vehicles	<u>665,812</u>	<u>39,195</u>	<u>(46,672)</u>	<u>658,335</u>
Total	<u>30,823,526</u>	<u>1,425,283</u>	<u>\$ (214,872)</u>	<u>32,033,936</u>
Depreciable capital assets, net:	<u>\$33,721,833</u>	<u>\$ (462,847)</u>	<u>\$ -</u>	<u>\$33,258,986</u>
Grand total	<u>\$33,960,086</u>	<u>\$ 965,528</u>	<u>(\$ 863,479)</u>	<u>\$34,062,135</u>

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

Water	\$ 657,268
Sewer	<u>768,015</u>
Total	<u>\$1,425,283</u>

**2. Restricted Cash, Cash Equivalents and Investments**

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

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 66,747	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 588,876	Reserve for capital projects
General – Cash	\$ 56,986	Reserve for special assessment sidewalk program debt
Special Revenue – Cash	\$ 55,475	Federal and State community development grants
Capital – Cash	\$ 1,295,583	Reserve for capital project acquisitions and construction
Water – Cash	\$ 148,817	Reserve for coagulation basin maintenance



**CITY OF WATERTOWN, NEW YORK**  
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Water – Cash	\$ 218,734	Reserve for capital project acquisitions and construction
Water - Cash	\$ 172,815	Excess debt proceeds reserved for debt service
Sewer – Cash	\$ 779,851	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 236,394	Excess debt proceeds reserved for debt service

**4. Notes Receivable**

To assist in the rehabilitation of homes of low and moderate-income persons in the City, 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 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the total loans outstanding at June 30, 2010 was \$7,676. The balance of the grants subject to repayment at June 30, 2010 was \$596,680.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a new 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 years. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. The final loan in the amount of \$20,000 was awarded during the current year. The balance of these loans outstanding at June 30, 2010 was \$327,085.

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for rehab to an apartment building. This loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. The balance of this loan at June 30, 2010 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

**CITY OF WATERTOWN, NEW YORK**  
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The City was awarded \$650,000 through a Fiscal Year 2007 Small Cities Community Development Block Grant to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include commercial tenants on the ground floor and rental apartments that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2010 were \$392,448.

The City was also awarded an additional \$1,550,000 for the Franklin Building renovation and related soft costs through the 2006-07 New York State Empire State Development's RESTORE NY Communities grant program. Grant expenditures for the fiscal year ending June 30, 2010 were \$1,289,395.

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a new 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 5 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. Grant expenditures for the fiscal year ending June 30, 2010 were \$9,067.

The City was awarded a North Country HOME Consortium Fiscal Year 2008 grant in the amount of \$230,000 to assist approximately eleven 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. Deferred payment loans will be available to help pay the cost of eligible improvements up to a maximum of \$20,000 for each housing unit. The grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Grants of \$63,131 were awarded during the current year.

The City was awarded \$1,006,147 from the 2007-08 New York State Empire State Development's RESTORE NY Communities grant program to support the redevelopment of the renovation of an abandoned industrial building to be known as Riverview Plaza into commercial and residential use that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2010 were \$ 404,268.

The City was awarded \$400,000 through a Fiscal Year 2009 Small Cities Community Development Block Grant to support a new 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

**CITY OF WATERTOWN, NEW YORK  
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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 20 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. Grant expenditures for the fiscal year ending June 30, 2010 were \$15,939.

The City was awarded a North Country HOME Consortium Fiscal Year 2009 and 2010 grant in the amount of \$244,887 to assist approximately twelve income eligible homeowners 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 \$38,996 were awarded during the current year.

**B. Liabilities**

**1. 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, 2010.

**2. Long-Term Debt**

During the year ended June 30, 2010, the following changes occurred in long-term obligations:

Governmental Activities:

	Balance			Balance	Due Within
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>One Year</u>
General Obligation Bonds	\$22,960,609	1,522,000	(\$2,811,527)	\$21,671,082	\$2,534,187
Compensated Absences	291,752	1,885	-	293,637	30,000
Landfill Monitoring	270,000	-	( 18,000)	252,000	18,000
NYPA Loan Payable	<u>139,565</u>	<u>-</u>	<u>( 47,246)</u>	<u>92,319</u>	<u>48,005</u>
Total	<u>\$23,661,926</u>	<u>\$1,523,885</u>	<u>(\$2,876,773)</u>	<u>\$22,309,038</u>	<u>\$2,630,192</u>

The Statement of Net Assets at June 30, 2010 includes a deferred amount of \$28,458 on the advance refunding of bonds in fiscal year ended June 30, 2003.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
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Business-type Activities

	Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2010</u>	Due Within <u>One Year</u>
General Obligation Bonds:					
Water	\$ 5,346,514	\$ 217,000	(\$902,992)	\$ 4,660,522	\$ 811,782
Sewer	4,665,277	486,000	( 502,681)	4,648,596	519,231
NYPA Loan Payable	<u>5,785</u>	<u>-</u>	<u>( 1,958)</u>	<u>3,827</u>	<u>1,990</u>
Total	<u>\$ 10,017,576</u>	<u>\$ 703,000</u>	<u>(\$1,407,631)</u>	<u>\$ 9,312,945</u>	<u>\$ 1,333,003</u>

The Statement of Net Assets at June 30, 2010 includes a deferred amount of \$25,542 on the advance refunding of bonds in fiscal year ended June 30, 2003.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid - 6/30/10</u>	<u>Outstanding 6/30/10</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 475,000	12/2017
Public Improvements	6.90-7.00%	5,471,000	75,000	-	5/2010
Public Improvements	6.30-6.375%	10,518,000	395,200	795,200	10/2011
Public Improvements	5.50-5.70%	3,599,000	175,000	325,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	42,000	50,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	100,000	100,000	7/2011
Public Improvements	4.60-5.25%	4,220,000	15,000	15,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	275,000	7,060,000	11/2025
Public Improvements	3.50-4.85%	3,908,466	330,000	30,000	3/2013
Public Improvements	5.125-5.50%	6,105,000	275,000	1,075,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	110,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	150,000	760,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	180,000	335,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	625,000	4,625,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	4,100,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	150,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000	775,000	5,825,000	02/2023
Public Improvements	2.50-3.25%	\$3,220,000	295,000	2,925,000	09/2018
Public Improvements	3.125-4.00%	\$2,225,000	-	<u>2,225,000</u>	12/2024
Total Serial Bonds			<u>\$4,217,200</u>	<u>\$30,980,200</u>	

On June 15, 2010 the City of Watertown issued \$2,225,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 3.125% to 4.00%. The net interest cost over the life of the bond is 3.39%.

**CITY OF WATERTOWN, NEW YORK**  
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,534,187	\$997,986	\$ 3,532,173
2012	2,376,957	894,002	3,270,959
2013	1,968,202	797,698	2,765,900
2014	1,822,702	711,638	2,534,340
2015	1,757,202	632,368	2,389,570
2016-2020	6,764,832	2,109,550	8,874,382
2021-2025	3,782,000	775,033	4,557,033
2026-2030	<u>665,000</u>	<u>21,658</u>	<u>686,658</u>
	<u>\$21,671,082</u>	<u>\$ 6,939,933</u>	<u>\$28,611,015</u>

Business-type Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,331,013	\$ 355,131	\$ 1,686,144
2012	1,253,043	296,543	1,549,586
2013	791,798	252,382	1,044,180
2014	782,298	222,269	1,004,567
2015	767,798	192,598	960,396
2016-2020	3,460,168	528,708	3,988,876
2021-2025	923,000	62,881	985,881
2026-2030	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,309,118</u>	<u>\$1,910,512</u>	<u>\$11,219,630</u>

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2010 was \$ 131,006.

Advance Refunding

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

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

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

These advance refundings reduced total debt service payments over fourteen years by \$1,148,000. The refunding bonds were issued through the New York State Environmental Facilities Corporation Clean Water and Drinking Water Revolving Funds Revenue Bonds (Pooled Loan Issue) Series 1998 A and B.

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

**NYPA Loan Payable**

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 1.92% at the start of the fiscal year to 0.73% at the end of the fiscal year. The outstanding balance at June 30, 2010 is \$96,145. The estimated maturities over the next five years and thereafter are as follows:

2011	\$ 49,995
2012	<u>46,150</u>
	<u>\$96,145</u>

**3. Prior Years Defeasance of Debt**

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for defeased bonds are not included in the City's financial statements. On June 30, 2010, \$29,800 of bonds outstanding is considered defeased.

**4. Deferred Revenue**

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue and prepaid interest installments on special assessments	<u>\$ 145,502</u>
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Capital Projects Fund

Deferred State Aid and other miscellaneous sources	<u>\$ 70,497</u>
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**CITY OF WATERTOWN, NEW YORK  
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Special Revenue Fund	
Notes receivable funded from grant proceeds	<u>\$ 1,009,182</u>
Special Revenue Fund	
Deferred grant proceeds	<u>\$ 24,962</u>

**5. Retirement Benefits**

Plan Description

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

Funding Policy

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

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, 2010 and two preceding years were:

	FYE 6/30/10	FYE 6/30/09	FYE 6/30/08
<b>Employer Contributions</b>			
ERS	\$ 618,718	\$ 635,943	\$ 737,283
PFRS	\$ 1,127,720	\$ 1,365,509	\$ 1,094,456
<b>Employee Contributions</b>			
ERS	\$ 84,691	\$ 80,686	\$ 71,249
PFRS	\$ -	\$ -	\$ -

**CITY OF WATERTOWN, NEW YORK**  
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The City's contributions made to the Systems were equal to 100 percent of the contributions required for each year. Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The reports may be obtained by writing to:

New York State and Local Employees' Retirement System  
110 State Street  
Albany, New York 12244  
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:

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

The City has reported \$43,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

**6. 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 must be 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.



**CITY OF WATERTOWN, NEW YORK**  
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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 the 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, 2010 the City contributed approximately \$6,922,797 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$575,840.

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 the 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.

	Governmental Activities	Business- type Activities - Water Fund	Business- type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 4,821,678	\$ 330,757	\$ 281,442	\$ 5,433,877
Interest on net OPEB obligation	\$ 106,122	\$ 3,253	\$ 4,473	\$ 113,848
Adjustment to ARC	\$ (94,010)	\$ (2,882)	\$ (3,962)	\$ (100,854)
Annual OPEB cost	\$ 4,833,790	\$ 331,128	\$ 281,953	\$ 5,446,871
Contributions Made	\$ (3,509,390)	\$ (146,888)	\$ (150,288)	\$ (3,806,566)
Change in net OPEB obligation	\$ 1,324,400	\$ 184,240	\$ 131,665	\$ 1,640,305
Net OPEB obligation - beginning of year	<u>\$ 2,122,453</u>	<u>\$ 65,056</u>	<u>\$ 89,452</u>	<u>\$ 2,276,961</u>
Net OPEB obligation - end of year	<u>\$ 3,446,853</u>	<u>\$ 249,296</u>	<u>\$ 221,117</u>	<u>\$ 3,917,266</u>

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Annual Change in Net OPEB Obligation
Governmental Activities	\$ 4,833,790	72.60%	\$ 1,324,400
Business-type Activities - Water Fund	\$ 331,128	44.36%	\$ 184,240
Business-type Activities - Sewer Fund	\$ 281,953	53.30%	\$ 131,665

**CITY OF WATERTOWN, NEW YORK**  
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**JUNE 30, 2010**

Funded Status and Funding Progress

As of September 1, 2009, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$106,324,770 and there were no plan assets. The covered payroll (annual payroll budget of active employees eligible to be covered by the plan) was \$17,021,035 and the ratio of unfunded actuarial accrued liability to covered payroll was 624.67%.

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 presents information on the actuarial value of the plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a) / (c)
Sept. 1, 2008	\$ -	\$106,599,921	\$106,599,921	0.00%	\$15,321,802	695.74%
Sept. 1, 2009	\$ -	\$106,324,770	\$106,324,770	0.00%	\$17,021,035	624.67%

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, 2009 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 payroll on an open basis. The actuarial assumptions include 5.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was 9.5% for the current fiscal year and decreasing to 9.0% for the following year and continuing to decrease 0.5% per fiscal year until the fiscal year ending June 30, 2019 and beyond where it was kept at 5.0%.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**C. Fund Balances**

**1. Reserved Fund Balances**

Reserved fund balances consist of the following:

General Fund

- Encumbrances – An amount reserved to satisfy purchase orders and other commitments for which goods and/or services will be received in the following year
- Insurance – An amount reserved to pay claims and judgments for the City's general liability and the cost of providing health care benefits to eligible employees and retirees
- Workers Compensation – An amount reserved to pay workers' compensation claims
- 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.

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, 2010 was \$132,951.

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 water fund at June 30, 2010 was \$172,854. The total amount reserved for principal and interest in the sewer fund at June 30, 2010 was \$236,394.

**2. Other Fund Balance Disclosures**

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2010.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**3. Excess of Expenditures over Appropriations**

The General Fund's general government support expenditure for the fiscal year ended June 30, 2010 as presented in Supplemental Schedule #1 exceeded appropriations by \$270,636 due to the accrual of the \$600,000 settlement agreed to by City Council on October 4, 2010 for the Ryan Dorr case.

**4. Prior Period Adjustment**

A prior period adjustment was made at the government-wide level which decreased the governmental activities net assets by \$290,502. The adjustment was necessary to remove certain parcels of land from the capital assets that were sold by the City in previous fiscal years.

**D. Interfund Transactions**

Operating Transfers

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

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2010 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$587,937	\$ 5,689
Water Fund	43,891	57,206
Sewer Fund	179,129	85,292
Library Fund	-	6,169
Capital Project Funds	-	<u>656,601</u>
	<u>\$ 810,957</u>	<u>\$ 810,957</u>

Inter-fund Eliminations

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

	<u>General Fund</u>	<u>Self-funded Health Insurance Fund</u>
Revenues	\$ -	\$5,945,653
Expenditures	<u>5,945,653</u>	-
Total	<u>\$5,945,653</u>	<u>\$5,945,653</u>

CITY OF WATERTOWN, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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E. Operating Leases

State Street Parking Lot

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

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 1,900
	<u>\$ 1,900</u>

Fairgrounds Property Lease

The City was the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC which subsequently assigned the lease to Watertown Savings Bank. The lease dated July 28, 1998 was for a term of twenty-five years. The lease was amended on June 16, 2003. Watertown Savings Bank began leasing the building in 2006 to the Watertown Family YMCA. After being granted New York State Legislative approval the City is now the lessor of the portion of the Fairgrounds property to the Watertown Family YMCA which has purchased the building from Watertown Savings Bank. 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. Total rental expenses for the fiscal year ending June 30, 2010 were \$24,000.

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 24,000
2012	24,000
2013	24,000
2014	24,900
2015	25,800
Thereafter	<u>538,307</u>
	<u>\$661,007</u>

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2010 were \$377,072.

CITY OF WATERTOWN, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

2011	\$ 197,405
2012	187,443
2013	177,481
2014	167,518
2015	<u>157,555</u>
Total	<u>\$ 887,402</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 in the aggregate and for each of the next five years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 2,596
2012	2,596
2013	2,596
2014	<u>433</u>
	<u>\$ 8,221</u>

Equipment Lease

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 in the aggregate and for each of the next four years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 4,059
2012	4,059
2013	4,059
2014	<u>4,059</u>
	<u>\$16,236</u>

Vehicle Leases

The City is the lessor of certain police vehicles. The lease dated June 1, 2010 is for a term of three years. Minimum future rentals on the lease in the aggregate and for each of the next three years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 16,497
2012	16,497
2013	<u>15,122</u>
	<u>\$ 48,116</u>

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**III. Commitments and Contingencies:**

**Litigation**

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, 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, 2010, 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 \$127,299 as of June 30, 2010 for un-funded general liability claims.

**Grant Programs**

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

**Environmental Concerns**

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2010, the City is not aware of any significant environmental problems related to these normal City operations that should be disclosed in the general-purpose financial statements.

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 \$561,200 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 entered into a professional services contract for \$ 740,151 of which \$708,650 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2010 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, 2010, the City is not aware of any significant environmental problems that should be disclosed in the general-purpose financial statements.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Landfill Closure**

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2010, an estimated \$252,000 in post-closure care cost will be incurred over the remaining 16-year period. This liability is recorded in the long-term debt account group and is amortized in the General Fund at approximately \$18,000 each year.

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

**Black River Fund**

The City of Watertown owns a hydroelectric facility on the Black River and has applied to the Federal Energy Regulatory Agency (FERC) for a new hydro-electric generation license. On November 21, 1994, the City Council approved an agreement between the City and New York Rivers United, an environmental group, for the establishment of a Black River Fund.

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

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

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, 2010 was \$17,536.

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

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



**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Electrical Distribution System Agreement**

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

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

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

**Watertown International Airport / Jefferson County Sales Tax Agreement**

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

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

On May 1, 2007 the Jefferson County Board of Legislators agreed to eliminate the 2% tax on residential energy sources and services effective September 1, 2007 and to absorb the full cost of providing emergency dispatch services to the City over a two year period beginning with a 50% reduction in charges in 2008 and a full reduction in 2009 and thereafter. The County agreed to these changes to gain the bipartisan support for the introduction of a bill in the State Legislature that extended the County's authorization to impose the additional three quarters of one percent (3/4%) rate of sales tax through November 30, 2009.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**Sewer Agreement Between The Development Authority of the North Country and the City**

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 provide sewage treatment and leachate treatment services 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.

**Gross Receipts Tax Refund Request from National Grid**

On December 26, 2008 National Grid has requested a gross receipts tax refund of the in the amount of \$184,430 for the time frame covering December 25, 2005 through September 30, 2008 on the basis that it erroneously included revenues from electric transmission and distribution service and gas transportation service which did not originate within the boundaries of the City. National Grid is seeking similar refunds from approximately 150 New York communities.

On behalf of the affected communities the New York Conference of Mayors (NYCOM) requested and received an Advisory Opinion of the New York State Department of Taxation and Finance that supports NYCOM's position on the applicability of the local gross receipts tax to unbundled sales of energy commodities. Accordingly, it was requested of National Grid to abandon their attempts to collect a refund and immediately begin collecting the gross receipts tax in accordance with the Advisory Opinion and remit a supplemental payment to the affected municipalities on their gross receipt tax underpayments since November 2008. National Grid was approved by the NYS Public Service Commission for a tariff revision to allow them to begin collecting the gross receipts tax in accordance with the Advisory Opinion effective December 1, 2009.

During this dispute The City did not accrue any additional revenues through the fiscal year ending June 30, 2010 related to the underpayments as it was unclear if National Grid would apply the ruling retroactively nor did the City record the initial refund request in the financial statements as a liability.

On October 4, 2010 City Council agreed to a tentative settlement with National Grid that provides for (1) the City to keep the funds that National Grid claimed were owed to them in their December 2008 letter and; (2) National Grid does not remit any gross receipts tax for sales between December 2008 and November 30, 2009, as it did not collect any and; (3) based on new tariff leaves filed at the New York State Public Service Commission, National Grid will collect and pay local GRT on all transactions from December 2009 forward.

**Subsequent Event**

On October 4, 2010 City Council authorized a settlement in the amount of \$600,000 of the case entitled Ryan Dorr v. City of Watertown. A liability has been accrued to the fiscal year ending June 30, 2010 for this settlement and is reflected in the year-end reserve amount.

**CITY OF WATERTOWN, NEW YORK  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Resources (Inflows)</b>				
Real property taxes	\$ 7,291,373	\$ 7,286,373	\$ 7,316,832	\$ 30,459
Real property tax items	249,310	249,310	243,461	(5,849)
Non-property taxes	15,738,000	15,738,000	16,185,100	447,100
Departmental income	4,279,900	4,279,900	4,050,469	(229,431)
Intergovernmental charges	127,250	127,250	149,317	22,067
Use of money and property	173,400	173,400	153,597	(19,803)
Licenses and permits	80,700	80,700	84,181	3,481
Fines and forfeitures	135,000	135,000	106,463	(28,537)
Sale of property and compensation for loss	92,100	106,650	528,187	421,537
Miscellaneous local sources	661,785	661,785	751,113	89,328
Interfund revenue	1,139,173	1,111,173	1,065,423	(45,750)
State source	5,829,754	5,737,449	5,786,618	49,169
Federal sources	435,957	620,587	498,086	(122,501)
Transfers from other funds	202,000	281,283	490,283	209,000
	<u>36,435,702</u>	<u>36,588,860</u>	<u>37,409,130</u>	<u>820,270</u>
<b>Amounts available for appropriation</b>				
<b>Charges to appropriations (outflows)</b>				
General government support	5,362,456	4,944,320	5,214,956	(270,636)
Public safety	13,315,516	13,442,745	12,706,872	735,873
Transportation	4,062,161	4,340,371	3,847,422	492,949
Economic assistance and development	107,000	105,700	97,029	8,671
Culture and recreation	1,129,438	1,197,500	1,066,431	131,069
Home and community services	1,199,850	1,331,071	1,167,025	164,046
Employee benefits	7,584,191	7,625,716	7,286,561	339,155
Debt service	3,792,780	3,794,730	3,794,158	572
Transfers to other funds	1,500,210	1,668,410	1,365,614	302,796
	<u>38,053,602</u>	<u>38,450,563</u>	<u>36,546,068</u>	<u>1,904,495</u>
<b>Total charges to appropriations</b>				
<b>Excess (Deficiency) of Resources Over Charges to Appropriations</b>	(1,617,900)	(1,861,703)	863,062	2,724,765
<b>Appropriation of prior year fund balance</b>	<u>1,521,000</u>	<u>1,617,992</u>	<u>-</u>	<u>(1,617,992)</u>
<b>Excess / (Deficiency) of Resources Over Charge to Appropriations</b>	<u>(96,900)</u>	<u>(243,711)</u>	<u>863,062</u>	<u>1,106,773</u>
<b>Fund Balance, Beginning of year</b>			13,637,070	
<b>Fund equity transfer</b>			57,934	
<b>Fund Balance, End of year</b>			<u>\$ 14,558,066</u>	

See Paragraph on Supplemental Schedules Included in Auditor's Report.

SUPPLEMENTAL SCHEDULE #2

CITY OF WATERTOWN, NEW YORK  
 =====  
 SCHEDULE OF EXPENDITURES  
 OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/State's Loan	14.228	\$ 470,517
HOME Investment Partnerships Program	14.239	<u>102,127</u>
Total Department of Housing & Urban Development		<u>572,644</u>
US Department of Transportation:		
Passed Through New York State:		
ARRA-Highway Planning and Construction	20.205	55,048
State and Community Highway Safety	20.600	6,585
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>176,621</u>
Total Department of Transportation		<u>238,254</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>108,630</u>
US Department of Justice:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12,530
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	3,014
Federal Equitable Sharing Program	16.Unknown	<u>3,162</u>
Total Department of Justice		<u>18,706</u>
		<u><u>\$ 938,234</u></u>

See Paragraph on Supplemental Schedules Included in Auditor's Report.

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF WATERTOWN, NEW YORK  
 =====  
 NOTES TO SCHEDULE OF EXPENDITURES  
 OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2010

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**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.

**2. Community Development Block grant loans:**

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

CFDA #	Balance at 7/1/09	Issuance	Forgiveness	Balance at 6/30/10
14.228	\$ 787,647	\$ 70,160	\$ 261,126	\$ 596,681

**3. Subrecipients:**

No amounts were provided to subrecipients.

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SUPPLEMENTAL SCHEDULE #3

CITY OF WATERTOWN, NEW YORK

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR "THE PLAN"

FOR THE YEAR ENDED JUNE 30, 2010

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)
9/1/09	\$ -	\$ 106,324,770	\$106,324,770	0%	\$ 17,021,035	624.67%
9/1/08	\$ -	\$ 106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%

See Paragraph on Supplemental Schedules Included in Auditor's Report.

**POULSEN & PODVIN, CPA, P.C.**

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

**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***

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Watertown, New York, as of and for the year ended June 30, 2010, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated January 20, 2011. We did not audit the financial statements of Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Watertown, New York's internal control over financial reporting as a basis for designing our auditing procedures 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, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting.

*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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

We noted certain matters that we reported to management of City of Watertown, New York, in a separate letter dated January 20, 2011.

This report is intended solely for the information and use of the Mayor and Members of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Poulsen & Podvin, CPA, P.C.*

January 20, 2011



**POULSEN & PODVIN, CPA, P.C.**

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited 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 City of Watertown, New York's major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance 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 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 that 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. Our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

In our opinion, City of Watertown, New York, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

Management of City of Watertown, New York, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor and Members of the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Poulsen & Podvin, CPA, P.C.*

January 20, 2011

CITY OF WATERTOWN, NEW YORK  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

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**Section I – Summary of Auditor’s Results:**

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies in internal control were disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were 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 included – Community Development Block Grant/State’s Loan – CFDA #14.228.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

**Section II – Financial Statement Audit Findings:**

There were no findings to report.

**Section III – Major Federal Award Programs Findings and Questioned Costs:**

There were no findings to report.

**Summary Schedule of Prior Audit Findings:**

There were no findings to report.

**POULSEN & PODVIN, CPA, P.C.**

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

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

**INDEPENDENT AUDITOR'S REPORT**

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

**Compliance**

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, 2010. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with accounting 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 non-compliance 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 such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

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, 2010.

### **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, 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 for the purpose of expressing our opinion on compliance 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 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

### **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, 2010, and have issued our report thereon dated January 20, 2011. 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City of Watertown, New York's Mayor and Members of the City Council, management and the New York State Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

*Poulsen & Podvin, CPA, P.C.*

January 20, 2011

CITY OF WATERTOWN, NEW YORK

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SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED  
YEAR ENDED JUNE 30, 2010

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<b>Program Title</b>	<b>Ref. Number</b>	<b>Expenditures</b>
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	\$ 397,786
Formula Grants for Other Than Urbanized Areas - DPW Maintenance Facility	C003695	<u>7,528</u>
TOTAL		<u>\$ 405,314</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

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CITY OF WATERTOWN, NEW YORK

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NOTES TO SCHEDULE OF STATE TRANSPORTATION  
ASSISTANCE EXPENDED  
YEAR ENDED JUNE 30, 2010

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**NOTES**

**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.

**B. Basis of Accounting:**

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

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CITY OF WATERTOWN, NEW YORK

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR  
STATE TRANSPORTATION ASSISTANCE EXPENDED  
YEAR ENDED JUNE 30, 2010

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**Summary of Audit Results:**

Internal control over state transportation assistance expended:

Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)	None reported

Type of auditor's report issued on compliance for Program tested:	Unqualified
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Summary of Audit Findings:	N/A
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Identification of State Transportation Assistance Programs tested:	Consolidated Local Street & Highway Improvement Program Capital Reimbursement- CHIPS Contract #732059
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**Compliance Findings and Questioned Costs:**

No matters were reported

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**Form of Continuing Disclosure Undertaking**

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

“*Series A Bonds*” means the Issuer’s \$2,175,000 Public Improvement Refunding (Serial) Bonds, 2011 Series A, dated April 15, 2011.

“*Series B Bonds*” means the Issuer’s \$1,635,000 Public Improvement Refunding (Serial) Bonds, 2011 Series B, dated April 15, 2011.

“*Series C Bonds*” means the Issuer’s \$3,695,000 Public Improvement Refunding (Serial) Bonds, 2011 Series C (Federally Taxable), dated April 15, 2011.

“*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 Continuing 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 March 30, 2011 under the headings Appendix A, A-1, A-2, A-3 and Appendix B, and (2) if not provided as part such financial information and operating data, audited 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 (ii) 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 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.

**C. *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.

**D. *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 BOND 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 (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule. If the Issuer so amends the provisions of this Undertaking, the Issuer shall include with any amended financial information or operating data next provided in accordance with this Undertaking an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

CITY OF WATERTOWN

By: \_\_\_\_\_  
Name:  
Title: City Comptroller

**BOND INSURANCE**

**BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds maturing on May 15 and November 15 of the years 2013 through 2025, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

**ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Current Financial Strength Ratings*

On January 24, 2011, S&P published a Request for Comment: Bond Insurance Criteria (the "Bond Insurance RFC") in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On October 25, 2010, S&P published a Research Update in which it downgraded AGM's counterparty credit and financial strength rating from "AAA" (negative outlook) to "AA+" (stable outlook). Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2011.

#### *Capitalization of AGM*

At December 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,578,146,678 and its total net unearned premium reserve was approximately \$2,298,456,380, in each case, in accordance with statutory accounting principles.

#### *Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "APPENDIX D - BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

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



# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the



United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer