

CITY OF WATERTOWN, NEW YORK

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2007

CITY OF WATERTOWN, NEW YORK
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POULSEN & PODVIN, P.C.
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2007, 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2008, 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 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Poulson & Podvin, P.C.

FEBURARY 19, 2008

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

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, 2007. 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, 2007 by \$85,340,239. Of this amount unrestricted net assets of \$11,342,036 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$10,070,798 in fiscal year 2006-07, \$8,902,330 in governmental activities and \$1,168,468 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$12,534,079.
- General fund revenues of \$36,519,312 on a budgetary basis exceeded budgeted revenues by \$2,404,443 or 7.05% while budgetary basis expenditures finished \$684,275 lower than budgeted expenditures. These results negated the use of \$1,460,000 in appropriated fund balance that was budgeted in the 2006-07 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,967,914 or 31.60% of total general fund expenditures.
- The City issued \$4,425,000 in bond anticipation notes dated August 2, 2006 maturing March 1, 2007 at an interest rate starting of 4.25% (priced to yield 3.71%) to provide financing for various capital projects. Upon maturity of this bond anticipation note the City issued \$5,555,000 in total bond anticipation notes dated February 27, 2007 maturing February 27, 2008 at interest rates of 3.95% (priced to yield 3.68%) for \$3,000,000 and 4.25% (priced to yield 3.73%) for \$2,555,000 to provide financing for various capital projects.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

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

Fund Financial Statements

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

Governmental Funds

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

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.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

Proprietary Funds

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

Fiduciary Funds

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

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, 2007, the City's assets exceeded liabilities by \$85,340,239 compared to \$76,155,287 at June 30, 2006. By far the largest portion of the City's net assets (85.51%) 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 (1.20%) represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone, the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund and a Capital Reserve Fund. The unrestricted net assets, \$11,342,036 compared to \$14,407,128 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, 2007**

	City of Watertown's Net Assets					
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Current and other assets	\$22,875,278	\$19,094,219	\$3,066,185	\$2,356,440	\$25,941,463	\$21,450,659
Capital Assets	<u>74,347,063</u>	<u>66,942,157</u>	<u>29,618,592</u>	<u>29,932,921</u>	<u>103,965,655</u>	<u>96,875,078</u>
Total Assets	<u>\$97,222,341</u>	<u>\$86,036,376</u>	<u>\$32,684,777</u>	<u>\$32,289,361</u>	<u>\$129,907,118</u>	<u>\$118,325,737</u>
Long-term liabilities outstanding	\$26,377,363	\$28,758,624	\$5,698,802	\$7,701,997	\$32,076,165	\$36,460,621
Other liabilities	<u>10,630,761</u>	<u>5,249,572</u>	<u>1,859,953</u>	<u>460,257</u>	<u>12,490,714</u>	<u>5,709,829</u>
Total liabilities	<u>\$37,008,124</u>	<u>\$34,008,196</u>	<u>\$7,558,755</u>	<u>\$8,162,254</u>	<u>\$44,566,879</u>	<u>\$42,170,450</u>
Net Assets:						
Invested in Capital Assets, net of related debt	\$49,369,107	\$38,818,513	\$23,605,892	\$22,250,034	\$72,974,999	\$61,068,547
Restricted	982,856	586,768	40,348	92,844	1,023,204	679,612
Unrestricted	<u>9,862,254</u>	<u>12,622,899</u>	<u>1,479,782</u>	<u>1,784,229</u>	<u>11,342,036</u>	<u>14,407,128</u>
Total Net Assets	<u>\$60,214,217</u>	<u>\$52,028,180</u>	<u>\$25,126,022</u>	<u>\$24,127,107</u>	<u>\$85,340,239</u>	<u>\$76,155,287</u>

As of June 30, 2007, 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, 2007.

	City of Watertown's Changes in Net Assets					
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Revenues:						
Program Revenues:						
Charges for services	\$6,669,423	\$5,335,713	\$8,926,927	\$8,483,202	\$15,596,350	\$13,818,915
Operating grants and contributions	1,454,506	2,091,633	-	-	1,454,506	2,091,633
Capital grants and contributions	7,057,918	5,614,132	-	-	7,057,918	5,614,132
General revenues:						
Property taxes	8,816,217	9,793,051	-	-	8,816,217	9,793,051
Sales tax	14,159,944	13,454,172	-	-	14,159,944	13,454,172
Utilities gross receipts tax	447,253	457,929	-	-	447,253	457,929
Franchise tax	210,817	185,193	-	-	210,817	185,193

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

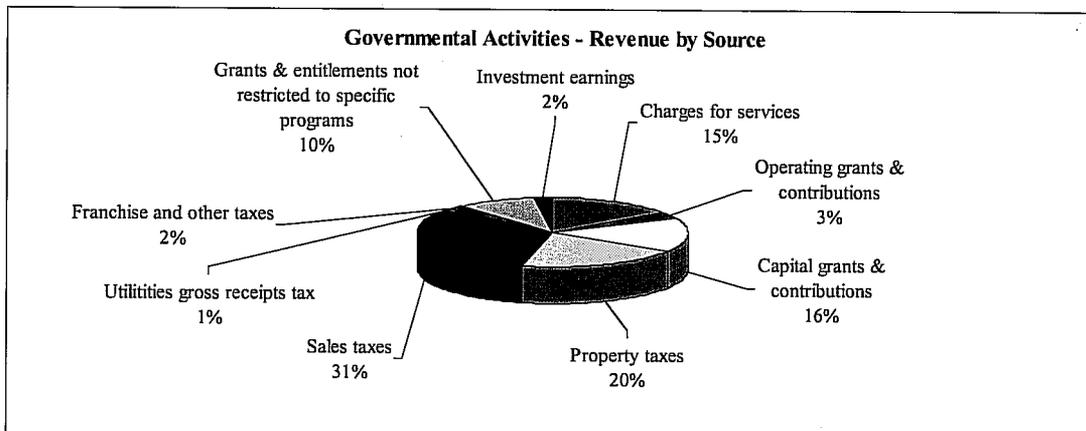
Mortgage tax	425,352	565,311	-	-	425,352	565,311
Other taxes	121,492	96,786	-	-	121,492	96,786
Grants and Entitlements not restricted to specific programs	4,445,957	3,582,234	-	-	4,445,957	3,582,234
Investment earnings	947,984	505,145	61,391	35,024	1,009,375	540,169
Total revenues	<u>\$44,756,863</u>	<u>\$41,681,299</u>	<u>\$8,988,318</u>	<u>\$8,518,226</u>	<u>\$53,745,181</u>	<u>\$50,199,525</u>
 Expenses:						
General government support	\$10,279,199	\$11,072,146	-	-	\$10,279,199	\$11,072,146
Hydroelectric production	520,916	504,260	-	-	520,916	504,260
Fire	6,854,218	6,596,071	-	-	6,854,218	6,596,071
Police	5,973,330	5,722,467	-	-	5,973,330	5,722,467
Other Public Safety	349,725	334,816	-	-	349,725	334,816
Public Works	5,422,498	4,555,774	-	-	5,422,498	4,555,774
Airport	-	7,247,997	-	-	-	7,247,997
Bus	876,886	790,873	-	-	876,886	790,873
Watertown Empire Zone	43,001	94,272	-	-	43,001	94,272
Other Economic Assistance	89,392	62,474	-	-	89,392	62,474
Library	758,908	790,972	-	-	758,908	790,972
Other Culture and Recreation	1,503,914	1,436,225	-	-	1,503,914	1,436,225
Refuse and Recycling	657,384	731,115	-	-	657,384	731,115
Other Home and Community Services	1,126,650	492,752	-	-	1,126,650	492,752
Interest on Debt Service	1,401,825	1,421,281	-	-	1,401,825	1,421,281
Water	-	-	3,905,168	3,672,386	3,905,168	3,672,386
Sewer	-	-	3,911,369	3,731,039	3,911,369	3,731,039
Total Expenses	<u>\$35,857,846</u>	<u>\$41,853,495</u>	<u>\$7,816,537</u>	<u>\$7,403,425</u>	<u>\$43,674,383</u>	<u>\$49,256,920</u>
 Excess of Revenues over Expenses						
Transfers	8,899,017	(172,196)	1,171,781	1,114,801	10,070,798	942,605
Increase in Net Assets	3,313	(9,773)	(3,313)	9,773	-	-
Prior period adjustment	8,902,330	(181,969)	1,168,468	1,124,574	10,070,798	942,605
	<u>(716,293)</u>	=	<u>(169,553)</u>	=	<u>(885,846)</u>	=
 Net Assets -						
Beginning	<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>
Net Assets - Ending	<u>\$60,214,217</u>	<u>\$52,028,180</u>	<u>\$25,126,022</u>	<u>\$24,127,107</u>	<u>\$85,340,239</u>	<u>\$76,155,287</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

Governmental activities. Governmental activities increased the City's net assets by \$8,902,330 compared to a decrease of (\$181,969) last year. Excluding the loss on airport assets transferred to Jefferson County in fiscal year 2005-06, the governmental activities would have increased the City's net assets by \$6,612,331. Key elements of the increase are as follows:

- Sales tax revenue increased by \$705,772 (5.25%) compared to fiscal year ended June 30, 2006. Sales tax revenue represented 31% of the governmental activities' revenue in FY 06/07 compared to 33% in FY 05/06. 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 2006-07 Budget, the City received a 24% increase of \$863,723 in State Aid revenue for a total of \$4,445,957.
- The City received \$6,573,276 in Federal and State Aid for various capital projects. Some of the major projects include the State Street reconstruction (\$4,155,124), Downtown Streetscape Enhancement project (\$1,335,322), Consolidated Local Street and Highway Improvement Program for various streets (\$813,767), and the start of the historical renovations at the Roswell P. Flower Memorial Library (\$197,526).

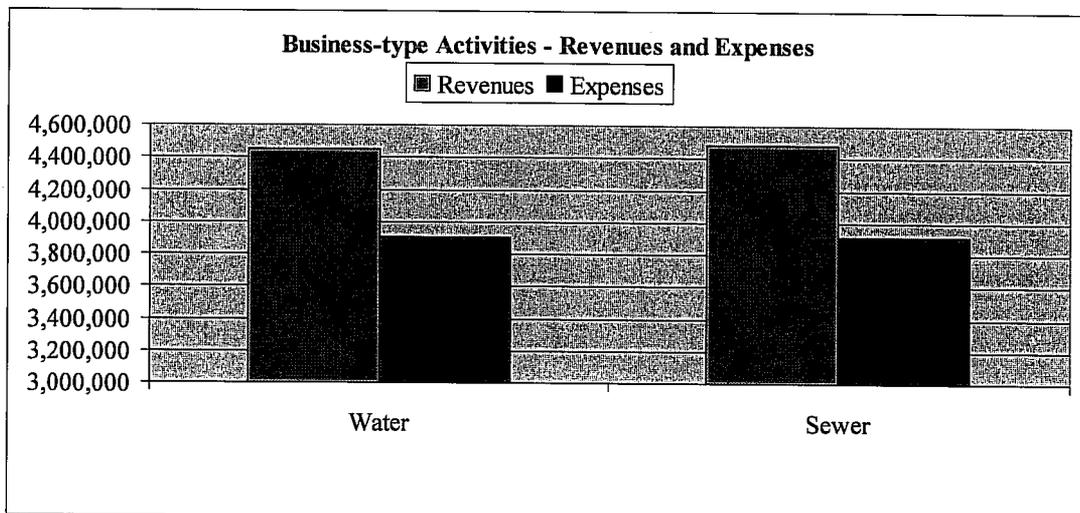


CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

Business-type activities. Business-type activities increased the City's net assets by \$1,168,468 compared to \$1,124,574 last year. Key elements in this increase are as follows:

- Water revenues increased by \$277,230 or 6.65% to \$4,447,505 while expenses increased by \$232,782 or 6.34% to \$3,905,168. Sewer revenues increased by \$166,495 or 3.86% to \$4,479,422 and expenses increased \$180,330 or 4.83% to \$3,911,369.
- 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 \$640,132 or 14.39% of total water operating revenues. Revenues from this agreement increased by \$134,154 or 26.51% over last year's total of \$505,978. Most of this increase was due to Fort Drum's water supply wells being temporarily out of service.
- 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 \$1,358,064 or 30.32% of total sewer operating revenues. Revenues from this agreement decreased by \$92,567 or 6.38% over last year's total of \$1,450,631. Debt service costs that are reimbursed by the Development Authority of the North Country actually decreased \$198,437.



CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

Financial Analysis of the Government's Funds

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

At June 30, 2007 the City's governmental funds reported combined ending fund balances of \$12,534,079, a decrease of \$1,649,695 in comparison with the prior year. The decrease is most attributable to a \$3,620,101 decrease in fund balance of the capital projects fund due to the use of \$5,555,000 in bond anticipation notes to finance various capital projects rather than serial bonds. Excluding the capital projects fund, the City's governmental funds have an unreserved fund balance of \$11,070,748. Of the unreserved fund balance, \$2,053,507 has been designated by the City Council for subsequent years expenditures leaving an unreserved undesignated fund balance of \$9,017,241. 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 \$8,968,990 of contracts and purchase orders of the prior period (2) to pay \$260,170 of debt service (3) to pay \$943,801 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$982,856.

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 \$10,967,914 compared to \$9,315,164 in 2005-06, while the total general fund balance equaled \$12,788,813 compared to \$10,727,479 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 31.60% of total general fund expenditures and other financing uses compared to 27.13% last year, while total fund balance represents 36.85% of that same amount compared to 31.24% in the prior year.

During the current fiscal year, the fund balance of the City's general fund increased by \$1,811,334 compared to last year's increase of \$1,114,704. The increase in sales tax revenue of \$705,772 along with the increase in State Aid revenues of \$863,723 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 (\$975,367) compared to \$2,894,734 in the previous year. Within this amount was \$8,717,119 of encumbrances for construction contracts compared to \$13,567,889 in the prior year. At June 30th the City had outstanding bond anticipation notes totaling \$5,555,000 which were dated February 27, 2007 maturing February 27, 2008 at interest rates of 3.95% (priced to yield 3.68%) for \$3,000,000 and 4.25% (priced to yield 3.73%) for \$2,555,000 to provide financing for various capital projects.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

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 fifth year in which the water and sewer funds have been reported as proprietary funds. Previously they had been reported as special revenue funds.

Unrestricted net assets at the end of the fiscal year of the water fund were \$1,148,418 compared to \$1,287,017 in fiscal year 2005-06. The water fund had an increase in net assets in the amount of \$535,609 net of a prior period adjustment of \$40,683 to recognize long-term workers compensation liabilities compared to \$522,596 in the previous year.

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$331,364 compared to \$497,212 in the prior year. The sewer fund had an increase in net assets in the amount of \$463,306 net of a prior period adjustment of \$128,870 to recognize long-term workers compensation liabilities compared to \$601,978 in fiscal year 2005-06. 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 to appropriate \$3,780 of the Fairgrounds Capital Reserve for sound system improvements and \$75,000 of the Capital Reserve to complete the Department of Public Works plow shed renovations necessitated by a April 2006 fire. Budget amendments between departmental expenditure accounts did also occur throughout the year.

General fund revenues of \$36,519,312 on a budgetary basis exceeded budgeted revenues of \$34,114,869 by \$2,404,443 or 7.05% while budgetary basis expenditures of \$34,707,978 were \$684,275 or 1.93% lower than the budgeted expenditures of \$35,392,253. The excess of revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenues (\$844,944), sale of surplus hydro-power (\$551,606), interest earnings (\$298,872) and real property tax reserves (\$262,786). Actual expenditures were lower than the budgeted expenditures due mostly to planning department projects such as the brown-fields program and the downtown comprehensive plan that did not occur in the current fiscal year. These combined results negated the use of \$1,460,000 in appropriated fund balance that was budgeted in the 2006-07 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, 2007, amounts to \$72,974,999. 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, 2007**

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Land	\$2,912,170	\$2,912,170	\$ -	\$ -	\$2,912,170	\$2,912,170
Construction in Progress	14,243,283	6,227,484	567,001	-	14,810,284	6,227,484
Land Improvements	2,056,908	2,243,268	44,932	57,461	2,101,840	2,300,729
Building and Improvements	21,078,033	21,261,494	15,564,247	15,995,195	36,642,280	37,256,689
Infrastructure	28,192,826	28,566,099	9,279,790	9,470,178	37,472,616	38,036,277
Machinery and Equipment	3,319,321	3,744,657	4,037,636	4,303,716	7,356,959	8,048,373
Vehicles	<u>2,544,522</u>	<u>1,986,985</u>	<u>124,984</u>	<u>106,371</u>	<u>2,669,506</u>	<u>2,093,356</u>
Total Net Assets	<u>\$74,347,063</u>	<u>\$66,942,157</u>	<u>\$29,618,592</u>	<u>\$29,932,921</u>	<u>\$103,965,655</u>	<u>\$96,875,078</u>

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

- Reconstruction of State Street, which began in FY 2005-06, continued 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 \$13.4 million excluding the cost of betterments that are estimated at \$3 million. Construction in progress as of the close of the fiscal year was \$10,092,098 with Federal and State reimbursements totaling \$7,166,702.
- The Roswell P. Flower Memorial Library continued its estimated \$1.4 million project of facility renovations and historical restorations. The facility renovations phase of the project were completed in 2005-06 at a cost of \$938,679. The historical restorations phase of the project began in the current fiscal year and will be completed in FY 2007-08. Gifts during the year were received in the amount of \$162,464 and NYS grants contributed \$197,526 to fund this year's phase of the project. Construction in progress as of the close of the fiscal year was \$324,421.
- Construction work for the Downtown Streetscape Enhancement Project, which began in FY 2005-06, continued and is expected to finish in FY 2008-09. The estimated \$6.4 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 through grants in the amount of \$4,415,000. Construction in progress at June 30, 2007 was \$2,991,964.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

- Reconstruction of the Thompson Park water pump station, which began in FY 2005-06, continued and is expected to finish in FY 2007-08. Construction in progress as of the close of the fiscal year was \$502,328.

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,403,800. 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</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
General obligation bonds	\$24,807,027	\$27,920,238	\$5,596,774	\$7,725,762	\$30,403,801	\$35,646,000
Other loans	<u>227,845</u>	<u>269,808</u>	<u>9,444</u>	<u>11,183</u>	<u>237,289</u>	<u>280,991</u>
	<u>\$25,034,872</u>	<u>\$28,190,046</u>	<u>\$5,606,218</u>	<u>\$7,736,945</u>	<u>\$30,641,090</u>	<u>\$35,926,991</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, 2007, the City's debt limit was \$51,442,874 with non-excludable debt of \$15,450,672, thus exhausting 41.14% of the City's debt limit.

The City issued two bond anticipation notes on February 27, 2007 to finance various projects totaling \$5,555,000 of which \$4,258,060 was borrowed for governmental activities and \$1,296,940 for business-type activities. The maturity date of both notes is February 27, 2008.

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 2007-08 budget, most importantly the state and local economy.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2007 were 5.0% for the City of Watertown, 4.8% for Jefferson County, 4.5% for New York State and 4.7% for the United States. The unemployment rates in June 2006 were 5.1% for the City of Watertown, 4.7% for Jefferson County, 4.4% for New York State and 4.8% for the United States.

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 17,438 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. Conversely sales tax revenues have grown dramatically over the past three years due to an increase in population and local development. The 2007-08 sales tax budget of \$15,570,000 took into account the redeployment of two brigades during the 2007 summer along with the deployment of the 1st Brigade Combat Team in June. The amount also 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 2007-08 budget was impacted by continued high costs for retirement benefits and health insurance. The contribution to the Employees' Retirement System will range from 8.9% to 12.1% of salaries while the contribution the Police and Fire Retirement System will range from 14.8% to 15.6% of salaries. Appropriations in the self-insurance fund increased \$1,106,715 resulting in a 14.8% increase to the premium rate.

The City saw a significant increase of \$132,184,814 or 15.85% in taxable assessed value. The residential tax burden has increased to a ten year high of 62.75% compared to last year's percentage of 60.11%. The average assessment for a single-family home in Watertown increased 19.84% to \$103,000 compared to \$85,951 in FY 2006-07.

Although the City was able to hold increases in operating costs to a minimum, the adopted fiscal year 2007-08 General Fund budget increased \$2,481,028 or 7.24% over the 2006-07 budget to \$36,731,196. Two significant reasons for the increase can be attributed to the increase in health insurance premiums (\$824,941) and an increase to the transfer to the capital projects fund to negate the need to incur more City debt (\$622,700). The City appropriated \$2,205,000 of fund balance, an increase of \$745,000 over FY 2006-07, which when combined with the revenue increases budgeted for sales tax (\$2,255,000) and State Aid (\$311,216), resulted in a \$1,322,579 or 16.07% decrease to the property tax levy. The decrease in real property tax levy and increase in taxable assessed values resulted in a 27.45% decrease to the property tax rate.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis June 30, 2007

Appropriations for the Water Fund decreased \$177,746 or 3.57% and the Sewer Fund appropriations decreased \$476,967 or 10.28%. Neither the Water Fund nor the Sewer Fund needed to appropriate any fund balance to balance the 2007-08 budgets. The water and sewer rates were held constant at the 2006-07 amounts.

Requests for Information

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

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted cash and cash equivalents	\$ 11,895,434	\$ 600,957	\$ 12,496,391	\$ 83,887
Restricted cash and cash equivalents	3,844,973	893,880	4,738,853	253,624
Receivables (net of allowance for uncollectibles):				
Accounts	1,567,495	1,417,322	2,984,817	-
Taxes	44,509	-	44,509	-
Interest	78,127	3,309	81,436	-
Other receivables	-	-	-	29,024
Due from other governments	124,603	229,739	354,342	-
State and federal aid receivables	5,134,152	-	5,134,152	-
Prepaid expenses	105,862	1,101	106,963	185
Internal balances	80,123	(80,123)	-	-
	<u>22,875,278</u>	<u>3,066,185</u>	<u>25,941,463</u>	<u>366,720</u>
Capital Assets:				
Non-depreciable	17,155,453	567,001	17,722,454	10,208
Depreciable, net	57,191,610	29,051,591	86,243,201	28,421
Total capital assets	<u>74,347,063</u>	<u>29,618,592</u>	<u>103,965,655</u>	<u>38,629</u>
Total Assets	\$ <u>97,222,341</u>	\$ <u>32,684,777</u>	\$ <u>129,907,118</u>	\$ <u>405,349</u>
LIABILITIES				
Accounts payable	\$ 3,451,090	\$ 238,073	\$ 3,689,163	\$ 1,329
Accrued interest payable	289,562	103,413	392,975	-
Accrued liabilities	302,496	52,036	354,532	-
Retainage payable	29,285	-	29,285	-
Compensated absences	590,497	108,293	698,790	-
Workers compensation liability	700,877	143,668	844,545	-
Other liabilities	5,038	-	5,038	1,951
Due to other governments	62,387	-	62,387	489
Due to retirement system	442,705	61,198	503,903	-
Deferred revenue	1,199,641	-	1,199,641	-
Bond anticipation note	4,258,060	1,296,940	5,555,000	-
Other long-term debt	926,375	9,444	935,819	-
Serial bonds	24,807,027	5,596,774	30,403,801	-
Less: deferred amount on advance refunding	(56,916)	(51,084)	(108,000)	-
Total Liabilities	<u>37,008,124</u>	<u>7,558,755</u>	<u>44,566,879</u>	<u>3,769</u>
NET ASSETS				
Investment in capital assets, net of related debt	49,369,107	23,605,892	72,974,999	-
Restricted for:				
Economic development and assistance	256,307	-	256,307	-
Community development	100,815	-	100,815	-
Capital projects	625,734	40,348	666,082	284,521
Unrestricted	<u>9,862,254</u>	<u>1,479,782</u>	<u>11,342,036</u>	<u>117,059</u>
Total Net Assets	<u>60,214,217</u>	<u>25,126,022</u>	<u>85,340,239</u>	<u>401,580</u>
Total Liabilities and Net Assets	\$ <u>97,222,341</u>	\$ <u>32,684,777</u>	\$ <u>129,907,118</u>	\$ <u>405,349</u>

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

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
FUNCTIONS/PROGRAMS								
Governmental Activities:								
General government support:								
General government support	\$ 10,279,199	\$ 2,066,757	\$ 199,120	\$ 11,894	\$ (8,001,428)	\$ -	\$ (8,001,428)	\$ -
Hydroelectric production	520,916	3,201,606	-	-	2,680,690	-	2,680,690	-
Public safety:								
Fire	6,854,218	-	-	28,054	(6,826,164)	-	(6,826,164)	-
Police	5,973,330	22,611	10,440	12,100	(5,928,179)	-	(5,928,179)	-
Other public safety	349,725	44,309	-	-	(305,416)	-	(305,416)	-
Public Works	5,422,498	109,212	-	6,406,479	1,093,193	-	1,093,193	-
Transportation:								
Bus	876,886	97,183	256,091	-	(523,612)	-	(523,612)	-
Economic opportunity and development:								
Other economic assistance	89,392	-	-	-	(89,392)	-	(89,392)	-
Empire Zone	43,001	-	56,099	-	13,098	-	13,098	-
Culture and recreation:								
Library	758,908	17,864	52,406	359,990	(328,648)	-	(328,648)	-
Other culture and recreation	1,503,914	211,875	-	67,812	(1,224,227)	-	(1,224,227)	-
Home and community services:								
Refuse and recycle	657,384	652,298	-	3,300	(1,786)	-	(1,786)	-
Other home and community services	1,126,650	245,708	880,350	168,289	167,697	-	167,697	-
Interest on debt	1,401,825	-	-	-	(1,401,825)	-	(1,401,825)	-
Total Governmental Activities	<u>\$ 35,857,846</u>	<u>\$ 6,669,423</u>	<u>\$ 1,454,506</u>	<u>\$ 7,057,918</u>	<u>\$ (20,675,999)</u>	<u>\$ -</u>	<u>\$ (20,675,999)</u>	<u>\$ -</u>
Business-Type Activities:								
Water	3,905,168	4,447,505	-	-	-	542,337	542,337	-
Sewer	3,911,369	4,479,422	-	-	-	568,053	568,053	-
Total Business-Type Activities	<u>7,816,537</u>	<u>8,926,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,110,390</u>	<u>1,110,390</u>	<u>-</u>
Total Primary Government	<u>\$ 43,674,383</u>	<u>\$ 15,596,350</u>	<u>\$ 1,454,506</u>	<u>\$ 7,057,918</u>	<u>\$ (20,675,999)</u>	<u>1,110,390</u>	<u>\$ (19,565,609)</u>	<u>\$ -</u>
Component Unit:								
The Trustees of the R.P. Flower Memorial Library								
Library	233,079	-	26,055	46,313	-	-	-	(160,711)
Total Component Unit	<u>\$ 233,079</u>	<u>\$ -</u>	<u>\$ 26,055</u>	<u>\$ 46,313</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (160,711)</u>
Net (Expense) Revenue and Changes in Net Assets brought forward					(20,675,999)	1,110,390	(19,565,609)	(160,711)
GENERAL REVENUES								
					8,816,217	-	8,816,217	-
					14,159,944	-	14,159,944	-
					447,253	-	447,253	-
					210,817	-	210,817	-
					121,492	-	121,492	-
					425,352	-	425,352	-
					4,445,957	-	4,445,957	-
					947,984	61,391	1,009,375	13,287
					<u>29,575,016</u>	<u>61,391</u>	<u>29,636,407</u>	<u>13,287</u>
					3,313	(3,313)	-	-
					<u>8,902,330</u>	<u>1,168,468</u>	<u>10,070,798</u>	<u>(147,424)</u>
					52,028,180	24,127,107	76,155,287	549,004
					(716,293)	(169,553)	(885,846)	-
					<u>\$ 60,214,217</u>	<u>\$ 25,126,022</u>	<u>\$ 85,340,239</u>	<u>\$ 401,580</u>

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

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted cash and cash equivalents	\$ 11,213,427	\$ -	\$ 682,007	\$ 11,895,434
Restricted cash and cash equivalents	649,299	3,080,816	114,858	3,844,973
Receivables (net of allowance for uncollectibles):				
Accounts	573,141	76,611	917,218	1,566,970
Taxes	39,015	5,494	-	44,509
Interest	76,681	1,183	263	78,127
Due from other governments	118,843	-	5,760	124,603
State and federal aid receivables	1,577,881	3,538,202	18,070	5,134,153
Prepaid expenses	93,649	12,000	213	105,862
Due from other funds	948,654	-	-	948,654
	<u>15,290,590</u>	<u>6,714,306</u>	<u>1,738,389</u>	<u>23,743,285</u>
Total Assets	\$ 15,290,590	\$ 6,714,306	\$ 1,738,389	\$ 23,743,285
LIABILITIES				
Accounts payable	\$ 1,088,094	\$ 2,308,759	\$ 54,239	\$ 3,451,092
Accrued liabilities	290,860	3,617	8,019	302,496
Retainage payable	-	29,285	-	29,285
Compensated absences	577,290	-	13,207	590,497
Bond anticipation note	-	4,258,060	-	4,258,060
Other liabilities	5,038	-	-	5,038
Due to other funds	5,897	857,191	4,917	868,005
Due to other governments	60,889	1,498	-	62,387
Due to retirement system	430,189	-	12,516	442,705
Deferred revenue	43,520	231,263	924,858	1,199,641
	<u>2,501,777</u>	<u>7,689,673</u>	<u>1,017,756</u>	<u>11,209,206</u>
Total Liabilities	2,501,777	7,689,673	1,017,756	11,209,206
FUND BALANCES:				
Reserve for encumbrances	251,364	8,717,119	507	8,968,990
Reserve for capital projects	625,734	-	-	625,734
Reserve for economic development	-	-	256,307	256,307
Reserve for community development projects	-	-	100,815	100,815
Reserve for debt service	-	-	260,170	260,170
Reserve for worker's compensation	296,545	-	-	296,545
Reserve for insurance-general	647,256	-	-	647,256
Unreserved - designated for subsequent year's expenditures	2,000,000	-	53,507	2,053,507
Unreserved - undesignated	8,967,914	(9,692,486)	49,327	(675,245)
	<u>12,788,813</u>	<u>(975,367)</u>	<u>720,633</u>	<u>12,534,079</u>
Total Fund Balances	12,788,813	(975,367)	720,633	12,534,079
Total Liabilities and Fund Balances	\$ 15,290,590	\$ 6,714,306	\$ 1,738,389	\$ 23,743,285

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

**CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total governmental fund balances	\$ 12,534,079
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	74,347,063
Deferred assets for refunded bonds	56,916
Liability for accrued interest	(289,562)
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>(26,434,279)</u>
Net assets of governmental activities	\$ <u>60,214,217</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 8,280,453	\$ -	\$ -	\$ 8,280,453
Real property tax items	547,658	-	-	547,658
Nonproperty taxes	14,939,506	-	-	14,939,506
Departmental income	4,412,816	-	-	4,412,816
Intergovernmental charges	40,866	-	-	40,866
Use of money and property	738,095	172,300	24,758	935,153
Licenses and permits	54,603	-	-	54,603
Fines and forfeitures	87,376	-	13,866	101,242
Sale of property and compensation for loss	81,158	42,889	3,368	127,415
Miscellaneous local sources	988,705	429,859	395,853	1,814,417
Interfund revenue	874,697	-	-	874,697
State sources	5,226,370	2,320,991	21,501	7,568,862
Federal sources	116,840	4,252,285	872,100	5,241,225
Total Revenues	<u>36,389,143</u>	<u>7,218,324</u>	<u>1,331,446</u>	<u>44,938,913</u>
EXPENDITURES				
General government support	4,408,249	240,799	-	4,649,048
Public safety	12,507,948	649,941	-	13,157,889
Transportation	3,567,747	9,260,594	-	12,828,341
Economic assistance and opportunity	119,392	-	43,003	162,395
Culture and recreation	1,051,814	757,645	531,649	2,341,108
Home and community services	981,521	780,008	1,082,446	2,843,975
Employee benefits	6,201,337	-	251,748	6,453,085
Debt service	4,021,472	-	212,608	4,234,080
Total Expenditures	<u>32,859,480</u>	<u>11,688,987</u>	<u>2,121,454</u>	<u>46,669,921</u>
Excess of (Expenditures) Revenue	<u>3,529,663</u>	<u>(4,470,663)</u>	<u>(790,008)</u>	<u>(1,731,008)</u>
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	130,169	912,337	988,156	2,030,662
Interfund transfers out	(1,848,498)	(139,775)	(39,076)	(2,027,349)
BANS redeemed from appropriations	-	78,000	-	78,000
Total Other Financing Sources (Uses)	<u>(1,718,329)</u>	<u>850,562</u>	<u>949,080</u>	<u>81,313</u>
Net change in fund balances	1,811,334	(3,620,101)	159,072	(1,649,695)
Fund Balances - Beginning of year	10,727,479	2,894,734	561,561	14,183,774
Fund equity transfer	250,000	(250,000)	-	-
Fund Balances - End of year	<u>\$ 12,788,813</u>	<u>\$ (975,367)</u>	<u>\$ 720,633</u>	<u>\$ 12,534,079</u>

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

**CITY OF WATERTOWN, NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Total Net Change in Fund Balances - Governmental Funds \$ (1,649,695)

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 of \$10,845,152 were more than depreciation expense of \$3,388,829. 7,456,323

Governmental funds report bond principal as an expenditure. However, on the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 3,184,672

Loss on disposal of assets (51,417)

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

Amortization advanced refunding issuance costs (9,486)

Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities. 20,068

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (119,079)

Long-term portions of accrued claims and judgments, retirement liability and landfill monitoring liability are included in the outstanding liability in the Statement of Net Assets. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities. 70,944

Change in Net Assets of Governmental Activities \$ 8,902,330

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 578,173	\$ 22,784	\$ 600,957
Accounts receivable, net of allowance for uncollectible accounts	879,754	537,568	1,417,322
Interest receivable	3,309	-	3,309
Due from governmental funds	8,263	22,766	31,029
Due from other governments	-	229,739	229,739
Prepaid expenses	587	514	1,101
Total current assets	<u>1,470,086</u>	<u>813,371</u>	<u>2,283,457</u>
Non-Current Assets			
Restricted cash and cash equivalents	160,210	733,670	893,880
Capital assets, net of accumulated depreciation	15,587,635	14,030,957	29,618,592
Total non-current assets	<u>15,747,845</u>	<u>14,764,627</u>	<u>30,512,472</u>
Total assets	<u>\$ 17,217,931</u>	<u>\$ 15,577,998</u>	<u>\$ 32,795,929</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 64,128	\$ 173,945	\$ 238,073
Accrued interest payable	61,832	41,581	103,413
Accrued liabilities	29,678	22,358	52,036
Compensated absences	58,683	49,610	108,293
Due to retirement system	31,536	29,662	61,198
Due to governmental funds	54,658	56,494	111,152
Bond anticipation notes payable	378,340	918,600	1,296,940
Current portion of long-term liabilities	881,598	260,058	1,141,656
Total current liabilities	<u>1,560,453</u>	<u>1,552,308</u>	<u>3,112,761</u>
Long-Term Liabilities:			
Workers compensation liability	29,847	113,821	143,668
Serial bonds payable	2,826,701	1,630,168	4,456,869
Less: deferred amount on refunding	(46,689)	(4,395)	(51,084)
NYPA loan payable	-	7,693	7,693
Total long-term liabilities	<u>2,809,859</u>	<u>1,747,287</u>	<u>4,557,146</u>
Total liabilities	<u>4,370,312</u>	<u>3,299,595</u>	<u>7,669,907</u>
NET ASSETS			
Invested in capital assets, net of related debt	11,658,853	11,947,039	23,605,892
Restricted for maintenance	40,348	-	40,348
Unrestricted	1,148,418	331,364	1,479,782
Total net assets	<u>12,847,619</u>	<u>12,278,403</u>	<u>25,126,022</u>
Total liabilities and net assets	<u>\$ 17,217,931</u>	<u>\$ 15,577,998</u>	<u>\$ 32,795,929</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, 2007

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 3,753,131	\$ 3,056,605	\$ 6,809,736
Intergovernmental charges	640,132	1,358,064	1,998,196
Other operating revenue	<u>54,242</u>	<u>64,753</u>	<u>118,995</u>
Total operating revenues	<u>4,447,505</u>	<u>4,479,422</u>	<u>8,926,927</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	1,766,606	1,398,448	3,165,054
Contractual services	1,214,824	1,593,647	2,808,471
Depreciation	<u>596,867</u>	<u>710,156</u>	<u>1,307,023</u>
Total operating expenses	<u>3,578,297</u>	<u>3,702,251</u>	<u>7,280,548</u>
Income from operations	<u>869,208</u>	<u>777,171</u>	<u>1,646,379</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	39,755	21,636	61,391
Interest expense	(326,871)	(209,118)	(535,989)
Transfers in	1,700	2,487	4,187
Transfers out	<u>(7,500)</u>	<u>-</u>	<u>(7,500)</u>
Total non-operating revenue (expenses)	<u>(292,916)</u>	<u>(184,995)</u>	<u>(477,911)</u>
Change in net assets	576,292	592,176	1,168,468
Net assets - beginning of year	12,312,010	11,815,097	24,127,107
Prior period adjustment (Note IV)	<u>(40,683)</u>	<u>(128,870)</u>	<u>(169,553)</u>
Net assets - end of year	<u>\$ 12,847,619</u>	<u>\$ 12,278,403</u>	<u>\$ 25,126,022</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,421,391	\$ 4,623,317	\$ 9,044,708
Cash payments for contractual expense	(1,149,630)	(1,663,101)	(2,812,731)
Cash payments for personnel services and benefits	(1,781,064)	(1,433,382)	(3,214,446)
Other operating revenue	54,242	40,003	94,245
Net cash provided by operating activities	<u>1,544,939</u>	<u>1,566,837</u>	<u>3,111,776</u>
Cash flows from non-capital and financing activities			
Transfers to/from other governmental funds	<u>(5,800)</u>	<u>2,487</u>	<u>(3,313)</u>
Cash flows from capital and related financing activities			
Proceeds of capital debt	378,340	1,104,600	1,482,940
Principal paid on capital debt	(1,138,684)	(1,178,044)	(2,316,728)
Interest paid on capital debt	(357,647)	(238,205)	(595,852)
Net cash (used) by capital and related financing activities	<u>(1,117,991)</u>	<u>(311,649)</u>	<u>(1,429,640)</u>
Cash flows from investing activities			
Purchase of capital assets	(459,840)	(532,853)	(992,693)
Interest income	38,529	21,636	60,165
Net cash (used) by investing activities	<u>(421,311)</u>	<u>(511,217)</u>	<u>(932,528)</u>
Net increase (decrease) in cash and cash equivalents	(163)	746,458	746,295
Cash and cash equivalents, beginning of year	<u>738,546</u>	<u>9,996</u>	<u>748,542</u>
Cash and cash equivalents, end of year	<u>738,383</u>	<u>\$ 756,454</u>	<u>\$ 1,494,837</u>
Reconciliation of income from operations to net Cash Provided by Operating Activities:			
Income from operations	869,208	\$ 777,171	\$ 1,646,379
Depreciation	596,867	710,156	1,307,023
Change in assets:			
Accounts receivable	(36,908)	(12,334)	(49,242)
Due from other governments	(72,144)	203,708	131,564
Due from other funds	135,372	(7,227)	128,145
Prepaid expenses	25,662	5,016	30,678
Change in liabilities:			
Accounts payable	30,426	139,804	170,230
Accrued liabilities	5,981	1,428	7,409
Compensated absences	5,591	(1,463)	4,128
Due to retirement system	(15,194)	(19,849)	(35,043)
Due to other governments	(240)	-	(240)
Other liabilities	(10,836)	(15,049)	(25,885)
Due to other funds	11,154	(214,524)	(203,370)
Net cash provided by operating activities	<u>\$ 1,544,939</u>	<u>\$ 1,566,837</u>	<u>\$ 3,111,776</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 578,173	\$ 22,784	\$ 600,957
Non-current assets - restricted cash and cash equivalents	160,210	733,670	893,880
Total Cash and cash equivalents	<u>\$ 738,383</u>	<u>\$ 756,454</u>	<u>\$ 1,494,837</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ <u>44,986</u>	\$ <u>235,730</u>	\$ <u>280,716</u>
LIABILITIES			
Due to governmental funds	\$ -	\$ 525	\$ 525
Deposits held and due to others	-	188,105	188,105
Cafeteria plan	-	30,466	30,466
Other accrued liabilities	-	<u>16,634</u>	<u>16,634</u>
Total Liabilities	<u>-</u>	<u>235,730</u>	<u>235,730</u>
NET ASSETS			
Held in trust for other purposes	17,241	-	17,241
Held in trust for scholarships	<u>27,745</u>	<u>-</u>	<u>27,745</u>
Total Net Assets	<u>44,986</u>	<u>-</u>	<u>44,986</u>
Total Liabilities and Net Assets	\$ <u>44,986</u>	\$ <u>235,730</u>	\$ <u>280,716</u>

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

**CITY OF WATERTOWN, NEW YORK
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Private Purpose Trusts</u>
ADDITIONS	
Interest revenue	\$ <u>861</u>
Total Additions	<u>861</u>
DEDUCTIONS	
Scholarships awarded	<u>450</u>
Total Deductions	<u>450</u>
Change in Net Assets	411
Net Assets- Beginning of Year	<u>44,575</u>
Net Assets-End of Year	\$ <u><u>44,986</u></u>

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of Significant Accounting Policies:

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

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

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

A. Financial Reporting Entity

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

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

The financial reporting entity consists of:

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

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

Watertown Empire Zone

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

B. Basic Financial Statements

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

1. Government-wide Statements

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

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

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

2. Fund Financial Statements

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

a. Governmental Funds

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

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

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

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

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

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

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

b. Proprietary Funds

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

c. **Fiduciary Funds**

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

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

C. Basis of Accounting/Measurement Focus

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 \$18,198 and is included in "Due to other Governments". Another portion of the receivable \$37,181 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$721,634 has been included in the General Fund accounts receivable balance at June 30, 2007.

E. Budget Policies

The budget policies are as follows:

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

The general fund budget was amended from \$35,020,619 to \$35,392,252 to reflect receipt and disbursement of the following:

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Appropriated additional fund balance from capital projects reserve	\$ 78,780
Re-adopted self-funded health insurance budget	172,000
Prior year encumbrances	62,003
Original general fund health insurance appropriations not included in Supplemental Schedule #1 due to the inclusion of the self-funded health insurance fund, as part of General Fund for reporting purposes, were re-appropriated to non-health insurance line items and, therefore, increased the appropriations in comparison to the original budget	58,850
	<u>\$ 371,633</u>

F. Cash and Cash Equivalents

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

G. Receivables

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

H. Investments

Investments are stated at fair value.

I. Capital Assets

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

J. Compensatory Absences

Employees are granted the following compensated absences each year:

	Days
Sick leave	12
Vacation	10-30

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

K. 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 2006-07 were \$2,829,796 for 255 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** – On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$844,545 as of June 30, 2007 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

- 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, 2007 were \$4,768.
- 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 \$396,180 has been recorded in the self-insurance fund for claims incurred as of June 30, 2007 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.

II. Detailed Notes on All Funds

A. Assets

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

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2007, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

**CITY OF WATERTOWN, NEW YORK
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The City does not typically purchase investments denominated in foreign currency and is not exposed to foreign currency risk.

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2007 per the banks were \$18,240,386. These deposits are categorized as follows:

a	b	c
\$ 627,745	\$ 17,612,641	\$ -

As of June 30, 2007 the City had the following investments:

Investment Type	Amount
Certificates of Deposit	\$ 8,725,000
Certificates of Deposit - Trust & Agency Funds	25,939
State and Local Government Series Securities	<u>259,896</u>
Total	<u>\$ 9,010,835</u>

CITY OF WATERTOWN, NEW YORK
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2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2007 follows:

Governmental Activities:	Balance <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2007</u>
Non-depreciable capital assets:				
Land	\$ 2,912,170	\$ -	\$ -	\$ 2,912,170
Construction in Progress	6,227,484	9,685,694	(1,669,895)	14,243,283
Total	<u>\$ 9,139,654</u>	<u>\$ 9,685,694</u>	<u>(\$1,669,895)</u>	<u>\$ 17,155,453</u>
Depreciable capital assets:				
Land improvements	6,485,483	129,990	(6,414)	6,609,059
Buildings and improvements	29,179,198	481,197	(53,967)	29,606,428
Infrastructure	45,232,064	825,291	(25,249)	46,032,106
Machinery and equipment	9,784,752	209,038	(172,591)	9,821,199
Vehicles	9,043,129	1,183,837	(820,851)	9,406,115
Total	<u>99,724,626</u>	<u>2,829,353</u>	<u>(1,079,072)</u>	<u>101,474,907</u>
Less accumulated depreciation for:				
Land improvements	4,242,215	314,098	(4,162)	4,552,151
Buildings and improvements	7,917,704	650,624	(39,933)	8,528,395
Infrastructure	16,665,965	1,198,564	(25,249)	17,839,280
Machinery and equipment	6,040,095	624,712	(162,929)	6,501,878
Vehicles	7,056,144	600,831	(795,382)	6,861,593
Total	<u>41,922,123</u>	<u>3,388,829</u>	<u>(1,027,655)</u>	<u>44,283,297</u>
Depreciable capital assets, net:	<u>\$57,802,503</u>	<u>(\$ 559,476)</u>	<u>(\$ 51,417)</u>	<u>\$57,191,610</u>
 Grand total	 <u>\$66,942,157</u>	 <u>\$ 9,126,218</u>	 <u>(\$1,721,312)</u>	 <u>\$74,347,063</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 152,436
Hydroelectric productions	227,211
Police	146,622
Fire	392,973
Other public safety	14,133
Public works	1,592,411
Bus	249,234
Library	123,438
Other culture and recreation	457,290
Refuse and recycling	32,921
Other home and community services	160
Total	<u>\$ 3,388,829</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Business-Type Activities:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	-	<u>567,001</u>	-	<u>567,001</u>
Total	<u>\$ -</u>	<u>\$ 567,001</u>	<u>\$ -</u>	<u>\$ 567,001</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,248,078	106,784	-	27,354,862
Infrastructure	13,647,130	7,533	-	13,654,663
Machinery and equipment	15,044,935	250,691	-	15,295,626
Vehicles	<u>742,217</u>	<u>60,683</u>	-	<u>802,900</u>
Total	<u>56,932,928</u>	<u>425,691</u>	<u>-</u>	<u>57,358,619</u>
Less accumulated depreciation for:				
Land improvements	193,107	12,529	\$ -	205,636
Buildings and improvements	11,252,882	537,733	-	11,790,615
Infrastructure	4,176,951	197,922	-	4,374,873
Machinery and equipment	10,741,219	516,769	-	11,257,988
Vehicles	<u>635,846</u>	<u>42,070</u>	-	<u>677,916</u>
Total	<u>27,000,005</u>	<u>1,307,023</u>	<u>-</u>	<u>28,307,028</u>
Depreciable capital assets, net:	<u>\$29,932,923</u>	<u>(\$ 881,332)</u>	<u>\$ -</u>	<u>\$29,051,591</u>
Grand total	<u>\$29,932,923</u>	<u>(\$ 314,331)</u>	<u>\$ -</u>	<u>\$29,618,592</u>

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

Water	\$ 596,867
Sewer	<u>710,156</u>
	<u>\$ 1,307,023</u>

3. Restricted Cash, Cash Equivalent and Investment:

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

Fund	Restricted Balance	Restrictions
General - Cash	\$ 63,080	Reserve for Duffy Fairgrounds Stadium Repairs
General - Cash	562,653	Reserve for Capital Projects
Water - Cash	40,348	Reserve for coagulation basin maintenance
Special Revenue- Cash	114,858	Federal and State community development grants
Capital - Cash	3,080,816	Reserve for Capital Projects acquisition and construction

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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4. Notes Receivable

In an effort to provide affordable homes for low and moderate-income families in the City, the City 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 (CDBG) 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, 2007 was \$15,893. These loans mature at various dates in 2007-2008, 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 was awarded various grants for its "Housing Improvement Program". The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Under the grant terms, eligible homeowners receive a grant and/or loan not to exceed \$20,000 using Community Redevelopment Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. Loans and grants of \$258,152 were awarded during the current year. The balance of the total loans outstanding at June 30, 2007 was \$15,026. The balance of the grants subject to repayment at June 30, 2007 was \$720,444.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a new City-wide home ownership program that combines CDBG and North Country HOME Consortium funds to allow Neighbors of Watertown to purchase existing homes and rehabilitate those properties before selling them to qualified low or moderate income buyers who have completed a home ownership counseling program and secured appropriate bank mortgage financing. Under the grant terms, eligible homebuyers receive a loan not to exceed \$20,000 to be repaid to the City at zero percent interest in monthly installments over twenty years. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Loans in the amount of \$80,000 were awarded during the current year. The balance of these loans outstanding at June 30, 2007 was \$79,833.

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, 2007 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

CITY OF WATERTOWN, NEW YORK
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The City was awarded a North Country HOME Consortium Fiscal Year 2005 grant in the amount of \$230,000 to assist first time homebuyers 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 in those properties to eliminate any problems that might be a financial hardship to the owner in the future. Grants of \$16,806 were awarded during the current year.

The City was awarded a North Country HOME Consortium Fiscal Year 2006 grant in the amount of \$115,000 to assist approximately six income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$21,145 were awarded during the current year.

B. Liabilities

1. Short-Term Debt

A summary of bond anticipation note transactions for the year ended June 30, 2007 is as follows:

Balance - July 1, 2006	\$ -
Additions	9,980,000
Reductions	<u>(4,425,000)</u>
Balance - June 30, 2007	<u>\$ 5,555,000</u>

The City issued a bond anticipation note on August 2, 2006 to finance various projects. The interest rate was 4.25% and the maturity date of the note was March 1, 2007. The bond anticipation note was backed by the full faith and credit of the City of Watertown.

The City issued two bond anticipation notes on February 27, 2007 to finance various projects. The bond anticipation notes are reflected in the capital projects, water and sewer funds in the fiscal year ending June 30, 2007. The interest rate on the \$3,000,000 issue is 3.95% and the interest rate on the \$2,555,000 issue is 4.25% for a combined effective net interest cost of 3.71% when taking into account the \$21,227 premium received by the City on the bond anticipation notes. The maturity date of both notes is February 27, 2008. The bond anticipation notes are backed by the full faith and credit of the City of Watertown.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

2. Long-Term Debt

During the year ended June 30, 2007, the following changes occurred in long-term obligations:

Governmental Activities:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2007</u>	Due Within <u>One Year</u>
General Obligation Bonds	\$27,920,238	-	(\$ 3,113,211)	\$24,807,027	\$2,605,296
Compensated Absences	232,922	119,079	-	352,001	30,000
Landfill Monitoring	324,000	-	(18,000)	306,000	18,000
NYS Retirement Incentive	78,058	-	(37,528)	40,530	40,530
NYPA Loan Payable	<u>269,808</u>	-	<u>(41,963)</u>	<u>227,845</u>	<u>42,257</u>
Total	<u>\$28,825,026</u>	<u>\$ 119,079</u>	<u>(\$3,210,702)</u>	<u>\$25,733,403</u>	<u>\$2,736,083</u>

The Statement of Net Assets at June 30, 2007 includes a deferred amount of \$56,916 on the advance refunding of bonds in fiscal year ended June 30, 2003.

Business-type Activities

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2007</u>	Due Within <u>One Year</u>
General Obligation Bonds:					
Water	\$ 4,846,983	\$ -	(\$1,138,683)	\$ 3,708,300	\$ 881,598
Sewer	2,878,779	186,000	(1,176,305)	1,888,474	258,306
NYS Retirement Incentive	24,650	-	(11,851)	12,799	12,799
NYPA Loan Payable	<u>11,183</u>	-	<u>(1,739)</u>	<u>9,444</u>	<u>1,752</u>
Total	<u>\$7,761,595</u>	<u>\$ 186,000</u>	<u>(\$2,328,578)</u>	<u>\$ 5,619,017</u>	<u>\$ 1,154,455</u>

The Statement of Net Assets at June 30, 2007 includes a deferred amount of \$51,084 on the advance refunding of bonds in fiscal year ended June 30, 2003.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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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, 2007 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid 6/30/07</u>	<u>Outstanding 6/30/07</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 700,000	12/2017
Reservoir Covers and Sanitary Sewers	9.10%	3,320,000	175,000	-	9/2006
Water Filtration	7.40-7.60%	4,100,000	225,000	450,000	4/2009
Sewer Improvements	7.60%	2,900,000	175,000	-	4/2007
Public Improvements	6.90-7.00%	5,471,000	75,000	225,000	5/2010
Public Improvements	7.20-7.30%	3,810,000	300,000	-	6/2007
Public Improvements	6.30-6.375%	10,518,000	395,200	1,980,800	10/2011
Public Improvements	5.50-5.70%	3,599,000	200,000	850,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	82,000	173,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	200,000	500,000	7/2011
Public Imp. Refunding	2.45-5.00%	6,235,000	270,000	-	5/2007
Public Improvements	4.60-5.25%	4,220,000	100,000	280,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	340,000	7,860,000	11/2025
Sewage Tr. Refunding	3.55-4.55%	2,525,000	285,000	-	1/2007
Public Imp. Refunding	3.50-4.85%	3,908,466	320,000	965,000	7/2010
Public Improvements	5.125-5.50%	6,105,000	440,000	2,000,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	140,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	200,000	1,210,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	225,000	945,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	725,000	6,600,000	1/2024
Public Improvements	4.0-4.375%	5,700,000	400,000	5,300,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	<u>25,000</u>	<u>225,000</u>	11/2015
Total Serial Bonds			<u>\$5,242,200</u>	<u>\$30,403,800</u>	

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

Governmental Activities:

<u>Fiscal Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,605,296	\$ 1,214,023	\$ 3,819,319
2009	2,381,122	1,098,430	3,479,552
2010	2,281,027	988,927	3,269,954
2011	1,929,687	885,215	2,814,902
2012	1,793,457	798,146	2,591,603
2013-2017	6,684,198	2,898,186	9,582,384
2018-2022	4,587,240	1,400,415	5,987,655
2023-2026	2,545,000	337,483	2,882,483
	<u>\$ 24,807,027</u>	<u>\$ 9,620,825</u>	<u>\$ 34,427,852</u>

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Business-Type Activities:

Fiscal Year Ending June 30:	Principal	Interest	Total
2008	\$ 1,139,904	\$ 296,373	\$ 1,436,277
2009	1,125,078	229,907	1,354,985
2010	866,173	163,787	1,029,960
2011	735,513	116,557	852,070
2012	661,543	77,760	739,303
2013-2017	805,802	176,674	982,476
2018-2022	242,760	25,415	268,175
2023-2024	20,000	1,275	21,275
	\$ 5,596,773	\$ 1,087,748	\$ 6,684,521

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding balance of airport debt at June 30, 2007 was \$ 256,678.

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.

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

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 2.75 to 3.71%. The outstanding balance at June 30, 2007 is \$237,289. The estimated maturities over the next five years and thereafter are as follows:

2008	\$ 44,009
2009	45,669
2010	47,393
2011	49,181
2012	51,037
	<u>\$ 237,289</u>

3. Prior Years Defeasance of Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for defeased bonds are not included in the City's financial statements. On June 30, 2007, \$656,200 of bonds outstanding is considered defeased.

4. Deferred Revenue

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue and prepaid interest installments on special assessments	<u>\$ 43,520</u>
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Special Revenue Fund

Notes receivable funded from grant proceeds	<u>\$ 902,697</u>
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Grant proceeds applicable to Fiscal Year 2007-08	<u>\$ 22,161</u>
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Capital Projects Fund

Deferred State Aid	<u>\$ 231,263</u>
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CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

5. Retirement Benefits

Plan Description

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

Funding Policy

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2007 and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2006-07	<u>\$ 762,350</u>	<u>\$ 1,133,628</u>
2005-06	<u>\$ 790,665</u>	<u>\$ 1,155,635</u>
2004-05	<u>\$ 852,793</u>	<u>\$ 1,211,751</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 year of the 2002 retirement incentive plan liability of \$ 53,329. The estimated maturities over the next year is as follows:

Fiscal Year Ending June 30, 2008	<u>\$ 53,329</u>
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CITY OF WATERTOWN, NEW YORK
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JUNE 30, 2007

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:

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

The City has reported \$59,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

C. Fund Balances

1. Reserved Fund Balances

Reserved fund balances consist of the following:

General Fund

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

Other Governmental Funds

- Mandatory Reserve for Indebtedness – Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived. The total amount reserved for principal and interest at June 30, 2007 was \$260,170.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

2. Other Fund Balance Disclosures

Deficit Fund Balance

Capital Projects Fund: The fund had a deficit fund balance at June 30, 2007 of (\$975,367). The deficit will be eliminated as short-term debt is converted to permanent financing.

3. Excess of Expenditures over Appropriations

Expenditures for the fiscal year ended June 30, 2007 exceeded appropriations in the funds identified below:

<u>Fund</u>	<u>Appropriations As Modified</u>	<u>Expenditures and Encumbrances</u>	<u>Unfavorable Variance</u>
Self-funded Health Insurance – Claims	\$5,937,485	\$6,272,581	\$(335,096) (1)
Debt Service Fund - Transfers	\$ 217	\$ 14,649	\$ (14,432) (2)

(1) Health insurance claim costs increased greater than was anticipated

(2) Transferred unexpected premium received on bond anticipation note issued August 2, 2006 maturing on March 1, 2007 to funds responsible for paying the debt

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, 2007 were as follows:

	Interfund	
	Receivable	Payable
General Fund	\$ 948,654	\$ 5,868
Water Fund	8,263	54,658
Sewer Fund	22,766	56,494
Library Fund		4,583
Capital Project Funds		857,191
Community Development Fund		335
Self-Insurance Fund		29
Trust and Agency		525
	<u>\$ 979,683</u>	<u>\$ 979,683</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Inter-fund Eliminations

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

	General Fund	Self-Funded Health Insurance Fund
Revenue	\$ -	\$ 4,607,955
Expenditures	4,607,955	-
Total	\$ 4,607,955	\$ 4,607,955

E. Operating Leases

State Street Parking Lot

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

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

Fiscal Year Ending June 30:	Amount
2008	\$ 1,900
2009	1,900
2010	1,900
2011	1,900
	\$ 7,600

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

Fiscal Year Ending June 30:	Amount
2008	\$ 10,000
2009	10,000
2010	10,000
2011	10,000
2012	10,000
Thereafter	110,000
	<u>\$ 160,000</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, 2007 were \$880,525.

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

Fiscal Year Ending June 30:	Amount
2008	\$ 227,293
2009	217,331
2010	207,369
2011	197,405
2012	187,443
Thereafter	502,554
	<u>\$ 1,539,395</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, 2007, 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 \$647,256 as of June 30, 2007 for un-funded general liability claims.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007, the City is not aware of any significant environmental problems related to these normal City operations that should be disclosed in the general-purpose financial statements.

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

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2007, an estimated \$306,000 in post-closure care cost will be incurred over the remaining 17-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 three-year agreement effective January 1, 2008 to provide water services to the Town of Watertown, New York. Under the terms of the agreement the Town of Watertown will purchase all water at a uniform rate equal to the first tier step of the City's inside user declining rate structure.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Black River Fund

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

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

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

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, 2007 was \$63,617.

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

Watertown International Airport / Jefferson County Sales Tax Agreement

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

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

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

IV. Prior Period Adjustments:

The beginning net assets in the Statement of Activities has been restated to reflect the liability for claims incurred but not reported relating to the City's self-insurance claims for workers' compensation that were omitted from the prior year statement of net assets in the amount of \$716,293. The beginning net assets in the Statement of Revenue, Expenditures and Changes in Net Assets – Proprietary Funds for the Water and Sewer Funds have been restated to reflect the liability of each fund's share of workers' compensation claims of \$40,683 and \$128,870, respectively that were omitted from the prior year statement of net assets.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows)				
Real property taxes	\$ 7,982,230	\$ 7,982,230	\$ 8,280,453	\$ 298,223
Real property tax items	717,000	717,000	547,658	(169,342)
Non-property taxes	13,995,000	13,995,000	14,939,506	944,506
Departmental income	3,735,000	3,735,000	4,412,816	677,816
Intergovernmental charges	37,965	37,965	40,866	2,901
Use of money and property	425,300	425,300	738,095	312,795
Licenses and permits	67,625	67,625	54,603	(13,022)
Fines and forfeitures	105,000	105,000	87,376	(17,624)
Sale of property and compensation for loss	62,100	62,100	81,158	19,058
Miscellaneous local sources	450,076	622,076	988,705	366,629
Interfund revenue	653,375	712,225	874,697	162,472
State source	5,357,148	5,357,148	5,226,370	(130,778)
Federal sources	306,200	306,200	116,840	(189,360)
Transfers from other funds	(10,000)	(10,000)	130,169	140,169
	<u>33,884,019</u>	<u>34,114,869</u>	<u>36,519,312</u>	<u>2,404,443</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,024,887	4,772,025	4,408,249	363,776
Public safety	12,481,881	12,774,713	12,507,948	266,765
Transportation	3,475,562	3,625,775	3,567,747	58,028
Economic assistance and development	110,000	110,200	119,392	(9,192)
Culture and recreation	1,049,301	1,079,777	1,051,814	27,963
Home and community services	1,723,475	1,519,050	981,521	537,529
Employee benefits	5,398,383	5,669,083	6,201,337	(532,254)
Debt service	4,027,436	4,021,936	4,021,472	464
Transfers to other funds	1,729,694	1,819,694	1,848,498	(28,804)
	<u>35,020,619</u>	<u>35,392,253</u>	<u>34,707,978</u>	<u>684,275</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations	(1,136,600)	(1,277,384)	1,811,334	\$ 3,088,718
Appropriation of prior year fund balance	<u>1,460,000</u>	<u>1,538,780</u>	-	<u>(1,538,780)</u>
Excess of Resources Over Charge to Appropriations	<u>\$ 323,400</u>	<u>\$ 261,396</u>	1,811,334	<u>\$ 1,549,938</u>
Fund Balance, Beginning of year			10,727,479	
Fund equity transfer			<u>250,000</u>	
Fund Balance, End of year			<u>\$ 12,788,813</u>	

See Paragraph on Required Supplementary Schedules Included in Audit Report.

CITY OF WATERTOWN, NEW YORK
 =====
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/Small Cities	14.219	\$ 1,005,314
Community Development Block Grant/State's Loan	14.228	2,014
HOME Investment Partnerships Program	14.239	<u>55,377</u>
Total Department of Housing & Urban Development		<u>1,062,705</u>
US Department of Transportation:		
Passed Through New York State:		
Highway Planning and Construction	20.205	4,237,236
State and Community Highway Safety	20.600	9,765
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>106,400</u>
Total Department of Transportation		<u>4,353,401</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>23,405</u>
US Environmental Protection Agency:		
Brownfield Pilots Cooperative Agreements	66.811	<u>3,580</u>
		<u><u>\$ 5,443,091</u></u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF WATERTOWN, NEW YORK

NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

1. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City of Watertown, NY'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:

CFDA #	Balance at 7/1/06	Issuance	Forgiveness	Balance at 6/30/07
14.219	\$ 55,554	\$ -	\$ 39,661	\$ 15,893
14.228	666,307	291,303	237,166	720,444

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York, as of and for the year ended June 30, 2007, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated February 19, 2008. 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 financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Watertown, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Watertown, New York's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting as finding 2007-1.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Watertown, New York, in a separate letter dated February 19, 2008.

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Poulsen & Podvin, P.C.

February 19, 2008

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
145 CLINTON STREET
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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

COMPLIANCE

We have audited the compliance of the City of Watertown, New York with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 major federal programs for the year ended June 30, 2007.

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 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York's internal control over compliance.

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

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

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

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

POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Poulsen & Podvin, P.C.

FEBRUARY 19, 2008

CITY OF WATERTOWN, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I – Summary of Auditor’s Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. One significant deficiency was disclosed during the audit of the financial statements of the City of Watertown, New York. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major federal program included – Highway Planning and Construction Cluster- Highway Planning and Construction – CFDA #20.205; Community Development Block Grant/Small Cities Loan – CFDA #14.219; Community Development Block Grant/States Loan – CFDA #14.228.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The City of Watertown, New York qualified as a low-risk auditee.

Section II – Financial Statement Audit Findings:

SIGNIFICANT DEFICIENCY

2007-1 Reconciliation of Receivables

Condition: The subsidiary ledger of accounts receivable in the water and sewer funds were not reconciled to the general ledger until requested. Once the reconciliations were received, the detailed accounts receivable ledgers did not agree with the general ledger balances of the following amounts: water fund \$3,094.96, sewer fund \$1,205. The self-insurance fund’s receivable balance was \$3,964 as of June 30, 2007, and we noted that there was no formal reconciliation of this amount.

Criteria: Internal controls should be in place that provide reasonable assurance that subsidiary ledgers are reconciled to the general ledger on a regular basis.

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Effect: Reconciliations are a primary means of preventing or detecting an error or fraud in accounts receivable.

Recommendation: Reconciliations of the detail to the accounts receivable control should be made at the end of each month and any reconciling items should be investigated and cleared promptly.

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

There were no findings to report.

Summary Schedule of Prior Audit Findings:

There were no prior findings to report the status of.

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

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the compliance of 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, 2007. 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 accounting standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above, that could have a direct and material effect on the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about 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, 2007.

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 the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York's internal control over compliance.

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

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

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

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the City of Watertown, New York as of and for the year ended June 30, 2007, and have issued our report thereon dated February 19, 2008. Our audit was performed for the purpose of forming an opinion on the City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

**POULSEN & PODVIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

Poulsen & Podvin, P.C.

FEBRUARY 19, 2008

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2007

Program Title	Ref. Number	Expenditures
Marchicelli - State St. Project	D017149	\$ 776,840
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	<u>811,388</u>
TOTAL		<u><u>\$ 1,588,228</u></u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

CITY OF WATERTOWN, NEW YORK

NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2007

NOTES

A. General:

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

B. Basis of Accounting:

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