

NEW ISSUE: SERIAL BONDS
BOOK-ENTRY-ONLY
PUBLIC IMPROVEMENT: BANK QUALIFIED

MBIA INSURED MOODY'S RATING: Aaa[†]
(SEE "RATING" HEREIN)

In the opinion of Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Public Improvement Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Public Improvement Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. Interest on the Public Improvement 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 Exemption" herein for a discussion of certain Federal taxes applicable to corporate owners of the Bonds.

The Public Improvement Bonds will be designated "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

\$2,310,000
CITY OF WATERTOWN
JEFFERSON COUNTY, NEW YORK
GENERAL OBLIGATION

\$2,310,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2002

DATED: May 15, 2002

DUE: May 15, 2003-2020

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>
2003	\$225,000	4.00%	1.80%	2009	\$150,000	4.000%	3.80%	2015	\$100,000*	4.50%	4.50%
2004	225,000	4.00	2.30	2010	150,000	4.125	4.00	2016	100,000*	4.50	4.65
2005	225,000	4.00	2.70	2011	125,000	4.125	4.10	2017	50,000*	5.00	4.75
2006	225,000	4.00	3.00	2012	100,000*	4.125	4.20	2018	35,000*	5.00	4.90
2007	200,000	4.00	3.30	2013	100,000*	4.250	4.30	2019	25,000*	5.00	5.00
2008	150,000	4.00	3.60	2014	100,000*	4.375	4.40	2020	25,000*	5.00	5.05

†THE PAYMENT OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE INSURED BY A MUNICIPAL BOND INSURANCE POLICY TO BE ISSUED BY THE MBIA INSURANCE CORPORATION ("MBIA") SIMULTANEOUSLY WITH THE DELIVERY OF THE BONDS. THE MOODY'S RATING ON THE BONDS REFLECTS THE ISSUANCE OF SUCH POLICY. A MORE COMPLETE DESCRIPTION OF THE MBIA POLICY CAN BE FOUND IN APPENDIX D HEREOF. SEE ALSO "RATING" IN APPENDIX C.



* Subject to Optional Redemption

The Bonds are general obligations of the City of Watertown, Jefferson County, New York (the "City"), 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 Bonds will be subject to redemption prior to maturity as described herein.

The Bonds will be issued as registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York which will act as the securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. The Bonds bear interest from their date until maturity at the annual rate(s) specified by the successful bidder payable November 15, 2002, and semi-annually thereafter on May 15 and November 15 in each year until maturity. The Bonds will be subject to redemption prior to maturity described herein. Principal and interest on the Bonds will be payable when due as described in "Book-Entry-Only System" under "The Bonds" herein.

The Bonds are offered when, as and if issued and received by the Purchaser and subject to the receipt of the unqualified legal opinion as to the validity of the Bonds of Willkie Farr & Gallagher, Bond Counsel, of New York City. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 29, 2002.

May 21, 2002

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE CITY DATED MAY 13, 2002 RELATING TO THE BONDS BY INCLUDING CERTAIN INFORMATION OMITTED FROM SUCH OFFICIAL STATEMENT IN ACCORDANCE WITH SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). OTHER THAN AS SET FORTH ON THIS REVISED COVER PAGE AND THE INCLUSIONS OF APPENDIX C ("RATING") AND APPENDIX D ("BOND INSURANCE"), THERE HAVE BEEN NO REVISIONS TO SAID OFFICIAL STATEMENT.

ROOSEVELT & CROSS, INC. & ASSOCIATES

RATING

Moody's Investors Service, Inc. (Moody's) has assigned its municipal bond rating of "Aaa" to both series of Bonds with the understanding that upon delivery of the Bonds, a policy to be issued simultaneously insuring the payment when due of the principal of an interest on the Bonds will be issued by Municipal Bond Investors Assurance Corporation ("MBIA"). Such rating reflects only the view of such organization, and an explanation of the significance of such rating may be obtained from: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn by such rating agency, if in its judgment, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of such Bonds.

**STANDARD FORM FOR MBIA DISCLOSURE
[GENERAL AND S-1]**

[The section entitled "The MBIA Insurance Corporation Insurance Policy" is for use in public finance transactions]

[The MBIA Insurance Corporation Insurance Policy]

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the [Bonds/Securities] as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the [Bonds/Securities] pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any [Bonds/Securities]. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of [Bonds/Securities] upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the [Bonds/Securities] resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the [Bonds/Securities].

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a [Bond/Security] the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such [Bonds/Securities] or presentment of such other proof of ownership of the [Bonds/Securities], together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the [Bonds/Securities] as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the [Bonds/Securities] in any legal proceeding related to payment of insured amounts on the [Bonds/Securities], such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such [Bonds/Securities], less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.]



MBIA

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this [~~Prospectus/Private Placement Memorandum~~/Official Statement] or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading [“ APPENDIX D ”]. Additionally, MBIA makes no representation regarding the [~~Bonds/Securities~~] or the advisability of investing in the [~~Bonds/Securities~~].

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the “SEC”) is incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this [~~Prospectus/Private Placement Memorandum~~/Official Statement] and prior to the termination of the offering of the [~~Bonds/Securities~~] offered hereby shall be deemed to be incorporated by reference in this [~~Prospectus/Private Placement Memorandum~~/Official Statement] and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this [~~Prospectus/Private Placement Memorandum~~/Official Statement], shall be deemed to be modified or superseded for purposes of this [~~Prospectus/Private Placement Memorandum~~/Official Statement] to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this [~~Prospectus/Private Placement Memorandum~~/Official Statement].



The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2002, MBIA had admitted assets of \$8.6 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$2.9 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the [Bonds/Securities], and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the [Bonds/Securities]. MBIA does not guaranty the market price of the [Bonds/Securities] nor does it guaranty that the ratings on the [Bonds/Securities] will not be revised or withdrawn.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

STD-NY

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

[NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentation and surrender of such Obligations or presentation of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 75 of the New York Insurance Law.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

NEW ISSUE: SERIAL BONDS
BOOK-ENTRY-ONLY
HYDROELECTRIC PLANT BONDS: NOT BANK QUALIFIED

MOODY'S RATING: A3
(SEE "RATING" HEREIN)

In the opinion of Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Public Improvement Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Public Improvement Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. Interest on the Public Improvement 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 Exemption" herein for a discussion of certain Federal taxes applicable to corporate owners of the Bonds.

The City will not designate the Hydroelectric Plant Bonds as "qualified tax-exempt obligations" pursuant to section 265(b)(3) of the Code.

\$190,000
CITY OF WATERTOWN
JEFFERSON COUNTY, NEW YORK
GENERAL OBLIGATION

\$190,000 HYDROELECTRIC PLANT (SERIAL) BONDS, 2002 (FEDERALLY TAXABLE SERIES)

DATED: May 15, 2002

DUE: May 15, 2003-2021

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>
2003	\$10,000	7.40%	3.75%	2010	\$10,000	7.50%	6.40%	2016	\$10,000*	7.50%	7.20%
2004	10,000	7.40	4.25	2011	10,000	7.50	6.60	2017	10,000*	7.50	7.30
2005	10,000	7.40	5.00	2012	10,000*	7.50	6.75	2018	10,000*	7.50	7.40
2006	10,000	7.40	5.25	2013	10,000*	7.50	6.90	2019	10,000*	7.50	7.50
2007	10,000	7.40	5.70	2014	10,000*	7.50	7.00	2020	10,000*	7.50	7.50
2008	10,000	7.40	6.00	2015	10,000*	7.50	7.10	2021	10,000*	7.50	7.50
2009	10,000	7.40	6.25								

* Subject to Optional Redemption

The Bonds are general obligations of the City of Watertown, Jefferson County, New York (the "City"), 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 Bonds will be subject to redemption prior to maturity as described herein.

The Bonds will be issued as registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York which will act as the securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. The Bonds bear interest from their date until maturity at the annual rate(s) specified by the successful bidder payable November 15, 2002, and semi-annually thereafter on May 15 and November 15 in each year until maturity. The Bonds will be subject to redemption prior to maturity described herein. Principal and interest on the Bonds will be payable when due as described in "Book-Entry-Only System" under "The Bonds" herein.

The Bonds are offered when, as and if issued and received by the Purchaser and subject to the receipt of the unqualified legal opinion as to the validity of the Bonds of Willkie Farr & Gallagher, Bond Counsel, of New York City. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 29, 2002.

May 21, 2002

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE CITY DATED MAY 13, 2002 RELATING TO THE BONDS BY INCLUDING CERTAIN INFORMATION OMITTED FROM SUCH OFFICIAL STATEMENT IN ACCORDANCE WITH SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). OTHER THAN AS SET FORTH ON THIS REVISED COVER PAGE AND THE INCLUSIONS OF APPENDIX C ("RATING"), THERE HAVE BEEN NO REVISIONS TO SAID OFFICIAL STATEMENT.

ROOSEVELT & CROSS, INC. & ASSOCIATES

RATING

MOODY'S INVESTORS SERVICES, INC. has given the Bonds a rating of "A3". Such rating reflects only the view of such rating agency, and any desired explanation of the significance of such rating should be obtained from Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such rating could have an adverse effect on the market price of the Bonds.



**NEW ISSUE: SERIAL BONDS
BOOK-ENTRY-ONLY
PUBLIC IMPROVEMENT: BANK QUALIFIED
HYDROELECTRIC PLANT BONDS: NOT BANK QUALIFIED**

In the opinion of Bond Counsel, assuming continuing compliance by the City with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Public Improvement Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Public Improvement Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. Interest on the Public Improvement 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 Exemption" herein for a discussion of certain Federal taxes applicable to corporate owners of the Bonds.

The Public Improvement Bonds will be designated "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code. The City will not designate the Hydroelectric Plant Bonds as "qualified tax-exempt obligations" pursuant to section 265(b)(3) of the Code.

**\$2,500,000
CITY OF WATERTOWN
JEFFERSON COUNTY, NEW YORK
GENERAL OBLIGATION**

\$2,310,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2002

DATED: May 15, 2002

**DUE: May 15, 2003-2020
(as shown on inside cover)**

\$190,000 HYDROELECTRIC PLANT (SERIAL) BONDS, 2002 (FEDERALLY TAXABLE SERIES)

DATED: May 15, 2002

**DUE: May 15, 2003-2021
(as shown on inside cover)**

The Bonds are general obligations of the City of Watertown, Jefferson County, New York (the "City"). 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 Bonds will be subject to redemption prior to maturity as described herein.

The Bonds will be issued as registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York which will act as the securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. The Bonds bear interest from their date until maturity at the annual rate(s) specified by the successful bidder payable November 15, 2002, and semi-annually thereafter on May 15 and November 15 in each year until maturity. The Bonds will be subject to redemption prior to maturity described herein. Principal and interest on the Bonds will be payable when due as described in "Book-Entry-Only System" under "The Bonds" herein.

The Bonds are offered when, as and if issued and received by the Purchaser and subject to the receipt of the unqualified legal opinion as to the validity of the Bonds of Willkie Farr & Gallagher, Bond Counsel, of New York City. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 29, 2002.

May 13, 2002

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. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDER AS MORE FULLY DESCRIBED IN THE NOTICE OF SALE WITH RESPECT TO THE OBLIGATIONS HEREIN DESCRIBED. THE CITY WILL CONVEY IN AN UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE AS DEFINED IN THE RULE (SEE "CONTINUING DISCLOSURE UNDERTAKING" HEREIN).

MATURITY SCHEDULES

\$2,310,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2002

DATED: May 15, 2002

DUE: May 15, 2003-2020

<u>MATURITIES</u>					
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2003	\$225,000	2009	\$150,000	2015	\$100,000*
2004	225,000	2010	150,000	2016	100,000*
2005	225,000	2011	125,000	2017	50,000*
2006	225,000	2012	100,000*	2018	35,000*
2007	200,000	2013	100,000*	2019	25,000*
2008	150,000	2014	100,000*	2020	25,000*

* Subject to Optional Redemption

\$190,000 HYDROELECTRIC PLANT (SERIAL) BONDS, 2002 (FEDERALLY TAXABLE SERIES)

DATED: May 15, 2002

DUE: May 15, 2003-2021

<u>MATURITIES</u>					
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2003	\$10,000	2010	\$10,000	2016	\$10,000*
2004	10,000	2011	10,000	2017	10,000*
2005	10,000	2012	10,000*	2018	10,000*
2006	10,000	2013	10,000*	2019	10,000*
2007	10,000	2014	10,000*	2020	10,000*
2008	10,000	2015	10,000*	2021	10,000*
2009	10,000				

* Subject to Optional Redemption

CITY OFFICIALS

JOSEPH M. BUTLER

Mayor

CITY COUNCIL

ROXANNE M. BURNS
PAUL A. SIMMONS

PETER L. CLOUGH
JEFFREY M. SMITH

JERRY C. HILLER

City Manager

JAMES M. McCAULEY
City Comptroller

DONNA M. DUTTON
City Clerk

WILLKIE FARR & GALLAGHER
New York, New York
Bond Counsel



NYMAC

NEW YORK MUNICIPAL ADVISORS CORPORATION
76 North Broadway • Suite 4010
Hicksville, New York 11801
(516) 938-6644 Fax (516) 938-6684

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

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

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

\$190,000 Hydroelectric Plant (Serial) Bonds, 2002 (Federally Taxable Series)

This Official Statement, which includes the cover page and appendices hereto, has been prepared by the City of Watertown, Jefferson County, New York (the "City," "County" and "State," respectively), in connection with the sale by the City of \$2,310,000 Public Improvement (Serial) Bonds, 2002 (the "Public Improvement Bonds") and \$190,000 Hydroelectric Plant (Serial) Bonds, 2002 (Federally Taxable Series) (the "Hydroelectric Plant Bonds") (together the "Bonds").

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

DESCRIPTION OF THE BONDS

The Bonds are general obligations of the City, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Bonds as required by the Constitution and laws of the State (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 registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Interest on the Bonds will be payable on November 15 and May 15 in each year until maturity, commencing November 15, 2002. 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 will be subject to redemption prior to maturity as described herein. The Record Date for the Bonds is the last business day of the calendar month preceding each interest payment date.

Optional Redemption

The Bonds maturing on or before May 15, 2011 will not be subject to redemption prior to maturity. The Bonds maturing on or after May 15, 2012 will be subject to redemption prior to maturity, at the option of the City, on May 15, 2011 and thereafter on any date, as a whole or in part, and if in part in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at the price equal to the par amount, plus accrued interest to the date of redemption.

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

Authority for and Purpose

Public Improvement Bonds

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

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

The proceeds of the Bonds (\$1,242,000) together with available funds (\$133,000) will be used to retire Bond Anticipation Notes, currently outstanding. Proceeds of the Bonds (\$1,068,000) will be used to provide new monies.

Hydroelectric Plant Bonds

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

<u>Purpose</u>	<u>Amount</u>
Hydroelectric Plant Reconstruction	<u>\$190,000</u>
Total	\$190,000

The proceeds of the Bonds (\$190,000) together with available funds (\$11,000) will be used to retire Bond Anticipation Notes, currently outstanding.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (referred to in this section as the "Securities" where appropriate). The Securities will be issued as fully-registered Securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Bonds and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Securities deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The 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.

Principal and interest payments on the Securities will be made by the City to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC or and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

Source: DTC

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 for any single maturity. Principal of the Bonds when due will be payable upon presentation at the office of a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the City upon termination of the book-entry-only system. Interest on the Bonds will remain payable November 15, 2002, and semiannually thereafter on May 15 and November 15 in 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 Bond Determinations Certificate 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 of Watertown (the "City"), which covers an area of approximately nine square miles, is the County seat of Jefferson County, New York. The City is located in the northern part of the State on the Black River, eleven miles east of Lake Ontario and twenty-two miles southeast of the St. Lawrence River (and Canadian border).

Agribusiness, services, tourism and manufacturing are the chief industries of the area in and around the City. Watertown is a major retail and wholesale shopping center for northern New York and southeastern Ontario. Its proximity to the Thousand Islands Bridge makes the City easily accessible to Canadians for shopping and tourism.

The City also serves as the region's legal center, with City Court, County and Family Court, State Supreme Court and Federal Court chambers. There are more than 40 law firms located within the City.

Watertown is also the center of Health Services for the "North Country", with one hospital, two major nursing homes, an outpatient health service facility, a cancer treatment center, a Veterans' Administration Center and a mental health treatment facility. The cancer treatment center serves most of the northern part of the State. There are more than 50 physician's and 20 dentist's offices within the city.

Papermaking is still one of the principal industries of northern New York and the City. Not only is paper produced here, but it is also a center for the research and development regarding the conversion processes of paper. Among the other products manufactured within the City and immediately surrounding it are hydraulic pumps, railroad/subway brakes, fractional horsepower motors, wood products, apparel, medical instruments, zinc die castings and irrigation systems.

Watertown serves as the center for the region in providing finance, insurance and real estate services. Four commercial banks, one savings bank, one savings and loan, and three credit unions do business at several locations in the City. There are two insurance companies in Watertown, and more than 30 insurance agencies.

Interstate Route 81, the area's major North-South arterial, serves as the western boundary of the City. The City owns and operates the Watertown International Airport, located five miles from the City. Watertown is served by one independent bus line and several interstate trucking firms. Within Watertown itself, the City operates a fleet of four public buses and provides paratransit services.

The City maintains its own police and fire protection. Electricity and natural gas are furnished by Niagara Mohawk Power Corporation. Major telecommunications services are provided by Verizon. With funding from Verizon's telecommunications diffusion grant, ATM and ISDN connections are in progress for the North Country Telecommunications Consortium. The City, a leading force in the Consortium, plans extension of the telecommunications services to the tenants of the City's Industrial Park.

Fort Drum

Following activation of the 10th Mountain Division at Fort Drum in 1984, the military related population in the area has grown to around 30,000. Of the 10,500 soldiers, approximately 5,100 are single and approximately 5,400 are married. The soldiers have an additional 15,000 local family members. There are also 2,200 civilian employees, including Federal jobholders. Approximately 1/3 of the total military-related population live on Fort Drum with the remainder scattered among the various jurisdictions within 30 miles of the base. The City, as an urban center and located only 7 miles from the Fort, houses the next largest percentage. An estimated 4,300 indirect jobs have been created to support the area's military population.

Fort Drum was not impacted negatively by the base realignment and closures of the mid-1990's. In 1995, the Base Realignment and Closure Commission recommended, and Congress approved, the expenditure of \$50,000,000 for the construction of a minimum essential departure airfield for the purpose of deploying the 10th Mountain Division stationed at the Fort. Construction of the airfield is complete.

Housing Development

The following is a table listing the various types of housing built within the City in the past 10 years.

<u>Housing Type</u>	<u>Number Built</u>
Senior Citizens	96
Single Family Home	<u>35</u>
Total	131

Source: Monthly Building Reports, 1992-2001.

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	1,748
Jefferson County	Government Services	860
Jefferson Rehab. Center	Services for Disabled	650
Watertown City School District	Primary Education	603
MGNH	Health Services	600
Jefferson Community College	Post-secondary Education	455
State of New York	Government Services	450
City of Watertown	Government Services	354
Kendall Sherwood Davis & Geck	Manufactures Medical Devices	291
New York Air Brake Company	Manufactures air brakes for freight and passenger railroad cars, hydraulic pumps and motors for aircraft and missiles	250
Johnson News Corporation	Daily News Papers - Job Printing	239

Source: Telephone survey on 5/2/02.

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

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

Form of City Government

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

Financial Organization

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

Budgetary Procedures

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

State Aid

The City receives financial assistance from the State. In its budget for the 2001-2002 fiscal year, approximately 13.6% of the general fund revenues of the City are estimated to be received from the State as State aid. If the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments. Additionally, if the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the City, may be affected by a delay in the payment of State aid.

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

Employees

The City currently employs approximately 354 full-time and 19 to 75 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	152	June 30, 2000 ¹
Watertown Firefighters Association	79	June 30, 2003
Watertown Police Benevolent Association	62	June 30, 2001 ¹
International Brotherhood of Electrical Workers	3	June 30, 2003

¹At Impasse.

Status and Financing of Employee Pension Benefits

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

Pursuant to Chapter 62 of the Laws of 1989 (the "1989 Legislation"), the City's liability to the ERS and PFRS is accounted for according to generally accepted accounting principles. Bills are sent November 15 each year for payment December 15. The December 15 payment covers the 12 month period from the previous April 1st through the payment date to the following March 31. Under previous legislation, the City's payment period covering the payment date was due June 30 and represented liabilities incurred through March 31 of the previous year. As a result of the 1989 Legislation, the City was allowed to amortize contributions for State fiscal years ending March 31, 1988 and March 31, 1989 over a seventeen year period at a rate of 8.75%. The first annual installment was payable December 15, 1989. In addition to the change in billing procedures, the 1989 legislation authorized, on an option basis, the pre-payment on December 15 in any year of the amount which would otherwise remain to be amortized. Pre-payments were made by the City to eliminate the obligation for the period April 1, 1987 through March 31, 1989.

Further changes to the Retirement System were made pursuant to Chapter 210 of the Laws of 1990, which, among other changes, replaced the aggregate cost actuarial funding method, previously used to determine the Retirement Systems contributions, with a modified projected unit credit ("PUC") method. The new PUC funding method was used for contributions relating to the State fiscal year ending March 31, 1991. In accordance with Chapter 53 of the Laws of 1990, as amended by Chapter 53 of the Laws of 1992, the State Comptroller is required to withhold from certain State aid payments to the City an amount equal to a State calculation of 17.5% of the savings the City realized from the change to the new funding method for the Retirement System. Contributions to the Systems for the last five years were as follows:

<u>Year</u>	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
1996-1997	23,248	390,478	413,726
1997-1998	23,673	221,048	244,721
1998-1999	124,072	30,815	154,887
1999-2000	10,716	7,985	18,701
2000-2001	14,822	-----	14,822

The 2001-2002 budgeted contributions to the ERS and PFRS are \$82,019 and \$205,553 respectively.

Unemployment Rate Statistics

	<u>Year Average</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
City of Watertown	9.3%	9.7%	9.7%	8.6%	8.5%
Jefferson County	8.9%	9.2%	9.3%	8.2%	8.1%
New York State	6.4%	5.6%	5.2%	4.6%	4.9%

	<u>2002 Monthly Figures</u>				
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>
City of Watertown	10.9%	11.4%	10.7%	N/A	N/A
Jefferson County	10.5%	10.9%	10.3%	N/A	N/A
New York State	6.4%	6.5%	6.2%	N/A	N/A

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

Niagara Mohawk 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 Niagara Mohawk Power Corporation (NMPC) 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 Niagara Mohawk'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 will 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 total approximate cost of the project was \$9,500,000. The City has signed a three year contract totaling \$574,610, with Mercer Management Incorporated, Albany, New York, for operation and maintenance of the plant. The City had gross revenues from electric power sales to NIMO of approximately \$1,290,165 and net revenues of \$1,053,719 after operating expenses and wheeling charges for the fiscal year ending June 30, 2001, which was the City's first full year of operation.

Power Purchase Agreement

On March 19, 1991 the City entered into a Power Purchase Agreement (the "PPA") with the Niagara Mohawk Power Corporation ("NIMO") that requires NIMO 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). NIMO has agreed to deliver power to the Municipal

Accounts pursuant to a separate Transmission and Distribution Agreement. The PPA further obligates NIMO 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 NIMO.

The PPA requires NIMO 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 NIMO is not required to purchase Excess Energy and the City is not required to deliver energy by reasons of maintenance, repair, emergency or safety.

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

Sewer Agreement

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

The total project cost for the completed construction expansion was \$11,897,372, financed through the issuance of bonds. As of May 1, 2002, \$4,170,000 remains outstanding. The City is recouping these expenditures through service fees charged to the Development Authority of the North Country.

Water Agreement

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

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

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

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

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
1997	\$490,988
1998	505,281
1999	521,437
2000	516,704
2001	565,090

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.

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

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

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

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

Financial Statements

The City retains certified public accountants for the purposes of an independent audit. The last such audit covers the period ending June 30, 2001 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 June 30:</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Assessed Valuation	\$597,134,513	\$589,647,714	\$589,439,586	\$585,140,265	\$591,711,438
New York State					
Equalization Rate	98.51%	100.54%	98.27%	99.79%	100.00%
Full Valuation	\$606,166,392	\$586,480,718	\$599,816,410	\$586,371,645	\$591,711,438
Tax Rate Per \$1,000					
Assessed Valuation	\$12.00	\$12.00	\$12.22	\$12.68	\$13.17

Tax Collection Record

<u>Fiscal Year Ending June 30:</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Tax Levy ¹	\$7,332,376	\$7,254,233	\$7,451,856	\$7,890,292	\$8,119,658
Additions (Cancellations)					
During the Year	<u>(18,615)</u>	<u>(8,135)</u>	<u>(9,468)</u>	<u>(9,320)</u>	<u>(8,898)</u>
Net Tax Levy	7,313,761	7,246,098	7,442,388	7,880,972	8,110,760
Collections ¹	<u>7,270,167</u>	<u>7,219,351</u>	<u>7,339,510</u>	<u>7,791,893</u>	<u>7,809,409</u> ²
Uncollected End of Year	\$43,593	\$26,747	\$102,878	\$89,079	\$301,351 ²
% Collected	99.40%	99.52%	98.49%	98.75%	96.18% ²

¹ Includes water, sewer and public service charges.

² As of May 1, 2002.

Tax Collection Procedure

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

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

Larger Taxpayers

<u>Name</u>	<u>Type</u>	<u>2002-03 Assessed Valuation</u>
Niagara Mohawk Power Corporation	Utility	\$31,458,277
MGNH Inc.	Medical/Nursing Home	26,559,500
Erie Boulevard Power	Utility	12,217,150
Arsenal Street Associates (Price Chopper Plaza)	Shopping Center	9,219,000
Verizon	Utility	7,901,567
Allen Spevack (Stateway Plaza)	Shopping Center	6,000,000
FEF Inc. (Ontario Village Apartments)	Apartments	3,900,000
New Plan Realty Trust	Shopping Center	3,400,000
Affordable Hospitality	Motel	3,375,000
Richard Alexander	Motel	3,300,000

Constitutional Tax Margin

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2002</u>	<u>June 30, 2003</u>
Five Year Average Full Valuation	\$594,384,222	\$594,109,321
Tax Limit - 2% of Five Year Average	11,887,684	11,882,186
Add: Exclusions From Tax Limit	<u>5,908,968</u>	<u>5,604,424</u>
Maximum Taxing Power	17,796,652	17,486,610
Less Total Levy	<u>7,816,972</u>	<u>9,905,053</u>
Tax Margin	<u>\$ 9,979,680</u>	<u>\$ 7,581,557</u>

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 State Board of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

Statutory Procedure

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

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

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

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

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

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

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

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

The Common 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).

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of May 2, 2002.

	<u>Maturity</u>	<u>Amount</u>
Bonds ¹	2002-2025	\$39,064,800 ²
<u>Bond Anticipation Notes</u>	May 31, 2002	<u>2,576,000</u>
	Total Debt Outstanding	<u>\$41,640,800</u>

¹ Excluding various refunded bonds.

² Of the total bonded principal debt outstanding, \$4,170,000 represents debt issued for the construction of the Wastewater Treatment Plant. The City will recoup this debt service through service fees charged to The Development Authority of the North Country. See "Agreements Between The Development Authority of the North Country and the City" herein.

Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of May 2, 2002:

Five-Year Average Full Valuation of Taxable Real Property	\$594,109,320
Debt Limit - 7% thereof	41,587,652

Inclusions:

Serial Bonds	\$39,064,800
Bond Anticipation Notes	2,576,000
1991 Refunded Bonds	268,200
1992 Refunded Bonds	750,000
1992 Refunded Bonds	665,000
1996 Refunded Bonds	<u>952,000</u>
Total Inclusions	<u>44,276,000</u>

Exclusions:

Water Debt ¹	\$8,654,744
Sewer Debt ²	5,598,000
Cash on Hand in Man. Res. ³	0
Refunded Bonds ⁴	2,635,000
Appropriations	<u>793,791</u>
Total Exclusions	<u>17,681,535</u>

Total Net Indebtedness	<u>26,594,465</u>
Net Debt-Contracting Margin	<u>\$14,993,187</u>
Percent of debt contracting power exhausted	63.95%

The issuance of the Bonds will increase the net indebtedness of the City by 1,068,000.

¹ Water Debt is excluded pursuant to Article VIII, Section 5B of the New York State Constitution.

² Sewer Debt is excluded pursuant to Section 124.10 of the Local Finance Law.

³ Cash on Hand from a Mandatory Reserve is excluded pursuant to Section 136.00(11) of the Local Finance Law.

⁴ Refunded Bonds are excluded pursuant to Section 136.00(10-a) of the Local Finance Law.

Debt Outstanding End of Fiscal Year

Fiscal Years Ending June 30:	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>(X00)</u>	<u>2001</u>
Bonds ¹	\$43,555,000	\$50,730,066	\$46,119,866	\$47,875,363	\$42,941,000
Bond Anticipation Notes	<u>2,405,000</u>	<u>291,000</u>	<u>5,488,500</u>	<u>260,000</u>	<u>2,576,000</u>
	\$45,960,000	\$51,021,066	\$51,608,366	\$48,135,363	\$45,517,000

¹Does not include various refunded bond issues.

Authorized But Unissued Items

After the issuance of the Bonds, the City will have \$8,068,000 in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Combined Sewer Overflow Consultant	\$50,000	\$50,000
Vehicles FY 00-01	266,500	145,000
Airport Improvements FY 99-00	309,500	82,000
Construction of DPW Facility	3,658,000	3,447,000
Demolition of City owned Property FY 01-02	167,000	81,000
Street Reconst. Flower Ave. East	430,000	430,000
Street Reconst. Bellew Ave.	422,000	422,000
Street Reconst. St.Mary Street FY 01-02	228,000	228,000
Airport Improvements FY 01-02	200,000	100,000
Fairground Pool Area Roof Replace. FY 01-02	50,000	50,000
Ice Arena Dehumid. System FY 01-02	65,000	65,000
Sanitary Sewer Line at Landfill FY 01-02	30,000	30,000
Sterling, Clay & Franklin St. Intersection FY 01-02	106,000	106,000
Vehicles FY 01-02	684,500	529,500
West Main Street Culvert Drainage Improve. FY 01-02	90,000	90,000
Pearl Street Bridge Reconstruction	623,000	543,000
Replace Roof at 337 Engine Street FY 01-02	100,000	12,000
Consulting Svces for Fixed Asset Inven. FY 01-02	40,000	40,000
Mobile Data Computers for Police Vehicles FY 01-02	232,500	172,500
Transit Buses	1,430,000	1,320,000
Downtown Streetscape Project	450,000	450,000
Sewer Main Inspection Video Equip & Vehicle FY 01-02	<u>125,000</u>	<u>125,000</u>
	\$9,757,000	\$8,518,000

Estimated Overlapping Indebtedness

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

<u>Unit</u>	<u>Total</u> <u>Indebtedness</u>	<u>Exclusions</u>	<u>Net</u> <u>Indebtedness</u>	<u>% Within</u> <u>City</u>	<u>Net Overlapping</u> <u>Indebtedness</u>
County of Jefferson	\$14,995,000	\$ 0	\$14,995,000	18.8%	\$2,819,060
City School District of the City of Watertown	4,600,000	0	4,600,000	71.7%	<u>3,298,200</u>
Total					<u>\$6,117,260</u>

Source: New York State Comptroller's Special Report on Municipal Affairs for Fiscal Year Ended in 1999, July, 2001.

Bonded Debt Service^{1, 2}

Fiscal Year Ending June 30th	Excluding this Issue			Principal This Issue	Principal All Issues
	Principal ³	Interest ³	Total Principal and Interest		
2002	\$4,771,200	\$2,458,136	\$7,229,336	\$235,000	\$5,006,200
2003	4,713,200	2,182,489	6,895,689	235,000	4,948,200
2004	4,491,200	1,918,460	6,409,660	235,000	4,726,200
2005	4,175,700	1,669,228	5,844,928	235,000	4,410,700
2006	3,999,700	1,434,316	5,434,016	210,000	4,209,700
2007	3,863,200	1,207,026	5,070,226	160,000	4,023,200
2008	2,421,200	996,525	3,417,725	160,000	2,581,200
2009	2,292,200	861,432	3,153,632	160,000	2,452,200
2010	1,938,200	729,594	2,667,794	135,000	2,073,200
2011	1,535,200	622,932	2,158,132	110,000	1,645,200
2012	1,355,000	534,068	1,889,068	110,000	1,465,000
2013	600,000	467,121	1,067,121	110,000	710,000
2014	520,000	428,355	948,355	110,000	630,000
2015	465,000	394,663	859,663	110,000	575,000
2016	460,000	363,430	823,430	60,000	520,000
2017	470,000	332,183	802,183	45,000	515,000
2018	455,000	301,193	756,193	35,000	490,000
2019	460,000	271,633	731,633	35,000	495,000
2020	470,000	241,478	711,478	10,000	480,000
2021	495,000	210,175	705,175	0	495,000
2022	525,000	177,273	702,273	0	525,000
2023	560,000	142,135	702,135	0	560,000
2024	600,000	104,455	704,455	0	600,000
2025	640,000	64,135	704,135	0	640,000
2026	665,000	21,658	686,658	0	665,000
Totals	\$42,941,000	\$18,134,093	\$61,075,093	\$2,500,000	\$45,441,000

¹ Of the total bonded principal debt outstanding, \$5,845,000 represents debt issued for the construction of the Wastewater Treatment Plant. The City will recoup this debt service through service fees charged to The Development Authority of the North Country. See "Agreements Between The Development Authority of the North Country and the City" herein.

² Excluding various refunded bonds.

³ Table does not reflect either payments made to date, fiscal year ending June 30, 2002 nor the savings to be realized as a result of this issue.

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 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.

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

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

MARKET AND RISK FACTORS

The financial condition of the City as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurance that adverse events in the State and any jurisdictions in the Country, 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 of any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Bonds, 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 and revenues in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the City. (See "State Aid").

CONTINUING DISCLOSURE 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, or cause to be provided,

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

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

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

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

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

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

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

LITIGATION

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

TAX EXEMPTION – PUBLIC IMPROVEMENT BONDS

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

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

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

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

TAX EXEMPTION – HYDROELECTRIC PLANT BONDS

In the opinion of Bond Counsel, interest on the Hydroelectric Plant 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 tax consequences arising with respect to the Hydroelectric Plant Bonds.

LEGAL MATTERS

The legality of the authorization and issuance of the Bonds will be covered by the unqualified legal opinion of Willkie Farr & Gallagher, Bond Counsel, New York, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the 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 Bonds and interest thereon, without limitation as to rate or amount, provided, however, that the enforceability (but not the validity) of the Bonds may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal) affecting the enforcement of creditors' rights, (ii) the City has the power to comply with its covenant included in its arbitrage certificate with respect to the Bonds relating to compliance with the Code as it relates to the 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 Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Bonds is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, interest on the Bonds is includable in the "adjusted current earnings" of a corporate owner of the Bonds and interest on the Bonds is thus includable in the tax base for computing a corporation's liability with respect to the alternative minimum tax imposed on corporations by the Code. Moreover, interest on the Bonds may be subject to a branch profits tax when owned by certain foreign corporations. Furthermore, interest on the Bonds may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City of New York. Bond Counsel will express no opinion regarding other Federal income tax consequences arising with respect to the Bonds.

Such legal opinion also will state that (i) in rendering the opinions expressed therein, Bond Counsel has assumed the accuracy and truthfulness of all public records, documents and proceedings examined by Bond Counsel which have been executed or certified by public officials acting within the scope of their official capacities, and has not verified the accuracy or truthfulness thereof, and Bond Counsel also has assumed the genuineness of the signatures appearing upon such public records, documents and proceedings, and such certifications; (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Bonds 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.

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.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of the City Comptroller, at (315) 785-7754; or from the office of NYMAC, at (516) 938-6644, as financial advisor to the City.

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

CITY of WATERTOWN

**Dated: Watertown, New York
May 13, 2002**

**JAMES M. McCAULEY
City Comptroller**

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

APPENDIX A

Year Ended June 30:	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
REVENUES				
Real Property Taxes	\$7,376,693	\$7,169,966	\$6,942,152	\$7,258,965
Real Property Tax Items	631,234	668,115	608,301	610,074
Non-Property Tax Items	9,227,847	9,477,136	9,589,799	9,939,080
Departmental Income	2,567,588	1,183,547	2,047,964	2,428,255
Intergovernmental Charges	74,669	62,860	33,757	35,980
Use of Money and Property	272,515	353,414	321,198	361,242
Licenses and Permits	61,731	53,768	95,168	53,448
Fines and Forfeits	141,812	121,921	108,245	101,908
Sale of Property and Compensation for Loss	220,837	141,950	260,039	17,828
Miscellaneous	199,457	303,670	219,887	226,294
Interfund Revenues	2,076	33,898	27,351	37,900
State Aid	3,201,074	3,373,771	3,689,882	3,379,417
Federal Aid	175,380	715,258	1,478,946	195,397
Total Revenues	24,152,913	23,659,274	25,422,689	24,645,788
EXPENDITURES				
General Government Support	2,747,133	3,231,269	3,109,963	3,295,994
Education	0	0	5,826	6,883
Public Safety	8,414,274	8,939,009	8,896,056	9,282,419
Transportation	2,660,071	2,604,501	2,852,223	2,888,405
Economic Assistance and Opportunity	147,275	141,162	182,391	224,312
Culture and Recreation	1,046,051	1,013,522	1,000,593	1,001,467
Home and Community Services	1,163,610	1,769,282	2,087,384	999,340
Employee Benefits	3,053,835	2,868,067	3,151,735	3,619,226
Debt Service	3,019,869	3,745,719	3,952,801	4,051,399
Total Expenditures	22,252,118	24,312,531	25,238,972	25,369,445
Excess revenue over (under) expenditures	1,900,795	(653,257)	183,717	(723,657)
Other financing sources (uses)				
Retirement System Credits	7,998	3,264	827	
Operating transfers in	612,952	779,368	727,321	789,101
Operating transfers out	(557,362)	(572,553)	(591,230)	(690,711)
Total other financing sources (uses)	63,588	210,079	136,918	98,390
Excess revenue and other sources over (under) expenditures and other uses	1,964,383	(443,178)	320,635	(625,267)
Fund balance (deficit) beginning of year	3,359,463	5,323,846	4,880,668	5,201,303
Fund balance (deficit) end of year	\$5,323,846	\$4,880,668	\$5,201,303	\$4,576,036

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

**City of Watertown
Comparison of Budget and Actual Results
General Fund**

APPENDIX A-1

(Most Recently Available Completed Fiscal Year and Current Budget)

Year Ended June 30:	2001			2002
	Adopted Budget	Modified Budget	Actual	Adopted Budget
REVENUES				
Real Property Taxes	\$7,228,793	\$7,228,793	\$7,443,064	\$7,607,439
Real Property Tax Items	788,000	788,000	653,917	752,430
Non-Property Tax Items	9,928,500	10,100,188	10,287,204	10,192,000
Departmental Income	2,484,100	2,484,100	2,488,179	2,715,600
Intergovernmental Charges	41,500	41,500	47,829	34,800
Use of Money and Property	314,900	316,540	459,803	281,600
Licenses and Permits	54,300	54,300	67,968	56,450
Fines and Forfeitures	108,000	108,000	91,308	108,000
Sale of Property and Compensation for Loss	88,000	88,000	74,378	42,900
Miscellaneous	19,000	19,000	215,978	14,500
Interfund Revenues	35,300	35,300	34,762	168,342
State Aid	3,599,812	3,599,812	3,791,667	3,736,229
Federal Aid	236,800	236,800	235,638	199,800
Total Revenues	24,927,005	25,100,333	25,891,695	25,910,090
EXPENDITURES				
General Government Support	6,561,622	3,467,460	3,381,571	4,809,203
Education	0	6,300	5,650	0
Public Safety	10,286,553	10,783,326	9,772,194	10,396,276
Transportation	1,772,028	3,363,847	3,052,668	3,416,016
Economic Assistance & Opportunity	155,000	230,500	230,270	160,000
Culture and Recreation	1,188,259	1,077,252	990,715	1,224,367
Home and Community Services	17,400	1,098,534	930,747	1,105,790
Employee Benefits	1,429,638	1,881,268	4,008,055	1,540,348
Debt Service	4,975,601	4,089,731	4,089,258	4,060,183
Total Expenditures	26,386,101	25,998,218	26,461,128	26,712,183
Excess revenue over (under) expenditures	(1,459,096)	(897,885)	(569,433)	(802,093)
Other financing sources (uses)				
Operating transfers in	230,000	357,000	965,472	0
Operating transfers out	(40,100)	(890,167)	(752,567)	(727,907)
Total other financing sources (uses)	189,900	(533,167)	212,905	(727,907)
Excess revenue and other sources over (under) expenditures and other uses	(1,269,196)	(1,431,052)	(356,528)	(1,530,000)
Fund balance (deficit) beginning of year	1,269,196 ¹	1,431,052 ¹	4,576,036	1,530,000 ¹
Adjustments (net)	N/A	N/A	(66,453)	N/A
Fund balance (deficit) end of year	\$0	\$0	\$4,153,055	\$0

¹Appropriated fund balance budgeted as revenue.

Source: Annual 2001 unaudited financial statements and Budgets of the City of Watertown. Summary itself not audited.

City of Watertown
Statement of Revenues, Expenditures and Changes in Fund Balance
Special Revenue Fund ^{1 2 3}

APPENDIX A-2

Year Ended June 30:	1997	1998	1999	2000	200 ¹
REVENUES					
Departmental Income	\$6,183,311	\$6,621,598	\$6,170,785	\$6,321,871	\$6,252,223
Intergovernmental Charges	1,596,741	1,320,467	1,331,294	1,199,861	1,220,713
Use of Money and Property	38,974	50,010	62,764	88,497	114,882
Licenses and Permits	22,000	23,500	36,625	21,500	20,396
Sale of Property and Compensation for Loss	899	1,655	1,622	1,266	11,659
Miscellaneous	81,300	79,740	84,244	121,905	107,876
Interfund Revenues	673,381	183,442	187,695	186,664	179,869
State Aid	31,368	7,610	57,516	0	0
Federal Aid	795,966	209,003	164,710	36,582	298,540
Total Revenues	9,423,940	8,497,025	8,097,255	7,978,146	8,206,158
EXPENDITURES					
General Government Support	634,253	57,494	274	279	293
Culture and Recreation	542,435	601,971	591,155	648,184	621,887
Home and Community Services	4,331,044	3,864,178	3,914,148	3,818,979	4,264,782
Employee Benefits	263,350	233,779	161,216	187,899	283,629
Debt Service	4,159,592	3,953,459	3,760,010	3,613,280	3,496,741
Total Expenditures	9,930,674	8,710,881	8,426,803	8,268,621	8,667,332
Excess revenue over (under) expenditures	(506,734)	(213,856)	(329,548)	(290,475)	(461,174)
Other financing sources (uses)					
Retirement System Credits	4,901	1,682	424	0	0
Operating transfers in	529,409	565,586	579,997	659,601	720,909
Operating transfers out	(25,000)	(50,000)	(244,242)	(218,380)	(63,750)
Total other financing sources (uses)	509,310	517,268	336,179	441,221	657,159
Excess revenue and other sources over (under) expenditures and other uses	2,576	303,412	6,631	150,746	195,985
Fund balance (deficit) beginning of year	2,248,132	2,250,710 ⁴	2,554,122	2,560,753	2,745,898
Adjustments (net)	0	0	0	34,399	(5,954)
Fund balance (deficit) end of year	\$2,250,708	\$2,554,122	\$2,560,753	\$2,745,898	\$2,935,929

¹ For 1997 the Special Revenue Fund consisted of Special Grant Fund, Water Fund, Sewer Fund Risk Retention Fund, Central Garage Fund & Public Library Fund.

² For 1998-2000 the Special Revenue Fund consisted of Special Grant Fund, Water Fund, Sewer Fund Risk Retention Fund & Public Library Fund.

³ In 2001 the Special Revenue Fund consisted of Special Grant Fund, Water Fund, Sewer Fund and Public Library Fund

⁴ Ending balance and beginning balance are not equal due to encumbrances carried forward from the prior year.

Source: Annual audited and 2001 unaudited financial statements of the City of Watertown. Summary itself not audited.

City of Watertown
Balance Sheets - General Fund and Special Revenue Fund

APPENDIX A-3

As of June 30:	2000		2001	
	General Fund	Special Revenue Fund ¹	General Fund	Special Revenue Fund ²
ASSETS				
Cash	\$2,900,762	\$869,537	\$4,954,198	\$1,533,932
Taxes receivable - net	1,903,116	0	1,819,042	0
Other receivables - net	471,715	2,355,421	562,854	2,185,274
Allowance for Uncollectible Accounts	(585,865)	(68,000)	(850,920)	(84,893)
State and Federal receivables	1,377,285	182,205	183,149	4,000
Due from Other Funds	543,417	19,748	395,009	19,975
Due from Other Governments	1,410,031	277,969	953,735	305,172
Prepaid Expenses	571	88	491	249
Restricted Assets	0	299,257	0	138,914
TOTAL ASSETS	8,021,032	3,936,225	8,017,558	4,102,623
LIABILITIES				
Accounts Payable	743,891	162,045	900,179	66,489
Accrued Liabilities	444,231	88,964	930,845	90,010
Overpayments & Clearing Account	0	0	0	0
Retainage Payables	10,981	620	9,431	0
Compensated Absences	478,513	79,092	498,764	86,573
Other Liabilities	0	0	16,461	2,452
Due to Other Funds	5,454	67,098	4,325	40,809
Due to Other Governments	688,328	56,616	561,999	22,552
Due to Retirement System	3,143	1,619	12,369	5,481
Deferred Revenue	1,070,455	734,273	930,131	852,328
TOTAL LIABILITIES	3,444,996	1,190,327	3,864,504	1,166,694
FUND EQUITY				
Reserved for:				
Encumbrances	92,185	34,583	201,029	110,580
Workers' Compensation	171,576	0	200,961	0
Capital Reserve	0	0	84,137	30,488
Insurance	561,342	0	533,726	0
Unreserved:				
Designated	1,269,196	402,057	1,530,000	880,691
Undesignated	2,481,737	2,309,258	1,603,201	1,914,170
TOTAL FUND EQUITY	4,576,036	2,745,898	4,153,054	2,935,929
TOTAL LIABILITIES AND FUND EQUITY	\$8,021,032	\$3,936,225	\$8,017,558	\$4,102,623

¹ For 2000 the Special Revenue Fund consists of Special Grant Fund, Water Fund, Sewer Fund, Risk Retention Fund, Central Garage Fund & Public Library Fund.

¹ For 2001 the Special Revenue Fund consists of Special Grant Fund, Water Fund, Sewer Fund and Public Library

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

APPENDIX B

CITY OF WATERTOWN, NEW YORK

JUNE 30, 2001

"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

JUNE 30, 2001

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INDEPENDENT AUDITORS' REPORT

Mayor and Members of the City Council
City of Watertown, New York

We have audited the accompanying general purpose financial statements of the

CITY OF WATERTOWN, NEW YORK

as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Watertown, New York's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Local Development Corporation of the City of Watertown and the Watertown Housing Authority, which are component units of the City of Watertown, New York. Those financial statements were audited by other auditors whose reports as of and for the year ended December 31, 2000 have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for these component units, is based solely on the reports 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not determinable.

The statement of cash flows of the Watertown Housing Authority, a component unit, has been omitted.

Mayor and Members of the City Council
City of Watertown, New York

In our opinion, based on our audit and reports of the other auditors, except for the effect on the general purpose financial statements of the omission of the general fixed asset account group of the City of Watertown, New York and the statement of cash flows of the Watertown Housing Authority, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Watertown, New York as of June 30, 2001, and of the Local Development Corporation of the City of Watertown and the Watertown Housing Authority as of December 31, 2000 and the results of its operations and the Local Development Corporation of the City of Watertown's cash flows for the years 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 a report dated November 29, 2001 on our consideration of the City of Watertown, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Watertown, New York, taken 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Sovie & Bowie C.P.A., P.C.

November 29, 2001

CITY OF WATERTOWN, NEW YORK

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>Assets:</u>		
Unrestricted cash and cash equivalents	\$ 4,939,061	\$ 1,332,118
Restricted cash and cash equivalents	15,137	201,814
Taxes receivable	1,819,042	-
Other receivables	562,854	2,185,274
Allowance for uncollectible accounts	(850,920)	(84,893)
State and federal aid receivables	183,149	4,000
Due from other funds	395,009	19,975
Due from other governments	953,735	305,172
Prepaid expenses	491	249
Restricted investments	-	138,914
Amount to be provided for retirement of long-term debt	-	-
	<hr/>	<hr/>
Total Assets	<u>\$ 8,017,558</u>	<u>\$ 4,102,623</u>
<u>Liabilities:</u>		
Accounts payable	\$ 900,179	\$ 66,489
Accrued liabilities	930,845	90,010
Retainage payable	9,431	-
Compensated absences	498,764	86,573
Other liabilities	16,461	2,452
Due to other funds	4,325	40,809
Due to other governments	561,999	22,552
Due to retirement system	12,369	5,481
Workers' compensation	-	-
Deferred revenue	930,131	852,328
Agency liabilities	-	-
Bond anticipation notes	-	-
Serial bonds	-	-
	<hr/>	<hr/>
Total Liabilities	<u>3,864,504</u>	<u>1,166,694</u>
<u>Fund Equity:</u>		
Reserve for encumbrances	201,029	110,580
Reserve for capital projects	84,137	30,488
Reserve for trust expenditures	-	-
Reserve for debt service	-	-
Reserve for workers' compensation	200,961	-
Reserve for insurance	533,726	-
Unreserved - designated for subsequent year's expenditures	1,530,000	880,691
Unreserved - undesignated	1,603,201	1,914,170
	<hr/>	<hr/>
Total Fund Equity	<u>4,153,054</u>	<u>2,935,929</u>
	<hr/>	<hr/>
Total Liabilities and Fund Equity	<u>\$ 8,017,558</u>	<u>\$ 4,102,623</u>

See notes to general

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Group</u>
<u>Capital Projects</u>	<u>Debt Service</u>	<u>Trust & Agency</u>	<u>General Long-term Debt</u>
\$ -	\$ -	\$ 93,780	\$ -
1,755,395	708,189	49,739	-
-	-	-	-
-	17,596	-	-
-	-	-	-
1,498,985	-	-	-
-	-	-	-
270	-	-	-
-	-	-	-
-	-	-	-
-	-	-	45,645,127
<u>\$ 3,254,650</u>	<u>\$ 725,785</u>	<u>\$ 143,519</u>	<u>\$ 45,645,127</u>
\$ 215,262	\$ -	\$ -	\$ -
1,022	-	-	414,000
49,877	-	-	-
-	-	-	169,025
-	-	-	-
369,850	-	-	-
-	-	-	-
-	-	15,770	-
-	-	-	2,121,102
218,594	-	-	-
-	-	78,010	-
2,576,000	-	-	-
-	-	-	42,941,000
<u>3,430,605</u>	<u>-</u>	<u>93,780</u>	<u>45,645,127</u>
-	-	-	-
-	-	-	-
-	-	49,739	-
-	725,875	-	-
-	-	-	-
-	-	-	-
-	-	-	-
(175,955)	-	-	-
<u>(175,955)</u>	<u>725,875</u>	<u>49,739</u>	<u>-</u>
<u>\$ 3,254,650</u>	<u>\$ 725,875</u>	<u>\$ 143,519</u>	<u>\$ 45,645,127</u>

BALANCE SHEETS OF COMPONENT UNITS -
WATERTOWN HOUSING AUTHORITY
AND THE LOCAL DEVELOPMENT CORPORATION
DECEMBER 31, 2000

	<u>Watertown Housing Authority</u>	<u>Local Development Corporation</u>
<u>Assets:</u>		
Cash and cash equivalents - unrestricted	\$ 4,913,804	\$ 381,742
Cash and cash equivalents - restricted	62,425	-
Accounts receivable (net)	74,045	-
Accrued interest receivable	-	-
Investments	-	1,292,122
Federal aid receivable	-	-
Notes receivable, net of reserve for bad debts	-	9,515,759
Debt amortization funds	-	-
Other assets	106,676	-
Foreclosed real estate, net	-	788,472
Property and equipment, net	<u>23,163,785</u>	<u>5,156</u>
Total Assets	<u>\$ 28,320,735</u>	<u>\$ 11,983,251</u>
<u>Liabilities:</u>		
Accounts payable	\$ 107,870	\$ -
Tenant security deposits	63,700	-
Accrued liabilities	108,874	8,175
Deferred credits	4,537	-
Long term debt, net of current capital projects	<u>78,980</u>	<u>-</u>
Total Liabilities	<u>363,961</u>	<u>8,175</u>
<u>Fund Equity:</u>		
Fund equity	27,956,774	-
Net assets, unrestricted	<u>-</u>	<u>11,975,076</u>
Total Fund Equity	<u>27,956,774</u>	<u>11,975,076</u>
Total Liabilities and Fund Equity	<u>\$ 28,320,735</u>	<u>\$ 11,983,251</u>

See notes to general purpose financial statements.

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CITY OF WATERTOWN, NEW YORK

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenue:		
Real property taxes	\$ 7,443,064	\$ -
Real property tax items	653,917	-
Non property taxes	10,287,203	-
Departmental income	2,488,179	6,252,223
Intergovernmental charges	47,829	1,220,713
Use of money and property	459,803	114,882
Licenses and permits	67,968	20,396
Fines and forfeitures	91,308	-
Sale of property and compensation for loss	74,378	11,659
Miscellaneous local sources	215,978	107,876
Interfund revenue	34,762	179,869
State sources	3,791,667	-
Federal sources	<u>235,638</u>	<u>298,540</u>
Total Revenue	<u>25,891,694</u>	<u>8,206,158</u>
Other Financing Sources:		
Notes redeemed by appropriation	-	-
Interfund transfers	<u>965,472</u>	<u>720,909</u>
Total Other Financing Sources	<u>965,472</u>	<u>720,909</u>
Total Revenue and Other Financing Sources	<u>26,857,166</u>	<u>8,927,067</u>
Expenditures:		
General government support	3,381,571	293
Education	5,650	-
Public safety	9,772,194	-
Transportation	3,052,668	-
Economic assistance and opportunity	230,270	-
Culture and recreation	990,715	621,887
Home and community services	930,747	4,264,782
Employee benefits	4,008,055	283,629
Debt service	<u>4,089,258</u>	<u>3,496,741</u>
Total Expenditures	26,461,128	8,667,332
Other Financing Uses:		
Operating transfers out	<u>752,567</u>	<u>63,750</u>
Total Expenditures and Other Financing Uses	<u>27,213,695</u>	<u>8,731,082</u>
Excess (Deficiency) of Revenue And Other Sources Over Expenditures And Other Uses	(356,529)	195,985
Fund equity (deficit), beginning of year	4,576,036	2,745,898
Residual equity transfers	65,112	4,428
Other changes in fund equity	<u>(131,565)</u>	<u>(10,382)</u>
Fund equity (deficit), end of year	<u>\$ 4,153,054</u>	<u>\$ 2,935,929</u>

See notes to general

Governmental Fund Types		
<u>Capital Projects</u>	<u>Debt Service</u>	<u>Expendable Trust</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
6,896	118,472	1,730
-	-	-
-	-	-
2,390	4,751	-
-	-	-
632,097	-	-
<u>1,114,767</u>	<u>-</u>	<u>-</u>
<u>1,756,150</u>	<u>123,223</u>	<u>1,730</u>
15,000	-	-
<u>128,536</u>	<u>-</u>	<u>-</u>
<u>143,536</u>	<u>-</u>	<u>-</u>
<u>1,899,686</u>	<u>123,223</u>	<u>1,730</u>
518,313	-	-
-	-	-
147	-	-
2,295,500	-	-
-	-	-
329,082	-	-
236,557	-	600
-	-	-
<u>-</u>	<u>264,132</u>	<u>-</u>
3,379,599	264,132	600
212,448	170,063	-
<u>3,592,047</u>	<u>434,195</u>	<u>600</u>
(1,692,361)	(310,972)	1,130
1,585,252	1,036,757	48,609
(69,540)	-	-
694	-	-
<u>\$ (175,955)</u>	<u>\$ 725,785</u>	<u>\$ 49,739</u>

STATEMENT OF REVENUE AND EXPENDITURES OF COMPONENT UNIT -
WATERTOWN HOUSING AUTHORITY
YEAR ENDED DECEMBER 31, 2000

Operating Revenue:

Dwelling rental	\$ 1,529,337
Non - dwelling rental	27,201
Federal aid	1,216,263
State aid	51,596
Interest	259,853
Other revenue	<u>30,191</u>
 Total Operating Revenue	 <u>3,114,441</u>

Operating Expenses:

Administration	456,849
Tenant services	125
Utilities	849,373
Maintenance and Operation	640,970
Protective services	590
General expense	296,824
Depreciation	873,588
Extraordinary maintenance	<u>26,716</u>
 Total Operating Expenses	 <u>3,145,035</u>
 Excess (Deficiency) Operating Revenue Over Expenses	 <u>\$ (30,594)</u>

See notes to general purpose financial statements.

STATEMENT OF ACTIVITIES OF COMPONENT UNIT -
THE LOCAL DEVELOPMENT CORPORATION
YEAR ENDED DECEMBER 31, 2000

REVENUE AND OTHER SUPPORT:

Interest on notes	\$ 323,371
Other interest revenue	109,132
Other revenue	3,918
Net unrealized gain on investments	<u>3,515</u>
 Total Revenue and Other Support	 <u>439,936</u>

EXPENSES:

Program services	191,065
Management and general	<u>64,718</u>
 Total Expenses	 <u>255,783</u>
 Excess Revenue Over Expenses	 184,153
 Net assets, beginning of year	 <u>11,790,923</u>
 Net assets, end of year	 <u>\$ 11,975,076</u>

See notes to general purpose financial statements.

STATEMENT OF CHANGES IN FUND EQUITY OF COMPONENT UNIT -
WATERTOWN HOUSING AUTHORITY
YEAR ENDED DECEMBER 31, 2000

Balance at December 31, 1999	\$ 26,821,202
Prior period adjustments and equity transfers	1,166,166
Excess (deficiency) of revenue over expenses	<u>(30,594)</u>
Balance at December 31, 2000	<u>\$ 27,956,774</u>

See notes to general purpose financial statements.

STATEMENT OF CASH FLOWS OF COMPONENT UNIT -
THE LOCAL DEVELOPMENT CORPORATION
YEAR ENDED DECEMBER 31, 2000

Cash Flows from Operating Activities:

Changes in net assets	\$ 184,153
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	2,403
Discount accretion	(35,913)
Bad debt expense	67,035
Net unrealized gains on investments	(3,515)
(Increase) decrease in assets:	
Foreclosed real estate	26,500
Increase (decrease) in liabilities:	
Refundable application fees	<u>(1,840)</u>
Net cash provided by operating activities	<u>238,823</u>

Cash Flows from Investing Activities:

Purchase of equipment	(1,567)
Notes receivable - net	(667,673)
Maturity of investments	1,319,000
Purchase of investments	<u>(1,440,546)</u>
Net cash used for investing activities	<u>(790,786)</u>
Net decrease in cash and cash equivalents	(551,963)
Cash and cash equivalents, beginning of year	<u>933,705</u>
Cash and cash equivalents, end of year	<u>\$ 381,742</u>

Supplemental Cash Flow Information:

Cash paid for:	
Interest	<u>\$ -</u>
Income taxes	<u>\$ -</u>

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Variance Favorable (Unfavorable)
	Modified Budget	Actual	Encumbrances	
General				
Revenue:				
Real property taxes	\$ 7,228,793	\$ 7,443,064	\$ -	\$ 214,271
Real property tax items	788,000	653,917	-	(134,083)
Non-property taxes	10,100,188	10,287,203	-	187,015
Departmental income	2,484,100	2,488,179	-	4,079
Intergovernmental charges	41,500	47,829	-	6,329
Use of money and property	356,640	459,803	-	103,163
Licenses and permits	54,300	67,968	-	13,668
Fines and forfeitures	108,000	91,308	-	(16,692)
Sale of property and compensation for loss	88,000	74,378	-	(13,622)
Miscellaneous local sources	219,286	215,978	-	(3,308)
Interfund revenue	35,300	34,762	-	(538)
State sources	3,599,812	3,791,667	-	191,855
Federal sources	236,800	235,638	-	(1,162)
Total Revenue	<u>25,340,719</u>	<u>25,891,694</u>	-	<u>550,975</u>
Other Financing Sources:				
Interfund transfers	920,927	965,472	-	44,545
Total Other Financing Sources	<u>920,927</u>	<u>965,472</u>	-	<u>44,545</u>
Total Revenue and Other Financing Sources	<u>26,261,646</u>	<u>26,857,166</u>	-	<u>\$ 595,520</u>
Appropriation of fund balance	<u>1,367,952</u>	-		
Total Revenue, Other Sources and Appropriation of Fund Balance	<u>\$ 27,629,598</u>	<u>26,857,166</u>		
Expenditures:				
General government support	3,478,420	3,381,571	16,529	80,320
Education	6,300	5,650	-	650
Public safety	9,864,887	9,772,194	103,954	(11,261)
Transportation	3,132,766	3,052,668	55,554	24,544
Economic assistance and transportation	230,500	230,270	-	230
Culture and recreation	1,020,739	990,715	4,760	25,264
Home and community services	979,825	930,747	20,232	28,846
Employee benefits	4,058,763	4,008,055	-	50,708
Debt service	4,089,731	4,089,258	-	473
Total Expenditures	<u>26,861,931</u>	<u>26,461,128</u>	<u>201,029</u>	<u>199,774</u>
Other Financing Uses:				
Operating transfers out	767,667	752,567	-	15,100
Total Expenditures and Other Financing Uses	<u>\$ 27,629,598</u>	<u>27,213,695</u>	<u>\$ 201,029</u>	<u>\$ 214,874</u>
Excess (Deficiency) of Revenue Over Expenditures		(356,529)		
Fund equity, beginning of year		4,576,036		
Residual equity transfers		65,112		
Other changes in fund equity		<u>(131,565)</u>		
Fund equity, end of year		<u>\$ 4,153,054</u>		

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>			<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Special Revenue</u>			
	<u>Modified</u> <u>Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	
Revenue:				
Departmental income	\$ 7,514,400	\$ 6,242,112	\$ -	\$ (1,272,288)
Intergovernmental revenue	-	1,220,713		1,220,713
Use of money and property	63,000	112,779	-	49,779
Licenses and permits	23,000	20,396	-	(2,604)
Sale of property and compensation for loss	850	11,659	-	10,809
Miscellaneous local sources	59,900	107,876	-	47,976
Interfund revenue	188,725	179,869	-	(8,856)
Total Revenue	<u>7,849,875</u>	<u>7,895,404</u>	<u>-</u>	<u>45,529</u>
Other Financing Sources:				
Interfund transfers	678,181	720,909	-	42,728
Total Other Financing Sources	<u>678,181</u>	<u>720,909</u>	<u>-</u>	<u>42,728</u>
Total Revenue and Other Financing Sources	8,528,056	8,616,313	-	<u>\$ 88,257</u>
Appropriation of fund balance	<u>386,418</u>	<u>-</u>		
Total Revenue, Other Financing Sources and Appropriation of Fund Balance	<u>\$ 8,914,474</u>	<u>8,616,313</u>		
Expenditures:				
General government support	295	293	-	2
Culture and recreation	604,553	621,887	-	(17,334)
Home and community services	4,377,121	3,966,193	110,580	300,348
Employee benefits	310,286	283,629	-	26,657
Debt service	3,533,469	3,496,741	-	36,728
Total Expenditures	<u>8,825,724</u>	<u>8,368,743</u>	<u>110,580</u>	<u>346,401</u>
Other Financing Uses:				
Operating transfers out	88,750	63,750	-	25,000
Total Other Financing Uses	<u>88,750</u>	<u>63,750</u>	<u>-</u>	<u>25,000</u>
Total Expenditures and Other Financing Uses	<u>\$ 8,914,474</u>	<u>8,432,493</u>	<u>\$ 110,580</u>	<u>\$ 371,401</u>
Excess of Revenue and Other Sources Over Expenditures and Other Uses		183,820		
Fund equity, beginning of year		2,705,540		
Residual equity transfers		4,428		
Other changes in fund equity		(10,382)		
Fund equity, end of year		<u>\$ 2,883,406</u>		

See notes to general purpose financial statements.

STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>		
	<u>Debt Service</u>		
	<u>Modified</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
<u>Revenue:</u>			
Use of money and property	\$ 92,000	\$ 118,472	\$ 26,472
Miscellaneous local sources	-	4,751	4,751
	<u>92,000</u>	<u>123,223</u>	<u>\$ 31,223</u>
Total Revenue			
Appropriation of fund balance	<u>343,757</u>	-	
Total Revenue and Appropriation of Fund Balance	<u>\$ 435,757</u>	<u>123,223</u>	
<u>Expenditures:</u>			
Debt service	<u>264,132</u>	<u>264,132</u>	-
Total Expenditures	<u>264,132</u>	<u>264,132</u>	-
<u>Other Financing Uses:</u>			
Operating transfers out	<u>171,625</u>	<u>170,063</u>	<u>1,562</u>
Total Other Financing Uses	<u>171,625</u>	<u>170,063</u>	<u>1,562</u>
Total Expenditures and Other Financing Uses	<u>\$ 435,757</u>	<u>434,195</u>	<u>\$ 1,562</u>
Excess (Deficiency) of Revenue Over Expenditures and Other Uses		<u>\$ (310,972)</u>	

See notes to general purpose financial statements.

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

A. Summary of Significant Accounting Policies:

The City of Watertown, New York (the "City") was incorporated in 1869. The City is governed by the Charter of the City of Watertown, City law and other general laws of the State of New York. 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 Financial Officer of the City and is appointed by the City Manager.

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

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of significant policies:

Financial Reporting Entity

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 organizations are included in the reporting entity:

Watertown Housing Authority

The Watertown Housing Authority ("the Authority") was created in 1957 pursuant to an act of the New York State Legislature, Public Housing Law, Article 13, Title 35, Section 438. Since the Authority provides low income housing to the residents of the City and the City is obligated to subsidize the accumulated deficits of the Authority over and above the New York State subsidy, the Authority is considered a component unit of the City.

The Local Development Corporation of the City of Watertown, New York

The Local Development Corporation of the City of Watertown, New York was created pursuant to the Not-for-Profit Corporation Law of the State of New York, Section 402. Since the Corporation was established to administer Urban Development Authority Grant repayments and to establish a revolving loan program for the economic development of the City, the Local Development Corporation is considered a component unit of the City.

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

A. Summary of Significant Accounting Policies – contd.:

Basis of Presentation – Fund Accounting

The accounts of the City are organized on the basis of funds or account groups. The operations of each fund are accounted for within a separate set of self-balancing accounts comprised of assets, liabilities, funds balances, revenues, and expenditures. The various funds are summarized by type in the financial statements. Significant transactions between funds within a fund type have been eliminated. The following funds types and account groups are used by the City:

Governmental Fund Types

Governmental funds are those in which most governmental functions of the City are reported. The acquisition, use and balances of the City's expendable financial resources and the related liabilities are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon determination of net income. The following are the City's governmental funds types:

1. 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 financial activities and central garage activities have been recorded in the general fund.
2. Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted for specified purposes. The City maintains the following special revenue funds:
 - a) Special Grant Fund – to account for the use of Federal monies received under Community Development Act and any other economic development project.
 - b) Water Fund – to account for the operations, including debt service, of the water district.
 - c) Sewer Fund – to account for the operations, including debt service, of the sewer district.
 - d) Public Library Fund – to account for the operation of the Watertown Public Library.
3. Capital Projects Fund – The capital projects fund is used to account for financial resources used for the acquisition or construction of major capital expenditures.
4. Debt Service Fund – The debt service fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Fiduciary Fund Type

Trust and Agency Fund – Used to account for assets held by the City as an agent for individuals, private organizations, other governmental units, and other funds.

A. Summary of Significant Accounting Policies – contd.:

Basis of Presentation – Fund Accounting – contd.

Account Groups

Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The two account groups are not “funds”. They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

1. General Long-Term Debt Account Group – This account group is used to record all long-term debt of the City, such as retirement, compensated absences, workers’ compensation, and borrowings.
2. Fixed Assets Account Group – The financial statements do not include a general fixed asset account group as required by generally accepted accounting principles. The amounts that should be recorded in this account group have not been determined.

Basis of Accounting

The modified accrual basis of accounting is followed by the governmental and fiduciary funds. Under the modified accrual basis of accounting, revenues are recorded when they are susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt and accumulated sick leave, are recorded when the liability is incurred, if measurable.

In applying the susceptible-to-accrual concept to state and federal aid, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenues at the time of receipt.

The primary non-property tax item is sales tax which is recorded as revenue in the general fund when it is susceptible to accrual. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Budgetary Data

General Budget Process

Prior to April 30 of each year, the City Manager submits to the City Clerk a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing. Public hearings are conducted to obtain taxpayers’ comments. 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. City taxes included in the budget are levied on July 5.

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

A. Summary of Significant Accounting Policies – contd.:

Budgetary Data – contd.

General Budget Process – contd.

The collection period is July 5 through August 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. For year-end financial reporting, adjustments are made to actual results to conform with modified budget classifications and reflect year-end encumbrances.

Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

Certain special revenue funds have not been included in the comparison because they do not have legally authorized (appropriated) budgets. The actual activity of these unbudgeted funds shown below, is provided in order to reconcile to the total combined balances of the special revenue funds.

	<u>Fund Balance July 1, 2000</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Changes in Equity</u>	<u>Fund Balance June 30, 2001</u>
Total for Funds Included In Budget Comparison	\$2,705,540	\$8,616,313	\$8,432,493	\$(5,954)	\$ 2,883,406
Funds Excluded from Budget Comparison: Special Grant Fund	<u>40,358</u>	<u>310,754</u>	<u>298,589</u>	---	<u>52,523</u>
Total Special Revenue Funds	<u>\$2,745,898</u>	<u>\$8,927,067</u>	<u>\$8,731,082</u>	<u>\$(5,954)</u>	<u>\$2,935,929</u>

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since the commitments do not constitute expenditures or liabilities.

Compensated Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-32 days

A. Summary of Significant Accounting Policies – contd.:

Compensated Absences – contd.

Sick leave may be accumulated 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 such 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.

Post Employment Benefits

In addition to the pension benefits provided through the NYS Retirement System, the City provides certain health care benefits for retired employees. Substantially all the employees may become eligible for those benefits upon retirement. Those and similar benefits for active employees are provided through the City's self-insurance program whose premiums are based on the historical experience and projected costs. The City recognizes the cost of providing these post-retirement benefits by expensing the annual insurance premiums, which for the fiscal year 2000-01 were \$1,348,686 for 218 retired City employees.

Under General Municipal Law Section 207A, the City is responsible for post-employment benefits to City firefighters who become disabled as a result of an injury or illness incurred during employment. This post-employment benefit is the difference between the amount received from the pension system and their regular salary and is payable until the employee reaches mandatory service retirement age. An estimated liability of \$1,232,104 has been recorded. Additionally, the City has recorded an estimated liability of \$888,998 for other City employees who have become disabled while employed by the City. These estimated liabilities were recorded based upon the present value of anticipated future payments using a 6% discount rate. These liabilities have been reported in the general long-term debt account group since it is anticipated that only an immaterial portion will be paid out in any one year.

Self-Insurance

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:

General Liability

The City has a self-insurance program for general liability insurance. The reserve is funded by annual budget appropriations from the General and Special Revenue funds, as determined by the City Council.

Worker's Compensation

The City recognizes worker's compensation expenditures when paid. Annual estimates are appropriated from the General Fund and Special Revenue funds.

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

A. Summary of Significant Accounting Policies – contd.:

Self-Insurance – contd.

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, 2001 were \$7,337.

Health Care Benefits

On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. This self-insurance plan is managed by a third party administrator selected by the City. 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 which is billed to the respective funds on a monthly basis. An estimated liability of \$377,920 has been reported in the general fund for claims incurred as of June 30, 2001 but not reported based upon historical experience.

Fund Equity

Reserves and Designations

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

B. Cash and Investments:

The City investment policies are governed by State statutes. 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 2001, the City limited its investments to demand accounts and certificates of deposit.

Collateral is required for demand 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 district, 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.

B. Cash and Investments – contd.:

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

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at June 30, 2001 per the banks were \$8,067,542. These deposits are categorized as follows:

<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
\$698,476	\$7,369,066	\$ ---

C. 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 to 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 relieved 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 portion of the receivable \$399,653 that represents taxes relieved for the school district is included in due to other governments. Another portion of receivable \$911,786 is not considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$758,276 has been included in the General Fund accounts receivable balance at June 30, 2001.

D. Restricted Assets:

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

Fund	Restricted Balance	Restriction
General – Cash	<u>\$ 15,137</u>	Reserve for capital project

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

D. Restricted Assets – contd.:

Fund	Restricted Balance	Restriction
Special Revenue – Cash	<u>\$ 201,814</u>	Federal and State grants and Library contributions
Special Revenue – certificates of deposit and U.S. Treasury notes	<u>\$ 138,914</u>	Library grant, bequests and gifts
Capital Projects – Cash	<u>\$1,755,395</u>	Reserve for capital project acquisitions and construction
Debt Service – Cash	<u>\$ 708,189</u>	Bonded debt repayment
Trust and Agency – Cash	<u>\$ 49,739</u>	Legacies

E. Notes Receivable:

In an effort to provide affordable homes for low and moderate income families in the City, the City applied for, and was awarded grants for homeownership assistance projects. Under the terms of the grants, eligible new homeowners receive a deferred loan using Community Development Block Grant Funds. The entire loan will be forgiven if the property is retained for a period of ten years; however, a pro-rated share will be payable if the property is sold prior to the tenth year. The balance of these loans at June 30, 2001 was \$757,078. These loans mature at various dates between 2003 and 2010, are non-interest bearing, and are collateralized by second liens. Deferred revenue has also been reported equivalent to the amount of the loan outstanding.

To assist in the rehabilitation of homes of low and moderate income persons in the City, the City applied for, and was awarded grants for a "Housing Improvement Program". Under the grant terms, eligible homeowners receive a grant or loan not to exceed \$20,000 using Community Development Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5 year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. Loans and grants of \$238,089 were awarded during the current year.

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for the rehabilitation of an apartment building. This loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal is payable at maturity. The balance of this loan at June 30, 2001 was \$71,500. Deferred revenue has also been reported equivalent to the amount of the loan outstanding.

During 1994, the City entered into a project agreement with the New York State Urban Development Corporation (UDC) to provide funds to rehabilitate and improve building facades and storefronts and to provide public amenities to the central business district of the City. This agreement provides that UDC allocate \$285,000 for this project which was advanced to the City and loaned to qualifying business owners at zero (0%) percent interest for a term not to exceed seven (7) years. Loan payments are made to the City, deposited in a trust account and remitted quarterly to UDC. The balance of these loans at June 30, 2001 was \$18,327 and a liability has been reported for this amount.

E. Notes Receivable – contd.:

As part of the City's match to the facade program, the City is obligated to provide loan funds for sidewalk improvements to those property owners who participate in the facade loan program. The maximum amount of the sidewalk loan fund is \$75,000. The City has allocated \$75,000 for this project which has been loaned to qualifying business owners at zero percent interest (0%) for a term not to exceed seven (7) years. The balance of these loans at June 30, 2001 is \$23,799.

F. Health Care Benefits Liability:

The following is a reconciliation of the total claims liability which is included in accounts payable of the risk retention fund. These accounts are included with the General Fund at June 30, 2001:

Liability at July 1, 2000	\$ 328,340
Current Year Claims and Changes in Estimates	4,043,213
Claim Payments	(3,780,525)
Administration	(120,015)
Stop loss coverage	<u>(93,093)</u>
Liability at June 30, 2001	<u>\$ 377,920</u>

G. Debt:

Long-Term Debt

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u> <u>July 1, 2000</u>		<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
General Obligation Bonds	\$47,875,363	\$ ---	\$4,934,363	\$42,941,000	\$42,941,000
Compensated Absences	198,172	---	29,147	169,025	169,025
Workers' Compensation	2,238,276	---	117,174	2,121,102	2,121,102
Landfill Monitoring	<u>432,000</u>	---	<u>18,000</u>	<u>414,000</u>	<u>414,000</u>
Total	<u>\$50,743,811</u>	<u>\$ ---</u>	<u>\$5,098,684</u>	<u>\$45,645,127</u>	<u>\$45,645,127</u>

Additions and deletions to compensated absences and workers' compensation are shown net since it is impracticable to determine these amounts separately.

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 outstanding at June 30, 2001 are as follows:

CITY OF WATERTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

G. Debt – contd.:

Long-Term Debt – contd.

General Obligation Bonds – contd.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2001</u>	<u>Annual Principal Payment</u>
Electrical District				
Improvements	9.5%	\$ 750,000	\$ 45,000	\$ 45,000
Sewage Treatment	11.4%	3,530,000	360,000	180,000
Sanitary and Storm				
Sewers	9.6%	2,330,000	1,150,000	25,000-75,000
Reservoir Covers and				
Sanitary Sewers	9.1%	3,320,000	1,025,000	150,000-180,000
Water Filtration	7.4-7.6%	4,100,000	1,800,000	225,000
Sewer Improvements	7.6%	2,900,000	1,050,000	175,000
Public Improvements	6.9-7.0%	5,471,000	1,010,000	75,000-280,000
Sewer Improvements	7.2-7.3%	3,810,000	1,600,000	200,000-300,000
Public Improvements	6.45-6.55%	2,300,000	175,000	25,000-50,000
Public Improvements	6.3-6.375%	10,518,000	5,002,000	400,000-575,000
Public Improvements	6.0-6.1%	5,764,500	2,210,000	175,000-235,000
Public Improvements	5.5-5.7%	3,599,000	2,050,000	150,000-200,000
Public Improvements	5.25-5.6%	3,060,000	740,000	25,000-200,000
Public Improvements	5.3-5.7%	2,808,000	1,575,000	100,000-200,000
Public Improvements				
Refunding	2.45-5.0%	6,235,000	2,205,000	270,000-490,000
Public Improvements	4.6-5.25%	4,220,000	924,000	90,000-465,000
Public Improvements	5.0-7.1%	11,010,000	9,960,000	330,000-665,000
Sewage Treatment				
Refunding	3.55-4.55%	2,525,000	1,745,000	230,000-320,000
Public Improvements				
Refunding	3.5-4.85%	3,908,466	2,905,000	295,000-325,000
Public Improvements	5.125-5.50%	6,105,000	<u>5,410,000</u>	10,000-695,000
Total			<u>\$42,941,000</u>	

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 4,771,200	\$ 2,458,235	\$ 7,229,435
2003	4,713,200	2,182,588	6,895,788
2004	4,491,200	1,918,559	6,409,759
2005	4,175,700	1,669,327	5,845,027
2006	3,999,700	1,434,416	5,434,116
Thereafter	<u>20,790,000</u>	<u>8,471,608</u>	<u>29,261,608</u>
Total	<u>\$42,941,000</u>	<u>\$18,134,733</u>	<u>\$61,075,733</u>

i. **Debt – contd.:**

Long-Term Debt – contd.

Advance Refundings

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 4.6% 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 1988 series bonds with interest rates ranging from 7.5% to 7.7%. These bonds were called on May 1, 1998.

For both issuances, the City used the 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. As a result, a defeasance of the 1988, 1991, 1992 and 1996 series bonds has been rendered and the liability for these bonds has been removed from the general long term debt account group.

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 State Clean Water and Drinking Water Revolving Funds Revenue Bonds (Pooled Loan Issue) Series 1998 A and B.

Short-Term Debt

Bond anticipation note consists of the following at June 30, 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
City Center Industrial Park Road	3.125%	5/31/02	\$1,000,000
Fairground Arena Roof	3.125%	5/31/02	123,500
Flower Library Reconstruction	3.125%	5/31/02	50,000
Airport Improvements	3.125%	5/31/02	162,000
Pearl Street Bridge	3.125%	5/31/02	80,000
Waste Water Tr. Plant Roof Replace.	3.125%	5/31/02	84,000
Rutland St. S. Reconstruction	3.125%	5/31/02	464,000
Vehicles	3.125%	5/31/02	121,500
Fire Rescue Vehicle	3.125%	5/31/02	150,000
Computer Equipment	3.125%	5/31/02	120,000
Airport Fuel Tank Removal	3.125%	5/31/02	20,000
Hydroelectric Project	5.000%	5/31/02	201,000
Total			<u>\$2,576,000</u>

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

H. Prior Year 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 the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2001, \$2,869,000 of bonds outstanding are considered defeased.

I. Deferred Revenue:

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue	\$ 911,786
Other revenue	18,345
	\$ 930,131

Special Revenue Fund:

Outstanding notes receivable funded from grant proceeds	\$ 852,328
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Capital Projects Fund:

Deferred state aid	\$ 218,594
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J. Retirement Benefits:

Plan Description

The City 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. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). 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 include 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. Employees in the System more than ten years are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of members' payroll, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

J. Retirement Benefits – contd.:

Funding Policy – contd.

The City is required to contribute at an actuarially determined rate. The required contributions paid in December for New York State's current year ended March 31, 2001 and the two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2000-2001	<u>\$ 14,822</u>	<u>\$ ---</u>
1999-2000	<u>\$ 10,716</u>	<u>\$ 7,985</u>
1998-1999	<u>\$124,072</u>	<u>\$ 30,815</u>

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

Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the Systems' fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid in June 30, 1989 and 1990, respectively) over a 17 year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The City elected to apply credits accumulated to the outstanding liability of February 23, 1996. The City's total unpaid liability at the end of the fiscal year June 30, 1998 was \$135,712. This amount was paid in full during a prior period.

Bonus Retirement Plan

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

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

The City has reported \$12,000 relating to this bonus retirement plan as a liability in the general long-term debt account group since it is anticipated that only an immaterial portion will be paid out in any one year.

K. 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.

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

K. Reserved Fund Balances – contd.:

- 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.

Special Revenue Funds

- Encumbrances – An amount reserved to satisfy purchase orders and other commitments for which goods and/or services will be received in the following year.

Debt Service Fund

- 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 the principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2001 was \$725,875.

Trust and Agency

- Trust expenditures – An amount established in trust for various special projects.

L. Other Fund Balance Disclosures:

Deficit Fund Balance:

Capital Projects Fund

The Capital Projects Fund had a deficit fund balance at June 30, 2001. The deficit will be eliminated as short-term debt is redeemed or converted to permanent financing.

Other Changes in Fund Equity:

Other changes in fund equity represent the following prior period adjustments:

1.	Reduction of HUD/FEMA reimbursement for the 1998 ice storm recorded as a receivable in a prior year	<u>\$(131,565)</u> <u>\$ (10,382)</u>
2.	Write off of a retainage payable	<u>\$ 694</u>

M. Excess of Expenditures Over Appropriations:

Expenditures for the fiscal year ended June 30, 2001 exceeded appropriations in the funds identified below:

<u>Fund</u>	<u>Appropriations As Modified</u>	<u>Expenditures and Encumbrances</u>	<u>Unfavorable Variance</u>	<u>Explanation</u>
General - Public Safety	\$9,864,887	\$9,876,148	\$(11,261)	(1)
Special Revenue- Culture & Recreation	\$ 604,553	\$ 621,887	\$(17,334)	(2)

- (1) Public safety expenditures and encumbrances exceeded the budgeted amount of expenditures. The public safety budget was inadvertently not modified to include the additional expenditures.
- (2) The culture and recreation budget was not modified to include additional library expenditures.

N. 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.

Interfund receivable and payable balances arising from these transactions as of June 30, 2001 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$395,009	\$ 4,325
Special Revenue Fund	19,975	40,809
Capital Projects Fund	---	369,850
Total	<u>\$414,984</u>	<u>\$414,984</u>

Interfund Eliminations

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

	<u>General Fund</u>	<u>Self Insurance Fund</u>
Revenues	---	3,300,643
Expenditures	<u>3,300,643</u>	---
Total	<u>\$3,300,643</u>	<u>\$3,300,643</u>

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

O. Operating Lease:

The City is the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC. The lease dated July 28, 1998 is for a term of twenty-five years.

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

Years ended June 30,	
2002	\$10,000
2003	10,000
2004	10,000
2005	10,000
2006	<u>10,000</u>
Total Minimum Future Rentals	<u>\$50,000</u>

P. 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, 2001, 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 \$608,294 as of June 30, 2001 for unfunded 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 material to the City's financial position or results of operations.

The City has entered into a cooperative agreement with Neighbors of Watertown, Inc. to assist in the determination of eligibility of first-time home buyers for distribution of CDBG funds.

Environmental Concerns

The City is engaged in many activities (i.e., water and sewer service, refuse collection, and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2001, the City is not aware of any significant environment problems that should be disclosed in the general purpose financial statements.

P. Commitments and Contingencies – contd.:

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in October of 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. Under current contract, the post-closure monitoring occurs three times each year at an estimated annual expenditure of \$18,000. At June 30, 2001, an estimated \$414,000 in post-closure care costs will be incurred over the remaining 23 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 fiscal year 2000. The estimated total liability was computed assuming future contracts monitoring costs would be comparable.

Municipal Water Agreement

The City has entered into a five-year agreement starting in fiscal year 1998 with the Town of Watertown, New York (the "Town") to provide water services at fixed established rates through fiscal year 2002.

Lease

The City has entered into an amended intermunicipal agreement with the County of Jefferson, New York for the joint operation and maintenance of the County and City Public Safety Building. Minimum annual lease payments are calculated on a prorated 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. Total rental expenditures for the year ended June 30, 2001 were \$497,297.

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

2002	\$ 248,000
2003	240,000
2004	232,000
2005	223,000
2006	215,000
Thereafter	<u>1,705,000</u>
	<u>\$2,863,000</u>

Cooperative Agreements

The City and the Watertown Housing Authority entered into a cooperative agreement in May 1983, whereby the City committed \$524,000 to rehabilitate and modernize the public housing project. Community Development Block Grant funds were used to finance the City's share of the

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

P. Commitments and Contingencies – contd.:

Cooperative Agreements – contd.

project. As a result of this commitment, the City was awarded credits of an equivalent amount towards future contribution requirements for the project by the New York State Division of Housing and Community Renewal (DHCR).

Black River Fund

The City of Watertown owns a hydro-electric facility on the Black River, and has applied to the Federal Energy Regulatory Commission (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 unmitigable impacts of the Watertown Project, and for the purpose of financing projects and facilities which 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 will be 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, educational institutions and individuals shall be eligible to receive funding from the Black River Fund.

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City has agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City will contribute \$10,000 annually beginning in the fourth year, for a total contribution of \$400,000. Additionally, the City agreed to establish a replacement reserve to accumulate funds toward 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.

Construction Commitments

In connection with certain capital projects, the City has outstanding construction contract commitments of \$1,337,788 as of June 30, 2001, which have not been reported as outstanding encumbrances.

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.

P. Commitments and Contingencies – contd.:

Electrical Distribution System Agreement – contd.

- The City would proceed in the process of undertaking relicensing 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 hydro-electric plant on June 2, 1997. The project, which cost \$9,075,000, was completed in January 2000.

Q. Subsequent Events:

The labor contract between the City of Watertown and the Watertown Firefighters Association expired on June 30, 1999. The City and the Union signed a four year agreement on November 6, 2001. This Agreement covers the period July 1, 1999 through June 30, 2003. The retroactive payroll expenditure for the period July 1, 1999 through June 30, 2001 is reflected in the General Fund as an accrued liability at June 30, 2001.

The labor contract between the City of Watertown and the Watertown Police Benevolent Association expired on June 30, 2001. The City and Union remain at an impasse.

The contract between the Civil Service Employees Association and the City expired June 30, 2000. The City and Union are at an impasse.

R. Local Development Corporation:

The following are summarized disclosures of the Local Development Corporation for the year ended December 31, 2000. Complete financial statements may be obtained by writing to the Local Development Corporation, 800 Starbuck Avenue, Watertown, New York 13601.

Summary of Significant Accounting Policies

Organization

On March 23, 1981, the City was awarded an Urban Development Action Grant (UDAG) in the amount of \$6,500,000 by the U.S. Department of Housing and Urban Development to assist in the rehabilitation of a portion of the premises known as the New York Air Brake Company. Under the terms of the original application and final agreement, the recipient is required to repay this debt to a not-for-profit corporation who must administer the loan repayment and set up a revolving loan program for other similar projects. The Local Development Corporation was established by the City to satisfy this obligation.

On November 14, 1982, the Local Development Corporation was formally incorporated under Section 1411 of the Not-for-Profit Corporation Law of the State of New York and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

R. Local Development Corporation – contd.:

Summary of Significant Accounting Policies – contd.

Nature of Activities

The primary purpose of the Local Development Corporation is to stimulate the growth of private sector employment in the Watertown area by assisting in the financing needs of companies by providing low interest rate loans, having repayment terms ranging from 7 to 20 years, for the purchase of real estate, machinery and equipment. Any commitment by the Local Development Corporation for a project located outside the corporate limits of the City must be made subject to a majority approval of the City Council.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives using the straight-line method for a period of three to five years. Repairs and maintenance not prolonging the life of the asset are expensed in the year incurred and improvements which extend the life of the assets are capitalized. Total accumulated depreciation as of December 31, 2000 was \$61,658.

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as cash and investments in short-term debt securities with a maturity of less than three months.

Loan Commitments

The Local Development Corporation had approximately \$357,000 of outstanding loan commitments as of December 31, 2000.

Investments

Investments are carried at fair value. The carrying amounts of investments as shown in the Statements of Financial Position of the Local Development Corporation as of December 31, 2000 are as follows:

Corporate obligations	\$ 415,001
Government bonds	793,440
U.S. Government and Agency obligations:	
GNMA mortgage pools	76,943
FHLMC mortgage pools	<u>6,738</u>
Total	<u>\$1,292,122</u>

R. Local Development Corporation – contd.:

Summary of Significant Accounting Policies – contd.

Line of Credit

The Local Development Corporation has a \$500,000 line of credit with HSBC with interest at prime less 1%. The line of credit expires on September 30, 2001. There were no borrowings during 2000.

Foreclosed Real Estate

During the year ended December 31, 1998, the Local Development Corporation foreclosed on a loan in the amount of \$912,655. A reserve of \$95,474 was established to reduce the carrying amount to approximate fair value. Sub-lease rental payments of \$28,709 has been charged against the account. The balance at December 31, 2000 is \$788,472.

S. Watertown Housing Authority:

The following are summarized disclosures of the Watertown Housing Authority for the year ended December 31, 2000. Complete financial statements may be obtained by writing to the Watertown Housing Authority, 142 Mechanic Street, Watertown, New York 13601.

Summary of Significant Accounting Policies

Organization

The Watertown Housing Authority is a non-profit corporation that was organized under the laws of the State of New York to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD) and the New York State Division of Housing and Community Renewal (DHCR).

The Watertown Housing Authority is a public housing agency formed on September 28, 1948 pursuant to the United States Housing Act of 1937, as amended, and operates government assisted housing projects.

Federal Assistance Programs

HUD determines and arranges for the temporary and permanent financing of the Watertown Housing Authority and provides the funding for repayment of the financing. As a result, details concerning debt maturities and terms have not been disclosed. HUD also controls and approves leases entered into in connection with leased housing projects, if any, operated by the Watertown Housing Authority. Since HUD's involvement with leased housing projects is so extensive, details concerning the leases and commitments thereunder have not been disclosed.

NOTES TO FINANCIAL STATEMENTS – CONTD.
JUNE 30, 2001

S. Watertown Housing Authority – contd.:

Summary of Significant Accounting Policies – contd.

Method of Accounting

The Watertown Housing Authority's policy is to prepare the financial statements in accordance with generally accepted accounting principles using the full accrual method of accounting.

- Property and equipment are recorded at cost, less accumulated depreciation. Maintenance and repairs are charged to operations. Gains and losses from the sale of equipment are included in income. Depreciation is calculated on a straight-line basis utilizing the assets' estimated useful lives. Donated fixed assets are recorded at fair market value at the date of the donation.
- Premiums and discounts on bonds are recognized as income or expense in the year sold.
- Long-term debt is presented as fixed debt, representing the amounts due to DHCR for project financing net of principal payments made.
- The Watertown Housing Authority is a non-profit corporation that is subsidized by the federal government. It is not subject to federal or state income taxes, and is not required to file federal and state income tax returns.
- Subsidies received from HUD or other grantor agencies, whether for capital expenditure or operations purposes, are recorded as revenue.
- Investments are stated at cost. Investment securities are normally held to maturity and adjustments are not made to the investment portfolio to reflect market conditions.
- Collection losses on accounts receivable are charged against income using the allowance method.
- Inventories of materials are valued at lower of cost or market with cost being determined on a first-in, first-out basis.
- Tenants' security deposits are held in separate savings accounts. Refunds are made by the project upon termination of occupancy after deducting amounts due for rent or other items. Interest earned on these deposits is paid periodically by the bank directly to the tenants.
- Interest expense on notes and bonds and interest income on related debt proceeds are capitalized during the project development period through the date of full availability in accordance with regulations from HUD.
- Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

S. Watertown Housing Authority – contd.:

Summary of Significant Accounting Policies – contd.

Investments

Investments consist of cash equivalents, that upon maturity are rolled over at the prevailing rate of interest, money market savings accounts, and government and agency funds. Interest is accrued through the balance sheet date. Accrued interest at December 31, 2000 was \$49,688.

Property and Equipment:

Property and equipment are stated at cost. Donated assets are stated at fair market value as of the date of donation. Renewals and betterments that materially extend the life of the assets are capitalized.

Property and Equipment – contd.:

Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives of the depreciable assets are:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	40 years
Appliances	10 years
Furniture & Fixtures	7 years
Machinery & Equipment	5-7 years

Deferred Charges

Deferred charges at December 31, 2000 consist of the following:

Prepaid Pension	\$ 325
Materials Inventory	47,702
Prepaid Insurance	<u>58,649</u>
	<u>\$106,676</u>

Compensated Absences

Employees of the Authority are entitled to compensated absences depending on job classification, length of service, and other factors. There was \$14,840 accumulated accrued compensated absences at December 31, 2000, which includes the employer's share of FICA and Medicare expenses.

NOTES TO FINANCIAL STATEMENTS -- CONTD.
JUNE 30, 2001

S. Watertown Housing Authority – contd.:

Summary of Significant Accounting Policies – contd.

Accrued Liabilities

Accrued liabilities are comprised of the following:

Compensated Absences	\$14,840
Accrued Interest Payable	693
Current Portion – LT Debt	
NYS Project – Capital Projects	26,327
Accrued Liability – Other	<u>67,014</u>
	<u>\$108,874</u>

Accounts Payable

Accounts payable at December 31, 2000 consist of the following:

Vendors/Contractors	\$ 56,776
Other – Contract Retention	<u>51,094</u>
	<u>\$107,870</u>

In connection with the Owned Housing Program (NY-327) and as a part of the Cooperation Agreement with the City of Watertown, the Authority is obligated to make annual payments in lieu of property taxes based on the lesser of assessable value times the current tax rate or 10% of the dwelling rents net of utilities expense. The accrued PILOT liability at December 31, 2000 is \$66,988.

Long Term Debt

This represents the amount payable to New York State for the unpaid portion of a note from DHCR with an original principal of \$1,290,000. The amortization of the loan is for fifty years at an interest rate of 2.12% per year. As such, principal payments are \$26,327 per year until the loan is repaid in January 2004.



