

**CITY OF WATERTOWN, NEW YORK**

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**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2008**

**CITY OF WATERTOWN, NEW YORK**  
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**JUNE 30, 2008**

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

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2009, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis 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

*Poulsen & Podvin, P.C.*

MARCH 19, 2009

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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As management of the City of Watertown (the "City") we offer this overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2008. 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, 2008 by \$89,259,253. Of this amount unrestricted net assets of \$12,692,832 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$3,919,014 in fiscal year 2007-08, \$2,289,759 in governmental activities and \$1,629,255 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 \$13,660,356.
- General fund revenues of \$36,224,226 on a budgetary basis exceeded budgeted revenues by \$133,886 or 0.37% while budgetary basis expenditures finished \$930,378 lower than budgeted expenditures. These results partially negated the use of \$2,205,000 in appropriated fund balance that was budgeted in the 2007-08 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$9,620,817 or 25.60% of total general fund expenditures.
- 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. Upon maturity of this bond anticipation note the City issued \$4,165,000 in total bond anticipation notes dated February 25, 2008 maturing February 25, 2009 at an interest rate of 2.00% (priced to yield 1.32%) to provide financing for various capital projects.
- The City issued \$7,345,000 in serial bonds dated February 15, 2008 maturing February 15, 2023 at interest rates ranging from 3.25% to 4.00% (priced to yield 3.58%) to provide financing for various capital projects.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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### 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. Sales tax, property taxes, and State Aid finance most of these services. The business-type activities of the City include the water and sewer utilities. User fees support these activities.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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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, 2008

### City of Watertown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Current and other assets	\$23,363,970	\$22,875,278	\$4,990,775	\$3,066,185	\$28,354,745	\$25,941,463
Capital Assets	<u>74,241,192</u>	<u>74,347,063</u>	<u>33,757,536</u>	<u>29,618,592</u>	<u>107,998,728</u>	<u>103,965,655</u>
Total Assets	<u>\$97,605,162</u>	<u>\$97,222,341</u>	<u>\$38,748,311</u>	<u>\$32,684,777</u>	<u>\$136,353,473</u>	<u>\$129,907,118</u>
Long-term liabilities outstanding	\$25,123,392	\$26,377,363	\$10,434,432	\$5,698,802	\$35,557,824	\$32,076,165
Other liabilities	<u>9,977,794</u>	<u>10,630,761</u>	<u>1,558,602</u>	<u>1,859,953</u>	<u>11,536,396</u>	<u>12,490,714</u>
Total liabilities	<u>\$35,101,186</u>	<u>\$37,008,124</u>	<u>\$11,993,034</u>	<u>\$7,558,755</u>	<u>\$47,094,220</u>	<u>\$44,566,879</u>
Net Assets:						
Invested in Capital Assets, net of related debt	\$50,453,566	\$49,369,107	\$24,939,446	\$23,605,892	\$75,393,012	\$72,974,999
Restricted	1,096,637	982,856	76,772	40,348	1,173,409	1,023,204
Unrestricted	<u>10,953,773</u>	<u>9,862,254</u>	<u>1,739,059</u>	<u>1,479,782</u>	<u>12,692,832</u>	<u>11,342,036</u>
Total Net Assets	<u>\$62,503,976</u>	<u>\$60,214,217</u>	<u>\$26,755,277</u>	<u>\$25,126,022</u>	<u>\$89,259,253</u>	<u>\$85,340,239</u>

As of June 30, 2008, 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, 2008.

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

	Governmental Activities		Business-type Activities		Total	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$6,285,330	\$6,669,423	\$8,547,017	\$8,926,927	\$14,832,347	\$15,596,350
Operating grants and contributions	1,084,835	1,454,506	-	-	1,084,835	1,454,506
Capital grants and contributions	3,303,897	7,057,918	1,040,593	-	4,344,490	7,057,918
General revenues:						
Property taxes	7,447,874	8,816,217	-	-	7,447,874	8,816,217
Sales tax	15,194,502	14,159,944	-	-	15,194,502	14,159,944
Utilities gross receipts tax	447,896	447,253	-	-	447,896	447,253
Franchise tax	293,733	210,817	-	-	293,733	210,817
Mortgage tax	502,944	425,352	-	-	502,944	425,352
Other taxes	180,798	121,492	-	-	180,798	121,492

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

Grants and Entitlements not restricted to specific programs	4,757,174	4,445,957	-	-	4,757,174	4,445,957
Investment earnings	<u>622,582</u>	<u>947,984</u>	<u>95,243</u>	<u>61,391</u>	<u>717,825</u>	<u>1,009,375</u>
Total revenues	<u>\$40,121,565</u>	<u>\$44,756,863</u>	<u>\$9,682,853</u>	<u>\$8,988,318</u>	<u>\$49,804,418</u>	<u>\$53,745,181</u>
<b>Expenses:</b>						
General government support	\$11,366,404	\$10,279,199	-	-	\$11,366,404	\$10,279,199
Hydroelectric production	510,184	520,916	-	-	510,184	520,916
Fire	7,185,071	6,854,218	-	-	7,185,071	6,854,218
Police	6,455,049	5,973,330	-	-	6,455,049	5,973,330
Other Public Safety	440,644	349,725	-	-	440,644	349,725
Public Works	5,672,779	5,422,498	-	-	5,672,779	5,422,498
Airport	-	-	-	-	-	-
Bus	940,754	876,886	-	-	940,754	876,886
Watertown Empire Zone	41,444	43,001	-	-	41,444	43,001
Other Economic Assistance	93,633	89,392	-	-	93,633	89,392
Library	785,948	758,908	-	-	785,948	758,908
Other Culture and Recreation	1,533,931	1,503,914	-	-	1,533,931	1,503,914
Refuse and Recycling	747,195	657,384	-	-	747,195	657,384
Other Home and Community Services	779,482	1,126,650	-	-	779,482	1,126,650
Interest on Debt Service	1,275,583	1,401,825	-	-	1,275,583	1,401,825
Water	-	-	4,054,062	3,905,168	4,054,062	3,905,168
Sewer	-	-	<u>4,003,241</u>	<u>3,911,369</u>	<u>4,003,241</u>	<u>3,911,369</u>
Total Expenses	<u>\$37,828,101</u>	<u>\$35,857,846</u>	<u>\$8,057,303</u>	<u>\$7,816,537</u>	<u>\$45,885,404</u>	<u>\$43,674,383</u>
Excess of Revenues over Expenses	2,293,464	8,899,017	1,625,550	1,171,781	3,919,014	10,070,798
Transfers	<u>(3,705)</u>	<u>3,313</u>	<u>3,705</u>	<u>(3,313)</u>	-	-
Increase in Net Assets	2,289,759	8,902,330	1,629,255	1,168,468	3,919,014	10,070,798
Net Assets - Beginning	60,214,217	52,028,180	25,126,022	24,127,107	85,340,239	76,155,287
Prior period adjustment	-	<u>(716,293)</u>	-	<u>(169,553)</u>	-	<u>(885,846)</u>
Net Assets - Ending	<u>\$62,503,976</u>	<u>\$60,214,217</u>	<u>\$25,755,277</u>	<u>\$25,126,022</u>	<u>\$89,259,253</u>	<u>\$85,340,239</u>

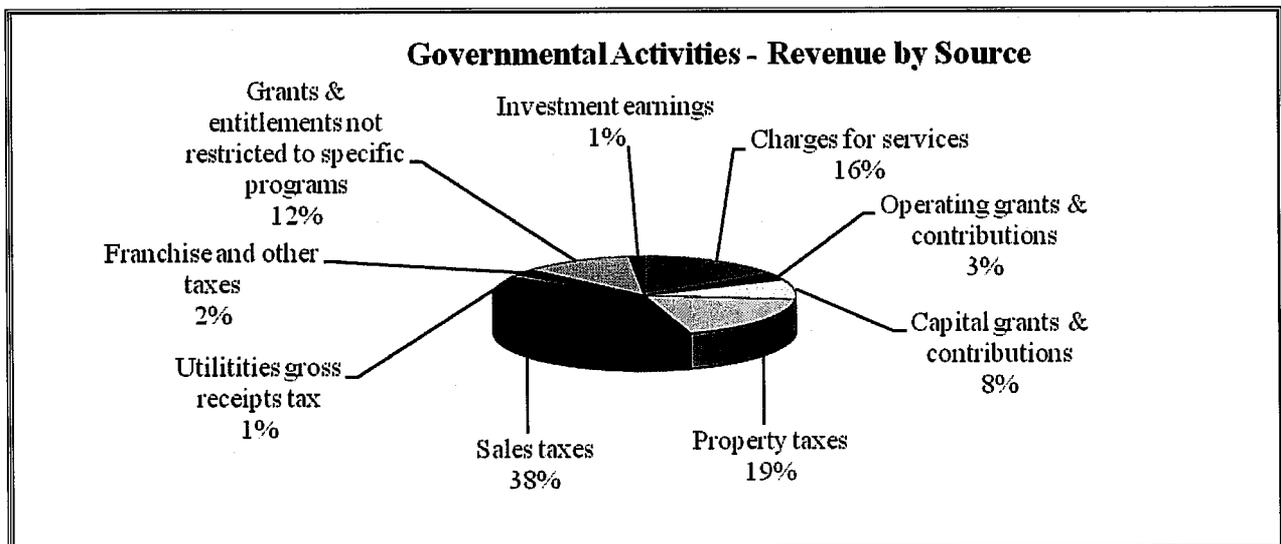
# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

**Governmental activities.** Governmental activities increased the City's net assets by \$2,289,759 compared to an increase of \$8,902,330 last year. The majority of the difference in increase to governmental activities' net assets was due to a decrease of \$3,754,021 in capital grants and contributions mostly related to the State Street reconstruction project. Key elements of the increase are as follows:

- Sales tax revenue increased by \$1,034,558 (7.31%) compared to fiscal year ended June 30, 2007. Sales tax revenue represented 38% of the governmental activities' revenue in FY 07/08 compared to 32% in FY 06/07. 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 benefited from an annual increased distribution of the Jefferson County sales tax based upon a new distribution agreement related to the City's transfer of the Watertown International Airport to Jefferson County in FY 2005-06. The annual distribution increases end in FY 2007-08 when the City reaches the agreed upon distribution rate of 24% of the County sales tax revenues.
- Per the New York State 2007-08 Budget, the City received a 7% increase of \$311,217 in State Aid revenue for a total of \$4,757,174.
- The City received \$3,303,897 in Federal and State Aid for various capital projects. Some of the major projects include the State Street reconstruction (\$1,540,154), Downtown Streetscape Enhancement project (\$504,372), Consolidated Local Street and Highway Improvement Program for various streets (\$317,210), and the historical renovations at the Roswell P. Flower Memorial Library (\$352,474).



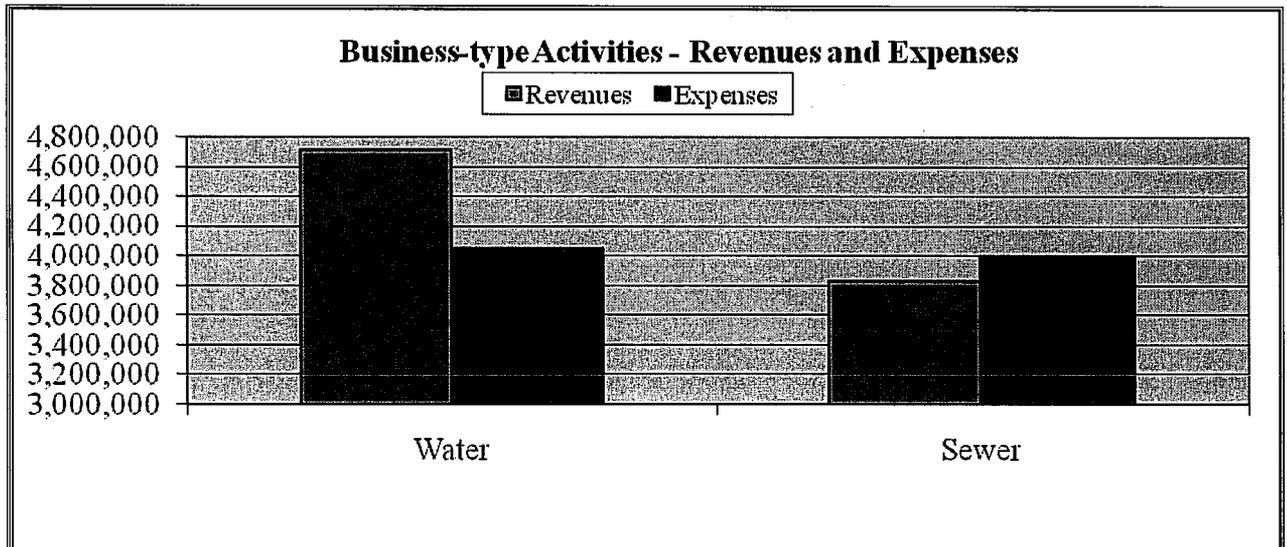
# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

**Business-type activities.** Business-type activities increased the City's net assets by \$1,629,255 compared to \$1,168,468 last year. Key elements in this increase are as follows:

- Water revenues increased by \$265,201 or 5.96% to \$4,712,706 while expenses increased by \$148,894 or 3.81% to \$4,054,062. Sewer revenues decreased by \$645,111 or 14.40% to \$3,834,311 and expenses increased by \$91,872 or 2.35% to \$4,003,241.
- 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 \$802,096 or 17.02% of total water operating revenues. Revenues from this agreement increased by \$161,964 or 25.30% over last year's total of \$640,132. 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 \$929,627 or 24.24% of total sewer operating revenues. Revenues from this agreement decreased by \$428,437 or 31.55% over last year's total of \$1,358,064. Debt service costs that are reimbursed by the Development Authority of the North Country actually decreased \$493,063 as debt related to the wastewater treatment facility matured.
- The City received \$1,040,593 in Federal and State Aid for various capital projects. The major projects include the State Street reconstruction (\$662,197) and the Downtown Streetscape Enhancement project (\$331,636).



# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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### Financial Analysis of the Government's Funds

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

At June 30, 2008 the City's governmental funds reported combined ending fund balances of \$13,660,356, an increase of \$1,126,277 in comparison with the prior year. The increase is most attributable to a \$2,442,667 increase in the fund balance of the capital projects fund due to the use of \$1,647,000 in serial bonds to finance various capital projects. Excluding the capital projects fund, the City's governmental funds have an unreserved fund balance of \$9,726,333. Of the unreserved fund balance, \$178,325 has been designated by the City Council for subsequent year's expenditures leaving an unreserved undesignated fund balance of \$9,548,008. 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 \$5,430,267 of contracts and purchase orders of the prior period (2) to pay \$217,899 of debt service (3) to pay \$970,995 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$1,096,637.

**General fund.** The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$9,620,817 compared to \$10,967,914 in 2006-07, while the total general fund balance equaled \$11,420,112 compared to \$12,788,813 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 25.59% of total general fund expenditures and other financing uses compared to 31.60% last year, while total fund balance represents 30.38% of that same amount compared to 36.85% in the prior year.

During the current fiscal year, the fund balance of the City's general fund decreased by \$1,368,701 compared to last year's increase of \$1,811,334. The 2007-08 general fund budget had appropriated \$2,205,000 to cover the anticipated deficit between revenues and expenditures but the actual amount was less due to a reduction in the amount transferred to the capital projects fund (\$397,000), an adjustment to the real property tax reserve (\$137,074) and better than anticipated mortgage tax revenues (\$77,944).

**Capital projects fund.** The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$1,467,300 compared to (\$975,367) in the previous year. Within this amount was \$5,249,075 of encumbrances for construction contracts compared to \$8,717,119 in the prior year. At June 30<sup>th</sup> the City had outstanding bond anticipation notes totaling \$3,139,300 which were dated February 25, 2008 maturing February 25, 2009 at an interest rate of 2.00% (priced to yield 1.32%) to provide financing for various capital projects.

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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Unrestricted net assets at the end of the fiscal year of the water fund were \$1,334,510 compared to \$1,148,418 in fiscal year 2006-07. The water fund had an increase in net assets in the amount of \$1,474,178 compared to \$535,609 in the previous year.

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$404,549 compared to \$331,364 in the prior year. The sewer fund had an increase in net assets in the amount of \$155,077 compared to \$463,306 in fiscal year 2006-07. 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**

No amendments increasing the City's total adopted budget occurred in the 2007-08 fiscal year. Budget amendments between departmental expenditure accounts did occur.

General fund revenues of \$36,224,226 on a budgetary basis exceeded budgeted revenues of \$36,090,340 by \$133,886 or 0.37% while budgetary basis expenditures of \$37,592,927 were \$930,378 or 2.42% lower than the budgeted expenditures of \$38,523,305. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of mortgage tax revenues (\$77,944), occupancy tax revenues (\$80,798), real property tax reserves (\$137,074), refuse collections (\$58,078), Medicare Part D reimbursements (\$47,872), insurance recoveries on large self-insurance claims (\$309,202) and State assistance for workers compensation claims (\$58,034), State assistance for the City's bus system (\$71,174) and an accounting adjustment to eliminate intra-fund health insurance premiums from being recorded as revenue (\$264,160). Revenues that did not meet budgetary expectations included sales tax revenues (\$375,499) and the sale of surplus hydro-power (\$629,901). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$397,000) and planning department projects that did not occur as planned such as the brownfield projects (\$261,649). These combined results partially negated the use of \$2,205,000 in appropriated fund balance that was budgeted in the 2007-08 general fund budget.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

### 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, 2008, amounts to \$75,393,012. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

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

	Governmental Activities		Business-type Activities		Total	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Land	\$2,952,170	\$2,912,170	\$ -	\$ -	\$2,952,170	\$2,912,170
Construction in Progress	14,189,169	14,243,283	766,818	567,001	14,955,987	14,810,284
Land Improvements	2,122,148	2,056,908	32,404	44,932	2,154,552	2,101,840
Building and Improvements	21,168,761	21,078,033	15,023,842	15,564,247	36,192,603	36,642,280
Infrastructure	27,730,675	28,192,826	14,202,321	9,279,790	41,932,996	37,472,616
Machinery and Equipment	3,224,652	3,319,321	3,606,577	4,037,638	6,831,228	7,356,959
Vehicles	<u>2,853,617</u>	<u>2,544,522</u>	<u>125,575</u>	<u>124,984</u>	<u>2,979,192</u>	<u>2,669,506</u>
Total Net Assets	<u>\$74,241,192</u>	<u>\$74,347,063</u>	<u>\$33,757,537</u>	<u>\$29,618,592</u>	<u>\$107,998,729</u>	<u>\$103,965,655</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 be completely finished in FY 2008-09. The water and sanitary portions of the project were completed in FY 2007-08 at a cost of \$3,696,480. Federal and New York State reimbursements thus far total \$9,369,054 and have paid for approximately 95% of the project's \$13.5 million cost excluding the cost of betterments that are estimated at \$3 million. Construction in progress as of the close of the fiscal year was \$8,898,401.
- The Roswell P. Flower Memorial Library completed its 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 FY 2006-07 and were completed in FY 2007-08 at a total cost of \$765,627. Gifts during the year were received in the amount of \$34,774 and NYS grants contributed \$352,474 to fund this year's phase of the project.
- 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 \$7.4 million project

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

includes reconstructing Public Square streets, replacing water 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 \$4,775,000. Construction in progress at June 30, 2008 was \$4,671,562 with Federal and State reimbursements thus far totaling \$2,705,379.

- Reconstruction of the Thompson Park water pump station, which began in FY 2005-06 was completed in FY 2007-08 at a final cost of \$525,545.
- Installation of storm and sanitary sewer upgrades for Iroquois Avenue West, Knowlton Avenue and Cosgrove Streets was completed in FY 2007-08 at a cost of \$637,675.
- Emergency replacement of a water main on Ontario Drive due to continued water main breaks at a cost of \$399,099.
- Vehicle and equipment purchases in the amount of \$1,650,910 which included items such as a fire rescue truck (\$314,688), roads sweeper (\$170,256), refuse packer truck (\$137,250), roads dump truck (\$120,646), loader (\$120,600), and police vehicles (\$202,977).
- Reconstruction of Ten Eyck Street began in the current fiscal year and is expected to finish in FY 2008-09. The project is estimated to cost of \$3.2 million and includes reconstructing the streets, sidewalks, water main, and storm and sanitary sewers. Construction in progress as of the close of the fiscal year was \$294,662.

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 \$34,003,600. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

### City of Watertown's Outstanding Debt

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		<u>Total</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
General obligation bonds	\$23,650,231	\$24,807,027	\$10,353,369	\$5,596,774	\$34,003,600	\$30,403,801
Other loans	<u>184,825</u>	<u>227,845</u>	<u>7,661</u>	<u>9,444</u>	<u>192,486</u>	<u>237,289</u>
	<u>\$23,835,056</u>	<u>\$25,034,872</u>	<u>\$10,361,030</u>	<u>\$5,606,218</u>	<u>\$34,196,086</u>	<u>\$30,641,090</u>

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

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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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, 2008, the City's debt limit was \$51,442,874 with total net indebtedness of \$21,472,820, thus exhausting 41.74% of the City's debt limit.

The City issued \$4,165,000 in total bond anticipation notes dated February 25, 2008 maturing February 25, 2009 at an interest rate of 2.00% (priced to yield 1.32%) to provide financing for various capital projects. The City also issued \$7,345,000 in serial bonds dated February 15, 2008 maturing February 15, 2023 at interest rates ranging from 3.25% to 4.00% (priced to yield 3.58%) to provide financing for various capital projects.

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

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

The City's elected and appointed officials considered many factors when adopting the fiscal year 2008-09 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2008 were 5.9% for the City of Watertown, 5.8% for Jefferson County, 5.2% for New York State and 5.6% for the United States. 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 4.6% for the United States.

Factors considered during the preparation of the FY 2008-09 budget included rising energy costs, dropping value of the dollar, continued sales tax volatility and talks of a recession. 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 16,950 soldiers of the 10<sup>th</sup> Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. Conversely sales tax revenues have grown dramatically over the past four years due to an increase in population and local development. The 2008-09 sales tax budget of \$15,750,000 took into account the continued redeployments of the brigades during 2008 and 2009. The amount also included the final 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 2008-09 budget was impacted by continued high costs for retirement benefits, health insurance and fuel costs. The contribution to the Employees' Retirement System will range from 8.0% to 10.8% of salaries while the contribution the Police and Fire Retirement System will range from 14.6% to 15.0% of salaries. Appropriations in the self-insurance fund increased \$418,020 resulting in a 6.9% increase to the premium rate.

# CITY OF WATERTOWN, NEW YORK

## Management's Discussion and Analysis

June 30, 2008

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The City saw an increase of \$16,912,285 or 1.75% in taxable assessed value mostly due to the addition of approximately \$24,000,000 to the tax roll for the 801 properties which was offset by approximately \$11,500,000 due to an increase to the Veterans exemption. The residential tax burden has decreased from its ten year high of 62.75% last year to 60.72%. The average assessment for a single-family home in Watertown decreased slightly to \$103,455 from \$103,506 in FY 2007-08.

The City was able to hold increases in operating costs to a minimum whereby the adopted fiscal year 2008-09 General Fund budget increased \$858,210 or 2.34% over the 2007-08 budget to \$37,589,406. The City appropriated \$145,000 of fund balance, a decrease of \$2,060,000 over FY 2007-08. The significant reason for the decrease in appropriated fund balance was the projected receipt of approximately \$2,200,000 for the final payment due related to the 801 properties' PILOT agreement. The sales tax revenue budget was increased to \$15,750,000 which represented an increase of \$180,000 or 1.16% over the sales tax budget for FY 2007-08. The State Aid revenue budget was increased to \$333,002 or 7.0% based on New York State's FY 2008-09 budget. The increase in the real property tax levy of \$207,987 or 3.01% and the increase in taxable assessed values resulted in a 1.46% increase to the property tax rate.

Appropriations for the Water Fund increased \$234,664 or 4.89%. The Water Fund increased rates approximately 4.2% and appropriated \$350,000 of fund balance to balance the 2008-09 budget. The Sewer Fund appropriations decreased \$898 or 0.02%. In order to balance the 2008-09 budget the Sewer Fund increased sewer rates approximately 13.5% but did not appropriate any fund balance.

### **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, 2008**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>ASSETS</b>				
Unrestricted cash and cash equivalents	\$ 10,631,624	\$ 840,079	\$ 11,471,703	\$ 97,258
Restricted cash and cash equivalents	6,623,053	2,699,558	9,322,611	244,576
Receivables (net of allowance for uncollectibles):				
Accounts	2,421,262	1,465,202	3,886,464	-
Taxes	36,829	-	36,829	-
Interest	-	-	-	-
Other receivables	-	-	-	14,334
Due from other governments	100,523	212,583	313,106	-
State and federal aid receivables	3,278,974	-	3,278,974	-
Prepaid expenses	42,404	2,654	45,058	286
Internal balances	229,301	(229,301)	-	-
	<u>23,363,970</u>	<u>4,990,775</u>	<u>28,354,745</u>	<u>356,454</u>
Capital Assets:				
Non-depreciable	17,141,339	766,818	17,908,157	10,208
Depreciable, net	57,099,853	32,990,718	90,090,571	56,198
Total capital assets	<u>74,241,192</u>	<u>33,757,536</u>	<u>107,998,728</u>	<u>66,406</u>
<b>Total Assets</b>	<b>\$ <u>97,605,162</u></b>	<b>\$ <u>38,748,311</u></b>	<b>\$ <u>136,353,473</u></b>	<b>\$ <u>422,860</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,511,468	\$ 191,417	\$ 3,702,885	\$ 3,329
Accrued interest payable	274,180	119,165	393,345	-
Accrued liabilities	390,200	57,123	447,323	-
Retainage payable	11,003	12,166	23,169	-
Compensated absences	614,052	109,413	723,465	-
Workers compensation liability	642,335	115,973	758,308	-
Other liabilities	6,585	-	6,585	-
Due to other governments	46,319	-	46,319	-
Due to retirement system	519,487	43,618	563,105	-
Deferred revenue	1,465,200	-	1,465,200	-
Bond anticipation note	3,139,300	1,025,700	4,165,000	-
Other long-term debt	878,256	7,661	885,917	-
Serial bonds	23,650,231	10,353,369	34,003,600	-
Less: deferred amount on advance refunding	(47,430)	(42,571)	(90,001)	-
<b>Total Liabilities</b>	<b><u>35,101,186</u></b>	<b><u>11,993,034</u></b>	<b><u>47,094,220</u></b>	<b><u>3,329</u></b>
<b>NET ASSETS</b>				
Investment in capital assets, net of related debt	50,453,566	24,939,446	75,393,012	-
Restricted for:				
Economic development and assistance	278,494	-	278,494	-
Community development	170,018	-	170,018	-
Capital projects	648,125	76,772	724,897	248,778
Unrestricted	<u>10,953,773</u>	<u>1,739,059</u>	<u>12,692,832</u>	<u>170,753</u>
<b>Total Net Assets</b>	<b><u>62,503,976</u></b>	<b><u>26,755,277</u></b>	<b><u>89,259,253</u></b>	<b><u>419,531</u></b>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>97,605,162</u></b>	<b>\$ <u>38,748,311</u></b>	<b>\$ <u>136,353,473</u></b>	<b>\$ <u>422,860</u></b>

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

CITY OF WATERTOWN, NEW YORK  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental Activities:</b>							
General government support:							
General government support	\$ 11,366,404	\$ 257,758	\$ 10,173	\$ (8,770,330)	\$ -	\$ (8,770,330)	
Hydroelectric production	510,184	-	-	1,734,915	-	1,734,915	
Public safety:							
Fire	7,185,071	-	87,473	(7,097,598)	-	(7,097,598)	
Police	6,455,049	19,337	9,410	(6,342,945)	-	(6,342,945)	
Other public safety	440,644	-	-	(348,796)	-	(348,796)	
Public Works	5,672,779	-	2,560,689	(2,936,263)	-	(2,936,263)	
Transportation:							
Bus	940,754	344,093	-	(488,927)	-	(488,927)	
Economic opportunity and development:							
Other economic assistance	93,633	-	-	(93,633)	-	(93,633)	
Empire Zone	41,444	38,410	-	(3,034)	-	(3,034)	
Culture and recreation:							
Library	785,948	47,123	387,248	(338,141)	-	(338,141)	
Other culture and recreation	1,533,931	-	199,047	(1,130,830)	-	(1,130,830)	
Home and community services:							
Refuse and recycle	747,195	-	1,500	(62,617)	-	(62,617)	
Other home and community services	779,482	378,114	48,357	(257)	-	(257)	
Interest on debt	1,275,583	-	-	(1,275,583)	-	(1,275,583)	
Total Governmental Activities	37,828,101	1,084,835	3,303,897	(27,154,039)	-	(27,154,039)	
<b>Business-Type Activities:</b>							
Water	4,054,062	-	766,623	-	1,425,267	1,425,267	
Sewer	4,003,241	-	273,970	-	105,040	105,040	
Total Business-Type Activities	8,057,303	-	1,040,593	-	1,530,307	1,530,307	
Total Primary Government	45,885,404	1,084,835	4,344,490	(27,154,039)	1,530,307	(25,623,732)	
<b>Component Unit:</b>							
The Trustees of the R. P. Flower Memorial Library	100,378	48,101	59,499	-	-	-	7,222
Total Component Unit	100,378	48,101	59,499	-	-	-	7,222
Net (Expense) Revenue and Changes in Net Assets brought forward				(27,154,039)	1,530,307	(25,623,732)	7,222
<b>GENERAL REVENUES</b>							
Property taxes				7,447,874	-	7,447,874	
Sales taxes				15,194,502	-	15,194,502	
Utilities gross receipts tax				447,896	-	447,896	
Franchise tax				293,733	-	293,733	
Hotel occupancy tax				180,798	-	180,798	
Mortgage tax				502,944	-	502,944	
Grants and entitlements not restricted to specific programs				4,757,174	-	4,757,174	
Investment earnings				622,582	95,243	717,825	10,729
Total General Revenues				29,447,503	95,243	29,542,746	10,729
Transfers				(3,705)	3,705	-	
Change in Net Assets				2,289,759	1,629,255	3,919,014	17,951
Total Net Assets - Beginning of year				60,214,217	25,126,022	85,340,239	401,580
Total Net Assets - End of year				62,503,976	26,755,277	89,259,253	419,531

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

**CITY OF WATERTOWN, NEW YORK**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2008**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Unrestricted cash and cash equivalents	\$ 9,966,649	\$ -	\$ 664,975	\$ 10,631,624
Restricted cash and cash equivalents	683,755	5,740,455	198,843	6,623,053
Receivables (net of allowance for uncollectibles):				
Accounts	1,116,741	138,570	1,165,687	2,420,998
Taxes	28,943	7,886	-	36,829
Interest	-	-	-	-
Due from other governments	70,403	-	30,120	100,523
State and federal aid receivables	1,815,841	1,457,082	6,051	3,278,974
Prepaid expenses	29,889	12,000	515	42,404
Due from other funds	805,803	-	-	805,803
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	\$ <u>14,518,024</u>	\$ <u>7,355,993</u>	\$ <u>2,066,191</u>	\$ <u>23,940,208</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,525,495	\$ 1,946,041	\$ 39,933	\$ 3,511,469
Accrued liabilities	375,211	4,373	10,616	390,200
Retainage payable	-	11,003	-	11,003
Compensated absences	597,432	-	16,620	614,052
Bond anticipation note	-	3,139,300	-	3,139,300
Other liabilities	6,585	-	-	6,585
Due to other funds	6,424	558,539	11,274	576,237
Due to other governments	42,691	3,628	-	46,319
Due to retirement system	510,821	-	8,666	519,487
Deferred revenue	33,253	225,809	1,206,138	1,465,200
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	3,097,912	5,888,693	1,293,247	10,279,852
<b>FUND BALANCES:</b>				
Reserve for encumbrances	180,175	5,249,075	1,017	5,430,267
Reserve for capital projects	648,125	-	-	648,125
Reserve for economic development	-	-	278,494	278,494
Reserve for community development projects	-	-	170,018	170,018
Reserve for debt service	-	-	217,899	217,899
Reserve for worker's compensation	307,198	-	-	307,198
Reserve for insurance-general	663,797	-	-	663,797
Unreserved - designated for subsequent year's expenditures	110,000	-	68,325	178,325
Unreserved - undesignated	9,510,817	(3,781,775)	37,191	5,766,233
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	11,420,112	1,467,300	772,944	13,660,356
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Fund Balances</b>	<b>\$ <u>14,518,024</u></b>	<b>\$ <u>7,355,993</u></b>	<b>\$ <u>2,066,191</u></b>	<b>\$ <u>23,940,208</u></b>

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, 2008**

<b>Total governmental fund balances</b>	<b>\$ 13,660,356</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	74,241,192
Deferred assets for refunded bonds	47,430
Liability for accrued interest	(274,180)
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>(25,170,822)</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ 62,503,976</u></u></b>

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, 2008**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Real property taxes	\$ 6,953,263	\$ -	\$ -	\$ 6,953,263
Real property tax items	504,784	-	-	504,784
Nonproperty taxes	16,116,929	-	-	16,116,929
Departmental income	3,582,948	-	-	3,582,948
Intergovernmental charges	112,159	-	-	112,159
Use of money and property	552,762	177,824	23,302	753,888
Licenses and permits	73,720	-	-	73,720
Fines and forfeitures	91,069	-	12,731	103,800
Sale of property and compensation for loss	455,794	-	-	455,794
Miscellaneous local sources	563,429	166,839	454,741	1,185,009
Interfund revenue	1,017,687	-	-	1,017,687
State sources	5,764,861	1,405,744	20,722	7,191,327
Federal sources	315,809	1,583,547	361,622	2,260,978
	<u>36,105,213</u>	<u>3,333,954</u>	<u>873,118</u>	<u>40,312,286</u>
<b>Total Revenues</b>				
<b>EXPENDITURES</b>				
General government support	4,936,098	176,894	-	5,112,993
Public safety	13,397,190	647,314	-	14,044,504
Transportation	3,967,729	1,617,211	-	5,584,940
Economic assistance and opportunity	108,633	-	41,444	150,077
Culture and recreation	1,095,867	1,016,508	564,123	2,676,498
Home and community services	1,119,591	638,032	644,464	2,402,087
Employee benefits	6,875,545	-	277,366	7,152,911
Debt service	4,091,499	-	156,095	4,247,594
	<u>35,592,152</u>	<u>4,095,959</u>	<u>1,683,492</u>	<u>41,371,603</u>
<b>Total Expenditures</b>				
Excess of (Expenditures) Revenue	<u>513,062</u>	<u>(762,005)</u>	<u>(810,374)</u>	<u>(1,059,317)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Interfund transfers in	119,012	1,116,028	914,747	2,149,787
Interfund transfers out	(2,000,775)	(100,656)	(52,062)	(2,153,493)
Serial Bonds	-	1,647,000	-	1,647,000
BANS redeemed from appropriations	-	542,300	-	542,300
	<u>(1,881,763)</u>	<u>3,204,672</u>	<u>862,685</u>	<u>2,185,594</u>
<b>Total Other Financing Sources (Uses)</b>				
<b>Net change in fund balances</b>	(1,368,701)	2,442,667	52,311	1,126,277
Fund Balances - Beginning of year	<u>12,788,813</u>	<u>(975,367)</u>	<u>720,633</u>	<u>12,534,079</u>
<b>Fund Balances - End of year</b>	<u>\$ 11,420,112</u>	<u>\$ 1,467,300</u>	<u>\$ 772,944</u>	<u>\$ 13,660,356</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>1,126,277</b>
<p>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 \$3,384,956 were less than depreciation expense of \$3,449,771</p>		
		(64,815)
<p>Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities.</p>		
		1,199,816
<p>Loss on disposal of assets</p>		
		(41,057)
<p>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.</p>		
<p style="padding-left: 40px;">Amortization of advanced refunding issuance costs</p>		
		(9,486)
<p>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.</p>		
		15,382
<p>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.</p>		
		(53,430)
<p>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.</p>		
		117,072
<b>Change in Net Assets of governmental activities</b>	<b>\$</b>	<b>2,289,759</b>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2008**

	<b>Business - Type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 776,375	\$ 63,704	\$ 840,079
Accounts receivable, net of allowance for uncollectible accounts	909,584	555,618	1,465,202
Due from governmental funds	10,277	22,750	33,027
Due from other governments	-	212,583	212,583
Prepaid expenses	1,412	1,242	2,654
Total current assets	<u>1,697,648</u>	<u>855,897</u>	<u>2,553,545</u>
<b>Non-Current Assets</b>			
Restricted cash and cash equivalents	1,148,669	1,550,889	2,699,558
Capital assets, net of accumulated depreciation	18,458,866	15,298,670	33,757,536
Total non-current assets	<u>19,607,535</u>	<u>16,849,559</u>	<u>36,457,094</u>
Total assets	<u>\$ 21,305,183</u>	<u>\$ 17,705,456</u>	<u>\$ 39,010,639</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 137,190	\$ 54,227	\$ 191,417
Accrued interest payable	70,895	48,270	119,165
Retainage payable	6,672	5,494	12,166
Accrued liabilities	30,883	26,240	57,123
Compensated absences	61,697	47,716	109,413
Due to retirement system	24,342	19,276	43,618
Due to governmental funds	91,438	170,890	262,328
Bond anticipation notes payable	509,200	516,500	1,025,700
Current portion of long-term liabilities	1,107,187	436,241	1,543,428
Total current liabilities	<u>2,039,504</u>	<u>1,324,854</u>	<u>3,364,358</u>
<b>Long-Term Liabilities:</b>			
Workers compensation liability	18,276	97,697	115,973
Serial bonds payable	4,964,514	3,847,277	8,811,791
Less: deferred amount on refunding	(38,908)	(3,663)	(42,571)
NYPA loan payable	-	5,811	5,811
Total long-term liabilities	<u>4,943,882</u>	<u>3,947,122</u>	<u>8,891,004</u>
Total liabilities	<u>6,983,386</u>	<u>5,271,976</u>	<u>12,255,362</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	12,910,515	12,028,931	24,939,446
Restricted for maintenance	76,772	-	76,772
Unrestricted	1,334,510	404,549	1,739,059
Total net assets	<u>14,321,797</u>	<u>12,433,480</u>	<u>26,755,277</u>
Total liabilities and net assets	<u>\$ 21,305,183</u>	<u>\$ 17,705,456</u>	<u>\$ 39,010,639</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, 2008**

	<b>Business - Type Activities</b>		
	<b>Enterprise funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 3,881,195	\$ 2,884,078	\$ 6,765,273
Intergovernmental charges	802,096	929,627	1,731,723
Other operating revenue	29,415	20,606	50,021
	<u>4,712,706</u>	<u>3,834,311</u>	<u>8,547,017</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages and employee benefits	1,886,261	1,466,530	3,352,791
Contractual services	1,245,715	1,616,284	2,861,999
Depreciation	617,520	734,375	1,351,895
Loss on disposal of fixed asset	231	2,020	2,251
	<u>3,749,727</u>	<u>3,819,209</u>	<u>7,568,936</u>
Income from operations	<u>962,979</u>	<u>15,102</u>	<u>978,081</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest revenue	49,567	45,676	95,243
Interest expense	(304,335)	(184,032)	(488,367)
Total non-operating revenue (expenses)	<u>(254,768)</u>	<u>(138,356)</u>	<u>(393,124)</u>
Income (loss) before contributions and transfers	708,211	(123,254)	584,957
Capital contributions	766,623	273,970	1,040,593
Transfers in	6,844	4,361	11,205
Transfers out	(7,500)	-	(7,500)
<b>Change in net assets</b>	1,474,178	155,077	1,629,255
Net assets - beginning of year	<u>12,847,619</u>	<u>12,278,403</u>	<u>25,126,022</u>
<b>Net assets - end of year</b>	<u>\$ 14,321,797</u>	<u>\$ 12,433,480</u>	<u>\$ 26,755,277</u>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**June 30, 2008**

	<b>Business - Type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from providing services	\$ 4,651,128	\$ 3,813,006	\$ 8,464,134
Cash payments for contractual expense	(1,198,808)	(1,629,837)	(2,828,645)
Cash payments for personel services and benefits	(1,900,807)	(1,491,051)	(3,391,859)
Other operating revenue	29,415	20,606	50,021
Net cash provided by operating activities	<u>1,580,928</u>	<u>712,724</u>	<u>2,293,652</u>
<b>Cash flows from non-capital and financing activities</b>			
Transfers to/from other funds	(656)	4,361	3,705
<b>Cash flows from capital and related financing activities</b>			
Proceeds of capital debt	3,866,000	2,788,000	6,654,000
Principal paid on capital debt	(1,371,738)	(798,689)	(2,170,427)
Interest paid on capital debt	(287,491)	(176,611)	(464,102)
Capital grants	766,623	273,970	1,040,593
Net cash provided by capital and related financing activities	<u>2,973,394</u>	<u>2,086,670</u>	<u>5,060,064</u>
<b>Cash flows from investing activities</b>			
Purchase of capital assets	(3,419,882)	(1,991,292)	(5,411,174)
Interest income	52,877	45,676	98,553
Net cash provided by investing activities	<u>(3,367,005)</u>	<u>(1,945,616)</u>	<u>(5,312,621)</u>
Net increase cash in cash equivalents	1,186,661	858,139	2,044,800
Cash and cash equivalents, beginning of year	\$ 738,383	\$ 756,454	\$ 1,494,837
	<u>\$ 1,925,044</u>	<u>\$ 1,614,593</u>	<u>\$ 3,539,637</u>
<b>Reconciliation of income from operations to net</b>			
Income from operations	\$ 962,979	\$ 15,102	\$ 978,081
Depreciation	617,520	734,375	1,351,895
Loss on disposal of fixed asset	231	2,020	2,251
Change in assets:			
Accounts receivable	(2,371)	(17,870)	(20,241)
Due from other governments	(27,458)	17,156	(10,302)
Due from other funds	(2,014)	16	(1,998)
Prepaid expenses	(826)	(727)	(1,553)
Change in liabilities:			
Accounts payable	10,633	(127,223)	(116,590)
Accrued liabilities	1,205	3,883	5,088
Compensated absences	3,014	(1,894)	1,120
Due to retirement system	(7,194)	(10,386)	(17,580)
Other liabilities	(11,571)	(16,124)	(27,695)
Due to other funds	36,780	114,396	151,176
<b>Net cash provided by operating activities</b>	<u>\$ 1,580,928</u>	<u>\$ 712,724</u>	<u>\$ 2,293,652</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 776,375	\$ 63,704	\$ 840,079
Non-current assets - restricted cash and cash equivalents	1,148,669	1,550,889	2,699,558
<b>Total Cash and cash equivalents</b>	<u>\$ 1,925,044</u>	<u>\$ 1,614,593</u>	<u>\$ 3,539,637</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, 2008**

	<b>Private Purpose <u>Trusts</u></b>	<b>Agency <u>Funds</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 45,932	\$ 219,443	\$ 265,375
<b>LIABILITIES</b>			
Due to governmental funds	\$ -	\$ 264	\$ 264
Deposits held and due to others	-	182,992	182,992
Cafeteria plan	-	23,897	23,897
Other accrued liabilities	-	12,290	12,290
<b>Total Liabilities</b>	<b>-</b>	<b>219,443</b>	<b>219,443</b>
<b>NET ASSETS</b>			
Held in trust for other purposes	17,241	-	17,241
Held in trust for scholarships	28,691	-	28,691
<b>Total Net Assets</b>	<b>45,932</b>	<b>-</b>	<b>45,932</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 45,932</b>	<b>\$ 219,443</b>	<b>\$ 265,375</b>

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

**CITY OF WATERTOWN, NEW YORK**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2008**

	<b>Private Purpose <u>Trusts</u></b>
<b>ADDITIONS</b>	
Interest revenue	\$ <u>1,196</u>
Total Additions	<u>1,196</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>250</u>
Total Deductions	<u>250</u>
<b>Change in Net Assets</b>	946
Net Assets- Beginning of Year	<u>44,986</u>
<b>Net Assets-End of Year</b>	\$ <u><u>45,932</u></u>

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

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

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

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

**A. Financial Reporting Entity**

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

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

The financial reporting entity consists of:

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

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

Watertown Empire Zone

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

**B. Basic Financial Statements**

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

1. Government-wide Statements

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

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

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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2. Fund Financial Statements

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

a. Governmental Funds

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

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

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

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

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

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

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

b. Proprietary Funds

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

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

c. **Fiduciary Funds**

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

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

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

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**D. Property Taxes**

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. There is no amount owed to the School District for uncollected school taxes. A portion of the receivable \$27,403 is considered not available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$705,559 has been included in the General Fund accounts receivable balance at June 30, 2008.

**E. Budget Policies**

The budget policies are as follows:

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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The general fund budget was amended from \$38,047,315 to \$38,523,305 to reflect receipt and disbursement of the following:

Prior year encumbrances	251,364
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	224,626
	\$ 475,990

**F. Cash and Cash Equivalents**

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

**G. Receivables**

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

**H. Investments**

Investments are stated at fair value.

**I. Capital Assets**

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**J. Compensatory Absences**

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

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

**K. 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 2007-08 were \$3,292,356 for 267 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 \$758,308 as of June 30, 2008 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.
- c. Unemployment Insurance – The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2008 were \$6,330.

**CITY OF WATERTOWN, NEW YORK**  
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- 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 \$415,350 has been recorded in the self-insurance fund for claims incurred as of June 30, 2008 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 2008, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

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

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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, 2008 per the banks were \$21,100,645. These deposits are categorized as follows:

(a)	(b)	(c)
\$576,062	\$12,637,733	\$7,886,850

As of June 30, 2008 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit	\$ 9,225,000
Certificates of Deposit-Trust & Agency Funds	25,939
State and Local Government Series Securities	<u>217,639</u>
Total	<u>\$ 9,468,578</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, 2008 follows:

Governmental Activities:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Non-depreciable capital assets:				
Land	\$ 2,912,170	\$ 40,000	\$ -	\$ 2,952,170
Construction in Progress	<u>14,243,283</u>	<u>3,134,151</u>	<u>(3,188,265)</u>	<u>14,189,169</u>
Total	<u>\$ 17,155,453</u>	<u>\$ 3,174,151</u>	<u>(\$3,188,265)</u>	<u>\$ 17,141,339</u>
Depreciable capital assets:				
Land improvements	6,609,059	387,175	-	6,996,234
Buildings and improvements	29,606,428	765,627	-	30,372,055
Infrastructure	46,032,106	726,338	-	46,758,444
Machinery and equipment	9,821,199	510,690	( 124,803)	10,207,086
Vehicles	<u>9,406,115</u>	<u>1,009,240</u>	<u>( 624,506)</u>	<u>9,790,849</u>
Total	<u>101,474,907</u>	<u>3,399,070</u>	<u>( 749,309)</u>	<u>104,124,668</u>
Less accumulated depreciation for:				
Land improvements	4,552,151	321,935	-	4,874,086
Buildings and improvements	8,528,395	674,899	-	9,203,294
Infrastructure	17,839,280	1,188,489	-	19,027,769
Machinery and equipment	6,501,878	605,359	( 124,803)	6,982,434
Vehicles	<u>6,861,593</u>	<u>659,089</u>	<u>( 583,450)</u>	<u>6,937,232</u>
Total	<u>44,283,297</u>	<u>3,449,771</u>	<u>( 708,253)</u>	<u>47,024,815</u>
Depreciable capital assets, net:	<u>\$57,191,610</u>	<u>( \$ 50,701)</u>	<u>( \$ 41,056)</u>	<u>\$57,099,853</u>
Grand total	<u>\$74,347,063</u>	<u>\$ 3,123,450</u>	<u>( \$3,227,321)</u>	<u>\$74,241,192</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 152,932
Hydroelectric production	227,527
Police	157,155
Fire	415,232
Other public safety	14,133
Public Works	1,611,002
Bus	245,696
Library	129,831
Other culture and recreation	460,473
Refuse and recycling	35,790
Other home and community services	-
Total	<u>\$ 3,449,771</u>

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

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	567,001	4,525,384	(4,325,567)	766,818
Total	<u>\$ 567,001</u>	<u>\$ 4,525,384</u>	<u>(\$4,325,567)</u>	<u>\$ 766,818</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,354,862	-	(1,603)	27,353,259
Infrastructure	13,654,663	5,162,294	(29,867)	18,787,090
Machinery and equipment	15,295,626	91,241	(52,550)	15,334,317
Vehicles	802,900	39,739	(19,429)	823,210
Total	<u>57,358,619</u>	<u>5,293,274</u>	<u>(\$103,449)</u>	<u>62,548,444</u>
Less accumulated depreciation for:				
Land improvements	205,636	12,528	\$ -	218,164
Buildings and improvements	11,790,615	540,404	(1,602)	12,329,417
Infrastructure	4,374,873	237,513	(27,617)	4,584,769
Machinery and equipment	11,257,988	522,302	(52,550)	11,727,740
Vehicles	677,916	39,148	(19,429)	697,635
Total	<u>28,307,028</u>	<u>1,351,895</u>	<u>(\$101,198)</u>	<u>29,557,725</u>
Depreciable capital assets, net:	<u>\$29,051,591</u>	<u>\$ 3,941,379</u>	<u>(\$ 2,251)</u>	<u>\$32,990,719</u>
Grand total	<u>\$29,618,592</u>	<u>\$ 8,466,763</u>	<u>(\$ 4,327,818)</u>	<u>\$33,757,537</u>

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

Water	\$ 617,520
Sewer	734,375
Total	<u>\$1,351,895</u>

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

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

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 65,317	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 582,808	Reserve for capital projects
General – Cash	\$ 35,630	Reserve for special assessment sidewalk program debt
Water – Cash	\$ 76,772	Reserve for coagulation basin maintenance
Special Revenue – Cash	\$ 198,843	Federal and State community development grants
Capital – Cash	\$ 5,882,888	Reserve for capital project acquisitions 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, 2008 was \$ -0-.

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 \$88,272 were awarded during the current year. The balance of the total loans outstanding at June 30, 2008 was \$11,817. The balance of the grants subject to repayment at June 30, 2008 was \$819,351.

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 \$180,000 were awarded during the current year. The balance of these loans outstanding at June 30, 2008 was \$258,558.

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, 2008 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 home buyers with the purchase and rehabilitation of homes in the City. The purpose of this program is to promote home ownership in the City. Assistance will be available to eligible lower income households who will buy existing homes that are for sale in the City. Where needed, improvements will be made in those properties to eliminate any problems that might be a financial hardship to the owner in the future. Grants of \$93,048 were awarded during the current year.

The City was awarded a North Country HOME Consortium Fiscal Year 2006 and 2007 grant in the amount of \$230,000 to assist approximately twelve income eligible homeowners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$116,043 were awarded during the current year.

The City was awarded \$650,000 through a Fiscal Year 2007 Small Cities Community Development Block Grant to support redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include commercial tenants on the ground floor and rental apartments that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2008 were \$21,051.

**B. Liabilities**

**1. Short-Term Debt**

A summary of bond anticipation note transactions for the year ended June 30, 2008 is as follows:

Balance at July 1, 2007	\$ 5,555,000
Additions	4,165,000
Reductions	<u>(5,555,000)</u>
Balance at June 30, 2008	<u>\$4,165,000</u>

The City issued a bond anticipation note on February 25, 2008 with a maturity date of February 25, 2009 to finance various projects. The interest rate was 2.00% with a premium of \$28,500 resulting in a net interest cost of 1.32%. The bond anticipation note was backed by the full faith and credit of the City of Watertown. The bond anticipation notes are reflected in the capital projects fund and water and sewer funds in the fiscal year ending June 30, 2008.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
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**2. Long-Term Debt**

During the year ended June 30, 2008, the following changes occurred in long-term obligations:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds	\$24,807,027	3,871,000	(\$5,027,796)	\$23,650,231	\$2,709,622
Compensated Absences	352,001	53,430	-	405,431	30,000
Landfill Monitoring	306,000	-	( 18,000)	288,000	18,000
NYS Retirement Incentive	40,530	-	( 40,530)	-	-
NYPA Loan Payable	<u>227,845</u>	<u>-</u>	<u>( 43,020)</u>	<u>184,825</u>	<u>44,638</u>
Total	<u>\$25,733,403</u>	<u>\$3,924,430</u>	<u>(\$5,129,346)</u>	<u>\$24,528,487</u>	<u>\$2,802,260</u>

The Statement of Net Assets at June 30, 2008 includes a deferred amount of \$47,430 on the advance refunding of bonds in fiscal year ended June 30, 2003.

Business-type Activities

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation Bonds:					
Water	\$ 3,708,300	\$ 3,361,000	(\$997,599)	\$ 6,071,701	\$ 1,107,187
Sewer	1,888,474	2,733,000	( 339,806)	4,281,668	434,391
NYS Retirement Incentive	12,799	-	( 12,799)	-	-
NYPA Loan Payable	<u>9,444</u>	<u>-</u>	<u>( 1,783)</u>	<u>7,661</u>	<u>1,850</u>
Total	<u>\$ 5,619,017</u>	<u>\$ 6,094,000</u>	<u>(\$1,351,987)</u>	<u>\$10,361,030</u>	<u>\$ 1,543,428</u>

The Statement of Net Assets at June 30, 2008 includes a deferred amount of \$42,570 on the advance refunding of bonds in fiscal year ended June 30, 2003.

**CITY OF WATERTOWN, NEW YORK**  
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General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2008 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid 6/30/08</u>	<u>Outstanding 6/30/08</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 625,000	12/2017
Water Filtration	7.40-7.60%	4,100,000	225,000	225,000	4/2009
Public Improvements	6.90-7.00%	5,471,000	75,000	150,000	5/2010
Public Improvements	6.30-6.375%	10,518,000	395,200	1,585,600	10/2011
Public Improvements	5.50-5.70%	3,599,000	175,000	675,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	40,000	133,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	200,000	300,000	7/2011
Public Improvements	4.60-5.25%	4,220,000	125,000	155,000	3/2013
Public Improvements	3.50-4.85%	3,908,466	305,000	660,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	265,000	7,595,000	11/2025
Public Improvements	5.125-5.50%	6,105,000	335,000	1,665,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	130,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	150,000	1,060,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	220,000	725,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	725,000	5,875,000	1/2024
Public Improvements	4.0-4.375%	5,700,000	400,000	4,900,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	200,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000		7,345,000	02/2023
Total Serial Bonds			<u>\$3,745,200</u>	<u>\$34,003,600</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>
2009	\$ 2,709,622	\$1,133,921	\$ 3,843,543
2010	2,624,027	1,015,325	3,639,352
2011	2,172,687	901,869	3,074,556
2012	1,991,457	808,204	2,799,661
2013	1,590,702	722,487	2,313,189
2014-2018	6,498,886	2,583,212	9,082,098
2019-2023	4,117,850	1,198,203	5,316,053
2024-2026	<u>1,945,000</u>	<u>191,948</u>	<u>2,136,948</u>
	<u>\$23,650,231</u>	<u>\$ 8,555,169</u>	<u>\$32,205,400</u>

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

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,541,578	\$ 447,222	\$ 1,988,800
2010	1,298,173	365,982	1,664,155
2011	1,167,513	303,310	1,470,823
2012	1,088,543	249,170	1,337,713
2013	619,298	209,576	828,874
2014-2018	2,906,114	679,376	3,585,490
2019-2023	1,722,150	164,666	1,886,816
2024-2026	<u>10,000</u>	<u>425</u>	<u>10,425</u>
	<u>\$ 10,353,369</u>	<u>\$2,419,727</u>	<u>\$12,773,096</u>

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2008 was \$ 214,954.

Advance Refunding

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

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

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

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

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

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

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 1.92 to 3.71%. The outstanding balance at June 30, 2008 is \$192,486. The estimated maturities over the next five years and thereafter are as follows:

2009	\$ 46,488
2010	48,266
2011	50,113
2012	<u>47,619</u>
	<u>\$192,486</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, 2008, \$446,400 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>33,253</u>
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Special Revenue Fund

Notes receivable funded from grant proceeds	\$ <u>1,177,891</u>
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Deferred State Aid	\$ <u>3,285</u>
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Grant proceeds applicable to Fiscal Year 2007-08	\$ <u>24,962</u>
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Capital Projects Fund

Deferred State Aid	\$ <u>225,809</u>
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**CITY OF WATERTOWN, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
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**5. Retirement Benefits**

Plan Description

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

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, 2008 and two preceding years were:

	FYE 6/30/08	FYE 6/30/07	FYE 6/30/06
Employer Contributions			
ERS	\$ 737,283	\$ 762,350	\$ 790,665
PFRS	\$ 1,094,456	\$ 1,133,628	\$ 1,155,635
Employee Contributions			
ERS	\$ 71,249	\$ 62,311	\$ 57,183
PFRS	\$ -	\$ -	\$ -

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

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

The City has reported \$65,000 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, 2008 was \$217,899.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**2. Other Fund Balance Disclosures**

Deficit Fund Balance

Self-funded Health Insurance Fund: The fund had a deficit fund balance at June 30, 2008 of (\$121,186) due to higher than anticipated health insurance claim costs.

**3. Excess of Expenditures over Appropriations**

Expenditures for the fiscal year ended June 30, 2008 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	\$6,872,200	\$7,050,279	\$(178,079) (1)

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

**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, 2008 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$805,803	\$ 6,424
Water Fund	10,277	91,438
Sewer Fund	22,749	170,890
Library Fund	-	11,274
Capital Project Funds	-	558,539
Trust and Agency	-	264
	<u>\$ 838,829</u>	<u>\$ 838,829</u>

Inter-fund Eliminations

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

	<u>General Fund</u>	<u>Self-funded Health Insurance Fund</u>
Revenues	\$ -	\$5,295,709
Expenditures	<u>5,295,709</u>	<u>-</u>
Total	<u>\$5,295,709</u>	<u>\$5,295,709</u>

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**E. Operating Leases**

State Street Parking Lot

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

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2009	\$ 1,900
2010	1,900
2011	<u>1,900</u>
	<u>\$5,700</u>

Fairgrounds Property Lease

The City is the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC. The lease dated July 28, 1998 is for a term of twenty-five years. The lease was amended on June 16, 2003.

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2009	\$ 10,000
2010	10,000
2011	10,000
2012	10,000
2013	10,000
Thereafter	<u>100,000</u>
	<u>\$150,000</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, 2008 were \$824,508.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

2009	\$ 217,331
2010	207,369
2011	197,405
2012	187,443
2013	177,481
Thereafter	<u>325,073</u>
Total	<u>\$1,312,102</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, 2008, 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 \$663,797 as of June 30, 2008 for un-funded general liability claims.

**Grant Programs**

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

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

**Environmental Concerns**

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2008, 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, 2008 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.

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**Landfill Closure**

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2008, an estimated \$288,000 in post-closure care cost will be incurred over the remaining 16-year period. This liability is recorded in the long-term debt account group and is amortized in the General Fund at approximately \$18,000 each year.

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

**Black River Fund**

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

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

This Fund is being administered by a Black River Fund Committee, which shall determine the distribution of funding each year. If able to demonstrate that their proposal provides a clear public benefit, governmental agencies, non-profit organizations, education institutions, and individuals shall be eligible to receive funding from the Black River Fund. On December 16, 2006 the Committee allocated \$20,000 to New York Rivers United to document the river's ecology in terms of quality, water quantity, general biodiversity and ecological status since the passage of the 1977 Federal Clean Water Act. The Committee also allocated \$80,000 to the City for its Hole Brothers Access Improvement Project. The award is funded with \$60,000 of current funds and \$10,000 from each of the 2008 and 2009 City contributions to the fund. As of June 30, 2008, \$6,322 has been distributed from the Black River Fund to the City for its Hole Brothers Access Improvement Project.

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2008 was \$69,989.

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**Electrical Distribution System Agreement**

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

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

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

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

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

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

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

**CITY OF WATERTOWN, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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

By resolution adopted July 7, 1986, the City Council approved a twenty year agreement between the City and the Development Authority of the North Country, in order to provide wastewater treatment to Fort Drum and outlying communities at the City's Water Pollution Control Plant. The Development Authority of the North Country and United States Army executed an agreement on June 13, 1986 requiring sewage to be delivered for treatment at the Watertown Water Pollution Control Plant by April 1, 1987. The City is currently in negotiations with the Development Authority of the North Country on a new agreement for wastewater treatment services.

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

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

**CITY OF WATERTOWN, NEW YORK  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Resources (Inflows)</b>				
Real property taxes	\$ 6,809,651	\$ 6,809,651	\$ 6,953,263	\$ 143,612
Real property tax items	476,500	476,500	504,784	28,284
Non-property taxes	16,465,000	16,465,000	16,116,929	(348,071)
Departmental income	4,013,950	4,013,950	3,582,948	(431,002)
Intergovernmental charges	98,230	98,230	112,159	13,929
Use of money and property	503,780	503,780	552,762	48,982
Licenses and permits	71,150	71,150	73,720	2,570
Fines and forfeitures	100,000	100,000	91,069	(8,931)
Sale of property and compensation for loss	48,100	48,100	455,794	407,694
Miscellaneous local sources	624,160	624,160	563,429	(60,731)
Interfund revenue	592,959	817,584	1,017,687	200,103
State source	5,619,635	5,619,635	5,764,861	145,226
Federal sources	420,000	420,000	315,809	(104,191)
Transfers from other funds	22,600	22,600	119,012	96,412
	<u>35,865,715</u>	<u>36,090,340</u>	<u>36,224,226</u>	<u>133,886</u>
Amounts available for appropriation				
<b>Charges to appropriations (outflows)</b>				
General government support	5,279,365	5,185,042	4,936,098	248,944
Public safety	13,319,414	13,553,389	13,397,190	156,199
Transportation	3,724,063	4,134,997	3,967,729	167,268
Economic assistance and development	100,000	100,000	108,633	(8,633)
Culture and recreation	1,158,683	1,223,739	1,095,867	127,872
Home and community services	1,426,942	1,194,364	1,119,591	74,772
Employee benefits	6,521,150	6,558,200	6,875,545	(317,345)
Debt service	4,155,451	4,155,826	4,091,499	64,327
Transfers to other funds	2,362,247	2,417,747	2,000,775	416,972
	<u>38,047,315</u>	<u>38,523,305</u>	<u>37,592,927</u>	<u>930,378</u>
Total charges to appropriations				
<b>Excess (Deficiency) of Resources Over Charges to Appropriations</b>	(2,181,600)	(2,432,965)	(1,368,701)	1,064,264
<b>Appropriation of prior year fund balance</b>	<u>2,205,000</u>	<u>2,205,000</u>	<u>-</u>	<u>(2,205,000)</u>
<b>Excess of Resources Over Charge to Appropriations</b>	<u>23,400</u>	<u>(227,965)</u>	<u>(1,368,701)</u>	<u>(1,140,736)</u>
<b>Fund Balance, Beginning of year</b>			12,788,813	
<b>Fund Balance, End of year</b>			<u>\$ 11,420,112</u>	

See paragraph on Required Supplementary Schedules Included in Audit Report.

**SUPPLEMENTAL SCHEDULE #2**

**CITY OF WATERTOWN, NEW YORK**  
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**SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

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<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
US Department of Housing & Urban Development:		
Community Development Block Grant/Small Cities	14.219	\$ 406,406
Community Development Block Grant/State's Loan	14.228	9,293
HOME Investment Partnerships Program	14.239	<u>228,764</u>
Total Department of Housing & Urban Development		<u>644,463</u>
US Department of Transportation:		
Passed Through New York State:		
Highway Planning and Construction	20.205	2,411,992
State and Community Highway Safety	20.600	7,589
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>103,600</u>
Total Department of Transportation		<u>2,523,181</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>13,500</u>
Department of Justice:		
Byrne Formula Grant Program	16.579	<u>10,721</u>
US Environmental Protection Agency:		
Brownfield Pilots Cooperative Agreements	66.811	<u>48,357</u>
		<u>\$ 3,240,222</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, 2008

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**1. Significant Accounting Policies**

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

<b>CFDA #</b>	<b>Balance at 7/1/07</b>	<b>Issuance</b>	<b>Forgiveness</b>	<b>Balance at 6/30/08</b>
14.219	\$ 15,893	\$ -	\$ 15,893	\$ -
14.228	720,444	326,280	215,102	831,622

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York, as of and for the year ended June 30, 2008, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated March 19, 2009. 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.

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.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matter that is required to be reported under **Government Auditing Standards** and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

We noted certain matters that we reported to management of the City of Watertown, New York, in a separate letter dated March 19, 2009.

City of Watertown, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Watertown, New York's response and, accordingly, we express no opinion on it.

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.*

MARCH 19, 2009

**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, 2008. 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, 2008.

## 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.*

MARCH 19, 2009

CITY OF WATERTOWN, NEW YORK  
=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

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

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. 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. One instance of noncompliance material to the financial statements of the City of Watertown, New York, and required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in this Schedule in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major federal program included – Highway Planning and Construction Cluster- Highway Planning and Construction – CFDA #20.205; 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:**

MATERIAL NONCOMPLIANCE

2008-1 Uncollateralized Deposits

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

*Criteria:* Collateral is required for demand and savings deposits and certificates of deposit for all deposits not covered by federal deposit insurance.

CITY OF WATERTOWN, NEW YORK  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

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*Effect:* Credit risk arising from uncollateralized deposits.

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

*Management's view and planned corrective action:* City management recognizes its responsibility to safeguard the deposits of the City that are in excess of the amounts insured by the Federal Deposit Insurance Corporation. Management routinely verifies that the pledged collateral at each of its depositories is sufficient to cover its deposits.

In the future when funds are being transferred from one financial institution to another financial institution, as it did in the condition referenced above, management will request written confirmation from the financial institution receiving the funds that sufficient collateral has been added to the City's collateral account prior to the actual deposit into that financial institution to avoid any uncollateralized deposits.

**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.

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

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

**INDEPENDENT AUDITOR'S REPORT**

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

**Compliance**

We have audited the compliance of 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, 2008. 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, 2008.

### **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, 2008, and have issued our report thereon dated March 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.*  
**MARCH 19, 2009**

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED  
YEAR ENDED JUNE 30, 2008

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<b>Program Title</b>	<b>Ref. Number</b>	<b>Expenditures</b>
Marchicelli - State St. Project	D017149	\$ 341,256
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	<u>529,063</u>
TOTAL		<u>\$ 870,319</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

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CITY OF WATERTOWN, NEW YORK

NOTES TO SCHEDULE OF STATE TRANSPORTATION  
ASSISTANCE EXPENDED  
YEAR ENDED JUNE 30, 2008

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**NOTES**

**A. General:**

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

**B. Basis of Accounting:**

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

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