

CITY OF WATERTOWN, NEW YORK

=====

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2010

CITY OF WATERTOWN, NEW YORK
TABLE OF CONTENTS
JUNE 30, 2010

	PAGES
Independent Auditor's Report	1-2
Required Supplementary Information: Management's Discussion and Analysis	3-16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Fund	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Net Assets - Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	27
Notes to Financial Statements	28-56
Required Supplementary Information:	
SS-1 Budgetary Comparison Schedule - General Fund	57
SS-2 Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards	59
SS-3 Schedule of Funding Progress for "The Plan"	60
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .	61-62
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	63-64
Schedule of Findings and Questioned Costs	65
Summary Schedule of Prior Audit Findings	65

NYSDOT State Single Audit

Report on Compliance and Controls Over State Transportation Assistance Expended Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66-68
Schedule of State Transportation Assistance Expended	69
Notes to Schedule of State Transportation Assistance Expended	70
Schedule of Findings and Questioned Costs for State Transportation Assistance Expended	71

POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Watertown, New York as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 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 Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-16), budgetary comparison information (page 57) and schedule of funding progress for "the plan" (page 60) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, New York's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Poulsen & Poduin, CPA, P.C.

January 20, 2011

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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, 2010. 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, 2010 by \$92,692,401. Of this amount unrestricted net assets of \$13,051,708 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased \$749,203 in fiscal year 2009-10, with a decrease of \$1,305,554 in governmental activities and an increase of \$556,351 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$16,511,089.
- General fund revenues of \$37,409,130 on a budgetary basis exceeded budgeted revenues by \$820,270 or 2.24% while budgetary basis expenditures finished \$1,904,495 lower than budgeted expenditures. These results negated the use of \$1,521,000 in appropriated fund balance budgeted in the 2009-10 general fund budget.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$13,327,628 or 36.47% of total general fund expenditures.
- The City issued \$2,225,000 in serial bonds dated June 15, 2010 maturing December 15, 2024 at interest rates ranging from 3.125% through 4.00% (priced to yield 3.39%) to provide financing for various capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2010, the City's assets exceeded liabilities by \$92,692,401 compared to \$93,732,107 at June 30, 2009. By far the largest portion of the City's net assets (84.27%) reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$1,525,431 or 1.65% of the net assets represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net assets represents the net assets of the Watertown Empire Zone, the Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, a Capital Reserve Fund and a Debt Service Fund. The unrestricted net assets, \$13,051,708 compared to \$13,563,945 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

City of Watertown's Net Assets

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>
Current and other assets	\$23,370,005	\$21,765,183	\$4,951,576	\$4,619,704	\$28,321,581	\$26,384,887
Capital Assets	<u>74,377,771</u>	<u>76,481,851</u>	<u>34,062,135</u>	<u>33,960,086</u>	<u>108,439,906</u>	<u>110,441,937</u>
Total Assets	<u>\$97,747,776</u>	<u>\$98,247,034</u>	<u>\$39,013,711</u>	<u>\$38,579,790</u>	<u>\$136,761,487</u>	<u>\$136,826,824</u>
Long-term liabilities outstanding	\$26,284,942	\$26,271,572	\$9,950,866	\$10,230,950	\$36,235,808	\$36,502,522
Other liabilities	<u>7,066,568</u>	<u>5,983,140</u>	<u>766,709</u>	<u>609,055</u>	<u>7,833,277</u>	<u>6,592,195</u>
Total liabilities	<u>\$33,351,510</u>	<u>\$32,254,712</u>	<u>\$10,717,575</u>	<u>\$10,840,005</u>	<u>\$44,069,085</u>	<u>\$43,094,717</u>

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Net Assets:

Invested in Capital

Assets, net of related

debt	\$52,642,828	\$53,419,622	\$25,472,434	\$25,614,012	\$78,115,262	\$79,033,634
Restricted	967,366	1,016,454	558,065	118,074	1,525,431	1,134,528
Unrestricted	<u>10,786,071</u>	<u>11,556,246</u>	<u>2,265,637</u>	<u>2,007,699</u>	<u>13,051,708</u>	<u>13,563,945</u>
Total Net Assets	<u>\$64,396,265</u>	<u>\$65,992,322</u>	<u>\$28,296,136</u>	<u>\$27,739,785</u>	<u>\$92,692,401</u>	<u>\$93,732,107</u>

As of June 30, 2010, 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, 2010.

City of Watertown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/10	6/30/09	6/30/10	6/30/09	6/30/10	6/30/09
Revenues:						
Program Revenues:						
Charges for services	\$6,775,610	\$6,505,983	\$8,953,687	\$9,061,726	\$15,729,297	\$15,567,709
Operating grants and contributions	3,119,620	1,754,290	70,342	22,221	3,189,962	1,776,511
Capital grants and contributions	912,020	4,018,797	258,216	278,961	1,170,236	4,297,758
General revenues:						
Property taxes	7,549,829	9,618,931	-	-	7,549,829	9,618,931
Sales tax	15,223,095	14,466,732	-	-	15,223,095	14,466,732
Utilities gross receipts tax	346,709	376,670	-	-	346,709	376,670
Franchise tax	415,047	406,570	-	-	415,047	406,570
Mortgage tax	398,710	418,469	-	-	398,710	418,469
Other taxes	200,250	214,197	-	-	200,250	214,197
Grants and Entitlements not restricted to specific programs	4,988,373	5,090,175	-	-	4,988,373	5,090,175
Investment earnings	<u>148,490</u>	<u>344,943</u>	<u>14,556</u>	<u>54,332</u>	<u>163,046</u>	<u>399,275</u>
Total revenues	<u>\$40,077,753</u>	<u>\$43,215,757</u>	<u>\$9,296,801</u>	<u>\$9,417,240</u>	<u>\$49,374,554</u>	<u>\$52,632,997</u>
Expenses:						
General government support	\$12,900,136	\$11,952,934	-	-	\$12,900,136	\$11,952,934
Hydroelectric production	540,933	462,321	-	-	540,933	462,321
Fire	7,069,685	7,503,676	-	-	7,069,685	7,503,676
Police	6,202,072	6,539,319	-	-	6,202,072	6,539,319
Other Public Safety	347,838	391,839	-	-	347,838	391,839
Public Works	6,285,656	6,232,815	-	-	6,285,656	6,232,815

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Bus	980,947	913,945	-	-	980,947	913,945
Watertown Empire Zone	20,830	26,739	-	-	20,830	26,739
Other Economic Assistance	97,029	79,088	-	-	97,029	79,088
Library	923,695	945,702	-	-	923,695	945,702
Other Culture and Recreation	1,511,917	1,641,441	-	-	1,511,917	1,641,441
Refuse and Recycling	903,248	799,221	-	-	903,248	799,221
Other Home and Community Services	2,485,608	1,060,959	-	-	2,485,608	1,060,959
Interest on Debt Service	1,055,998	1,174,244	-	-	1,055,998	1,174,244
Water	-	-	4,507,696	4,296,618	4,507,696	4,296,618
Sewer	-	-	4,290,469	4,139,282	4,290,469	4,139,282
Total Expenses	<u>\$41,325,592</u>	<u>\$39,724,243</u>	<u>\$8,798,165</u>	<u>\$8,435,900</u>	<u>\$50,123,757</u>	<u>\$48,160,143</u>
Excess of Revenues over Expenses	(1,247,839)	3,491,514	498,636	981,340	(749,203)	4,472,854
Transfers	<u>(57,715)</u>	<u>(3,168)</u>	<u>57,715</u>	<u>3,168</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(1,305,554)	3,488,346	556,351	984,508	(749,203)	4,472,854
Net Assets - Beginning	65,992,322	62,503,976	27,739,785	26,755,277	93,732,107	89,259,253
Prior Period Adjustment	<u>(290,503)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(290,503)</u>	<u>-</u>
Net Assets - Ending	<u>\$64,396,265</u>	<u>\$65,992,322</u>	<u>\$28,296,136</u>	<u>\$27,739,785</u>	<u>\$92,692,401</u>	<u>\$93,732,107</u>

Governmental activities. Governmental activities decreased the City's net assets by a total \$1,596,057 which includes a prior period adjustment of (\$290,503) compared to an increase of \$3,488,346 last year. Key elements of the year are as follows:

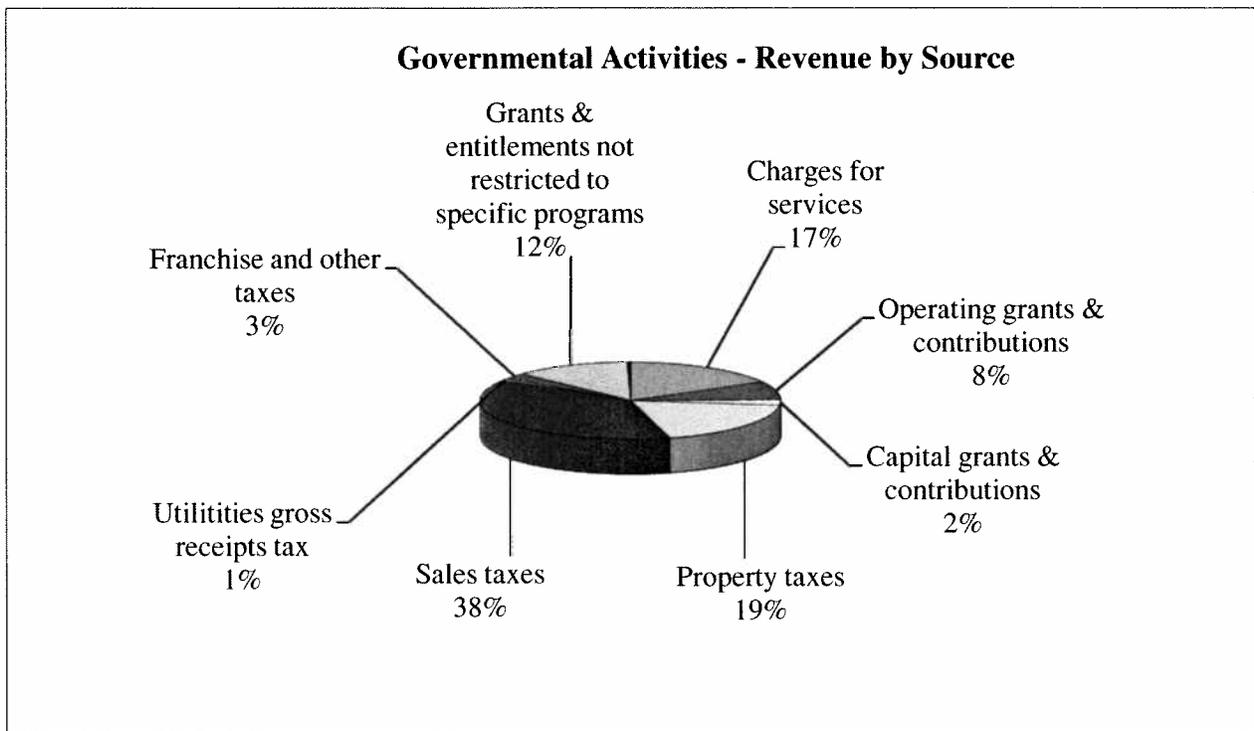
- Sales tax revenue totaled \$15,223,095 which was an increase of \$756,363 or 5.23% over last year's total of \$14,466,732. Sales tax revenue represented 38% of the governmental activities' revenue in FY 09/10 compared to 33% in FY 08/09.
- Due to the fiscal condition of New York State, the City's State Aid revenue was cut \$101,802 or 2% to \$4,988,373 compared to \$5,090,175 last year.
- The City's revenues from payments- in-lieu-of-taxes decreased \$2,298,397 compared to last year which included the final payment of \$2,270,641 from the section 801 properties payment-in-lieu-of-taxes agreement.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

- The City settled a lawsuit with Ryan Dorr in the amount of \$600,000.
- The City received \$821,186 in Federal and State Aid for various capital projects which is a decrease of \$3,007,040 from the amount received last year from Federal and State grants for capital projects. Some of the major projects include the Arsenal Street stimulus paving project (\$55,048), the Consolidated Local Street and Highway Improvement Program for various streets (\$388,831), the Sewalls Island environmental rehabilitation (\$328,515), and the Bicentennial Parks project (\$28,386).



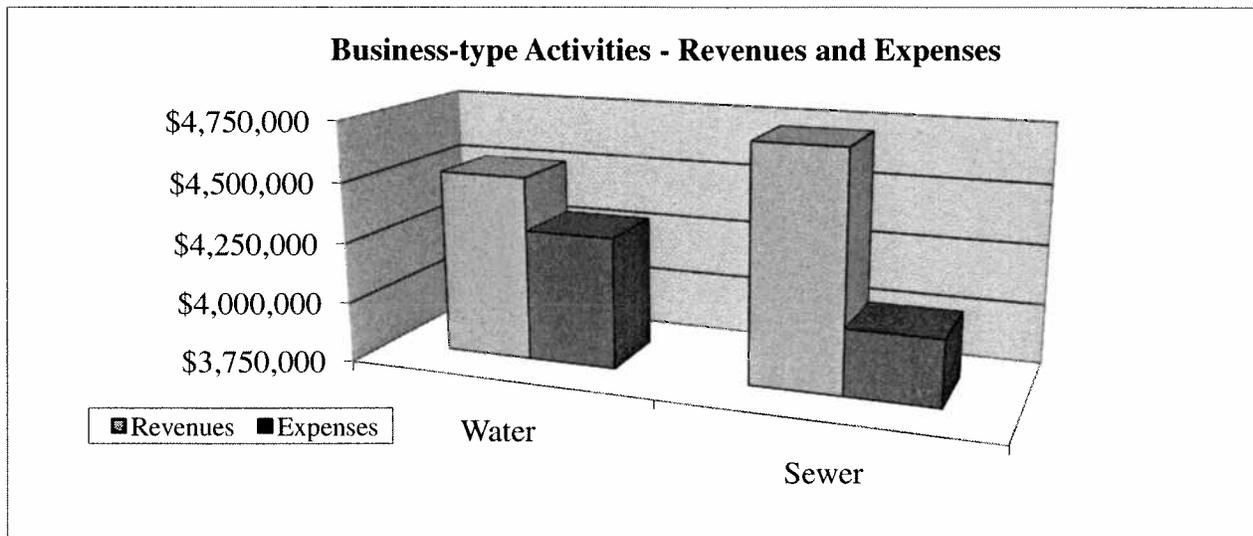
CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Business-type activities. Business-type activities increased the City's net assets by \$556,351 compared to \$984,508 last year. Key elements for this year are as follows:

- Water operating revenues decreased by \$205,635 or 4.36% to \$4,514,218 while operating expenses increased by \$272,270 or 6.77% to \$4,294,474. Sewer operating revenues increased by \$145,717 or 3.34% to \$4,509,811 and operating expenses increased by \$165,328 or 4.19% to \$4,110,959.
- 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 \$544,160 or 12.05% of the total water operating revenues as compared to \$688,420 or 14.59% of the total water operating revenues in the prior year. Revenues from this agreement decreased by \$144,260 or 20.96% over last year's total. The debt service related to the water treatment plant for which the Development Authority of the North Country is contractually responsible for decreased by \$58,945.
- The City also has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$1,118,282 or 24.80% of the total sewer operating revenues. Revenues from this agreement increased by \$78,179 or 7.52% over last year's total of \$1,040,103.



CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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, 2010 the City's governmental funds reported combined ending fund balances of \$16,511,089, an increase of \$491,587 in comparison with the prior year. The increase is most attributable to a \$794,347 increase in the fund balance of the City's self-funded health insurance fund due to less than anticipated claims. Excluding the capital projects fund, the City's governmental funds have a fund balance total of \$15,305,277 of which the unreserved fund balance is \$13,630,083. Of the unreserved fund balance, \$1,081,053 has been designated by the City Council for subsequent year's expenditures leaving an unreserved undesignated fund balance of \$12,549,030. 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 \$133,225 of contracts and purchase orders of the prior period (2) to pay \$132,951 of debt service (3) to pay \$441,652 for future health insurance, workers compensation claims and general liability claims and (4) other restricted purposes of \$967,366.

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 \$13,327,628 compared to \$11,780,533 in 2008-09, while the total general fund balance equaled \$14,558,066 compared to \$13,637,070 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 36.47% of total general fund expenditures and other financing uses compared to 32.32% last year, while total fund balance represents 39.83% of that same amount compared to 37.42% in the prior year.

During the current fiscal year, the fund balance of the City's general fund increased by \$863,062 compared to last year's increase of \$2,151,477. The less than anticipated expenditures in the City's self-funded health insurance plan accounted for \$794,347 of the increase.

Capital projects fund. The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was \$1,205,812 compared to \$1,769,517 in the previous year. Within this amount was \$711,013 of encumbrances for construction contracts compared to \$962,715 in the prior year.

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

Unrestricted net assets at the end of the fiscal year of the water fund were \$1,017,641 compared to \$1,143,142 in fiscal year 2008-09. The water fund had an increase in net assets in the amount of \$5,738 compared to an increase of \$672,566 in the previous year.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

Unrestricted net assets at the end of the fiscal year of the sewer fund were \$1,247,996 compared to \$864,557 in the prior year. The sewer fund had an increase in net assets in the amount of \$550,613 compared to \$311,942 in fiscal year 2008-09. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The general fund budget was re-adopted during the fiscal year to react to the decrease in NYS Aid of \$101,805, accept bus and fire grants in the amount of \$194,130 and increase the transfer to the capital projects fund in the amount of \$ 168,200 to cover the increased cost of the Washington Street sidewalk project and the portion of the hydro crane project cost that was not to be borrowed. The re-adopted budget increased revenues by \$181,158 in part due to the grants and an increase in inter-fund transfers in the amount of \$79,283. Expenditures were increased by \$278,150 and the appropriated fund balance increased \$96,992. Other budget amendments between departmental expenditure accounts also did occur.

General fund revenues of \$37,409,130 on a budgetary basis exceeded final budgeted revenues of \$36,588,860 by \$820,270 or 2.24% while budgetary basis expenditures of \$36,546,068 were \$1,904,495 or 4.95% lower than the final budgeted expenditures of \$38,450,563. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenue (\$468,095), insurance recoveries on large self-insurance claims (\$421,529), inter-fund transfers (\$209,000) to close various capital projects primarily the Ten Eyck Street reconstruction project, prescription reimbursements including the Medicare Part D program (\$132,089), State transportation assistance for the bus system (\$85,509), mortgage recording tax revenues (\$28,710), and occupancy tax revenues (\$25,250). Revenues that did not meet budgetary expectations included the sale of surplus hydro-power (\$213,429), utilities gross receipts taxes (\$38,291), fines (\$28,537) and interest earnings (\$21,963). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$302,796) for projects not undertaken by fiscal year-end such as the municipal building chiller and tower replacement (\$235,000) and the Thompson Park administration building roof replacement (\$80,000), health insurance claim costs for pharmaceutical services (\$270,228), health insurance claim costs for medical services (\$32,675), street light utility costs (\$64,847) and planning department projects that did not occur as planned such as brownfield projects (\$56,000). The City did settle a lawsuit in October 2010 with Ryan Dorr in the amount of \$600,000 that was not originally in the budget. These combined results negated the use of \$1,521,000 in appropriated fund balance that was budgeted in the 2009-10 general fund original adopted budget.

Capital Assets and Debt Administration

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2010, amounts to \$78,115,262. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>
Land	\$2,601,285	\$2,952,170	\$ -	\$ -	\$2,601,285	\$2,952,170
Construction in Progress	1,434,897	1,087,948	803,149	238,253	2,238,046	1,326,201
Land Improvements	2,397,376	2,612,915	11,566	19,876	2,408,942	2,632,791
Building and Improvements	19,868,117	20,552,456	13,942,902	14,483,441	33,811,019	35,035,897
Infrastructure	42,313,874	43,478,015	16,045,412	15,677,742	58,359,286	59,155,757
Machinery and Equipment	3,298,642	3,256,429	3,136,716	3,379,189	6,435,358	6,635,618
Vehicles	<u>2,463,580</u>	<u>2,541,918</u>	<u>122,390</u>	<u>161,585</u>	<u>2,585,970</u>	<u>2,703,503</u>
Total Net Assets	<u>\$74,377,771</u>	<u>\$76,481,851</u>	<u>\$34,062,135</u>	<u>\$33,960,086</u>	<u>\$108,439,906</u>	<u>\$110,441,937</u>

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

- Installation of an intake crane and trolley system at the City's hydro-electric plant on the Black River at a cost of \$310,697 to enhance the City's hydro power generation capabilities from increased water flows from year-round debris removal.
- Replacement of a portion of the Western Outfall Trunk Sewer between Chestnut Street and Holcomb Street at a cost of \$289,712. The project replaced approximately 200 LF of 18" sewer trunk line with a 24" line to improve flow characteristics.
- Replacement of a portion of the Western Outfall Trunk Sewer between Butterfield Avenue and Barben Avenue at a cost of \$300,578. The project replaced approximately 1,150 LF of 18" and 21" sewer trunk line with a 24" line to improve flow characteristics.
- Completed relining of Mill Street storm sewer at a cost of \$230,483 after a storm caused a portion of the brick sewer to collapse.
- Vehicle and equipment purchases in the amount of \$1,478,329 for items such as a sewer vacuum (\$300,366), snowplow (\$196,756), fire traffic pre-emption system (\$158,280) and two refuse packer trucks (\$273,599).
- Construction of Washington Street sidewalks between Hudson Lane and Iroquois Avenue West at a cost of \$119,207 due to the construction of Summit Wood Apartments.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,980,200. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>6/30/09</u>
General obligation bonds	\$21,671,082	\$22,960,609	\$9,309,118	\$10,011,791	\$30,980,200	\$32,972,400
Other loans	<u>92,319</u>	<u>139,565</u>	<u>3,827</u>	<u>5,785</u>	<u>96,146</u>	<u>145,350</u>
	<u>\$21,763,401</u>	<u>\$23,100,174</u>	<u>\$9,312,945</u>	<u>\$10,017,576</u>	<u>\$31,076,346</u>	<u>\$33,117,750</u>

In May 2010 Moody's Investor Services recalibrated its long-term United States municipal ratings to its global rating scale. Accordingly the City of Watertown's rating changed from an A3 to an A1 rating.

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, 2010, the City's debt limit was \$63,547,811 with total net indebtedness of \$14,200,791, thus exhausting 22.35% of the City's debt limit.

The City issued \$2,225,000 in serial bonds dated June 15, 2010 maturing December 15, 2024 at interest rates ranging from 3.125% to 4.00% (priced to yield 3.39%) 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 2010-11 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2010 were 8.1% for the City of Watertown, 8.1% for Jefferson County, 8.1% for New York State and 9.5% for the United States. The unemployment rates in June 2009 were 8.1% for the City of Watertown, 8.1% for Jefferson County, 8.6% for New York State and 9.5% for the United States.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

As with the FY 2009-10 budget factors considered during the preparation of the FY 2010-11 budget included the national recession, the potential effects to our area from the American Recovery and Reinvestment Act, falling interest rates, rising unemployment and uncertainties regarding State Aid. In addition rising NYS Retirement System contribution rates and uncertain implications of the Health Care Reform Act are factors the City will have to deal with for the foreseeable future. With the continued uncertainties in Afghanistan and Iraq, as has been the case since 2001, it was difficult to predict how many of the 18,023 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism. With the decrease in the value of the American dollar and the proximity of the City to Canada sales tax revenue has seen a rebound and is projected to increase \$545,000 from the FY 2009-10 budgeted level.

Like most local governments, the City's 2010-11 budget was impacted by continued high costs for retirement benefits and health insurance costs. The contribution to the Employees' Retirement System will range from 9.0% to 15.3% of salaries, up from a range of 7.0% to 9.3% in the previous year. The contribution rate for the Police and Fire Retirement System will be 16.8% of salaries, up from a range of 13.9% to 14.3% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Accordingly retirement rates are likely to double over the next four to as much as 30% of payroll for Police and Fire employees and 20% of payroll for all other employees. Due to lower than anticipated claims in FY 2008-09 the self-insurance fund appropriated \$290,000 of fund balance to lower the premium rate by 5.0%.

The City saw an increase of \$8,660,922 or 0.87% in taxable assessed value. The residential tax burden has decreased slightly to 60.55% from 60.97% last year. The average assessment for a single-family home in Watertown increased slightly to \$104,574 from \$104,285 in FY 2009-10.

The City's FY 2010-11 General Fund operating costs increased slightly by \$97,634 or 0.27% to \$36,193,378. The City appropriated \$1,107,500 of fund balance, a decrease of \$413,500 over FY 2009-10. The sales tax revenue budget was increased to \$15,300,000 which represented an increase of \$545,000 or 3.7% over the sales tax budget for FY 2009-10. The State Aid revenue budget was lowered by 5.0% or \$254,510 from the FY 2009-10 budget to \$4,835,667 based on New York State's FY 2010-11 budget. The increase in the real property tax levy of \$143,351 or 1.95% and the increase in taxable assessed values resulted in a 1.14% increase to the property tax rate.

Appropriations for the Water Fund increased minimally by \$16,859 or 0.36%. The Water Fund held the water rates constant at the FY 2009-10 levels for the first three tiers but eliminated the fourth tier. The water fund appropriated \$156,227 of fund balance of which \$130,000 was from the coagulation reserve fund to pay for the coagulation basin dredging that was planned for FY 2010-11. The Sewer Fund appropriations increased \$131,877 or 3.14%. The Sewer Fund was also able to hold the FY 2010-11 sewer rates constant at the FY 2009-10 levels with the exception of eliminating the fourth tier and projects to generate a surplus of \$130,649.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2010

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, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted cash and cash equivalents	\$ 14,651,755	\$ 1,408,975	\$ 16,060,730	\$ 110,148
Restricted cash and cash equivalents	2,063,667	1,556,611	3,620,278	216,617
Receivables (net of allowance for uncollectibles):				
Accounts	1,966,408	1,663,225	3,629,633	-
Taxes	103,931	-	103,931	-
Interest	3,045	876	3,921	-
Other receivables	-	-	-	5,250
Due from other governments	1,894,182	388,194	2,282,376	-
State and federal aid receivables	2,401,471	40,946	2,442,417	-
Prepaid expenses	173,025	5,270	178,295	176
Internal balances	112,521	(112,521)	-	-
	<u>23,370,005</u>	<u>4,951,576</u>	<u>28,321,581</u>	<u>332,191</u>
Capital Assets:				
Non-depreciable	4,036,181	803,149	4,839,330	14,516
Depreciable, net	70,341,590	33,258,986	103,600,576	48,864
Total capital assets	<u>74,377,771</u>	<u>34,062,135</u>	<u>108,439,906</u>	<u>63,380</u>
Total Assets	<u>\$ 97,747,776</u>	<u>\$ 39,013,711</u>	<u>\$ 136,761,487</u>	<u>\$ 395,571</u>
LIABILITIES				
Accounts payable	\$ 1,609,009	\$ 380,171	\$ 1,989,180	\$ 5,805
Accrued interest payable	207,653	93,220	300,873	-
Accrued liabilities	2,643,827	79,384	2,723,211	-
Retainage payable	385	31,940	32,325	-
Compensated absences	605,666	105,063	710,729	-
Workers compensation liability	557,510	193,051	750,561	-
Accrued post employment benefits	3,446,853	470,413	3,917,266	-
Other liabilities	6,107	10,624	16,731	5,496
Due to other governments	187,885	671	188,556	-
Due to retirement system	555,894	65,636	621,530	-
Deferred revenue	1,250,143	-	1,250,143	-
Other long-term debt	637,955	3,826	641,781	-
Serial bonds	21,671,082	9,309,118	30,980,200	-
Less: deferred amount on advance refunding	(28,458)	(25,542)	(54,000)	-
Total Liabilities	<u>33,351,511</u>	<u>10,717,575</u>	<u>44,069,086</u>	<u>11,301</u>
NET ASSETS				
Investment in capital assets, net of related debt	52,642,828	25,472,434	78,115,262	-
Restricted for:				
Economic development and assistance	260,321	-	260,321	-
Community development	51,203	-	51,203	-
Capital projects	655,842	148,817	804,659	218,123
Debt Service	-	409,248	409,248	-
Unrestricted	10,786,071	2,265,637	13,051,708	166,147
Total Net Assets	<u>64,396,265</u>	<u>28,296,136</u>	<u>92,692,401</u>	<u>384,270</u>
Total Liabilities and Net Assets	<u>\$ 97,747,776</u>	<u>\$ 39,013,711</u>	<u>\$ 136,761,487</u>	<u>\$ 395,571</u>

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

**CITY OF WATERTOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	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	
FUNCTIONS/PROGRAMS						
Governmental Activities:						
General government support:						
General government support	\$ 12,900,136	\$ 105,690	\$ 17,762	\$ (10,124,099)	\$ -	\$ -
Hydroelectric production	540,933	-	-	2,165,638	-	2,165,638
Public safety:						
Fire	7,069,685	-	-	(7,069,685)	-	-
Police	6,202,072	133,921	-	(5,972,228)	-	(7,069,685)
Other public safety	347,838	-	-	(273,601)	-	(273,601)
Public Works	6,285,656	7,516	525,035	(5,636,195)	-	(5,636,195)
Transportation:						
Bus	980,947	445,203	4,455	(367,544)	-	(367,544)
Economic opportunity and development:						
Other economic assistance	97,029	795	-	(96,234)	-	(96,234)
Empire Zone	20,830	-	-	(20,830)	-	(20,830)
Culture and recreation:						
Library	923,695	51,540	-	(855,483)	-	(855,483)
Other culture and recreation	1,511,917	-	35,253	(1,247,430)	-	(1,247,430)
Home and community services:						
Refuse and recycle	903,248	-	1,000	(203,315)	-	(203,315)
Other home and community services	2,485,608	2,374,955	328,515	238,662	-	238,662
Interest on debt	1,055,998	-	-	(1,055,998)	-	(1,055,998)
Total Governmental Activities	41,325,592	3,119,620	912,020	(30,518,342)	-	(30,518,342)
Business-Type Activities:						
Water	4,507,696	70,342	136	-	6,658	6,658
Sewer	4,290,469	-	258,080	-	477,422	477,422
Total Business-Type Activities	8,798,165	70,342	258,216	-	484,080	484,080
Total Primary Government	\$ 50,123,758	\$ 3,189,961	\$ 1,170,236	(30,518,342)	484,080	(30,034,262)
Component Unit:						
The Trustees of the R.P. Flower Memorial Library	\$ 66,272	\$ 57,239	\$ -	-	-	(9,033)
Total Component Unit	\$ 66,272	\$ 57,239	\$ -	-	-	(9,033)
Net (Expense) Revenue and Changes in Net Assets brought forward				(30,518,342)	484,080	(30,034,262)
GENERAL REVENUES						
Property taxes				7,549,829	-	7,549,829
Sales taxes				15,223,095	-	15,223,095
Utilities gross receipts tax				346,709	-	346,709
Franchise tax				415,047	-	415,047
Hotel occupancy tax				200,250	-	200,250
Mortgage tax				398,710	-	398,710
Grants and entitlements not restricted to specific programs				4,988,373	-	4,988,373
Investment earnings				148,490	14,556	163,046
Total General Revenues				29,270,503	14,556	29,285,059
Transfers				(57,715)	57,715	-
Change in Net Assets				(1,305,554)	556,351	(749,203)
Total Net Assets - Beginning of year				\$ 65,992,322	\$ 27,739,785	\$ 93,732,107
Prior period adjustment				(290,503)	-	(290,503)
Total Net Assets - End of year				\$ 64,396,265	\$ 28,296,136	\$ 92,692,400

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

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted cash and cash equivalents	\$ 13,871,382	\$ -	\$ 780,373	\$ 14,651,755
Restricted cash and cash equivalents	712,609	1,295,583	55,475	2,063,667
Receivables (net of allowance for uncollectibles):				
Accounts	886,312	76,313	1,003,783	1,966,408
Taxes	101,018	2,913	-	103,931
Interest	2,631	327	87	3,045
Due from other governments	1,885,416	-	8,766	1,894,182
State and federal aid receivables	197,311	622,290	1,581,870	2,401,471
Prepaid expenses	171,968	-	1,057	173,025
Due from other funds	587,938	-	-	587,938
	<u>18,416,585</u>	<u>1,997,426</u>	<u>3,431,411</u>	<u>23,845,422</u>
Total Assets	<u>\$ 18,416,585</u>	<u>\$ 1,997,426</u>	<u>\$ 3,431,411</u>	<u>\$ 23,845,422</u>
LIABILITIES				
Accounts payable	\$ 1,317,913	\$ 252,992	\$ 38,104	1,609,009
Accrued liabilities	1,203,348	4,181	1,436,298	2,643,827
Retainage payable	-	385	-	385
Compensated absences	592,009	-	13,657	605,666
Other liabilities	6,107	-	-	6,107
Due to other funds	5,689	463,559	6,169	475,417
Due to other governments	45,357	-	142,528	187,885
Due to retirement system	542,594	-	13,300	555,894
Deferred revenue	145,502	70,497	1,034,144	1,250,143
	<u>3,858,519</u>	<u>791,614</u>	<u>2,684,200</u>	<u>7,334,333</u>
Total Liabilities	<u>3,858,519</u>	<u>791,614</u>	<u>2,684,200</u>	<u>7,334,333</u>
FUND BALANCES:				
Reserve for encumbrances	132,944	711,013	281	844,238
Reserve for capital projects	655,842	-	-	655,842
Reserve for economic development	-	-	260,321	260,321
Reserve for community development projects	-	-	51,203	51,203
Reserve for debt service	-	-	132,951	132,951
Reserve for worker's compensation	314,352	-	-	314,352
Reserve for insurance-general	127,300	-	-	127,300
Unreserved - designated for subsequent year's expenditures	800,000	-	281,053	1,081,053
Unreserved - undesignated	12,527,628	494,799	21,402	13,043,829
	<u>14,558,066</u>	<u>1,205,812</u>	<u>747,211</u>	<u>16,511,089</u>
Total Fund Balances	<u>14,558,066</u>	<u>1,205,812</u>	<u>747,211</u>	<u>16,511,089</u>
Total Liabilities and Fund Balances	<u>\$ 18,416,585</u>	<u>\$ 1,997,426</u>	<u>\$ 3,431,411</u>	<u>\$ 23,845,422</u>

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, 2010

Total governmental fund balances \$ 16,511,089

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

The cost of capital assets is	\$ 128,585,453	
Accumulated depreciation is	<u>54,207,682</u>	74,377,771

Deferred assets for refunded bonds 28,458

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

Bonds payable	\$ (21,671,082)	
Loan payable	(92,319)	
Accrued interest on bonds payable	(207,653)	
Compensated absences	(293,636)	
Workers compensation liability	(557,510)	
Landfill post-closure liability	(252,000)	
Accrued post-employment benefits	<u>(3,446,853)</u>	<u>(26,521,053)</u>

Net assets of governmental activities \$ 64,396,265

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, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 7,316,832	\$ -	\$ -	\$ 7,316,832
Real property tax items	243,461	-	-	243,461
Nonproperty taxes	16,185,100	-	-	16,185,100
Departmental income	4,050,469	-	-	4,050,469
Intergovernmental charges	149,317	-	-	149,317
Use of money and property	153,597	18,679	9,330	181,606
Licenses and permits	84,181	-	-	84,181
Fines and forfeitures	106,463	-	16,672	123,135
Sale of property and compensation for loss	528,187	-	-	528,187
Miscellaneous local sources	751,113	74,370	69,415	894,898
Interfund revenue	1,065,423	-	-	1,065,423
State sources	5,786,618	762,178	1,824,535	8,373,331
Federal sources	498,086	59,008	526,632	1,083,726
	<u>36,918,847</u>	<u>914,235</u>	<u>2,446,584</u>	<u>40,279,666</u>
Total Revenues				
EXPENDITURES				
General government support	5,214,956	7,548	-	5,222,504
Public safety	12,706,872	13,458	-	12,720,330
Transportation	3,847,422	1,388,820	-	5,236,242
Economic assistance and opportunity	97,029	-	20,830	117,859
Culture and recreation	1,066,431	82,108	670,094	1,818,633
Home and community services	1,167,025	1,058,872	2,397,180	4,623,077
Employee benefits	7,286,561	-	292,069	7,578,630
Debt service	3,794,158	-	140,931	3,935,089
	<u>35,180,454</u>	<u>2,550,806</u>	<u>3,521,104</u>	<u>41,252,364</u>
Total Expenditures				
Excess of (Expenditures) Revenue	1,738,393	(1,636,571)	(1,074,520)	(972,698)
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	490,283	447,608	1,225,183	2,163,074
Interfund transfers out	(1,365,614)	(838,808)	(16,367)	(2,220,789)
Serial Bonds	-	1,522,000	-	1,522,000
	<u>(875,331)</u>	<u>1,130,800</u>	<u>1,208,816</u>	<u>1,464,285</u>
Total Other Financing Sources (Uses)				
Net change in fund balances	863,062	(505,771)	134,296	491,587
Fund Balances - Beginning of year	13,637,070	1,769,517	612,915	16,019,502
Fund equity transfer	57,934	(57,934)	-	-
Fund Balances - End of year	<u>\$ 14,558,066</u>	<u>\$ 1,205,812</u>	<u>\$ 747,211</u>	<u>\$ 16,511,089</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, 2010

Net change in fund balances - total governmental funds \$ 491,587

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 depreciation expense exceeded capital outlays in the period.

Capital outlays	\$	2,457,046	
Depreciation expense		4,209,223	(1,752,177)

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities. 2,858,773

Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Assets. (1,522,000)

Loss on disposal of assets (61,400)

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

Amortization of advanced refunding issuance costs (9,486)

Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities. 29,806

In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used. (1,326,284)

Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Assets. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities. (14,373)

Change in Net Assets of governmental activities \$ (1,305,554)

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 719,526	\$ 689,449	\$ 1,408,975
Accounts receivable, net of allowance for uncollectible accounts	917,225	746,000	1,663,225
Interest receivable	372	504	876
Due from governmental funds	9,019	20,958	29,977
Due from other governments	2,260	385,934	388,194
State and federal aid receivables	40,688	258	40,946
Prepaid expenses	2,861	2,409	5,270
Total current assets	<u>1,691,951</u>	<u>1,845,512</u>	<u>3,537,463</u>
Non-Current Assets			
Restricted cash and cash equivalents	540,366	1,016,245	1,556,611
Capital assets, net of accumulated depreciation	18,251,692	15,810,443	34,062,135
Total non-current assets	<u>18,792,058</u>	<u>16,826,688</u>	<u>35,618,746</u>
Total assets	<u>\$ 20,484,009</u>	<u>\$ 18,672,200</u>	<u>\$ 39,156,209</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 221,125	\$ 159,046	\$ 380,171
Accrued interest payable	48,505	44,715	93,220
Retainage payable	8,461	23,479	31,940
Accrued liabilities	42,762	36,622	79,384
Compensated absences	56,248	48,815	105,063
Due to retirement system	36,446	29,190	65,636
Due to governmental funds	57,206	85,292	142,498
Due to other governments	671	-	671
Other liabilities	10,624	-	10,624
Current portion of long-term liabilities	811,782	521,189	1,332,971
Total current liabilities	<u>1,293,830</u>	<u>948,348</u>	<u>2,242,178</u>
Long-Term Liabilities:			
Workers compensation liability	115,387	77,664	193,051
Other post employment benefits liability	249,296	221,117	470,413
Serial bonds payable	3,848,740	4,129,365	7,978,105
Less: deferred amount on refunding	(23,345)	(2,197)	(25,542)
NYPA loan payable	-	1,868	1,868
Total long-term liabilities	<u>4,190,078</u>	<u>4,427,817</u>	<u>8,617,895</u>
Total liabilities	<u>5,483,908</u>	<u>5,376,165</u>	<u>10,860,073</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,660,789	11,811,645	25,472,434
Restricted for maintenance	148,817	-	148,817
Restricted for debt	172,854	236,394	409,248
Unrestricted	1,017,641	1,247,996	2,265,637
Total net assets	<u>15,000,101</u>	<u>13,296,035</u>	<u>28,296,136</u>
Total liabilities and net assets	<u>\$ 20,484,009</u>	<u>\$ 18,672,200</u>	<u>\$ 39,156,209</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, 2010

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 3,889,873	\$ 3,369,248	\$ 7,259,121
Intergovernmental charges	544,160	1,118,282	1,662,442
Other operating revenue	80,185	22,281	102,466
	<hr/>	<hr/>	<hr/>
Total operating revenues	4,514,218	4,509,811	9,024,029
	<hr/>	<hr/>	<hr/>
OPERATING EXPENSES			
Salaries, wages and employee benefits	2,263,845	1,674,499	3,938,344
Contractual services	1,373,361	1,668,445	3,041,806
Depreciation	657,268	768,015	1,425,283
	<hr/>	<hr/>	<hr/>
Total operating expenses	4,294,474	4,110,959	8,405,433
	<hr/>	<hr/>	<hr/>
Income from operations	219,744	398,852	618,596
	<hr/>	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	\$ 6,580	\$ 7,976	\$ 14,556
Interest expense	(213,222)	(179,510)	(392,732)
Total non-operating revenue (expenses)	(206,642)	(171,534)	(378,176)
	<hr/>	<hr/>	<hr/>
Income (loss) before contributions and transfers	13,102	227,318	240,420
Capital contributions	136	258,080	258,216
Transfers in	-	72,715	72,715
Transfers out	(7,500)	(7,500)	(15,000)
	<hr/>	<hr/>	<hr/>
Change in net assets	5,738	550,613	556,351
	<hr/>	<hr/>	<hr/>
Net assets - beginning of year	14,994,363	12,745,422	27,739,785
	<hr/>	<hr/>	<hr/>
Net assets - end of year	<u>\$ 15,000,101</u>	<u>\$ 13,296,035</u>	<u>\$ 28,296,136</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, 2010

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,431,852	\$ 4,386,428	\$ 8,818,280
Cash payments for contractual expense	(1,377,661)	(1,688,832)	(3,066,493)
Cash payments for personnel services and benefits	(1,962,212)	(1,539,109)	(3,501,321)
Other operating revenue	110,127	22,281	132,408
Net cash provided by operating activities	<u>1,202,106</u>	<u>1,180,768</u>	<u>2,382,874</u>
Cash flows from non-capital and financing activities			
Transfers to/from other funds	(7,500)	65,215	57,715
Cash flows from capital and related financing activities			
Proceeds of capital debt	217,000	486,000	703,000
Principal paid on capital debt	(902,992)	(504,639)	(1,407,631)
Interest paid on capital debt	(216,744)	(185,033)	(401,777)
Capital grants	136	258,080	258,216
Net cash provided (used) by capital and related financing activities	<u>(902,600)</u>	<u>54,408</u>	<u>(848,192)</u>
Cash flows from investing activities			
Purchase of capital assets	(117,108)	(1,222,761)	(1,339,869)
Interest income	6,556	8,015	14,571
Net cash provided by investing activities	<u>(110,552)</u>	<u>(1,214,746)</u>	<u>(1,325,298)</u>
Net increase (decrease) in cash and cash equivalents	181,454	85,645	267,099
Cash and cash equivalents, beginning of year	<u>1,078,438</u>	<u>1,620,049</u>	<u>2,698,487</u>
Cash and cash equivalents, end of year	<u>\$ 1,259,892</u>	<u>\$ 1,705,694</u>	<u>\$ 2,965,586</u>
Reconciliation of income from operations to net			
Income from operations	\$ 219,744	\$ 398,852	\$ 618,596
Depreciation	657,268	768,015	1,425,283
Change in assets:			
Accounts receivable	(11,221)	(4,740)	(15,961)
Due from other governments	2,152	(101,551)	(99,399)
Due from other funds	1,561	5,214	6,775
Due from Federal and State governments	31,458	-	31,458
Prepaid expenses	(2,304)	(1,843)	(4,147)
Change in liabilities:			
Accounts payable	(2,021)	(34,855)	(36,876)
Accrued liabilities	3,035	5,199	8,234
Compensated absences	(3,533)	982	(2,551)
Due to retirement system	8,518	6,789	15,307
Due to other governments	(173)	-	(173)
Other liabilities	109,373	(9,245)	100,128
OPEB liability	184,240	131,665	315,905
Customer deposits and overpayments	3,811	-	3,811
Due to other funds	198	16,286	16,484
Net cash provided by operating activities	<u>\$ 1,202,106</u>	<u>\$ 1,180,768</u>	<u>\$ 2,382,874</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 719,526	\$ 689,449	\$ 1,408,975
Non-current assets - restricted cash and cash equivalents	540,366	1,016,245	1,556,611
Total Cash and cash equivalents	<u>\$ 1,259,892</u>	<u>\$ 1,705,694</u>	<u>\$ 2,965,586</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, 2010

	Private Purpose Trusts	Agency Funds	Total
ASSETS			
Cash and cash equivalents	\$ 45,552	\$ 131,393	\$ 176,945
	<u>\$ 45,552</u>	<u>\$ 131,393</u>	<u>\$ 176,945</u>
LIABILITIES			
Deposits held and due to others	\$ -	\$ 102,476	\$ 102,476
Cafeteria plan	-	21,620	21,620
Other accrued liabilities	-	7,297	7,297
	<u>-</u>	<u>131,393</u>	<u>131,393</u>
Total Liabilities	-	131,393	131,393
NET ASSETS			
Held in trust for other purposes	15,942	-	15,942
Held in trust for scholarships	29,610	-	29,610
	<u>45,552</u>	<u>-</u>	<u>45,552</u>
Total Net Assets	45,552	-	45,552
Total Liabilities and Net Assets	<u>\$ 45,552</u>	<u>\$ 131,393</u>	<u>\$ 176,945</u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

	Private Purpose <u>Trusts</u>
ADDITIONS	
Interest revenue	<u>\$ 434</u>
Total Additions	<u>434</u>
DEDUCTIONS	
Scholarships awarded	<u>150</u>
Total Deductions	<u>150</u>
Change in Net Assets	284
Net Assets- Beginning of Year	<u>45,268</u>
Net Assets-End of Year	<u><u>\$ 45,552</u></u>

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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:

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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, 2010

D. Property Taxes

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$2,004 and is included in “Due to other Governments”. A portion of the receivable \$89,095 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$655,174 has been included in the General Fund accounts receivable balance at June 30, 2010.

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, 2010

The general fund budget was amended from \$38,053,602 to \$38,450,563 to reflect receipt and disbursement of the following:

Prior year encumbrances	\$ 146,811
Re-adoption of General Fund Budget	278,150
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	(28,000)
	\$ 396,961

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, 2010

J. Compensatory Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10-30 days

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

K. Insurance and Risk Management

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

- a. General Liability – The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
- b. Workers' Compensation – On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$750,561 as of June 30, 2010 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, 2010 were \$13,326.
- 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 \$537,893 has been recorded in the self-insurance fund for claims incurred as of June 30, 2010 but not reported based upon historical experience.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

L. Fund Balance

Reserves and Designations

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

II. Detailed Notes on All Funds

A. Assets

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

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. At year-end and during fiscal year 2010, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

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

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

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

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 per the banks were \$20,192,060. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 1,059,836	\$ 19,132,224	\$ - 0 -

As of June 30, 2010 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>
Certificates of Deposit-Trust & Agency Funds	\$ 25,939
State and Local Government Series Securities	<u>132,744</u>
Total	<u>\$ 158,683</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2010 follows:

Governmental Activities:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Non-depreciable capital assets:				
Land	\$ 2,952,170	\$ -	\$ (350,885)	\$ 2,601,285
Construction in Progress	1,087,948	2,366,477	(2,019,528)	1,434,897
Total	<u>\$ 4,040,118</u>	<u>\$ 2,366,477</u>	<u>\$ (2,370,413)</u>	<u>\$ 4,036,182</u>
Depreciable capital assets:				
Land improvements	7,838,162	68,297	-	7,906,459
Buildings and improvements	30,446,799	8,133	-	30,454,932
Infrastructure	64,097,887	835,575	-	64,933,462
Machinery and equipment	10,781,734	568,472	(21,281)	11,328,925
Vehicles	9,925,391	629,619	(629,517)	9,925,493
Total	<u>123,089,973</u>	<u>2,110,096</u>	<u>(650,798)</u>	<u>124,549,271</u>
Less accumulated depreciation for:				
Land improvements	5,225,247	283,836	-	5,509,083
Buildings and improvements	9,894,343	692,472	-	10,586,815
Infrastructure	20,619,872	1,999,716	-	22,619,588
Machinery and equipment	7,525,304	525,243	(20,264)	8,030,283
Vehicles	7,383,474	707,956	(629,517)	7,461,913
Total	<u>50,648,240</u>	<u>4,209,223</u>	<u>(649,781)</u>	<u>54,207,682</u>
Depreciable capital assets, net:	<u>\$72,441,733</u>	<u>\$ (2,099,127)</u>	<u>(\$ 1,017)</u>	<u>\$70,341,589</u>
Grand total	<u>\$76,481,851</u>	<u>\$ 267,350</u>	<u>(\$2,371,430)</u>	<u>\$74,377,771</u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 138,552
Hydroelectric production	242,600
Police	120,159
Fire	428,802
Other public safety	2,358
Public Works	2,416,115
Bus	253,594
Library	127,707
Other culture and recreation	425,297
Refuse and recycling	54,039
Other home and community services	-
Total	<u>\$ 4,209,223</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Business-Type Activities:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	<u>238,253</u>	<u>1,428,375</u>	<u>(863,479)</u>	<u>803,149</u>
Total	<u>\$ 238,253</u>	<u>\$ 1,428,375</u>	<u>\$ (863,479)</u>	<u>\$ 803,149</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,353,259	-	-	27,353,259
Infrastructure	20,546,750	676,782	-	21,223,532
Machinery and equipment	15,567,385	285,654	(168,200)	15,684,839
Vehicles	<u>827,397</u>	<u>-</u>	<u>(46,672)</u>	<u>780,725</u>
Total	<u>64,545,359</u>	<u>962,436</u>	<u>\$ (214,872)</u>	<u>65,292,923</u>
Less accumulated depreciation for:				
Land improvements	230,692	8,310	\$ -	239,002
Buildings and improvements	12,869,819	540,538	-	13,410,357
Infrastructure	4,869,007	309,113	-	5,178,120
Machinery and equipment	12,188,196	528,127	(168,200)	12,548,123
Vehicles	<u>665,812</u>	<u>39,195</u>	<u>(46,672)</u>	<u>658,335</u>
Total	<u>30,823,526</u>	<u>1,425,283</u>	<u>\$ (214,872)</u>	<u>32,033,936</u>
Depreciable capital assets, net:	<u>\$33,721,833</u>	<u>\$ (462,847)</u>	<u>\$ -</u>	<u>\$33,258,986</u>
Grand total	<u>\$33,960,086</u>	<u>\$ 965,528</u>	<u>(\$ 863,479)</u>	<u>\$34,062,135</u>

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

Water	\$ 657,268
Sewer	<u>768,015</u>
Total	<u>\$1,425,283</u>

2. Restricted Cash, Cash Equivalents and Investments

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

<u>Fund</u>	<u>Restricted Balance</u>	<u>Restriction</u>
General – Cash	\$ 66,747	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 588,876	Reserve for capital projects
General – Cash	\$ 56,986	Reserve for special assessment sidewalk program debt
Special Revenue – Cash	\$ 55,475	Federal and State community development grants
Capital – Cash	\$ 1,295,583	Reserve for capital project acquisitions and construction
Water – Cash	\$ 148,817	Reserve for coagulation basin maintenance

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Water – Cash	\$ 218,734	Reserve for capital project acquisitions and construction
Water - Cash	\$ 172,815	Excess debt proceeds reserved for debt service
Sewer – Cash	\$ 779,851	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 236,394	Excess debt proceeds reserved for debt service

4. Notes Receivable

To assist in the rehabilitation of homes of low and moderate-income persons in the City, the City was awarded various grants for its “Housing Improvement Program”. The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Under the grant terms, eligible homeowners receive a grant and/or loan not to exceed \$20,000 using Community Redevelopment Block Grant funds. Grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Loans are repaid in monthly installments over a 5-year period and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the total loans outstanding at June 30, 2010 was \$7,676. The balance of the grants subject to repayment at June 30, 2010 was \$596,680.

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, eighteen eligible homebuyers received a loan not exceeding \$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. The final loan in the amount of \$20,000 was awarded during the current year. The balance of these loans outstanding at June 30, 2010 was \$327,085.

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, 2010 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The City was awarded \$650,000 through a Fiscal Year 2007 Small Cities Community Development Block Grant to support the redevelopment of the Franklin Building, located at 50 Public Square in downtown Watertown. The project will include commercial tenants on the ground floor and rental apartments that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2010 were \$392,448.

The City was also awarded an additional \$1,550,000 for the Franklin Building renovation and related soft costs through the 2006-07 New York State Empire State Development's RESTORE NY Communities grant program. Grant expenditures for the fiscal year ending June 30, 2010 were \$1,289,395.

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a new City-wide rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments throughout the City. Under the grant terms, eligible property owners would receive CDBG financing of eligible improvements up to a maximum of \$20,000. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid over 5 years in monthly installments at a rate of \$18 per \$1,000. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Grant expenditures for the fiscal year ending June 30, 2010 were \$9,067.

The City was awarded a North Country HOME Consortium Fiscal Year 2008 grant in the amount of \$230,000 to assist approximately eleven income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Deferred payment loans will be available to help pay the cost of eligible improvements up to a maximum of \$20,000 for each housing unit. The grants are subject to repayment if the owner moves or sells the property within 5 years, prorated at 20% per year. Grants of \$63,131 were awarded during the current year.

The City was awarded \$1,006,147 from the 2007-08 New York State Empire State Development's RESTORE NY Communities grant program to support the redevelopment of the renovation of an abandoned industrial building to be known as Riverview Plaza into commercial and residential use that will be affordable to lower income households on the upper floors. Grant expenditures for the fiscal year ending June 30, 2010 were \$ 404,268.

The City was awarded \$400,000 through a Fiscal Year 2009 Small Cities Community Development Block Grant to support a new rental rehabilitation program to expand and preserve the supply of affordable housing in Watertown by promoting rehabilitation of existing substandard apartments or the creation of new apartments on the upper floors of commercial buildings in downtown Watertown. Under the grant terms, eligible property owners would receive CDBG funds in the form of direct grants to cover up to 75% of the cost of eligible improvements up to a maximum of \$15,000 per unit and the property

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

owners will contribute cash to cover the balance of the cost. These funds will be available throughout the City but preference will be given to projects located in the downtown area. Fifty percent of the financing will be provided as a grant which will not be repaid as long as the property owner complies with all of the requirements of the program. The balance of the financing will be repaid in monthly installments over a term of up to 20 years at zero percent interest for downtown apartments and loans up to ten years at zero percent for City-wide rental rehabilitations. Loans are subject to repayment if the owner moves or sells the property before the end of the mortgage. Grant expenditures for the fiscal year ending June 30, 2010 were \$15,939.

The City was awarded a North Country HOME Consortium Fiscal Year 2009 and 2010 grant in the amount of \$244,887 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 \$38,996 were awarded during the current year.

B. Liabilities

1. Short-Term Debt

The City did not issue or retire any short-term debt during the fiscal year and had none outstanding at June 30, 2010.

2. Long-Term Debt

During the year ended June 30, 2010, the following changes occurred in long-term obligations:

Governmental Activities:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>One Year</u>
General Obligation Bonds	\$22,960,609	1,522,000	(\$2,811,527)	\$21,671,082	\$2,534,187
Compensated Absences	291,752	1,885	-	293,637	30,000
Landfill Monitoring	270,000	-	(18,000)	252,000	18,000
NYPA Loan Payable	<u>139,565</u>	<u>-</u>	<u>(47,246)</u>	<u>92,319</u>	<u>48,005</u>
Total	<u>\$23,661,926</u>	<u>\$1,523,885</u>	<u>(\$2,876,773)</u>	<u>\$22,309,038</u>	<u>\$2,630,192</u>

The Statement of Net Assets at June 30, 2010 includes a deferred amount of \$28,458 on the advance refunding of bonds in fiscal year ended June 30, 2003.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Business-type Activities

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation Bonds:					
Water	\$ 5,346,514	\$ 217,000	(\$902,992)	\$ 4,660,522	\$ 811,782
Sewer	4,665,277	486,000	(502,681)	4,648,596	519,231
NYPA Loan Payable	<u>5,785</u>	<u>-</u>	<u>(1,958)</u>	<u>3,827</u>	<u>1,990</u>
Total	<u>\$ 10,017,576</u>	<u>\$ 703,000</u>	<u>(\$1,407,631)</u>	<u>\$ 9,312,945</u>	<u>\$ 1,333,003</u>

The Statement of Net Assets at June 30, 2010 includes a deferred amount of \$25,542 on the advance refunding of bonds in fiscal year ended June 30, 2003.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original</u> <u>Amount</u>	<u>Paid</u> <u>6/30/10</u>	<u>Outstanding</u> <u>6/30/10</u>	<u>Maturity</u> <u>Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 475,000	12/2017
Public Improvements	6.90-7.00%	5,471,000	75,000	-	5/2010
Public Improvements	6.30-6.375%	10,518,000	395,200	795,200	10/2011
Public Improvements	5.50-5.70%	3,599,000	175,000	325,000	10/2011
Public Improvements	5.25-5.60%	3,060,000	42,000	50,000	10/2011
Public Improvements	5.30-5.70%	2,808,000	100,000	100,000	7/2011
Public Improvements	4.60-5.25%	4,220,000	15,000	15,000	3/2013
Public Improvements	5.00-7.10%	11,010,000	275,000	7,060,000	11/2025
Public Improvements	3.50-4.85%	3,908,466	330,000	30,000	3/2013
Public Improvements	5.125-5.50%	6,105,000	275,000	1,075,000	6/2020
Public Improvements	7.40-7.50%	160,000	10,000	110,000	5/2021
Public Improvements	4.00-5.00%	2,310,000	150,000	760,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	180,000	335,000	3/2012
Public Improvements	2.75-4.25%	8,145,000	625,000	4,625,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	4,100,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	150,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000	775,000	5,825,000	02/2023
Public Improvements	2.50-3.25%	\$3,220,000	295,000	2,925,000	09/2018
Public Improvements	3.125-4.00%	\$2,225,000	<u>-</u>	<u>2,225,000</u>	12/2024
Total Serial Bonds			<u>\$4,217,200</u>	<u>\$30,980,200</u>	

On June 15, 2010 the City of Watertown issued \$2,225,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 3.125% to 4.00%. The net interest cost over the life of the bond is 3.39%.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Governmental Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,534,187	\$997,986	\$ 3,532,173
2012	2,376,957	894,002	3,270,959
2013	1,968,202	797,698	2,765,900
2014	1,822,702	711,638	2,534,340
2015	1,757,202	632,368	2,389,570
2016-2020	6,764,832	2,109,550	8,874,382
2021-2025	3,782,000	775,033	4,557,033
2026-2030	<u>665,000</u>	<u>21,658</u>	<u>686,658</u>
	<u>\$21,671,082</u>	<u>\$ 6,939,933</u>	<u>\$28,611,015</u>

Business-type Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,331,013	\$ 355,131	\$ 1,686,144
2012	1,253,043	296,543	1,549,586
2013	791,798	252,382	1,044,180
2014	782,298	222,269	1,004,567
2015	767,798	192,598	960,396
2016-2020	3,460,168	528,708	3,988,876
2021-2025	923,000	62,881	985,881
2026-2030	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,309,118</u>	<u>\$1,910,512</u>	<u>\$11,219,630</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, 2010 was \$ 131,006.

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

NYPA Loan Payable

On June 1, 2002 New York Power Authority issued a loan in the amount of \$459,702 to the City of Watertown for 120 monthly payments maturing May 1, 2012 at a variable interest rate. The interest rates in effect for this fiscal year ranged from 1.92% at the start of the fiscal year to 0.73% at the end of the fiscal year. The outstanding balance at June 30, 2010 is \$96,145. The estimated maturities over the next five years and thereafter are as follows:

2011	\$ 49,995
2012	<u>46,150</u>
	<u>\$96,145</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, 2010, \$29,800 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>145,502</u>
---	-------------------

Capital Projects Fund

Deferred State Aid and other miscellaneous sources	\$ <u>70,497</u>
--	------------------

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Special Revenue Fund	
Notes receivable funded from grant proceeds	<u>\$ 1,009,182</u>
Special Revenue Fund	
Deferred grant proceeds	<u>\$ 24,962</u>

5. Retirement Benefits

Plan Description

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

Funding Policy

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

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, 2010 and two preceding years were:

	FYE 6/30/10	FYE 6/30/09	FYE 6/30/08
Employer Contributions			
ERS	\$ 618,718	\$ 635,943	\$ 737,283
PFRS	\$ 1,127,720	\$ 1,365,509	\$ 1,094,456
Employee Contributions			
ERS	\$ 84,691	\$ 80,686	\$ 71,249
PFRS	\$ -	\$ -	\$ -

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

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

The City has reported \$43,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

6. Post Employment Benefits

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

Plan Description

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and the retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2010 the City contributed approximately \$6,922,797 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$575,840.

Annual OPEB Cost and Net Obligation

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

	Governmental Activities	Business- type Activities - Water Fund	Business- type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 4,821,678	\$ 330,757	\$ 281,442	\$ 5,433,877
Interest on net OPEB obligation	\$ 106,122	\$ 3,253	\$ 4,473	\$ 113,848
Adjustment to ARC	<u>\$ (94,010)</u>	<u>\$ (2,882)</u>	<u>\$ (3,962)</u>	<u>\$ (100,854)</u>
Annual OPEB cost	\$ 4,833,790	\$ 331,128	\$ 281,953	\$ 5,446,871
Contributions Made	<u>\$ (3,509,390)</u>	<u>\$ (146,888)</u>	<u>\$ (150,288)</u>	<u>\$ (3,806,566)</u>
Change in net OPEB obligation	\$ 1,324,400	\$ 184,240	\$ 131,665	\$ 1,640,305
Net OPEB obligation - beginning of year	<u>\$ 2,122,453</u>	<u>\$ 65,056</u>	<u>\$ 89,452</u>	<u>\$ 2,276,961</u>
Net OPEB obligation - end of year	<u>\$ 3,446,853</u>	<u>\$ 249,296</u>	<u>\$ 221,117</u>	<u>\$ 3,917,266</u>

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Annual Change in Net OPEB Obligation
Governmental Activities	\$ 4,833,790	72.60%	\$ 1,324,400
Business-type Activities - Water Fund	\$ 331,128	44.36%	\$ 184,240
Business-type Activities - Sewer Fund	\$ 281,953	53.30%	\$ 131,665

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Funded Status and Funding Progress

As of September 1, 2009, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$106,324,770 and there were no plan assets. The covered payroll (annual payroll budget of active employees eligible to be covered by the plan) was \$17,021,035 and the ratio of unfunded actuarial accrued liability to covered payroll was 624.67%.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a) / (c)
Sept. 1, 2008	\$ -	\$106,599,921	\$106,599,921	0.00%	\$15,321,802	695.74%
Sept. 1, 2009	\$ -	\$106,324,770	\$106,324,770	0.00%	\$17,021,035	624.67%

Actuarial Methods and Assumptions

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

In the September 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on an open basis. The actuarial assumptions include 5.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was 9.5% for the current fiscal year and decreasing to 9.0% for the following year and continuing to decrease 0.5% per fiscal year until the fiscal year ending June 30, 2019 and beyond where it was kept at 5.0%.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 was \$132,951.

Proprietary 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 in the water fund at June 30, 2010 was \$172,854. The total amount reserved for principal and interest in the sewer fund at June 30, 2010 was \$236,394.

2. Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2010.

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

3. Excess of Expenditures over Appropriations

The General Fund's general government support expenditure for the fiscal year ended June 30, 2010 as presented in Supplemental Schedule #1 exceeded appropriations by \$270,636 due to the accrual of the \$600,000 settlement agreed to by City Council on October 4, 2010 for the Ryan Dorr case.

4. Prior Period Adjustment

A prior period adjustment was made at the government-wide level which decreased the governmental activities net assets by \$290,502. The adjustment was necessary to remove certain parcels of land from the capital assets that were sold by the City in previous fiscal years.

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, 2010 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$587,937	\$ 5,689
Water Fund	43,891	57,206
Sewer Fund	179,129	85,292
Library Fund	-	6,169
Capital Project Funds	-	<u>656,601</u>
	<u>\$ 810,957</u>	<u>\$ 810,957</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	\$ -	\$5,945,653
Expenditures	<u>5,945,653</u>	-
Total	<u>\$5,945,653</u>	<u>\$5,945,653</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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>
2011	\$ <u>1,900</u>
	<u>\$ 1,900</u>

Fairgrounds Property Lease

The City was the lessor of a portion of the Fairgrounds property to Ultimate Goal of Watertown, LLC which subsequently assigned the lease to Watertown Savings Bank. The lease dated July 28, 1998 was for a term of twenty-five years. The lease was amended on June 16, 2003. Watertown Savings Bank began leasing the building in 2006 to the Watertown Family YMCA. After being granted New York State Legislative approval the City is now the lessor of the portion of the Fairgrounds property to the Watertown Family YMCA which has purchased the building from Watertown Savings Bank. The lease dated July 9, 2009 is for a term of twenty-five years with an option to renew by Watertown Family YMCA for an additional fifteen years if such renewal is approved by the New York State Legislature. Total rental expenses for the fiscal year ending June 30, 2010 were \$24,000.

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 24,000
2012	24,000
2013	24,000
2014	24,900
2015	25,800
Thereafter	<u>538,307</u>
	<u>\$661,007</u>

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is 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, 2010 were \$377,072.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

2011	\$ 197,405
2012	187,443
2013	177,481
2014	167,518
2015	<u>157,555</u>
Total	<u>\$ 887,402</u>

Equipment Lease

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 2,596
2012	2,596
2013	2,596
2014	<u>433</u>
	<u>\$ 8,221</u>

Equipment Lease

The City is the lessor of certain office equipment. The lease dated August 10, 2010 is for a term of four years. Minimum future rentals on the lease in the aggregate and for each of the next four years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 4,059
2012	4,059
2013	4,059
2014	<u>4,059</u>
	<u>\$16,236</u>

Vehicle Leases

The City is the lessor of certain police vehicles. The lease dated June 1, 2010 is for a term of three years. Minimum future rentals on the lease in the aggregate and for each of the next three years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2011	\$ 16,497
2012	16,497
2013	<u>15,122</u>
	<u>\$ 48,116</u>

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 arrest, disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2010, 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 \$127,299 as of June 30, 2010 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.

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, 2010, 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 \$ 740,151 of which \$708,650 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2010 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.

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, 2010, the City is not aware of any significant environmental problems that should be disclosed in the general-purpose financial statements.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, an estimated \$252,000 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 contributed \$80,000 to the City for its Hole Brothers Access Improvement Project between 2008 and 2009.

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, 2010 was \$17,536.

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, 2010

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, 2010

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

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

Gross Receipts Tax Refund Request from National Grid

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

On behalf of the affected communities the New York Conference of Mayors (NYCOM) requested and received an Advisory Opinion of the New York State Department of Taxation and Finance that supports NYCOM's position on the applicability of the local gross receipts tax to unbundled sales of energy commodities. Accordingly, it was requested of National Grid to abandon their attempts to collect a refund and immediately begin collecting the gross receipts tax in accordance with the Advisory Opinion and remit a supplemental payment to the affected municipalities on their gross receipt tax underpayments since November 2008. National Grid was approved by the NYS Public Service Commission for a tariff revision to allow them to begin collecting the gross receipts tax in accordance with the Advisory Opinion effective December 1, 2009.

During this dispute The City did not accrue any additional revenues through the fiscal year ending June 30, 2010 related to the underpayments as it was unclear if National Grid would apply the ruling retroactively nor did the City record the initial refund request in the financial statements as a liability.

On October 4, 2010 City Council agreed to a tentative settlement with National Grid that provides for (1) the City to keep the funds that National Grid claimed were owed to them in their December 2008 letter and; (2) National Grid does not remit any gross receipts tax for sales between December 2008 and November 30, 2009, as it did not collect any and; (3) based on new tariff leaves filed at the New York State Public Service Commission, National Grid will collect and pay local GRT on all transactions from December 2009 forward.

Subsequent Event

On October 4, 2010 City Council authorized a settlement in the amount of \$600,000 of the case entitled Ryan Dorr v. City of Watertown. A liability has been accrued to the fiscal year ending June 30, 2010 for this settlement and is reflected in the year-end reserve amount.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows)				
Real property taxes	\$ 7,291,373	\$ 7,286,373	\$ 7,316,832	\$ 30,459
Real property tax items	249,310	249,310	243,461	(5,849)
Non-property taxes	15,738,000	15,738,000	16,185,100	447,100
Departmental income	4,279,900	4,279,900	4,050,469	(229,431)
Intergovernmental charges	127,250	127,250	149,317	22,067
Use of money and property	173,400	173,400	153,597	(19,803)
Licenses and permits	80,700	80,700	84,181	3,481
Fines and forfeitures	135,000	135,000	106,463	(28,537)
Sale of property and compensation for loss	92,100	106,650	528,187	421,537
Miscellaneous local sources	661,785	661,785	751,113	89,328
Interfund revenue	1,139,173	1,111,173	1,065,423	(45,750)
State source	5,829,754	5,737,449	5,786,618	49,169
Federal sources	435,957	620,587	498,086	(122,501)
Transfers from other funds	202,000	281,283	490,283	209,000
	<u>36,435,702</u>	<u>36,588,860</u>	<u>37,409,130</u>	<u>820,270</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,362,456	4,944,320	5,214,956	(270,636)
Public safety	13,315,516	13,442,745	12,706,872	735,873
Transportation	4,062,161	4,340,371	3,847,422	492,949
Economic assistance and development	107,000	105,700	97,029	8,671
Culture and recreation	1,129,438	1,197,500	1,066,431	131,069
Home and community services	1,199,850	1,331,071	1,167,025	164,046
Employee benefits	7,584,191	7,625,716	7,286,561	339,155
Debt service	3,792,780	3,794,730	3,794,158	572
Transfers to other funds	1,500,210	1,668,410	1,365,614	302,796
	<u>38,053,602</u>	<u>38,450,563</u>	<u>36,546,068</u>	<u>1,904,495</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations	(1,617,900)	(1,861,703)	863,062	2,724,765
Appropriation of prior year fund balance	<u>1,521,000</u>	<u>1,617,992</u>	<u>-</u>	<u>(1,617,992)</u>
Excess / (Deficiency) of Resources Over Charge to Appropriations	<u>(96,900)</u>	<u>(243,711)</u>	<u>863,062</u>	<u>1,106,773</u>
Fund Balance, Beginning of year			13,637,070	
Fund equity transfer			57,934	
Fund Balance, End of year			<u>\$ 14,558,066</u>	

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

SUPPLEMENTAL SCHEDULE #2

CITY OF WATERTOWN, NEW YORK
=====

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/State's Loan	14.228	\$ 470,517
HOME Investment Partnerships Program	14.239	<u>102,127</u>
Total Department of Housing & Urban Development		<u>572,644</u>
US Department of Transportation:		
Passed Through New York State:		
ARRA-Highway Planning and Construction	20.205	55,048
State and Community Highway Safety	20.600	6,585
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>176,621</u>
Total Department of Transportation		<u>238,254</u>
US Department of Homeland Security:		
Assistance to Firefighters Grant	97.044	<u>108,630</u>
US Department of Justice:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12,530
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	3,014
Federal Equitable Sharing Program	16.Unknown	<u>3,162</u>
Total Department of Justice		<u>18,706</u>
		<u>\$ 938,234</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, 2010

1. Summary of certain significant accounting policies:

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

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

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

2. Community Development Block grant loans:

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

CFDA #	Balance at 7/1/09	Issuance	Forgiveness	Balance at 6/30/10
14.228	\$ 787,647	\$ 70,160	\$ 261,126	\$ 596,681

3. Subrecipients:

No amounts were provided to subrecipients.

CITY OF WATERTOWN, NEW YORK
 =====
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR "THE PLAN"

FOR THE YEAR ENDED JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/09	\$ -	\$ 106,324,770	\$106,324,770	0%	\$ 17,021,035	624.67%
9/1/08	\$ -	\$ 106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%

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

POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 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 City of Watertown, New York, as of and for the year ended June 30, 2010, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated January 20, 2011. We did not audit the financial statements of Trustees of the Roswell P. Flower Memorial Library, which represents 100 percent of the City's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trustees of the Roswell P. Flower Memorial Library, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Watertown, New York, in a separate letter dated January 20, 2011.

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, CPA, P.C.

January 20, 2011

POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

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

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

Compliance

We have audited City of Watertown, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Watertown, New York's major federal programs for the year ended June 30, 2010. City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

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

In our opinion, City of Watertown, New York, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of City of Watertown, New York, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, CPA, P.C.

January 20, 2011

CITY OF WATERTOWN, NEW YORK
=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor’s Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the City of Watertown, New York.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies in internal control were disclosed during the audit of the major federal award programs of the City of Watertown, New York.
5. The auditor’s report on compliance for the major federal award programs for the City of Watertown, New York expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major federal program included – Community Development Block Grant/State’s Loan – CFDA #14.228.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

Section II – Financial Statement Audit Findings:

There were no findings to report.

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

There were no findings to report.

Summary Schedule of Prior Audit Findings:

There were no findings to report.

POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

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

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the compliance of City of Watertown, New York, with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended June 30, 2010. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of City of Watertown, New York's management. Our responsibility is to express an opinion on City of Watertown, New York's compliance based on our audit.

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

In our opinion, City of Watertown, New York complied in all material respects with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of State Transportation Assistance Expended

We have audited the financial statements of City of Watertown, New York as of and for the year ended June 30, 2010, and have issued our report thereon dated January 20, 2011. Our audit was conducted for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Poulsen & Podvin, CPA, P.C.

January 20, 2011

CITY OF WATERTOWN, NEW YORK

=====

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2010

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	\$ 397,786
Formula Grants for Other Than Urbanized Areas - DPW Maintenance Facility	C003695	<u>7,528</u>
TOTAL		<u>\$ 405,314</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

CITY OF WATERTOWN, NEW YORK

=====

NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2010

NOTES

A. General:

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

B. Basis of Accounting:

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

CITY OF WATERTOWN, NEW YORK

=====

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2010

Summary of Audit Results:

Internal control over state transportation assistance expended:

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

Type of auditor's report issued on compliance for Program tested:	Unqualified
---	-------------

Summary of Audit Findings:	N/A
----------------------------	-----

Identification of State Transportation Assistance Programs tested:	Consolidated Local Street & Highway Improvement Program Capital Reimbursement-CHIPS Contract #732059
--	---

Compliance Findings and Questioned Costs:

No matters were reported
