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**CITY OF WATERTOWN, NEW YORK**

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**Financial Statements  
and Supplemental Information**

**June 30, 2006**

# CITY OF WATERTOWN, NEW YORK

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**GREEN & SEIFTER**  
Certified Public Accountants, PLLC



110 WEST FAYETTE STREET  
ONE LINCOLN CENTER  
SUITE 900  
SYRACUSE, NEW YORK 13202  
315-422-1391  
315-422-3549 FAX  
[www.GreenSeifterCPAs.com](http://www.GreenSeifterCPAs.com)

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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



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

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

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

*Green & Seifter, CPAs*

December 1, 2006

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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As management of the City of Watertown (the "City") we offer this overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2006. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

### FINANCIAL HIGHLIGHTS

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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

### **Government-Wide Financial Statements**

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

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

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

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

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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### **Fund Financial Statements**

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

#### Governmental Funds

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

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

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

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

#### Proprietary Funds

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

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## Management's Discussion and Analysis

June 30, 2006

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the water and sewer funds. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, both of which are considered to be major funds of the City.

### Fiduciary Funds

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

### **Notes to the Financial Statements**

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

### **Other Information**

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

### **Government-wide Financial Analysis**

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

City of Watertown's Net Assets

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

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

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

City of Watertown's Changes in Net Assets

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

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Management's Discussion and Analysis

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

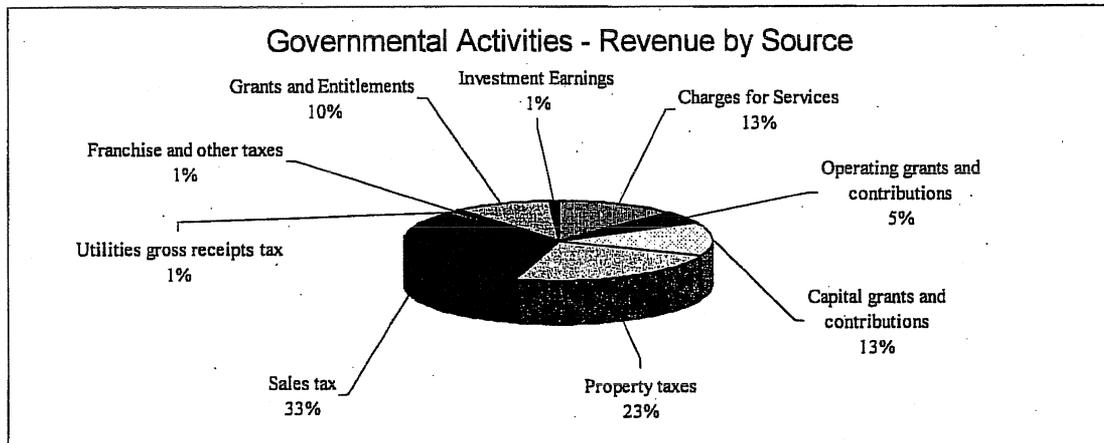
**Governmental activities.** Governmental activities decreased the City's net assets by \$ 181,969 compared to an increase of \$8,047,974 last year. Excluding the loss on airport assets transferred to Jefferson County, the governmental activities would have increased the City's net assets by \$6,612,331.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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

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



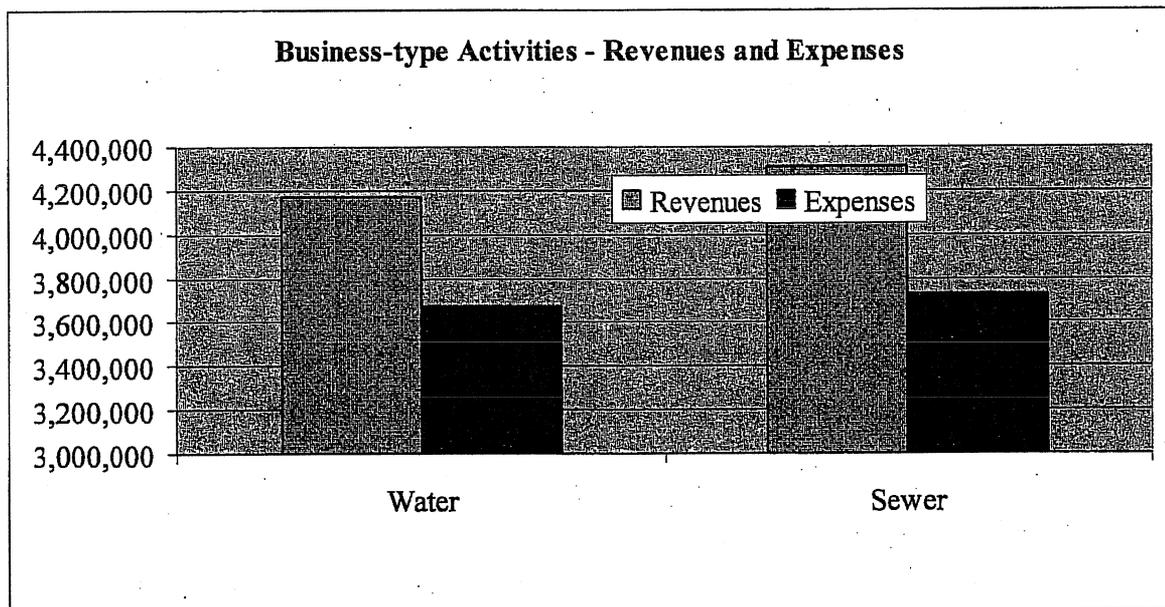
# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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

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



# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

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### Financial Analysis of the Government's Funds

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

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

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

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

**Capital projects fund.** The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$2,894,734 compared to \$449,751 in the previous year. Of this amount \$13,567,889 was encumbered for construction contracts compared to \$2,505,017 in the prior year. The City recorded serial bond proceeds of \$5,950,000 to finance various capital projects.

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

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

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

### **General Fund Budgetary Highlights**

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

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

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2006

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

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

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

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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

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

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

### City of Watertown's Outstanding Debt

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

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

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2006, the City's debt limit was \$43,132,546 with non-excludable debt of \$15,877,522, thus exhausting 36.81% of the City's debt limit.

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

### Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2006-07 budget, most importantly the state and local economy.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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

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

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

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

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

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2006

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

### **Requests for Information**

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

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

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

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

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

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

(continued)

Net (Expense) Revenue and Changes in  
Net Assets brought forward

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

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

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

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

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**A. Financial Reporting Entity**

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

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

The financial reporting entity consists of:

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

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

Watertown Empire Zone

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

Notes to the Financial Statements

**Note I – Summary of Significant Accounting Policies (continued)**

economic benefits. The City Council appoints a voting majority of the Program's governing body and significantly influences the activities of the Watertown Empire Zone Program.

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

**B. Basic Financial Statements**

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

**1. Government-wide Statements**

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

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

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

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

Notes to the Financial Statements

Note I – Summary of Significant Accounting Policies (continued)

2. Fund Financial Statements

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

a. Governmental Funds

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

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

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

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

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

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

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

b. Proprietary Funds

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

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

# CITY OF WATERTOWN, NEW YORK

## Notes to the Financial Statements

### Note I – Summary of Significant Accounting Policies (continued)

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

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

#### c. Fiduciary Funds

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

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

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

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

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

**Note I – Summary of Significant Accounting Policies (continued)**

**D. Property Taxes**

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

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

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

**E. Budget Policies**

The budget policies are as follows:

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

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**Note I – Summary of Significant Accounting Policies (continued)**

**F. Cash and Cash Equivalents**

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

**G. Receivables**

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

**H. Investments**

Investments are stated at fair value.

**I. Capital Assets**

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

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

**J. Compensatory Absences**

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

Sick leave may be accumulated from year-to-year, up to 180 days. Upon retirement or other termination, no payment is made for accumulated sick time except for police, firemen and electrical workers who may receive a portion of their sick leave at retirement. The liability for sick leave is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. Vacation time vests and may be accumulated from year-to-year up to 10 days for management, police and electrical workers and 5 days for all other employees. The liability will be liquidated with expendable available financial resources; therefore, it is accounted for in the respective governmental fund type.

Notes to the Financial Statements

**Note I – Summary of Significant Accounting Policies (continued)**

The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**K. Post-Employment Benefits**

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

**L. Insurance and Risk Management**

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

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – The City recognizes workers' compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council.
- c. Unemployment Insurance – The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2006 were \$9,043.
- d. Health Care Benefits – On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$100,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$391,480 has been recorded in the self-insurance fund for claims incurred as of June 30, 2006 but not reported based upon historical experience.

**M. Fund Balance**

**Reserves and Designations**

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

II. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2006, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2006 per the banks were \$13,690,989. These deposits are categorized as follows:

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

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

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

**2. Capital Assets**

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

Governmental Activities:

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

Depreciation expense was charged to governmental functions as follows:

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

**Business-Type Activities:**

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

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

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

**3. Restricted Cash, Cash Equivalents and Investment:**

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

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

**4. Notes Receivable**

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

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

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

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

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

**B. Liabilities**

**1. Short-Term Debt**

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

**2. Long-Term Debt**

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

**Governmental Activities:**

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

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

**Business-type Activities**

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

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

General Obligation Bonds

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

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

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

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

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

**Governmental Activities:**

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

**Business-type Activities:**

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

**Airport Debt**

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

Advance Refunding

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

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

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

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

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

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

NYPA Loan Payable

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

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

**Note II – Detailed Notes on All Funds (continued)**

**3. Prior Years Defeasance of Debt**

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for defeased bonds are not included in the City's financial statements. On June 30, 2006, \$2,664,000 of bonds outstanding is considered defeased.

**4. Deferred Revenue**

Deferred revenue consists of the following:

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

**5. Retirement Benefits**

Plan Description

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

Funding Policy

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

Note II – Detailed Notes on All Funds (continued)

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

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

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

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

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

Bonus Retirement Plan

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

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

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

**Note II – Detailed Notes on All Funds (continued)**

**C. Fund Balances**

**1. Reserved Fund Balances**

Reserved fund balances consist of the following:

General Fund

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

**2. Other Fund Balance Disclosures**

Deficit Fund Balance

There were no funds with a deficit fund balance.

**3. Excess of Expenditures over Appropriations**

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

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

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

**D. Interfund Transactions**

Operating Transfers

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

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

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

Inter-fund Eliminations

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

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

**E. Operating Leases**

State Street Parking Lot

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

**CITY OF WATERTOWN, NEW YORK**

**Notes to the Financial Statements**

**Note II – Detailed Notes on All Funds (continued)**

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

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

**Fairgrounds Property Lease**

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

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

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

**Public Safety Building Lease**

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

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

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

**III. Commitments and Contingencies:**

**Litigation**

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrests, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2006, the financial impact of these claims, if any, cannot be determined. Accordingly, the general-purpose financial statements have not been adjusted to reflect the potential result of these claims. However, the City has accumulated a reserve of \$615,162 as of June 30, 2006 for un-funded general liability claims.

**Grant Programs**

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

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

**Environmental Concerns**

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2006, the City is not aware of any significant environmental problems that should be disclosed in the general-purpose financial statements.

**Landfill Closure**

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

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

**Municipal Water Agreement**

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

# CITY OF WATERTOWN, NEW YORK

## Notes to the Financial Statements

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### Note III – Commitments and Contingencies (continued)

#### **Black River Fund**

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

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

This Fund is being administered by a Black River Fund Committee, which determines the distribution of funding each year. If able to demonstrate that their proposal provides a clear public benefit, governmental agencies, non-profit organizations, education institutions, and individuals are eligible to receive funding from the Black River Fund.

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

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

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

#### **Electrical Distribution System Agreement**

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

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

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

CITY OF WATERTOWN, NEW YORK

Notes to the Financial Statements

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**Note III – Commitments and Contingencies (continued)**

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

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

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

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

Supplemental Schedule #1

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

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**CITY OF WATERTOWN, NEW YORK**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**June 30, 2006**

**CITY OF WATERTOWN, NEW YORK**

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**June 30, 2006**

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**GREEN & SEIFTER**  
Certified Public Accountants, PLLC

110 WEST FAYETTE STREET  
ONE LINCOLN CENTER  
SUITE 900  
SYRACUSE, NEW YORK 13202  
315-422-1391  
315-422-3549 FAX  
www.GreenSeifterCPAs.com

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

**Senior Management, Mayor and  
Members of the City Council  
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, 2006 which collectively comprise the City of Watertown, New York's basic financial statements, and have issued our report thereon dated December 1, 2006. 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 units. Those statements were audited by other auditor's whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, are 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 the City of Watertown, New York's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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



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

tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Watertown, New York in a separate letter dated December 1, 2006.

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.

*Green & Seifert, CPAs*

December 1, 2006

GREEN & SEIFERT Certified Public Accountants, PLLC



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
 EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
 COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Senior Management, Mayor and  
 Members of the City Council  
 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, 2006. 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 the City of Watertown, New York's management. Our responsibility is to express an opinion on the 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 Government, 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 the 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, 2006.

**Internal Control Over Compliance**

The management of the City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations,



GREEN & SEIFTER Certified Public Accountants, PLLC

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

contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

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, 2006, and have issued our report thereon dated December 1, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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.

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.

*Green & Seifert, CPAs*

December 1, 2006

**CITY OF WATERTOWN, NEW YORK**

**Schedule of Expenditures of Federal Awards**

**June 30, 2006**

<b>Federal Grantor/Program Title</b>		<b>Federal CFDA Number (1)</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Community Development Block Grant/Small Cities Loan		14.219	\$ 55,554
Community Development Block Grant/State's Loan		14.228	666,307
Community Development Block Grant/Small Cities	D	14.219	219,552
HOME Investment Partnerships Program	D	14.239	<u>136,676</u>
<b>Total Department of Housing and Urban Development</b>			<u><u>1,078,089</u></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Federal Aviation - Airport Improvement Program	D	20.106	1,250,006
Passed Through New York State:			
Highway Planning and Construction	I	20.205	2,102,231
State and Community Highway Safety	I	20.600	5,761
Federal Transit Administration - Formula Grants for Other Than Urbanized Areas	I	20.509	<u>439,189</u>
<b>Total Department of Transportation</b>			<u><u>3,797,187</u></u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Assistance to Firefighters Grant	D	97.044	<u>456,920</u>
<b>Total Federal Financial Awards</b>			<u><u>\$ 5,332,196</u></u>

(1) Catalog of Federal Domestic Assistance Number

I Indirect Assistance

D Direct Assistance

The accompanying notes are an integral part of the schedule.

**CITY OF WATERTOWN, NEW YORK**

**Notes to Schedule of Expenditures of Federal Awards**

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**1. Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City of Watertown, New York's federal award programs and presents transactions that are included in the basic financial statements of the City presented on the modified accrual basis of accounting, as required by accounting principles generally accepted in the United States of America.

**2. Community Development Block Grant Loans**

Loan activity for the Community Development Block Grant Loans is as follows:

<u>CFDA #</u>	<u>Balance at 7/1/05</u>	<u>Issuance</u>	<u>Forgiveness</u>	<u>Balance at 6/30/06</u>
14.219	<u>\$114,407</u>	<u>\$ -</u>	<u>\$ 58,853</u>	<u>\$ 55,554</u>
14.228	<u>\$631,048</u>	<u>\$269,127</u>	<u>\$233,868</u>	<u>\$666,307</u>

**CITY OF WATERTOWN, NEW YORK**

**Summary Schedule of Prior Audit Findings  
Year ended June 30, 2006**

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There were no findings in fiscal year 2005.

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CITY OF WATERTOWN, NEW YORK

Schedule of Findings and Questioned Costs  
For the year ended June 30, 2006

Section I. Summary of Audit Results

Financial Statements

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs:  
*unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
	Highway Planning and Construction Cluster
20.205	Highway Planning and Construction
23.003	Appalachian Development Highway System **
20.509	Formula Grants for Other than Urbanized Areas
97.044	Assistance to Firefighters Grant

\*\* The City does not have this grant. It is listed because it is part of the Cluster.

**CITY OF WATERTOWN, NEW YORK**

**Schedule of Findings and Questioned Costs  
For the year ended June 30, 2006**

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**Section I. Summary of Audit Results (continued)**

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Dollar threshold used to distinguish between type  
A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X  Yes        No

**Section II. Financial Statement Findings**

None

**Section III. Federal Award Findings and Questioned Costs**

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None

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**CITY OF WATERTOWN, NEW YORK**  
**STATE TRANSPORTATION SINGLE AUDIT**

**June 30, 2006**

**CITY OF WATERTOWN, NEW YORK**

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**GREEN & SEIFTER**  
Certified Public Accountants, PLLC

110 WEST FAYETTE STREET  
ONE LINCOLN CENTER  
SUITE 900  
SYRACUSE, NEW YORK 13202  
315-422-1391  
315-422-3549 FAX  
www.GreenSeifterCPAs.com

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

**Senior Management,  
Mayor and Members of the City Council  
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 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, 2006. 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 the City of Watertown, New York's management. Our responsibility is to express an opinion on the 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 Draft Part 43 of NYCRR. Those standards and Draft Part 43 of NYCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation programs tested, has occurred. An audit includes examining, on a test basis, evidence about the 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 the 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 state transportation assistance programs tested for the year ended June 30, 2006.



Senior Management,  
Mayor and Members of the City Council  
City of Watertown, New York  
Page 2

GREEN & SIEPTER Certified Public Accountants, PLLC

**Internal Control Over Compliance**

The management of the 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 state transportation programs tested. In planning and performing our audit, we considered the 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to state transportation assistance programs tested may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of State Transportation Assistance Expended**

We have audited the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2006, and have issued our report thereon dated December 1, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's basic 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 basic financial statements. Such information 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.

This report is intended solely for the information and use of the Mayor and Members of the City Council, management and the New York State Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

*Green & Siepter, CPAs*

December 1, 2006

**CITY OF WATERTOWN, NEW YORK**  
**Schedule of State Transportation Assistance Expended**  
**For the year ended June 30, 2006**

<u>Program Title</u>		<u>CONTRACT NUMBER</u>	<u>STATE EXPENDITURES</u>
Marchicelli	State Street	D017149	\$ 340,382 *
Mass Transportation			
Capital Grant Program	Bus Garage	C003615	88,758 *
Capital Grant Program	Buses	C003615	10,743 *
Capital Grant Program	Copier	C003615	1,181 *
Aviation Capital Projects	Airport Runway-Construction	K550710	3,723
Aviation Capital Projects	Airport Snow Removal Equipment	K550710	295
Aviation Capital Projects	Airport Apron-Construction	K550710	22,767
Aviation Capital Projects	Airport Conduct Storm Water	K550710	477
Aviation Capital Projects	Airport Environmental Assessment	K550710	6,311
Aviation Capital Projects	Airport Security Enhancements-Construction	K550710	4,771
Aviation Capital Projects	Airport Masterplan	K550710	1,031
Consolidated Local Street & Highway Improvement Program			
Capital Reimbursement	Chips	732059	<u>228,635</u>
			<u>\$ 709,074</u>

\* Expenditures noted with an asterik are programs tested as part of the Federal Single Audit.

The accompanying notes are an integral part of the schedule.

**CITY OF WATERTOWN, NEW YORK**

**Notes to Schedule of State Transportation Assistance Expended**

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**A. General:**

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

**B. Basis of Accounting:**

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

**C. Indirect Costs:**

Not applicable.

**D. Matching Cost:**

The Marchicelli Projects, mass transportation capital projects and the aviation capital projects have been determined to be federal aid matching programs.

**E. Amounts Paid to Subrecipients:**

Not applicable.

**CITY OF WATERTOWN, NEW YORK**  
**Summary Schedule of Prior Audit Findings**  
**Year ended June 30, 2006**

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NONE

**CITY OF WATERTOWN, NEW YORK**

**Schedule of Findings and Questioned Costs for  
State Transportation Assistance Expended  
Year ended June 30, 2006**

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**Summary of Audit Results:**

Internal control over state transportation assistance expended:

- Material weaknesses identified No
- Reportable conditions identified that are not considered to be material weaknesses None reported

Type of auditors' report issued on compliance for programs tested: Unqualified

Summary of Audit Findings: N/A

Identification of State Transportation Assistance Programs Tested:

Marchicelli Project – State Street	\$ 340,382
Mass Transportation – Bus Garage	88,758
Mass Transportation – Buses	10,743
Mass Transportation – Copier	<u>1,181</u>
	<u>\$441,064</u>

**Compliance Findings and Questioned Costs:**

No matters were reported.