

CITY OF WATERTOWN,
NEW YORK

FINANCIAL STATEMENTS

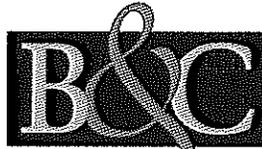
June 30, 2012

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CITY OF WATERTOWN, NEW YORK

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CERTIFIED PUBLIC ACCOUNTANTS * BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watertown, New York's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2012, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 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 grants 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 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 3-17), budgetary comparison information (page 68) and the supplementary schedule of the funding progress of the post employment healthcare benefit plan (page 71) 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. The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis as and are 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.

Bowers & Company

Watertown, New York
December 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. 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, 2012 by \$94,942,658. Of this amount unrestricted net assets of \$9,600,814 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$1,602,009 in fiscal year 2011-12, with an increase of \$142,068 in governmental activities and an increase of \$1,459,941 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 \$15,607,900.
- General Fund revenues of \$39,007,333 on a budgetary basis exceeded budgeted revenues by \$881,698 or 2.31% while budgetary basis expenditures finished \$1,314,915 lower than budgeted expenditures. These results reduced the need to use the full \$2,575,513 in appropriated fund balance budgeted for in the 2011-12 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,385,425 or 21.02% of total General Fund expenditures.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Government-Wide Financial Statements

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012, the City's assets exceeded liabilities by \$94,942,658 compared to \$93,340,649 at June 30, 2011. By far the largest portion of the City's net assets (86.96%) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

An additional \$2,782,262 or 2.93% 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, \$9,600,814 compared to \$10,013,015 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	
	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/11</u>
Current and other assets	\$21,728,609	\$22,024,304	\$5,755,133	\$5,384,256	\$27,483,742	\$27,408,560
Capital Assets	<u>71,979,446</u>	<u>73,325,057</u>	<u>33,927,819</u>	<u>34,033,792</u>	<u>105,907,265</u>	<u>107,358,849</u>
Total Assets	\$93,708,055	\$95,349,361	\$39,682,952	\$39,418,048	\$133,391,007	\$134,767,409
Long-term liabilities outstanding	\$21,011,859	\$25,173,683	\$7,481,113	\$9,421,489	\$28,492,972	\$34,595,172
Other liabilities	<u>8,522,876</u>	<u>6,144,426</u>	<u>1,432,501</u>	<u>687,162</u>	<u>9,955,377</u>	<u>6,831,588</u>
Total liabilities	\$29,534,735	\$31,318,109	\$8,913,614	\$10,108,651	\$38,448,349	\$41,426,760
Net Assets:						
Invested in Capital Assets, net of related debt	\$55,046,244	\$53,716,212	\$27,513,338	\$26,499,239	\$82,559,582	\$80,215,451
Restricted	<u>2,551,679</u>	<u>2,682,223</u>	<u>230,583</u>	<u>429,960</u>	<u>2,782,262</u>	<u>3,112,183</u>
Unrestricted	<u>6,575,397</u>	<u>7,632,817</u>	<u>3,025,417</u>	<u>2,380,198</u>	<u>9,600,814</u>	<u>10,013,015</u>
Total Net Assets	\$64,173,320	\$64,031,252	\$30,769,338	\$29,309,397	\$94,942,658	\$93,340,649

As of June 30, 2012, 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, 2012

The following table provides a summary of the City's operations for the year ended June 30, 2012.

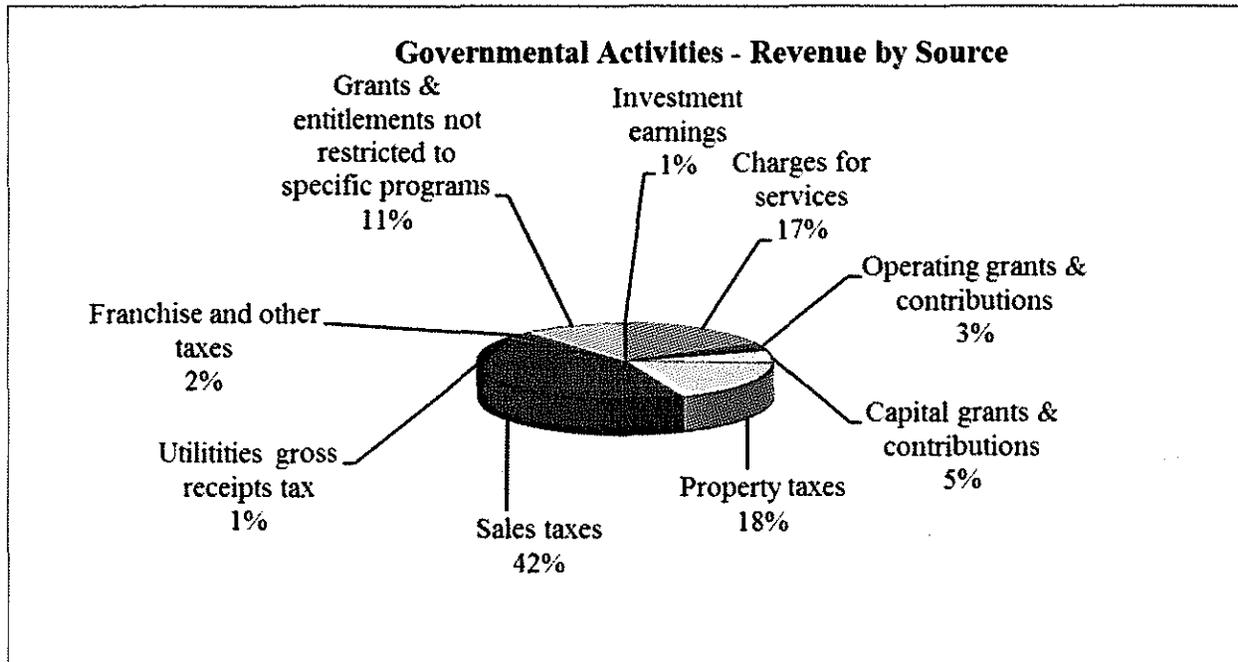
City of Watertown's Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	6/30/12	6/30/11	6/30/12	6/30/11	6/30/12	6/30/11
Revenues:						
Program Revenues:						
Charges for services	\$7,120,316	\$7,533,763	\$10,119,094	\$9,646,362	\$17,239,410	\$17,180,125
Operating grants and contributions	1,186,708	1,887,283	-	1,011	1,186,708	1,888,294
Capital grants and contributions	2,209,424	1,313,844	104,187	170,981	2,313,611	1,484,825
General revenues:						
Property taxes	7,589,639	7,359,032	-	-	7,589,639	7,359,032
Sales tax	17,215,058	16,007,070	-	-	17,215,058	16,007,070
Utilities gross receipts tax	351,716	407,527	-	-	351,716	407,527
Franchise tax	429,250	431,049	-	-	429,250	431,049
Mortgage tax	307,384	351,984	-	-	307,384	351,984
Hotel occupancy tax	221,947	208,453	-	-	221,947	208,453
Grants and Entitlements not restricted to specific programs	4,703,208	4,799,192	-	-	4,703,208	4,799,192
Investment earnings	58,787	173,059	10,826	29,435	69,613	202,494
Total revenues	\$41,393,437	\$40,472,256	\$10,234,107	\$9,847,789	\$51,627,544	\$50,320,045
Expenses:						
General government support	\$12,440,712	\$13,265,889	-	-	\$12,440,712	\$13,265,889
Hydroelectric production	592,900	425,599	-	-	592,900	425,599
Fire	8,347,846	7,572,164	-	-	8,347,846	7,572,164
Police	7,430,795	6,632,214	-	-	7,430,795	6,632,214
Other Public Safety	336,295	389,832	-	-	336,295	389,832
Public Works	6,357,799	6,319,007	-	-	6,357,799	6,319,007
Bus	841,388	874,730	-	-	841,388	874,730
Watertown Empire Zone	8,228	12,178	-	-	8,228	12,178
Other Economic Assistance	118,984	94,554	-	-	118,984	94,554
Library	935,944	920,139	-	-	935,944	920,139
Other Culture and Recreation	1,596,795	1,510,076	-	-	1,596,795	1,510,076
Refuse and Recycling	1,056,053	858,188	-	-	1,056,053	858,188
Other Home and Community Serv.	489,438	1,034,757	-	-	489,438	1,034,757
Interest on Debt Service	728,192	942,942	-	-	728,192	942,942
Water	-	-	4,436,105	4,372,484	4,436,105	4,372,484
Sewer	-	-	4,308,061	4,447,044	4,308,061	4,447,044
Total Expenses	\$41,281,369	\$40,852,269	\$8,744,166	\$8,819,528	\$50,025,535	\$49,671,797
Excess of Revenues over Expenses	112,068	(380,013)	1,489,941	1,028,261	1,602,009	648,248
Transfers	30,000	15,000	(30,000)	(15,000)	-	-
Change in Net Assets	142,068	(365,013)	1,459,941	1,013,261	1,602,009	648,248
Net Assets - Beginning	64,031,252	64,396,265	29,309,397	28,296,136	93,340,649	92,692,401
Net Assets - Ending	\$64,173,320	\$64,031,252	\$30,769,338	\$29,309,397	\$94,942,658	\$93,340,649

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Governmental activities. Governmental activities increased the City's net assets by a total \$142,068 compared to last year's decrease of (\$365,013). Key elements of the year are as follows:

- Sales tax revenue totaled \$17,215,058 which was an increase of \$1,207,988 or 7.55% over last year's total of \$16,007,070. Sales tax revenue represented 41.59% of the governmental activities' revenue in FY 11/12 compared to 39.55% in FY 10/11.
- Due to the fiscal condition of New York State, the City's State Aid revenue was cut \$95,984 or 2.00% to \$4,703,208 compared to \$4,799,192 last year.
- The City received \$1,822,409 in Federal and State Aid for various capital projects which is an increase of \$732,714 from the amount received last year for Federal and State grants for capital projects. Some of the major projects include the police and fire inter-operability project (\$805,369), the Consolidated Local Street and Highway Improvement Program for various streets (\$326,890), the J.B. Wise parking lot rehabilitation (\$347,592), Sewall's Island environmental rehabilitation (\$140,193) and the Factory Street reconstruction project (\$237,887).



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

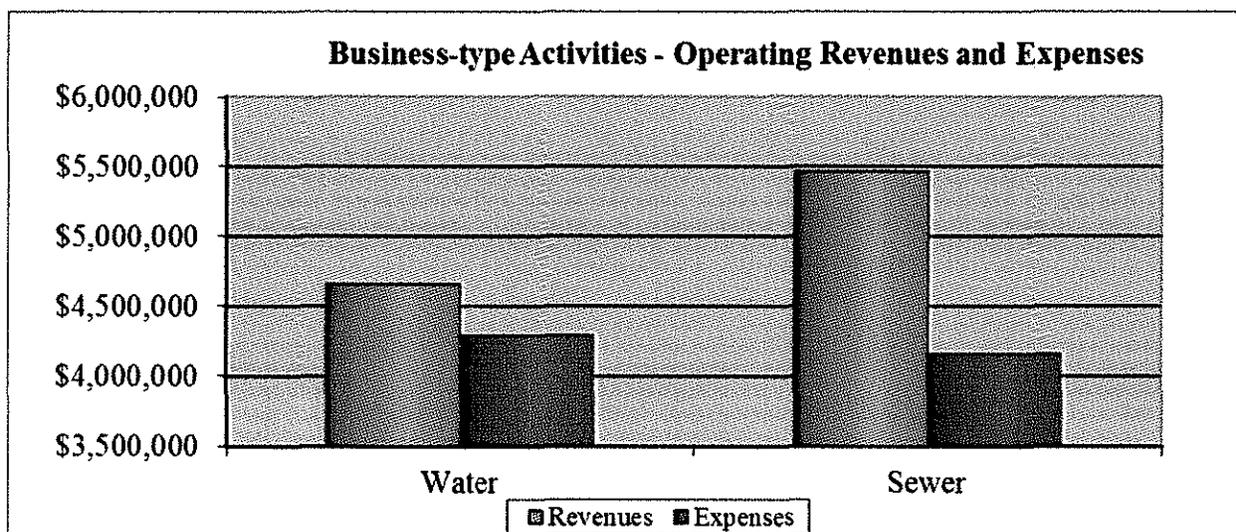
Business-type activities. Business-type activities increased the City's net assets by \$1,459,941 compared to \$1,013,261 last year. Key elements for this year are as follows:

- Water operating revenues increased by \$110,149 or 2.42% to \$4,656,803 while operating expenses increased by \$89,803 or 2.14% to \$4,290,542.
- The City entered into a new twenty year 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 connected to the Development Authority of the North Country's water distribution line. In the current fiscal year the revenue derived from this agreement was \$631,739 or an increase of \$85,413 or 15.63% over last year's total of \$546,326. Water revenues from this agreement accounted for 13.57% of the total water revenues compared to 12.02% last year.
- Total revenues from water sales to outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,152,949 or an increase of \$61,804 or 5.66% over last year's total of \$1,091,145. Water revenues to outside of the City customers represented 24.76% of the water operating revenues compared to 24.00% last year.
- Sewer operating revenues increased by \$361,572 or 7.09% to \$5,462,291 and operating expenses decreased by \$119,639 or 2.80% to \$4,159,020. Revenues related to the City's tanker hauled waste program increased \$338,338 with the leachate revenue from the Development Authority of the North Country increasing \$71,281 or 68.93% and the revenue from the Seneca Meadows landfill increasing \$238,092 or 71.77%. Transfers to the Sewer Fund capital projects decreased by \$87,987 to \$782,915 as the Sewer Fund continues to be able to afford paying more of its capital projects on a pay-as-you-go method and avoid the issuance of debt.
- 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 \$721,894 or an increase of \$60,242 or 9.10% over last year's total of \$661,652 due primarily to the Sewer Fund's \$250,000 capital fund transfer to begin the design of a disinfection system for which the Development Authority of the North Country contributes towards based on the agreement. Sewer revenues from this agreement accounted for 13.22% of the total sewer revenues compared to 12.97% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,597,626 or an increase of \$193,262 or 13.76% over last year's total of \$1,404,364. Sewer revenues to outside of the City customers represented 29.25% of the sewer operating revenues compared to 27.53% last year.



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, 2012 the City's governmental funds reported combined ending fund balances of \$15,607,900, a decrease of \$433,295 or 2.70% in comparison with the prior year. Approximately 54% or \$8,385,425 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 (\$32,053), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$2,551,679).

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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 \$8,385,425, while the total General Fund balance equaled \$13,308,140 compared to \$14,133,689 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 21.02% of total General Fund expenditures and other financing uses compared to 24.32% last year, while total fund balance represents 33.36% of that same amount compared to 36.14% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by (\$887,723) compared to last year's decrease of (\$517,268).

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 \$1,741,003 compared to \$1,205,221 in the previous year. Within the current year the amount of \$1,227,890 is considered restricted due to debt financing and \$513,113 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 \$922,441 compared to \$893,733 in the prior fiscal year. The water fund had an increase in net assets in the amount of \$254,096 compared to an increase of \$277,586 in the previous year.

Unrestricted net assets at the end of the fiscal year of the Sewer Fund were \$2,102,976 compared to \$1,486,465 in the prior year. The Sewer Fund had an increase in net assets in the amount of \$1,205,845 compared to an increase of \$735,675 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

General Fund Budgetary Highlights

The General Fund budget was re-adopted numerous times during the fiscal year which resulted in a total increase in appropriations by \$557,919 to provide funding for the annual Symphony Syracuse concert in Thompson Park (\$25,240), to increase the transfers to the Capital Projects Fund for the J.B. Wise parking lot reconstruction project (\$45,150), the Municipal Building and Library HVAC upgrades (\$279,000) and the Marble Street Park improvements (\$32,600), to provide funding for the purchase of a Department of Public Work's pick-up truck (\$38,000), to provide funding in support of the Parks and Recreation Department organizational structure modification (\$56,073), to provide funding for the purchase of a replacement police car (\$23,856), to reflect expenditures from the Alex T. Duffy Stadium Repair Reserve Fund (\$53,000) and to increase the funding to the Jefferson County Historical Society (\$5,000). As part of the budget re-adoptions revenues were increased by \$49,096 of which \$25,240 was a donation to pay for the symphony concert and \$23,856 was an increase to insurance proceeds due to a police car accident. Appropriated fund balance was increased \$508,823. Other budget amendments between departmental expenditure accounts also did occur.

General Fund revenues of \$39,007,333 on a budgetary basis exceeded final budgeted revenues of \$38,125,635 by \$881,698 or 2.31% while budgetary basis expenditures of \$39,895,056 were \$1,314,915 or 3.19% lower than the final budgeted expenditures of \$41,209,971. The excess of actual revenues over budgeted revenues is primarily due to the increases over budget of sales tax revenue (\$750,058) and insurance recoveries on large self-insurance claims (\$434,428), real property tax reserves (\$59,198) and sales of real property (\$44,470). Revenues that did not meet budgetary expectations were the sale of surplus hydro-electric power (\$440,897), and mortgage recording tax revenue (\$67,616). Actual expenditures were lower than the budgeted expenditures due mostly to health insurance claim costs (\$496,094), planning department projects that did not occur as planned such as brown-field projects (\$56,000), increase in the liability for compensated absences (\$34,273) and year-end encumbrances (\$441,417) which included police cars (\$126,113), Fairground Stadium projects for flooring and masonry repairs (\$44,395), and the dog control agreement with Jefferson County (\$85,382). These combined results negated the use of \$2,575,513 in appropriated fund balance that was budgeted in the 2011-12 General Fund original adopted budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012, amounts to \$82,559,582. 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	
	6/30/12	6/30/11	6/30/12	6/30/11	6/30/12	6/30/11
Land	\$2,601,285	\$2,599,900	\$ -	\$ -	\$2,601,285	\$2,599,900
Construction in Progress	3,835,880	2,481,261	281,986	736,393	4,117,866	3,217,654
Land Improvements	2,186,393	2,250,655	4,852	7,966	2,191,245	2,258,621
Building and Improvements	18,767,777	19,243,276	12,866,970	13,407,644	31,634,747	32,650,920
Infrastructure	40,099,734	41,771,288	18,162,946	17,082,737	58,262,680	58,854,025
Machinery and Equipment	2,520,334	2,828,708	2,269,053	2,545,760	4,789,387	5,374,468
Vehicles	1,968,043	2,149,969	342,012	253,292	2,310,055	2,403,261
Total Net Assets	\$71,979,446	\$73,325,057	\$33,927,819	\$34,033,792	\$105,907,265	\$107,358,849

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

- Completed reconstruction of the inner courtyard at the Department of Public Works complex on Newell Street at a cost of \$124,231.
- Continued reconstructing J.B. Wise parking lot which includes a partially covered pedestrian walkway, new vehicle drives, lighting, landscaping, water main replacement, and the construction and separation of a storm and sanitary sewer. Components of the project included the water main replacement at a cost of \$164,393 and the sanitary sewer main at a cost of \$258,835. Construction in progress totals \$2,254,823.
- Vehicle and equipment purchases in the amount of \$447,749 for a dump truck (\$125,910) and a snow plow (\$225,933) for the Department of Public Works as well as a dump truck (\$95,906) for the Water Department.
- Completed the Greensview / Ives Hill sanitary sewer reconstruction at a cost of \$357,272.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

- Completed the relining of approximately 2,800 linear feet of the Western Outfall Trunk Sewer from Wealtha Avenue to the Wastewater diversion structure at a cost of \$558,685.
- Continued environmental investigations and interim remedial measures on Sewall's Island. Construction in progress at year-end totaled \$ 863,737.
- Began design of the Factory Street reconstruction project which is estimated to cost over \$9,000,000 and include the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer. Construction in progress at year-end was \$250,659.
- Began design of a disinfection system for both treatment outfalls at the wastewater treatment plant. The system is mandated in the renewed State Pollutant Discharge Elimination System (SPDES) permit provided by the New York State Department of Environmental Conservation. The construction estimate included in the Fiscal Year 2012-13 Capital Budget was \$2,700,000. Construction in progress at fiscal year-end was \$116,089.

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$24,200,000. 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	
	6/30/12	6/30/11	6/30/12	6/30/11	6/30/12	6/30/11
General obligation bonds	\$17,091,962	\$19,750,078	\$7,108,038	\$8,429,922	\$24,200,000	\$28,180,000
Other loans	-	44,289	-	1,836	-	46,125
	<u>\$17,091,962</u>	<u>\$19,794,367</u>	<u>\$7,108,038</u>	<u>\$8,431,758</u>	<u>\$24,200,000</u>	<u>\$28,226,125</u>

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, 2012, the City's debt limit was \$72,310,428 with total net indebtedness of \$11,406,824, thus exhausting 15.77% of the City's debt limit.

The City did not issue any debt in Fiscal Year 2011-12.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2012-13 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2012 were 9.5% for the City of Watertown, 9.5% for Jefferson County, 9.1% for New York State and 8.2% for the United States. The unemployment rates in June 2011 were 8.9% for the City of Watertown, 8.9% for Jefferson County, 8.1% for New York State and 9.1% for the United States.

Budget factors considered during the preparation of the FY 2012-13 budget included the national and state economies, low interest rates, high unemployment and escalating NYS Retirement System contribution rates. With the continued uncertainties overseas, as has been the case since 2001, it was difficult to predict how many of the 19,978 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 \$1,395,000 from the FY 2011-12 budgeted level.

Like most local governments, the City's 2012-13 budget was impacted by the escalating high costs for retirement benefits. The contribution to the Employees' Retirement System will range from 15.1% to 25.4% of salaries, up from a range of 12.7% to 21.5% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 20.1% to 25.1% of salaries, up from 20.0% to 20.9% 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 33% of payroll for Police and Fire employees and 23% of payroll for all other employees. Due to the better than expected claims history over the last few years the self-insurance fund appropriated \$310,000 of fund balance to minimize the premium rate increase to 5.8%.

The City saw an increase of \$10,581,203 or 1.05% in taxable assessed value. The residential tax burden has decreased slightly to 60.71% from 60.85% last year. The average assessment for a single-family home in Watertown increased slightly to \$106,292 from \$105,855 in FY 2011-12.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The City's FY 2012-13 General Fund operating costs increased by \$4,089,715 or 10.76% to \$42,112,872. The reason for the increase was due to the appropriation of a \$3,100,000 transfer to the Capital Reserve Fund. The transfer was funded by a change in the payment cycle of the New York State Aid payments to the City which provided a one-time infusion of additional State Aid in FY 2012-13 that will be used for upcoming capital projects identified in the City's five-year capital plan. The City appropriated \$1,581,027 of fund balance, an increase of \$84,804 over FY 2011-12. The sales tax revenue budget was increased to \$17,860,000 which represented an increase of \$1,395,000 or 8.5% over the sales tax budget for FY 2011-12. The State Aid revenue budget was increased by \$3,100,000 from the FY 2011-12 budget to account for the one-time payment cycle change. The base level of State Aid was kept at the Fiscal Year 2011-12 level of \$4,703,208. The increase in the real property tax levy of \$73,002 or 1.00% and the increase in taxable assessed values resulted in a 0.10% decrease to the property tax rate. Fiscal year 2012-13 was the first year under the New York State Property tax cap that essentially limits the growth in the real property tax levy to two percent or the rate of inflation, whichever is less, with some exceptions. Local communities have the ability to override the tax cap.

Appropriations for the Water Fund decreased by \$192,007 or 3.95%. The Water Fund appropriated \$43,376 of fund balance of which \$28,738 was from the debt reserve fund to pay for the Ten Eyck Street reconstruction debt service. The Sewer Fund appropriations increased \$297,798 or 5.92% due mostly to the increase in funds transferred to capital projects (\$365,000). The Sewer Fund appropriated \$509,889 of fund balance of which \$39,509 was from the debt reserve fund to pay for the Ten Eyck Street reconstruction debt service. The water and sewer rates were not modified.

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.

AUDITED FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2012

	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	\$ 12,299,771	\$ 3,086,350	\$ 15,386,121	\$ 143,872
Restricted Cash and Cash Equivalents	2,342,203	999,392	3,341,595	201,825
Receivables (Net of Allowance for Uncollectibles)				
Accounts	2,380,251	1,370,957	3,751,208	-
Taxes	397,774	-	397,774	-
Due from Other Governments	2,292,292	215,073	2,507,365	-
State and Federal Aid Receivables	1,877,002	185,061	2,062,063	-
Inventory	2,863	-	2,863	-
Prepaid Expenses	32,053	-	32,053	330
Internal Balances	104,400	(101,700)	2,700	-
	<u>21,728,609</u>	<u>5,755,133</u>	<u>27,483,742</u>	<u>346,027</u>
Capital Assets				
Non-Depreciable	6,437,165	281,986	6,719,151	14,516
Depreciable, Net	<u>65,542,281</u>	<u>33,645,833</u>	<u>99,188,114</u>	<u>48,383</u>
Total Capital Assets	<u>71,979,446</u>	<u>33,927,819</u>	<u>105,907,265</u>	<u>62,899</u>
TOTAL ASSETS	<u>\$ 93,708,055</u>	<u>\$ 39,682,952</u>	<u>\$ 133,391,007</u>	<u>\$ 408,926</u>
LIABILITIES				
Accounts Payable	\$ 1,489,232	\$ 161,134	\$ 1,650,366	\$ 7,095
Accrued Interest Payable	135,911	65,136	201,047	-
Accrued Liabilities	869,928	110,296	980,224	-
Retainage Payable	102,369	20,162	122,531	-
Current Debt Obligations Due Within One Year	2,266,256	851,744	3,118,000	-
Compensated Absences	631,100	102,229	733,329	-
Workers Compensation Liability	537,407	156,918	694,325	-
Accrued Post Employment Benefits	5,361,969	1,076,416	6,438,385	-
Other Liabilities	7,475	11,999	19,474	-
Due to Other Governments	47,031	190	47,221	-
Due to Retirement System	940,290	109,611	1,049,901	-
Deferred Revenue	2,033,284	-	2,033,284	-
Other Long-Term Debt	397,537	-	397,537	-
Serial Bonds	14,873,706	6,256,294	21,130,000	-
Less: Deferred Amount on Advance Refunding	<u>(158,760)</u>	<u>(8,515)</u>	<u>(167,275)</u>	<u>-</u>
Total Liabilities	<u>29,534,735</u>	<u>8,913,614</u>	<u>38,448,349</u>	<u>7,095</u>
NET ASSETS				
Investment in Capital Assets, Net of Related Debt	55,046,244	27,513,338	82,559,582	-
Restricted for				
Capital Reserves	67,270	-	67,270	-
Workers Compensation Reserve	316,736	-	316,736	-
Insurance Reserve - General	238,262	-	238,262	-
Tourism Reserve	20,168	-	20,168	-
Economic Development and Assistance	241,396	-	241,396	-
Community Development	80,049	-	80,049	-
Capital Projects	1,227,890	117,093	1,344,983	-
Debt Service	359,908	113,490	473,398	-
Library	-	-	-	205,003
Unrestricted	<u>6,575,397</u>	<u>3,025,417</u>	<u>9,600,814</u>	<u>196,828</u>
Total Net Assets	<u>64,173,320</u>	<u>30,769,338</u>	<u>94,942,658</u>	<u>401,831</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 93,708,055</u>	<u>\$ 39,682,952</u>	<u>\$ 133,391,007</u>	<u>\$ 408,926</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit The Trustees of the Roswell P. Flower Memorial Library
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government Support								
General Government Support	\$ 12,440,712	\$ 2,699,074	\$ 123,331	\$ 10,110	\$ (9,608,197)	\$ -	\$ (9,608,197)	\$ -
Hydroelectric Production	592,900	2,766,103	-	-	2,173,203	-	2,173,203	-
Public Safety								
Fire	8,347,846	-	-	450,296	(7,897,550)	-	(7,897,550)	-
Police	7,430,795	97,099	119,396	450,296	(6,764,004)	-	(6,764,004)	-
Other Public Safety	336,295	203,047	-	-	(133,248)	-	(133,248)	-
Public Works	6,357,799	136,405	9,177	1,091,939	(5,120,278)	-	(5,120,278)	-
Transportation								
Bus	841,388	169,702	361,669	-	(310,017)	-	(310,017)	-
Economic Opportunity and Development								
Other Economic Assistance	118,984	-	-	-	(118,984)	-	(118,984)	-
Empire Zone	8,228	-	(100)	-	(8,328)	-	(8,328)	-
Culture and Recreation								
Library	935,944	18,624	51,484	-	(865,836)	-	(865,836)	-
Other Culture and Recreation	1,596,795	253,643	-	62,654	(1,280,498)	-	(1,280,498)	-
Home and Community Services								
Refuse and Recycle	1,056,053	740,596	-	-	(315,457)	-	(315,457)	-
Other Home and Community Services	489,438	36,023	521,751	144,129	212,465	-	212,465	-
Interest on Debt	728,192	-	-	-	(728,192)	-	(728,192)	-
Total Governmental Activities	<u>41,281,369</u>	<u>7,120,316</u>	<u>1,186,708</u>	<u>2,209,424</u>	<u>(30,764,921)</u>	<u>-</u>	<u>(30,764,921)</u>	<u>-</u>
Business-Type Activities								
Water	4,436,105	4,656,803	-	44,475	-	265,173	265,173	-
Sewer	4,308,061	5,462,291	-	59,712	-	1,213,942	1,213,942	-
Total Business-Type Activities	<u>8,744,166</u>	<u>10,119,094</u>	<u>-</u>	<u>104,187</u>	<u>-</u>	<u>1,479,115</u>	<u>1,479,115</u>	<u>-</u>
Total Primary Government	<u>\$ 50,025,535</u>	<u>\$ 17,239,410</u>	<u>\$ 1,186,708</u>	<u>\$ 2,313,611</u>	<u>(30,764,921)</u>	<u>1,479,115</u>	<u>(29,285,806)</u>	<u>-</u>
Component Unit								
The Trustees of the R.P. Flower Memorial Library	\$ 97,121	\$ -	\$ 76,784	\$ -	-	-	-	(20,337)
Total Component Unit	<u>\$ 97,121</u>	<u>\$ -</u>	<u>\$ 76,784</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,337)</u>
Net (Expense) Revenue and Changes in Net Assets Brought Forward					<u>(30,764,921)</u>	<u>1,479,115</u>	<u>(29,285,806)</u>	<u>(20,337)</u>
			GENERAL REVENUES					
					7,589,639	-	7,589,639	-
					17,215,058	-	17,215,058	-
					351,716	-	351,716	-
					429,250	-	429,250	-
					221,947	-	221,947	-
					307,384	-	307,384	-
					4,703,208	-	4,703,208	-
					58,787	10,826	69,613	1,353
					<u>30,876,989</u>	<u>10,826</u>	<u>30,887,815</u>	<u>1,353</u>
					30,000	(30,000)	-	-
					142,068	1,459,941	1,602,009	(18,984)
					<u>64,031,252</u>	<u>29,309,397</u>	<u>93,340,649</u>	<u>420,815</u>
					<u>\$ 64,173,320</u>	<u>\$ 30,769,338</u>	<u>\$ 94,942,658</u>	<u>\$ 401,831</u>

See notes to financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Unrestricted Cash and Cash Equivalents	\$ 11,971,696	\$ -	\$ 328,075	\$ 12,299,771
Restricted Cash and Cash Equivalents	105,110	2,145,322	91,771	2,342,203
Receivables (Net of Allowance for Uncollectibles)				
Accounts	816,545	34,094	1,529,612	2,380,251
Taxes	396,331	1,443	-	397,774
Due from Other Governments	2,158,449	107,251	26,592	2,292,292
State and Federal Aid Receivables	241,772	1,635,230	-	1,877,002
Inventory	2,863	-	-	2,863
Prepaid Expenses	32,053	-	-	32,053
Due from Other Funds	1,680,223	-	200,000	1,880,223
TOTAL ASSETS	\$ 17,405,042	\$ 3,923,340	\$ 2,176,050	\$ 23,504,432
LIABILITIES				
Accounts Payable	\$ 1,127,210	\$ 355,531	\$ 6,491	\$ 1,489,232
Accrued Liabilities	745,608	102,792	21,528	869,928
Retainage Payable	-	102,369	-	102,369
Compensated Absences	612,729	-	18,371	631,100
Other Liabilities	7,475	-	-	7,475
Due to Other Funds	207,896	1,561,705	6,222	1,775,823
Due to Other Governments	45,588	1,443	-	47,031
Due to Retirement System	916,488	-	23,802	940,290
Deferred Revenue	433,908	58,497	1,540,879	2,033,284
Total Liabilities	4,096,902	2,182,337	1,617,293	7,896,532
Nonspendable				
Inventory	2,863	-	-	2,863
Prepaid Expenses	32,053	-	-	32,053
Restricted for				
Capital Reserve - Fairgrounds	67,270	-	-	67,270
Workers Compensation Reserve	316,736	-	-	316,736
Insurance Reserve - General	238,262	-	-	238,262
Tourism Reserve	20,168	-	-	20,168
Debt Service Reserve	302,145	-	57,763	359,908
Community Development Reserve	-	-	80,049	80,049
Economic Development Reserve	-	-	241,396	241,396
Capital Projects	-	1,227,890	-	1,227,890
Assigned to				
Self-Funded Health Insurance Plan	1,920,774	-	-	1,920,774
General Government Support	54,059	-	-	54,059
Fire	7,539	-	-	7,539
Police	145,417	-	-	145,417
Other Public Safety	87,556	-	-	87,556
Public Works	52,019	-	-	52,019
Bus	16,809	-	-	16,809
Other Economic Assistance	4,375	-	-	4,375
Other Culture and Recreation	67,059	-	-	67,059
Refuse and Recycle	6,584	-	-	6,584
Library	-	-	12,692	12,692
Capital Projects	-	513,113	-	513,113
Subsequent Year's Expenditures	1,581,027	-	166,857	1,747,884
Unassigned	8,385,425	-	-	8,385,425
Total Fund Balances	13,308,140	1,741,003	558,757	15,607,900
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,405,042	\$ 3,923,340	\$ 2,176,050	\$ 23,504,432

See notes to financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS**

Year Ended June 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES **\$ 15,607,900**

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	133,200,440
Accumulated Depreciation is	<u>61,220,994</u>
	<u>71,979,446</u>

Deferred Assets for Refunded Bonds	158,760
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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	(17,091,962)
Accrued Interest on Bonds Payable	(135,911)
Compensated Absences	(229,537)
Workers Compensation Liability	(537,407)
Landfill Post-Closure Liability	(216,000)
Accrued Post-Employment Benefits	<u>(5,361,969)</u>
	<u>(23,572,786)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 64,173,320**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

Year Ended June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real Property Taxes	\$ 7,307,193	\$ -	\$ -	\$ 7,307,193
Real Property Tax Items	292,558	-	-	292,558
Nonproperty Taxes	18,217,972	-	-	18,217,972
Departmental Income	4,321,479	-	-	4,321,479
Intergovernmental Charges	160,387	-	-	160,387
Use of Money and Property	103,682	12,839	5,115	121,636
Licenses and Permits	105,309	-	-	105,309
Fines and Forfeitures	131,737	-	18,624	150,361
Sale of Property and Compensation for Loss	560,378	-	-	560,378
Miscellaneous Local Sources	743,454	365,903	83,207	1,192,564
Interfund Revenue	993,026	-	-	993,026
State Sources	5,368,524	886,145	-	6,254,669
Federal Sources	523,068	936,264	437,856	1,897,188
	<u>38,828,767</u>	<u>2,201,151</u>	<u>544,802</u>	<u>41,574,720</u>
Total Revenues				
EXPENDITURES				
General Government Support	5,231,571	98,034	-	5,329,605
Public Safety	14,383,533	1,008,426	-	15,391,959
Transportation	3,868,349	2,261,644	-	6,129,993
Economic Assistance and Opportunity	118,984	-	8,228	127,212
Culture and Recreation	1,270,304	268,323	655,836	2,194,463
Home and Community Services	1,218,839	124,228	453,498	1,796,565
Employee Benefits	7,319,167	-	319,808	7,638,975
Debt Service	3,303,601	-	125,642	3,429,243
	<u>36,714,348</u>	<u>3,760,655</u>	<u>1,563,012</u>	<u>42,038,015</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenditures	<u>2,114,419</u>	<u>(1,559,504)</u>	<u>(1,018,210)</u>	<u>(463,295)</u>
OTHER FINANCING SOURCES AND (USES)				
Interfund Transfers In	178,566	2,191,547	1,499,677	3,869,790
Interfund Transfers Out	<u>(3,180,708)</u>	<u>(34,087)</u>	<u>(624,995)</u>	<u>(3,839,790)</u>
	<u>(3,002,142)</u>	<u>2,157,460</u>	<u>874,682</u>	<u>30,000</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(887,723)	597,956	(143,528)	(433,295)
Fund Balances - Beginning of Year	<u>14,133,689</u>	<u>1,205,221</u>	<u>702,285</u>	<u>16,041,195</u>
Fund Equity Transfer	<u>62,174</u>	<u>(62,174)</u>	<u>-</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 13,308,140</u>	<u>\$ 1,741,003</u>	<u>\$ 558,757</u>	<u>\$ 15,607,900</u>

See notes to financial statements.

RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds		\$ (433,295)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded the capital outlays in the period.</p>		
	Capital Outlays	\$ 2,566,399
	Depreciation Expense	3,887,220
		(1,320,821)
<p>Governmental funds report bond principal as an expenditure. However, in the Statement of Net Assets, the principal payments reduce the liability and do not result in an expense in the Statement of Activities.</p>		
		2,702,405
<p>Loss on Disposal of Assets</p>		
		(24,790)
<p>Bond premiums/discounts and issuance costs associated with long-term bonds are recognized as expenditures and other financing sources/uses in the governmental funds at the time the debt issued. However, those items are capitalized on the Statement of Net Assets and amortized over the life of the bonds on the Statement of Activities since they do not require the use of current financial resources.</p>		
<p>Amortization of Advanced Refunding Issuance Costs</p>		
		(26,762)
<p>Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities.</p>		
		25,408
<p>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.</p>		
		(625,459)
<p>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.</p>		
		(154,618)
Change in Net Assets of Governmental Activities		\$ 142,068

See notes to financial statements.

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

Year Ended June 30, 2012

	Business - Type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	\$ 1,252,259	\$ 1,834,091	\$ 3,086,350
Accounts Receivable, Net of Allowance for Uncollectible Accounts	686,823	684,134	1,370,957
Due from Governmental Funds	11,387	30,957	42,344
Due from Other Governments	-	215,073	215,073
State and Federal Aid Receivables	68,130	116,931	185,061
Total Current Assets	<u>2,018,599</u>	<u>2,881,186</u>	<u>4,899,785</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	186,889	812,503	999,392
Capital Assets, Net of Accumulated Depreciation	17,900,906	16,026,913	33,927,819
Total Non-Current Assets	<u>18,087,795</u>	<u>16,839,416</u>	<u>34,927,211</u>
TOTAL ASSETS	<u>\$ 20,106,394</u>	<u>\$ 19,720,602</u>	<u>\$ 39,826,996</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 59,581	\$ 101,553	\$ 161,134
Accrued Interest Payable	30,273	34,863	65,136
Retainage Payable	8,115	12,047	20,162
Accrued Liabilities	51,182	59,114	110,296
Compensated Absences	53,144	49,085	102,229
Due to Retirement System	61,276	48,335	109,611
Due to Governmental Funds	69,309	74,735	144,044
Due to Other Governments	190	-	190
Other Liabilities	11,999	-	11,999
Current Portion of Long-term Liabilities	400,450	451,294	851,744
Total Current Liabilities	<u>745,519</u>	<u>831,026</u>	<u>1,576,545</u>
LONG-TERM LIABILITIES			
Workers Compensation Liability	122,184	34,734	156,918
Other Post Employment Benefits Liability	640,620	435,796	1,076,416
Serial Bonds Payable	3,074,070	3,182,224	6,256,294
Less: Deferred Amount on Refunding	(7,782)	(733)	(8,515)
Total Long-Term Liabilities	<u>3,829,092</u>	<u>3,652,021</u>	<u>7,481,113</u>
Total Liabilities	<u>4,574,611</u>	<u>4,483,047</u>	<u>9,057,658</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	14,444,704	13,068,634	27,513,338
Restricted for Maintenance	117,093	-	117,093
Restricted for Debt	47,545	65,945	113,490
Unrestricted	922,441	2,102,976	3,025,417
Total Net Assets	<u>15,531,783</u>	<u>15,237,555</u>	<u>30,769,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,106,394</u>	<u>\$ 19,720,602</u>	<u>\$ 39,826,996</u>

See notes to financial statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS**

Year Ended June 30, 2012

	Business - Type Activities Enterprise funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 3,496,034	\$ 3,860,929	\$ 7,356,963
Intergovernmental Charges	1,152,949	1,597,626	2,750,575
Other Operating Revenue	7,820	3,736	11,556
Total Operating Revenues	<u>4,656,803</u>	<u>5,462,291</u>	<u>10,119,094</u>
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,152,984	1,718,965	3,871,949
Contractual Services	1,466,348	1,760,890	3,227,238
Depreciation	666,164	679,165	1,345,329
Loss on Disposal of Fixed Asset	5,046	-	5,046
Total Operating Expenses	<u>4,290,542</u>	<u>4,159,020</u>	<u>8,449,562</u>
Income from Operations	<u>366,261</u>	<u>1,303,271</u>	<u>1,669,532</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	3,923	6,903	10,826
Interest Expense	(145,563)	(149,041)	(294,604)
Total Non-Operating Revenue (Expenses)	<u>(141,640)</u>	<u>(142,138)</u>	<u>(283,778)</u>
Income Before Contributions and Transfers	224,621	1,161,133	1,385,754
Capital Contributions	44,475	59,712	104,187
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Assets	254,096	1,205,845	1,459,941
Net Assets - Beginning of Year	<u>15,277,687</u>	<u>14,031,710</u>	<u>29,309,397</u>
Net Assets - End of Year	<u>\$ 15,531,783</u>	<u>\$ 15,237,555</u>	<u>\$ 30,769,338</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2012

	Business - Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 4,755,672	\$ 5,303,439	\$ 10,059,111
Cash Payments for Contractual Expense	(1,461,556)	(1,818,809)	(3,280,365)
Cash Payments for Personal Services and Benefits	(1,980,489)	(1,611,637)	(3,592,126)
Other Operating Revenue	12,309	3,737	16,046
Net Cash Provided by Operating Activities	<u>1,325,936</u>	<u>1,876,730</u>	<u>3,202,666</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(15,000)	(15,000)	(30,000)
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Capital Debt	(829,583)	(494,137)	(1,323,720)
Interest Paid on Capital Debt	(146,533)	(152,714)	(299,247)
Capital Grants	57,878	59,712	117,590
Net Cash (Used) by Capital and Related Financing Activities	<u>(918,238)</u>	<u>(587,139)</u>	<u>(1,505,377)</u>
Cash Flows from Investing Activities			
Purchase of Capital Assets	(263,763)	(1,067,399)	(1,331,162)
Interest Income	3,924	6,902	10,826
Net Cash (Used) by Investing Activities	<u>(259,839)</u>	<u>(1,060,497)</u>	<u>(1,320,336)</u>
Net Increase in Cash and Cash Equivalents	132,859	214,094	346,953
Cash and Cash Equivalents, Beginning of Year	<u>\$ 1,306,289</u>	<u>\$ 2,432,500</u>	<u>\$ 3,738,789</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,439,148</u>	<u>\$ 2,646,594</u>	<u>\$ 4,085,742</u>
Reconciliation of Income from Operations to Net			
Income from Operations	\$ 366,261	\$ 1,303,271	\$ 1,669,532
Depreciation	666,164	679,165	1,345,329
Loss on Disposal of Fixed Asset	5,046	-	5,046
Change in Assets			
Accounts Receivable	46,581	(67,450)	(20,869)
Due from Other Governments	61,487	(85,847)	(24,360)
Due from Other Funds	(1,677)	(1,817)	(3,494)
Due from Federal and State Governments	4,489	-	4,489
Prepaid Expenses	4,906	3,850	8,756
Change in Liabilities			
Accounts Payable	(1,616)	(57,618)	(59,234)
Accrued Liabilities	(5,869)	20,910	15,041
Compensated Absences	7,783	8,635	16,418
Due to Retirement System	12,071	9,719	21,790
Due to Other Governments	(804)	-	(804)
Other Liabilities	(12,850)	(24,119)	(36,969)
OPEB Liability	171,362	92,182	263,544
Customer Deposits and Overpayments	298	-	298
Due to Other Funds	2,304	(4,151)	(1,847)
Net Cash Provided by Operating Activities	<u>\$ 1,325,936</u>	<u>\$ 1,876,730</u>	<u>\$ 3,202,666</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 1,252,259	\$ 1,834,091	\$ 3,086,350
Non-Current Assets - Restricted Cash and Cash Equivalents	186,889	812,503	999,392
Total Cash and Cash Equivalents	<u>\$ 1,439,148</u>	<u>\$ 2,646,594</u>	<u>\$ 4,085,742</u>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year Ended June 30, 2012

	Private Purpose Trusts	Agency Funds	Total
ASSETS			
Cash and Cash Equivalents	\$ 45,768	\$ 109,364	\$ 155,132
TOTAL ASSETS	\$ 45,768	\$ 109,364	\$ 155,132
LIABILITIES			
Due to Governmental Funds	\$ -	\$ 2,700	\$ 2,700
Deposits Held and Due to Others	-	78,291	78,291
Cafeteria Plan	-	20,885	20,885
Other Accrued Liabilities	-	7,488	7,488
Total Liabilities	-	109,364	109,364
NET ASSETS			
Held in Trust for Other Purposes	15,942	-	15,942
Held in Trust for Scholarships	29,826	-	29,826
Total Net Assets	45,768	-	45,768
TOTAL LIABILITIES AND NET ASSETS	\$ 45,768	\$ 109,364	\$ 155,132

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year Ended June 30, 2012

	<u>Private Purpose Trusts</u>
ADDITIONS	
Interest Revenue	\$ 132
Total Additions	<u>132</u>
DEDUCTIONS	
Scholarships Awarded	<u>75</u>
Total Deductions	<u>75</u>
Change in Net Assets	57
Net Assets - Beginning of Year	<u>45,711</u>
Net Assets - End of Year	<u><u>\$ 45,768</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – 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.

Financial Reporting Entity

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

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

The financial reporting entity consists of:

1. The primary government which is the City of Watertown.
2. Organizations for which the primary government is financially accountable.
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units*.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Financial Reporting Entity - Continued

Based on the forgoing criteria and the significant factors presented below, the following organizations are 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. The City includes the Watertown Empire Zone as a blended component unit.

The Trustees of Roswell P. Flower Memorial Library

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.

Government-Wide and Fund 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

Government-Wide Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

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:

1. Governmental Funds

The focus of the governmental fund's 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. The debt service fund also accumulates interest earned on borrowed money.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Government-Wide and Fund Financial Statements - Continued

Fund Financial Statements

2. 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 benefitted assessments used for debt retirement.

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

3. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

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.

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Property Taxes - Continued

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$2,512 and is included in "Due to other Governments". A portion of the receivable \$366,221 is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$571,125 has been included in the General Fund accounts receivable balance at June 30, 2012.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Budget Policies - Continued

The City prepares a legally adopted annual operating budget for the General Fund. The City's budget is adopted using a basis of accounting consistent with generally accepted accounting principles (GAAP). The City's actual amounts in the financial statements are presented on a GAAP basis; therefore, no reconciliation is necessary.

Cash and Cash Equivalents

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

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.

Investments

Investments are stated at fair value.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

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

Compensated 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 Statement of Net Assets 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

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:

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. 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 \$694,325 as of June 30, 2012 has been recorded on the Statement of Net Assets representing the long-term liability of open workers compensation cases.
3. 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, 2012 were \$3,704.
4. 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 \$419,693 has been recorded in the self-insurance fund for claims incurred as of June 30, 2012 but not reported based upon historical experience.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Fund Balance

During the prior year, 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. The City Council adopted a fund balance policy on June 20, 2011.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

Fund Balance - Continued

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.

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.

NOTE 2 – CASH AND INVESTMENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts, certificates of deposits and permissible investments. 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. During the fiscal year ended June 30, 2012, 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 and is not exposed to material interest rate risk.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 – CASH AND INVESTMENTS - Continued

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

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2012 per the banks were \$19,434,057. These deposits are categorized as follows:

	(a)		(b)		(c)
\$	1,063,007	\$	18,371,050	\$	-

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 – CASH AND INVESTMENTS - Continued

As of June 30, 2012, the City had the following investments:

Certificates of Deposit-Trust & Agency Funds	\$ 25,939
State and Local Government Series Securities	<u>57,629</u>
 Total	 <u>\$ 83,568</u>

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year ended June 30, 2012 follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Governmental Activities				
Non-Depreciable Capital Assets				
Land	\$ 2,599,900	\$ 1,385	\$ -	\$ 2,601,285
Construction in Progress	2,481,261	3,487,483	(2,132,864)	3,835,880
Total	<u>5,081,161</u>	<u>3,488,868</u>	<u>(2,132,864)</u>	<u>6,437,165</u>
Depreciable Capital Assets				
Land Improvements	7,953,883	124,230	-	8,078,113
Buildings and Improvements	30,523,949	222,753	-	30,746,702
Infrastructure	66,346,741	298,828	-	66,645,569
Machinery and Equipment	11,275,556	159,015	-	11,434,571
Vehicles	9,684,123	405,569	(231,372)	9,858,320
Total	<u>125,784,252</u>	<u>1,210,395</u>	<u>(231,372)</u>	<u>126,763,275</u>
Less: Accumulated Depreciation				
Land Improvements	5,703,228	188,492	-	5,891,720
Buildings and Improvements	11,280,673	698,252	-	11,978,925
Infrastructure	24,575,453	1,970,382	-	26,545,835
Machinery and Equipment	8,446,848	467,389	-	8,914,237
Vehicles	7,534,154	562,705	(206,582)	7,890,277
Total	<u>57,540,356</u>	<u>3,887,220</u>	<u>(206,582)</u>	<u>61,220,994</u>
Depreciable Capital Assets, Net	<u>68,243,896</u>	<u>(2,676,825)</u>	<u>(24,790)</u>	<u>65,542,281</u>
 Total	 <u>\$ 73,325,057</u>	 <u>\$ 812,043</u>	 <u>\$ (2,157,654)</u>	 <u>\$ 71,979,446</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$ 114,301
Hydroelectric Production	257,357
Police	119,205
Fire	384,803
Public Works	2,398,374
Bus	89,718
Library	120,070
Other Culture and Recreation	331,910
Refuse and recycling	71,482
Total	\$ 3,887,220

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Business-Type Activities				
Non-Depreciable Capital Assets				
Construction in Progress	\$ 736,393	\$ 1,151,932	\$ (1,606,339)	\$ 281,986
Total	736,393	1,151,932	(1,606,339)	281,986
Depreciable Capital Assets				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	27,358,675	-	-	27,358,675
Infrastructure	22,581,581	1,426,438	-	24,008,019
Machinery and Equipment	15,592,115	125,421	(21,623)	15,695,913
Vehicles	922,635	146,950	(14,842)	1,054,743
Total	66,705,574	1,698,809	(36,465)	68,367,918
Less: Accumulated Depreciation				
Land Improvements	242,602	3,114	-	245,716
Buildings and Improvements	13,951,031	540,674	-	14,491,705
Infrastructure	5,498,844	346,229	-	5,845,073
Machinery and Equipment	13,046,355	397,082	(16,577)	13,426,860
Vehicles	669,343	58,230	(14,842)	712,731
Total	33,408,175	1,345,329	(31,419)	34,722,085
Depreciable Capital Assets, Net	33,297,399	353,480	(5,046)	33,645,833
Total	\$ 34,033,792	\$ 1,505,412	\$ (1,611,385)	\$ 33,927,819

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 – CAPITAL ASSETS - Continued

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

Water	\$	666,164
Sewer		679,165
Total	\$	1,345,329

NOTE 4 – RESTRICTIONS ON ASSETS

Restricted Cash, Cash Equivalents and Investments

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

Fund	Restricted Balance	Restriction
General - Cash	\$ 67,270	Reserve for Duffy Fairgrounds Stadium repairs
General - Cash	\$ -	Reserve for capital projects
General - Cash	\$ 37,840	Reserve for special assessment sidewalk program debt
Special Revenue - Cash	\$ 91,771	Federal and State community development grants
Capital - Cash	\$ 2,145,322	Reserve for capital project acquisitions and construction
Water - Cash	\$ 117,093	Reserve for coagulation basin maintenance
Water - Cash	\$ 22,251	Reserve for capital project acquisitions and construction
Water - Cash	\$ 47,545	Excess debt proceeds reserved for debt service
Sewer - Cash	\$ 746,558	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 65,945	Excess debt proceeds reserved for debt service

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 – NOTES RECEIVABLE

To assist in the rehabilitation of homes of low and moderate-income persons, 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, 2012 was \$45,952. The balance of the grants subject to repayment at June 30, 2012 was \$1,017,504.

The City was awarded \$400,000 through a Fiscal Year 2005 Small Cities Community Development Block Grant to support a 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, 2012 was \$299,697.

Additionally, the City issued a loan to a limited partnership using Community Development Block Grant Funds for rehabilitation 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, 2012 was \$71,500. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 – NOTES RECEIVABLE - Continued

The City was awarded \$400,000 through a Fiscal Year 2008 Small Cities Community Development Block Grant to support a 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, 2012 were \$24,404.

The City was awarded \$400,000 through a Fiscal Year 2009 Small Cities Community Development Block Grant to support a 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 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, 2012 were \$221,905. The balance of the total loans outstanding at June 30, 2012 was \$100,317.

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 \$79,630 were awarded during the current year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 – NOTES RECEIVABLE - Continued

The City was awarded a North Country HOME Consortium Fiscal Year 2011 grant in the amount of \$121,824 to assist approximately five income eligible home-owners repair their homes. The purpose of this program is to improve neighborhood conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will be encouraged to eliminate those problems where they adversely affect the property or the surrounding neighborhood whenever assistance is provided under this program. Grants of \$93,907 were awarded during the current year.

The City was awarded \$400,000 through a Fiscal Year 2011 Small Cities Community Development Block Grant to support a program to rehabilitate existing substandard apartments throughout the City and create new apartments on the upper floors of commercial buildings in the downtown area. 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 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, 2012 were \$15,148. There were no loans issued as of June 30, 2012 for this grant.

NOTE 6 – 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, 2012.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2012, the following changes occurred in long-term obligations:

Governmental Activities

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
General Obligation Bonds	\$ 19,750,078	\$ -	\$ (2,658,116)	\$ 17,091,962	\$ 2,218,256
Compensated Absences	280,915	-	(51,378)	229,537	30,000
Landfill Monitoring	234,000	-	(18,000)	216,000	18,000
NYPA Loan Payable	44,289	-	(44,289)	-	-
Total	\$ 20,309,282	\$ -	\$ (2,771,783)	\$ 17,537,499	\$ 2,266,256

The Statement of Net Assets at June 30, 2012 includes a deferred amount of \$158,760 on the advance refunding of bonds.

Business-Type Activities

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
General Obligation Bonds:					
Water	\$ 4,304,103	\$ -	\$ (829,583)	\$ 3,474,520	\$ 400,450
Sewer	4,125,819	-	(492,301)	3,633,518	451,294
NYPA Loan Payable	1,836	-	(1,836)	-	-
Total	\$ 8,431,758	\$ -	\$ (1,323,720)	\$ 7,108,038	\$ 851,744

The Statement of Net Assets at June 30, 2012 includes a deferred amount of \$8,515 on the advance refunding of bonds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – LONG-TERM DEBT - Continued

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, 2012 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2012	Outstanding June 30, 2012	Maturity Date
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 75,000	\$ 325,000	12/2017
Public Improvements	6.30-6.375%	10,518,000	400,000	-	10/2011
Public Improvements	5.50-5.70%	3,599,000	150,000	-	10/2011
Public Improvements	5.25-5.60%	3,060,000	25,000	-	10/2011
Public Improvements	5.125-5.50%	6,105,000	20,000	20,000	6/2020
Public Improvements	4.00-5.00%	2,310,000	15,000	60,000	5/2021
Public Improvements	2.50-4.00%	2,155,000	165,000	-	3/2012
Public Improvements	2.75-4.25%	8,145,000	575,000	3,475,000	1/2024
Public Improvements	4.00-4.375%	5,700,000	400,000	3,300,000	11/2020
Public Improvements	4.625-7.5%	250,000	25,000	100,000	11/2015
Public Improvements	3.25-4.00%	7,345,000	625,000	4,525,000	2/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	2,275,000	9/2018
Public Improvements	3.125-4.00%	2,225,000	225,000	1,800,000	12/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	115,000	2,060,000	11/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	345,000	1,025,000	5/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	235,000	3,460,000	11/2022
Public Improvements	2.00-3.00%	2,035,000	260,000	1,775,000	6/2021
Total Serial Bonds			<u>\$ 3,980,000</u>	<u>\$ 24,200,000</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30 are as follows:

Governmental Activities

	Principal	Interest	Total
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	1,652,931	354,440	2,007,371
2018 - 2022	5,919,383	920,768	6,840,151
2023 - 2026	<u>1,449,000</u>	<u>87,900</u>	<u>1,536,900</u>
Totals	<u>\$ 17,091,962</u>	<u>\$ 3,450,426</u>	<u>\$ 20,542,388</u>

Business-type Activities

	Principal	Interest	Total
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	802,069	135,150	937,219
2018 - 2022	2,720,617	289,281	3,009,898
2023 - 2027	<u>246,000</u>	<u>11,675</u>	<u>257,675</u>
Totals	<u>\$ 7,108,038</u>	<u>\$ 1,277,821</u>	<u>\$ 8,385,859</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – LONG-TERM DEBT - Continued

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, 2012 was \$ 56,558.

Advance Refunding

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 – LONG-TERM DEBT - Continued

Advance Refunding - Continued

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 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.

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 at a variable interest rate which matured on May 1, 2012. The interest rates in effect for this fiscal year ranged from 0.51% at the start of the fiscal year to 0.88% at maturity.

NOTE 8 – DEFERRED REVENUE

General Fund	
Deferred Property Tax Revenue and Prepaid Interest	
Installments on Special Assessments	<u>\$ 433,908</u>
Capital Projects Fund	
Deferred State Aid and Other Miscellaneous Sources	<u>\$ 58,497</u>
Special Revenue Fund	
Notes receivable Funded from Grant Proceeds	<u>\$ 1,540,879</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 9 – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

Beginning in the fiscal year ended June 30, 2011, 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 \$34,974. 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. Total amounts received to date from the program are \$335,926.

NOTE 10 – 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: 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 10 – RETIREMENT BENEFITS- Continued

Funding Policy - Continued

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2012 and two preceding years were:

	FYE 6/30/12	FYE 6/30/11	FYE 6/30/10
Employer Contributions			
ERS	\$ 1,232,403	\$ 921,798	\$ 618,718
PFRS	\$ 1,936,189	\$ 1,367,396	\$ 1,127,720
Employee Contributions			
ERS	\$ 90,324	\$ 86,370	\$ 84,691
PFRS	\$ 1,136	\$ -	\$ -

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, NY 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 \$26,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – 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 are 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 retiree and 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, 2012, the City contributed approximately \$6,355,488 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$539,642.

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 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11-- POST EMPLOYMENT BENEFITS- Continued

Annual OPEB Cost and Net Obligation - Continued

	Governmental Activities	Business-type Activities - Water Fund	Business-type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 4,192,474	\$ 292,962	\$ 238,391	\$ 4,723,827
Interest on Net OPEB Obligation	210,830	21,117	15,463	247,410
Adjustment to ARC	<u>(193,878)</u>	<u>(19,419)</u>	<u>(14,220)</u>	<u>(227,517)</u>
Annual OPEB Cost	4,209,426	294,660	239,634	4,743,720
Contributions Made	<u>(3,532,590)</u>	<u>(123,298)</u>	<u>(147,452)</u>	<u>(3,803,340)</u>
Change in Net OPEB Obligation	676,836	171,362	92,182	940,380
Net OPEB Obligation - Beginning of Year	<u>4,685,133</u>	<u>469,258</u>	<u>343,614</u>	<u>5,498,005</u>
Net OPEB Obligation - End of Year	<u>\$ 5,361,969</u>	<u>\$ 640,620</u>	<u>\$ 435,796</u>	<u>\$ 6,438,385</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	\$ 4,209,426	74.60%	\$ 5,361,969
Business-type Activities - Water Fund	\$ 294,660	35.04%	\$ 640,620
Business-type Activities - Sewer Fund	\$ 239,634	55.60%	\$ 435,796

Funded Status and Funding Progress

As of September 1, 2011, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$98,650,932 and there were no plan assets. The covered payroll (annual payroll budget of active employees eligible to be covered by the plan) was \$18,022,256 and the ratio of unfunded actuarial accrued liability to covered payroll was 547.38%.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 – POST EMPLOYMENT BENEFITS - Continued

Funded Status and Funding Progress - Continued

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, 2011 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 payrolls 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 8.5% for the current fiscal year and decreasing to 8.0% for the following year and continuing to decrease 0.5% per fiscal year until the fiscal year ending June 30, 2018 and beyond where it was kept at 5.0%.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 12 – FUND BALANCES

Non-spendable Fund Balances

Non-spendable fund balances consist of prepaid expenses and inventory at the Municipal Arena concession stand. It also consists of the prepaid stop loss insurance on the City's health insurance plan.

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.

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, 2012 was \$359,908.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 12 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

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, 2012 was \$47,545. The total amount reserved for principal and interest in the sewer fund at June 30, 2012 was \$65,945.

Other Fund Balance Disclosures

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2012.

Excess of Expenditures over Appropriations

The General Fund's transfers to other funds for the fiscal year ended June 30, 2012 as presented in the Budgetary Comparison Schedule – General Fund exceeded appropriations by \$4,281 due to higher than anticipated claim costs of the City's self-funded health insurance plan.

NOTE 13 – 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 13 – INTERFUND TRANSACTIONS - Continued

Operating Transfers- Continued

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2012 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 1,680,223	\$ 207,896
Water Fund	11,387	69,309
Sewer Fund	30,957	74,735
Library Fund	200,000	6,222
Capital Project Funds	-	1,561,705
Trust & Agency Fund	-	2,700
	<u>\$ 1,922,567</u>	<u>\$ 1,922,567</u>
Total	<u>\$ 1,922,567</u>	<u>\$ 1,922,567</u>

Inter-fund Eliminations

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

	General Fund	Self-funded Health Insurance Fund
Revenues	\$ -	\$ 5,488,609
Expenditures	5,488,609	-
	<u>\$ 5,488,609</u>	<u>\$ 5,488,609</u>
Total	<u>\$ 5,488,609</u>	<u>\$ 5,488,609</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 14 – OPERATING LEASES

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusbo and Terry MacAdam. The term of the original lease is for a five-year period from October 22, 2011 through October 21, 2016. The annual rent for the current fiscal year is \$2,500. 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 for fiscal year ended June 30, are as follows:

2013	\$	2,600
2014		2,700
2015		2,800
2016		<u>2,900</u>
 Total	 \$	 <u>11,000</u>

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 as of June 30, are as follows:

2013	\$	24,000
2014		24,900
2015		25,800
2016		25,800
2017		25,800
Thereafter		<u>512,507</u>
 Total	 \$	 <u>638,807</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 14 – OPERATING LEASES - Continued

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, 2012 were \$366,008.

Estimated minimum future rental payments under the non-cancelable operating lease for each of the next three fiscal years and in the aggregate as of June 30, are as follows:

2013		\$	177,481
2014			167,518
2015			<u>157,555</u>
 Total		 \$	 <u>502,554</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 two years as of June 30, are as follows:

2013		\$	2,596
2014			<u>433</u>
 Total		 \$	 <u>3,029</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 14 – OPERATING LEASES - Continued

Equipment Lease - Continued

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 two years as of June 30, are as follows:

2013	\$	4,059
2014		4,059
 Total	 \$	 <u>8,118</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 the next fiscal year as of June 30, are as follows:

2013	\$	15,122
 Total	 \$	 <u>15,122</u>

NOTE 15 – 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, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2012, 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 \$238,262 as of June 30, 2012 for un-funded general liability claims.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 15 – COMMITMENTS AND CONTINGENCIES -

Continued

Grant Programs

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

Environmental Concerns

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 \$705,540 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 \$900,545 of which \$880,014 has been spent to date with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2012, 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, 2012, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 15 – COMMITMENTS AND CONTINGENCIES -

Continued

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, 2012, an estimated \$216,000 in post-closure care cost will be incurred over the remaining 12-year period. This liability is recorded as long-term debt in the Statement of Net Assets 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. 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. On June 16, 1995, the Federal Energy Regulatory Agency (FERC) issued the City a hydroelectric generation license.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 15 – COMMITMENTS AND CONTINGENCIES -

Continued

Black River Fund - Continued

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, 2012 was \$37,817.

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.

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:

1. 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.
2. 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
3. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 15 – COMMITMENTS AND CONTINGENCIES -

Continued

Watertown International Airport / Jefferson County Sales Tax Agreement

On May 3, 2004, the City agreed to a revised sales tax distribution with Jefferson County. Effective on September 1, 2004, Jefferson County increased the county's sales tax from 3.00% to 3.75%. Under the prior agreement, the City received 28% of the County sales tax collections. The City agreed to forego receiving distributions on the additional revenue for the first five quarters that the new tax rate is in effect, thus reducing its overall collection percentage of total sales tax collections to 22.4%. During the first five quarters, Jefferson County will retain all funds collected in excess of the original 3.00%. After the first five quarters, the City's overall collection percentage increases to 23.0% effective on December 1, 2005, to 23.5% effective December 1, 2006, and to 24.0% effective December 1, 2007.

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 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 (DANC), 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. Under a separate agreement, the City granted DANC the right to sell City water from the Fort Drum line to municipalities and water districts in Jefferson County. On November 7, 2011 City Council approved a new twenty year agreement for water services which combined the two agreements.

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Resources (Inflows)				
Real Property Taxes	\$ 7,249,113	\$ 7,249,113	\$ 7,307,193	\$ 58,080
Real Property Tax Items	261,000	261,000	292,558	31,558
Non-Property Taxes	17,535,000	17,535,000	18,217,972	682,972
Departmental Income	4,569,350	4,569,350	4,321,479	(247,871)
Intergovernmental Charges	140,225	140,225	160,387	20,162
Use of Money and Property	145,910	145,910	103,682	(42,228)
Licenses and Permits	68,100	68,100	105,309	37,209
Fines and Forfeitures	120,000	120,000	131,737	11,737
Sale of Property and Compensation for Loss	278,100	301,956	560,378	258,422
Miscellaneous Local Sources	709,521	734,761	743,454	8,693
Interfund Revenue	968,443	926,124	993,026	66,902
State Source	5,556,410	5,556,410	5,368,524	(187,886)
Federal Sources	410,786	410,786	523,068	112,282
Transfers from Other Funds	106,900	106,900	178,566	71,666
Amounts Available for Appropriation	38,118,858	38,125,635	39,007,333	881,698
Charges to Appropriations (Outflows)				
General Government Support	5,652,249	5,385,721	5,231,571	154,150
Public Safety	14,361,253	14,710,109	14,383,533	326,576
Transportation	4,225,740	3,998,274	3,868,349	129,925
Economic Assistance and Development	128,600	133,600	118,984	14,616
Culture and Recreation	1,239,589	1,399,699	1,270,304	129,395
Home and Community Services	1,302,322	1,246,000	1,218,839	27,161
Employee Benefits	7,805,084	7,856,484	7,319,167	537,317
Debt Service	3,309,857	3,303,657	3,303,601	56
Transfers to Other Funds	2,669,677	3,176,427	3,180,708	(4,281)
Total Charges to Appropriations	40,694,371	41,209,971	39,895,056	1,314,915
Excess (Deficiency) of Resources Over Charges to Appropriations	(2,575,513)	(3,084,336)	(887,723)	2,196,613
Appropriation of Prior Year Fund Balance	2,575,513	3,084,336	-	(3,084,336)
Excess / (Deficiency) of Resources Over Charge to Appropriations	\$ -	\$ -	(887,723)	\$ (887,723)
Fund Balance, Beginning of Year			14,133,689	
Fund Equity Transfer			62,174	
Fund Balance, End of Year			\$ 13,308,140	

See paragraph on supplemental schedules included in auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
US Department of Housing & Urban Development		
Community Development Block Grant / State's Loan	14.228	\$ 255,557
HOME Investment Partnerships Program	14.239	<u>197,941</u>
Total Department of Housing & Urban Development		453,498
US Department of Transportation		
Passed Through New York State:		
State and Community Highway Safety	20.600	8,131
Federal Transit Administration - Formula Grants for Other than Urbanized Areas	20.509	<u>132,959</u>
Total Department of Transportation		141,090
US Department of Homeland Security		
Homeland Security Grant Program	97.067	<u>33,718</u>
US Department of Commerce		
Passed Through New York State:		
Public Safety Interoperable Communications Grant	11.555	<u>805,369</u>
US Department of Energy		
Energy Efficiency and Conservation Block Grant Program	81.128	<u>49,761</u>
US Department of Justice		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15,229
Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	43,837
Bulletproof Vest Partnership Program	16.607	<u>5,560</u>
Total Department of Justice		64,626
TOTAL FEDERAL ASSISTANCE		<u><u>\$ 1,548,062</u></u>

See paragraph on supplemental schedules included in auditor's report.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

NOTE 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.

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT LOANS

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

CFDA #	Balance at July 1, 2011	Issuance	Forgiveness	Balance at June 30, 2012
14.228	\$ 878,201	\$ 418,038	\$ 278,735	\$ 1,017,504

NOTE 3 - SUBRECIPIENTS

No amounts were provided to subrecipients.

**SUPPLEMENTARY SCHEDULE OF THE FUNDING PROGRESS OF THE POST
EMPLOYMENT HEALTHCARE BENEFIT PLAN**

Year Ended June 30, 2012

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)
9/1/2008	\$ -	\$106,599,921	\$106,599,921	0%	\$ 15,321,802	695.74%
9/1/2009	-	106,324,770	106,324,770	0%	17,021,035	624.67%
9/1/2010	-	112,726,495	112,726,495	0%	17,329,092	650.50%
9/1/2011	-	98,650,932	98,650,932	0%	18,022,256	547.38%

See paragraph on supplemental schedules included in auditor's report.



BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS * BUSINESS CONSULTANTS

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

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2012, which collectively comprise City of Watertown, New York's basic financial statement and have issued our report thereon dated December 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

Management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Watertown, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown'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 a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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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

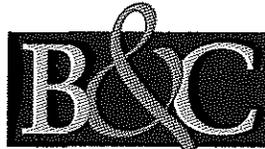
As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Watertown, New York, in a separate letter dated December 27, 2012.

This report is intended solely for the information and use of management, the Mayor and Members of the City Council, 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.

Bowers & Company

Watertown, New York
December 27, 2012



**BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR-A-133**

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

Compliance

We have audited the 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 its major federal programs for the year ended June 30, 2012. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 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 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 direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

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 federal programs. In planning and performing our audit, we considered City of Watertown, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 a 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.

Bowers & Company

Watertown, New York
December 27, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

NOTE A - SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of 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 – Public Safety Interoperable Communications Grant - CFDA #11.555.
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.

NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS

There were no findings to report.

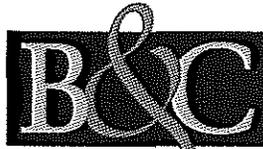
**NOTE C - MAJOR FEDERAL AWARD PROGRAMS
FINDINGS AND QUESTIONED COSTS**

There were no findings to report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2012

There were no prior year audit findings.



**BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

Compliance

We have audited the City of Watertown, New York's compliance 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, 2012. 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, 2012.

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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 of 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, 2012, and have issued our report thereon dated December 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.

Bowers & Company

Watertown, New York
December 27, 2012

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2012

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement / CHIPS	732059	\$ 336,326
Formula Grants for Other Than Urbanized Area - DPW Maintenance Facility	C003695	<u>270</u>
Total		<u>\$ 336,596</u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2012

NOTE 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.

NOTE B - BASIS OF ACCOUNTING

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE
TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2012

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.