

OFFICIAL STATEMENT

**NEW ISSUE: SERIAL BONDS
BOOK-ENTRY-ONLY
BANK QUALIFIED**

**MOODY'S RATING: Aa3 (Negative Outlook)†
UNDERLYING RATING: A1
ASSURED GUARANTY MUNICIPAL CORP.
(SEE "RATINGS" HEREIN)**

In the opinion of Fulbright & Jaworski L.L.P., New York, New York, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants referred to herein, interest on the Bonds (as defined herein) is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and will not be included in the computation of the federal alternative minimum taxable income of the owners thereof for federal income tax purposes. It is also the opinion of Bond Counsel that under existing law interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein.

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

\$2,225,000

CITY OF WATERTOWN

JEFFERSON COUNTY, NEW YORK

GENERAL OBLIGATIONS

\$2,225,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2010
(the "Bonds")

DATED: JUNE 15, 2010

DUE: DECEMBER 15, 2010-2024

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>
2010	\$200,000	3.125%	0.75%	2015	\$150,000	3.125%	2.25%	2020	\$75,000*	3.25%	3.30%
2011	225,000	3.125	1.00	2016	150,000	3.125	2.60	2021	75,000*	3.50	3.50
2012	225,000	3.125	1.20	2017	150,000	3.125	2.85	2022	75,000*	4.00	3.70
2013	225,000	3.125	1.50	2018	150,000	3.250	3.00	2023	75,000*	4.00	3.80
2014	225,000	3.125	1.90	2019	150,000*	3.250	3.15	2024	75,000*	4.00	3.90

† The scheduled payment of principal of and interest on the Bonds maturing when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (Formerly known as Financial Security Assurance Inc.) ("AGM"). See Appendix D relating to Assured Guaranty insurance herein.



*Subject to redemption prior to maturity.

The Bonds are general obligations of the City of Watertown, Jefferson County, New York, all the taxable real property within the City 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 issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as partnership nominee of The Depository Trust Company ("DTC"), New York, New York which will act as the securities depository for the Bonds. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Interest on the Bonds will be payable on December 15, 2010 and semi-annually thereafter on June 15 and December 15 of each year until maturity. The Bonds are subject to redemption prior to maturity as described herein. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein.

The Bonds are offered when, as and if issued and received by the purchaser and subject to the receipt of the unqualified legal opinion as to the validity of the Bonds of Fulbright & Jaworski L.L.P., Bond Counsel, of New York, New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about June 15, 2010.

June 3, 2010

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE CITY DATED MAY 26, 2010 RELATING TO THE BONDS BY INCLUDING CERTAIN INFORMATION OMITTED FROM SUCH OFFICIAL STATEMENT IN ACCORDANCE WITH SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). OTHER THAN AS SET FORTH ON THIS REVISED COVER PAGE, THE INCLUSION OF APPENDIX C ("RATING") AND APPENDIX D ("BOND INSURANCE"), THERE HAVE BEEN NO REVISIONS TO SAID OFFICIAL STATEMENT

ROOSEVELT & CROSS, INC. AND ASSOCIATES

CITY OFFICIALS

JEFFREY E. GRAHAM

Mayor

CITY COUNCIL

ROXANNE M. BURNS
JOSEPH M. BUTLER JR.

TERESA R. MACALUSO
JEFFREY M. SMITH

MARY M. CORRIVEAU

City Manager

JAMES E. MILLS

City Comptroller

DONNA M. DUTTON

City Clerk

FULBRIGHT & JAWORSKI L.L.P.

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Bond Counsel



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

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

\$2,225,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2010

This Official Statement (the "Official Statement"), which includes the cover page and appendices hereto, has been prepared by the City of Watertown, Jefferson County, New York (the "City," "County" and "State," respectively), in connection with the sale by the City of \$2,225,000 Public Improvement (Serial) Bonds, 2010 (the "Bonds").

DESCRIPTION OF THE BONDS

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

The Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as partnership nominee of DTC, which will act as securities depository for the Bonds. The Town Clerk will be the fiscal and paying agent for the Bonds while the Bonds are in registered form. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Interest on the Bonds will be payable on December 15, 2010 and semi-annually thereafter on June 15 and December 15 of each year until maturity. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein. The 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.

Purpose of the Bond Issue

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

<u>Purpose</u>	<u>Amount</u>
Reconstruction of State Street between Public Square to Eastern Boulevard	\$ 215,000
Combined Sanitary Sewer Replacement Between Chestnut and Holcomb Streets	170,000
Sidewalk Special Assessment District #4	65,000
Mill Street Sewer Rehabilitation	230,000
Equipment for use by the Department of Public Works for Construction and Maintenance	210,000
Breen Avenue Reconstruction	975,000
Hydro Electric Facility Equipment	150,000
North Side Trunk Sewer Relining – design and construction	<u>210,000</u>
Total	\$2,225,000

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

Optional Redemption

The Bonds maturing on or before December 15, 2018 will not be subject to redemption prior to maturity. The Bonds maturing on or after December 15, 2019 will be subject to redemption, prior to maturity, at the option of the City, on December 15, 2018 and thereafter on any date, as a whole or in part, and if in part in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at the price equal to the par amount, plus accrued interest to the date of redemption.

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

Book-Entry-Only System

DTC, New York, NY, will act as securities depository for the Bonds (hereinafter referred to as the "Bonds"). The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, and will be deposited with DTC.

DTC, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

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

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

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

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

Certificated Bonds

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: such Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. Principal of the Bonds when due will be payable upon presentation at the office of the City Clerk, as fiscal and paying agent for the Bonds, or, at the option of the City, at a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the City upon termination of the book-entry-only system. Interest on the Bonds will remain payable on December 15, 2010 and semi-annually on June 15 and December 15 of each year until maturity. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent. The Record Date of the Bonds will remain the last business day of the calendar month preceding each such interest payment date. Bonds may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Certificate of Determination of the City Comptroller authorizing the sale of the Bonds and fixing the details thereof and in accordance with the Local Finance Law. The fiscal agent shall not be obligated to make any such transfer or exchange of Bonds between the Record Date preceding an interest payment date and such interest payment date.

THE CITY

General Information

The City of Watertown (the "City"), is located in the northern part of New York State, eleven miles east of Lake Ontario and twenty-two miles south of the St. Lawrence River (and Canadian border). The City encompasses an area of approximately nine square miles. With a population of 27,310, it is the largest population center in Jefferson County.

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

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

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

While no single wholesale/retail trade employer makes the list of major employers, in total they are significant employers in the area. Their primary location has shifted over the last 20 years from downtown Watertown to near Interstate Route 87.

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

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

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

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

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

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

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

Fort Drum

Since activation of the 10th Mountain Division at Fort Drum in 1984, the military related population in the area has grown to around 31,551. Based upon the Economic Impact Statement for fiscal year 2009, 18,023 soldiers and 4,782 civilians were employed at Fort Drum for a combined annual payroll of \$1,124,292,746. The Soldiers have an additional 17,222 family members. Approximately 1/3 of the total military-related population live on Fort Drum with the remainder scattered among the various jurisdictions within 30 miles of the base. The City, as an urban center located only 7 miles from the Fort, houses 42% of those Soldiers living off post. An estimated 4,300 indirect jobs have been created to support the area's military population. The Economic Impact Statement for fiscal year 2009 indicates that Fort Drum's economic impact on the tri-county area for 2009 was \$1,502,834,542.

In May 2004, the Army announced that the 10th Mountain Division will receive a third brigade and convert the two existing brigades to Brigade Combat Teams. Collectively this generated an increase of 8,000 additional Soldiers at Fort Drum. Fort Drum sustained no losses due to the 2005 Base Realignment and Closure decisions.

The Army has privatized the on-post family housing, the Residential Communities Initiative. The project company plans on building 1,399 new homes on Fort Drum and renovating all the existing 2,270 older homes. This construction and renovation will be completed by 2011 and its total cost is approximately \$525,000,000.

In 2010, the Military Construction Appropriations Bill funded approximately \$93,000,000 in new construction at Fort Drum. The projects receiving funding include barracks, water system expansion, an all weather marksmanship facility indoor range, and warrior in transition barracks, battalion headquarters, and a Soldier & Family Assistance Center. The 2011 Military Construction Appropriations Bill is expected to provide another \$229,000,000 in construction activity for a training support center, operational readiness training complex, infantry squad battle course, aircraft fuel storage complex, aircraft maintenance hangar and engineer battalion facilities.

Housing Development

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

<u>Housing Type</u>	<u>Units Built</u>
Senior Citizens	19
Single Family Home	70
Multi-family	<u>218</u>
Total	307

Source: Annual Building Permit Reports, 2000-2009.

Larger Employers

The following are major employers located within the City.

<u>Name</u>	<u>Type</u>	<u>Approximate # of Employees</u>
Samaritan Medical Center/Keep Home	Hospital/Nursing Home/Health Services	1,800
Watertown City School District	Primary Education	822
Jefferson County	Government Services	819
Stream International	Customer Relationship Management Services	700
Jefferson Rehab. Center	Services for Disabled	650
City of Watertown	Government Services	367
State of New York	Government Services	359
New York Air Brake Company	Manufactures air brakes for freight and passenger railroad cars, hydraulic pumps and motors for aircraft and missiles	293
Mercy of Northern New York	Health Services	270
Jefferson Community College	Post-secondary Education	268
Covidien	Manufactures Medical Devices	200
Johnson News Corporation	Daily News Papers - Job Printing	200
Purcell Construction	Construction	140
North Country Children's Clinic	Health Services	126
Knowlton Technologies, LLC	Manufacturing	107
Bernier Carr & Associates	Engineering and architecture firm	104
Renzi Brothers	Distribution	95
Stebbins Engineering & Manufacturing Co.	Manufacturing	91
Cornell Cooperative Extension	Education	85
Statur Electric	Manufacturers Fractional Power Motors	80
CFM Food Distributors	Distribution	80

Source: Jefferson County Job Development Corporation.

Population Trends

	<u>City of Watertown</u>	<u>Jefferson County</u>	<u>New York State</u>
1970	30,787	88,508	18,236,882
1980	27,861	88,151	17,558,072
1990	29,429	106,784	17,990,455
2000	26,705	111,738	18,976,457
2004	26,240	116,384	19,254,630
2007	27,443	117,201	19,429,316
2009	27,310	118,719	19,541,453

Source: U.S. Census population estimates.

Form of City Government

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

Financial Organization

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

Budgetary Procedures

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

State Aid

The City receives financial assistance from the State. In its budget for the 2009-2010 fiscal year, approximately 16.86% of the general fund revenues of the City are estimated to be received in the form of State aid. If in any year the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the City, may be affected by a delay in the payment of State aid. The State's 2010-2011 fiscal year budget, due by law on April 1, 2010, has not yet been adopted, and the State is in a severe fiscal crisis. Information concerning State finances is available from various public sources, including a website maintained by the State Division of the Budget at www.budget.state.ny.us.

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

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

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

Employees

The City currently employs approximately 326 full-time and 12 to 95 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	143	June 30, 2010
Watertown Firefighters Association	74	June 30, 2011
Watertown Police Benevolent Association	62	June 30, 2012
International Brotherhood of Electrical Workers	3	June 30, 2010

Status and Financing of Employee Pension Benefits

Substantially all employees of the City are members of the New York State and Local Employees' Retirement System ("ERS") or the New York State and Local Police and Fire Retirement System ("PFRS"; with ERS, the "Retirement Systems"). The ERS and PFRS together are generally also known as the "Common Retirement Fund". The Retirement Systems are cost-sharing multiple public employer retirements systems. The obligation of employers and employees to contribute and the benefit to employees are governed by the New York State Retirement system and Social Security Law (the "Retirement System Law" or "NYSRSSL") The Retirement Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after ten years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement Systems. The Retirement Systems are non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976, with less than 10 years experience, must contribute 3% of gross annual salary toward the cost of retirement programs.

Historically there has been a State mandate requiring full (100%) funding of the annual actuarially required local governmental contribution out of current budgetary appropriations. With the strong performance of the Retirement System in the 1990s, the locally required annual contribution declined to zero. However, with the subsequent decline in the equity markets, the pension system became underfunded. As a result, required contributions increased substantially to 15% to 20% of payroll for the ERS and PFRS, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments. While the City is aware of the potential negative impact on its budget and will take the appropriate steps to budget accordingly for the increase, there can be no assurance that its financial position will not be negatively impacted.

Chapter 49 of the Laws of 2003 amended the Retirement and Social Security Law and the Local Finance Law. The amendments empowered the State Comptroller to implement a comprehensive structural reform program for the ERS and PFRS. The reform program established a minimum contribution for any local governmental employer equal to 4.5% of pensionable salaries for bills which were due December 15, 2003 and for all fiscal years thereafter, as a minimum annual contribution where the actual rate would otherwise be 4.5% or less due to the investment performance of the fund. In addition, the reform program instituted a billing system to match the budget cycle of municipalities and school districts that will advise such employers over one year in advance concerning actual pension contribution rates for the next annual billing cycle. Under the previous method, the requisite ERS and PFRS contributions for a fiscal year could not be determined until after the local budget adoption process was complete. Under the revised system, a contribution for a given fiscal year is based on the valuation of the pension fund on the prior April 1 of the calendar year preceding the contribution due date instead of the following April 1 in the year of contribution so that the exact amount may now be included in a budget.

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

Chapter 260 provides for the following changes:

- **Contribution Payment Date Change:** The law changed the date on which local pension contributions are due to the state. The annual required contribution became due February 1 annually instead of December 15.
- **Pension Contributions Reserve Fund:** The law created special authorization to create a new category of reserve fund under the General Municipal Law. Municipalities and school districts may now establish a retirement contribution reserve fund that can be funded from other available current government resources.

The investment of monies, and assumptions underlying same, of the Retirement Systems covering the City's employees is not subject to the direction of the City. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALS"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises,

increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the City which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

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

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

- Raising the minimum age at which most civilian can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62.
- Requiring employees to continue contribution 3% of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from 5 years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15% of non-overtime wages.

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

FY Ending <u>June 30</u>	<u>ERS</u>	<u>PFRS</u>
2006	\$790,665	\$1,155,635
2007	762,350	1,133,628
2008	737,283	1,094,456
2009	635,943	1,365,509
2010	618,718	1,127,720

Other Post Employment Benefits

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

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

GASB 45 requires municipalities and school districts to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts had not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

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

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC.

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

The City hired an actuarial firm for the actuarial valuation which calculated an ARC of \$5,511,669 and an unfunded actuarial accrued liability of \$106,599,921, as of June 30, 2009. The City is in compliance with the requirements of GASB 45.

Unemployment Rate Statistics

	<u>Year Average</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
City of Watertown	5.3%	4.9%	4.9%	6.0%	8.2%
Jefferson County	6.2%	5.6%	5.5%	6.7%	8.7%
New York State	5.0%	4.6%	4.5%	5.3%	8.4%

2010 Monthly Figures

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>
City of Watertown	9.2%	9.3%	8.9%	8.5%	N/A
Jefferson County	10.8%	11.0%	10.4%	9.3%	N/A
New York State	9.4%	9.2%	8.8%	8.2%	N/A

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

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

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

The Hydroelectric Project

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

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

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

The project was completed in January 2000, with all three turbines on line. The facility now has a nameplate capacity of 6.54 MW and an average annual generation of approximately 24,970 MWh. The total approximate cost of the project was \$9,500,000. The City has signed a contract with Upstate Testing and Control, LLC (formerly Mercer Management Incorporated), Albany, New York, for operation and maintenance of the plant through June 30, 2011. The City will pay Upstate Testing and Control, LLC \$211,836 in fiscal year 2009-2010 and \$217,128 in fiscal year 2010-2011. The City had gross revenues from electric power sales of approximately \$2,805,326 and net revenues of \$2,523,450 after operating expenses and wheeling charges for the fiscal year ending June 30, 2009.

Power Purchase Agreement

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

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

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

Sewer Agreement

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

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

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

Water Agreement

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

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

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

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

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2005	\$614,807
2006	505,978
2007	640,132
2008	802,096
2009	688,420

Other Information

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

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

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

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

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

Financial Statements

The City retains certified public accountants for the purposes of an independent audit. The last such audit covers the period ending June 30, 2009 and is incorporated as a part of this Official Statement as Appendix B. Certain financial information of the City is attached hereto as Appendix A to this Official Statement.

City Investment Policy

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

TAX INFORMATION

Valuations

<u>Fiscal Year Ending June 30:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Assessed Valuation	\$622,236,617	\$833,804,521	\$965,989,335	\$982,901,620	\$990,720,368
New York State Equalization Rate	95.00%	100.00%	100.00%	97.00%	92.50%
Full Valuation	\$654,985,912	\$833,804,521	\$965,989,335	\$1,013,300,639	\$1,071,049,046
Tax Rate Per \$1,000 Assessed Valuation	\$14.38	\$9.82	\$7.13	\$7.23	\$7.39

Tax Collection Record

<u>Fiscal Year Ending June 30:</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total Tax Levy ¹	\$9,179,927	\$8,488,407	\$7,084,246	\$7,387,618	\$7,709,500
Additions (Cancellations) During the Year	<u>(12,045)</u>	<u>(6,783)</u>	<u>(3,739)</u>	<u>(3,196)</u>	<u>(2,903)</u>
Net Tax Levy	9,167,882	8,481,624	7,080,506	7,384,422	7,706,597
Collections ¹	<u>8,953,168</u>	<u>8,472,880</u>	<u>7,070,278</u>	<u>7,376,325</u>	<u>7,506,097</u> ²
Uncollected End of Year	\$214,714	\$8,744	\$10,228	\$8,097	\$200,500 ²
% Collected	97.66%	99.90%	99.86%	99.89%	97.40% ²

¹ Includes water, sewer and public service charges.

² As of March 31, 2010.

Tax Collection Procedure

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

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

Larger Taxpayers

<u>Name</u>	<u>Type</u>	2010-11 Assessed <u>Valuation</u>
National Grid (formerly Niagara Mohawk Power Corp.)	Utility	\$40,214,403
Erie Boulevard Hydropower	Utility	15,404,150
Arsenal Street Associates (Price Chopper Plaza)	Shopping Center	12,503,600
Arsenal Housing Associates	Apartments	10,519,000
Ontario Apartments LLC	Apartments	9,090,300
Eastern Housing Associates	Apartments	9,084,000
Allen Spevack (Stateway Plaza)	Shopping Center	8,323,444
Home Depot	Shopping Center	6,926,300
Verizon	Utility	5,951,490
200 Washington Street Assoc. LLC	Bank	4,712,100
Watertown Savings Bank	Bank	4,685,283
Prime LLC	Auto dealerships, golf course, apartments	4,622,650
First Columbia Samaritan LLC	Health Services	4,575,700
Waterberry Lodging Company	Motel	4,546,800
WGS A Housing Associates LLC	Apartments	4,346,000
RE Alexander Partnership	Motel	4,081,200
Ives Hill Retirement Community	Senior Living Facility	3,800,000
Hotel 45 Inc	Motel	3,600,135
Furniture Executive No.8LP	Shopping Center	3,389,400
North Country Affordable Housing	Apartments	3,219,750
Rothschild Breuer Associates LLC	Health Services	3,097,207
Golden Ocean Mgmt Inc.	Motel	3,039,950
Palmer Apartments Co.	Apartments	3,000,000

Constitutional Tax Margin

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Five Year Average Full Valuation	\$734,898,201	\$816,808,898
Tax Limit - 2% of Five Year Average	14,697,964	16,336,178
Add: Exclusions From Tax Limit	<u>6,063,537</u>	<u>5,062,660</u>
Maximum Taxing Power	20,761,501	21,398,838
Less Total Levy	<u>7,117,638</u>	<u>7,344,073</u>
Tax Margin	<u>\$ 13,643,863</u>	<u>\$ 14,054,765</u>

Sales and Compensating Use Taxes

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

<u>Year</u>	<u>Amount Received by City</u>
2005	\$11,897,671
2006	13,454,172
2007	14,159,944
2008	15,194,501
2009	14,466,732
2010 (Budget)	14,755,000

CITY INDEBTEDNESS

Constitutional Requirements

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

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

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

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

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

Pursuant to Article VIII of the State Constitution and Titles 8 and 9 of Article 2 of the Local Finance Law, the debt limit of the City is calculated by taking 7% of the latest five year average of the full valuation of all taxable real property.

Statutory Procedure

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

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

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

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

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

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

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

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

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

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

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

Debt Outstanding End of Fiscal Year

Fiscal Years Ending June 30:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Bonds ¹	\$34,774,700	\$35,646,000	\$30,403,800	\$34,003,600	\$32,972,400
Bond Anticipation Notes	<u>0</u>	<u>0</u>	<u>5,555,000</u>	<u>4,165,000</u>	<u>0</u>
	\$34,774,700	\$35,646,000	\$35,958,800	\$38,168,600	\$32,972,400

¹Does not include various refunded bond issues.

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of May 19, 2010.

<u>Bonds</u> ¹	<u>Maturity</u> 2010-2026	<u>Amount</u>
		\$29,030,200
<u>Bond Anticipation Notes</u>		<u>0</u>
	Total Debt Outstanding	<u>\$29,030,200</u>

¹ Excluding refunded bonds.

Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of May 19, 2010:

Five-Year Average Full Valuation of Taxable Real Property	\$907,825,891
Debt Limit - 7% thereof	63,547,812

Inclusions:

Serial Bonds	\$29,030,200
1991 Refunded Bonds	<u>29,800</u>
Total Inclusions.....	<u>29,060,000</u>

Exclusions:

Self-Liquidating Debt ¹	\$7,345,285
Water Debt ²	4,456,022
Sewer Debt ³	4,169,471
Cash on Hand in Man. Res. ⁴	150,230
Refunded Bonds ⁵	29,800
Appropriations	<u>230,401</u>
Total Exclusions	<u>16,381,209</u>

Total Net Indebtedness	<u>12,678,791</u>
Net Debt-Contracting Margin	<u>\$50,869,021</u>
Percent of debt contracting power exhausted	19.95%

The issuance of the Bonds will increase the Total Net Indebtedness of the City by \$1,522,000.

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

Authorized But Unissued Items

After the issuance of the Bonds, the City will have \$2,715,000 in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Breen Avenue Reconstruction	\$2,270,000	\$1,295,000
Improvements to J.B. Wise parking lot	1,020,000	1,020,000
Construction or Reconstruction of Sidewalks at various locations within the City	50,000	50,000
Greensview/Ives Hill Sanitary Sewer Reconstruction	<u>665,000</u>	<u>350,000</u>
	\$4,005,000	\$2,715,000

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	\$25,392,900	\$137,900	\$25,255,000	15.4%	\$ 3,889,270
City School District of the City of Watertown	52,644,000	0	52,644,000	69.7%	<u>36,692,868</u>
Total					<u>\$40,582,138</u>

Source: New York State Comptroller's Special Report on Municipal Affairs for Fiscal Year Ended in 2008.

Bonded Debt Service¹

Fiscal Year Ending June 30th	<u>Excluding the Bonds</u>			Principal This Issue	Principal All Issues
	Principal	Interest	Total Principal and Interest		
2010	\$4,217,200	\$1,476,392	\$5,693,592	\$0	\$4,217,200
2011	3,665,200	1,283,991	4,949,191	200,000	3,865,200
2012	3,405,000	1,128,062	4,533,062	225,000	3,630,000
2013	2,535,000	994,626	3,529,626	225,000	2,760,000
2014	2,380,000	885,486	3,265,486	225,000	2,605,000
2015	2,300,000	783,575	3,083,575	225,000	2,525,000
2016	2,220,000	684,327	2,904,327	150,000	2,370,000
2017	2,105,000	589,002	2,694,002	150,000	2,255,000
2018	2,025,000	496,918	2,521,918	150,000	2,175,000
2019	1,845,000	407,419	2,252,419	150,000	1,995,000
2020	1,280,000	330,186	1,610,186	150,000	1,430,000
2021	1,255,000	265,509	1,520,509	75,000	1,330,000
2022	900,000	207,648	1,107,648	75,000	975,000
2023	885,000	157,385	1,042,385	75,000	960,000
2024	650,000	106,580	756,580	75,000	725,000
2025	640,000	64,135	704,135	75,000	715,000
2026	665,000	21,658	686,658	0	665,000
Totals	<u>\$32,972,400</u>	<u>\$9,882,899</u>	<u>\$42,855,299</u>	<u>\$2,225,000</u>	<u>\$35,197,400</u>

¹ Table does not reflect either payments made to date, fiscal year ending June 30, 2010.

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

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

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

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

Under the Bankruptcy Code, a petition may be filed in Federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. Generally, the filing of such petition operates as a stay of any proceeding to enforce a claim against the municipality. The Bankruptcy Code also requires the municipality to file a plan for the adjustment of debts, which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the municipality to issue certificates of indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The City has the legal capacity to file a petition under the Bankruptcy Code.

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

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

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

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

The financial condition of the City as well as the market price of and the market for the Bonds could be affected by a variety of factors, many of which are beyond the City's control. There can be no assurance that adverse events in the global economy, the State or elsewhere, including, for example, the seeking by a municipality or school district 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 at any of its agencies or political subdivisions or elsewhere, thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowing and the market for and market value of the outstanding debt obligations, including the Bonds, could be adversely affected.

The City is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in this year or future years, the City may be affected by a delay, until sufficient State taxes have been received by the State to make State aid payments to the City. If for any reason the City anticipates not receiving payment of such State aid as needed, the City is permitted by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of any uncollected State aid. The State is not constitutionally obligated to maintain or continue State aid to the City. Accordingly, no assurance can be given that present State aid levels will be maintained in the future. The elimination of or any substantial reduction in State aid would have a materially adverse effect upon the City requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures.

The State is currently under considerable financial stress. As noted in an October 30, 2009 press release from the State Division of the Budget, the State's financial plan predicted deficits of \$3.2 billion in the current State fiscal year ending in 2010, \$6.8 billion in 2010-2011, \$14.8 billion in 2011-2012 and \$19.5 billion in 2012-2013, for a cumulative total of \$44.3 billion. This is an increase from the cumulative total of \$38.5 billion projected in July 2009. The Governor has recently publicly stated that unless cost cutting and other measures are taken in the near future, the State could run short of cash within months and that this could require the State to withhold budgeted State aid and take other immediate measures. The State Division of the Budget provides information about the State's finances on its website.

Events Affecting State Aid

On October 15, 2009, in response to updated budget projections, the Governor of the State of New York (the “Governor”) and the “State”) proposed reducing the current 2009-2010 State Budget by \$3.0 billion.

The State Legislature convened in Special Session to consider the Governor’s deficit reduction plan and to develop other proposals to address the imbalance in the State’s 2009-2010 Budget, which has been estimated to be between \$3.2 billion and \$4.0 billion.

On December 2, 2009 the State Legislature adopted a \$2.7 billion deficit reduction plan to partially reduce the State’s projected budget deficit.

On December 13, 2009 the Governor announced that he would unilaterally withhold \$750 million in scheduled payments to schools and local governments and instructed the Division of the Budget to delay aid payments to school districts in order to eliminate the total projected State deficit.

The City cannot predict at this time whether there will be any reductions in State aid in the current year or in future fiscal years or whether there will be additional Federal Stimulus Act monies made available for State aid in future years. In the event that there is a reduction in the City’s anticipated State aid allotment during its 2010 fiscal year and beyond, the City could mitigate the impact of any reductions by reducing expenditures, increasing revenues, appropriating other available funds on hand, and/or by any combination of the foregoing.

CONTINUING DISCLOSURE UNDERTAKING

To facilitate compliance with Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (the “SEC”) promulgated under the Securities Exchange Act of 1934, as amended by the underwriter (as defined in the Rule), the City will undertake, (the “Undertaking”), for the benefit of the record and beneficial owners from time to time of the Bonds (the “Bondholders”) to provide:

(a) within 270 days after the end of each fiscal year, to the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access system (“EMMA”), currently at <http://www.emma.msrb.org>, or any such similar system established and operated by the MSRB (the “Central Repository”), core financial information and operating data for the prior fiscal year, including (i) the City’s audited general purpose financial statements (commencing with those prepared for the current fiscal year of the City) prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City’s revenues, expenditures, financial operations and indebtedness generally of the type found in this Official Statement under the headings “The City”, “Tax Information”, “City Indebtedness”, “Litigation”, “Appendix A, A-1, A-2 and A-3”.

(b) in a timely manner, to the Central Repository, notice of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) modifications to rights of Bondholders;
- (8) Bond calls;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds;
- (11) rating changes; and
- (12) failure of the City to comply with clause (a) above.

Event (3) may not be applicable, as the terms of the Bonds do not provide for “debt service reserves.”

Events (4) and (5). The City does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the City applies for or participates in obtaining the enhancement.

Event (10). There is no property securing repayment of the Bonds, so Event (10) may not be applicable.

No Bondholders may institute any suit, action or proceeding at law or in equity (a “Proceeding”) for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder shall have filed with the Clerk of the City evidence of ownership and a written notice of and request to cure such breach, and the City shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified herein, in the federal or State courts located in Sullivan (or as near thereto as possible), and for the equal benefit of all Bondholders benefitted by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking may only take effect if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of the securities after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the City (such as, but without limitation, the City’s financial advisor or bond counsel); and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form the reasons for the amendment and the “impact” (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Undertaking, ceases to be in effect for any reason, and the City elects that the Undertaking shall be deemed or amended (as the case may be) accordingly.

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Undertaking, ceases to be in effect for any reason, and the City elects that the Undertaking shall be deemed or amended (as the case may be) accordingly.

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

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

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

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

LITIGATION

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

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could

cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be included in the computation of the federal alternative minimum taxable income of the owners thereof for federal income tax purposes.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions 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 has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interest from the owners of the Bonds. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

The excess of the initial offering price to the public of the Bonds over the stated redemption price at maturity of the Bonds set forth on the inside cover of this Official Statement is "bond premium." In general, any bond premium with respect to a Bond must be amortized under section 171 of the Code. The amount of premium so amortized will reduce the owner's basis in such Bond for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of that Bond to the owner. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, maturity or other disposition of a Bond.

The excess of the stated redemption price at maturity of the Bonds over the initial offering price to the public of the Bonds set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Bond should consult his or her own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and that interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and the Code contains additional limits on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

LEGAL MATTERS

The legality of the authorization and issuance of the Bonds will be covered by the unqualified legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount, provided, however, that the enforceability (but not the validity) of the Bonds: (a) may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal), affecting the enforcement of creditors' rights, and (b) may be subject to the exercise of judicial discretion in appropriate cases; (ii) the City has the power to comply with its covenants included in its 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. 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 thereof; (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Bonds has extended solely to the examination of the facts and law incident to rendering the opinions expressed therein; (iii) the opinions expressed therein are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the City, together with other legally available sources of revenue, if any, will be sufficient to enable the City to pay the principal of and interest on the Bonds as the same respectively become due and payable; (iv) reference should be made to the Official Statement for factual information which, in the judgment of the City, would materially affect the ability of the City to pay such principal and interest; and (v) while Bond Counsel has participated in the preparation of the Official Statement, Bond Counsel has not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, no opinion is expressed by Bond Counsel as to whether the City, in connection with the sale of the Bonds, has made any untrue statement of a material fact, or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

FINANCIAL ADVISOR

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

MISCELLANEOUS

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

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

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of the City Comptroller, James E. Mills, 245 Washington St-Rm 203, Watertown, New York at (315) 785-7754; or from the office of NYMAC, at (516) 364-6363, as financial advisor to the City.

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

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

CITY of WATERTOWN

**Dated: Watertown, New York
May 26, 2010**

**JAMES E. MILLS
City Comptroller**

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

APPENDIX A

Year Ended June 30:	2005	2006	2007	2008	2009
REVENUES					
Real Property Taxes	\$9,642,760	\$9,181,268	\$8,280,453	\$6,953,263	\$7,101,270
Real Property Tax Items	605,181	611,783	547,658	504,784	2,528,544
Non-Property Tax Items	12,576,311	14,194,078	14,939,506	16,116,929	15,464,169
Departmental Income	3,625,999	3,599,266	4,412,816	3,582,948	4,022,744
Intergovernmental Charges	347,709	520,614	40,866	112,159	163,224
Use of Money and Property	266,478	459,367	738,095	552,762	302,054
Licenses and Permits	63,609	83,865	54,603	73,720	127,073
Fines and Forfeitures	121,821	104,186	87,376	91,069	117,660
Sale of Property and Compensation for Loss	162,766	98,025	81,158	455,794	322,899
Miscellaneous	483,591	680,023	988,705	563,429	639,974
Interfund Revenues	726,323	654,540	874,697	1,017,687	1,074,812
State Aid	5,396,172	4,785,094	5,226,370	5,764,861	5,939,385
Federal Aid	188,727	192,845	116,840	315,809	553,451
Total Revenues	34,207,447	35,164,954	36,389,143	36,105,214	38,357,259
EXPENDITURES					
General Government Support	3,892,943	4,917,297	4,408,249	4,936,098	4,935,144
Education	4,235	3,733	0	0	0
Public Safety	11,820,698	12,051,594	12,507,948	13,397,190	13,510,962
Transportation	3,568,136	3,694,958	3,567,747	3,967,729	3,967,467
Economic Assistance and Opportunity	68,175	94,272	119,392	108,633	84,088
Culture and Recreation	925,983	986,096	1,051,814	1,095,867	1,114,563
Home and Community Services	1,029,637	1,063,405	981,521	1,119,591	1,093,377
Employee Benefits	4,695,117	5,922,695	6,201,337	6,875,545	6,222,736
Debt Service	4,026,178	3,830,393	4,021,472	4,091,499	4,033,133
Total Expenditures	30,031,102	32,564,443	32,859,480	35,592,152	34,961,470
Excess revenue over (under) expenditure	4,176,345	2,600,511	3,529,663	513,062	3,395,789
Other financing sources (uses)					
Retirement System Credits					
Operating transfers in	244,570	286,895	130,169	119,012	239,520
Operating transfers out	(1,428,664)	(1,772,702)	(1,848,498)	(2,000,775)	(1,483,832)
Total other financing sources (uses)	(1,184,094)	(1,485,807)	(1,718,329)	(1,881,763)	(1,244,312)
Excess revenue and other sources over (under) expenditures and other uses	2,992,251	1,114,704	1,811,334	(1,368,701)	2,151,477
Fund balance (deficit) beginning of year	6,620,524	9,612,775	10,727,479	12,788,813	11,420,112
Adjustments (net)	0	0	250,000	0	65,481
Fund balance (deficit) end of year	\$9,612,775	\$10,727,479	\$12,788,813	\$11,420,112	\$13,637,070

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

**City of Watertown
Budget Results
General Fund**

APPENDIX A-1

Year Ended June 30:	2010 <u>Adopted Budget</u>	2011 <u>Proposed Budget</u>
REVENUES		
Real Property Taxes	\$7,286,373	\$7,623,293
Real Property Tax Items	249,310	236,770
Non-Property Tax Items	15,563,000	15,932,700
Departmental Income	4,279,900	4,484,870
Intergovernmental Charges	127,250	123,870
Use of Money and Property	161,850	180,550
Licenses and Permits	80,700	79,600
Fines and Forfeitures	135,000	135,000
Sale of Property and Compensation for Loss	42,100	37,000
Miscellaneous	18,500	11,000
Interfund Revenues	525,050	529,850
State Aid	5,829,754	5,668,594
Federal Aid	275,957	135,100
Total Revenues	<u>34,574,744</u>	<u>35,178,197</u>
EXPENDITURES		
General Government Support	4,311,868	4,253,155
Public Safety	10,921,279	11,035,301
Transportation	3,318,202	3,266,176
Economic Assistance & Opportunity	57,000	57,000
Culture and Recreation	1,048,874	982,131
Home and Community Services	1,371,186	1,328,139
Employee Benefits	9,739,345	10,259,032
Debt Service	3,792,780	3,464,674
Total Expenditures	<u>34,560,534</u>	<u>34,645,608</u>
Excess revenue over (under) expenditures	<u>14,210</u>	<u>532,589</u>
Other financing sources (uses)		
Operating transfers in	0	0
Operating transfers out	(1,535,210)	(1,640,089)
Total other financing sources (uses)	<u>(1,535,210)</u>	<u>(1,640,089)</u>
Excess revenue and other sources over (under) expenditures and other uses	(1,521,000)	(1,107,500)
Fund balance (deficit) beginning of year	<u>1,521,000</u> ¹	<u>1,107,500</u> ¹
Adjustments (net)	N/A	N/A
Fund balance (deficit) end of year	<u><u>\$0</u></u>	<u><u>\$0</u></u>

¹Appropriated fund balance budgeted as revenue.

Source: Annual budgets of the City of Watertown.

**City of Watertown
Balance Sheets
General Fund**

APPENDIX A-2

As of June 30:	<u>2008</u>	<u>2009</u>
<u>ASSETS</u>		
Unrestricted cash and cash equivalents	\$9,966,649	\$11,442,795
Restricted cash and cash equivalents	683,755	693,412
Accounts receivables - net	1,116,741	671,753
Taxes receivable - net	28,943	51,487
Interest receivable - net	0	1,489
Due from other governments	70,403	1,673,912
State and Federal receivables	1,815,841	263,501
Due from Other Funds	805,803	1,958,765
Prepaid Expenses	29,889	118,200
TOTAL ASSETS	<u>14,518,024</u>	<u>16,875,314</u>
<u>LIABILITIES</u>		
Accounts Payable	1,525,495	1,576,517
Accrued Liabilities	375,211	435,985
Compensated Absences	597,432	624,498
Other Liabilities	6,585	7,707
Due to Other Funds	6,424	14,757
Due to Other Governments	42,691	43,636
Due to Retirement System	510,821	433,090
Deferred Revenue	33,253	102,054
TOTAL LIABILITIES	<u>3,097,912</u>	<u>3,238,244</u>
<u>FUND EQUITY</u>		
Reserved for:		
Encumbrances	180,175	190,390
Capital Projects	648,125	657,504
Workers' Compensation	307,198	312,394
Insurance	663,797	696,249
Unreserved:		
Designated	110,000	1,265,000
Undesignated	9,510,817	10,515,533
TOTAL FUND EQUITY	<u>11,420,112</u>	<u>13,637,070</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$14,518,024</u>	<u>\$16,875,314</u>

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

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

APPENDIX A-3

Fiscal Year Ended June 30: 2005 2006 2007 2008 2009

SPECIAL REVENUE FUND

Balance Beginning of Year	<u>\$587,412</u>	<u>\$400,285</u>	<u>\$561,561</u>	<u>\$720,633</u>	<u>\$772,944</u>
Revenues	1,211,734	1,643,586	2,319,602	1,787,865	1,942,950
Expenditures	<u>1,398,861</u>	<u>1,482,310</u>	<u>2,160,530</u>	<u>1,735,554</u>	<u>2,102,979</u>
Balance End of Year	<u><u>\$400,285</u></u>	<u><u>\$561,561</u></u>	<u><u>\$720,633</u></u>	<u><u>\$772,944</u></u>	<u><u>\$612,915</u></u>

WATER FUND

Net Assets Beginning of Year	<u>\$11,107,232</u>	<u>\$11,789,414</u>	<u>\$12,312,010</u>	<u>\$12,847,619</u>	<u>\$14,321,797</u>
Prior period adjustments (net)	0	0	(40,683)	0	0
Revenues	4,520,214	4,202,605	4,488,960	5,535,740	4,976,684
Expenditures	<u>3,838,032</u>	<u>3,680,009</u>	<u>3,912,668</u>	<u>4,061,562</u>	<u>4,304,118</u>
Net Assets End of Year	<u><u>\$7,269,200</u></u>	<u><u>\$8,109,405</u></u>	<u><u>\$12,847,619</u></u>	<u><u>\$14,321,797</u></u>	<u><u>\$14,994,363</u></u>

SEWER FUND

Net Assets Beginning of Year	<u>\$10,399,739</u>	<u>\$11,213,119</u>	<u>\$11,815,097</u>	<u>\$12,278,403</u>	<u>\$12,433,480</u>
Prior period adjustments (net)	0	0	(128,870)	0	0
Revenues	4,588,615	4,333,017	4,503,545	4,158,318	4,451,224
Expenditures	<u>3,775,235</u>	<u>3,731,039</u>	<u>3,911,369</u>	<u>4,003,241</u>	<u>4,139,282</u>
Net Assets End of Year	<u><u>\$6,624,504</u></u>	<u><u>\$7,482,080</u></u>	<u><u>\$12,278,403</u></u>	<u><u>\$12,433,480</u></u>	<u><u>\$12,745,422</u></u>

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

APPENDIX B

FINANCIAL STATEMENTS

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

CITY OF WATERTOWN, NEW YORK



**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2009

**CITY OF WATERTOWN, NEW YORK
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POULSEN & PODVIN, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watertown, New York's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis (pages 3-16), budgetary comparison information (page 55) and schedule of funding progress for "the plan" (page 58) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Watertown, New York. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

As management of the City of Watertown (the "City") we offer this overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2009. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets of the City of Watertown exceeded its liabilities at June 30, 2009 by \$93,732,107. Of this amount unrestricted net assets of \$13,563,945 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$4,472,854 in fiscal year 2008-09, \$3,488,346 in governmental activities and \$984,508 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$16,019,502.
- General fund revenues of \$38,596,779 on a budgetary basis exceeded budgeted revenues by \$856,314 or 2.27% while budgetary basis expenditures finished \$2,357,120 lower than budgeted expenditures. These results negated the use of \$145,000 in appropriated fund balance budgeted in the 2008-09 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,780,533 or 32.32% of total general fund expenditures.
- The City issued \$3,220,000 in serial bonds dated February 11, 2009 maturing September 15, 2018 at interest rates ranging from 2.50% through 3.25% (priced to yield 2.81%) to provide financing for various capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2009, the City's assets exceeded liabilities by \$93,732,107 compared to \$89,259,253 at June 30, 2008. By far the largest portion of the City's net assets (84.32%) reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$1,134,528 or 1.21% of the net assets represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone, the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund and a Capital Reserve Fund. The unrestricted net assets, \$13,563,945 compared to \$12,692,832 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

City of Watertown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Current and other assets	\$21,765,183	\$23,363,970	\$4,619,704	\$4,990,775	\$26,384,887	\$28,354,745
Capital Assets	<u>76,481,851</u>	<u>74,241,192</u>	<u>33,960,086</u>	<u>33,757,536</u>	<u>110,441,937</u>	<u>107,998,728</u>
Total Assets	<u>\$98,247,034</u>	<u>\$97,605,162</u>	<u>\$38,579,790</u>	<u>\$38,748,311</u>	<u>\$136,826,824</u>	<u>\$136,353,473</u>
Long-term liabilities outstanding	\$26,271,572	\$25,123,392	\$10,230,950	\$10,434,432	\$36,502,522	\$35,557,824
Other liabilities	<u>5,983,140</u>	<u>9,977,794</u>	<u>609,055</u>	<u>1,558,602</u>	<u>6,592,195</u>	<u>11,536,396</u>
Total liabilities	<u>\$32,254,712</u>	<u>\$35,101,186</u>	<u>\$10,840,005</u>	<u>\$11,993,034</u>	<u>\$43,094,717</u>	<u>\$47,094,220</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009

Net Assets:

Invested in Capital Assets, net of related

debt	\$53,419,622	\$50,453,566	\$25,614,012	\$24,939,446	\$79,033,634	\$75,393,012
Restricted	1,016,454	1,096,637	118,074	76,772	1,134,528	1,173,409
Unrestricted	<u>11,556,246</u>	<u>10,953,773</u>	<u>2,007,699</u>	<u>1,739,059</u>	<u>13,563,945</u>	<u>12,692,832</u>
Total Net Assets	<u>\$65,992,322</u>	<u>\$62,503,976</u>	<u>\$27,739,785</u>	<u>\$26,755,277</u>	<u>\$93,732,107</u>	<u>\$89,259,253</u>

As of June 30, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

The following table provides a summary of the City's operations for the year ended June 30, 2009.

City of Watertown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Revenues:						
Program Revenues:						
Charges for services	\$6,505,983	\$6,285,330	\$9,061,726	\$8,547,017	\$15,567,709	\$14,832,347
Operating grants and contributions	1,754,290	1,084,835	22,221	-	1,776,511	1,084,835
Capital grants and contributions	4,018,797	3,303,897	278,961	1,040,593	4,297,758	4,344,490
General revenues:						
Property taxes	9,618,931	7,447,874	-	-	9,618,931	7,447,874
Sales tax	14,466,732	15,194,502	-	-	14,466,732	15,194,502
Utilities gross receipts tax	376,670	447,896	-	-	376,670	447,896
Franchise tax	406,570	293,733	-	-	406,570	293,733
Mortgage tax	418,469	502,944	-	-	418,469	502,944
Other taxes	214,197	180,798	-	-	214,197	180,798
Grants and Entitlements not restricted to specific programs	5,090,175	4,757,174	-	-	5,090,175	4,757,174
Investment earnings	<u>344,943</u>	<u>622,582</u>	<u>54,332</u>	<u>95,243</u>	<u>399,275</u>	<u>717,825</u>
Total revenues	<u>\$43,215,757</u>	<u>\$40,121,565</u>	<u>\$9,417,240</u>	<u>\$9,682,853</u>	<u>\$52,632,997</u>	<u>\$49,804,418</u>
Expenses:						
General government support	\$11,952,934	\$11,366,404	-	-	\$11,952,934	\$11,366,404
Hydroelectric production	462,321	510,184	-	-	462,321	510,184
Fire	7,503,676	7,185,071	-	-	7,503,676	7,185,071
Police	6,539,319	6,455,049	-	-	6,539,319	6,455,049
Other Public Safety	391,839	440,644	-	-	391,839	440,644
Public Works	6,232,815	5,672,779	-	-	6,232,815	5,672,779

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Bus	913,945	940,754	-	-	913,945	940,754
Watertown Empire Zone	26,739	41,444	-	-	26,739	41,444
Other Economic Assistance	79,088	93,633	-	-	79,088	93,633
Library	945,702	785,948	-	-	945,702	785,948
Other Culture and Recreation	1,641,441	1,533,931	-	-	1,641,441	1,533,931
Refuse and Recycling	799,221	747,195	-	-	799,221	747,195
Other Home and Community Services	1,060,959	779,482	-	-	1,060,959	779,482
Interest on Debt Service	1,174,244	1,275,583	-	-	1,174,244	1,275,583
Water	-	-	4,296,618	4,054,062	4,296,618	4,054,062
Sewer	-	-	4,139,282	4,003,241	4,139,282	4,003,241
Total Expenses	<u>\$39,724,243</u>	<u>\$37,828,101</u>	<u>\$8,435,900</u>	<u>\$8,057,303</u>	<u>\$48,160,143</u>	<u>\$45,885,404</u>
Excess of Revenues over Expenses	3,491,514	2,293,464	981,340	1,625,550	4,472,854	3,919,014
Transfers	<u>(3,168)</u>	<u>(3,705)</u>	<u>3,168</u>	<u>3,705</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	3,488,346	2,289,759	984,508	1,629,255	4,472,854	3,919,014
Net Assets - Beginning	<u>62,503,976</u>	<u>60,214,217</u>	<u>26,755,277</u>	<u>25,126,022</u>	<u>89,259,253</u>	<u>85,340,239</u>
Net Assets - Ending	<u>\$65,992,322</u>	<u>\$62,503,976</u>	<u>\$27,739,785</u>	<u>\$25,755,277</u>	<u>\$93,732,107</u>	<u>\$89,259,253</u>

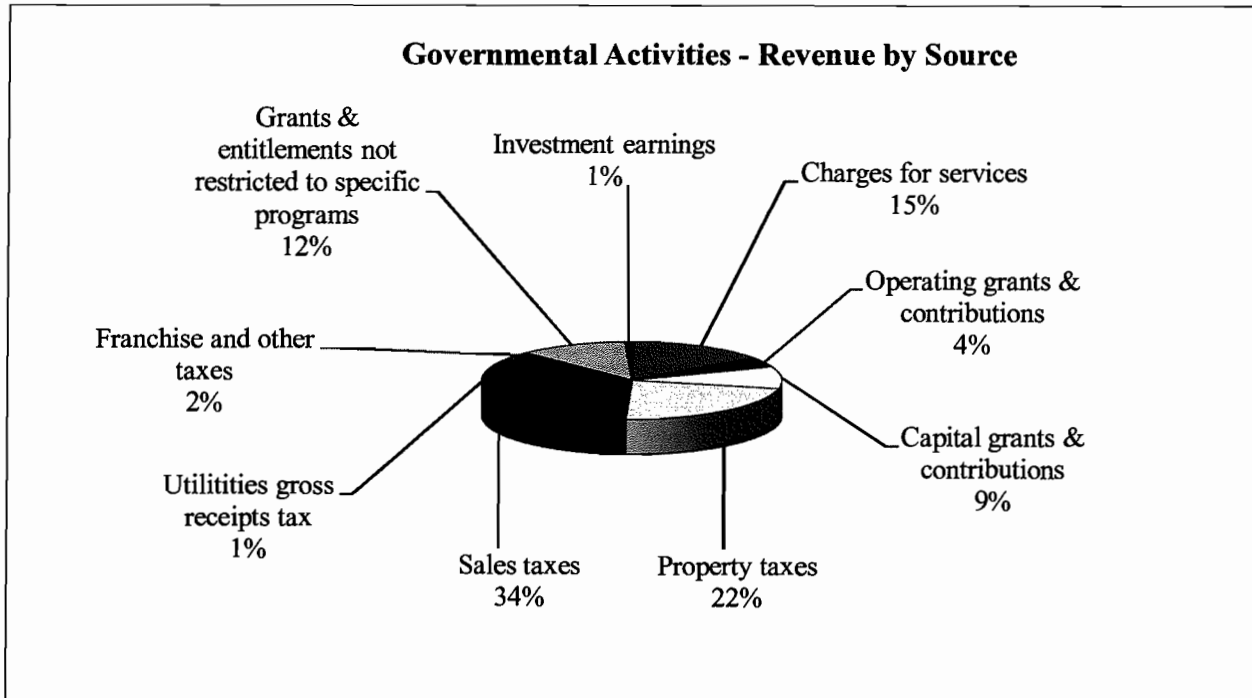
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Governmental activities. Governmental activities increased the City's net assets by \$3,488,346 compared to an increase of \$2,289,759 last year accounting for 78% of the total growth in the net assets. Key elements of the increase are as follows:

- The City received \$2,270,641 for the last payment from the section 801 properties payment-in-lieu-of-taxes agreement.
- Sales tax revenue totaled \$14,466,732, a decrease of \$727,770 or (4.79%) compared to fiscal year ended June 30, 2008. Sales tax revenue represented 33% of the governmental activities' revenue in FY 08/09 compared to 38% in FY 07/08.
- Per the New York State 2008-09 Budget, the City received a 7% increase of \$333,001 in State Aid revenue for a total of \$5,090,175.
- The City received \$3,828,226 in Federal and State Aid for various capital projects. Some of the major projects include the State Street reconstruction (\$450,473), the Downtown Streetscape Enhancement project (\$1,838,142), the Consolidated Local Street and Highway Improvement Program for various streets (\$628,679), the Gaffney Drive reconstruction (\$259,059), the Sewalls Island environmental rehabilitation (\$309,708), the Black River Park project (\$80,850) and the Hole Brothers shoreline improvements project (\$72,384).



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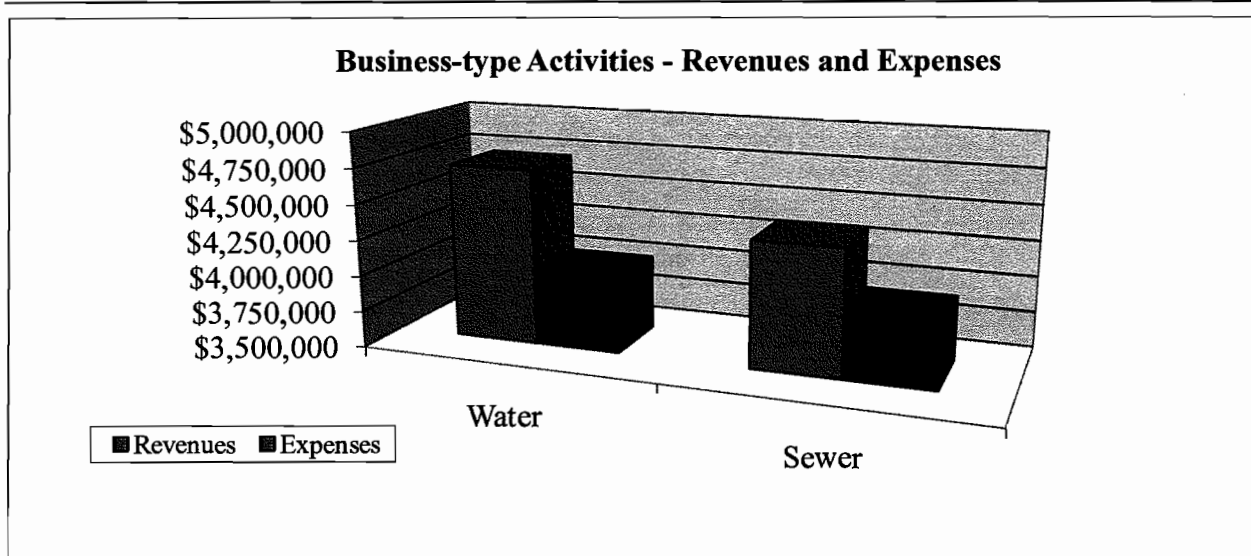
Business-type activities. Business-type activities increased the City's net assets by \$984,508 compared to \$1,629,255 last year. Key elements in this increase are as follows:

- Water operating revenues increased slightly by \$7,147 or 0.15% to \$4,719,853 while operating expenses increased by \$272,478 or 7.27% to \$4,022,205. Sewer operating revenues increased by \$529,783 or 13.82% to \$4,364,094 and operating expenses increased by \$126,422 or 3.31% to \$3,945,631.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts. In the current fiscal year the revenue derived from this agreement was \$688,420 or 14.63% of total water operating revenues compared to 17.02% in the prior year. Revenues from this agreement decreased by \$113,676 or 14.17% over last year's total of \$802,096. Most of this decrease is likely due to Fort Drum's water supply wells being reactivated after being temporarily out of service for most of the prior year.
- The City also has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$1,040,103 or 23.88% of total sewer operating revenues. Revenues from this agreement increased by \$110,476 or 11.88% over last year's total of \$929,627. The City Council approved two twenty-year agreements retroactive to April 1, 2009 with the Development Authority of the North Country to continue providing sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City's Water Pollution Control Plant.
- The City received \$299,913 in Federal and State Aid for various capital projects. The major projects include the State Street reconstruction (\$46,213) and the Downtown Streetscape Enhancement project (\$231,479).

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2009



Financial Analysis of the Government's Funds

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

At June 30, 2009 the City's governmental funds reported combined ending fund balances of \$16,019,502, an increase of \$2,359,146 in comparison with the prior year. The increase is most attributable to a \$1,243,378 increase in the fund balance of the City's self-funded health insurance fund due to less than anticipated claims. Excluding the capital projects fund, the City's governmental funds have an unreserved fund balance of \$11,840,857. Of the unreserved fund balance, \$1,310,271 has been designated by the City Council for subsequent year's expenditures leaving an unreserved undesignated fund balance of \$10,530,585. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate \$1,171,090 of contracts and purchase orders of the prior period (2) to pay \$175,657 of debt service (3) to pay \$1,008,644 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$1,016,453.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,780,533 compared to \$9,620,817 in 2007-08, while the total general fund balance equaled \$13,637,070 compared to \$11,420,112 in the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures and other financing uses. Unreserved fund balance represents 32.32% of total general fund expenditures and other financing uses compared to 25.59% last year, while total fund balance represents 37.42% of that same amount compared to 30.38% in the prior year.

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During the current fiscal year, the fund balance of the City's general fund increased by \$2,151,477 compared to last year's decrease of \$1,368,701. The less than anticipated expenditures in the City's self-funded health insurance plan accounted for \$1,243,378 of the increase.

Capital projects fund. The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$1,769,517 compared to \$1,467,300 in the previous year. Within this amount was \$962,715 of encumbrances for construction contracts compared to \$5,249,075 in the prior year.

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

Unrestricted net assets at the end of the fiscal year of the water fund were \$1,143,142 compared to \$1,334,510 in fiscal year 2007-08. The water fund had an increase in net assets in the amount of \$672,566 compared to \$1,474,178 in the previous year.

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$864,557 compared to \$404,549 in the prior year. The sewer fund had an increase in net assets in the amount of \$311,942 compared to \$155,077 in fiscal year 2007-08. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The general fund budget was re-adopted during the fiscal year to react to the downturn in national and state-wide economic conditions. The re-adopted budget lowered revenues by \$1,226,862 in part by decreasing the expected sales tax revenue by \$1,501,862 and increasing sale of excess hydro-electric power by \$200,000. Expenditures were decreased by \$540,788 in part by increasing the appropriation for road salt by \$250,000 and decreasing the budget for retirement expenses by \$175,000, transfer to the capital projects fund by \$128,000 and fuel costs by \$90,000. Other budget amendments between departmental expenditure accounts also did occur.

General fund revenues of \$38,596,779 on a budgetary basis exceeded final budgeted revenues of \$37,740,465 by \$856,314 or 2.27% while budgetary basis expenditures of \$36,445,302 were \$2,357,120 or 6.07% lower than the final budgeted expenditures of \$38,802,422. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenues being better than anticipated with the re-adopted budget (\$218,594), franchise fees (\$56,570), building permits (\$64,721), State transportation assistance for the bus system (\$113,395), occupancy tax revenues (\$64,197), real property tax reserves (\$115,811) and insurance recoveries on large self-insurance claims (\$274,680). Revenues that did not meet budgetary expectations included the utilities gross receipts tax (\$83,330) and the sale of surplus hydro-power (\$194,674). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$128,000) and planning department projects that did not occur as planned such as brownfield projects (\$199,200). These combined

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results negated the use of \$145,000 in appropriated fund balance that was budgeted in the 2008-09 general fund budget.

Capital Assets and Debt Administration

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2009, amounts to \$79,033,634. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

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

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Land	\$2,952,170	\$2,952,170	\$ -	\$ -	\$2,952,170	\$2,952,170
Construction in Progress	1,087,948	14,189,169	238,253	766,818	1,326,201	14,955,987
Land Improvements	2,612,915	2,122,148	19,876	32,404	2,632,791	2,154,552
Building and Improvements	20,552,456	21,168,761	14,483,441	15,023,842	35,035,897	36,192,603
Infrastructure	43,478,015	27,730,675	15,677,742	14,202,321	59,155,757	41,932,996
Machinery and Equipment	3,256,429	3,224,652	3,379,189	3,606,576	6,635,618	6,831,228
Vehicles	<u>2,541,918</u>	<u>2,853,617</u>	<u>161,585</u>	<u>125,575</u>	<u>2,703,503</u>	<u>2,979,192</u>
Total Net Assets	<u>\$76,481,851</u>	<u>\$74,241,192</u>	<u>\$33,960,086</u>	<u>\$33,757,536</u>	<u>\$110,441,937</u>	<u>\$107,998,728</u>

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

- Reconstruction of State Street, which began in FY 2005-06, was completed. The water and sanitary portions of the project were completed in FY 2007-08 at a cost of \$3,745,125. Federal and New York State reimbursements for the entire project totaled over \$9.9 million and paid for approximately 93% of the project's \$13.5 million cost excluding the cost of betterments that are estimated at \$2.8 million.
- Construction work for the Downtown Streetscape Enhancement Project, which began in FY 2005-06, was completed. The project included reconstructing Public Square streets, replacing water and storm sewer lines, replacing sidewalks, and installing many landscaping enhancements. Federal and New York State reimbursements for the entire project totaled nearly \$4.8 million and paid for approximately 68% of the project's \$7.0 million cost.

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- Completion of the Black River Parks Development Project at a cost of \$297,331 created additional recreational opportunities along the Black River through the creation of new riverfront park areas and trails along with improved access to an existing park. New York State reimbursements for this project totaled \$125,000.
- Completion of the Hole Brothers Shoreline Improvements Project at a cost of \$298,768 provided upgraded boater and spectator access, a stepped trail to the shoreline and riverbank stabilization. New York State reimbursements for this project totaled nearly \$100,000, the Black River Fund donated \$80,000 and over \$20,000 was transferred from the Tourism Fund.
- Replacement of variable frequency motor drives at the Water Filtration Plant was completed at a cost of \$249,772.
- Acquisition and construction of Gaffney Drive was completed by the City Department of Public Works at a cost of \$259,059 which was funded through a New York State grant of \$200,000 along with the balance from the New York State Consolidated Local Street and Highway Improvement Program.
- Vehicle and equipment purchases in the amount of \$476,433 which items such as a fire truck rehabilitation (\$64,392), para-transit bus (\$58,367), front-end loader (\$109,596), and police vehicles (\$104,666).
- Reconstruction of Ten Eyck Street was completed in FY 2008-09. The nearly \$2.0 million project included reconstructing the streets, sidewalks, water main, and storm and sanitary sewers.

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$32,972,400. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
General obligation bonds	\$22,960,609	\$23,650,231	\$10,011,791	\$10,353,369	\$32,972,400	\$34,003,600
Other loans	<u>139,565</u>	<u>184,825</u>	<u>5,785</u>	<u>7,661</u>	<u>145,350</u>	<u>192,486</u>
	<u>\$23,100,174</u>	<u>\$23,835,056</u>	<u>\$10,017,576</u>	<u>\$10,361,030</u>	<u>\$33,117,750</u>	<u>\$34,196,086</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

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

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2009, the City's debt limit was \$57,176,623 with total net indebtedness of \$14,933,594, thus exhausting 26.12% of the City's debt limit.

The City issued \$3,220,000 in serial bonds dated February 11, 2009 maturing September 15, 2018 at interest rates ranging from 2.50% to 3.25% (priced to yield 2.81%) to provide financing for various capital projects.

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

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2009-10 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2009 were 8.3% for the City of Watertown, 8.3% for Jefferson County, 8.6% for New York State and 9.5% for the United States. The unemployment rates in June 2008 were 5.8% for the City of Watertown, 5.8% for Jefferson County, 5.1% for New York State and 5.5% for the United States.

Factors considered during the preparation of the FY 2009-10 budget included the national recession, the potential effects to our area from the American Recovery and Reinvestment Act, continued sales tax volatility, falling interest rates, rising unemployment and uncertainties regarding State Aid. With the continued uncertainties in Afghanistan and Iraq, as has been the case over the last several years, it was difficult to predict how many of the 18,681 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. Based upon many of the aforementioned factors sales tax revenue was projected to decrease significantly by \$995,000 from the FY 2008-09 budgeted level.

Like most local governments, the City's 2009-10 budget was impacted by continued high costs for retirement benefits and health insurance costs. The contribution to the Employees' Retirement System will range from 7.0% to 9.3% of salaries while the contribution the Police and Fire Retirement System will range from 13.9% to 14.3% of salaries. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Accordingly retirement rates are likely to increase by 50% in FY 2010-11 and over the next five years could increase to as much as 30% of payroll for Police and Fire employees and 20% of payroll for all other employees. Appropriations in the self-insurance fund increased \$561,900 or 7.71% resulting in a 5.3% increase to the premium rate.

CITY OF WATERTOWN, NEW YORK

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The City saw an increase of \$7,818,748 or 0.80% in taxable assessed value which does include an approximate \$7,123,600 assessment reduction to property owned by MGNH. The residential tax burden has increased slightly to 60.97% from 60.72% last year. The average assessment for a single-family home in Watertown increased slightly to \$104,285 from \$103,455 in FY 2008-09.

The City was able to recognize a decrease in FY 2009-10 General Fund operating costs of \$1,493,662 or 3.97% to \$36,095,744. The City appropriated \$1,521,000 of fund balance, an increase of \$1,376,000 over FY 2008-09. The significant reason for the increase in appropriated fund balance was that FY 2008-09 included the receipt of approximately \$2,270,000 for the final payment due related to the 801 properties' PILOT agreement. The sales tax revenue budget was decreased to \$14,755,000 which represented a decrease of \$995,000 or 6.3% over the sales tax budget for FY 2008-09. The State Aid revenue budget was kept at \$5,090,177 based on New York State's FY 2009-10 budget. The increase in the real property tax levy of \$226,435 or 3.18% and the increase in taxable assessed values resulted in a 2.27% increase to the property tax rate.

Appropriations for the Water Fund decreased \$281,921 or 5.60%. The Water Fund held the water rates constant at the FY 2008-09 levels and appropriated \$184,843 of fund balance to balance the 2009-10 budget. The Sewer Fund appropriations increased slightly by \$36,477 or 0.88%. The Sewer Fund was able to hold the FY 2009-10 sewer rates constant at the FY 2008-09 levels and projects to generate a surplus of \$57,686.

Requests for Information

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted cash and cash equivalents	\$ 12,043,033	\$ 809,868	\$ 12,852,901	\$ 101,271
Restricted cash and cash equivalents	3,025,219	1,888,619	4,913,838	233,104
Receivables (net of allowance for uncollectibles):				
Accounts	1,961,976	1,603,899	3,565,875	-
Taxes	56,068	-	56,068	-
Interest	2,228	891	3,119	-
Other receivables	-	-	-	500
Due from other governments	1,698,144	285,127	1,983,271	-
State and federal aid receivables	2,758,840	119,437	2,878,277	-
Prepaid expenses	130,414	1,124	131,538	386
Internal balances	89,261	(89,261)	0	-
	<u>21,765,183</u>	<u>4,619,704</u>	<u>26,384,887</u>	<u>335,261</u>
Capital Assets:				
Non-depreciable	4,040,118	238,253	4,278,371	10,208
Depreciable, net	72,441,733	33,721,833	106,163,566	52,242
Total capital assets	<u>76,481,851</u>	<u>33,960,086</u>	<u>110,441,937</u>	<u>62,450</u>
Total Assets	<u>\$ 98,247,034</u>	<u>\$ 38,579,790</u>	<u>\$ 136,826,824</u>	<u>\$ 397,711</u>
LIABILITIES				
Accounts payable	\$ 1,998,631	\$ 224,477	\$ 2,223,108	\$ 1,157
Accrued interest payable	237,459	110,780	348,239	-
Accrued liabilities	455,408	71,150	526,558	-
Retainage payable	137,930	43,860	181,790	-
Compensated absences	638,016	107,615	745,631	-
Workers compensation liability	525,137	92,922	618,059	-
Accrued post employment benefits	2,122,453	154,508	2,276,961	-
Other liabilities	14,621	-	14,621	5,317
Due to other governments	647,578	844	648,422	-
Due to retirement system	443,640	50,329	493,969	-
Deferred revenue	1,409,857	-	1,409,857	-
Bond anticipation note	-	-	-	-
Other long-term debt	701,317	5,785	707,102	-
Serial bonds	22,960,609	10,011,791	32,972,400	-
Less: deferred amount on advance refunding	(37,944)	(34,056)	(72,000)	-
Total Liabilities	<u>32,254,712</u>	<u>10,840,005</u>	<u>43,094,717</u>	<u>6,474</u>
NET ASSETS				
Investment in capital assets, net of related debt	53,419,622	25,614,012	79,033,634	-
Restricted for:				
Economic development and assistance	279,865	-	279,865	-
Community development	79,085	-	79,085	-
Capital projects	657,504	118,074	775,578	234,785
Unrestricted	11,556,246	2,007,699	13,563,945	156,452
Total Net Assets	<u>65,992,322</u>	<u>27,739,785</u>	<u>93,732,107</u>	<u>391,237</u>
Total Liabilities and Net Assets	<u>\$ 98,247,034</u>	<u>\$ 38,579,790</u>	<u>\$ 136,826,824</u>	<u>\$ 397,711</u>

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

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Program Revenues		Capital		Net (Expense) Revenue and		Component
	Expenses	Charges for Services	Operating Grants and Contributions	Grants and Contributions	Changes in Net Assets	Revenue and Business-Type Activities	
FUNCTIONS/PROGRAMS							
Governmental Activities:							The Trustees of the Roosevelt P. Flower Memorial Library
General government support:							
General government support	\$ 11,952,934	\$ 2,342,002	\$ 116,692	\$ 20,544	\$ (9,473,696)	\$ -	\$ -
Hydroelectric production	462,321	2,805,326	-	-	2,343,005	-	2,343,005
Public safety:							
Fire	7,503,676	-	-	-	(7,503,676)	-	(7,503,676)
Police	6,539,319	133,152	205,071	-	(6,201,096)	-	(6,201,096)
Other public safety	391,839	116,446	-	-	(275,393)	-	(275,393)
Public Works	6,232,815	89,537	15,070	3,294,379	(2,833,829)	-	(2,833,829)
Transportation:							
Bus	913,945	123,101	437,220	52,530	(301,094)	-	(301,094)
Economic opportunity and development:							
Other economic assistance	79,088	-	-	-	(79,088)	-	(79,088)
Empire Zone	26,739	-	19,362	-	(7,377)	-	(7,377)
Culture and recreation:							
Library	945,702	17,200	49,924	13,767	(864,811)	-	(864,811)
Other culture and recreation	1,641,441	189,464	-	327,869	(1,124,108)	-	(1,124,108)
Home and community services:							
Refuse and recycle	799,221	670,300	-	-	(128,921)	-	(128,921)
Other home and community services	1,060,959	19,455	910,951	309,708	179,155	-	179,155
Interest on debt	1,174,244	-	-	-	(1,174,244)	-	(1,174,244)
Total Governmental Activities	<u>39,724,243</u>	<u>6,505,983</u>	<u>1,754,290</u>	<u>4,018,797</u>	<u>(27,445,173)</u>	<u>-</u>	<u>(27,445,173)</u>
Business-Type Activities:							
Water	4,296,618	4,706,465	13,388	232,223	-	655,458	655,458
Sewer	4,139,282	4,355,261	8,833	46,738	-	271,550	271,550
Total Business-Type Activities	<u>8,435,900</u>	<u>9,061,726</u>	<u>22,221</u>	<u>278,961</u>	<u>-</u>	<u>927,008</u>	<u>927,008</u>
Total Primary Government	<u>\$ 48,160,143</u>	<u>\$ 15,567,709</u>	<u>\$ 1,776,511</u>	<u>\$ 4,297,758</u>	<u>(27,445,173)</u>	<u>927,008</u>	<u>(26,518,165)</u>
Component Unit:							
The Trustees of the R.P. Flower Memorial Library	96,387	-	49,377	14,202	-	-	(32,808)
Total Component Unit	<u>\$ 96,387</u>	<u>\$ -</u>	<u>\$ 49,377</u>	<u>\$ 14,202</u>	<u>-</u>	<u>-</u>	<u>(32,808)</u>
Net Assets brought forward					(27,445,173)	927,008	(26,518,165)
GENERAL REVENUES							
Property taxes					9,618,931	-	9,618,931
Sales taxes					14,466,732	-	14,466,732
Utilities gross receipts tax					376,670	-	376,670
Franchise tax					406,570	-	406,570
Hotel occupancy tax					214,197	-	214,197
Mortgage tax					418,469	-	418,469
Grants and entitlements not restricted to specific programs					5,090,175	-	5,090,175
Investment earnings					344,943	54,332	399,275
Total General Revenues					30,936,687	54,332	30,991,019
Transfers					(3,168)	3,168	-
Change in Net Assets					3,488,346	984,508	4,472,854
Total Net Assets - Beginning of year					62,503,976	26,755,277	89,259,253
Total Net Assets - End of year					65,992,322	27,739,785	93,732,107

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

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Unrestricted cash and cash equivalents	\$ 11,442,795	\$ -	\$ 600,238	\$ 12,043,033
Restricted cash and cash equivalents	693,412	2,219,301	112,506	3,025,219
Receivables (net of allowance for uncollectibles):				
Accounts	671,753	92,752	1,191,763	1,956,268
Taxes	51,487	4,581	-	56,068
Interest	1,489	717	22	2,228
Due from other governments	1,673,912	-	24,232	1,698,144
State and federal aid receivables	263,501	1,875,573	619,766	2,758,840
Prepaid expenses	118,200	12,000	214	130,414
Due from other funds	1,958,765	-	-	1,958,765
	<u>\$ 16,875,314</u>	<u>\$ 4,204,924</u>	<u>\$ 2,548,741</u>	<u>\$ 23,628,979</u>
Total Assets	\$ 16,875,314	\$ 4,204,924	\$ 2,548,741	\$ 23,628,979
LIABILITIES				
Accounts payable	\$ 1,576,517	\$ 363,624	\$ 58,490	\$ 1,998,631
Accrued liabilities	435,985	6,106	13,317	455,408
Retainage payable	-	137,930	-	137,930
Compensated absences	624,498	-	13,518	638,016
Other liabilities	7,707	-	6,914	14,621
Due to other funds	14,757	1,840,867	8,172	1,863,796
Due to other governments	43,636	2,063	601,879	647,578
Due to retirement system	433,090	-	10,550	443,640
Deferred revenue	102,054	84,817	1,222,986	1,409,857
	<u>3,238,244</u>	<u>2,435,407</u>	<u>1,935,826</u>	<u>7,609,477</u>
Total Liabilities	3,238,244	2,435,407	1,935,826	7,609,477
FUND BALANCES:				
Reserve for encumbrances	190,390	962,715	17,985	1,171,090
Reserve for capital projects	657,504	-	-	657,504
Reserve for economic development	-	-	279,865	279,865
Reserve for community development projects	-	-	79,085	79,085
Reserve for debt service	-	-	175,657	175,657
Reserve for worker's compensation	312,394	-	-	312,394
Reserve for insurance-general	696,249	-	-	696,249
Unreserved - designated for subsequent year's expenditures	1,265,000	-	45,271	1,310,271
Unreserved - undesignated	10,515,533	806,802	15,052	11,337,387
	<u>13,637,070</u>	<u>1,769,517</u>	<u>612,915</u>	<u>16,019,502</u>
Total Fund Balances	13,637,070	1,769,517	612,915	16,019,502
Total Liabilities and Fund Balances	\$ 16,875,314	\$ 4,204,924	\$ 2,548,741	\$ 23,628,979

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

CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total governmental fund balances \$ 16,019,502

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

The cost of capital assets is	\$ 127,130,091	
Accumulated depreciation is	<u>50,648,240</u>	76,481,851

Deferred assets for refunded bonds 37,944

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

Bonds payable	\$ (22,960,609)	
Loan payable	(139,565)	
Accrued interest on bonds payable	(237,459)	
Compensated absences	(291,752)	
Workers compensation liability	(525,137)	
Landfill post-closure liability	(270,000)	
Accrued post-employment benefits	<u>(2,122,453)</u>	<u>(26,546,975)</u>

Net assets of governmental activities \$ 65,992,322

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Real property taxes	\$ 7,101,270	\$ -	\$ -	\$ 7,101,270
Real property tax items	2,528,544	-	-	2,528,544
Nonproperty taxes	15,464,169	-	-	15,464,169
Departmental income	4,022,744	-	-	4,022,744
Intergovernmental charges	163,224	-	-	163,224
Use of money and property	302,054	63,242	14,211	379,507
Licenses and permits	127,073	-	-	127,073
Fines and forfeitures	117,660	-	15,988	133,648
Sale of property and compensation for loss	322,899	2,430	-	325,329
Miscellaneous local sources	639,974	142,393	94,205	876,572
Interfund revenue	1,074,812	-	-	1,074,812
State sources	5,939,385	1,852,565	26,634	7,818,584
Federal sources	553,451	1,975,661	873,032	3,402,144
	<u>38,357,259</u>	<u>4,036,291</u>	<u>1,024,070</u>	<u>43,417,620</u>
EXPENDITURES				
General government support	4,935,144	61,374	-	4,996,518
Public safety	13,510,962	64,392	-	13,575,354
Transportation	3,967,467	5,193,125	-	9,160,592
Economic assistance and opportunity	84,088	-	26,739	110,827
Culture and recreation	1,114,563	637,562	623,527	2,375,652
Home and community services	1,093,377	324,700	977,535	2,395,612
Employee benefits	6,222,736	-	281,653	6,504,389
Debt service	4,033,133	-	147,529	4,180,662
	<u>34,961,470</u>	<u>6,281,153</u>	<u>2,056,983</u>	<u>43,299,606</u>
Excess of (Expenditures) Revenue	3,395,789	(2,244,862)	(1,032,913)	118,014
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	239,520	583,952	918,880	1,742,352
Interfund transfers out	(1,483,832)	(215,692)	(45,996)	(1,745,520)
Serial Bonds	-	2,020,000	-	2,020,000
BANS redeemed from appropriations	-	224,300	-	224,300
	<u>(1,244,312)</u>	<u>2,612,560</u>	<u>872,884</u>	<u>2,241,132</u>
Net change in fund balances	2,151,477	367,698	(160,029)	2,359,146
Fund Balances - Beginning of year	<u>11,420,112</u>	<u>1,467,300</u>	<u>772,944</u>	<u>13,660,356</u>
Fund equity transfer	<u>65,481</u>	<u>(65,481)</u>	<u>-</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 13,637,070</u>	<u>\$ 1,769,517</u>	<u>\$ 612,915</u>	<u>\$ 16,019,502</u>

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

CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds **\$ 2,359,146**

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

	Capital outlays	\$ 6,160,968	
	Depreciation expense	<u>3,910,484</u>	2,250,484

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 2,754,882

Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Assets. (2,020,000)

Loss on disposal of assets (9,825)

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

Amortization of advanced refunding issuance costs (9,486)

Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities. 36,721

In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used. (2,008,774)

Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Assets. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities. 135,198

Change in Net Assets of governmental activities **\$ 3,488,346**

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 537,035	\$ 272,833	\$ 809,868
Accounts receivable, net of allowance for uncollectible accounts	909,673	694,226	1,603,899
Interest receivable	348	543	891
Due from governmental funds	10,580	26,172	36,752
Due from other governments	744	284,383	285,127
State and federal aid receivables	72,145	47,292	119,437
Prepaid expenses	558	566	1,124
Total current assets	<u>1,531,083</u>	<u>1,326,015</u>	<u>2,857,098</u>
Non-Current Assets			
Restricted cash and cash equivalents	541,403	1,347,216	1,888,619
Capital assets, net of accumulated depreciation	18,676,956	15,283,130	33,960,086
Total non-current assets	<u>19,218,359</u>	<u>16,630,346</u>	<u>35,848,705</u>
Total assets	<u>\$ 20,749,442</u>	<u>\$ 17,956,361</u>	<u>\$ 38,705,803</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 102,192	\$ 122,285	\$ 224,477
Accrued interest payable	59,809	50,971	110,780
Retainage payable	21,333	22,527	43,860
Accrued liabilities	39,727	31,423	71,150
Compensated absences	59,781	47,834	107,615
Due to retirement system	27,928	22,401	50,329
Due to governmental funds	57,008	69,005	126,013
Due to other governments	844	-	844
Current portion of long-term liabilities	902,992	504,628	1,407,620
Total current liabilities	<u>1,271,614</u>	<u>871,074</u>	<u>2,142,688</u>
Long-Term Liabilities:			
Workers compensation liability	6,013	86,909	92,922
Other post employment benefits liability	65,056	89,452	154,508
Serial bonds payable	4,443,522	4,162,596	8,606,118
Less: deferred amount on refunding	(31,126)	(2,930)	(34,056)
NYPA loan payable	-	3,838	3,838
Total long-term liabilities	<u>4,483,465</u>	<u>4,339,865</u>	<u>8,823,330</u>
Total liabilities	<u>5,755,079</u>	<u>5,210,939</u>	<u>10,966,018</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,733,147	11,880,865	25,614,012
Restricted for maintenance	118,074	-	118,074
Unrestricted	1,143,142	864,557	2,007,699
Total net assets	<u>14,994,363</u>	<u>12,745,422</u>	<u>27,739,785</u>
Total liabilities and net assets	<u>\$ 20,749,442</u>	<u>\$ 17,956,361</u>	<u>\$ 38,705,803</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 4,014,079	\$ 3,304,229	\$ 7,318,308
Intergovernmental charges	688,420	1,040,103	1,728,523
Other operating revenue	17,354	19,762	37,116
	<hr/>	<hr/>	<hr/>
Total operating revenues	4,719,853	4,364,094	9,083,947
OPERATING EXPENSES			
Salaries, wages and employee benefits	2,017,705	1,616,113	3,633,818
Contractual services	1,320,642	1,576,583	2,897,225
Depreciation	650,523	752,935	1,403,458
Loss on disposal of fixed asset	33,335	-	33,335
	<hr/>	<hr/>	<hr/>
Total operating expenses	4,022,205	3,945,631	7,967,836
	<hr/>	<hr/>	<hr/>
Income from operations	697,648	418,463	1,116,111
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 24,608	\$ 29,724	\$ 54,332
Interest expense	(274,413)	(193,651)	(468,064)
Total non-operating revenue (expenses)	<hr/> (249,805)	<hr/> (163,927)	<hr/> (413,732)
Income (loss) before contributions and transfers	447,843	254,536	702,379
Capital contributions	232,223	46,738	278,961
Transfers in	-	10,668	10,668
Transfers out	(7,500)	-	(7,500)
	<hr/>	<hr/>	<hr/>
Change in net assets	672,566	311,942	984,508
	<hr/>	<hr/>	<hr/>
Net assets - beginning of year	14,321,797	12,433,480	26,755,277
	<hr/>	<hr/>	<hr/>
Net assets - end of year	<u>\$ 14,994,363</u>	<u>\$ 12,745,422</u>	<u>\$ 27,739,785</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2009

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,702,333	\$ 4,083,235	\$ 8,785,568
Cash payments for contractual expense	(1,361,361)	(1,629,903)	(2,991,264)
Cash payments for personnel services and benefits	(1,954,398)	(1,529,023)	(3,483,421)
Other operating revenue	17,354	19,762	37,116
Net cash provided by operating activities	<u>1,403,928</u>	<u>944,071</u>	<u>2,347,999</u>
Cash flows from non-capital and financing activities			
Transfers to/from other funds	<u>(7,500)</u>	<u>10,668</u>	<u>3,168</u>
Cash flows from capital and related financing activities			
Proceeds of capital debt	382,000	818,000	1,200,000
Principal paid on capital debt	(1,616,387)	(952,767)	(2,569,154)
Interest paid on capital debt	(277,717)	(190,217)	(467,934)
Capital grants	159,334	46,738	206,072
Net cash (used) by capital and related financing activities	<u>(1,352,770)</u>	<u>(278,246)</u>	<u>(1,631,016)</u>
Cash flows from investing activities			
Purchase of capital assets	(914,524)	(700,218)	(1,614,742)
Interest income	24,260	29,181	53,441
Net cash (used) by investing activities	<u>(890,264)</u>	<u>(671,037)</u>	<u>(1,561,301)</u>
Net increase (decrease) in cash and cash equivalents	(846,606)	5,456	(841,150)
Cash and cash equivalents, beginning of year	<u>1,925,044</u>	<u>1,614,593</u>	<u>3,539,637</u>
	<u>\$ 1,078,438</u>	<u>\$ 1,620,049</u>	<u>\$ 2,698,487</u>
Reconciliation of income from operations to net			
Income from operations	\$ 697,648	\$ 418,463	\$ 1,116,111
Depreciation	650,523	752,935	1,403,458
Loss on disposal of fixed asset	33,335	-	33,335
Change in assets:			
Accounts receivable	(63,152)	(185,900)	(249,052)
Due from other governments	63,063	(71,800)	(8,737)
Due from other funds	(303)	(3,422)	(3,725)
Prepaid expenses	854	676	1,530
Change in liabilities:			
Accounts payable	(7,761)	47,914	40,153
Accrued liabilities	8,844	5,184	14,028
Compensated absences	(1,916)	117	(1,799)
Due to retirement system	3,586	3,125	6,711
Due to other governments	844	-	844
Other liabilities	(12,263)	(10,788)	(23,051)
OPEB liability	65,056	89,452	154,508
Due to other funds	(34,430)	(101,885)	(136,315)
Net cash provided by operating activities	<u>\$ 1,403,928</u>	<u>\$ 944,071</u>	<u>\$ 2,347,999</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 537,035	\$ 272,833	\$ 809,868
Non-current assets - restricted cash and cash equivalents	541,403	1,347,216	1,888,619
Total Cash and cash equivalents	<u>\$ 1,078,438</u>	<u>\$ 1,620,049</u>	<u>\$ 2,698,487</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	Private Purpose <u>Trusts</u>	Agency Funds	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 45,268	\$ 91,449	\$ 136,717
Due from Governmental Funds	-	746	746
	<u>\$ 45,268</u>	<u>92,195</u>	<u>\$ 137,463</u>
LIABILITIES			
Due to Governmental Funds	\$ -	\$ 6,454	\$ 6,454
Deposits held and due to others	-	63,419	63,419
Cafeteria plan	-	10,032	10,032
Other accrued liabilities	-	12,290	12,290
	<u>-</u>	<u>92,195</u>	<u>92,195</u>
Total Liabilities	-	92,195	92,195
NET ASSETS			
Held in trust for other purposes	15,942	-	15,942
Held in trust for scholarships	29,326	-	29,326
	<u>45,268</u>	<u>-</u>	<u>45,268</u>
Total Net Assets	45,268	-	45,268
Total Liabilities and Net Assets	<u>\$ 45,268</u>	<u>\$ 92,195</u>	<u>\$ 137,463</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	<u>Private Purpose Trusts</u>
ADDITIONS	
Interest revenue	\$ <u>836</u>
Total Additions	<u>836</u>
DEDUCTIONS	
Other	1,300
Scholarships awarded	<u>200</u>
Total Deductions	<u>1,500</u>
Change in Net Assets	(664)
Net Assets- Beginning of Year	<u>45,932</u>
Net Assets-End of Year	\$ <u><u>45,268</u></u>

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

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

I. Summary of Significant Accounting Policies:

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

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

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

A. Financial Reporting Entity

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

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

The financial reporting entity consists of:

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

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

Watertown Empire Zone

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

B. Basic Financial Statements

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

1. Government-wide Statements

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

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

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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2. Fund Financial Statements

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

a. Governmental Funds

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

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

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

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

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

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

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

b. Proprietary Funds

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

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

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

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

c. Fiduciary Funds

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

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

C. Basis of Accounting/Measurement Focus

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

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

CITY OF WATERTOWN, NEW YORK
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D. Property Taxes

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$1,105 and is included in "Due to other Governments". A portion of the receivable \$51,155 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$686,393 has been included in the General Fund accounts receivable balance at June 30, 2009.

E. Budget Policies

The budget policies are as follows:

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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The general fund budget was amended from \$38,957,052 to \$38,802,422 to reflect receipt and disbursement of the following:

Prior year encumbrances	188,383
Re-adoption of General Fund Budget	(540,788)
Re-adoption of Tourism Fund Budget	82,000
Original general fund health insurance appropriations not included in Supplemental Schedule #1 due to the inclusion of the self-funded health insurance fund as part of general fund for reporting purposes were re-appropriated to non-health insurance line items and therefore increased the appropriations in comparison to the original budget	115,775
	<u>\$ (154,630)</u>

F. Cash and Cash Equivalents

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

G. Receivables

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

H. Investments

Investments are stated at fair value.

I. Capital Assets

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

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

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J. Compensatory Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

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

K. Insurance and Risk Management

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

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$618,059 as of June 30, 2009 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.
- c. Unemployment Insurance – The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2009 were \$9,832.
- d. Health Care Benefits – On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$100,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$366,123 has been recorded in the self-insurance fund for claims incurred as of June 30, 2009 but not reported based upon historical experience.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

L. Fund Balance

Reserves and Designations

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

II. Detailed Notes on All Funds

A. Assets

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

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2009, the City limited its investments to demand and savings accounts and certificates of deposit.

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

The City does not typically purchase investments, other than stated above, and is not exposed to any material interest rate risk.

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

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2009 per the banks were \$17,905,170. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 2,467,298	\$ 15,437,872	\$ - 0 -

As of June 30, 2009 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit	\$ -
Certificates of Deposit-Trust & Agency Funds	25,939
State and Local Government Series Securities	<u>175,416</u>
Total	<u>\$ 201,355</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2009 follows:

Governmental Activities:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Non-depreciable capital assets:				
Land	\$ 2,952,170	\$ -	\$ -	\$ 2,952,170
Construction in Progress	14,189,169	5,876,451	(18,977,672)	1,087,948
Total	<u>\$ 17,141,339</u>	<u>\$ 5,876,451</u>	<u>(\$18,977,672)</u>	<u>\$ 4,040,118</u>
Depreciable capital assets:				
Land improvements	6,996,234	841,928	-	7,838,162
Buildings and improvements	30,372,055	74,744	-	30,446,799
Infrastructure	46,758,444	17,370,070	(30,627)	64,097,887
Machinery and equipment	10,207,086	610,463	(35,815)	10,781,734
Vehicles	9,790,849	364,984	(230,442)	9,925,391
Total	<u>104,124,668</u>	<u>19,262,189</u>	<u>(296,884)</u>	<u>123,089,973</u>
Less accumulated depreciation for:				
Land improvements	4,874,086	351,161	-	5,225,247
Buildings and improvements	9,203,294	691,049	-	9,894,343
Infrastructure	19,027,769	1,617,794	(25,691)	20,619,872
Machinery and equipment	6,982,434	578,685	(35,815)	7,525,304
Vehicles	6,937,232	671,795	(225,553)	7,383,474
Total	<u>47,024,815</u>	<u>3,910,484</u>	<u>(287,059)</u>	<u>50,648,240</u>
Depreciable capital assets, net:	<u>\$57,099,853</u>	<u>\$15,351,705</u>	<u>(\$ 9,825)</u>	<u>\$72,441,733</u>
Grand total	<u>\$74,241,192</u>	<u>\$21,228,156</u>	<u>(\$18,987,497)</u>	<u>\$76,481,851</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 150,901
Hydroelectric production	227,843
Police	146,948
Fire	419,825
Other public safety	9,424
Public Works	2,046,605
Bus	247,670
Library	136,136
Other culture and recreation	488,536
Refuse and recycling	36,596
Other home and community services	-
Total	<u>\$ 3,910,484</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Business-Type Activities:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	<u>766,818</u>	<u>1,520,626</u>	<u>(2,049,191)</u>	<u>238,253</u>
Total	<u>\$ 766,818</u>	<u>\$ 1,520,626</u>	<u>(\$2,049,191)</u>	<u>\$ 238,253</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,353,259	-	-	27,353,259
Infrastructure	18,787,090	1,765,981	(6,321)	20,546,750
Machinery and equipment	15,334,317	333,072	(100,004)	15,567,385
Vehicles	<u>823,210</u>	<u>68,854</u>	<u>(64,667)</u>	<u>827,397</u>
Total	<u>62,548,444</u>	<u>2,167,907</u>	<u>(\$170,992)</u>	<u>64,545,359</u>
Less accumulated depreciation for:				
Land improvements	218,164	12,528	\$ -	230,692
Buildings and improvements	12,329,417	540,402	-	12,869,819
Infrastructure	4,584,769	290,559	(6,321)	4,869,007
Machinery and equipment	11,727,740	527,125	(66,669)	12,188,196
Vehicles	<u>697,635</u>	<u>32,844</u>	<u>(64,667)</u>	<u>665,812</u>
Total	<u>29,557,725</u>	<u>1,403,458</u>	<u>(\$137,657)</u>	<u>30,823,526</u>
Depreciable capital assets, net:	<u>\$32,990,719</u>	<u>\$ 764,449</u>	<u>(\$ 33,335)</u>	<u>\$33,721,833</u>
Grand total	<u>\$33,757,537</u>	<u>\$ 2,285,075</u>	<u>(\$ 2,082,526)</u>	<u>\$33,960,086</u>

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

Water	\$ 650,523
Sewer	<u>752,935</u>
Total	<u>\$1,403,458</u>

2. Restricted Cash, Cash Equivalents and Investments

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

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 66,407	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 591,375	Reserve for capital projects
General – Cash	\$ 35,630	Reserve for special assessment sidewalk program debt
Water – Cash	\$ 118,036	Reserve for coagulation basin maintenance
Special Revenue – Cash	\$ 112,506	Federal and State community development grants
Capital – Cash	\$ 2,219,301	Reserve for capital project acquisitions and construction

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Water – Cash	\$ 423,367	Reserve for capital project acquisitions and construction
Sewer – Cash	\$ 1,347,216	Reserve for capital project acquisitions and construction

4. Notes Receivable

To assist in the rehabilitation of homes of low and moderate-income persons in the City, the City was awarded various grants for its "Housing Improvement Program". The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Under the grant terms, eligible homeowners receive a grant and/or loan not to exceed \$20,000 using Community Redevelopment Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the total loans outstanding at June 30, 2009 was \$12,497. The balance of the grants subject to repayment at June 30, 2009 was \$776,709.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a new City-wide home ownership program that combines CDBG and North Country HOME Consortium funds to allow Neighbors of Watertown to purchase existing homes and rehabilitate those properties before selling them to qualified low or moderate income buyers who have completed a home ownership counseling program and secured appropriate bank mortgage financing. Under the grant terms, eligible homebuyers receive a loan not to exceed \$20,000 to be repaid to the City at zero percent interest in monthly installments over twenty years. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Loans in the amount of \$80,000 were awarded during the current year. The balance of these loans outstanding at June 30, 2009 was \$320,139.

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for rehab to an apartment building. This loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. The balance of this loan at June 30, 2009 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

The City was awarded a North Country HOME Consortium Fiscal Year 2006 and 2007 grant in the amount of \$230,000 to assist approximately twelve income eligible homeowners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems

CITY OF WATERTOWN, NEW YORK
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where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$65,921 were awarded during the current year.

The City was awarded \$650,000 through a Fiscal Year 2007 Small Cities Community Development Block Grant to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include commercial tenants on the ground floor and rental apartments that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2009 were \$4,986.

The City was also awarded an additional \$1,550,000 for the Franklin Building renovation and related soft costs through the 2006-07 New York State Empire State Development's RESTORE NY Communities grant program. Grant expenditures for the fiscal year ending June 30, 2009 were \$ 0.

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a new City-wide rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments throughout the City. Under the grant terms, eligible property owners would receive CDBG financing of eligible improvements up to a maximum of \$20,000. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid over 5 years in monthly installments at a rate of \$18 per \$1,000. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. No grants or loans were awarded during the current year.

The City was awarded a North Country HOME Consortium Fiscal Year 2008 grant in the amount of \$230,000 to assist approximately eleven income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Deferred payment loans will be available to help pay the cost of eligible improvements up to a maximum of \$20,000 for each housing unit. The grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Grants of \$138,346 were awarded during the current year.

The City was awarded \$1,006,147 from the 2007-08 New York State Empire State Development's RESTORE NY Communities grant program to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include the renovation of an abandoned industrial building to be known as Riverview Plaza into commercial and residential use that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2009 were \$ 601,879.

**CITY OF WATERTOWN, NEW YORK
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JUNE 30, 2009**

B. Liabilities

1. Short-Term Debt

A summary of bond anticipation note transactions for the year ended June 30, 2009 is as follows:

Balance at July 1, 2008	\$ 4,165,000
Additions	-
Reductions	<u>(4,165,000)</u>
Balance at June 30, 2009	<u>\$ -</u>

The City issued a bond anticipation note on February 25, 2008 with a maturity date of February 25, 2009 to finance various projects. The interest rate was 2.00% with a premium of \$28,500 resulting in a net interest cost of 1.32%. The bond anticipation note was backed by the full faith and credit of the City of Watertown. On February 11, 2009 the City of Watertown issued \$3,220,000 of General Obligation Bonds to retire the bond anticipation note and finance additional capital projects.

2. Long-Term Debt

During the year ended June 30, 2009, the following changes occurred in long-term obligations:

Governmental Activities:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</u>	Due Within <u>One Year</u>
General Obligation Bonds	\$23,650,231	2,020,000	(\$2,709,622)	\$22,960,609	\$2,811,527
Compensated Absences	405,431	-	(113,679)	291,752	30,000
Landfill Monitoring	288,000	-	(18,000)	270,000	18,000
NYPA Loan Payable	184,825	-	(45,260)	139,565	46,973
Total	<u>\$24,528,487</u>	<u>\$2,020,000</u>	<u>(\$2,886,561)</u>	<u>\$23,661,926</u>	<u>\$2,906,500</u>

The Statement of Net Assets at June 30, 2009 includes a deferred amount of \$37,944 on the advance refunding of bonds in fiscal year ended June 30, 2003.

Business-type Activities

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</u>	Due Within <u>One Year</u>
General Obligation Bonds:					
Water	\$ 6,071,701	\$ 382,000	(\$1,107,187)	\$ 5,346,514	\$ 902,992
Sewer	4,281,668	818,000	(434,391)	4,665,277	502,681
NYPA Loan Payable	<u>7,661</u>	-	(1,876)	<u>5,785</u>	<u>1,947</u>
Total	<u>\$10,361,030</u>	<u>\$ 1,200,000</u>	<u>(\$1,543,454)</u>	<u>\$ 10,017,576</u>	<u>\$ 1,407,620</u>

The Statement of Net Assets at June 30, 2009 includes a deferred amount of \$34,056 on the advance refunding of bonds in fiscal year ended June 30, 2003.

CITY OF WATERTOWN, NEW YORK
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General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2009 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid 6/30/09</u>	<u>Outstanding 6/30/09</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 550,000	12/2017
Water Filtration	7.40-7.60%	4,100,000	225,000	-	4/2009
Public Improvements	6.90-7.00%	5,471,000	75,000	75,000	5/2010
Public Improvements	6.30-6.375%	10,518,000	395,200	1,190,400	10/2011
Public Improvements	5.50-5.70%	3,599,000	175,000	500,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	41,000	92,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	100,000	200,000	7/2011
Public Improvements	4.60-5.25%	4,220,000	125,000	30,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	260,000	7,335,000	11/2025
Public Improvements	3.50-4.85%	3,908,466	300,000	360,000	3/2013
Public Improvements	5.125-5.50%	6,105,000	315,000	1,350,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	120,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	150,000	910,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	210,000	515,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	625,000	5,250,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	4,500,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	175,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000	745,000	6,600,000	02/2023
Public Improvements	2.50-3.25%	\$3,220,000	-----	<u>3,220,000</u>	09/2018
Total Serial Bonds			<u>\$4,251,200</u>	<u>\$32,972,400</u>	

On February 11, 2009 the City of Watertown issued \$3,220,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 2.50% to 3.25%. The net interest cost over the life of the bond is 2.81%.

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

Governmental Activities:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,811,527	\$1,074,683	\$ 3,886,210
2011	2,389,187	950,853	3,340,040
2012	2,207,957	851,775	3,059,732
2013	1,801,202	760,721	2,561,923
2014	1,655,702	679,880	2,335,582
2015-2019	7,075,034	2,348,478	9,423,512
2020-2024	3,715,000	968,253	4,683,253
2025-2026	<u>1,305,000</u>	<u>85,793</u>	<u>1,390,793</u>
	<u>\$22,960,609</u>	<u>\$ 7,720,436</u>	<u>\$30,681,045</u>

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Business-type Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,405,673	\$ 401,709	\$ 1,807,382
2011	1,276,013	333,138	1,609,151
2012	1,197,043	276,286	1,473,329
2013	733,798	233,905	967,703
2014	724,298	205,606	929,904
2015-2019	3,419,966	612,763	4,032,729
2020-2024	1,255,000	99,056	1,354,056
2025-2026	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,011,791</u>	<u>\$2,162,463</u>	<u>\$12,174,254</u>

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2009 was \$ 173,230.

Advance Refunding

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

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

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

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

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

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A difference in cash flow requirements of \$125,248 and a net present value savings of \$109,404 were a result of this advance refunding by the City.

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 1.92 to 3.76%. The outstanding balance at June 30, 2009 is \$145,350. The estimated maturities over the next five years and thereafter are as follows:

2010	\$ 48,920
2011	49,868
2012	<u>46,562</u>
	<u>\$145,350</u>

3. Prior Years Defeasance of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for defeased bonds are not included in the City's financial statements. On June 30, 2009, \$237,600 of bonds outstanding is considered defeased.

4. Deferred Revenue

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue and prepaid interest installments on special assessments	\$ <u>102,054</u>
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Special Revenue Fund

Notes receivable funded from grant proceeds	\$ <u>1,222,986</u>
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Capital Projects Fund

Deferred State Aid and other miscellaneous sources	\$ <u>84,817</u>
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5. Retirement Benefits

Plan Description

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employers. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the

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administration and transaction of the business of the systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2009 and two preceding years were:

	FYE 6/30/09	FYE 6/30/08	FYE 6/30/07
Employer Contributions			
ERS	\$ 635,943	\$ 737,283	\$ 762,350
PFRS	\$ 1,365,509	\$ 1,094,456	\$ 1,133,628
Employee Contributions			
ERS	\$ 80,686	\$ 71,249	\$ 62,311
PFRS	\$ -	\$ -	\$ -

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

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

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

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

The City has reported \$21,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

**CITY OF WATERTOWN, NEW YORK
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6. Post Employment Benefits

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

Plan Description

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

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and the retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2009 the City contributed approximately \$6,614,140 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$543,194.

Annual OPEB Cost and Net Obligation

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

**CITY OF WATERTOWN, NEW YORK
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	Governmental Activities	Business- type Activities - Water Fund	Business- type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 4,895,831	\$ 282,879	\$ 332,959	\$ 5,511,669
Interest on net OPEB obligation	\$ -	\$ -	\$ -	\$ -
Adjustment to ARC	\$ -	\$ -	\$ -	\$ -
Annual OPEB cost	\$ 4,895,831	\$ 282,879	\$ 332,959	\$ 5,511,669
Contributions Made	\$ (2,773,378)	\$ (217,823)	\$ (243,507)	\$ (3,234,708)
Change in net OPEB obligation	\$ 2,122,453	\$ 65,056	\$ 89,452	\$ 2,276,961
Net OPEB obligation - beginning of year *	\$ -	\$ -	\$ -	\$ -
Net OPEB obligation - end of year	<u>\$ 2,122,453</u>	<u>\$ 65,056</u>	<u>\$ 89,452</u>	<u>\$ 2,276,961</u>

* Not actuarially determined

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental Activities	\$ 4,895,831	56.65%	\$ 2,122,453
Business-type Activities - Water Fund	\$ 282,879	77.00%	\$ 65,056
Business-type Activities - Sewer Fund	\$ 332,959	73.13%	\$ 89,452

Funded Status and Funding Progress

As of September 1, 2008, the most recent actuarial valuation date, the City's actuarial accrued liability for benefits was \$106,599,921 and there were no plan assets. The covered payroll (annual payroll of active employees covered by the plan) was \$15,321,802 and the ratio of unfunded actuarial accrued liability to covered payroll was 695.74%.

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information on the actuarial value of the plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

**CITY OF WATERTOWN, NEW YORK
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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a) / (c)
Sept. 1, 2008	\$ -	\$106,599,921	\$106,599,921	0.00%	\$15,321,802	695.74%

Actuarial Methods and Assumptions

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

In the September 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on an open basis. The actuarial assumptions include 5.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was 6.9% for the current fiscal year and increasing to 9.5% for the following year and then decreasing 0.5% per fiscal year until the fiscal year ending June 30, 2019 and beyond where it was kept at 5.0%.

C. Fund Balances

1. Reserved Fund Balances

Reserved fund balances consist of the following:

General Fund

- Encumbrances – An amount reserved to satisfy purchase orders and other commitments for which goods and/or services will be received in the following year
- Insurance – An amount reserved to pay claims and judgments for the City's general liability and the cost of providing health care benefits to eligible employees and retirees
- Workers Compensation – An amount reserved to pay workers' compensation claims
- Capital Reserve – Pursuant to Section 6-c of the General Municipal Law of the State of New York the City established a capital reserve fund to finance future capital improvement projects.

**CITY OF WATERTOWN, NEW YORK
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Other Governmental Funds

- Mandatory Reserve for Indebtedness – Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2009 was \$175,657.

2. Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2009.

3. Excess of Expenditures over Appropriations

No funds' expenditures for the fiscal year ended June 30, 2009 exceeded appropriations.

D. Interfund Transactions

Operating Transfers

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

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2009 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$1,957,294	\$ 14,757
Community Development Fund	-	3,382
Water Fund	10,580	57,008
Sewer Fund	26,172	69,005
Library Fund	-	4,790
Capital Project Funds	-	1,840,867
Self-Funded Health Insurance	1,471	-
Trust and Agency	746	6,454
	<u>\$ 1,996,263</u>	<u>\$1,996,2633</u>

Inter-fund Eliminations

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

	<u>General Fund</u>	<u>Self-fundedHealth Insurance Fund</u>
Revenues	\$ -	\$5,638,431
Expenditures	<u>5,638,431</u>	-
Total	<u>\$5,638,431</u>	<u>\$5,638,431</u>

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E. Operating Leases

State Street Parking Lot

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

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 1,900
2011	<u>1,900</u>
	<u>\$3,800</u>

Fairgrounds Property Lease

The City was the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC which subsequently assigned the lease to Watertown Savings Bank. The lease dated July 28, 1998 was for a term of twenty-five years. The lease was amended on June 16, 2003. Watertown Savings Bank began leasing the building in 2006 to the Watertown Family YMCA. After being granted New York State Legislative approval the City is now the lessor of the portion of the Fairgrounds property to the Watertown Family YMCA which has purchased the building from Watertown Savings Bank. The lease dated July 9, 2009 is for a term of twenty-five years with an option to renew by Watertown Family YMCA for an additional fifteen years if such renewal is approved by the New York State Legislature. Total rental expenses for the fiscal year ending June 30, 2009 were \$7,500.

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 24,000
2011	24,000
2012	24,000
2013	24,000
2014	24,900
Thereafter	<u>564,107</u>
	<u>\$685,007</u>

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is

CITY OF WATERTOWN, NEW YORK
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liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2009 were \$685,117.

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

2010	\$ 207,369
2011	197,405
2012	187,443
2013	177,481
2014	167,518
Thereafter	<u>157,555</u>
Total	<u>\$1,094,771</u>

Equipment Lease

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2010	\$ 2,596
2011	2,596
2012	2,596
2013	2,596
2014	<u>433</u>
	<u>\$10,817</u>

III. Commitments and Contingencies:

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrests, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2009, the financial impact of these claims, if any, cannot be determined. Accordingly, the general-purpose financial statements have not been adjusted to reflect the potential result of these claims. However, the City has accumulated a reserve of \$696,249 as of June 30, 2009 for un-funded general liability claims.

Grant Programs

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

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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, 2009, the City is not aware of any significant environmental problems related to these normal City operations that should be disclosed in the general-purpose financial statements.

On April 27, 2007 the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006 the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$561,200 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has entered into a professional services contract for \$ 618,000 of which \$380,136 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2009 the City is not expected to have any liability for this potential environmental clean-up due to the "safe harbor" provisions of the ERP grant.

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2009, an estimated \$270,000 in post-closure care cost will be incurred over the remaining 16-year period. This liability is recorded in the long-term debt account group and is amortized in the General Fund at approximately \$18,000 each year.

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

Black River Fund

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

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

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This Fund is being administered by a Black River Fund Committee, which shall determine the distribution of funding each year. If able to demonstrate that their proposal provides a clear public benefit, governmental agencies, non-profit organizations, education institutions, and individuals shall be eligible to receive funding from the Black River Fund. On December 16, 2006 the Committee allocated \$20,000 to New York Rivers United to document the river's ecology in terms of quality, water quantity, general biodiversity and ecological status since the passage of the 1977 Federal Clean Water Act. The Committee also allocated \$80,000 to the City for its Hole Brothers Access Improvement Project. The award is funded with \$60,000 of current funds and \$10,000 from each of the 2008 and 2009 City contributions to the fund. As of June 30, 2009, all \$80,000 has been distributed from the Black River Fund to the City for its Hole Brothers Access Improvement Project.

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2009 was \$7,346.

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

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

Electrical Distribution System Agreement

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

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

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

Watertown International Airport / Jefferson County Sales Tax Agreement

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

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in excess of the original 3.00%. After the first five quarters, the City's overall collection percentage increases to 23.0% effective on 12/1/05, to 23.5% effective 12/1/06 and to 24.0% effective 12/1/07.

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

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

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

By resolution adopted July 6, 2009, the City Council approved two twenty-year agreements retroactive to April 1, 2009 between the City and the Development Authority of the North Country to provide sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City's Water Pollution Control Plant. The Development Authority of the North Country and United States Army executed an agreement on June 13, 1986 requiring sewage to be delivered for treatment at the Watertown Water Pollution Control Plant by April 1, 1987.

Gross Receipts Tax Refund Request from National Grid

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

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

The City has not accrued any additional revenues for the fiscal year ending June 30, 2009 related to the underpayments as it is unclear if National Grid will apply the ruling retroactively nor did the City record the initial refund request in the financial statements as a liability.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows)				
Real property taxes	\$ 6,988,172	\$ 6,988,172	\$ 7,101,270	\$ 113,098
Real property tax items	2,526,445	2,526,445	2,528,544	2,099
Non-property taxes	16,710,000	15,208,138	15,464,169	256,031
Departmental income	4,053,500	4,253,500	4,022,744	(230,756)
Intergovernmental charges	94,500	94,500	163,224	68,724
Use of money and property	276,900	276,900	302,054	25,154
Licenses and permits	65,200	65,200	127,073	61,873
Fines and forfeitures	90,000	90,000	117,660	27,660
Sale of property and compensation for loss	46,600	46,600	322,899	276,299
Miscellaneous local sources	580,970	580,970	639,974	59,004
Interfund revenue	718,176	833,951	1,074,812	240,861
State source	5,956,189	5,881,189	5,939,385	58,196
Federal sources	713,400	713,400	553,451	(159,949)
Transfers from other funds	31,500	181,500	239,520	58,020
	<u>38,851,552</u>	<u>37,740,465</u>	<u>38,596,779</u>	<u>856,314</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,599,714	5,292,250	4,935,144	357,106
Public safety	13,983,326	13,986,629	13,510,962	475,667
Transportation	4,138,994	4,224,243	3,967,467	256,776
Economic assistance and development	114,500	111,200	84,088	27,112
Culture and recreation	1,217,544	1,234,811	1,114,563	120,248
Home and community services	1,384,236	1,391,701	1,093,377	298,324
Employee benefits	6,808,000	6,857,600	6,222,736	634,864
Debt service	4,218,358	4,218,608	4,033,133	185,475
Transfers to other funds	1,492,380	1,485,380	1,483,832	1,548
	<u>38,957,052</u>	<u>38,802,422</u>	<u>36,445,302</u>	<u>2,357,120</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations	(105,500)	(1,061,957)	2,151,477	3,213,434
Appropriation of prior year fund balance	145,000	831,074	-	(831,074)
Excess / (Deficiency) of Resources Over Charge to Appropriations	<u>\$ 39,500</u>	<u>\$ (230,883)</u>	2,151,477	<u>\$ 2,382,360</u>
Fund Balance, Beginning of year			11,420,112	
Fund equity transfer			65,481	
Fund Balance, End of year			<u>\$ 13,637,070</u>	

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

SUPPLEMENTAL SCHEDULE #2

CITY OF WATERTOWN, NEW YORK
 =====
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/Small Cities	14.219	\$ 106,853
Community Development Block Grant/State's Loan	14.228	33,313
HOME Investment Partnerships Program	14.239	<u>238,872</u>
Total Department of Housing & Urban Development		<u>379,038</u>
US Department of Transportation:		
Passed Through New York State:		
Highway Planning and Construction	20.205	2,027,776
State and Community Highway Safety	20.600	7,341
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>192,486</u>
Total Department of Transportation		<u>2,227,603</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>194,580</u>
US Environmental Protection Agency:		
Brownfield Pilots Cooperative Agreements	66.811	<u>192,635</u>
		<u>\$ 2,993,856</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF WATERTOWN, NEW YORK
 =====
 NOTES TO SCHEDULE OF EXPENDITURES
 OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2009

1. Summary of certain significant accounting policies:

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

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

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

2. Community Development Block grant loans:

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

CFDA #	Balance at 7/1/08	Issuance	Forgiveness	Balance at 6/30/09
14.228	\$831,622	\$ 201,600	\$ 245,575	\$ 787,647

3. Subrecipients:

No amounts were provided to subrecipients.

SUPPLEMENTAL SCHEDULE #3

CITY OF WATERTOWN, NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/08	\$ -	\$ 106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York, as of and for the year ended June 30, 2009, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated January 28, 2010. We did not audit the financial statements of the Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Watertown, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Watertown, New York's financial statements that is more than inconsequential will not be prevented or detected by the City of Watertown, New York's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Watertown, New York's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted a certain matter that we reported to management of City of Watertown, New York, in a separate letter dated January 28, 2010.

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

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

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

COMPLIANCE

We have audited the compliance of the City of Watertown, New York with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

In our opinion, the City of Watertown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 1010

CITY OF WATERTOWN, NEW YORK
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in this Schedule in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major federal program included – Highway Planning and Construction Cluster- Highway Planning and Construction – CFDA #20.205.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The City of Watertown, New York qualified as a low-risk auditee.

Section II – Financial Statement Audit Findings:

There were no findings to report.

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

There were no findings to report.

CITY OF WATERTOWN, NEW YORK
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Summary Schedule of Prior Audit Findings:

FINDING 2008-1: Uncollateralized Deposits

Condition: Certificates of deposits from HSBC that matured were transferred to Key Bank on 6/30/08, causing deposits to exceed the collateral pledged on that date at Key Bank. Deposits on June 30, 2008 were uncollateralized by \$7,886,850. We noted management contacted Key Bank requesting adequate collateral for June 30, 2008 and the bank responded that additional securities were pledged as of July 1, 2008 in accordance with the Depository Collateral Agreement. We noted that eligible securities were pledged by Key Bank on 7/1/08.

Recommendation: We recommend that procedures be reviewed to ensure that deposits are collateralized at all times during the year.

Current Status: The recommendation was followed in 2008-2009. No similar findings were noted in the 2009 report.

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
WATERTOWN, N.Y. 13601

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

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the compliance of City of Watertown, New York, with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended June 30, 2009. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

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

In our opinion, City of Watertown, New York complied in all material respects with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state transportation assistance program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state transportation assistance program tested that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state transportation assistance program tested will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of City of Watertown, New York as of and for the year ended June 30, 2009, and have issued our report thereon dated January 28, 2010. Our audit was performed for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

POULSEN & PODVIN, P.C.

JANUARY 28, 2010

CITY OF WATERTOWN, NEW YORK

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SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

Program Title	Ref. Number	Expenditures
Marchicelli - State St. Project	D017149	\$ 87,740
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	682,550
Formula Grants for Other Than Urbanized Areas - DPW Maintenance Facility	C003695	4,624
Formula Grants for Other Than Urbanized Areas - BUS-Federal Section 5311	C003759	<u>5,837</u>
TOTAL		<u>\$ 780,751</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

CITY OF WATERTOWN, NEW YORK
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NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

NOTES

A. General:

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

B. Basis of Accounting:

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

CITY OF WATERTOWN, NEW YORK
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2009

Summary of Audit Results:

Internal control over state transportation assistance expended:

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

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

No matters were reported

RATINGS

Moody's Investors Service, Inc. ("Moody's") is expected to assign the Bonds with a rating of Aa3 (Negative Outlook) insured, with an underlying rating of A1. Moody's is expected to assign such rating to the Bonds with the understanding that upon delivery of such Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on such Bonds will be insured by Assured Guaranty Corp. For further details see Appendix D. Such rating reflects only the views of such organizations and an explanation of the significance of such rating may be obtained from such rating agency as follows: Moody's Investors Service, Inc., 7 World Trade at Greenwich Street, Public Finance Group, 23rd Fl, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn by such rating agency, if in its judgment, circumstances so warrant. A revision or withdrawal of such rating may have an effect on the market price of such Bonds.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

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

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA ("Dexia"). In connection with such acquisition, Holdings' financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings

On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

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

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

Capitalization of AGM

At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,220,015,145 and its total net unearned premium reserve was approximately \$2,228,912,193 in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

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

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

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



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100