

CITY OF WATERTOWN, NEW YORK

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**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2011

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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, 2011, 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, 2011, 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 27, 2012, 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 27, 2012

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

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, 2011. 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, 2011 by \$93,340,649. Of this amount unrestricted net assets of \$10,013,015 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$648,248 in fiscal year 2010-11, with a decrease of \$365,013 in governmental activities and an increase of \$1,013,261 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 \$16,041,195.
- General Fund revenues of \$38,592,109 on a budgetary basis exceeded budgeted revenues by \$1,824,544 or 4.96% while budgetary basis expenditures finished \$446,692 higher than budgeted expenditures. These results reduced the need to use \$1,612,039 in appropriated fund balance budgeted for in the 2010-11 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,510,137 or 24.32% of total General Fund expenditures.
- The City issued \$7,505,000 on April 15, 2011 in general obligation bonds (Series A, B and C) with average interest rates for the series ranging from 2.37% to 5.19% to advance refund \$7,340,000 of outstanding 1997, 2000 and 2002 serial bonds with average interest rates of 4.30% to 7.09%. The majority of the outstanding 1997, 2000 and 2002 series bonds were redeemed on May 15, 2011. Additionally, the City used \$1,000,000 of General Fund balance to increase the amount of outstanding 1997 taxable serial bonds redeemed to \$4,625,000. A combined difference in cash flow requirements of \$2,869,744 and a net present value savings of \$804,313 were a result of this advance refunding by the City.
- The City issued \$2,035,000 in serial bonds dated June 28, 2011 maturing June 15, 2021 at interest rates ranging from 2.00% through 3.00% (priced to yield 2.33%) to provide financing for various capital projects.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

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 statements' 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 (inter-period or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements, which further explains and supports the information presented in these statements.

Government-Wide Financial Statements

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

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

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2011, the City's assets exceeded liabilities by \$93,340,649 compared to \$92,692,401 at June 30, 2010. By far the largest portion of the City's net assets (85.94%) 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.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

An additional \$3,112,183 or 3.33% 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, Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, Capital Reserve Fund, Tourism Fund, Community Development Fund, Capital Projects Fund, Workers Compensation Fund, Insurance Liability Fund and Debt Service Fund. The unrestricted net assets, \$10,013,015 compared to \$13,051,708 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

City of Watertown's Net Assets						
	Governmental Activities		Business-type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Current and other assets	\$22,024,304	\$23,370,005	\$5,384,256	\$4,951,576	\$27,408,560	\$28,321,581
Capital Assets	73,325,057	74,377,771	34,033,792	34,062,135	107,358,849	108,439,906
Total Assets	\$95,349,361	\$97,747,776	\$39,418,048	\$39,013,711	\$134,767,409	\$136,761,487
Long-term liabilities outstanding	\$25,173,683	\$26,284,942	\$9,421,489	\$9,950,866	\$34,595,172	\$36,235,808
Other liabilities	6,144,426	7,066,568	687,162	766,709	6,831,588	7,833,277
Total liabilities	\$31,318,109	\$33,351,510	\$10,108,651	\$10,717,575	\$41,426,760	\$44,069,085
Net Assets:						
Invested in Capital Assets, net of related debt	\$53,716,212	\$52,642,828	\$26,499,239	\$25,472,434	\$80,215,451	\$78,115,262
Restricted	2,682,223	967,366	429,960	558,065	3,112,183	1,525,431
Unrestricted	7,632,817	10,786,071	2,380,198	2,265,637	10,013,015	13,051,708
Total Net Assets	\$64,031,252	\$64,396,265	\$29,309,397	\$28,296,136	\$93,340,649	\$92,692,401

As of June 30, 2011, 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.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

The following table provides a summary of the City's operations for the year ended June 30, 2011.

City of Watertown's Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Revenues:						
Program Revenues:						
Charges for services	\$7,533,763	\$6,775,610	\$9,646,362	\$8,953,687	\$17,180,125	\$15,729,297
Operating grants and contributions	1,887,283	3,119,620	1,011	70,342	1,888,294	3,189,962
Capital grants and contributions	1,313,844	912,020	170,981	258,216	1,484,825	1,170,236
General revenues:						
Property taxes	7,359,032	7,549,829	-	-	7,359,032	7,549,829
Sales tax	16,007,070	15,223,095	-	-	16,007,070	15,223,095
Utilities gross receipts tax	407,527	346,709	-	-	407,527	346,709
Franchise tax	431,049	415,047	-	-	431,049	415,047
Hotel occupancy tax	208,453	200,250	-	-	208,453	200,250
Mortgage tax	351,984	398,710	-	-	351,984	398,710
Grants and Entitlements not restricted to specific programs	4,799,192	4,988,373	-	-	4,799,192	4,988,373
Investment earnings	173,059	148,490	29,435	14,556	202,494	163,046
Total revenues	\$40,472,256	\$40,077,753	\$9,847,789	\$9,296,801	\$50,320,045	\$49,374,554
Expenses:						
General government support	\$13,265,889	\$12,900,136	-	-	\$13,265,889	\$12,900,136
Hydroelectric production	425,599	540,933	-	-	425,599	540,933
Fire	7,572,164	7,069,685	-	-	7,572,164	7,069,685
Police	6,632,214	6,202,072	-	-	6,632,214	6,202,072
Other Public Safety	389,832	347,838	-	-	389,832	347,838
Public Works	6,319,007	6,285,656	-	-	6,319,007	6,285,656
Bus	874,730	980,947	-	-	874,730	980,947
Other Economic Assistance	94,554	97,029	-	-	94,554	97,029
Watertown Empire Zone	12,178	20,830	-	-	12,178	20,830
Library	920,139	923,695	-	-	920,139	923,695
Other Culture and Recreation	1,510,076	1,511,917	-	-	1,510,076	1,511,917
Refuse and Recycling	858,188	903,248	-	-	858,188	903,248
Other Home and Community Services	1,034,757	2,485,608	-	-	1,034,757	2,485,608
Interest on Debt Service	942,942	1,055,998	-	-	942,942	1,055,998
Water	-	-	4,372,484	4,507,696	4,372,484	4,507,696
Sewer	-	-	4,447,044	4,290,469	4,447,044	4,290,469
Total Expenses	\$40,852,269	\$41,325,592	\$8,819,528	\$8,798,165	\$49,671,797	\$50,123,757
Excess of Revenues over Expenses	(380,013)	(1,247,839)	1,028,261	498,636	648,248	(749,203)
Transfers	15,000	(57,715)	(15,000)	57,715	-	-
Change in Net Assets	(365,013)	(1,305,554)	1,013,261	556,351	648,248	(749,203)
Net Assets - Beginning	64,396,265	65,992,322	28,296,136	27,739,785	92,692,401	93,732,107
Prior Period Adjustment	-	(290,503)	-	-	-	(290,503)
Net Assets - Ending	\$64,031,252	\$64,396,265	\$29,309,397	\$28,296,136	\$93,340,649	\$92,692,401

CITY OF WATERTOWN, NEW YORK

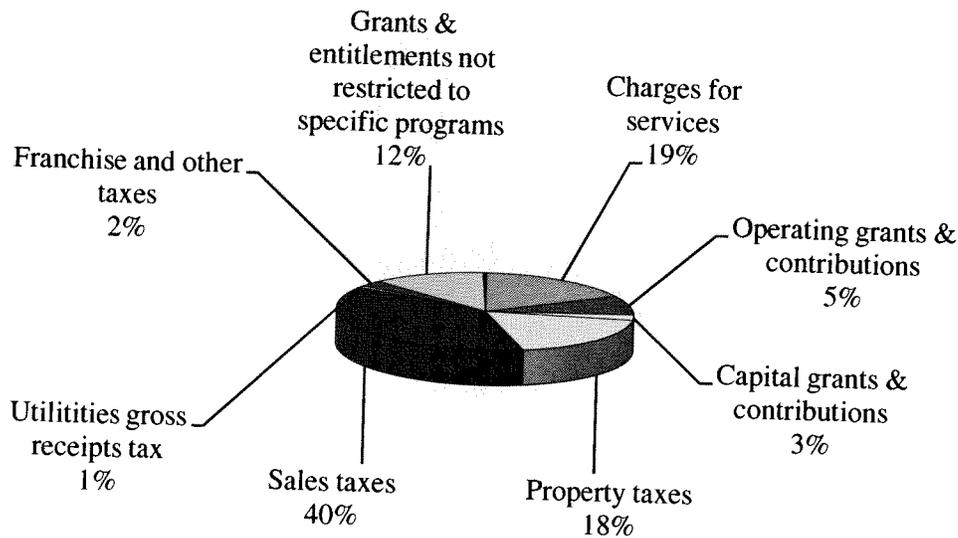
Management's Discussion and Analysis

June 30, 2011

Governmental activities. Governmental activities decreased the City's net assets by a total (\$365,013) compared to last year's decrease of (\$1,596,057) which included a prior period adjustment of (\$290,503). Key elements of the year are as follows:

- Sales tax revenue totaled \$16,007,070 which was an increase of \$783,975 or 5.15% over last year's total of \$15,223,095. Sales tax revenue represented 39.55% of the governmental activities' revenue in FY 10/11 compared to 37.98% in FY 09/10.
- Due to the fiscal condition of New York State, the City's State Aid revenue was cut \$189,181 or 3.79% to \$4,799,192 compared to \$4,988,373 last year.
- The City made the payment to settle a lawsuit with Ryan Dorr in the amount of \$600,000 that was accrued to Fiscal Year 2009-10.
- The City received \$1,089,695 in Federal and State Aid for various capital projects which is an increase of \$268,509 from the amount received last year for Federal and State grants for capital projects. Some of the major projects include the Washington Street stimulus paving project (\$225,937), the Consolidated Local Street and Highway Improvement Program for various streets (\$279,240), the J.B. Wise parking lot rehabilitation (\$237,135), para-transit buses (\$119,930) and the police and fire inter-operability project (\$96,231).

Governmental Activities - Revenue by Source



CITY OF WATERTOWN, NEW YORK

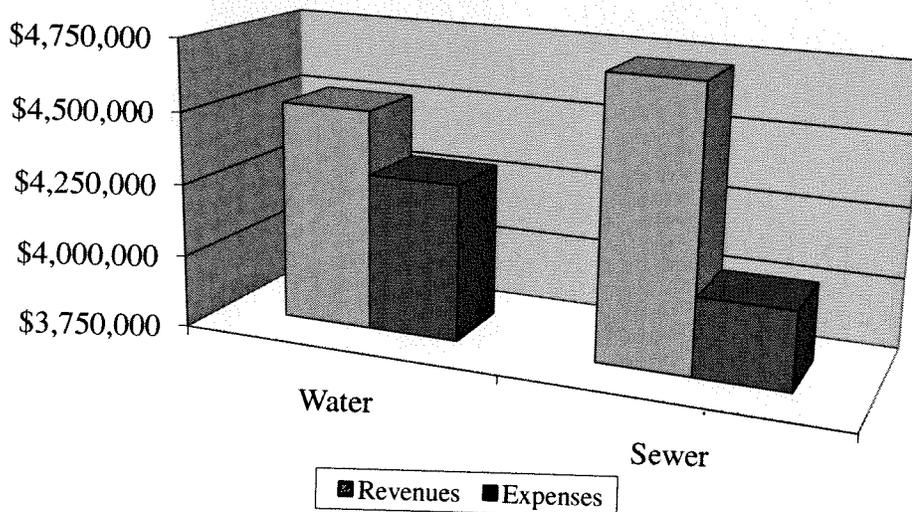
Management's Discussion and Analysis

June 30, 2011

Business-type activities. Business-type activities increased the City's net assets by \$1,013,261 compared to \$556,351 last year. Key elements for this year are as follows:

- Water operating revenues increased by \$32,436 or 0.72% to \$4,546,654 while operating expenses decreased by \$93,735 or 2.18% to \$4,200,739. Sewer operating revenues increased by \$590,908 or 13.10% to \$5,100,719 and operating expenses increased by \$167,700 or 4.08% to \$4,278,659. Revenues related to the City's tanker hauled waste program increased \$ 266,250 due to a large new customer, Seneca Meadows, that began hauling to the City routinely in the spring of 2010. Transfers to the Sewer Fund capital projects increased by \$571,065 as the Sewer Fund was able to afford paying more of its capital projects on a pay-as-you-go method and avoid the issuance of debt.
- 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 \$546,326 or 12.02% of the total water operating revenues as compared to \$544,160 or 12.05% of the total water operating revenues in the prior year. Revenues from this agreement increased by \$2,166 or 0.40% over last year's total.
- 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 \$661,652 or 12.97% of the total sewer operating revenues as compared to \$632,880 or 14.03% of the total sewer operating revenues in the prior year. Revenues from this agreement increased by \$28,772 or 4.55% over last year's total.

Business-type Activities - Revenues and Expenses



CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

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, 2011 the City's governmental funds reported combined ending fund balances of \$16,041,195, a decrease of (\$469,894) or 2.85% in comparison with the prior year. The decrease is most attributable to the appropriation of \$1,000,000 of General Fund balance to increase the amount of outstanding November 1997 taxable serial bonds that were redeemed. Approximately 59% or \$9,510,137 represents the unassigned fund balance which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for inventories (\$2,863) and prepaid expenditures (\$3,300), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$2,682,223).

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,510,137, while the total General Fund balance equaled \$14,133,689 compared to \$14,558,066 in the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures and other financing uses. Unassigned fund balance represents 24.32% of total General Fund expenditures and other financing uses, while total fund balance represents 36.14% of that same amount compared to 39.83% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$517,268 compared to last year's increase of \$863,062. The use of \$1,000,000 of fund balance to call additional serial bonds as part of the refunding contributed to the loss.

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 \$1,205,221 compared to \$1,205,812 in the previous year. Within the current year the amount of \$887,835 is considered restricted due to debt financing and \$317,386 is considered assigned due to the funding being from operating fund transfers.

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 \$893,733 compared to \$1,017,641 in the prior fiscal year. The water fund had an increase in net assets in the amount of \$277,586 compared to an increase of \$5,738 in the previous year.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

Unrestricted net assets at the end of the fiscal year of the Sewer Fund were \$1,486,465 compared to \$1,247,996 in the prior year. The Sewer Fund had an increase in net assets in the amount of \$735,675 compared to an increase of \$550,613 in the prior fiscal year. 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 appropriate \$1,000,000 to increase the amount of 1997 taxable serial bonds that were redeemed, to appropriate \$100,000 to call the outstanding 2002 taxable serial bonds, to appropriate an additional \$28,465 to cover the City's share of the sidewalk special assessment program, to provide \$5,000 of funding for the Disabled Persons Action Organization and to increase the transfer to the Capital Projects fund by \$43,000 to cover the design costs the Thompson Park Aviary reconstruction. There were no new revenue sources to fund these increased expenditures therefore the appropriated fund balance also increased \$1,176,465. Other budget amendments between departmental expenditure accounts also did occur.

General Fund revenues of \$38,592,109 on a budgetary basis exceeded final budgeted revenues of \$36,767,565 by \$1,824,544 or 4.96% while budgetary basis expenditures of \$39,109,377 were \$446,692 or 1.13% lower than the final budgeted expenditures of \$39,556,069. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenue (\$707,070), sale of surplus hydro-electric power (\$366,437), Federal Aid received from the Early Retiree Reinsurance Program (\$300,952), insurance recoveries on large self-insurance claims (\$210,727), and utilities gross receipts taxes (\$89,527). Revenues that did not meet budgetary expectations included real property tax reserve (\$354,350), interest earnings (\$55,019), and mortgage recording taxes (\$48,016). Actual expenditures were lower than the budgeted expenditures due mostly to a reduction in the amount transferred to the capital projects fund (\$196,219) for projects not undertaken by fiscal year-end such as the municipal building chiller and tower replacement (\$235,000), health insurance claim costs for pharmaceutical services (\$137,608), and planning department projects that did not occur as planned such as brown-field projects (\$56,000). Expenditures that exceeded budgetary expectations included health insurance claim costs for medical services (\$492,691). These combined results negated the use of \$1,612,039 in appropriated fund balance that was budgeted in the 2010-11 General Fund original adopted budget.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

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, 2011, amounts to \$80,215,451. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation						
	Governmental Activities		Business-type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Land	\$2,599,900	\$2,601,285	\$ -	\$ -	\$2,599,900	\$2,601,285
Construction in Progress	2,481,261	1,434,897	736,393	803,149	3,217,654	2,238,046
Land Improvements	2,250,655	2,397,376	7,966	11,566	2,258,621	2,408,942
Building and Improvements	19,243,276	19,868,117	13,407,644	13,942,902	32,650,920	33,811,019
Infrastructure	41,771,288	42,313,874	17,082,737	16,045,412	58,854,025	58,359,286
Machinery and Equipment	2,828,708	3,298,642	2,545,760	3,136,716	5,374,468	6,435,358
Vehicles	2,149,969	2,463,580	253,292	122,390	2,403,261	2,585,970
Total Net Assets	\$73,325,057	\$74,377,771	\$34,033,792	\$34,062,135	\$107,358,849	\$108,439,906

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

- Completed reconstruction of Breen Avenue at a cost of \$986,170 which included reconstruction of 2,100 LF of street including curbs, sidewalks, water main and storm and sanitary sewers.
- Rehabilitation of the Dosing Station dam at a cost of \$334,808 to address leakage on the upstream side of the dam.
- Completed installation of approximately 1,100 LF of slip lining in the North Side Trunk Sewer located in the channel of Kelsey Creek at a cost of \$379,196 to eliminate large amounts of infiltration.
- Reconstruction of Riggs Avenue at a cost of \$429,533 which included reconstruction of 550 LF of street including curbs, sidewalks, water main and storm and sanitary sewers.
- Began reconstruction of J.B. Wise parking lot to include a partially covered pedestrian walkway, new vehicle drives, lighting, landscaping, water main replacement, and the construction and separation of a storm and sanitary sewer. Construction in progress totals \$1,410,175.
- Began the Greensview / Ives Hill sanitary sewer reconstruction with construction-in-progress totaling \$244,882.

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

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$28,180,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
General obligation bonds	\$19,750,078	\$21,671,082	\$8,429,922	\$9,309,118	\$28,180,000	\$30,980,200
Other loans	44,289	92,319	1,836	3,827	46,125	96,146
	<u>\$19,794,367</u>	<u>\$21,763,401</u>	<u>\$8,431,758</u>	<u>\$9,312,945</u>	<u>\$28,226,125</u>	<u>\$31,076,346</u>

In June 2011 Moody's Investor Services upgraded the City of Watertown's rating to an Aa3 from an A1 rating. According to Moody's the improved rating was reflective of the City's sound financial position characterized by healthy reserves, a medium-sized tax base with below average wealth levels and manageable debt burden. Other factors that contributed to the rating upgrade were demonstrated strong fiscal management and financial planning as well as the City's increased role as a regional economic center.

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, 2011, the City's debt limit was \$69,105,732 with total net indebtedness of \$12,127,291, thus exhausting 17.55% of the City's debt limit.

The City issued \$7,505,000 on April 15, 2011 in general obligation bonds (Series A, B and C) with average interest rates for the series ranging from 2.37% to 5.19% to advance refund \$7,340,000 of outstanding 1997, 2000 and 2002 serial bonds with average interest rates of 4.30% to 7.09%. The majority of the outstanding 1997, 2000 and 2002 series bonds were redeemed on May 15, 2011. Additionally, the City used \$1,000,000 of General Fund balance to increase the amount of outstanding 1997 and 2002 taxable serial bonds redeemed to \$4,625,000. A combined difference in cash flow requirements of \$2,869,744 and a net present value savings of \$804,313 were a result of this advance refunding by the City.

The City issued \$2,035,000 in serial bonds dated June 28, 2011 maturing June 15, 2021 at interest rates ranging from 2.00% to 3.00% (priced to yield 2.33%) 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.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2011-12 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2011 were 8.9% for the City of Watertown, 8.9% for Jefferson County, 8.0% for New York State and 9.1% for the United States. The unemployment rates in June 2010 were 8.5% for the City of Watertown, 8.5% for Jefferson County, 8.4% for New York State and 9.4% for the United States.

Budget factors considered during the preparation of the FY 2011-12 budget included the national and state economies, low interest rates, high unemployment and escalating NYS Retirement System contribution rates. With the continued uncertainties in Afghanistan, as has been the case since 2001, it was difficult to predict how many of the 19,447 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 continued decrease in the value of the American dollar and the proximity of the City to Canada sales tax revenue has continued to stabilize our economy and is projected to increase \$1,165,000 from the FY 2010-11 budgeted level.

Like most local governments, the City's 2011-12 budget was impacted by the escalating high costs for retirement benefits. The contribution to the Employees' Retirement System will range from 12.7% to 21.5% of salaries, up from a range of 9.0% to 15.3% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 20.0% to 20.9% of salaries, up from 16.8% 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 continue to increase over the next few years to as much as 32% of payroll for Police and Fire employees and 25% of payroll for all other employees. Due to the better than expected claims history over the last two years the self-insurance fund appropriated \$600,000 of fund balance to lower the premium rate by 3.4%.

The City saw an increase of \$10,194,468 or 1.02% in taxable assessed value. The residential tax burden has increased slightly to 60.85% from 60.55% last year. The average assessment for a single-family home in Watertown increased slightly to \$105,855 from \$104,574 in FY 2010-11.

The City's FY 2011-12 General Fund operating costs increased by \$1,829,779 or 5.06% to \$38,023,157. The City appropriated \$1,911,888 of fund balance, an increase of \$804,388 over FY 2010-11. The sales tax revenue budget was increased to \$16,545,000 which represented an increase of \$1,165,000 or 7.6% over the sales tax budget for FY 2010-11. The State Aid revenue budget was lowered by 2.7% or \$132,459 from the FY 2010-11 budget to \$4,703,208 based on New York State's FY 2011-12 budget. The decrease in the real property tax levy of \$187,186 or 2.50% and the increase in taxable assessed values resulted in a 3.47% decrease to the property tax rate.

CITY OF WATERTOWN, NEW YORK

Management's Discussion and Analysis

June 30, 2011

Appropriations for the Water Fund increased by \$93,281 or 1.96%. The Water Fund increased the rate for tier one volume slightly, lowered the rater for tier two volumes and eliminated the third tier. The Water Fund appropriated \$93,883 of fund balance of which \$71,438 was from the debt reserve fund to pay for the Ten Eyck Street reconstruction debt service. The Sewer Fund appropriations increased \$709,210 or 16.38% due mostly to the increase in funds transferred to capital projects (\$365,000) and the establishment of a capital reserve fund (\$250,000). The Sewer Fund was also able to lower the rate charge for tier one and tier two volumes and eliminate the third tier. The Sewer Fund appropriated \$96,879 of fund balance of which \$84,765 was from the debt reserve fund to pay for the Ten Eyck Street reconstruction debt service.

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, 2011

	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	\$ 14,352,520	\$ 2,395,594	\$ 16,748,114	\$ 143,947
Restricted cash and cash equivalents	1,694,565	1,343,195	3,037,760	204,043
Receivables (net of allowance for uncollectibles):				
Accounts	2,629,454	1,455,096	4,084,550	-
Taxes	332,048	-	332,048	-
Interest	-	-	-	-
Other receivables	-	-	-	4,467
Due from other governments	1,962,273	129,226	2,091,499	-
State and federal aid receivables	875,567	159,429	1,034,996	-
Inventory	2,863	-	2,863	-
Prepaid expenses	67,254	8,756	76,010	247
Internal balances	107,760	(107,040)	720	-
	<u>22,024,304</u>	<u>5,384,256</u>	<u>27,408,560</u>	<u>352,704</u>
Capital Assets:				
Non-depreciable	5,081,161	736,393	5,817,554	14,516
Depreciable, net	68,243,896	33,297,399	101,541,295	54,150
Total capital assets	<u>73,325,057</u>	<u>34,033,792</u>	<u>107,358,849</u>	<u>68,666</u>
Total Assets	<u>\$ 95,349,361</u>	<u>\$ 39,418,048</u>	<u>\$ 134,767,409</u>	<u>\$ 421,370</u>
LIABILITIES				
Accounts payable	\$ 2,055,259	\$ 301,091	\$ 2,356,350	\$ 555
Accrued interest payable	161,318	78,293	239,611	-
Accrued liabilities	578,594	95,255	673,849	-
Retainage payable	42,092	26,197	68,289	-
Compensated absences	646,308	85,810	732,118	-
Workers compensation liability	364,789	193,887	558,676	-
Accrued post employment benefits	4,685,133	812,872	5,498,005	-
Other liabilities	6,798	11,701	18,499	-
Due to other governments	63,886	994	64,880	-
Due to retirement system	725,995	87,821	813,816	-
Deferred revenue	1,864,177	-	1,864,177	-
Other long-term debt	559,204	1,836	561,040	-
Serial bonds	19,750,078	8,429,922	28,180,000	-
Less: deferred amount on advance refunding	(185,522)	(17,028)	(202,550)	-
	<u>31,318,109</u>	<u>10,108,651</u>	<u>41,426,760</u>	<u>555</u>
NET ASSETS				
Investment in capital assets, net of related debt	53,716,212	26,499,239	80,215,451	-
Restricted for:				
Capital Reserves	454,753	-	454,753	-
Workers Compensation Reserve	315,784	-	315,784	-
Insurance Reserve - General	149,273	-	149,273	-
Tourism Reserve	30,290	-	30,290	-
Economic development and assistance	249,071	-	249,071	-
Community development	63,674	-	63,674	-
Capital projects	887,835	179,497	1,067,332	-
Debt Service	531,543	250,463	782,006	-
Library	-	-	-	208,120
Unrestricted	<u>7,632,817</u>	<u>2,380,198</u>	<u>10,013,015</u>	<u>212,695</u>
Total Net Assets	<u>64,031,252</u>	<u>29,309,397</u>	<u>93,340,649</u>	<u>420,815</u>
Total Liabilities and Net Assets	<u>\$ 95,349,361</u>	<u>\$ 39,418,048</u>	<u>\$ 134,767,409</u>	<u>\$ 421,370</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, 2011**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
FUNCTIONS/PROGRAMS							
Governmental Activities:							The Trustees of the Roswell P. Flower Memorial Library
General government support:							
General government support	\$ 13,265,889	\$ 2,530,766	\$ 403,365	\$ 10,949	\$ (10,320,809)	\$ -	\$ (10,320,809)
Hydroelectric production	425,599	3,522,437	-	-	3,096,838	-	3,096,838
Public safety:							
Fire	7,572,164	-	-	54,130	(7,518,034)	-	(7,518,034)
Police	6,632,214	95,777	65,233	54,130	(6,417,074)	-	(6,417,074)
Other public safety	389,832	83,580	-	-	(306,252)	-	(306,252)
Public Works	6,319,007	89,588	8,036	880,476	(5,340,907)	-	(5,340,907)
Transportation:							
Bus	874,730	168,006	360,239	218,436	(128,049)	-	(128,049)
Economic opportunity and development:							
Other economic assistance	94,554	-	-	-	(94,554)	-	(94,554)
Empire Zone	12,178	-	-	-	(12,178)	-	(12,178)
Culture and recreation:							
Library	920,139	15,830	50,704	-	(853,605)	-	(853,605)
Other culture and recreation	1,510,076	292,897	-	60,076	(1,157,103)	-	(1,157,103)
Home and community services:							
Home and community services	858,188	710,948	-	-	(147,240)	-	(147,240)
Refuse and recycle	1,034,757	23,934	999,706	35,647	24,530	-	24,530
Other home and community services	942,942	-	-	-	(942,942)	-	(942,942)
Interest on debt	40,852,269	7,533,763	1,887,283	1,313,844	(30,117,379)	-	(30,117,379)
Total Governmental Activities							
Business-Type Activities:							
Water	4,372,484	4,545,643	1,011	92,386	-	266,556	266,556
Sewer	4,447,044	5,100,719	-	78,595	-	732,270	732,270
Total Business-Type Activities	8,819,528	9,646,362	1,011	170,981	-	998,826	998,826
Total Primary Government	\$ 49,671,797	\$ 17,180,125	\$ 1,888,294	\$ 1,484,825	\$ (30,117,379)	\$ 998,826	\$ (29,118,553)
Component Unit:							
The Trustees of the R.P. Flower Memorial Library	82,908	-	100,023	-	-	-	17,115
Total Component Unit	\$ 82,908	\$ -	\$ 100,023	\$ -	\$ -	\$ -	\$ 17,115
Net (Expense) Revenue and Changes in Net Assets brought forward							
					(30,117,379)	998,826	(29,118,553)
GENERAL REVENUES							
Property taxes					7,359,032	-	7,359,032
Sales taxes					16,007,070	-	16,007,070
Utilities gross receipts tax					407,527	-	407,527
Franchise tax					431,049	-	431,049
Hotel occupancy tax					208,453	-	208,453
Mortgage tax					351,984	-	351,984
Grants and entitlements not restricted to specific programs					4,799,192	-	4,799,192
Investment earnings					173,059	29,435	202,494
Total General Revenues					29,737,366	29,435	29,766,801
Transfers					15,000	(15,000)	-
Change in Net Assets					(365,013)	1,013,261	648,248
Total Net Assets - Beginning of year					\$ 64,396,265	\$ 28,296,136	\$ 92,692,401
Prior period adjustment					-	-	-
Total Net Assets - End of year					\$ 64,031,252	\$ 29,309,397	\$ 93,340,649

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

CITY OF WATERTOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted cash and cash equivalents	\$ 13,650,368	\$ -	\$ 702,152	\$ 14,352,520
Restricted cash and cash equivalents	494,096	1,130,377	70,092	1,694,565
Receivables (net of allowance for uncollectibles):				
Accounts	1,094,901	100,992	1,433,561	2,629,454
Taxes	331,406	642	-	332,048
Interest	-	-	-	-
Due from other governments	1,948,876	12,029	1,368	1,962,273
State and federal aid receivables	197,622	608,029	69,916	875,567
Inventory	2,863	-	-	2,863
Prepaid expenses	65,465	-	1,789	67,254
Due from other funds	325,262	17,775	-	343,037
Total Assets	\$ 18,110,859	\$ 1,869,844	\$ 2,278,878	\$ 22,259,581
LIABILITIES				
Accounts payable	\$ 1,622,809	\$ 352,121	\$ 80,329	2,055,259
Accrued liabilities	555,017	6,439	17,138	578,594
Retainage payable	-	42,092	-	42,092
Compensated absences	632,002	-	14,306	646,308
Other liabilities	6,798	-	-	6,798
Due to other funds	23,190	204,844	7,243	235,277
Due to other governments	63,257	629	-	63,886
Due to retirement system	708,058	-	17,937	725,995
Deferred revenue	366,039	58,498	1,439,640	1,864,177
Total Liabilities	3,977,170	664,623	1,576,593	6,218,386
FUND BALANCES:				
Nonspendable:				
Inventory	2,863	-	-	2,863
Prepaid Expenses	3,300	-	-	3,300
Restricted for:				
Capital Reserve - General	387,678	-	-	387,678
Capital Reserve - Fairgrounds	67,075	-	-	67,075
Workers Compensation Reserve	315,784	-	-	315,784
Insurance Reserve - General	149,273	-	-	149,273
Tourism Reserve	30,290	-	-	30,290
Debt Service Reserve	300,601	-	230,942	531,543
Community Development Reserve	-	-	63,674	63,674
Economic Development Reserve	-	-	249,071	249,071
Capital Projects	-	887,835	-	887,835
Assigned to:				
Self-funded health insurance plan	1,799,481	-	-	1,799,481
General government support	48,444	-	-	48,444
Fire	140	-	-	140
Police	3,053	-	-	3,053
Public Works	17,088	-	-	17,088
Bus	480	-	-	480
Other culture and recreation	1,779	-	-	1,779
Library	-	-	12,600	12,600
Capital Projects	-	317,386	-	317,386
Subsequent year's expenditures	1,496,223	-	145,998	1,642,221
Unassigned				
Unassigned	9,510,137	-	-	9,510,137
Total Fund Balances	14,133,689	1,205,221	702,285	16,041,195
Total Liabilities and Fund Balances	\$ 18,110,859	\$ 1,869,844	\$ 2,278,878	\$ 22,259,581

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, 2011

Total governmental fund balances		\$ 16,041,195
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	\$ 130,865,413	
Accumulated depreciation is	<u>57,540,356</u>	73,325,057
Deferred assets for refunded bonds		185,522
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	\$ (19,750,078)	
Loan payable	(44,289)	
Accrued interest on bonds payable	(161,318)	
Compensated absences	(280,915)	
Workers compensation liability	(364,789)	
Landfill post-closure liability	(234,000)	
Accrued post-employment benefits	<u>(4,685,133)</u>	<u>(25,520,522)</u>
Net assets of governmental activities		<u><u>\$ 64,031,252</u></u>

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real property taxes	\$ 7,054,030	\$ -	\$ -	\$ 7,054,030
Real property tax items	315,952	-	-	315,952
Nonproperty taxes	17,054,098	-	-	17,054,098
Departmental income	4,940,166	-	-	4,940,166
Intergovernmental charges	117,157	-	-	117,157
Use of money and property	145,689	3,593	7,904	157,186
Licenses and permits	93,916	-	-	93,916
Fines and forfeitures	100,533	-	14,186	114,719
Sale of property and compensation for loss	475,533	-	-	475,533
Miscellaneous local sources	706,592	155,443	145,893	1,007,928
Interfund revenue	1,012,040	-	-	1,012,040
State sources	5,627,714	615,501	-	6,243,215
Federal sources	675,655	474,194	922,410	2,072,259
Total Revenues	38,319,075	1,248,731	1,090,393	40,658,199
EXPENDITURES				
General government support	4,956,825	12,991	-	4,969,816
Public safety	13,859,362	120,556	-	13,979,918
Transportation	3,927,197	2,580,251	-	6,507,448
Economic assistance and opportunity	94,554	-	12,177	106,731
Culture and recreation	1,126,600	294,805	649,730	2,071,135
Home and community services	1,072,073	72,738	927,615	2,072,426
Employee benefits	8,004,881	-	297,291	8,302,172
Debt service	4,546,364	-	139,011	4,685,375
Total Expenditures	37,587,856	3,081,341	2,025,824	42,695,021
Excess of (Expenditures) Revenue	731,219	(1,832,610)	(935,431)	(2,036,822)
OTHER FINANCING SOURCES AND (USES)				
Interfund transfers in	273,034	455,021	1,076,090	1,804,145
Interfund transfers out	(1,521,521)	(100,111)	(167,513)	(1,789,145)
Serial bonds	-	1,570,000	-	1,570,000
Bond refunding proceeds	-	-	7,130,911	7,130,911
Payment to escrow agent	-	-	(7,130,911)	(7,130,911)
Bond refunding professional fees	-	-	(18,072)	(18,072)
Total Other Financing Sources (Uses)	(1,248,487)	1,924,910	890,505	1,566,928
Net change in fund balances	(517,268)	92,300	(44,926)	(469,894)
Fund Balances - Beginning of year	14,558,066	1,205,812	747,211	16,511,089
Fund equity transfer	92,891	(92,891)	-	-
Fund Balances - End of year	\$ 14,133,689	\$ 1,205,221	\$ 702,285	\$ 16,041,195

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, 2011

Net change in fund balances - total governmental funds \$ (469,894)

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 the depreciation expense exceeded the capital outlays in the period.

Capital outlays	\$	2,983,848	
Depreciation expense	\$	<u>3,999,284</u>	(1,015,436)

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. 3,714,695

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. (1,570,000)

Loss on disposal of assets (37,278)

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 (18,597)

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. 46,335

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. (1,225,559)

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. 210,721

Change in Net Assets of governmental activities \$ (365,013)

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

CITY OF WATERTOWN, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 999,932	\$ 1,395,662	\$ 2,395,594
Accounts receivable, net of allowance for uncollectible accounts	794,890	660,206	1,455,096
Due from governmental funds	9,711	29,140	38,851
Due from other governments	-	129,226	129,226
State and federal aid receivables	86,021	73,408	159,429
Prepaid expenses	4,906	3,850	8,756
Total current assets	<u>1,895,460</u>	<u>2,291,492</u>	<u>4,186,952</u>
Non-Current Assets			
Restricted cash and cash equivalents	306,357	1,036,838	1,343,195
Capital assets, net of accumulated depreciation	18,315,140	15,718,652	34,033,792
Total non-current assets	<u>18,621,497</u>	<u>16,755,490</u>	<u>35,376,987</u>
Total assets	<u>\$ 20,516,957</u>	<u>\$ 19,046,982</u>	<u>\$ 39,563,939</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 69,401	\$ 231,690	\$ 301,091
Accrued interest payable	39,025	39,268	78,293
Retainage payable	6,696	19,501	26,197
Accrued liabilities	57,051	38,204	95,255
Compensated absences	45,360	40,450	85,810
Due to retirement system	49,205	38,616	87,821
Due to governmental funds	67,005	78,886	145,891
Due to other governments	994	-	994
Other liabilities	11,701	-	11,701
Current portion of long-term liabilities	829,583	494,137	1,323,720
Total current liabilities	<u>1,176,021</u>	<u>980,752</u>	<u>2,156,773</u>
Long-Term Liabilities:			
Workers compensation liability	135,034	58,853	193,887
Other post employment benefits liability	469,258	343,614	812,872
Serial bonds payable	3,474,520	3,633,518	7,108,038
Less: deferred amount on refunding	(15,563)	(1,465)	(17,028)
Total long-term liabilities	<u>4,063,249</u>	<u>4,034,520</u>	<u>8,097,769</u>
Total liabilities	<u>5,239,270</u>	<u>5,015,272</u>	<u>10,254,542</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,104,281	12,394,958	26,499,239
Restricted for maintenance	179,497	-	179,497
Restricted for debt	100,176	150,287	250,463
Unrestricted	893,733	1,486,465	2,380,198
Total net assets	<u>15,277,687</u>	<u>14,031,710</u>	<u>29,309,397</u>
Total liabilities and net assets	<u>\$ 20,516,957</u>	<u>\$ 19,046,982</u>	<u>\$ 39,563,939</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, 2011

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 3,444,976	\$ 3,694,091	\$ 7,139,067
Intergovernmental charges	1,091,145	1,404,364	2,495,509
Other operating revenue	10,533	2,264	12,797
	<hr/>	<hr/>	<hr/>
Total operating revenues	4,546,654	5,100,719	9,647,373
OPERATING EXPENSES			
Salaries, wages and employee benefits	2,204,845	1,646,630	3,851,475
Contractual services	1,341,305	1,849,822	3,191,127
Depreciation	654,589	778,849	1,433,438
Loss on disposal of fixed asset	-	3,358	3,358
	<hr/>	<hr/>	<hr/>
Total operating expenses	4,200,739	4,278,659	8,479,398
	<hr/>	<hr/>	<hr/>
Income from operations	345,915	822,060	1,167,975
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	18,530	10,905	29,435
Gain on bond refunding	10,433	4,808	15,241
Interest expense	(171,745)	(168,385)	(340,130)
	<hr/>	<hr/>	<hr/>
Total non-operating revenue (expenses)	(142,782)	(152,672)	(295,454)
	<hr/>	<hr/>	<hr/>
Income before contributions and transfers	203,133	669,388	872,521
Capital contributions	81,953	73,787	155,740
Transfers out	(7,500)	(7,500)	(15,000)
	<hr/>	<hr/>	<hr/>
Change in net assets	277,586	735,675	1,013,261
	<hr/>	<hr/>	<hr/>
Net assets - beginning of year	15,000,101	13,296,035	28,296,136
	<hr/>	<hr/>	<hr/>
Net assets - end of year	<u>15,277,687</u>	<u>\$ 14,031,710</u>	<u>\$ 29,309,397</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, 2011

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from providing services	\$ 4,658,841	\$ 5,359,626	\$ 10,018,467
Cash payments for contractual expense	(1,336,678)	\$ (1,818,260)	(3,154,938)
Cash payments for personnel services and benefits	(1,949,074)	\$ (1,540,303)	(3,489,377)
Other operating revenue	48,991	\$ 2,265	51,256
Net cash provided by operating activities	<u>1,422,080</u>	<u>2,003,328</u>	<u>3,425,408</u>
Cash flows from non-capital and financing activities			
Transfers to/from other funds	(7,500)	(7,500)	(15,000)
Cash flows from capital and related financing activities			
Proceeds of capital debt	465,000	-	465,000
Premium received on bond refunding	10,433	4,808	15,241
Principal paid on capital debt	(821,419)	(524,768)	(1,346,187)
Interest paid on capital debt	(173,444)	(173,099)	(346,543)
Capital grants	420	73,787	74,207
Net cash (used) by capital and related financing activities	<u>(519,010)</u>	<u>(619,272)</u>	<u>(1,138,282)</u>
Cash flows from investing activities			
Purchase of capital assets	(868,075)	(661,159)	(1,529,234)
Interest income	18,902	11,409	30,311
Net cash (used) by investing activities	<u>(849,173)</u>	<u>(649,750)</u>	<u>(1,498,923)</u>
Net increase in cash and cash equivalents	46,397	726,806	773,203
Cash and cash equivalents, beginning of year	<u>\$ 1,259,892</u>	<u>\$ 1,705,694</u>	<u>\$ 2,965,586</u>
	<u>\$ 1,306,289</u>	<u>\$ 2,432,500</u>	<u>\$ 3,738,789</u>
Reconciliation of income from operations to net			
Income from operations	\$ 345,915	\$ 822,060	\$ 1,167,975
Depreciation	654,589	778,849	1,433,438
Loss on disposal of fixed asset	-	3,358	3,358
Change in assets:			
Accounts receivable	131,457	12,645	144,102
Due from other governments	(6,863)	256,708	249,845
Due from other funds	(692)	(8,182)	(8,874)
Due from Federal and State governments	36,199	-	36,199
Prepaid expenses	(2,045)	(1,441)	(3,486)
Change in liabilities:			
Accounts payable	(3,450)	39,409	35,959
Accrued liabilities	14,290	1,581	15,871
Compensated absences	(10,887)	(8,366)	(19,253)
Due to retirement system	12,759	9,426	22,185
Due to other governments	322	-	322
Other liabilities	19,648	(18,811)	837
OPEB liability	219,962	122,497	342,459
Customer deposits and overpayments	1,077	-	1,077
Due to other funds	9,799	(6,405)	3,394
Net cash provided (used) by operating activities	<u>\$ 1,422,080</u>	<u>\$ 2,003,328</u>	<u>\$ 3,425,408</u>
Reconciliation of total cash and cash equivalents			
Current assets - unrestricted cash and cash equivalents	\$ 999,932	\$ 1,395,662	\$ 2,395,594
Non-current assets - restricted cash and cash equivalents	306,357	1,036,838	1,343,195
Total Cash and cash equivalents	<u>\$ 1,306,289</u>	<u>\$ 2,432,500</u>	<u>\$ 3,738,789</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, 2011

	Private Purpose <u>Trusts</u>	Agency Funds	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 45,711</u>	<u>\$ 86,469</u>	<u>\$ 132,180</u>
LIABILITIES			
Due to governmental funds	\$ -	\$ 720	\$ 720
Deposits held and due to others	-	58,913	58,913
Cafeteria plan	-	19,347	19,347
Other accrued liabilities	-	7,489	7,489
	<hr/>	<hr/>	<hr/>
Total Liabilities	-	86,469	86,469
NET ASSETS			
Held in trust for other purposes	15,942	-	15,942
Held in trust for scholarships	29,769	-	29,769
	<hr/>	<hr/>	<hr/>
Total Net Assets	45,711	-	45,711
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 45,711</u>	<u>\$ 86,469</u>	<u>\$ 132,180</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, 2011

	Private Purpose <u>Trusts</u>
ADDITIONS	
Interest revenue	\$ 259
Total Additions	<u>259</u>
DEDUCTIONS	
Other	-
Scholarships awarded	100
Total Deductions	<u>100</u>
Change in Net Assets	159
Net Assets- Beginning of Year	<u>\$ 45,552</u>
Net Assets-End of Year	<u><u>\$ 45,711</u></u>

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

During the year ended June 30, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB issued Statement No. 54 in February 2009 and is intended to enhance the usefulness of the financial statements prepared by governmental entities specifically with regard to their reporting of fund balances. The new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government must observe spending constraints imposed upon how resources reported in governmental funds can be used. To comply with Statement No. 54 the City Council adopted on June 20, 2011 a Fund Balance Policy as described in more detail in Note L of this section of the notes to the financial statements.

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units*.

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.

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.).

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

b. Proprietary Funds

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

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

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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

- 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.

D. Property Taxes

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$1,947 and is included in “Due to other Governments”. A portion of the receivable \$289,530 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$689,138 has been included in the General Fund accounts receivable balance at June 30, 2011.

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. At last regular or special meeting in May the budget is adopted by the City Council through the adoption of various resolutions.
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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6. For year-end financial reporting, adjustments are made to actual results to conform with modified budget classifications and reflect year-end encumbrances.

The general fund budget was amended from \$38,248,835 to \$39,556,069 to reflect receipt and disbursement of the following:

Prior year encumbrances	\$ 122,094
Re-adoption of General Fund Budget	1,128,465
Re-adoption of Tourism Fund Budget	43,000
Original general fund health insurance appropriations not included in Supplemental Schedule #1 due to the inclusion of the self-funded health insurance fund as part of general fund for reporting purposes were re-appropriated to non-health insurance line items and therefore increased the appropriations in comparison to the original budget	13,675
	\$ 1,307,234

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, 2011

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, civil service employees association members, 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 \$558,676 as of June 30, 2011 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, 2011 were \$11,308.
- 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 \$666,055 has been recorded in the self-insurance fund for claims incurred as of June 30, 2011 but not reported based upon historical experience.

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L. Fund Balance

Fund balance is the excess of assets over liabilities in a governmental fund. There are five separate components of fund balance, each of which identifies to what extent the City is bound to honor constraints on the specific purpose for which amounts can be spent. The five components are:

1. Nonspendable Fund Balance: The portion of a fund balance that cannot be spent because they are either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.
2. Restricted Fund Balance: The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed Fund Balance: The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner.
4. Assigned Fund Balance: The portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established either by the City Council or by an official designated for that purpose.
5. Unassigned Fund Balance: The portion of a fund balance that includes amounts that do not fall into one of the above four categories.

The City considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be used first, followed by assigned amounts and then unassigned amounts.

The City does not currently have a formal minimum fund balance policy.

The City Council shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

CITY OF WATERTOWN, NEW YORK
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When it is appropriate for fund balance to be assigned for items such as encumbrance amounts, the City Council delegates the responsibility to assign funds to the City Comptroller. Assignments may occur subsequent to fiscal year-end.

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 2011, 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.

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:

CITY OF WATERTOWN, NEW YORK
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- 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, 2011 per the banks were \$20,349,222. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 1,086,080	\$ 19,263,142	\$ - 0 -

As of June 30, 2011 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>89,150</u>
Total	<u>\$ 115,089</u>

2. Capital Assets

A summary of the changes in capital assets for the fiscal year ended June 30, 2011 follows:

Governmental Activities:	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Non-depreciable capital assets:				
Land	\$ 2,601,285	\$ -	\$ (1,385)	\$ 2,599,900
Construction in Progress	<u>1,434,897</u>	<u>2,926,460</u>	<u>(1,880,096)</u>	<u>2,481,261</u>
Total	<u>\$ 4,036,182</u>	<u>\$ 2,926,460</u>	<u>\$ (1,881,481)</u>	<u>\$ 5,081,161</u>
Depreciable capital assets:				
Land improvements	7,906,459	47,424	-	7,953,883
Buildings and improvements	30,454,932	69,017	-	30,523,949
Infrastructure	64,933,462	1,422,825	(9,546)	66,346,741
Machinery and equipment	11,328,925	10,700	(64,069)	11,275,556
Vehicles	<u>9,925,493</u>	<u>387,519</u>	<u>(628,889)</u>	<u>9,684,123</u>
Total	<u>124,549,271</u>	<u>1,937,485</u>	<u>(702,504)</u>	<u>125,784,252</u>
Less accumulated depreciation for:				
Land improvements	5,509,083	194,145	-	5,703,228
Buildings and improvements	10,586,815	693,858	-	11,280,673
Infrastructure	22,619,588	1,963,356	(7,491)	24,575,453
Machinery and equipment	8,030,283	480,634	(64,069)	8,446,848
Vehicles	<u>7,461,913</u>	<u>667,291</u>	<u>(595,050)</u>	<u>7,534,154</u>
Total	<u>54,207,682</u>	<u>3,999,284</u>	<u>(666,610)</u>	<u>57,540,356</u>
Depreciable capital assets, net:	<u>\$70,341,589</u>	<u>\$ (2,061,799)</u>	<u>\$(35,894)</u>	<u>\$68,243,896</u>
Grand total	<u>\$74,377,771</u>	<u>\$ 864,661</u>	<u>\$(1,917,375)</u>	<u>\$73,325,057</u>

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Depreciation expense was charged to governmental functions as follows:

General government support	\$ 123,109
Hydroelectric production	257,357
Police	122,160
Fire	431,566
Other public safety	-
Public Works	2,366,690
Bus	171,944
Library	119,544
Other culture and recreation	335,432
Refuse and recycling	71,482
Other home and community services	-
Total	<u>\$ 3,999,284</u>

Business-Type Activities:	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Non-depreciable capital assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	803,149	1,399,116	(1,465,872)	736,393
Total	<u>\$ 803,149</u>	<u>\$ 1,399,116</u>	<u>\$(1,465,872)</u>	<u>\$ 736,393</u>
Depreciable capital assets:				
Land improvements	\$ 250,568	\$ -	\$ -	\$ 250,568
Buildings and improvements	27,353,259	5,416	-	27,358,675
Infrastructure	21,223,532	1,364,358	(6,309)	22,581,581
Machinery and equipment	15,684,839	81,240	(173,964)	15,592,115
Vehicles	780,725	179,795	(37,885)	922,635
Total	<u>65,292,923</u>	<u>1,630,809</u>	<u>(218,158)</u>	<u>66,705,574</u>
Less accumulated depreciation for:				
Land improvements	239,002	3,600	-	242,602
Buildings and improvements	13,410,357	540,674	-	13,951,031
Infrastructure	5,178,120	324,829	(4,105)	5,498,844
Machinery and equipment	12,548,123	515,442	(17,210)	13,046,355
Vehicles	658,335	48,893	(37,885)	669,343
Total	<u>32,033,936</u>	<u>1,433,438</u>	<u>(59,200)</u>	<u>33,408,175</u>
Depreciable capital assets, net:	<u>\$33,258,986</u>	<u>\$ 197,371</u>	<u>\$(158,958)</u>	<u>\$33,297,399</u>
Grand total	<u>\$34,062,135</u>	<u>\$ 1,596,487</u>	<u>\$(1,624,830)</u>	<u>\$34,033,792</u>

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

Water	\$ 654,589
Sewer	778,849
Total	<u>\$1,433,438</u>

CITY OF WATERTOWN, NEW YORK
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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	\$ 67,075	Reserve for Duffy Fairgrounds Stadium repairs
General – Cash	\$ 387,678	Reserve for capital projects
General – Cash	\$ 39,343	Reserve for special assessment sidewalk program debt
Special Revenue – Cash	\$ 70,092	Federal and State community development grants
Capital – Cash	\$ 1,130,377	Reserve for capital project acquisitions and construction
Water – Cash	\$ 179,498	Reserve for coagulation basin maintenance
Water – Cash	\$ 26,683	Reserve for capital project acquisitions and construction
Water - Cash	\$ 100,176	Excess debt proceeds reserved for debt service
Sewer – Cash	\$ 886,551	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 150,287	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, 2011 was \$64,488. The balance of the grants subject to repayment at June 30, 2011 was \$878,201.

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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 balance of these loans outstanding at June 30, 2011 was \$314,689.

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, 2011 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

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, 2011 were \$147,673.

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, 2011 were \$129,733.

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, 2011 were \$356,587.

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 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

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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, 2011 were \$162,156. The balance of the total loans outstanding at June 30, 2011 was \$110,763.

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 \$126,261 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, 2011.

2. Long-Term Debt

During the year ended June 30, 2011, the following changes occurred in long-term obligations:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds	\$21,671,082	\$8,700,911	\$(10,621,915)	\$19,750,078	\$2,658,116
Compensated Absences	293,637	-	(12,722)	280,915	30,000
Landfill Monitoring	252,000	-	(18,000)	234,000	18,000
NYPA Loan Payable	<u>92,319</u>	<u>-</u>	<u>(48,030)</u>	<u>44,289</u>	<u>44,289</u>
Total	<u>\$22,309,038</u>	<u>\$8,700,911</u>	<u>\$(10,700,667)</u>	<u>\$20,309,282</u>	<u>\$2,750,405</u>

The Statement of Net Assets at June 30, 2011 includes a deferred amount of \$185,522 on the advance refunding of bonds.

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Business-type Activities

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
General Obligation Bonds:					
Water	\$ 4,660,522	\$ 650,589	\$(1,007,008)	\$ 4,304,103	\$ 829,583
Sewer	4,648,596	188,500	(711,277)	4,125,819	492,301
NYPA Loan Payable	<u>3,827</u>	<u>-</u>	<u>(1,991)</u>	<u>1,836</u>	<u>1,836</u>
Total	<u>\$ 9,312,945</u>	<u>\$ 839,089</u>	<u>\$(1,080,126)</u>	<u>\$ 8,431,758</u>	<u>\$ 1,323,720</u>

The Statement of Net Assets at June 30, 2011 includes a deferred amount of \$(17,028) on the advance refunding of bonds.

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, 2011 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid 6/30/11</u>	<u>Outstanding 6/30/11</u>	<u>Maturity Date</u>
Sanitary and Storm Sewers	9.60%	\$2,330,000	\$ 75,000	\$ 400,000	12/2017
Public Improvements	6.30-6.375%	\$10,518,000	395,200	400,000	10/2011
Public Improvements	5.50-5.70%	\$3,599,000	175,000	150,000	10/2011
Public Improvements	5.25-5.60%	\$3,060,000	25,000	25,000	10/2011
Public Improvements	5.30-5.70%	\$2,808,000	100,000	-	7/2011
Public Improvements	4.60-5.25%	\$4,220,000	15,000	-	3/2011
Public Improvements	5.00-7.10%	\$11,010,000	1,295,000	-	11/2025
Public Improvements	3.50-4.85%	\$3,908,466	30,000	-	3/2013
Public Improvements	5.125-5.50%	\$6,105,000	20,000	40,000	6/2020
Public Improvements	7.40-7.50%	\$190,000	110,000	-	5/2021
Public Improvements	4.00-5.00%	\$2,310,000	125,000	75,000	5/2021
Public Improvements	2.50-4.00%	\$2,155,000	170,000	165,000	3/2012
Public Improvements	2.75-4.25%	\$8,145,000	575,000	4,050,000	1/2024
Public Improvements	4.00-4.375%	\$5,700,000	400,000	3,700,000	11/2020
Public Improvements	4.625-7.5%	\$250,000	25,000	125,000	11/2015
Public Improvements	3.25-4.00%	\$7,345,000	675,000	5,150,000	02/2023
Public Improvements	2.50-3.25%	\$3,220,000	325,000	2,600,000	09/2018
Public Improvements	3.125-4.00%	\$2,225,000	200,000	2,025,000	12/2024
Public Imp. Refunding, Ser.A	2.00- 4.00 %	\$2,175,000	-	2,175,000	11/2025
Public Imp. Refunding, Ser.B	2.00- 3.75 %	\$1,635,000	265,000	1,370,000	5/2020
Public Imp. Refunding, Ser.C	2.00- 6.00 %	\$3,695,000	-	3,695,000	11/2022
Public Improvements	2.00-3.00%	\$2,035,000	-	<u>2,035,000</u>	6/2021
Total Serial Bonds			<u>\$5,000,200</u>	<u>\$28,180,000</u>	

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On June 28, 2011 the City of Watertown issued \$2,035,000 of General Obligation Bonds to finance various capital projects at interest rates ranging from 2.00% to 3.00%. The net interest cost over the life of the bond is 2.33%.

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>
2012	\$ 2,658,116	\$726,705	\$ 3,384,821
2013	2,218,256	626,856	2,845,112
2014	2,057,988	555,144	2,613,132
2015	1,974,702	486,889	2,461,591
2016	1,819,702	418,429	2,238,131
2017-2021	6,818,314	1,187,161	8,005,475
2022-2026	<u>2,203,000</u>	<u>175,948</u>	<u>2,378,948</u>
	<u>\$19,750,078</u>	<u>\$ 4,177,132</u>	<u>\$23,927,210</u>

Business-type Activities:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,321,884	\$ 299,242	\$ 1,621,126
2013	851,744	255,289	1,107,033
2014	842,012	225,225	1,067,237
2015	825,298	195,642	1,020,940
2016	820,298	165,559	985,857
2017-2021	3,296,686	406,016	3,702,702
2022-2026	<u>472,000</u>	<u>30,090</u>	<u>502,090</u>
	<u>\$ 8,429,922</u>	<u>\$1,577,063</u>	<u>\$10,006,985</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, 2011 was \$ 87,782.

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%.

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

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

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

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

On April 15, 2011, the City issued \$2,175,000 in general obligation bonds (Series A) with an average interest rate of 3.64% to advance refund \$2,140,000 of outstanding November 15, 1997 serial bonds with an average interest rate of 5.03%. 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 and used to redeem all of the outstanding 1997 series bonds on May 15, 2011. A difference in cash flow requirements of \$225,831 and a net present value savings of \$175,826 were a result of this advance refunding by the City.

On April 15, 2011, the City issued \$1,635,000 in general obligation bonds (Series B) with an average interest rate of 2.37% to advance refund \$1,575,000 of outstanding April 15, 2000 serial bonds (\$1,015,000) with an average interest rate of 5.19% and May 15, 2002 serial bonds (\$560,000) with an average interest rate of 4.30%. 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 and used to redeem the 2000 and 2002 series bonds on May 15, 2011. All but \$40,000 of the April 15, 2000 serial bonds and \$23,750 of the May 15, 2002 serial bonds were redeemed on May 15, 2011. A difference in cash flow requirements of \$91,825 and a net present value savings of \$84,907 were a result of this advance refunding by the City.

On April 15, 2011, the City issued \$3,695,000 in general obligation bonds (Series C) with an average interest rate of 5.19% to advance refund \$3,625,000 of outstanding November 15, 1997 taxable serial bonds with an average interest rate of 7.09%. 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

CITY OF WATERTOWN, NEW YORK
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an irrevocable trust with an escrow agent and used to redeem the 1997 series bonds on May 15, 2011. Additionally, the City used \$1,000,000 of General Fund balance to increase the amount of outstanding November 15, 1997 taxable serial bonds redeemed to \$4,625,000. Accordingly all of the outstanding 1997 taxable serial bonds were redeemed on May 15, 2011. A combined difference in cash flow requirements of \$2,552,088 and a net present value savings of \$543,580 were the result of the advance refunding and use of fund balance by the City.

On May 15, 2011, the City redeemed the balance of \$100,000 of outstanding Hydroelectric Plant taxable serial bonds with an average interest rate of 7.45% dated May 15, 2002 with the use of \$100,000 of General Fund fund balance.

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 0.73% at the start of the fiscal year to 0.73% at the end of the fiscal year. The outstanding balance at June 30, 2011 is \$46,126. The estimated maturities over the next five years and thereafter are as follows:

2012	<u>\$ 46,126</u>
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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. The remaining principal on these bonds was paid during the current fiscal year.

4. Deferred Revenue

Deferred revenue consists of the following:

General Fund:

Deferred property tax revenue and prepaid interest installments on special assessments	<u>\$ 366,039</u>
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Capital Projects Fund

Deferred State Aid and other miscellaneous sources	<u>\$ 58,498</u>
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Special Revenue Fund

Notes receivable funded from grant proceeds	<u>\$ 1,439,640</u>
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**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

6. On-behalf Payments for Fringe Benefits

Beginning in the current fiscal year, the Federal government made on-behalf of payments for the Early Retiree Reinsurance Program, which reimburses the City up to 80% of annual claims between \$15,000 and \$90,000 per person. The amount included in the gross expenditures for the Early Retiree Reinsurance Program for the current fiscal year was \$300,952. This temporary program, authorized under Section 1102 of the Patient Protection and Affordable Care Act of 2010, Public Law 111-148, ends January 1, 2014.

7. 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, 2011 and two preceding years were:

	FYE 6/30/11	FYE 6/30/10	FYE 6/30/09
Employer Contributions			
ERS	\$ 921,798	\$ 618,718	\$ 635,943
PFRS	\$ 1,367,396	\$ 1,127,720	\$ 1,365,509
Employee Contributions			
ERS	\$ 86,370	\$ 84,691	\$ 80,686
PFRS	\$ -	\$ -	\$ -

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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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 \$34,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

7. Post Employment Benefits

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

Plan Description

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

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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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, 2011 the City contributed approximately \$6,501,539 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$558,538.

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)	\$ 4,861,797	\$ 337,727	\$ 275,115	\$ 5,474,637
Interest on net OPEB obligation	\$ 155,109	\$ 11,218	\$ 9,950	\$ 176,277
Adjustment to ARC	<u>\$ (142,638)</u>	<u>\$ (10,316)</u>	<u>\$ (9,150)</u>	<u>\$ (162,104)</u>
Annual OPEB cost	\$ 4,874,268	\$ 338,629	\$ 275,915	\$ 5,488,812
Contributions Made	<u>\$ (3,635,988)</u>	<u>\$ (118,667)</u>	<u>\$ (153,418)</u>	<u>\$ (3,908,073)</u>
Change in net OPEB obligation	\$ 1,238,280	\$ 219,962	\$ 122,497	\$ 1,580,739
Net OPEB obligation - beginning of year	<u>\$ 3,445,853</u>	<u>\$ 249,296</u>	<u>\$ 221,117</u>	<u>\$ 3,917,266</u>
Net OPEB obligation - end of year	<u>\$ 4,685,133</u>	<u>\$ 469,258</u>	<u>\$ 343,614</u>	<u>\$ 5,498,005</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	Net OPEB Obligation
Governmental Activities	\$ 4,874,268	74.60%	\$ 4,685,133
Business-type Activities - Water Fund	\$ 338,629	35.04%	\$ 469,258
Business-type Activities - Sewer Fund	\$ 275,915	55.60%	\$ 343,614

Funded Status and Funding Progress

As of September 1, 2010, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$112,726,495 and there were no plan assets. The covered payroll (annual payroll budget of active employees eligible to be covered by the

CITY OF WATERTOWN, NEW YORK
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plan) was \$17,329,092 and the ratio of unfunded actuarial accrued liability to covered payroll was 650.50%.

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 presented as required supplementary information following the notes to the financial statements presents multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

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, 2010 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 4.5% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was 9.0% for the current fiscal year and decreasing to 8.5% 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%.

C. Fund Balances

1. Non-spendable Fund Balances

Non-spendable fund balances consist of prepaid expenses and inventory at the Municipal Arena concession stand.

2. Restricted Fund Balances

Restricted fund balances consist of the following:

General Fund

- 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.
- Workers Compensation – An amount reserved to pay workers' compensation claims

CITY OF WATERTOWN, NEW YORK
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- 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
- Tourism – Balance of City's share of the hotel occupancy tax enacted by Jefferson County which must be used to promote and develop tourism in the City
- Debt Service – Balance of debt issued on behalf of property owners who elected to participate in the City's ten-year special assessment program for sidewalk replacements

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, 2011 was \$230,942.

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, 2011 was \$100,176. The total amount reserved for principal and interest in the sewer fund at June 30, 2011 was \$150,287.

3. Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2011.

4. Excess of Expenditures over Appropriations

The General Fund's employee benefit expenditures for the fiscal year ended June 30, 2011 as presented in Supplemental Schedule #1 exceeded appropriations by \$367,124 due to higher than anticipated claim costs of the City's self-funded health insurance plan.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 were as follows:

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$325,262	\$ 23,190
Water Fund	9,711	67,005
Sewer Fund	29,140	78,886
Library Fund	-	7,243
Capital Project Funds	17,775	204,844
Trust & Agency Fund	-	720
	<u>\$ 381,888</u>	<u>\$ 381,888</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	\$ -	\$5,607,780
Expenditures	<u>5,607,780</u>	<u>-</u>
Total	<u>\$5,607,780</u>	<u>\$5,607,780</u>

E. Operating Leases

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusho and Terry MacAdam. The term of the original lease is for a ten-year period from October 22, 2001 through October 21, 2011. The annual rent for the current fiscal year is \$1,900. The lease payment is payable in advance by September 15th of the previous year. On October 17, 2011, the City Council approved a new lease for the period from October 22, 2011 through October 21, 2016. Minimum future rentals to be paid over the term of the lease:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2012	\$ 2,500
2013	2,600
2014	2,700
2015	2,800
2016	2,900
	<u>\$ 13,500</u>

**CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Fairgrounds Property Lease

The City is the lessor of a portion of the Fairgrounds property to the Watertown Family YMCA. 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. 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>
2012	\$ 24,000
2013	24,000
2014	24,900
2015	25,800
2016	25,800
Thereafter	<u>512,507</u>
	<u>\$637,007</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, 2011 were \$381,353.

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

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2012	\$187,443
2013	177,481
2014	167,518
2015	<u>157,555</u>
Total	<u>\$689,997</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 three years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2012	\$ 2,596
2013	2,596
2014	<u>433</u>
	<u>\$ 5,625</u>

CITY OF WATERTOWN, NEW YORK
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JUNE 30, 2011

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 three years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2012	\$ 4,059
2013	4,059
2014	<u>4,059</u>
	<u>\$12,177</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 two years are as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2012	\$ 16,497
2013	<u>15,122</u>
	<u>\$ 31,619</u>

III. Commitments and Contingencies:

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false 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, 2011, 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 \$149,273 as of June 30, 2011 for un-funded general liability claims.

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 was accrued to the fiscal year ending June 30, 2010 for this settlement and subsequently paid during the current fiscal year.

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 of 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.

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Environmental Concerns

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 \$ 794,595 of which \$744,298 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2011 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, 2011, the City is not aware of any significant environmental problems that should be disclosed in the general-purpose financial statements.

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2011, an estimated \$234,000 in post-closure care cost will be incurred over the remaining 20-year period. This liability is recorded in the long-term debt account group and is amortized in the General Fund at approximately \$18,000 each year.

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

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

CITY OF WATERTOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
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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, 2011 was \$27,700.

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

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

Electrical Distribution System Agreement

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

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

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

Watertown International Airport / Jefferson County Sales Tax Agreement

On May 3, 2004, the City agreed to a revised sales tax distribution with Jefferson County. Effective on September 1, 2004, Jefferson County increased the county's sales tax from 3.00% to 3.75%. Under the prior agreement the City received 28% of the County sales tax collections. The City agreed to forego receiving distributions on the additional revenue for the first five quarters that the new tax rate is in effect thus reducing its overall collection percentage of total sales tax collections to 22.4%. During the first five quarters, Jefferson County will retain all funds collected 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, effective January 1, 2005. The transfer of the airport to Jefferson County occurred 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

CITY OF WATERTOWN, NEW YORK
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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.

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

By resolution adopted January 24, 1990, the City Council approved a twenty year agreement, effective with the commencement of regular treated water deliveries, between the City and the Development Authority of the North Country, in order to produce and deliver treated fresh water to Fort Drum and future outside water districts. The Development Authority of the North Country and United States Army executed an agreement on January 16, 1990 for water services to Fort Drum and surrounding communities. On May 16, 1991, the City began delivering water to the Authority. The City is currently in negotiations with the Development Authority of the North Country on a new agreement for water services.

Gross Receipts Tax Refund Request from National Grid

On December 26, 2008 National Grid requested a gross receipts tax refund 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, 2011 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.

**CITY OF WATERTOWN, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<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	\$ 7,410,974	\$ 7,410,974	\$ 7,054,030	\$ (356,944)
Real property tax items	236,770	236,770	315,952	79,182
Non-property taxes	16,257,700	16,257,700	17,054,098	796,398
Departmental income	4,484,870	4,484,870	4,940,166	455,296
Intergovernmental charges	123,870	123,870	117,157	(6,713)
Use of money and property	198,930	198,930	145,689	(53,241)
Licenses and permits	79,600	79,600	93,916	14,316
Fines and forfeitures	135,000	135,000	100,533	(34,467)
Sale of property and compensation for loss	237,000	237,000	475,533	238,533
Miscellaneous local sources	648,315	648,315	706,592	58,277
Interfund revenue	760,842	774,517	1,012,040	237,523
State source	5,668,594	5,668,594	5,627,714	(40,880)
Federal sources	315,100	315,100	675,655	360,555
Transfers from other funds	201,325	196,325	273,034	76,709
	<u>36,758,890</u>	<u>36,767,565</u>	<u>38,592,109</u>	<u>1,824,544</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government support	5,344,264	5,177,467	4,956,825	220,642
Public safety	13,854,975	13,901,925	13,859,362	42,563
Transportation	4,046,159	4,141,584	3,927,197	214,387
Economic assistance and development	110,250	110,250	94,554	15,696
Culture and recreation	1,089,373	1,211,348	1,126,600	84,748
Home and community services	1,228,528	1,110,100	1,072,073	38,027
Employee benefits	7,606,207	7,637,757	8,004,881	(367,124)
Debt service	3,444,674	4,547,674	4,546,364	1,310
Transfers to other funds	1,646,499	1,717,964	1,521,521	196,443
	<u>38,370,929</u>	<u>39,556,069</u>	<u>39,109,377</u>	<u>446,692</u>
Total charges to appropriations				
Excess (Deficiency) of Resources Over Charges to Appropriations				
	(1,612,039)	(2,788,504)	(517,268)	2,271,236
Appropriation of prior year fund balance				
	<u>1,612,039</u>	<u>2,788,504</u>	<u>-</u>	<u>(2,788,504)</u>
Excess / (Deficiency) of Resources Over Charge to Appropriations				
	<u>-</u>	<u>-</u>	<u>(517,268)</u>	<u>(517,268)</u>
Fund Balance, Beginning of year				
			14,558,066	
Fund equity transfer				
			92,891	
Fund Balance, End of year				
			<u>\$ 14,133,689</u>	

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

SUPPLEMENTAL SCHEDULE #2

CITY OF WATERTOWN, NEW YORK
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**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing & Urban Development:		
Community Development Block Grant/State's Loan HOME Investment Partnerships Program	14.228 14.239	\$ 675,037 <u>126,261</u>
Total Department of Housing & Urban Development		<u>801,298</u>
US Department of Transportation:		
Passed Through New York State:		
ARRA-Highway Planning and Construction	20.205	221,812
State and Community Highway Safety	20.600	8,347
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>280,751</u>
Total Department of Transportation		<u>510,910</u>
US Department of Homeland Security:		
Homeland Security Grant Program	97.067	<u>2,729</u>
US Department of Commerce:		
Public Safety Interoperable Communications Grant	11.555	<u>96,231</u>
US Department of Justice:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3,746
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	45,296
Bulletproof Vest Partnership Program	16.607	<u>2,100</u>
Total Department of Justice		<u>51,142</u>
		<u><u>\$ 1,462,310</u></u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF WATERTOWN, NEW YORK
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 NOTES TO SCHEDULE OF EXPENDITURES
 OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2011

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 7/1/10	Issuance	Forgiveness	Balance at 6/30/11
14.228	\$ 596,681	\$ 535,272	\$ 253,752	\$ 878,201

3. Subrecipients:

No amounts were provided to subrecipients.

SUPPLEMENTAL SCHEDULE #3

CITY OF WATERTOWN, NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/08	\$ -	\$ 106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%
9/1/09	\$ -	\$ 106,324,770	\$106,324,770	0%	\$ 17,021,035	624.67%
9/1/10	\$ -	\$ 112,726,495	\$112,726,495	0%	\$ 17,329,092	650.50%

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, 2011, which collectively comprise the City of Watertown, New York's basic financial statements and have issued our report thereon dated January 27, 2012. 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 27, 2012.

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 & Poduin, CPA, P.C.

January 27, 2012

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, 2011. 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, 2011.

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 27, 2012

CITY OF WATERTOWN, NEW YORK
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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 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, 2011. 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, 2011.

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, 2011, and have issued our report thereon dated January 27, 2012. 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 & Paduin, CPA, P.C.

January 27, 2012

CITY OF WATERTOWN, NEW YORK

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SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2011

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement/CHIPS	732059	\$ 291,434
Formula Grants for Other Than Urbanized Areas - Bus replacement	C003759	57,757
Formula Grants for Other Than Urbanized Areas - DPW Maintenance Facility	C003695	<u>4,528</u>
TOTAL		<u>\$ 353,719</u>

See accompanying notes to Schedule of State Transportation Assistance Expended.

CITY OF WATERTOWN, NEW YORK

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NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2011

NOTES

A. General:

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

B. Basis of Accounting:

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

CITY OF WATERTOWN, NEW YORK

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED JUNE 30, 2011

Summary of Audit Results:

Internal control over state transportation assistance expended:

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

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

No matters were reported
