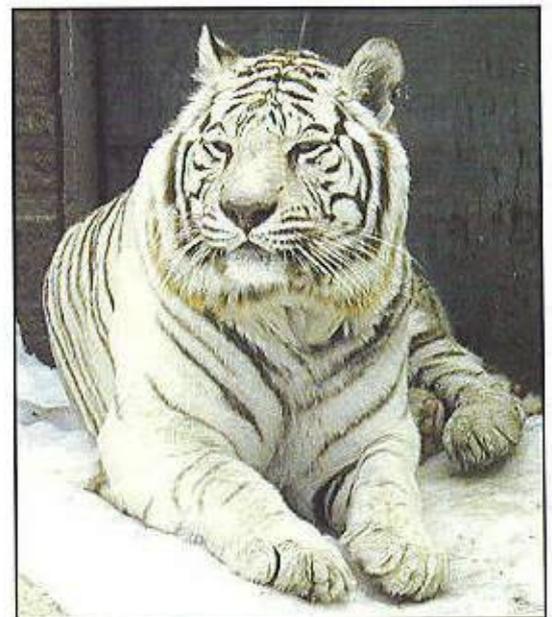


COMPREHENSIVE ANNUAL

FINANCIAL *Report*



2008 FISCAL YEAR

JANUARY 1, 2008 TO DECEMBER 31, 2008

Prepared By:
THE CITY FINANCE OFFICE

Tracy D. Turbak, CPA, CPFO
Finance Officer

2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT CITY OF WATERTOWN, SOUTH DAKOTA



January 1, 2008 – December 31, 2008



**Prepared by THE CITY FINANCE OFFICE
Tracy D. Turbak, CPA, CPFO, Finance Officer**



City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

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CITY OF WATERTOWN

23 Second St. NE • P.O. Box 910 • Watertown, South Dakota 57201-0910
Website: www.watertownsd.com

W A T E R T O W N South Dakota's Rising Star

June 16, 2009

Mayor
605-882-6204
Fax 605-882-5214

Municipal Airport
605-882-6209
Fax 605-882-5285

Building & Plumbing
Inspection Dept.
605-882-6201
Fax 605-882-5264

Mt. Hope Cemetery
605-882-6208

City Attorney
605-882-6200
Fax 605-882-5214

Engineering Dept.
605-882-6202
Fax 605-882-5264

Finance Office
605-882-6203
FAX 605-882-6218

Fire Department
605-886-4733
FAX 605-886-0795

Library
605-882-6220
FAX 605-882-6221

Park, Rec &
Forestry Dept.
605-882-6260
FAX 605-882-5204

Police Dept.
605-882-6210
FAX 605-882-6216

Public Works Dept.
605-882-6204
Fax 605-882-5264

Solid Waste Dept.
605-882-6219
Fax 605-882-6375

Street Dept.
605-882-6207

Watertown
Community
Recreation Center
605-882-6250
FAX 605-882-6254

Waste Water
Treatment Facility
605-882-6243
FAX 605-882-6242

Honorable Paul N. Fox, Mayor
Members of the City Council
City of Watertown
Watertown, South Dakota, 57201

I am pleased to submit to you the Comprehensive Annual Financial Report for the City of Watertown, South Dakota, for the fiscal year ended December 31, 2008.

The report was prepared by the City's Finance Office in accordance with U.S. generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures, rests with the City's management. We believe the data as presented is accurate and reliable in all material respects; is presented in a manner designed to set forth fairly the financial position and results of operations of the City as measured by the financial activities of its various funds; and that disclosures necessary to enable readers to gain an understanding of the City's financial affairs have been included.

The City's financial statements have been audited by William Neale & Co., P.C. a firm of certified public accountants authorized by the State of South Dakota to conduct the audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Watertown for the fiscal year ended December 31, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Watertown's financial statements for the fiscal year ended December 31, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Watertown was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of the federal awards. These reports are included in this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Watertown's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Watertown

The City of Watertown, incorporated in 1885, is a progressive community that has been able to maintain its small town charm. The City is located in northeast South Dakota, at the crossroads of Interstate 29 and US Highway 212. It is nicknamed “South Dakota’s Rising Star”, because it is a growing and vibrant community that offers residents and visitors an unparalleled quality of life.

The City government is aldermanic in form, with ten alderpersons and a mayor. The City is divided into five wards with representation on the City Council by two from each ward. The mayor is elected at large. The length of terms for alderpersons and the mayor are four years with elections held in each odd-numbered year. The City Council meets the first Monday of each month in regular session and, in addition, numerous special meetings and work sessions are scheduled throughout the year. The City Council is responsible for enacting ordinances, resolutions and regulations governing the City as well as approving the mayor’s appointment of members of committees and advisory boards and Department Heads of the City.

The City provides the full range of municipal services normally associated with a municipality. These basic services include public safety, public health, streets and other public improvements, planning, culture and recreation, and general administrative services. The City also operates as enterprise funds the following utilities: Sewer, Airport, Solid Waste, Water, Electric and Gas.

The City has established a Housing and Redevelopment Commission as a legally separate authority which is reported separately as a component unit within the City of Watertown financial statements.

Factors Affecting Financial Condition

The information presented in these financial statements is best understood when it is considered from the broader perspective of the environment within which the City of Watertown operates.

Local Economy in General

Watertown and Codington County experienced moderate economic growth in 2008 with solid growth in retail sales through much of the year but falling off sharply near year-end. Overall for the year, General Fund sales tax revenues for 2008 increased 1.3% over 2007 revenues and exceeded budgeted sales tax revenue by over \$285,000, or 5.2% over budget. Other revenue sources exceeded budget expectations so that total General Fund revenues for the year exceeded budget by \$502,000.

The labor force in Codington County decreased from 16,905 to 16,640 from December 31, 2007 to December 31, 2008 and the total employment decreased from 16,345 to 15,975 individuals for those dates, respectively. Unemployment rates increased across the board for the nation, the state and for Codington County from December 31, 2007 to December 31, 2008 as indicated in the following comparison*.

	December 31, 2008	December 31, 2007
United States	7.2%	5.0%
State of South Dakota	3.9%	3.0%
County of Codington**	4.0%	3.3%

* Source: South Dakota Department of Labor

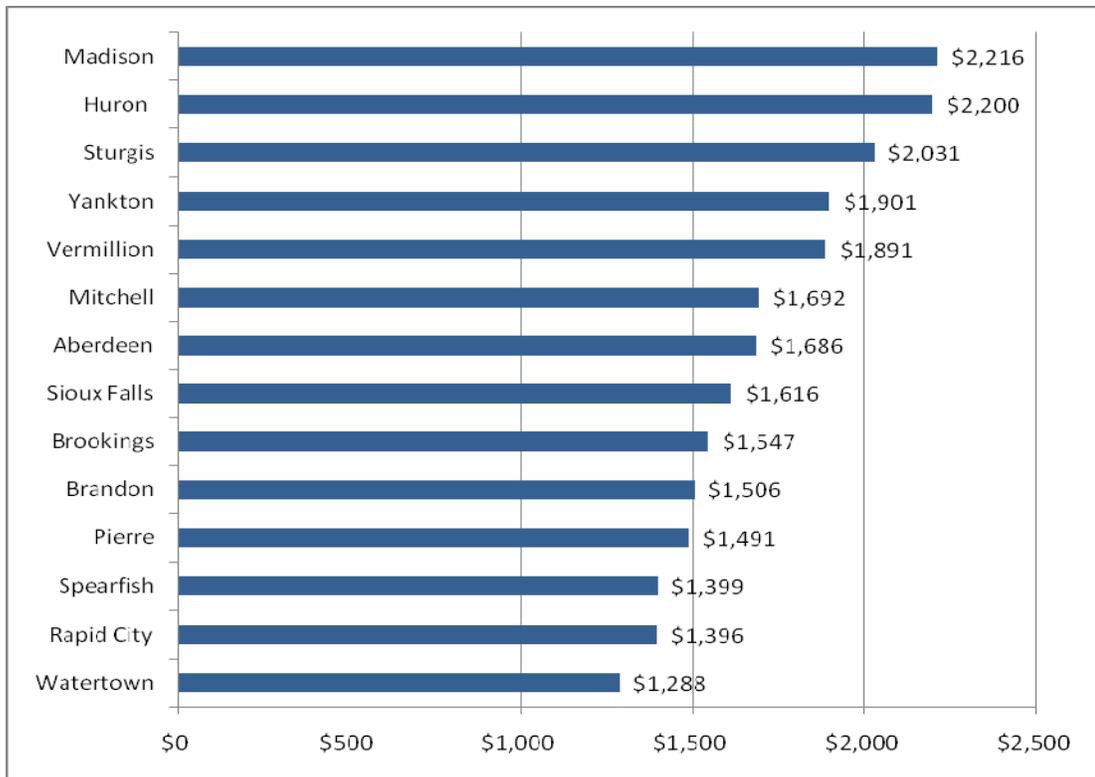
** The City of Watertown is located in Codington County. Separate statistics are not kept for the City of Watertown. The unemployment rates for the US and State of South Dakota are seasonally adjusted. The rates for Codington County are not seasonally adjusted.

Focus Watertown (Focus), a non-profit organization, shares responsibility for the economic development activities with the City of Watertown. Focus was created by community leaders in 1997

for the purposes of marketing and recruiting new industry to the community and to provide support to existing business with expansion and retention projects. Focus continues to pursue its established goal of creating new jobs and a more diversified economy for the Watertown area. The City provided \$50,000 in operating support to Focus Watertown in 2008.

The governing body of the City of Watertown strives to provide its residents with necessary services at an acceptable cost. These services include City administration; public safety and emergency services; operation, maintenance and construction of City public works including streets, solid waste collection and disposal, regional airport, sanitary and storm sewers, water, gas and electric services; culture and recreational facilities and activities for residents and visitors of the City which include musical concerts, a regional library, parks and playgrounds, golf course, outdoor aquatics center and indoor swimming pool, zoo, ice arena and Community Recreation Center.

An ongoing goal of the City Council is to maintain the high quality of City services while holding the line on property tax rates. Total taxes paid including City, county and school district taxes on a \$100,000 home were the lowest out of the fourteen first class cities in the State of South Dakota as shown on the following chart.



Information: The graph above shows a comparison of the 2007 tax rate on a house with a market value of \$100,000 in all first class cities in South Dakota.

Source: Information supplied by individual County auditors.

Long-term Planning and Major Initiatives

The City Council, on August 4, 2008, adopted an update to the long-term Capital Improvement Plan (CIP). The formal CIP charts future investment of public funds that will be made to meet the overall needs of the community. The CIP clearly sets out the needs for capital equipment for all City Departments and the infrastructure needs of the City and the means by which these needs will be met. The CIP is organized into five planning periods with the first four periods consisting of the next four

fiscal years and a fifth period which includes all years beyond year four. This approach provides the level of focus necessary to clearly identify the needs of the near future (years 1-4) and the means to fund those needs as well as providing a picture of what is on the horizon (year 5 and beyond). Years 1-4 (2009-2012) of the CIP include planned capital expenditures totaling \$64.4 million including: \$12.8 million for construction of two public safety facilities including a west fire substation and a new police department headquarters building; \$11.8 million for improvements to the sanitary sewer collection system; \$9.7 million for airport equipment replacement and runway improvements; \$5.9 million for improvements to storm sewers & flood control systems; \$5.7 million for improvements to the street system; \$4.2 million for replacement of solid waste & recycling equipment and landfill expansion; \$2.2 million for improvements to various park & recreational facilities including tennis court renovations, further expansion of the recreational trail system, park restrooms, soccer field lighting and ball field improvements; \$1.7 million for development of industrial park property; \$1.6 million as the local share of a new National Guard Armory facility; \$1.4 million for fire and ambulance equipment replacements; \$1.2 million for equipment replacement for the Street Department; \$.57 million for golf course renovations. The 1.0% Capital Improvement Sales Tax (CIST) will provide about \$19.1 million, or about 29.8% of the resources needed to fund the CIP. Additional funding for the plan will come from state and federal grants (\$9.8 million), General Fund revenues (\$3.5 million), Sewer Fund (\$4.1 million); and Solid Waste Fund (\$4.2 million). Notably, \$22.0 million in new debt is anticipated to finance the two public safety buildings and the sanitary sewer headworks facility project.

1st Avenue North Extension Project

Construction work was substantially completed on the \$3.6 million extension of 1st Avenue North and this new route was open to traffic. This project provides a five-lane connector from 19th Street East across Willow Creek to US Highway 212 and opens up a significant area for future commercial development. In addition to the street construction, the project included storm sewer and sanitary sewer system improvements sized appropriately to serve the area when it is fully developed. This project was funded with a combination of State Urban Systems funds (\$2.0 million), two State Revolving Fund loans (\$1.5 million) and the balance from CIST money.

Other Sanitary and Storm Sewer System Improvements

The ongoing effort to upgrade the City's storm sewer infrastructure continued during 2008 along with efforts to further expand the infrastructure system to foster growth of our community.

11th Street E Storm Sewer Project

This \$1.9 million project will alleviate localized flooding issues in the east portion of town and will be funded with CIST funds.

Water Quality Improvements

The latest phase of the Upper Big Sioux River Watershed Project (UBSRWP) was completed in 2008 and the newest phase began. This project continues the efforts that began in 1994 to reduce nutrient and sediment loading of Lake Kampeska, Pelican Lake and the Big Sioux River. Nearly \$467,000 of federal, state and local funds were spent in 2008 on water quality improvements like agricultural waste management systems, small dams/ponds, grassed waterways and grazing management.

Economic Development

The City continued to support efforts to foster economic development in 2008 by providing \$50,000 in direct funding to Focus Watertown to assist in the marketing efforts of the community. The City pumped \$600,000 into improvements in Tax Incremental District #6 for the Faultless Nutting Facility and an additional \$189,000 into infrastructure improvements within Pheasant Ridge Industrial Park to serve the Faultless Nutting Project.

Cultural & Recreational Facilities

No major recreational facility improvements were undertaken in 2008 however, a number of important smaller projects were completed. The most significant of these included about \$500,000 in improvements to the golf course as the fourth year of a \$2.1 million 5-year golf course renovation plan.

The improvements this year included a new and much-needed restroom facility on the golf course. All of these projects were funded with CIST dollars.

Solid Waste Facilities

An important project was completed this year at the Watertown Regional Landfill which is owned and operated by the City of Watertown. This project entailed construction of a lift station and force main to convey landfill leachate from the landfill several miles south of town into town and directly into the sanitary sewer system. This \$600,000 project was funded with Solid Waste Fund cash and will eliminate the need to truck leachate to the wastewater treatment facility in the future.

Airport

A major fencing improvement project was completed at the Watertown Regional Airport in 2008. This \$900,000 project included removal of approximately 40,000 linear feet of 6-foot chain link fence surrounding the airport property and replacing it with 10-foot chain link. As with most major airport improvements, this project was funded with 95% federal funds, 2% State aviation funds and the balance from CIST dollars.

Future Projects

Public Safety Facilities

Planning activities occurred throughout 2008 and have continued into 2009 for two important public safety facility projects. A new fire/ambulance substation is in the works and is expected to be combined with a new Airport Fire Station into a single facility on Airport land to serve the western portion of the community with fire and ambulance services and the Airport with fire & rescue services. This project is currently in the early design phase and has a current estimated cost of about \$3.5 million. Federal FAA funding for this fire/ambulance substation project is expected to provide approximately 50% with the balance to be financed from other sources yet to be determined.

A new Police Department building is also in the planning stages and is currently in the early phase of architectural design. This project will provide a new home for the Police Department which has been located in the County-owned detention facility since the mid-1970's. The estimated cost for this project is about \$6.5 million and with funding sources yet to be finalized.

Uptown Revitalization

The latest efforts continued in 2008 and into 2009 for the next phase of the long-term efforts to revitalize the City's uptown commercial district. The next element of this ongoing effort calls for parking improvements and possible addition of a trolley service. Federal economic development funds (\$196,000) have been secured to assist with the next step in this ongoing process.

Street System

One major element of the street system improvements for the next four years includes the ongoing milling and overlay of City streets most in need of resurfacing for a four-year total cost of \$2.4 million. This amount has proven to be adequate to stay on track with overlaying streets on a projected average 20-year rotation. Future funding for sidewalk, curb & gutter improvements has been boosted to \$1.0 million over the next four years largely to begin to chip away at intersection curb ramps that are not presently ADA compliant.

Second Street SW in the area of the Family Aquatics Center is planned for reconstruction in 2009 at an estimated cost of \$450,000. This project will correct a chronic problem existing in the sub-grade of this street which will increase the longevity of this section of street and reduce the maintenance attention required. This project will be funded with CIST dollars.

Storm Sewer and Flood Control

The second phase of a priority project identified as part of a recent evaluation of the storm drainage problems of west Watertown will be addressed in 2009 with the Southwest Watertown Storm Sewer

Project. SRF Loan No. 6 was closed in 2007 and will provide the estimated \$300,000 needed to fund the remaining phase of the SW Storm Sewer Project. This project will address drainage concerns in this part of town – particularly in the vicinity of the Event Center which has the potential for significant future commercial development.

Efforts at the federal level to secure future implementation of meaningful flood control for the Upper Big Sioux River and Lake Kampeska in Watertown have progressed in a painfully slow way. In 2003, the reins to the project were turned over to the US Army Corps of Engineers to complete a General Re-evaluation Report (GRR) addressing flood control for the Watertown vicinity and to complete the associated Environmental Impact Statement. This work had been progressing, but has struggled to maintain an adequate level of Congressional funding to ensure completion of the report in a timely manner.

In addition to those projects mentioned above, nearly \$4.7 million in storm sewer system improvements are planned over the next four years. These include the 2nd Street SW Project (\$1.1 million), Kemp Avenue West Project (\$1.5 million), and the Southeast Watertown Project (\$1.7 million) among several other smaller projects. These projects were initially intended to be funded with CIST Fund cash, however, there have been recent discussions centered around moving the 2nd Street and the Kemp Avenue projects up to be completed sooner than originally planned and to use State Revolving Fund loans to finance these two projects. A final financing decision is expected by summer 2009.

Sanitary Sewer System

An evaluation of the main lift station and headworks facility of the wastewater treatment plant was completed in 2008. The study recommended a greatly expanded and improved headworks facility that is estimated to cost \$9.2 million. The City has engaged an engineering firm to complete a facilities plan, prepare plans & specifications and administer the construction process for this project. It is anticipated that this project will go to bid in late 2009 and is expected to be financed using a State Revolving Fund loan.

An evaluation of 15 sanitary sewer lift stations was completed by a consulting engineering firm several years ago. This study concluded that 12 of these lift stations were in need of significant rehabilitation – one of which was been completed in recent years. The remaining 11 lift stations are planned to be rehabilitated in 2009 at an estimated cost of \$1.1 million. This project is expected to be finance with a State Revolving Fund loan.

Solid Waste Facilities

The current long-term Capital Improvement Plan calls for Landfill Cell #4 to be designed in 2009 with construction planned for 2010 at a combined cost of \$926,000. This project will be funded with Solid Waste Fund cash and will position the City's landfill to accept waste for many more years.

Drinking Water System

Planning progressed in 2008 and continues in 2009 for a major expansion of the community's drinking water system. This project is expected to proceed to construction in 2009 and will include development of a new well field with seven additional wells, seven miles of new raw water supply lines, expansion of water treatment plant capacity by approximately four million gallons per day and replacement of a one million gallon standpipe with a new two million gallon standpipe. This project is estimated to cost \$24 million and will be financed with a State SRF loan.

Cultural and Recreational Facility Improvements

The next step in the development of the City's trail system is planned for 2009. Work will continue to extend the trail further around Lake Kampeska in 2009 along North Lake Drive; and, another major segment is planned in the east part of the community from 14th Avenue N. in a southerly direction to the Redlin Art Center. These projects, totaling approximately \$1.5 million, will be completed with a combination of federal transportation grant dollars and CIST revenues.

The overall financial condition of the City of Watertown is very good. The City has a solid undesignated fund balance in its General Fund and relatively little general obligation or sales tax debt. Unreserved/undesignated Fund Balance in the General Fund at December 31, 2008, was equal to 41% of 2008 General Fund revenues. Growth in sales tax revenues continued to weaken throughout 2008, but did end the year in positive territory with General Fund sales tax revenues up 1.28% for the fiscal year. The significant undesignated fund balance in the General Fund enables the City to tolerate a short-term slowdown in taxable sales or other revenues such as that experienced in 2008. The rate of growth in sales tax revenues over the next few months will be of keen interest as preparations are made for adoption of the 2010 City budget.

The debt carried in the Sewer Enterprise Fund is significant, but very manageable. Existing debt service requirements can easily be managed within existing revenue streams. The City does not depend on debt financing for normal operations or routine equipment replacements or upgrades. Fund balances in most funds are quite healthy while the City's taxpayers have the lowest overall effective property tax rate of the 14 largest cities in the State.

The City is very well positioned to deal with anticipated financial challenges as well as most unexpected challenges that may arise. The governmental and enterprise funds, with two exceptions, are financially strong and are expected to remain so in the future. The areas where the City has experienced some financial softness in the past has been E-911 Emergency Special Revenue Fund and in the Airport Enterprise Fund. The Airport Fund has experienced shrinking revenues as some farmland has been taken out of production or shifted to uses that produce less revenue in response to FAA regulations. In response, the City has increased the General Fund support for the Airport Fund in 2009 from \$100,000 to \$140,000. The E-911 Emergency Fund's financial condition and performance continue to weaken as the revenues generated by the \$.75 per phone line surcharge continue to be outstripped by the rising costs of staffing and equipping the dispatch center. The fees charged the surrounding counties served by the City's E-911 dispatch center have been restructured for contracts beginning in 2009 and are being "ramped-up" in an effort to shore up the funding provided under those county contracts. In addition, the City continues to support the efforts of the SD Municipal League and other organizations at the State level to increase the funding available for this critical service.

Prospects for the Future

The 2009 Appropriation Ordinance adopted by the City Council reflects a balanced budget. In accordance with state law, the legal level of budgetary control is maintained at the sub-function level. In other words, City departments cannot overspend the budget for any sub-function, or division, within their department without the approval of the City Council. This level of budgetary control helps to ensure the proper level of oversight by the governing body while allowing department heads a reasonable level of flexibility and discretion in managing their departmental operations.

Watertown taxpayers enjoy some of the lowest overall property tax rates in the State of South Dakota. Overall property taxes (City, County and School) in Watertown rank 14th out of the 14 largest communities in the State. In 2008, the City Council increased the General Fund tax levy rate by \$.082 to \$.193 per \$1,000 of taxable value. Taxable value is the value against which the mill levy is applied to determine the tax liability for an individual property. The taxable value of owner-occupied homes is targeted at 85% of the estimated market value.

A comparison of the real estate tax dollars levied in the years 2006 through 2008 for the ensuing years is as follows:

	2008 Levy for 2009 Appropriation	2007 Levy for 2008 Appropriation	2006 Levy for 2007 Appropriation
General Fund	\$2,478,135	\$2,351,642	\$2,206,784
Debt Service	439,721	430,050	415,345
Tax Increment	292,576	304,616	231,765

Historically, the City of Watertown has been able to meet current expenses and maintain a desirable level of capital improvements as a result of careful planning. The budget picture for 2009 improved significantly over the prior year with improved sales tax revenues during the latter part of 2007 and early 2008. However, the very sluggish growth in sales tax revenues through the end of 2008 and into early 2009 appear to foretell a lean budget for the 2010 budget year.

Cash Management

The Investment Policy for the City of Watertown, as adopted by the City Council, provides that the Finance Officer is the designated investment officer for the City, but may delegate the daily investment operations to qualified employees of the Finance Department. Investments are to be made with judgment and care, under circumstances currently prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Investments are to be placed with authorized depositories approved by the City Council and in investments authorized by South Dakota Codified Law. The primary objective of the investment activity is the preservation of capital and the protection of investment principal. Cash assets shall be managed to produce the highest rate of return available consistent with the requirements of safety, liquidity and diversification.

Effective investment policy requires continual cash flow analysis to accurately predict future funding needs. Cash flows are monitored regularly to ensure that sufficient liquid funds are available to meet current obligations. In addition, the Finance Officer prepares and presents annual investment reports summarizing the investment activities of the preceding year to the Finance Committee and City Council.

The Finance Officer receives competitive bids on investments and investments are awarded to the highest bidders after considering transaction costs, safety, liquidity and diversification factors.

The Finance Office has followed the Investment Policy as approved. The strategy has been to keep a schedule that has investments maturing in a "laddered" fashion so that each month the City is reinvesting only a small portion of the total portfolio. This technique reduces the risk that all or most of the investments will mature and be reinvested at a time of low interest rates. Cash temporarily idle during the year was placed in money market accounts and in time deposits with maturities ranging from 30 days to 24 months. Interest earned over the past four years is as follows:

2008	2007	2006	2005
\$1,598,038	\$2,048,470	\$2,041,984	\$1,260,060

The Finance Office takes a conservative, but active, approach to management of the City's investments. This approach addresses two primary factors: 1) A certain "core" of available funds is identified and methodically invested in longer-term securities on a rolling, or laddered basis; and 2) using an aggressive banking arrangement all funds on deposit are earning at least money market rates and no deposits are permitted in non-interest bearing accounts.

Risk Management

A summary of the insurance premium costs and limits of liability and deductibles for 2008 is shown as follows:

Coverage	Limit	Deductible	Premium
General Liability	\$ 5,000,000	None	\$ 167,651
Buildings & Contents	Replacement Cost	\$ 25,000	\$ 116,363
Airport Liability	\$ 10,000,000	\$ None	\$ 13,300
Workman's Compensation	Statutory		\$ 211,071
Automobile Coverage	\$ 2,000,000	\$250-\$500-\$1,000	\$ 88,321
Flood Insurance	\$75,000 Bldg;\$30,000 Contents	\$ 500	\$ 207
Public Officials Employee Liability	\$ 2,000,000	\$ 2,500	\$ 14,100
Boiler & Machinery	\$ 1,000,000	\$ 2,500	\$ 10,043
Official & Employee Bond	\$ 250,000	\$ 1,000	\$ 2,223
Law Enforcement Liability	\$ 2,000,000	\$ 3,000	\$ 20,979

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watertown for its comprehensive annual financial report for the fiscal year ended December 31, 2007. This was the twenty-sixth consecutive year that the City of Watertown has achieved this prestigious award (fiscal years ended 1982-2007).

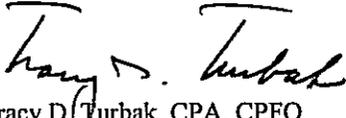
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

Preparation of this report could not be accomplished without the efficient and dedicated services of the entire Finance Office staff and with the assistance of the Municipal Utilities Department. I express my sincere and wholehearted appreciation to each and every member of the Finance Office team for their hard work! I would also like to thank your office, Mayor, and the members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectively submitted,


Tracy D. Turbak, CPA, CPFO
Finance Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watertown
South Dakota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

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President

Executive Director

GOVERNING BOARDS

TERM EXPIRES

LIBRARY BOARD

Cathy Zubke	July, 2009
Tom Linngren	July, 2009
Jackie Baxter	July, 2010
Judy Trzynka	July, 2011
Dave Weigel	July, 2011
Pat Walder - Liaison	

MUNICIPAL UTILITIES BOARD

Howard Hopper	July, 2009
Howard Morrison	July, 2010
Jim Stoudt	July, 2011
Dave Strait	July, 2012
Mike Danforth	July, 2013
Dennis Solberg- Liaison	

PARK & RECREATION BOARD

Greg Solum	July, 2009
Howard Sogn	July, 2010
Dennis Murphy	July, 2010
Dave Edison	July, 2012
Jean Doyen	July, 2013
Heidi Stoick	July, 2013
George Heller - Liaison	

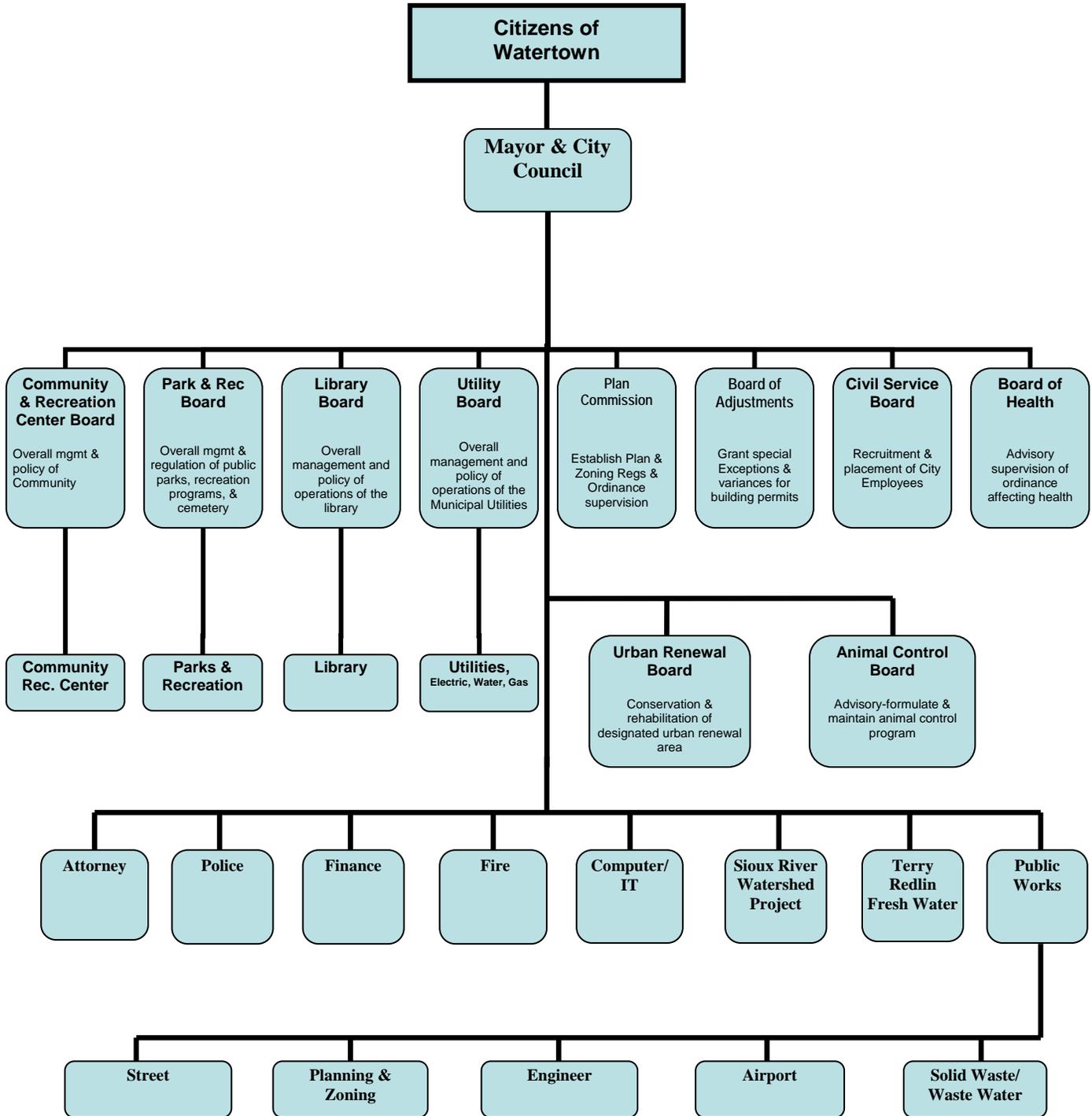
CIVIC AND RECREATION BOARD

Troy Korthour	July, 2009
Bob Solum	July, 2009
Cal VenJohn	July, 2010
Jerry Cooper	July, 2010
Bert Falak	July, 2011
Lorene Wasland	July, 2011
Loren Eilers	no term
Steve Moore	no term
Pat Walder - Liaison	
Al Meisenheimer - Liaison	
George Heller - Liaison	

City Elected Officials	EXPIRES
MAYOR Paul N. Fox	July, 2009
ALDERPERSONS	
WARD A	
Dennis Solberg	July, 2009
Nancy York	July, 2011
WARD B	
George Heller	July, 2009
Jon Solum	July, 2011
WARD C	
Lowell Gisselbeck	July, 2009
Alvin Meisenheimer	July, 2011
WARD D	
Pat Walder	July, 2011
Carol Arbogast	July, 2009
WARD E	
Russ Wilkins	July, 2011
Gordon Garnos	July, 2009

City Appointed Officers

CITY ATTORNEY Stanton Fox	PLANNING AND ZONING OFFICIAL Richard Schlechter
CIVIC & RECREATION CENTER DIRECTOR John Small	POLICE CHIEF Jo Vitek
ENGINEER Dave Petersen	PUBLIC WORKS DIRECTOR Herb Blomquist
FINANCE OFFICER Tracy D. Turbak	STREET SUPERINTENDENT Michael Rye
FIRE CHIEF Mike Jungemann	SUPERINTENDENT OF UTILITIES Steve Lehner
LIBRARIAN Michael Mullin	WASTE WATER/SOLID WASTE SUPERINTENDENT Mike Boerger
PARK & RECREATION DIRECTOR Roger Adams	



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Watertown, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, South Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Watertown, South Dakota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Housing and Redevelopment Commission, which represents 100 percent of the assets, net assets, and revenues of the component unit column. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, South Dakota, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2009, on our consideration of the City of Watertown, South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress for postemployment benefit plans on pages 20 through 28, 72 through 77, and page 78 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, South Dakota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Watertown, South Dakota. The combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison information, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

William Neale & Co., P.C.

Watertown, South Dakota
June 16, 2009

Management's Discussion and Analysis

This discussion and analysis presents an overview of the financial activities and financial position for the City of Watertown (the "City") for the year ended December 31, 2008. Please read and consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the City's financial statements.

Financial Highlights

At the close of 2008, total assets of the City exceeded liabilities by \$184 million. This amount is referred to as the City's "net assets." Of this net asset amount, \$29 million may be used to meet the City's ongoing obligations to citizens and creditors. The \$184 million net asset amount is comprised of three major components:

- | | |
|--|----------------|
| • Investments in Capital Assets, net of related debt | \$ 148 million |
| • Amounts restricted as to their use | \$ 7 million |
| • Unrestricted net assets | \$ 29 million |

The City's total net assets increased during 2008 by approximately \$9.4 million. Of this increase, \$5.7 million occurred within the City's governmental activities and the remaining \$3.7 million increase occurred within the City's business-type activities, or Enterprise Funds. The most significant reason for the increase in the governmental activities reflects the dedicated revenues of the Capital Improvement Fund. The revenues of the Capital Improvement Fund (\$7.8 million) are limited in their use to primarily acquiring or constructing capital assets which are then depreciated over the useful lives of those capital assets. Therefore, revenues generated in the Capital Improvement Fund result in an immediate increase in net assets, however, when those revenues are spent, the decrease in net assets is not immediate but, rather, is realized over a long period of time as the capital assets are depreciated. Unless and until the annual depreciation expense on those capital assets equals or exceeds those revenues, net assets will tend to increase.

An increase in net assets in the business-type activities is somewhat analogous to what a private sector business might report as net profit. However, there is a significant component to this increase in net assets within the business-type activities that one would not typically see in the private sector - that is, capital contributions. Of the \$3.7 million increase in the net assets of the business-type activities, \$2.9 million occurred as a result of federal grants, developer donations and contributions to the Enterprise Funds from Governmental Funds. Therefore, capital contributions made from these various sources to the Sewer and Airport Enterprise Funds which were used for airport fencing improvements and for the construction of sanitary and storm sewers are the primary reason for this significant increase in the net assets of the business-type activities.

As of the close of 2008, the City's Governmental Funds reported combined ending fund balances of \$27.3 million. Of this total amount, \$11.5 million is available for spending at the City's discretion, although only about \$4.7 million is within the City's General Fund and is held as unreserved and undesignated for any specific purpose. The City's total long-term debt as of December 31, 2008, is \$26.0 million including \$3.4 million that will become due and payable during 2009.

Overview of Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental fund statements tell how government services like public safety and culture & recreation were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds - the Sewer Fund, Solid Waste Fund, Airport Fund, Water Fund, Electric Fund and the Gas Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have

Management's Discussion and Analysis

included a section with combining statements that provide details about our nonmajor governmental funds and enterprise funds, each of which are added together and presented in a single column in the basic financial statements.

Government-wide financial statements. The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, 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.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. 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 earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City 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 of the City include general government, public safety, public works, health & welfare, culture & recreation, conservation & development and debt service. The business-type activities of the City include the enterprise activities of the sewer, solid waste, airport, electric, water and gas funds.

The government-wide financial statements include not only the City of Watertown itself (known as the primary government), but also the legally separate Watertown Housing & Redevelopment Authority for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City is such that the exclusion would cause the City's financial statements to be misleading or incomplete. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the entity's administrative office at 24 W. Kemp Ave, Watertown, South Dakota 57201.

Fund financial statements. A fund is a grouping of related accounts that are used to maintain financial control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, 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 government's near-term financing decisions. The governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintained 18 individual governmental funds for 2008. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital Improvement Fund, and the Tax Increment Financing #1 Fund (TIF #1) all of which are considered to be major funds. Data from the other 15 governmental funds are combined into a single aggregated presentation. Fund data for each individual non-major governmental fund are provided in the form of combining statements following the required supplementary information.

The City adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided as required supplementary information for the major governmental funds to demonstrate compliance with this budget.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Management's Discussion and Analysis

In addition, a budgetary comparison statement has been provided for the non-major governmental funds following the required supplementary information.

Proprietary funds. The City maintains one type of proprietary fund: Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Watertown uses enterprise funds to account for its sewer, solid waste, airport, electric, water and gas funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The sewer, electric, water and gas funds are considered to be major funds. Data from the other two enterprise funds are combined into a single aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements following the required supplementary information.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City's fiduciary funds consist of these three funds: 125 Escrow Agency Fund, Redemption Agency Fund, and the Security Deposit Agency Fund.

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. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule and related notes for the General Fund and each major special revenue fund, and the schedule of funding progress for postemployment benefit plans.

The combining statements referred to earlier in connection with non-major governmental funds and non-major enterprise funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Net assets. As presented on the following table, the City's assets exceeded liabilities by \$184,328,256 at the close of the fiscal year ending December 31, 2008.

	Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	\$28,214,151	\$30,666,727	\$ 17,362,379	\$ 18,243,384	\$ 45,576,530	\$ 48,910,111
Capital Assets	65,106,986	68,088,029	97,674,544	103,321,646	162,781,530	171,409,675
Total Assets	93,321,137	98,754,756	115,036,923	121,565,030	208,358,060	220,319,786
Long-term Debt Outstanding	18,581,333	18,397,947	5,354,345	7,600,597	23,935,678	25,998,544
Other Liabilities	1,678,716	1,606,485	7,834,193	8,386,501	9,512,909	9,992,986
Total Liabilities	20,260,049	20,004,432	13,188,538	15,987,098	33,448,587	35,991,530
Net Assets:						
Invested in Capital Assets,						
Net of related debt	47,791,276	51,029,214	93,713,787	97,151,295	141,505,063	148,180,509
Restricted	4,744,766	4,688,698	2,250,823	2,321,033	6,995,589	7,009,731
Unrestricted	20,525,046	23,032,412	5,883,775	6,105,604	26,408,821	29,138,016
Total Net Assets	\$73,061,088	\$78,750,324	\$ 101,848,385	\$ 105,577,932	\$ 174,909,473	\$ 184,328,256

By far the largest portion (80%) of the City's net assets is represented by \$148.2 million in investments in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Management's Discussion and Analysis

Restricted net assets of \$7 million comprise 4% of total net assets. These assets are subject to external restrictions on how they may be used.

The remaining balance of \$29.1 million, or 16%, in unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Certain balances within unrestricted net assets have internally imposed designations or limitations which may further limit the purpose for which such net assets may be used.

Changes in net assets The City's revenues for the year totaled \$93.2 million including more than \$68.6 million from charges for services. This means that 74 cents of every revenue dollar came from charges for services (primarily the business-type funds such as Sewer, Solid Waste, Electric, Water and Gas). Taxes accounted for \$16.1 million of total revenues, or about 17 cents of every revenue dollar.

The City's net assets increased by \$9.4 million or 5.4% during the current fiscal year as shown on the following table. This increase is attributable to the continued growth in the community requiring a substantial investment in infrastructure and other assets. More details that account for the change in net assets are provided in the following analysis of the governmental and business-type activities.

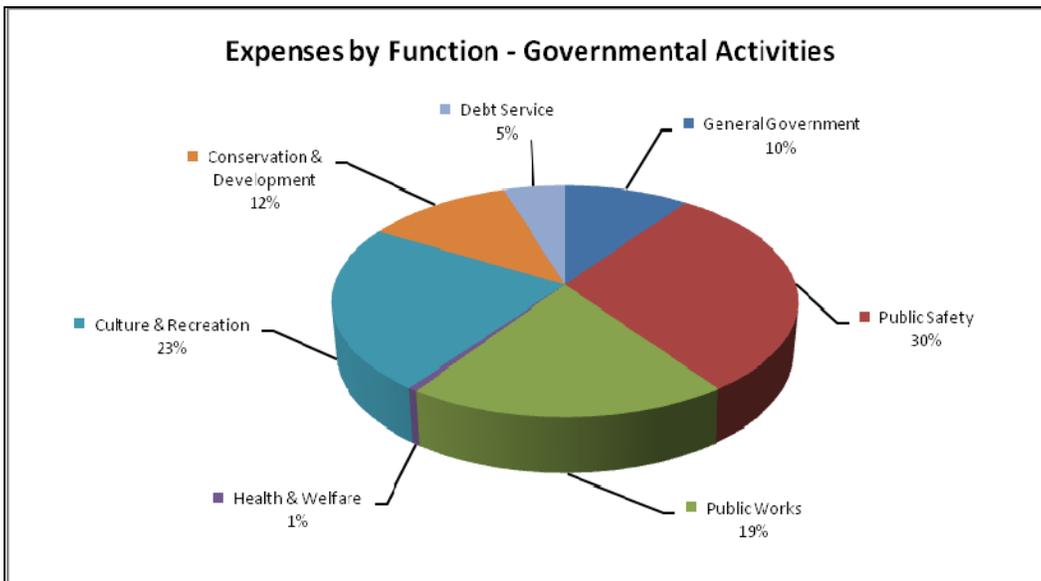
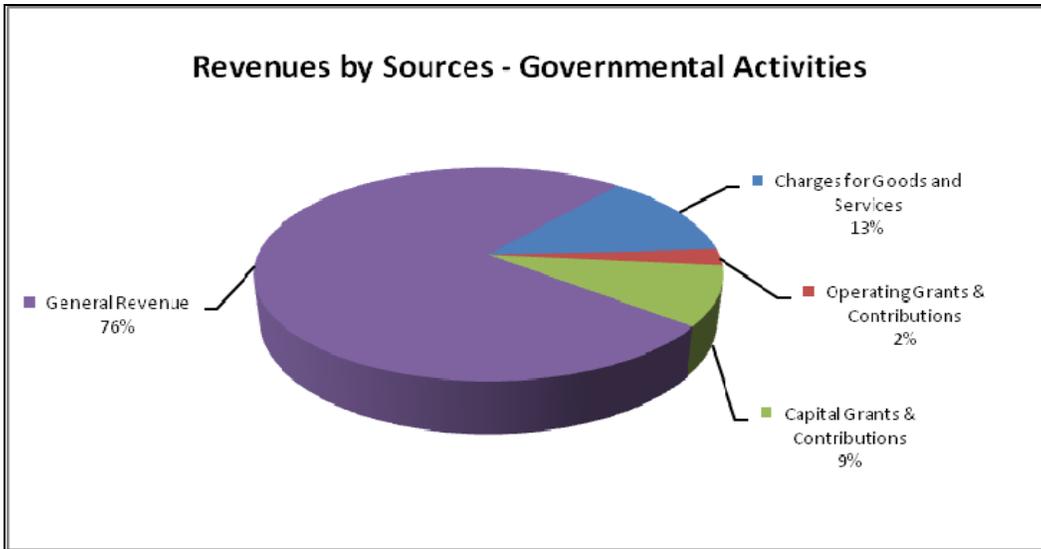
	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,918,490	\$ 3,196,050	\$ 49,407,529	\$ 65,425,872	\$ 52,315,768	\$ 68,621,922
Operating Grants and Contributions	461,103	592,547	-	-	461,103	592,547
Capital Grants and Contributions	3,333,292	2,204,146	9,481,462	2,960,700	12,814,754	5,164,846
General Revenues:						
Taxes	15,584,601	16,045,000	10,346	9,794	15,594,947	16,054,794
Grants and Contributions not Restricted to Specific Programs	779,009	824,082	-	-	779,009	824,082
Other	1,910,188	1,553,506	461,917	450,181	2,382,356	2,003,687
Total Revenues	24,986,683	24,415,331	59,361,254	68,846,547	84,347,937	93,261,878
Expenses:						
General Government	2,081,938	2,013,451	-	-	2,081,938	2,013,451
Public Safety	6,027,544	6,027,524	-	-	6,027,544	6,027,524
Public Works	5,210,444	3,924,863	-	-	5,210,444	3,924,863
Health and Welfare	152,548	112,178	-	-	152,548	112,178
Culture and Recreation	5,398,262	4,663,565	-	-	5,398,262	4,663,565
Conservation and Development	1,127,959	2,367,988	-	-	1,127,959	2,367,988
Debt Service	969,371	980,531	-	-	969,371	980,531
Sewer	-	-	2,614,782	2,654,696	2,614,783	2,654,696
Solid Waste	-	-	1,801,588	1,912,915	1,801,588	1,912,915
Airport	-	-	517,809	652,775	517,809	652,775
Electric	-	-	16,732,001	19,057,099	16,732,001	19,057,099
Water	-	-	2,836,951	3,189,027	2,836,950	3,189,027
Gas	-	-	22,960,556	36,286,483	22,960,556	36,286,483
Water Bond	-	-	415,885	-	415,885	-
Total Expenses	20,968,066	20,090,100	47,879,572	63,752,995	68,847,638	83,843,095
Excess (Deficiency) Before Transfers	4,018,617	4,325,231	11,481,682	5,093,552	15,500,299	9,418,783
Transfers	766,300	1,364,005	(766,300)	(1,364,005)	-	-
Change in Net Assets	4,784,917	5,689,236	10,715,382	3,729,547	15,500,299	9,418,783
Net Assets - Beginning	67,140,333	73,061,088	91,133,003	101,848,385	158,273,336	174,909,473
Prior Period Adjustment	1,135,838	-	-	-	1,135,838	-
Net Assets - Ending	\$ 73,061,088	\$ 78,750,324	\$ 101,848,385	\$ 105,577,932	\$ 174,909,473	\$ 184,328,256

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the City's net assets by \$5.7 million, accounting for 60% of the total growth in the net assets of the City. As discussed above, the reason for the majority of this increase is the limitation on the use of current Capital Improvement Fund revenues largely to capital asset acquisition or construction.

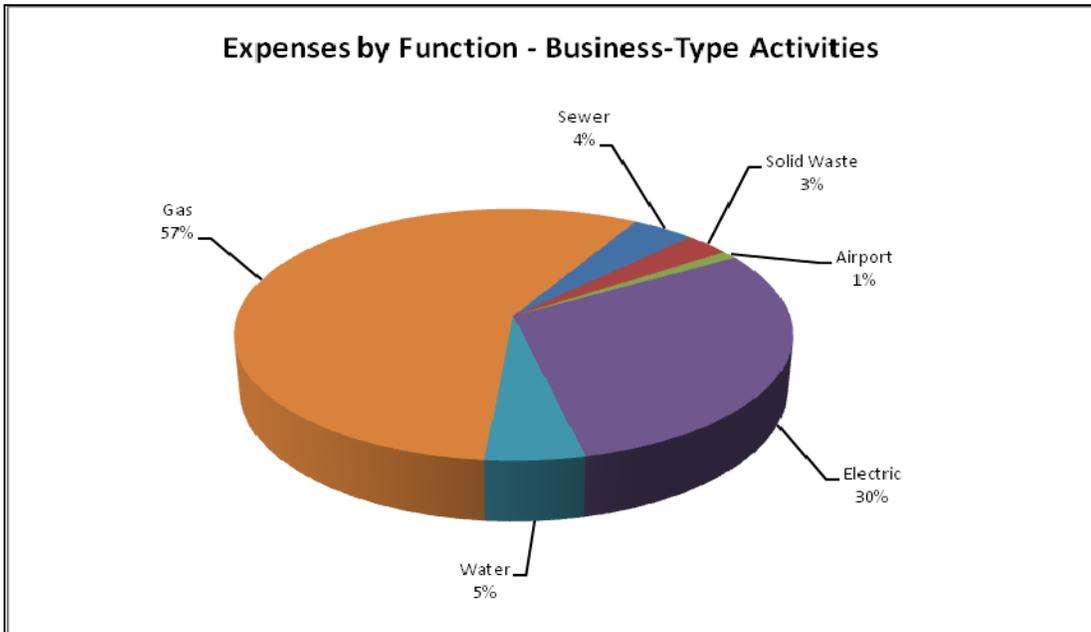
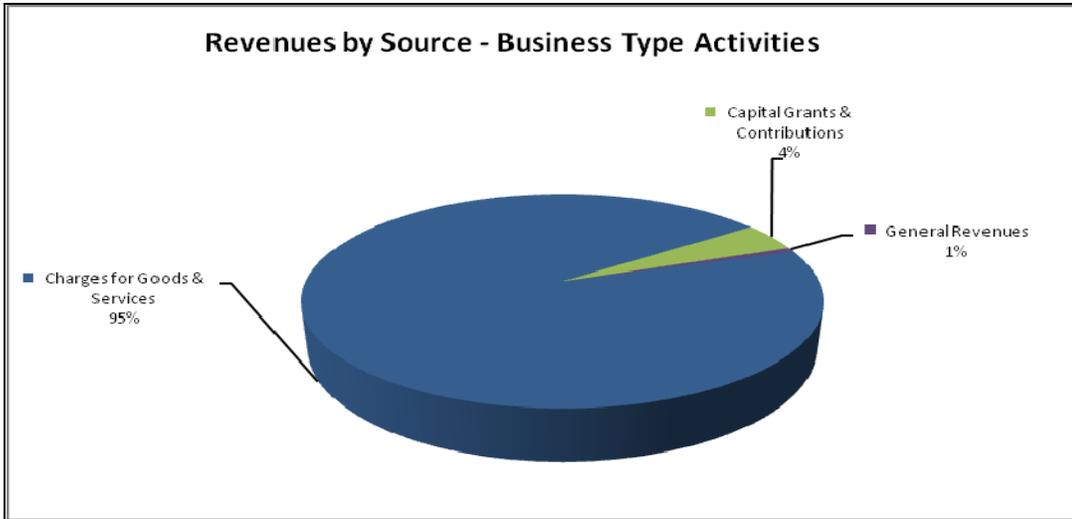
The following charts summarize the revenues and expenses associated with Governmental Activities:



Management's Discussion and Analysis

Business-Type Activities

Business-type activities increased the City's net assets by \$3.7 million, accounting for 40% of the total growth in the City's net assets. Key reasons for this increase, as discussed above, include the large capital contributions to the Enterprise Funds from the Capital Improvement Fund, state & federal grants and from developers for storm and sanitary sewer system improvements and for fencing improvements. The following charts summarize the revenues and expenses associated with Business-Type Activities:



Management's Discussion and Analysis

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by statute while others are established to assist management in accounting for certain activities.

Governmental Funds

The accounting focus of the City'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 activities and abilities. 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.

As of the end of 2008, the City's governmental funds reported combined unreserved fund balances of \$20.8 million, an increase of \$2.5 million, or 13.3% from 2007. Of the total unreserved fund balance of \$20.8 million, the City has internally earmarked \$8.8 million for specific purposes which are reported as designations of the fund balances.

General Fund – The General Fund is the chief operating fund of the City. The fund balance increased by \$409,606, or about 6.7%, from 2007 due in large part to actual sales tax revenues exceeding budget estimates. As of the end of 2008, \$1.8 million is either reserved or designated in the General Fund for future capital outlay spending or other specified purposes leaving an unreserved and undesignated fund balance of \$4.7 million, or about 42% of 2008 General Fund revenues. The reserved amounts will not affect the availability of fund resources for future use.

Capital Improvement Fund – The fund balance increased by \$3.4 million or 18%. This increase resulted from a combination of several factors which included closing two capital projects funds which had significant residual balances (\$1.2 million), several large projects within the Capital Improvement Fund coming in under budget and from the delay of several large projects to 2009. As of the end of 2008, \$6.9 million is designated in the Capital Improvement Fund for future capital outlay spending. The reserved amounts will not affect the availability of fund resources for future use.

TIF 1 Fund - The fund balance increased by \$41,135 resulting in a deficit fund balance in this fund of \$2.4 million. This deficit resulted from the method of financing used to pay for the infrastructure improvements within this tax increment district. All of the improvements were funded with a long-term inter-fund loan, or advance, from the Capital Improvement Fund. Because the advance from the Capital Improvement Fund is reported as a liability within the TIF 1 Fund, no equity has been created in the TIF 1 Fund. Therefore, as costs were incurred by the TIF 1 Fund, a deficit fund balance resulted. Over the life of the tax increment district, future tax revenues will flow into the TIF 1 Fund and gradually reduce the deficit fund balance as the assets accumulated in the TIF 1 Fund are used to repay the advance. By the end of the life of the tax increment district, the deficit is expected to be completely eliminated.

Proprietary Funds

Sewer Fund – Net assets increased by \$1.9 million, or 4.0%, on operating income of \$201,040. This amount of operating income equals approximately 7.5% of operating revenues for this fund.

Electric, Gas and Water Funds – Net assets in the Electric, Gas and Water Funds increased by a combined \$1.1 million or 3.2%. This increase resulted from overall strong operating income from electric and water utility services.

General Budgetary Highlights

The final 2008 General Fund expenditure budget reflects an increase to the original budget by just over \$445,000, or about 3.8%, with the majority of this increase in the public safety and public works areas. The public works budget increase was in the Street Department – Dump Trucks (\$162,500) for trucks that were originally budgeted in 2007 but the appropriation needed to be carried over into 2008 because the trucks were not delivered until 2008; a majority of the public safety budget increase resulted from state or federal grants not anticipated in the original budget (\$143,300).

Actual General Fund expenditures were \$980,000 less than the original budget, or about 8%. The difference between the budgeted and actual results was largely due to unused funds in the Contingency Account budget of \$420,000.

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2008, totals \$171,409,675 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery & equipment, park facilities, roads and other infrastructure assets. The reported investment in capital assets increased during 2008 by \$8.6 million or 5.3%.

Major capital asset events during the 2008 included the following:

- Street system improvements completed - \$.9 million
- Completed street improvements received by City in new developments - \$.9 million
- Completion of sanitary sewer lift station improvements around Lake Kampeska - \$2.5 million
- Completion of several other sanitary & storm sewer projects - \$1.7 million
- Construction added to work-in-progress on a major storm sewer project - \$.8 million
- Construction of a lift station & force main sewer for the landfill - \$.6 million
- Completion of a major airport fencing project - \$.9 million

Additional information on the City of Watertown's capital assets can be found in Note 3.I in the notes to the financial statements.

Long-term debt

At the end of 2008 the City had total debt outstanding of \$25,998,544 in General Obligation Bonds, Sales Tax Bonds and other long-term obligations. This is an increase of 8.6% or \$2,062,866. The significant long-term debt activity for the year includes a new \$1.5 million promissory note from a local bank for a building project in the gas, electric and water enterprise funds, the initial drawdown of \$.5 million on a State Revolving Fund (SRF) loan for a major drinking water system improvement project, additional drawdown of \$1.0 million on several SRF loans for sanitary & storm sewer system and non-point source pollution improvement projects and the final payoff of the SRF Loan #1 which was originated in 1992.

The City has outstanding \$4,840,000 in General Obligation (GO) Bonds. These bonds are backed by the full faith and credit of the City. Principal and interest on these GO Bonds are secured and paid using revenues generated from a special property tax levy. The proceeds from these bonds were used to construct the Watertown Event Center which opened in September 2004.

The City has outstanding \$1,030,000 in Sales Tax Revenue Bonds, Series 2003. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenues. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds were used to construct street, sanitary sewer and storm sewer improvements in two areas of the City.

The City has outstanding \$4,295,000 in Sales Tax Revenue Bonds, Series 2004. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenues. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds were used to construct the new Family Aquatics Center which opened in June 2006.

The City has outstanding \$4,540,000 in Sales Tax Revenue Bonds, Series 2007. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds were used to construct the Library which opened in July 2007.

Additional information on the City of Watertown's long-term debt can be found in Note 3.J in the notes to the financial statement

Economic Outlook and Next Year's Budget

The City adopted the FY2009 budget in mid-2008 following several fiscal quarters of fairly solid growth in sales tax revenues. However, after that point, growth in sales tax revenues dropped off significantly and, by the end of 2008, had grown only 1.3% for the year. The sharp drop-off in sales tax revenue growth at the end of 2008 moderated

Management's Discussion and Analysis

somewhat in early 2009 however growth remains virtually flat on a year-over-year comparison. We will continue to monitor this vitally important revenue source as we proceed into the 2010 budget process looking for any signs that the already weakening economy is worsening.

Overall, the 2009 budget reflects an increase in planned spending of \$4.7 million, or 15.0%, from the original 2008 budget. This significant increase reflects a higher level of expenditures planned for large capital projects. The General Fund budget reflects an increase of \$.5 million, or 3.7% which includes the effects of three additional budgeted full-time employee positions – one in the Police Department and two in the Fire Department – all of which are funded in part with federal grant funds.

Growth of the City's property tax base moderated in 2008 with an overall increase in the taxable value of real property of \$16.1 million. Real growth of \$27.8 million from new property added to the tax rolls was offset by a decrease of \$11.7 million in the taxable value of existing property through the reappraisal process. The significant decrease in taxable values by reappraisal was almost entirely in the commercial property class and resulted in a shift of property tax burden onto owner-occupied residences and away from commercial property. In fact, the reappraisal process resulted in an overall decrease in taxable value of 11% for existing commercial properties while existing owner-occupied properties received an overall increase from reappraisal of 6%. As a result of all of these changes and with a slight increase in the General Fund mill levy from \$2.497 per \$1,000 of value to \$2.582 per \$1,000, General Fund property tax revenues will increase by approximately \$127,000, or about 5.4%. In addition, the special property tax levy used to repay the 2002 Event Center GO Bonds will generate approximately \$439,000 in property tax revenues for the Debt Service Fund.

Requests for Information

This financial report is designed to provide a comprehensive look at the City of Watertown's financial picture for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, PO Box 910, City of Watertown, Watertown, SD 57201-0910, (605) 882-6203.

City of Watertown
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 Year Ended December 31, 2008

Statement of Net Assets

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission
ASSETS				
Pooled Cash and Investments	\$ 23,323,369	\$ 5,700,440	\$ 29,023,809	\$ -
Non-Pooled Cash and Investments	-	-	-	560,576
Receivables, net	4,275,231	7,714,204	11,989,435	19,772
Due from Other Sources	-	669	669	-
Due from Other Governments	146,014	326,448	472,462	-
Inventories	98,620	1,250,675	1,349,295	-
Deposits	330,054	-	330,054	-
Prepaid Expenses	-	701,468	701,468	25,786
Internal Balances	216,550	(216,550)	-	-
Restricted Pooled Cash and Investments	2,276,889	2,766,030	5,042,919	-
Capital Assets:				
Land and Work in Progress	11,994,851	6,266,985	18,261,836	145,152
Other Capital Assets, Net of Depreciation	56,093,178	97,054,661	153,147,839	1,027,240
Total assets	<u>98,754,756</u>	<u>121,565,030</u>	<u>220,319,786</u>	<u>1,778,526</u>
LIABILITIES				
Accounts Payable	814,631	7,018,911	7,833,542	26,349
Salaries Payable	-	93,756	93,756	-
Retainage Payable	87,603	299,493	387,096	-
Unearned Revenue	671,293	-	671,293	-
Revenues Collected in Advance	-	628,610	628,610	-
Accrued Interest Payable	32,958	35,206	68,164	-
Customer Deposits	-	310,525	310,525	12,990
Long-term Liabilities:				
Due within one year	1,226,891	2,138,915	3,365,806	3,568
Due in more than one year	17,171,056	5,461,682	22,632,738	-
Total liabilities	<u>20,004,432</u>	<u>15,987,098</u>	<u>35,991,530</u>	<u>42,907</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	51,029,214	97,151,295	148,180,509	1,168,824
Restricted for Cemetery Perpetual Care:				
Expendable	6,024	-	6,024	-
Nonexpendable	50,000	-	50,000	-
Restricted for Conservation & Development	561,699	-	561,699	-
Restricted for Culture & Recreation	1,399,313	-	1,399,313	-
Restricted for Debt Service	2,156,731	180,614	2,337,345	-
Restricted for Financial Assurance	-	146,114	146,114	-
Restricted for Public Safety	184,877	-	184,877	-
Restricted for Operation & Maintenance	-	151,935	151,935	-
Restricted for Replacement & Depreciation	-	1,842,370	1,842,370	-
Restricted for Cumulative Reserve Fund	330,054	-	330,054	-
Restricted for Housing Assistance Payments	-	-	-	210,826
Unrestricted	23,032,412	6,105,604	29,138,016	355,969
Total net assets	<u>\$ 78,750,324</u>	<u>\$ 105,577,932</u>	<u>\$ 184,328,256</u>	<u>\$ 1,735,619</u>

The notes to the financial statements are an integral part of this statement.

Statement of Activities

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental Activities:				
General Government	\$ 2,013,451	\$ 94,191	\$ -	\$ -
Public Safety	6,027,524	883,982	337,945	280,233
Public Works	3,924,863	233,702	-	1,813,083
Health and Welfare	112,178	2,805	-	-
Culture and Recreation	4,663,565	1,791,085	121,934	26,166
Conservation and Development	2,367,988	190,285	132,668	84,664
Interest on Long-Term Debt	980,531	-	-	-
Total governmental activities	<u>20,090,100</u>	<u>3,196,050</u>	<u>592,547</u>	<u>2,204,146</u>
Business-Type Activities:				
Sewer	2,654,696	2,723,042	-	1,949,113
Solid Waste	1,912,915	2,126,587	-	-
Airport	652,775	135,333	-	723,060
Electric	19,057,099	20,873,566	-	118,212
Water	3,189,027	3,232,484	-	170,315
Gas	36,286,483	36,333,029	-	-
Total business-type activities	<u>63,752,995</u>	<u>65,424,041</u>	<u>-</u>	<u>2,960,700</u>
Total primary government	<u>83,843,095</u>	<u>68,620,091</u>	<u>592,547</u>	<u>5,164,846</u>
Component units:				
Watertown Housing and Redev.	1,502,236	265,779	1,068,735	-
Total Component Units	<u>\$ 1,502,236</u>	<u>\$ 265,779</u>	<u>\$ 1,068,735</u>	<u>\$ -</u>

General revenues:

- Taxes
 - Property Taxes
 - Sales and Use Taxes
 - Other Taxes
- State Shared Revenues
- Interest Earned
- Other Miscellaneous

Transfers

Total general revenues & transfers

Change in net assets

Net assets - beginning

Net assets - ending

The notes to the financial statements are an integral part of this statement.

City of Watertown
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Statement of Activities (continued)

Net(Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission
\$ (1,919,260)	\$ -	\$ (1,919,260)	\$ -
(4,525,364)	-	(4,525,364)	-
(1,878,078)	-	(1,878,078)	-
(109,373)	-	(109,373)	-
(2,724,380)	-	(2,724,380)	-
(1,960,371)	-	(1,960,371)	-
(980,531)	-	(980,531)	-
<u>(14,097,357)</u>	<u>-</u>	<u>(14,097,357)</u>	<u>-</u>
-	2,017,459	2,017,459	-
-	213,672	213,672	-
-	205,618	205,618	-
-	1,934,679	1,934,679	-
-	213,772	213,772	-
-	46,546	46,546	-
<u>-</u>	<u>4,631,746</u>	<u>4,631,746</u>	<u>-</u>
<u>(14,097,357)</u>	<u>4,631,746</u>	<u>(9,465,611)</u>	<u>-</u>
-	-	-	(167,722)
-	-	-	(167,722)
3,077,979	-	3,077,979	-
12,391,871	-	12,391,871	-
575,150	9,794	584,944	-
824,082	-	824,082	-
1,255,522	342,516	1,598,038	9,960
297,984	109,496	407,480	10,447
<u>1,364,005</u>	<u>(1,364,005)</u>	<u>-</u>	<u>-</u>
<u>19,786,593</u>	<u>(902,199)</u>	<u>18,884,394</u>	<u>20,407</u>
<u>5,689,236</u>	<u>3,729,547</u>	<u>9,418,783</u>	<u>(147,315)</u>
<u>73,061,088</u>	<u>101,848,385</u>	<u>174,909,473</u>	<u>1,882,934</u>
<u>\$ 78,750,324</u>	<u>\$ 105,577,932</u>	<u>\$ 184,328,256</u>	<u>\$ 1,735,619</u>

The notes to the financial statements are an integral part of this statement.

City of Watertown
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Balance Sheet - Governmental Funds

	General Fund	Capital Improvement Fund	Tax Increment Financing 1 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled Cash and Investments	\$ 5,808,470	\$ 14,976,122	\$ 640	\$ 2,538,137	\$ 23,323,369
Property Taxes Receivable	59,140	-	-	10,938	70,078
Sales Tax Receivable	676,174	675,897	-	76,703	1,428,774
Accounts Receivable	233,921	-	-	56,482	290,403
Special Assessments Receivable	415,273	244,463	-	2,069	661,805
Interest Receivable	64,358	190,171	210	30,905	285,644
Loans Receivable	-	1,391,013	-	31,804	1,422,817
Deferred Receivable	3,870	3,840	-	108,000	115,710
Due From Other Funds	177,146	39,404	-	-	216,550
Due From Other Governments	127,613	17,545	-	856	146,014
Inventory	60,903	-	-	37,717	98,620
Deposits	330,054	-	-	-	330,054
Advance To Other Fund	-	3,801,726	-	-	3,801,726
Restricted Assets:					
Pooled Cash and Investments	69,561	2,112,431	-	94,897	2,276,889
Total assets	<u>8,026,483</u>	<u>23,452,612</u>	<u>850</u>	<u>2,988,508</u>	<u>34,468,453</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	340,077	301,975	-	172,579	814,631
Retainage Payable	-	87,603	-	-	87,603
Deferred Revenue	1,139,395	1,016,336	210	279,930	2,435,871
Advance From Other Fund	-	-	2,381,045	1,420,681	3,801,726
Total liabilities	<u>1,479,472</u>	<u>1,405,914</u>	<u>2,381,255</u>	<u>1,873,190</u>	<u>7,139,831</u>
FUND BALANCES:					
Reserved for:					
Inventory	60,903	-	-	37,717	98,620
Cable TV Security	13,538	-	-	-	13,538
Cemetery Perpetual Care	56,024	-	-	-	56,024
Cumulative Reserve Fund	330,054	-	-	-	330,054
Hanten Escrow Account	-	109,162	-	-	109,162
Event Center	-	-	-	2,276	2,276
Debt Service	-	2,003,269	-	-	2,003,269
Urban Renewal Loans	-	-	-	92,621	92,621
Advances	-	3,801,726	-	-	3,801,726
Unreserved Fund Balances					
Designated for Capital Outlay	1,287,293	6,943,731	-	-	8,231,024
Reported in Non-Major:					
Special Revenue Funds	-	-	-	285,465	285,465
Designated for Death Benefits	100,000	-	-	-	100,000
Designated for Park Development	-	-	-	-	-
Reported in Non-Major:					
Special Revenue Funds	-	-	-	63,893	63,893
Designated for Golf Course	-	-	-	-	-
Reported in Non-Major:					
Special Revenue Funds	-	-	-	61,918	61,918
Designated for Zoo Improvements	-	-	-	-	-
Reported in Non-Major:					
Special Revenue Funds	-	-	-	68,729	68,729
Unreserved, undesignated reported in	4,699,199	9,188,810	(2,380,405)	-	11,507,604
Reported in Non-Major:					
Special Revenue	-	-	-	349,237	349,237
Debt Service	-	-	-	153,462	153,462
Total fund balances	<u>6,547,011</u>	<u>22,046,698</u>	<u>(2,380,405)</u>	<u>1,115,318</u>	<u>27,328,622</u>
Total liabilities and fund balances	<u>\$ 8,026,483</u>	<u>\$ 23,452,612</u>	<u>\$ 850</u>	<u>\$ 2,988,508</u>	<u>\$ 34,468,453</u>

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Fund balances of governmental funds \$ 27,328,622

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets	86,742,507	
Accumulated Depreciation	(18,654,478)	68,088,029

Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.

GO Bonds 2002	(4,840,000)	
2003 Revenue Bonds	(1,030,000)	
2004 Revenue Bonds	(4,295,000)	
2006 Revenue Bonds	(4,540,000)	
SRF Loan #6 - CW	(887,814)	
SRF Loan #6 - NPS	(112,853)	
SRF Loan #8 - CW	(525,041)	
SRF Loan #8 - NPS	(58,747)	
Fire Truck Lease Payable	(592,830)	
Contracts Payable	(176,530)	
Accrued Interest Payable	(32,958)	
Other Post Employment Benefits	(48,067)	
Compensated Absences	(1,291,065)	(18,430,905)

Assets such as interest receivable, sales tax and special assessments receivables are not available to pay for current period expenditures and therefore are deferred in the funds.

Interest Receivable	285,643	
Special Assessments	135,956	
Franchise Fees	25,675	
E-911 Surcharges	56,482	
Accounts Receivable	30,102	
Grants	58,225	
General Sales and Use Tax	1,172,495	1,764,578

Net assets of governmental activities \$ 78,750,324

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**Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Governmental Funds**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Tax Increment Financing 1 Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Tax Revenue					
Property	\$ 2,341,701	\$ -	\$ 209,483	\$ 526,795	\$ 3,077,979
Sales	5,875,447	5,865,987	-	639,419	12,380,853
Other Taxes	312,348	-	-	264,102	576,450
Licenses and Permits	228,960	-	-	-	228,960
Intergovernmental	1,000,044	939,861	-	127,277	2,067,182
Charges for Goods and Services	941,424	-	-	1,657,481	2,598,905
Fines and Forfeits	69,050	-	-	18,032	87,082
Interest Revenue	249,458	956,337	919	169,070	1,375,784
Rentals	-	-	-	116,927	116,927
Special Assessments	89,283	-	-	44,792	134,075
Donations/Contributions	58,883	67,119	-	233,608	359,610
Miscellaneous	148,304	17,090	-	86,318	251,712
Total revenues	<u>11,314,902</u>	<u>7,846,394</u>	<u>210,402</u>	<u>3,883,821</u>	<u>23,255,519</u>
EXPENDITURES					
Current:					
General Government	1,475,670	118,829	-	409,330	2,003,829
Public Safety	5,374,466	43,616	-	507,171	5,925,253
Public Works	2,492,817	3,096,986	-	-	5,589,803
Health and Welfare	112,208	-	-	-	112,208
Culture and Recreation	982,903	853,564	-	3,515,979	5,352,446
Conservation and Development	347,936	837,018	-	546,251	1,731,205
Debt Service	-	1,149,676	169,267	509,185	1,828,128
Capital Outlay	-	-	-	4,753	4,753
Total expenditures	<u>10,786,000</u>	<u>6,099,689</u>	<u>169,267</u>	<u>5,492,669</u>	<u>22,547,625</u>
Excess (deficiency) of revenues over expenditures	<u>528,902</u>	<u>1,746,705</u>	<u>41,135</u>	<u>(1,608,848)</u>	<u>707,894</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	17,904	-	-	2,617	20,521
Bond Issuance	-	525,041	-	64,217	589,258
Transfers Out	(1,437,000)	(115,000)	-	(1,277,228)	(2,829,228)
Transfers In	1,299,800	1,208,106	-	1,685,327	4,193,233
Total other financing sources (uses)	<u>(119,296)</u>	<u>1,618,147</u>	<u>-</u>	<u>474,933</u>	<u>1,973,784</u>
Net Change in Fund Balances	409,606	3,364,852	41,135	(1,133,915)	2,681,678
Fund balances -- beginning	<u>6,137,405</u>	<u>18,681,846</u>	<u>(2,421,540)</u>	<u>2,249,233</u>	<u>24,646,944</u>
Fund balances -- ending	<u>\$ 6,547,011</u>	<u>\$ 22,046,698</u>	<u>(\$ 2,380,405)</u>	<u>\$ 1,115,318</u>	<u>\$ 27,328,622</u>

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, & Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances --total governmental funds \$ 2,681,678

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the Statement of Activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Expenditure for Capital Assets	3,507,426	
Less Current Depreciation	(1,770,328)	1,737,098

In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the disposal of fixed assets is not reflected.

(27,910)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Donated capital assets	1,271,855	
Changes in deferred revenue:		
Interest	(120,262)	
Special Assesments	(70,109)	
Sales Taxes	11,018	
Franchise Fees	(366)	
E-911 Surcharges	(935)	
Charges for Services	30,102	
Grants	(7,763)	1,113,540

The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Issuance of bonds	(589,258)	
Repayment of bond principal	846,153	256,895

Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.

(25,442)

Governmental funds do not reflect the change in Other Post Employment Benefits (OPEB), but the statement of activities reflects the change in OPEB through expenditures.

(48,067)

Expenses in the Statement of Activities that do not require current financial resources and are not reported in the fund financial statements:

Change in Accrued Interest Payable		1,444
------------------------------------	--	-------

Change in net assets of governmental activities

\$ 5,689,236

The notes to the financial statements are an integral part of this statement.

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Statement of Net Assets - Proprietary Funds

	Sewer Fund	Electric Fund	Water Fund
ASSETS			
Current assets:			
Pooled Cash and Investments	\$ 1,691,388	\$ 621,686	\$ 8,367
Accounts Receivable	247,416	1,722,717	287,309
Unbilled Accounts Receivable	-	1,348,519	177,519
Special Assessments Receivable	794	-	-
Interest Receivable	42,152	12,358	-
Deferred Receivable	16,692	-	-
Due from Other Funds	-	1,400,000	360,898
Due from Other Sources	32	-	-
Due From Other Governments	-	-	8,385
Inventory	164,091	551,650	244,943
Prepaid Expense	-	1,468	-
Restricted Pooled Cash and Investments	2,174,919	-	224,875
Total Current assets:	<u>4,337,484</u>	<u>5,658,398</u>	<u>1,312,296</u>
Noncurrent assets:			
Land	961,178	338,403	187,873
Buildings and Structures	25,722,080	4,992,012	6,608,695
Furniture Equipment Machinery	1,185,680	1,090,658	375,658
Improvements Other Than Buildings	38,255,864	32,423,856	14,573,961
Intangible Property	-	-	-
Construction in Progress	835,711	1,413,430	1,459,944
Accumulated Depreciation	(17,227,270)	(22,522,984)	(10,334,076)
Accumulated Amortization	-	-	-
Total Noncurrent assets:	<u>49,733,243</u>	<u>17,735,375</u>	<u>12,872,055</u>
Total assets	<u>54,070,727</u>	<u>23,393,773</u>	<u>14,184,351</u>
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts Payable	44,931	2,223,401	364,693
Salaries Payable	-	45,291	26,368
Retainage Payable	20,000	119,485	59,742
Due to Other Funds	-	49,908	1,790,250
Deferred Revenue	17,486	-	-
Revenues Collected in Advance	-	225,443	13,562
Loans Payable	343,481	750,000	375,000
Accrued Interest Payable	35,206	-	-
Accrued Vacation and Sick Leave	31,551	121,587	47,481
Customer Deposits	-	310,525	-
Total Current liabilities:	<u>492,655</u>	<u>3,845,640</u>	<u>2,677,096</u>
Noncurrent liabilities:			
Accrued Vacation and Sick Leave	94,654	364,761	142,442
Other Post Employment Benefits	4,275	9,341	4,670
Closure/Post Closure Liability	-	-	-
Loans Payable	3,843,266	-	483,604
Total Noncurrent liabilities:	<u>3,942,195</u>	<u>374,102</u>	<u>630,716</u>
Total liabilities	<u>4,434,850</u>	<u>4,219,742</u>	<u>3,307,812</u>
NET ASSETS			
Invested in capital assets, net of related debt	45,546,496	16,985,375	12,013,451
Restricted for Financial Assurance	-	-	-
Restricted for SRF O&M	151,935	-	-
Restricted for SRF R&D	1,842,370	-	-
Restricted for Debt Service	180,614	-	-
Unrestricted	1,914,462	2,188,656	(1,136,912)
Total net assets	<u>\$ 49,635,877</u>	<u>\$ 19,174,031</u>	<u>\$ 10,876,539</u>

The notes to the financial statements are an integral part of this statement.

City of Watertown
 Comprehensive Annual Financial Report
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Statement of Net Assets - Proprietary Fund (continued)

<u>Gas Fund</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
\$ 123,929	\$ 3,255,070	\$ 5,700,440
1,735,939	198,006	4,191,387
1,895,179	-	3,421,217
-	-	794
3,285	43,805	101,600
-	196,319	213,011
385,000	4	2,145,902
-	637	669
-	318,063	326,448
232,949	57,042	1,250,675
700,000	-	701,468
-	366,236	2,766,030
<u>5,076,281</u>	<u>4,435,182</u>	<u>20,819,641</u>
43,861	358,873	1,890,188
204,662	1,588,982	39,116,431
420,103	5,170,209	8,242,308
12,900,293	17,221,982	115,375,956
470,654	-	470,654
666,039	1,673	4,376,797
(7,580,696)	(8,344,441)	(66,009,467)
<u>(141,221)</u>	<u>-</u>	<u>(141,221)</u>
<u>6,983,695</u>	<u>15,997,278</u>	<u>103,321,646</u>
<u>12,059,976</u>	<u>20,432,460</u>	<u>124,141,287</u>
4,269,576	116,310	7,018,911
22,097	-	93,756
59,742	40,524	299,493
366,148	156,146	2,362,452
-	196,319	213,805
389,605	-	628,610
375,000	-	1,843,481
-	-	35,206
61,987	32,828	295,434
-	-	310,525
<u>5,544,155</u>	<u>542,127</u>	<u>13,101,673</u>
185,960	98,486	886,303
4,670	5,431	28,387
-	220,122	220,122
-	-	4,326,870
<u>190,630</u>	<u>324,039</u>	<u>5,461,682</u>
<u>5,734,785</u>	<u>866,166</u>	<u>18,563,355</u>
6,608,695	15,997,278	97,151,295
-	146,114	146,114
-	-	151,935
-	-	1,842,370
-	-	180,614
(283,504)	3,422,902	6,105,604
<u>\$ 6,325,191</u>	<u>\$ 19,566,294</u>	<u>\$ 105,577,932</u>

The notes to the financial statements are an integral part of this statement.

City of Watertown
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**Statement of Revenues, Expenses, and Changes
 in Net Assets - Proprietary Funds**

	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Water Fund</u>
Operating revenues:			
Charges for Goods and Services	\$ 2,463,322	\$ 20,680,805	\$ 3,157,735
Miscellaneous	9,820	148,238	74,749
Rentals	-	44,523	170,315
Revenue Dedicated to Servicing Debt	224,696	-	-
Special Assessments	375	-	-
Total operating revenues	<u>2,698,213</u>	<u>20,873,566</u>	<u>3,402,799</u>
Operating expenses:			
Personal Services	808,633	-	-
Supplies	106,758	-	-
Utilities	230,022	-	-
Other Charges	328,337	-	-
Production	-	14,597,458	1,219,441
Distribution	-	1,555,409	675,641
Transmission	-	3,756	-
Accounts and Commercial	-	511,684	255,091
Administrative and General	-	676,579	241,612
Depreciation	1,023,423	1,484,330	600,840
Amortization	-	-	-
Total operating expenses	<u>2,497,173</u>	<u>18,829,216</u>	<u>2,992,625</u>
Operating Income (Loss)	<u>201,040</u>	<u>2,044,350</u>	<u>410,174</u>
Nonoperating revenues (expenses):			
Tax Revenue	-	-	-
Interest Revenue	138,672	36,540	-
Interest Expense	(157,523)	-	-
Sale of Capital Assets	24,829	-	-
Gain(Loss) on Disposition of Capital Assets	-	(227,883)	(196,402)
Total nonoperating revenues (expenses)	<u>5,978</u>	<u>(191,343)</u>	<u>(196,402)</u>
Income (loss) before contributions and transfers	207,018	1,853,007	213,772
Transfers In	-	2,250	-
Transfers Out	(228,405)	(626,978)	(90,000)
Capital Contributions	1,949,113	118,212	-
Change in net assets	<u>1,927,726</u>	<u>1,346,491</u>	<u>123,772</u>
Total net assets -- beginning	47,708,151	17,827,540	10,752,767
Total net assets -- ending	<u>\$ 49,635,877</u>	<u>\$ 19,174,031</u>	<u>\$ 10,876,539</u>

The notes to the financial statements are an integral part of this statement.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Statement of Revenues, Expenses, and Changes
 in Net Assets - Proprietary Funds (continued)**

<u>Gas Fund</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
\$ 36,312,761	\$ 2,115,045	\$ 64,729,668
18,525	41,189	292,521
1,743	105,686	322,267
-	-	224,696
-	-	375
<u>36,333,029</u>	<u>2,261,920</u>	<u>65,569,527</u>
-	1,015,195	1,823,828
-	298,568	405,326
-	69,573	299,595
-	588,467	916,804
34,247,337	-	50,064,236
923,322	-	3,154,372
-	-	3,756
319,728	-	1,086,503
278,387	-	1,196,578
503,575	593,887	4,206,055
14,134	-	14,134
<u>36,286,483</u>	<u>2,565,690</u>	<u>63,171,187</u>
<u>46,546</u>	<u>(303,770)</u>	<u>2,398,340</u>
-	9,794	9,794
18,009	149,295	342,516
-	-	(157,523)
-	109,496	134,325
-	-	(424,285)
<u>18,009</u>	<u>268,585</u>	<u>(95,173)</u>
64,555	(35,185)	2,303,167
-	107,000	109,250
(420,272)	(107,600)	(1,473,255)
-	723,060	2,790,385
<u>(355,717)</u>	<u>687,275</u>	<u>3,729,547</u>
6,680,908	18,879,019	101,848,385
<u>\$ 6,325,191</u>	<u>\$ 19,566,294</u>	<u>\$ 105,577,932</u>

The notes to the financial statements are an integral part of this statement.

City of Watertown
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Statement of Cash Flows - Proprietary Funds

	Sewer Fund	Electric Fund	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts from Customer Including Deposits	\$ 2,681,252	\$ 20,512,676	\$ 3,382,226
Cash Receipts for Interfund Services Provided	16,811	930,967	313,068
Payments to Suppliers	(519,163)	(14,627,563)	(1,427,136)
Payments to Employees	(796,109)	(2,174,316)	(1,262,601)
Payments for Interfund Services Used	(162,069)	(26,923)	(339,122)
Other Payments	108	(1,086,444)	(948)
Net cash provided (used) by operating activities	<u>1,220,830</u>	<u>3,528,397</u>	<u>665,487</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net Borrowing (Repayments) from Other Funds	752	(500,000)	440,250
Tax Revenue	-	-	-
Transfers Out	(228,405)	(626,978)	(90,000)
Transfers In	-	2,250	-
Net cash provided (used) by noncapital financing activities	<u>(227,653)</u>	<u>(1,124,728)</u>	<u>350,250</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,396,093)	(3,080,028)	(1,664,601)
Interest payments on SRF Loan	(147,274)	-	-
Proceeds from SRF Loan	859,497	-	483,604
Proceeds from Bank Loan	-	750,000	375,000
Principal payments on SRF Loan	(633,505)	-	-
Capital Grant	-	118,212	-
Proceeds from sales of capital assets	2,597	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,314,778)</u>	<u>(2,211,816)</u>	<u>(805,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	178,503	28,891	-
Net cash provided by investing activities	<u>178,503</u>	<u>28,891</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(143,098)	220,744	209,740
Pooled Cash and Investments - beginning of year	4,009,405	400,942	23,502
Pooled Cash and Investments - end of year	3,866,307	621,686	233,242
Less Restricted Pooled Cash and Investments	(2,174,919)	-	(224,875)
Pooled Cash and Investments Per Balance Sheet	<u>\$ 1,691,388</u>	<u>\$ 621,686</u>	<u>\$ 8,367</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 201,040	\$ 2,044,350	\$ 410,174
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,023,423	1,484,330	600,840
Changes in assets and Liabilities:			
Accounts Payable - Other		10,108	-
Accounts Payable	(16,114)	375,912	162,248
Customer Receivables	(118)	(468,310)	(133,350)
Inventory	108	(35,558)	(39,679)
Other Operating Receivables	(32)	108,226	(365,174)
Other Post Employment Benefits	4,275	9,341	25,758
Closure/Post closure costs	-	-	-
Salaries & Benefits Payable	8,248	(2)	4,670
Net Cash provided (used) by operating activities	<u>\$ 1,220,830</u>	<u>\$ 3,528,397</u>	<u>\$ 665,487</u>
Noncash Investing, Capital, and Financing Activities:			
Loss on Disposal of Capital Assets Not Affecting Operating Income	\$ -	\$ (227,883)	\$ (196,402)
Contributions of Capital Assets	\$ 1,949,113	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Statement of Cash Flows - Proprietary Funds (continued)

Gas Fund	Other Proprietary Funds	Total Proprietary Funds
\$ 35,931,575	\$ 2,261,410	\$ 64,769,139
343,085	-	1,603,931
(31,846,509)	(1,163,528)	(49,583,899)
(1,179,814)	(1,010,861)	(6,423,701)
(10,577)	-	(538,691)
(2,018,656)	(4,169)	(3,110,109)
<u>1,219,104</u>	<u>82,852</u>	<u>6,716,670</u>
65,000	156,146	162,148
-	9,794	9,794
(420,272)	(107,600)	(1,473,255)
-	107,000	109,250
<u>(355,272)</u>	<u>165,340</u>	<u>(1,192,063)</u>
(1,212,135)	(1,537,535)	(8,890,392)
-	-	(147,274)
-	-	1,343,101
375,000	-	1,500,000
-	-	(633,505)
-	820,812	939,024
-	85,441	88,038
<u>(837,135)</u>	<u>(631,282)</u>	<u>(5,801,008)</u>
16,647	165,515	389,556
<u>16,647</u>	<u>165,515</u>	<u>389,556</u>
43,344	(217,575)	113,155
<u>80,585</u>	<u>3,838,881</u>	<u>8,353,315</u>
123,929	3,621,306	8,466,470
-	(366,236)	(2,766,030)
<u>\$ 123,929</u>	<u>\$ 3,255,070</u>	<u>\$ 5,700,440</u>
\$ 46,546	\$ (303,770)	\$ 2,398,340
517,709	593,887	4,220,189
366,147	-	376,255
763,349	(231,699)	1,053,696
(414,526)	(763)	(1,017,067)
(45,462)	(4,169)	(124,760)
13,862	569	(242,549)
4,670	5,431	49,475
-	24,462	24,462
(33,191)	(1,096)	(21,371)
<u>\$ 1,219,104</u>	<u>\$ 82,852</u>	<u>\$ 6,716,670</u>
\$ -	\$ -	\$ (424,285)
\$ -	\$ -	\$ 1,949,113

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets - Fiduciary Funds

	<u>Agency Funds</u>
ASSETS	
Pooled Cash and Investments	<u>\$ 61,504</u>
Total Assets	<u><u>61,504</u></u>
LIABILITIES	
Due to Others	<u>61,504</u>
Total Liabilities	<u><u>\$ 61,504</u></u>

NOTE 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Watertown is a municipal corporation governed by an elected ten member City Council. An elected mayor presides at the Council meetings and votes only in the case of a tie. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable or for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is separate from the City.

Discretely Presented Component Unit: The Housing and Redevelopment Commission of the City of Watertown, South Dakota, is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the City Council, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other employees. The City Council, though, retains the statutory authority to approve, deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the City Council the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the entity's administrative office at 24 W. Kemp Ave, Watertown, South Dakota 57201.

B. Basis of Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 and presented on both the government-wide and fund financial level. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.A., above, and may be classified as either governmental or business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients for goods and services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into

Notes to the Financial Statements

three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City (General Fund) or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and,
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined; or,
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operation.

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds – capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Agency Funds – agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds maintained by the City include the Security Deposit Fund, Redemption Fund, and Section 125 Escrow Fund.

Security Deposit Fund is used to account for the collection and return or forfeiture of surety coverage receipts required by the City for items such as contract performance.

Notes to the Financial Statements

Redemption Fund is used to account for collection of and remittance to contractors holding special assessment certificates for various improvements.

Section 125 Escrow Fund is used to account for the employee's contributions and disbursement of Section 125 Flex Spending Accounts.

The City reports the following major governmental funds:

The *General Fund* is the government's main operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue sources include taxes, licenses and permits, intergovernmental revenue, charges for goods and services, fines and forfeits, and miscellaneous revenue. In addition to general government, primary expenditures include public safety, public works, health and welfare, culture and recreation and conservation and development.

The *Capital Improvement Fund* accounts for the capital improvement projects and debt service funded by the 1.0% City sales tax.

The *Tax Increment Financing 1 Fund* accounts for the revenues and expenditures of the Tax Increment District (TID) #1. This TID was created to capture the incremental tax revenue generated by the development in the Hanten Industrial Park and to repay the Capital Improvement Fund for infrastructure improvements previously made in the park.

Other Governmental Funds is a summarization of all of the non-major governmental funds. These include additional special revenue, capital project, and debt service funds.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the government's sanitary sewer collection and treatment operations and storm water management system.

The *Electric Fund* accounts for the activities of the government's electric distribution operations.

The *Water Fund* accounts for the activities of the government's water distribution operations.

The *Gas Fund* accounts for the activities of the government's natural gas distribution operations.

Other Proprietary Funds is a summarization of all of the non-major proprietary funds. These include the Solid Waste and Airport Funds.

C. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues and expenditures are recorded when they occur regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency funds have no measurement focus.

Notes to the Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes that have become due and payable, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of the special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then, unrestricted resources as they are needed. Resources restricted to a greater degree are utilized before resources having lesser restrictions.

D. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which, if any, are presented as Internal Balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

Notes to the Financial Statements

E. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. roads, alleys, sewer lines and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost ranging from \$5,000 to \$50,000, depending on the type of asset and an estimated useful life of one year or longer. All land and land rights are considered capital assets regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States. For capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States. The amount of interest capitalized in the proprietary funds for 2008 was \$56,407.10.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and Structures	25-50
Furniture and Equipment	10
Machinery and Automotive	5-10
Other Capital Assets	20-50

Governmental activities capital assets and related depreciation expenses are only reported in the Governmental Activities columns on the government-wide financial statements. Because their measurement focus is on "current financial resources," capital assets and related depreciation expenses are not recorded in the governmental fund financial statements. In the governmental fund financial statements, capital asset acquisitions are reported as expenditures in the appropriate function except for Capital Project Funds which are reported as Capital Outlay expenditures.

F. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Notes to the Financial Statements

G. Proprietary Funds Revenue and Expense Classifications:

In the proprietary funds' Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

H. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents:

Cash and cash equivalents include currency on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are included as part of the Pooled Cash and Investments.

The City pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Also, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

A pooled cash & investments account is maintained for all City funds. Interest earnings are allocated to those funds that have an average positive balance in their cash account pursuant to the City's formal investment policy.

Receivables and Payables:

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. current interfund loans) or "advances to/from other funds" (i.e. non-current interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by the fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not available spendable financial resources.

Restricted Assets and Net Assets:

Assets and net assets whose use is restricted for construction, debt service, or the payment of specific claims and benefits have been classified as restricted assets and net assets as their use is limited by bond covenant or other externally imposed requirements.

Inventories and Prepaid Items:

Inventories of supplies for all funds, except the Electric, Water, and Gas, are recorded at cost using the first-in, first-out (FIFO) method. Inventories of supplies for the Electric, Water, and Gas are recorded at cost using the average cost method. The cost of inventory is recognized as an expense in the governmental fund financial statements on the purchase method. The inventories reported in the governmental fund financial statements are off-set by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of current assets. The cost of inventory is recognized as an expense in the business-type fund and government-wide financial statements when used (consumption method).

Notes to the Financial Statements

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Compensated Absences:

It is the City's policy to permit employees to accumulate earned but unused vacation, comp time, and sick pay benefits. The accumulation of unused vacation and comp time is limited based upon employee classification. Upon separation, the City will reimburse the employee for accumulated vacation time not to exceed established maximums and comp time pursuant to federal regulations. The amount of unused sick leave accumulation is not limited and a portion is recognized as a long-term liability. Upon retirement, the City reimburses eligible employees a portion of the unused sick leave. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

Deferred Revenue:

As sources of revenue become measurable, even though not currently available, they are generally recorded as receivable and deferred revenue in governmental funds. When the sources of revenue become available for use, they are recognized as revenue.

Long-Term Obligations:

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, unless immaterial, are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components.

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Notes to the Financial Statements

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds do not have fund equity.

Application of Net Assets:

It is the City’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Accounting Estimates:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. Stewardship, Compliance, and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal contractual provisions.

B. Net Assets/Fund Balance Deficits

As of December 31, 2008, the following funds have deficit fund balances in the amount shown:

Tax Increment Financing 1 Fund	\$ (2,380,405)
Tax Increment Financing 2 Fund	\$ (1,017,268)
Tax Increment Financing 3 Fund	\$ (402,338)

NOTE 3. Detailed Notes on All Funds

A. Deposits and Investments

The City maintains a pooled cash portfolio that is used by all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle fund monies while ensuring that the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council. Management of the City’s investment pool is the responsibility of the City Finance Officer. The pool consists of checking accounts, savings accounts and certificates of deposit with original maturities of up to 24 months all of which are stated at fair value. Fund equity in the pool is shown as Pooled Cash and Investments in all financial statements. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Municipality’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public

Notes to the Financial Statements

depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City has an adopted investment policy, conforming to all applicable laws of the State of South Dakota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash portfolio. This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, maturity constraints, internal controls, and performance measures. The foremost objective of the City's investment program as set forth by the investment policy is safety of principal. Investment decisions are made under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Credit Risk: State law limits eligible investments for the City as discussed above. The City's investment policy follows State Law and does not further limit investment choices. As of December 31, 2008, the City did not have any investments.

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City deposits in excess of depository insurance must be 100 percent collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A. Collateral is required to be segregated by each depository as approved by the South Dakota Public Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer. Currently, there are no investments that are subject to this risk.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy has been to establish a maturity schedule that has investments maturing in a "laddered" fashion with only a small amount of the total portfolio being reinvested each month. This technique reduces the risk that all or most of the investments will mature and be reinvested at a time of relatively low interest rates.

Component Unit

The Housing and Redevelopment Commission falls under the same requirements of South Dakota Statutes as the City's governmental and business-type funds in regards to permitted deposits and investments. The Commission has no further investment policy as to interest, credit, or concentration risk. As of December 31, 2008, the deposits of the Authority were fully insured or collateralized as required by SDCL 4-6A. All deposits as of December 31, 2008, are in certificates of deposit.

Notes to the Financial Statements

B. Property Tax

Real property tax levies are established on or before October 1 of each year. Taxes are recorded as receivable, levied, and attached as an enforceable lien on property as of January 1 of each year. Taxes are payable in two installments on or before April 30 and October 31 of that year. The County bills and collects the City taxes and remits collections to the City. The City accrues all delinquent property tax revenues received within 30 days after December 31. No accrual for the property tax levy becoming due in January of 2009 is included in the accompanying financial statements, since such taxes become due and payable on January 1, 2009, and are levied to finance expenditures budgeted for the subsequent period.

The City is permitted by State Statute to levy an increase of no more than the lesser of three percent or the index factor, as defined in the statutes, over the amount of revenue receivable from real property taxes in the preceding year, excluding the amount levied pursuant to an affirmative two-thirds vote of the governing body. After applying the index factor, the City may increase the revenue from real property taxes above the limitations by the percentage increase of value resulting from any improvements or change in use of real property, annexation, minor boundary changes, and any adjustments in taxation of property separately classified and subject to statutory adjustments and reductions, only if assessed the same as property of equal value. Property tax revenue may also be increased for the scheduled payment increases on bonded indebtedness incurred prior to December 31, 1995, and for a levy directed by the order of a court for the purpose of paying a judgment against the City.

The combined tax rate to finance municipal services including principal and interest on long-term debt for the year ended December 31, 2008 was \$2.58 per \$1,000 of taxable valuation.

C. Receivables

Receivables for the City's individual major funds, aggregate nonmajor funds, and fiduciary funds including the applicable allowances for uncollectible accounts are as follows at December 31, 2008:

	Interest	Taxes	Accounts	Special Assessments	Loans	Deferred	Unbilled Accounts	Total
General Fund	\$ 64,358	\$ 735,314	\$ 233,921	\$ 415,273	\$ -	\$ 3,870	\$ -	\$ 1,452,736
Capital Improvement	190,171	675,897	-	244,463	1,391,013	3,840	-	2,505,384
TIF 1	210	-	-	-	-	-	-	210
Sewer	42,152	-	247,416	794	-	16,692	-	307,054
Electric	12,358	-	1,722,717	-	-	-	1,348,519	3,083,594
Gas	3,285	-	1,735,939	-	-	-	1,895,179	3,634,403
Water	-	-	287,309	-	-	-	177,519	464,828
Nonmajor and Other	74,710	87,641	254,488	2,069	31,804	304,319	-	755,031
	<u>\$ 387,244</u>	<u>\$ 1,498,852</u>	<u>\$ 4,481,790</u>	<u>\$ 662,599</u>	<u>\$ 1,422,817</u>	<u>\$ 328,721</u>	<u>\$ 3,421,217</u>	<u>\$ 12,203,240</u>

Electric, Gas, and Water are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to electric sales	\$14,998
Uncollectibles related to gas sales	13,174
Uncollectibles related to water sales	<u>2,765</u>
Total uncollectibles of the current fiscal year	\$30,937

Notes to the Financial Statements

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Interest receivable (general fund)	\$ 64,358
Interest receivable (special revenue funds)	218,794
Interest receivable (debt service fund)	2,492
Sales tax receivable (general fund)	560,294
Sales tax receivable (special revenue funds)	612,201
Special assessments not yet due (general fund)	415,273
Special assessments not yet due (special revenue funds)	244,463
Accounts receivable – franchise fees (general fund)	25,675
Accounts receivable – police services (general fund)	30,101
Accounts receivable – E-911 surcharges (special revenue funds)	56,482
Due from other governments (general fund)	39,823
Due from other governments (special revenue funds)	18,401
Loans receivable (special revenue funds)	31,804
Deferred Receivables – leases (general fund)	3,870
Deferred Receivables - leases (special revenue funds)	<u>111,840</u>
	\$ 2,435,871

There is \$79,770 of outstanding redemptions for Special Assessments projects done by private contractors. The City provides the engineering, administration and legal services for the projects. The contractor holds all certificates until payments are collected from property owners. The property owners are assessed for the improvements that are collected by the City/County and remitted to the private contractor. The City is not obligated to pay the contractor for unpaid assessments. The receipt and disbursement of payments on these certificates are accounted for in the Redemption Fund, an agency fund.

D. Due From Other Governments

Amounts due from other governments include the following at December 31, 2008:

	Due From Federal	Due From State	Total
Primary Government:			
Governmental Activities			
General Fund	\$ 49,425	\$ 78,188	\$ 127,613
Capital Improvement Fund	17,545	-	17,545
Library Fines Fund	856	-	856
Total Governmental Activities	<u>67,826</u>	<u>78,188</u>	<u>146,014</u>
Business-Type Activities			
Enterprise Funds			
Water	-	8,385	8,385
Airport	147,817	170,246	318,063
Total Business-Type Activities	<u>147,817</u>	<u>178,631</u>	<u>326,448</u>
Total	<u>\$215,643</u>	<u>\$256,819</u>	<u>\$472,462</u>

Notes to the Financial Statements

E. Interfund Receivables and Payables

Interfund receivables and payables result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. Interfund receivables and payables do not include advances which are discussed below. The composition of interfund balances as of December 31, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Airport	\$ 156,146
General Fund	Electric Fund	10,500
General Fund	Water Fund	5,250
General Fund	Gas Fund	5,250
Capital Improvement Fund	Electric Fund	39,404
Solid Waste Fund	Electric Fund	4
Electric Fund	Water Fund	1,400,000
Gas Fund	Water Fund	385,000
Water Fund	Gas Fund	360,898

F. Interfund Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The financial statements reflect interfund transfers as follows:

	Transfers In:		
	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds
Transfers Out			
General Fund	\$ -	\$ -	\$ 1,330,000
Capital Improvement Fund	-	-	115,000
Sewer Fund	147,200	-	81,205
Electric Fund	626,978	-	-
Gas Fund	418,022	-	-
Water Fund	-	-	90,000
Nonmajor Governmental Funds	-	1,208,106	69,122
Nonmajor Business-Type Funds	107,600	-	-
	\$ 1,299,800	\$ 1,208,106	\$ 1,685,327

	Transfers In:			
	Water Fund	Electric Fund	Nonmajor Business-Type Funds	Total
Transfers Out:				
General Fund	\$ -	\$ -	\$ 107,000	\$ 1,437,000
Capital Improvement Fund	-	-	-	115,000
Sewer Fund	-	-	-	228,405
Electric Fund	-	-	-	626,978
Gas Fund	-	2,250	-	420,272
Water Fund	-	-	-	90,000
Nonmajor Governmental Funds	-	-	-	1,277,228
Nonmajor Business-Type Funds	-	-	-	107,600
	\$ -	\$ 2,250	\$ 107,000	\$ 4,302,483

Notes to the Financial Statements

G. Advances

The City had an inter-fund loan from the Capital Improvement Fund to the TIF 1 Fund in the amount of \$2,400,000. As authorized in Resolution No. 04-56, the City is using available funds in the Capital Improvement Fund to finance the project costs for the public improvements in the TIF 1 district. The terms state that the loan will be paid back as property taxes are collected over a period not to exceed twenty years at an interest rate of 7.00%

The City had another inter-fund loan from the Capital Improvement Fund to the TIF 2 Fund in the amount of \$1,020,000. As authorized in Resolution No. 04-71, the City is using available funds in the Capital Improvement Fund to finance the project costs for the public improvements in the TIF 2 district. The terms state that the loan will be paid back as property taxes are collected over a period not to exceed twenty years at an interest rate of 7.00%

The City had another inter-fund loan from the Capital Improvement Fund to the TIF 3 Fund in the amount of \$450,000. As authorized in Resolution No. 05-65, the City is using available funds in the Capital Improvement Fund to finance the project costs for the public improvements in the TIF 3 district. The terms state that the loan will be paid back as property taxes are collected over a period not to exceed twenty years at an interest rate of 7.00%

H. Leases

The City leases City-owned buildings, office facilities and other land/property under operating leases to various organizations and private citizens.

General Fund

Lease of land with original cost of leased portion: \$493,529; Carrying amount; \$493,529; Depreciation on asset to date; land/ non-depreciable. The rental payments payable for the term of the lease have been accrued as a deferred receivable in the General Fund. The following is a schedule, by year, of the future rentals on the lease of farmland as of December 31, 2008:

2009	\$	3,870
Total	\$	3,870

Special Revenue Fund – Park and Recreation

Lease of land with original cost of leased portion: \$2,698; Carrying amount: \$2,698; Depreciation on asset to date: land/ non-depreciable. The lease, which expires in 2027, calls for annual lease payments of the greater of the minimum rent payment or % of gross receipts as follows:

Operating Season	GREATER OF	
	% of Gross Receipts	Minimum Rent
1 st – 5 th	5%	\$ 5,000
6 th - 10 th	6%	\$ 5,000
11 th - 30 th	7%	\$ 6,000
Upon Renewal:		
31 st - 34 th	7%	\$ 7,000

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The rental payments, based on the minimum rent, that are payable for the term of the lease have been accrued as a deferred receivable in the Park & Recreation Fund. The following is a schedule, by year, of the future rentals on the lease of the land as of December 31, 2008:

2009	\$	6,000
2010		6,000
2011		6,000
2012		6,000
2013		6,000
2014-2027		<u>78,000</u>
Total	\$	108,000

Special Revenue Fund – Capital Improvement

Lease of farmland with original cost of: \$144,365; Carrying amount \$144,365; Depreciation on asset to date: land/non-depreciable. The lease expires December 31, 2009. The rental payments payable for the term of the lease have been accrued as a deferred receivable in the Capital Improvement Fund. The following is a schedule, by year, of the future rentals on the lease of farmland as of December 31, 2008:

2009	\$	3,840
Total	\$	<u>3,840</u>

Business-Type Fund - Sewer

Lease of farmland with original cost of leased portion: \$441,768; Carrying amount: \$441,768; Depreciation on asset to date: land/non-depreciable. The lease expires on December 31, 2012, and calls for annual lease payments of \$3,815.60 for 2009 with the annual lease payment increasing to \$4,292.10 for 2010 through 2012. The rental payments payable for the term of the lease have been accrued as a deferred receivable in the Sewer Fund. The following is a schedule, by year, of the future rentals on the lease of the farmland as of December 31, 2008:

2009	\$	3,816
2010		4,292
2011		4,292
2012		<u>4,292</u>
	\$	16,692

Business-Type Fund – Airport

Lease of building spaces with original cost of leased assets: Buildings \$279,121; Carrying amount: \$229,627; Depreciation on assets to date: \$49,494. Leases expire ranging from 2009 to 2010. The rental payments that are payable for the terms of the leases have been accrued as deferred receivables in the Airport Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2008:

2009	\$	17,199
2010		3,330
Total	\$	<u>20,529</u>

Lease of various parcels of land with original cost of leased assets: land \$6,449; Carrying amount: \$6,449; Depreciation on assets to date: land/non-depreciable. Leases expire ranging from 2009 to 2020. The rental payments that are payable for the terms of the leases have been accrued as deferred receivables in the Airport

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Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2008:

2009	\$	31,850
2010		31,850
2011		26,722
2012		26,722
2013		8,673
2014-2018		40,492
2019-2023		9,565
Total	\$	<u>175,874</u>

I. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 11,859,077	\$ 129,599	\$ (700)	\$ 11,987,976
Construction in Progress	1,534,712	6,875	(1,534,712)	6,875
Depreciable Assets:				
Buildings & Structures	21,696,048	221,857	(225,071)	21,692,834
Improvements other than Buildings	39,781,454	5,289,810	(110,786)	44,960,478
Equipment & Automotive	7,412,397	905,573	(223,625)	8,094,345
Totals at Historical Cost	<u>82,283,688</u>	<u>6,553,714</u>	<u>(2,094,894)</u>	<u>86,742,508</u>
Less Accumulated Depreciation:				
Buildings & Structures	(3,811,551)	(458,649)	75,024	(4,195,176)
Improvements other than Buildings	(9,800,361)	(705,616)	110,786	(10,395,191)
Equipment & Automotive	(3,564,790)	(696,456)	197,134	(4,064,112)
Total Accumulated Depreciation	<u>(17,176,702)</u>	<u>(1,860,721)</u>	<u>382,944</u>	<u>(18,654,479)</u>
Governmental Activities Capital Assets, net	\$ 65,106,986	\$ 4,692,993	\$ (1,711,950)	\$ 68,088,029
Business-Type Activities				
Non-Depreciable Assets				
Land	\$ 1,805,702	\$ 84,486	\$ -	\$ 1,890,188
Construction in Progress	4,174,222	4,079,098	(3,876,523)	4,376,797
Depreciable Assets:				
Intangible Property	470,654	-	-	470,654
Buildings & Structures	36,044,936	3,071,495	-	39,116,431
Improvements Other than Buildings	110,198,544	6,289,749	(1,112,337)	115,375,956
Equipment & Automotive	7,816,377	742,848	(316,917)	8,242,308
Totals at Historical Cost	<u>160,510,435</u>	<u>14,267,676</u>	<u>(5,305,777)</u>	<u>169,472,334</u>
Less Accumulated Depreciation:				
Amortization of Intangible Property	(127,088)	(14,133)	-	(141,221)
Buildings & Structures	(14,326,337)	(704,425)	-	(15,030,762)
Improvements Other than Buildings	(43,224,077)	(3,000,899)	689,084	(45,535,892)
Equipment & Automotive	(5,158,386)	(543,577)	259,150	(5,442,813)
Total Accumulated Depreciation	<u>(62,835,888)</u>	<u>(4,263,034)</u>	<u>948,234</u>	<u>(66,150,688)</u>
Business-Type Activities Capital Assets, net	\$ 97,674,547	\$ 10,004,642	\$ (4,357,543)	103,321,646

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Accumulated Depreciation amount of \$4,263,034 includes \$4,220,188 of depreciation expense and \$42,846 of accumulated depreciation on assets transferred in from other funds.

Depreciation expense was charged to functions/programs of the primary government as follows:

	Depreciation Expense
Governmental Activities:	
General Government	\$ 35,966
Public Safety	266,271
Public Works	629,639
Culture & Recreation	635,249
Conservation & Development	203,203
Total Depreciation Expense - Governmental Activities	\$ 1,770,328
Business-Type Activities:	
Sewer	\$ 1,023,423
Solid Waste	289,071
Airport	304,816
Electric	1,484,330
Water	614,973
Gas	503,575
Total Depreciation Expense - Business-Type Activities	\$ 4,220,188

Projects included in construction in progress for the primary government are as follows.

Project	Contracted Amount	Expended to 12/31/08	Committed
Governmental Funds:			
Golf Course Improvement Project	\$ 27,500	\$ 6,875	\$ 20,625
	<u>27,500</u>	<u>6,875</u>	<u>20,265</u>
Enterprise Funds:			
11 th Street East Storm Sewer Project	1,957,230	835,710	1,121,520
Airport Terminal Improvement Project	33,455	1,673	31,782
Electric System Force Account Projects	-0-	32,053	-0-
Water System Force Account Projects	-0-	35,475	-0-
Water System Expansion Project	2,775,645	758,431	2,017,214
20 th Ave Transmission Line Move	316,922	49,299	267,623
Utility Building Expansion Project	3,686,854	2,664,156	1,022,698
	<u>8,770,106</u>	<u>4,376,797</u>	<u>4,460,837</u>
Total Primary Government	<u>\$ 8,797,606</u>	<u>\$ 4,383,672</u>	<u>\$ 4,481,102</u>

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J. Long-Term Debt

Long-term debt consists of bonded indebtedness, installment purchase contracts, capital leases, compensated absences, and other post employment benefits. A summary of long-term debt issued and retired during 2008 and outstanding balances as of December 31, 2008 follows:

	Balance Outstanding 12/31/2007	Additions During 2008	Deletions During 2008	Balance Outstanding 12/31/2008	Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Loans Payable					
State Revolving Fund-Loan #1; Original Issue \$2,000,000; 4.0% Interest, Due in 2008	87,660	-0-	87,660	-0-	-0-
State Revolving Fund-Loan #2; Original Issue \$4,000,000; 4.0% Interest, Due in 2009	437,571	-0-	348,306	89,265	89,265
State Revolving Fund-Loan #3; Original Issue \$2,583,734; 5.25% Interest, Due in 2016	1,501,237	-0-	134,174	1,367,063	141,358
State Revolving Fund-Loan #5; Original Issue \$2,055,000; 3.5% Interest, Due in 2025	1,934,287	-0-	63,365	1,870,922	87,104
State Revolving Fund-Loan #7 CW; Original Issue \$847,170; 2.25% interest; Due in 2029	-0-	778,292	-0-	778,292	23,321
State Revolving Fund-Loan #7 NPS; Original Issue \$81,205; 2.25% interest; Due in 2029	-0-	81,205	-0-	81,205	2,433
State Revolving Fund-Loan Clean Water; Original Issue \$23,760,000; 3.25% interest; Due in 2030	-0-	483,604	-0-	483,604	-0-
Single Pay Bank Loan; Original Issue \$1,500,000; 3.97% interest; Due in 2009	-0-	1,500,000	-0-	1,500,000	1,500,000
Total Loans Payable				<u>6,170,351</u>	<u>1,843,481</u>
Compensated Absences Payable	1,197,931	475,227	491,421	1,181,737	295,434
Other Post Employment Benefits (OPEB)	-0-	64,033	35,646	28,387	-0-
Closure/Post Closure Costs	195,659	24,463	-0-	220,122	-0-
TOTAL BUSINESS-TYPE ACTIVITIES				<u>7,600,597</u>	<u>2,138,915</u>
GOVERNMENTAL ACTIVITIES					
Bonds Issued					
2002 GO Bond - Event Center; General Obligation Bonds; Original Issue \$5,530,000; 3-5.15% interest; Due in 2023	5,010,000	-0-	170,000	4,840,000	185,000
2003 Sales Tax Revenue Bond – CIP Sewer Proj; Original Issue \$1,905,000 2.5-4.05% interest; Due in 2013	1,215,000	-0-	185,000	1,030,000	190,000
2004 Sales Tax Revenue Bond – Family Aquatic Center; Original Issue \$5,000,000; 2.25-4.6% interest; Due in 2024	4,490,000	-0-	195,000	4,295,000	200,000
2006 Sales Tax Revenue Bond – Library Expansion Project; Original Issue \$4,985,000; 3.35-4.55% interest; due in 2026	4,715,000	-0-	175,000	4,540,000	180,000
Total Sales Tax Revenue Bonds				<u>9,865,000</u>	<u>570,000</u>
Loans Payable					
State Revolving Fund Loan #6-CW; Original Issue \$1,189,145; 2.25% interest; due in 2028	887,814	-0-	-0-	887,814	17,686
State Revolving Fund Loan #6-NPS; Original Issue \$113,985; 2.25% interest; due in 2028	108,515	5,470	1,132	112,853	4,593
State Revolving Fund-Loan #8-CW; Original Issue \$612,877; 2.25% interest; due in 2029	-0-	525,041	-0-	525,041	15,733
State Revolving Fund-Loan #8-NPS; Original Issue \$58,747; 2.25% interest; due in 2029	-0-	58,747	-0-	58,747	1,760
Total Loans Payable				<u>1,584,455</u>	<u>39,772</u>

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CHANGE IN LONG-TERM DEBT
 (continued)

	Balance Outstanding 12/31/2007	Additions During 2008	Deletions During 2008	Balance Outstanding 12/31/2008	Due Within One Year
Installment Contracts					
Installment purchase of land, payable in Annual installments including interest of 8% Per annum in the amount of \$68,500 per year Through July 16, 2011; Original issue \$459,640; Payable by the Capital Improvement Fund	226,880	-0-	50,530	176,530	54,378
Total Installment Contracts				176,530	54,378
Long-Term Capital Leases					
Energy Management Lease – Wells Fargo Equip. Original Issue \$530,241; 5.42% interest	17,043	-0-	17,043	-0-	-0-
Fire Truck Lease – Leasing 2 Inc. Original Issue \$645,458; 4.46% interest	645,458	-0-	52,628	592,830	54,974
Total Long-Term Capital Leases				592,830	54,974
Compensated Absences Payable					
General Fund	963,230	517,880	483,992	997,118	249,280
Special Revenue Funds	302,393	151,561	160,007	293,947	73,487
Other Post Employment Benefits (OPEB)	-0-	102,591	54,524	48,067	-0-
				1,339,132	370,834
TOTAL GOVERNMENTAL ACTIVITIES				18,397,947	1,226,891
TOTAL OF BONDS, INSTALLMENT CONTRACTS & CAPITAL LEASES				\$ 25,998,544	\$ 3,365,806

General Obligation Bonds Payable

The City issues general obligation bonds (GO bonds) to provide funds for the acquisition and construction of major capital facilities. GO bonds have been issued for governmental activities specifically for construction of the Event Center. GO bonds are direct obligations and pledge the full faith and credit of the City.

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

Year	GO Bonds - Event Center		
	Principal	Interest	Total
2009	\$ 185,000	\$ 233,398	\$ 418,398
2010	205,000	225,811	430,811
2011	225,000	217,203	442,203
2012	245,000	207,527	452,527
2013	265,000	196,747	461,747
2014-2018	1,330,000	651,406	1,981,406
2019-2023	2,385,000	384,765	2,769,765
Totals	\$ 4,840,000	\$ 2,116,857	\$ 6,956,857

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Revenue Bonds Payable

The City also issues bonds where the City pledges specific revenue streams or income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for both governmental and business-type activities. Annual debt service requirements to maturity for revenue bonds are as follows:

2003 Sales Tax Revenue Bonds				2004 Sales Tax Revenue Bond			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2009	\$ 190,000	\$ 38,970	\$ 228,970	2009	\$ 200,000	\$ 172,205	\$ 372,205
2010	200,000	32,700	232,700	2010	210,000	166,205	376,205
2011	205,000	25,500	230,500	2011	215,000	159,380	374,380
2012	215,000	17,403	232,403	2012	225,000	151,855	376,855
2013	220,000	8,910	228,910	2013	230,000	143,980	373,980
Totals	<u>\$ 1,030,000</u>	<u>\$ 123,483</u>	<u>\$ 1,153,483</u>	2014-2018	1,285,000	584,245	1,869,245
				2019-2023	1,570,000	299,060	1,869,060
				2024-2028	360,000	16,560	376,560
				Totals	<u>\$ 4,295,000</u>	<u>\$1,693,490</u>	<u>\$ 5,988,490</u>

2006 Sales Tax Revenue Bonds			
Year	Principal	Interest	Total
2009	\$ 180,000	\$ 188,715	\$ 368,715
2010	185,000	182,325	367,325
2011	190,000	175,665	365,665
2012	200,000	168,635	368,635
2013	205,000	161,135	366,135
2014-18	1,155,000	677,802	1,832,802
2019-23	1,420,000	418,565	1,838,565
2024-28	1,005,000	92,820	1,097,820
Totals	<u>\$ 4,540,000</u>	<u>\$ 2,065,662</u>	<u>\$ 6,605,662</u>

Long-Term Installment Contract

The City has entered into an installment contract with a private citizen for the purchase of land. This contract is in the governmental activities funds and the debt will be serviced by the Capital Improvement Fund. Under the contract, the land will be used for industrial development purposes. Annual debt service requirements to maturity for the installment contract are as follows:

Installment Purchase Industrial Park Land			
Year	Principal	Interest	Total
2009	\$ 54,378	\$ 14,122	\$ 68,500
2010	58,727	9,773	68,500
2011	63,425	5,074	68,499
Totals	<u>\$ 176,530</u>	<u>\$ 28,969</u>	<u>\$ 205,499</u>

City of Watertown
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Notes to the Financial Statements

Loans – Business-Type Activities

The City has several State Revolving Fund (SRF) loans outstanding for various sewer projects. These loans will be repaid with revenues from the Sewer Enterprise Fund. Annual debt service requirements to maturity for SRF loans are as follows:

SRF Loan #2			
Year	Principal	Interest	Total
2009	\$ 89,265	\$ 892	\$ 90,157
Totals	\$ 89,265	\$ 892	\$ 90,157

SRF Loan #3			
Year	Principal	Interest	Total
2009	\$ 141,358	\$ 69,018	\$ 210,376
2010	148,926	61,450	210,376
2011	156,900	53,476	210,376
2012	165,301	45,075	210,376
2013	174,152	36,224	210,376
2014-18	580,426	50,701	631,127
Totals	\$ 1,367,063	\$ 315,944	\$ 1,683,007

SRF Loan #5			
Year	Principal	Interest	Total
2009	\$ 87,104	\$ 64,347	\$ 151,451
2010	90,193	61,258	151,451
2011	93,391	58,060	151,451
2012	96,703	54,748	151,451
2013	100,133	51,318	151,451
2014-18	556,513	200,744	757,257
2019-23	662,440	94,817	757,257
2024-28	184,445	4,870	189,315
Totals	\$ 1,870,922	\$ 590,162	\$ 2,461,084

SRF Loan #7-CW			
Year	Principal	Interest	Total
2009	\$ 23,321	\$ 13,004	\$ 36,325
2010	31,712	16,720	48,432
2011	32,431	16,001	48,432
2012	33,167	15,265	48,432
2013	33,920	14,512	48,432
2014-18	181,500	60,662	242,162
2019-23	203,047	39,115	242,162
2024-28	227,154	15,009	242,163
2029-33	12,040	68	12,108
Totals	\$ 778,292	\$ 190,356	\$ 968,648

SRF Loan #7-NPS			
Year	Principal	Interest	Total
2009	\$ 2,433	\$ 1,357	\$ 3,790
2010	3,309	1,744	5,053
2011	3,384	1,669	5,053
2012	3,461	1,593	5,054
2013	3,539	1,514	5,053
2014-18	18,937	6,329	25,266
2019-23	21,185	4,081	25,266
2024-28	23,701	1,566	25,267
2029-33	1,256	8	1,264
Totals	\$ 81,205	\$ 19,861	\$ 101,066

Notes to the Financial Statements

State Revolving Fund (SRF) Loan Covenants

SRF Loan documents require that various "funds" and sub-accounts be used within the Sewer Fund for the purpose of application and proper allocation of revenue of the sewer system and to secure the payment of principal and interest of the SRF Loans. In August of 1991, June of 1995 and again in January of 2003, the sewer rates were increased in anticipation of the debt service payments on the SRF Loans No. 1, 2, 3 and 5, and other costs related to the sewer system improvements. Under the SRF loan documents, the additional revenues resulting from these rate increases are identified as special charges or surcharges and are used within the Sewer Fund to finance costs in the following priority:

1. Operation and Maintenance of Improvements
2. Replacement and Depreciation of Improvements
3. Debt Service Payments on the SRF Loan
4. Unrestricted Surplus Fund

The various revenue bond documents authorized the City to proceed with various wastewater system improvement projects and permitted the City to borrow money through the SRF program to finance these various sewer improvements. Projects financed with SRF Loans No. 2, 3, and 5 have been completed and these loans are in repayment status. Quarterly debt service payments of \$180,614 are required to retire Loans No. 2, 3 and 5. Projects financed with SRF Loans No. 7-CW and 7-NPS were not complete as of December 31, 2008. Sewer user fees are intended to finance the repayments of SRF Loans No. 2, 3, 5, 7-CW and 7-NPS. The City has complied with all requirements of the various revenue bond ordinances and resolutions and with all applicable requirements of the SRF Loan agreements entered into pursuant to these ordinances and resolutions.

Loans – Governmental Activities

The City has SRF Loans No. 6 and 8 that consists of two portions: Clean Water (CW) and Non Point Source (NPS). The total of SRF Loan No. 6 was approved for \$1,303,130. The CW portion of the loan is \$1,189,145 and will be used for a storm sewer improvement project. The NPS portion of the loan is \$113,985 and was used for watershed improvements. The total of the SRF Loan No. 8 was approved for \$671,624. The CW portion of the loan is \$612,877 and will be used for a storm sewer improvement project. The NPS portion of the loan is \$58,747 and was used for watershed improvements. The drawdowns for the NPS portion of both loans are complete and an annual debt service requirement to maturity for this project has been established. The drawdowns for the CW portion of both loans have not been completed as of December 31, 2008. Payments are made from the Capital Improvement Fund with annual debt service requirements to maturity for the SRF loans as follows:

SRF Loan #6 CW				SRF Loan #6 NPS			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2009	\$ 17,686	\$ 9,938	\$ 27,624	2009	\$ 4,593	\$ 2,500	\$ 7,093
2010	35,972	19,276	55,248	2010	4,697	2,396	7,093
2011	36,788	18,460	55,248	2011	4,803	2,290	7,093
2012	37,623	17,625	55,248	2012	4,912	2,181	7,093
2013	38,477	16,771	55,248	2013	5,024	2,069	7,093
2014-18	205,882	70,357	276,239	2014-18	26,882	8,584	35,466
2019-23	230,325	45,914	276,239	2019-23	30,073	5,393	35,466
2024-28	257,669	18,570	276,239	2024-28	31,869	1,823	33,692
2029-33	27,392	232	27,624	Totals	\$ 112,853	\$ 27,236	\$ 140,089
Totals	\$ 887,814	\$ 217,143	\$ 1,104,957				

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SRF Loan #8 CW				SRF Loan #8 NPS			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2009	\$ 15,733	\$ 8,772	\$ 24,505	2009	\$ 1,760	\$ 981	\$ 2,741
2010	21,393	11,280	32,673	2010	2,394	1,262	3,656
2011	21,878	10,794	32,672	2011	2,448	1,208	3,656
2012	22,375	10,298	32,673	2012	2,504	1,152	3,656
2013	22,883	9,790	32,673	2013	2,560	1,095	3,655
2014-18	122,441	40,923	163,364	2014-18	13,700	4,579	18,279
2019-23	136,977	26,387	163,364	2019-23	15,326	2,953	18,279
2024-28	153,239	10,125	163,364	2024-28	17,146	1,133	18,279
2029-33	8,122	46	8,168	2029-33	909	5	914
Total	\$ 525,041	\$ 128,415	\$ 653,456	Total	\$ 58,747	\$ 14,368	\$ 73,115

Long-Term Capital Lease

The City entered into a contract with Leasing 2, Inc. in 2007 for the purpose of purchasing a ladder fire truck. The asset acquired through the capital lease is valued at \$731,875 and the principal balance remaining on this capital lease as of December 31, 2008, is \$592,830. The asset is included in the capital asset account, equipment and automotive, and is being depreciated. The fire truck was financed under an annual appropriation equipment lease agreement between the City and Sun Trust Equipment Finance & Leasing Corporation who has a financial interest in the fire truck. Lease payments are made from the Capital Improvement Fund with annual debt service requirements to maturity for the capital lease is as follows:

Capital Lease – Fire Truck				
Year	Principal	Interest	Total	
2009	\$ 54,974	\$ 26,432	\$ 81,406	
2010	57,425	23,981	81,406	
2011	59,986	21,421	81,407	
2012	62,660	18,746	81,406	
2013	65,454	15,953	81,407	
2014-18	292,331	33,295	325,626	
Totals	\$ 592,830	\$ 139,828	\$ 732,658	

Legal Debt Limit

The City is subject to Article XIII, Section 4, of the South Dakota Constitution which limits the amount of bonded debt to a percent of the assessed valuation of the taxable property therein for the year preceding that in which said indebtedness is incurred.

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	"No-Limit" Debt	Debt Capacity at 5% (Unrestricted)	Additional 10% Debt Capacity (Water/Sewer)
2008 Assessed Value	<u>\$ 1,203,286,470</u>		
Maximum Debt Capacity:		\$ 60,164,324	\$ 120,328,647
Existing Bonds:			
GO Bonds (Event Center; 3.0-5.15 % interest)		4,840,000	
SRF Loan No. 2 (Wastewater Revenue Surcharge)	89,265		
SRF Loan No. 3 (Wastewater Revenue Surcharge)	1,367,063		
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,870,922		
SRF Loan No. 7 (Wastewater Revenue Surcharge)	859,497		
SRF Loan Clean Water (Water Revenue Surcharge)	483,604		
Single Pay Bank Loan		1,500,000	
SRF Loan No. 6 (Sales Tax)		1,000,667	
SRF Loan No. 8 (Sales Tax)		583,788	
2003 Sales Tax Revenue Bonds (2.5%-4.05%)		1,030,000	
2004 Sales Tax Revenue Bonds (2.25%-4.6%)		4,295,000	
2006 Sales Tax Revenue Bonds (3.35-4.55%)		4,540,000	
Total Bonded Debt	4,670,351	17,789,455	-
Other Debt:			
Capital Lease – Fire Truck	592,830		
Purchase Contract - Hanten Property		176,530	
Total Other Debt	592,830	176,530	-
Total Debt	5,263,181	17,965,985	-
Available Debt Capacity	N/A	\$ 42,198,339	\$ 120,328,647

The State Constitution sets two legal debt limits on municipalities. The City has an unrestricted (i.e. for any legally authorized purpose) legal debt limit equal to 5% of the total assessed value of taxable property. In addition, the Constitution permits the City to issue debt for water or sewer improvements in an amount up to 10% of the total assessed value of taxable property. Water or sewer debt that applies against the 10% limit does not apply against the 5% limit. However, certain requirements, including a public vote, must be met in order for water or sewer debt to apply against the 10% limit. Also, revenue bonded indebtedness that is secured by a surcharge on utility charges as well as annual appropriation leases have been determined not to be debt in determining municipal debt capacity and is referred to above as "no-limit" debt. The table above summarizes the legal debt limit and available debt capacity for the City as of December 31, 2008.

Compensated Absences

Annual leave is earned by all full-time employee and appointed officers. Upon termination, officers and employees are entitled to receive compensation for their eligible unused accrued annual leave. Governmental funds that are used to liquidate the liability for compensated absences are as follows: General Fund, Special Revenue Funds (Park & Recreation, Recreation Center, E-911 Emergency, Big Sioux River Watershed Project). Enterprise funds that are used to liquidate the liability are the Sewer, Solid Waste, Airport, Electric, Water, and Gas funds. The amount reported for the current portion is an estimate based on past historical use.

Notes to the Financial Statements

Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, State of South Dakota, nor any other political subdivision of the State are obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2008, there were three series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$6,259,125.

K. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the City to place a final cover on the landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2009 a new survey of the landfill was done and changes in estimates were made. The information presented in the financial statements use these new estimates. The \$220,122 reported as a liability for landfill closure and postclosure care costs at December 31, 2008, represents the cumulative amount reported to date based on the use of 15% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,201,434 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008. The City expects to close the landfill in the year 2097. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City is required by state and federal laws and regulations to set aside funds to finance closure and postclosure care. The City is in compliance with these requirements, and at December 31, 2008, investments of \$366,236 are held for these purposes. These are reported as restricted assets on the balance sheet. However, if these funds are inadequate or additional care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

	2008	2007	2006
Closure/Postclosure Liability	\$220,122	\$195,659	\$176,077

L. Retirement Plan

All full-time employees participate in the South Dakota Retirement System (SDRS), a Cost-Sharing Multiple Employer Public Employee Retirement System established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation

Notes to the Financial Statements

exceeding the maximum taxable amount for social security for general employees only. The City of Watertown's share of contributions to the SDRS for the years ended December 31, 2008, 2007 and 2006 were \$773,745, \$738,490, and \$689,620 respectively, equal to the required contributions each year.

M. Other Postemployment Benefits

During fiscal 2008, the City adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded at the December 31, 2008 for a Post-Employment Benefit Obligation as determined by an actuarial calculation.

Plan Description. The City of Watertown operates a single-employer retiree benefit plan that offers medical insurance benefits to eligible employees and their spouses. The authority for providing other post-employment benefits is found in South Dakota Codified Law 6-1-16 and 9-14-35. Benefits and eligibility for non-exempt employees are established and amended through collective bargaining with the recognized bargaining agent for each group. Benefits and eligibility for exempt and certain non-exempt employees are established and amended by the governing body. There are 248 active and 25 retired members in the plan.

Funding Policy. The City is currently funding the plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The City's annual post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 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 changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$ 166,625
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	166,625
Contributions made	<u>(90,170)</u>
Increase in net OPEB obligation	76,455
Net OPEB obligation – beginning of year	<u>0</u>
Net OPEB obligation – end of year	<u>\$ 76,455</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$166,625	54.1%	\$76,455

Notes to the Financial Statements

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2008 was as follows:

Actuarial accrued liability (AAL)	\$ 1,616,278
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	\$ 1,616,278
Funded ratio (actuarial value of plan assets/ AAL)	0%
Covered payroll (active plan members)	\$ 10,636,883
UAAL as a percentage of covered payroll	15.2%

Actuarial valuations of an ongoing plan involve estimates of the value of 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan 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 plan members to that point and do not explicitly reflect the potential effects of legal or contractual funding limitations. 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 long-term perspective of the calculations.

In the December 31, 2008 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4.65% interest discount rate and an annual medical healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after 10 years. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years from establishment. Differences between the expected and actual UAAL in future years will be amortized over 30 years.

N. Segment Information for Enterprise Funds

For the Sewer Fund, this requirement is effectively met by the statements in this report because the fund is reported as a major business-type fund; therefore the required segment information has already been disclosed in the fund financial statements.

NOTE 5. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2008, the City managed its risks as follows:

A. Unemployment

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The City has no reserved equity in the General Fund for the payment of future unemployment benefits. Unemployment benefits are appropriated on an annual basis.

Notes to the Financial Statements

During the year ended December 31, 2008, 3 claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$4,609. At December 31, 2008, the estimated accrued liability was not a material amount. The City does not anticipate any changes in employment practices or elimination of any positions currently held. The history of unemployment payments indicates that most benefits were paid on temporary personnel.

B. Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier.

C. Liability Insurance

The City purchases liability insurance for some risks related to torts and theft or damage to property from commercial insurance carriers. In addition, the City has obtained coverage for liability through the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The premiums and deductibles are as follows:

Coverage	Limit	Deductible	Premium
South Dakota Public Assurance Alliance			
General Liability	\$ 5,000,000	None	\$ 167,651
Automobile Coverage	\$ 2,000,000	\$250-500-1,000	\$ 88,321
Public Officials Liability	\$ 2,000,000	\$ 2,500	\$ 14,100
Law Enforcement Liability	\$ 2,000,000	\$ 3,000	\$ 20,979
Commercial Insurance Carriers			
Buildings & Contents	Replacement Cost	\$ 25,000	\$ 116,363
Airport Liability	\$ 10,000,000	\$ 0	\$ 13,300
Boiler & Machinery	\$ 1,000,000	\$ 2,500	\$ 10,043
Official & Employee Bond	\$ 250,000	\$ 1,000	\$ 2,223

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year	100%

As of December 31, 2008, the City of Watertown has a vested balance in the cumulative reserve fund of \$330,054. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Notes to the Financial Statements

D. Workmen's Compensation

The City is a member of South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation

coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance that covers up to \$1,675,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

E. Employment Death Benefits

In the event of the death of an employee, all unused accrued sick leave is paid out by the City as a death benefit. In 2008, the City has designated \$100,000 in the General Fund as a self-insurance program for this risk. This reserve was funded by all funds employing full-time staff except the Water, Gas, and Electric Enterprise Funds. These three funds self-insure their respective risks.

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City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Required Supplementary Information - Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Tax Revenue				
Property	\$ 2,353,280	\$ 2,353,280	\$ 2,341,701	\$ (11,579)
Sales	5,522,000	5,522,000	5,875,447	353,447
Other Taxes	219,600	219,600	312,348	92,748
Licenses & Permits	221,120	221,120	228,960	7,840
Intergovernmental	1,041,150	1,041,150	1,000,044	(41,106)
Charges for Goods and Services	918,445	918,445	941,424	22,979
Fines and Forfeits	58,000	58,000	69,050	11,050
Interest Revenue	270,000	270,000	249,458	(20,542)
Special Assessments	52,500	52,500	89,283	36,783
Donations	20,500	20,500	58,883	38,383
Miscellaneous	154,100	154,100	148,304	(5,796)
Total Revenues	<u>10,830,695</u>	<u>10,830,695</u>	<u>11,314,902</u>	<u>484,207</u>
EXPENDITURES				
General Government				
Legislative	738,700	660,800	205,945	454,855
Financial Administration	693,200	702,200	622,969	79,231
Other	709,750	774,200	646,756	127,444
Public Safety				
Police	2,844,000	2,957,700	2,742,252	215,448
Fire Fighting & Prevention	1,620,200	1,758,850	1,612,447	146,403
Ambulance Service	984,200	1,019,400	1,019,767	(367)
Public Works				
Public Works Director	156,800	156,800	147,935	8,865
Highways, Streets and Roadways	1,671,950	1,834,450	1,517,438	317,012
Snow Removal	180,050	180,050	242,604	(62,554)
Street Lighting	350,000	350,000	349,490	510
Storm Sewer/Flood/Control	95,950	95,950	60,190	35,760
Cemetery	182,950	182,950	175,160	7,790
Health and Welfare				
Mosquito Control	103,800	103,800	52,559	51,241
Animal Control	63,250	63,250	59,649	3,601
Culture and Recreation				
Forestry	198,630	198,630	186,103	12,527
Library	801,050	801,050	796,800	4,250
Conservation and Development				
Planning & Zoning	<u>372,150</u>	<u>372,150</u>	<u>347,936</u>	<u>24,214</u>
Total Expenditures	<u>11,766,630</u>	<u>12,212,230</u>	<u>10,786,000</u>	<u>1,426,230</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(935,935)</u>	<u>(1,381,535)</u>	<u>528,902</u>	<u>1,910,437</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Required Supplementary Information - Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund - (continued)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	-	-	17,904	17,904
Transfers In	1,299,800	1,299,800	1,299,800	-
Transfers (Out)	(1,440,000)	(1,440,000)	(1,437,000)	3,000
Total other financing sources (uses)	<u>(140,200)</u>	<u>(140,200)</u>	<u>(119,296)</u>	<u>20,904</u>
Net Change in fund balances	(1,076,135)	(1,521,735)	409,606	1,931,341
Fund Balances - beginning	6,137,405	6,137,405	6,137,405	-
Fund Balances - ending	<u>\$ 5,061,270</u>	<u>\$ 4,615,670</u>	<u>\$ 6,547,011</u>	<u>\$ 1,931,341</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Required Supplementary Information - Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Capital Improvement Fund**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 5,522,000	\$ 5,522,000	\$ 5,865,987	\$ 343,987
Intergovernmental	1,407,800	1,407,800	939,861	(467,939)
Interest Revenue	880,000	880,000	956,337	76,337
Donations/Contributions	220,050	220,050	67,119	(152,931)
Miscellaneous	-	-	17,090	17,090
Total Revenues	8,029,850	8,029,850	7,846,394	(183,456)
EXPENDITURES				
General Government				
City Hall Improvements	406,000	406,000	118,829	287,171
Public Safety				
Public Safety Improvements	-	46,800	43,616	3,184
Public Works				
Street System Improvements	910,000	3,111,900	1,812,573	1,299,327
Storm Sewer/Flood Projects	1,350,000	3,703,250	1,284,413	2,418,837
Culture and Recreation				
Recreational Facility Improvements	1,321,450	2,623,300	853,564	1,769,736
Conservation and Development				
Industrial Park & Other Infrastructure	1,216,500	1,216,500	837,018	379,482
Debt Service	1,094,800	1,164,800	1,149,676	15,124
Total Expenditures	6,298,750	12,272,550	6,099,689	6,172,861
Excess (deficiency) of revenues over (under) expenditures	1,731,100	(4,242,700)	1,746,705	5,989,405
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	525,041	525,041
Transfers In	-	-	1,208,106	1,208,106
Transfers Out	(118,600)	(118,600)	(115,000)	3,600
Total other financing sources (uses)	(118,600)	(118,600)	1,618,147	1,736,747
Net Change in fund balances	1,612,500	(4,361,300)	3,364,852	7,726,152
Fund Balances - beginning	18,681,846	18,681,846	18,681,846	-
Fund Balances - ending	\$ 20,294,346	\$ 14,320,546	\$ 22,046,698	\$ 7,726,152

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Required Supplementary Information - Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Tax Increment Financing 1 Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Revenue	\$ 226,500	\$ 226,500	\$ 209,483	\$ (17,017)
Interest Revenue	1,000	1,000	919	(81)
Total Revenues	<u>227,500</u>	<u>227,500</u>	<u>210,402</u>	<u>(17,098)</u>
EXPENDITURES				
Debt Service	<u>255,000</u>	<u>255,000</u>	<u>169,267</u>	<u>85,733</u>
Total Expenditures	<u>255,000</u>	<u>255,000</u>	<u>169,267</u>	<u>85,733</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(27,500)</u>	<u>(27,500)</u>	<u>41,135</u>	<u>68,635</u>
Net Change in fund balances	(27,500)	(27,500)	41,135	68,635
Fund Balances - beginning	(2,421,540)	(2,421,540)	(2,421,540)	-
Fund Balances - ending	<u>\$ (2,449,040)</u>	<u>\$ (2,449,040)</u>	<u>\$ (2,380,405)</u>	<u>\$ 68,635</u>

Required Supplementary Information
Notes to Required Supplementary Information – Budgetary Reporting

The Schedule

The Budgetary Comparison Schedules present comparisons of the original and legally amended budget with actual amounts on a sub-function level for the General Fund, Capital Improvement Fund, and Tax Increment Financing 1 Fund. In addition to the required general fund presentation, the special revenue funds presented have legally adopted annual budgets and are reported as major funds in the financial statements.

The City follows legally prescribed procedures in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to August 15, the Finance Officer submits to the City Council a proposed operating budget for the General, Special Revenue, Debt Service, and Capital Project Funds based on budget requests submitted and presented by the various department heads of the City for the fiscal year commencing the following January. The operating budget includes proposed expenditures and the means of financing them. The budget is introduced by the City Council as a formal ordinance by the first meeting in September or within ten days thereafter.
2. Public hearings are conducted to obtain taxpayers comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance, and the ordinance is certified to the county auditor for tax levy purposes.
4. After adoption by the governing body, the expenditures incorporated in the budget for the General, Special Revenue, Debt Service, and Capital Project Funds become legally binding appropriations for all budgeted funds and the actual expenditures must be held to budgeted amounts at the department level unless amended as permitted by state law or home rule charter. (See item 7 below).
5. The governing board may include in the General Fund operating budget a line item for contingencies pursuant to South Dakota Codified Law that cannot exceed five percent of the total operating budget. The governing board may transfer, by resolution, such amounts appropriated for contingencies to any other appropriation category in which insufficient amounts were provided or for items for which no appropriation was originally provided.
6. Every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until expended, revised or repealed; the purpose of any such appropriation shall be deemed abandoned if three years pass without any disbursement from, or encumbrance of, the appropriation.
7. If it is determined during the year that sufficient amounts have not been budgeted for a particular department within the General, Special Revenue, Debt Service, and Capital Project Funds, South Dakota Codified Law allows the passage of a supplemental budget appropriation ordinance by the governing board to increase legal spending authority. Any such supplements must be adopted in accordance with the same laws governing the adoption of the annual appropriations ordinance. The budget may also be amended to appropriate state or federal grant funds that were not anticipated within the original budget. Such grant funds may be appropriated by approval of a motion to do so by a simple majority of the City Council. Bond proceeds are deemed to be formally appropriated upon bond issuance and require no further formal action by the City Council.

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

8. The South Dakota Codified Laws do not allow city financial officers or other appointed officers to amend the budget. The legal spending authority can be amended only by the steps described in items 5 and 7 above.

9. Budgets are prepared for the City's funds on the same basis and using the same accounting practices, generally accepted accounting principles (GAAP), as are used to prepare financial statements of the funds.

Budget Compliance

There were no material violations of the annual appropriated budget for the fiscal year ending December 31, 2008.

GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with United States GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function of which they relate.

**Required Supplementary Information - Schedule of Funding Progress for
 Postemployment Benefit Plans**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	0	1,616,278	1,616,278	0.0%	10,636,883	15.2%

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Combining Statements

A. Nonmajor Special Revenue Funds

Park & Recreation Fund – to account for the operations and maintenance of the City owned park and recreation facilities and activities except for the Community Recreation Center.

BBB Sales Tax Fund – to account for the revenues and expenditures of the special one percent (1%) city gross receipts tax on lodging, alcoholic beverages, prepared food and admissions. Revenues are restricted by State Law for the purpose of land acquisition, architectural fees, construction costs, payment for civic center, auditorium, or athletic facility buildings (including the maintenance, staffing and operation of such facilities) and the promotion and advertising of the City.

Recreation Center Fund – to account for the operations and maintenance of the Community Recreation Center facilities and activities. Financing is provided by revenues from memberships, program fees and inter-fund transfers.

Casualty Reserve Fund – to account for the revenues and expenditures to replace and repair property of the City which was damaged or lost as a result of a casualty loss that was not covered by insurance.

Library Building Fund – to account for the funds set aside for the building needs and other expenditures related to the Library expansion project.

E-911 Emergency Fund – to account for the \$.75 per phone line surcharge assessed to customers of private phone companies operating within Codington County. These funds are used to defray the costs incurred by the City in providing emergency dispatch services.

Library Fines Fund – to account for the revenue derived from library fines and other allowed charges. Expenditures are authorized by the Library Board.

Urban Renewal Fund – to account for the revenues and expenditures authorized by the Urban Renewal Board for the uptown projects and to account for loans made by the Board to businesses within the uptown district and the repayments on these loans. Funding for the original loans was received as part of a Community Development Block Grant (CDBG) in the 1980's.

Big Sioux River Project Fund - to account for the revenues and expenditures of the watershed improvement project. The project will reduce siltation entering the Big Sioux River and Lake Kampeska. The project is funded by a Section 319 EPA federal grant and various other state, local and private sources.

Terry Redlin Fresh Water Institute Fund – to account for the revenues and expenditures of the Terry Redlin Fresh Water Institute. The Institute is designed to educate the public on the importance of wildlife ecosystems in the Upper Big Sioux River Watershed. A comprehensive wetland management program for the watershed will be developed as a part of the institute project.

Save Lake Kampeska Fund – to account for revenues set aside to fund efforts at improving the water quality of Lake Kampeska.

Tax Increment Financing 2 Fund – to account for the revenues and expenditures of the Tax Increment District (TID) #2. This TID was created to capture the incremental tax revenue generated by development of the Mallard Point Business Park and to pay for infrastructure improvements in the park.

Tax Increment Financing 3 Fund - to account for the revenues and expenditures of the Tax Increment District (TID) #3. This TID was created to capture the incremental tax revenue generated

Combining Statements

by development of the Pheasant Ridge Business Park and to pay for infrastructure improvements in the park.

B. Nonmajor Debt Service Funds

GO Bond 2002 – to account for the general obligation bonds issued for the construction of the Watertown Event Center.

C. Nonmajor Capital Project Funds

Family Aquatics Center Project – to account for the design and construction of the new Family Aquatics Center. Sales Tax Revenue Bond proceeds and Capital Improvement Sales Tax Revenues will be used to finance this project.

D. Nonmajor Enterprise Funds

Solid Waste Fund – to account for solid waste services provided to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing and collection.

Airport Fund – to account for air transportation services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation and maintenance.

E. Fiduciary Funds

125 Escrow Agency Fund – to account for the employee's withholdings and disbursement for Section 125 Flexible Spending Accounts.

Redemption Agency Fund – to account for collection of and remittance to contractors holding special assessment certificates for various improvements.

Security Deposit Agency Fund – to account for the collection and return or forfeiture of all surety coverage receipts required by the City for items such as contract performance.

Combining Balance Sheet - Nonmajor Governmental Funds

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
ASSETS			
Pooled Cash and Investments	\$ 2,395,613	\$ 142,524	\$ 2,538,137
Property Taxes Receivable	-	10,938	10,938
Sales Tax Receivable	76,703	-	76,703
Accounts Receivable	56,482	-	56,482
Special Assessments Receivable	2,069	-	2,069
Interest Receivable	28,413	2,492	30,905
Loans Receivable	31,804	-	31,804
Deferred Receivable	108,000	-	108,000
Due From Other Governments	856	-	856
Inventory	37,717	-	37,717
Restricted Assets:			
Pooled Cash and Investments	94,897	-	94,897
Total assets	<u>2,832,554</u>	<u>155,954</u>	<u>2,988,508</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	172,579	-	172,579
Deferred Revenue	277,438	2,492	279,930
Advance From Other Fund	1,420,681	-	1,420,681
Total liabilities	<u>1,870,698</u>	<u>2,492</u>	<u>1,873,190</u>
FUND BALANCES:			
Reserved for:			
Inventory	37,717	-	37,717
Event Center	2,276	-	2,276
Urban Renewal Loans	92,621	-	92,621
Unreserved, designated for			
Capital Outlay	285,465	-	285,465
Park Development	63,893	-	63,893
Golf Course	61,918	-	61,918
Zoo Improvements	68,729	-	68,729
Unreserved, reported in			
Special Revenue	349,237	-	349,237
Debt Service	-	153,462	153,462
Total fund balances	<u>961,856</u>	<u>153,462</u>	<u>1,115,318</u>
Total liabilities and fund balances	<u>\$ 2,832,554</u>	<u>\$ 155,954</u>	<u>\$ 2,988,508</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Nonmajor Governmental Funds**

	Special Revenue Funds	Debt Service Fund	Capital Project Fund	Total Governmental Funds
REVENUES				
Tax Revenue				
Property	\$ 96,502	\$ 430,293	\$ -	\$ 526,795
Sales	639,419	-	-	639,419
Other Taxes	264,102	-	-	264,102
Intergovernmental	127,277	-	-	127,277
Charges for Goods and Services	1,657,481	-	-	1,657,481
Fines and Forfeits	18,032	-	-	18,032
Interest Revenue	127,164	8,885	33,021	169,070
Rentals	116,927	-	-	116,927
Special Assessments	44,792	-	-	44,792
Donations/Contributions	233,608	-	-	233,608
Miscellaneous	86,318	-	-	86,318
Total revenues	<u>3,411,622</u>	<u>439,178</u>	<u>33,021</u>	<u>3,883,821</u>
EXPENDITURES				
Current:				
General Government	409,330	-	-	409,330
Public Safety	507,171	-	-	507,171
Culture and Recreation	3,515,979	-	-	3,515,979
Conservation and Development	546,251	-	-	546,251
Debt service	98,657	410,528	-	509,185
Capital outlay	-	-	4,753	4,753
Total expenditures	<u>5,077,388</u>	<u>410,528</u>	<u>4,753</u>	<u>5,492,669</u>
Excess (deficiency) of revenues over expenditures	<u>(1,665,766)</u>	<u>28,650</u>	<u>28,268</u>	<u>(1,608,848)</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	2,617	-	-	2,617
Bond Proceeds	64,217	-	-	64,217
Transfers Out	(459,971)	-	(817,257)	(1,277,228)
Transfers In	1,685,327	-	-	1,685,327
Total other financing sources (uses)	<u>1,292,190</u>	<u>-</u>	<u>(817,257)</u>	<u>474,933</u>
Net Change in Fund Balances	<u>(373,576)</u>	<u>28,650</u>	<u>(788,989)</u>	<u>(1,133,915)</u>
Fund balances -- beginning	<u>1,335,432</u>	<u>124,812</u>	<u>788,989</u>	<u>2,249,233</u>
Fund balances -- ending	<u>\$ 961,856</u>	<u>\$ 153,462</u>	<u>\$ -</u>	<u>\$ 1,115,318</u>

Combining Balance Sheet - Nonmajor Special Revenue Funds

	Park & Recreation Fund	BBB Sales Tax Fund	Recreation Center Fund	Casualty Reserve Fund	E-911 Emergency Fund
ASSETS					
Current assets:					
Pooled Cash and Investments	\$ 773,558	\$ 186,652	\$ 211,258	\$ 86,752	\$ 204,588
Sales Tax Receivable	-	76,703	-	-	-
Accounts Receivable	-	-	-	-	56,482
Special Assessments Receivable	-	-	-	-	-
Interest Receivable	9,566	1,642	2,291	1,237	2,644
Loans Receivable	-	-	-	-	-
Deferred Receivable	108,000	-	-	-	-
Due From Other Governments	-	-	-	-	-
Inventory	37,717	-	-	-	-
Restricted Cash	-	2,276	-	-	-
Total assets	928,841	267,273	213,549	87,989	263,714
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts Payable	42,878	64,452	29,956	475	19,711
Deferred Revenue	117,566	53,525	2,291	1,237	59,126
Advance From Other Fund	-	-	-	-	-
Total liabilities	160,444	117,977	32,247	1,712	78,837
Fund balances:					
Reserved for:					
Inventory	37,717	-	-	-	-
Event Center	-	2,276	-	-	-
Urban Renewal Loans	-	-	-	-	-
Unreserved, designated for					
Capital Outlay	210,916	-	39,533	-	22,750
Park Development	63,893	-	-	-	-
Golf Course	61,918	-	-	-	-
Zoo Improvements	68,729	-	-	-	-
Unreserved, undesignated, reported in					
Special Revenue	325,224	147,020	141,769	86,277	162,127
Total fund balances	768,397	149,296	181,302	86,277	184,877
Total liabilities and fund balances	\$ 928,841	\$ 267,273	\$ 213,549	\$ 87,989	\$ 263,714

Combining Balance Sheet - Nonmajor Special Revenue Funds (continued)

Library Fines Fund	Urban Renewal Fund	Big Sioux River Project Fund	Save Lake Kampeska Fund	Tax Increment Financing 2 Fund	Tax Increment Financing 3 Fund	Total
\$ 452,148	\$ 80,505	\$ 59,743	\$ 339,334	\$ 857	\$ 218	\$ 2,395,613
-	-	-	-	-	-	76,703
-	-	-	-	-	-	56,482
-	2,069	-	-	-	-	2,069
4,964	2,074	-	3,873	121	1	28,413
-	31,804	-	-	-	-	31,804
-	-	-	-	-	-	108,000
856	-	-	-	-	-	856
-	-	-	-	-	-	37,717
-	92,621	-	-	-	-	94,897
<u>457,968</u>	<u>209,073</u>	<u>59,743</u>	<u>343,207</u>	<u>978</u>	<u>219</u>	<u>2,832,554</u>
2,534	2,545	10,028	-	-	-	172,579
5,820	33,878	-	3,873	121	1	277,438
-	-	-	-	1,018,125	402,556	1,420,681
<u>8,354</u>	<u>36,423</u>	<u>10,028</u>	<u>3,873</u>	<u>1,018,246</u>	<u>402,557</u>	<u>1,870,698</u>
-	-	-	-	-	-	37,717
-	-	-	-	-	-	2,276
-	92,621	-	-	-	-	92,621
12,266	-	-	-	-	-	285,465
-	-	-	-	-	-	63,893
-	-	-	-	-	-	61,918
-	-	-	-	-	-	68,729
<u>437,348</u>	<u>80,029</u>	<u>49,715</u>	<u>339,334</u>	<u>(1,017,268)</u>	<u>(402,338)</u>	<u>349,237</u>
<u>449,614</u>	<u>172,650</u>	<u>49,715</u>	<u>339,334</u>	<u>(1,017,268)</u>	<u>(402,338)</u>	<u>961,856</u>
\$ 457,968	\$ 209,073	\$ 59,743	\$ 343,207	\$ 978	\$ 219	\$ 2,832,554

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**Combining Statement of Revenues, Expenditures, and Changes
 in Fund Balance - Nonmajor Special Revenue Funds**

	Park & Recreation Fund	BBB Sales Tax Fund	Recreation Center Fund	Casualty Reserve Fund	Library Building Fund	E-911 Emergency Fund
REVENUES						
Tax Revenue						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales	-	639,419	-	-	-	-
Other Taxes	-	-	-	-	-	264,102
Intergovernmental	3,183	-	-	-	-	-
Charges for Goods and Services	946,530	-	710,951	-	-	-
Fines and Forfeits	-	-	-	-	-	-
Interest Revenue	36,078	6,309	8,955	340	24,043	9,688
Rentals	102,813	-	11,514	-	-	-
Special Assessments	-	-	-	-	-	-
Donations/ Contributions	99,663	-	9,789	-	-	105,600
Miscellaneous	21,514	1,598	8,216	19,970	-	40
Total revenues	1,209,781	647,326	749,425	20,310	24,043	379,430
EXPENDITURES						
Current:						
General Government	-	375,297	-	34,033	-	-
Public Safety	-	-	-	-	-	507,171
Culture and Recreation	2,488,185	170,000	757,178	-	84,265	-
Conservation and Development	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Total expenditures	2,488,185	545,297	757,178	34,033	84,265	507,171
Excess (deficiency) of revenues over expenditures	(1,278,404)	102,029	(7,753)	(13,723)	(60,222)	(127,741)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	2,566	-	51	-	-	-
Bond Proceeds	-	-	-	-	-	-
Transfers In	1,318,000	-	10,000	-	-	115,000
Transfers Out	-	(68,000)	-	-	(390,849)	-
Total other financing sources (uses)	1,320,566	(68,000)	10,051	-	(390,849)	115,000
Net change in fund balances	42,162	34,029	2,298	(13,723)	(451,071)	(12,741)
Fund balances -- beginning	726,235	115,267	179,004	100,000	451,071	197,618
Fund balances -- ending	\$ 768,397	\$ 149,296	\$ 181,302	\$ 86,277	\$ -	\$ 184,877

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**Combining Statement of Revenues, Expenditures, and Changes
 in Fund Balance - Nonmajor Special Revenue Funds (continued)**

Library Fines Fund	Urban Renewal Fund	Big Sioux River Project Fund	Terry Redlin Fresh Water Institute Fund	Save Lake Kampeska Fund	Tax Increment Financing 2 Fund	Tax Increment Financing 3 Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,354	\$ 29,148	\$ 96,502
-	-	-	-	-	-	-	639,419
-	-	-	-	-	-	-	264,102
338	-	123,756	-	-	-	-	127,277
-	-	-	-	-	-	-	1,657,481
18,032	-	-	-	-	-	-	18,032
18,437	8,347	-	-	14,610	331	26	127,164
-	2,600	-	-	-	-	-	116,927
-	44,792	-	-	-	-	-	44,792
9,644	-	8,912	-	-	-	-	233,608
15,178	19,802	-	-	-	-	-	86,318
61,629	75,541	132,668	-	14,610	67,685	29,174	3,411,622
-	-	-	-	-	-	-	409,330
-	-	-	-	-	-	-	507,171
16,351	-	-	-	-	-	-	3,515,979
-	74,448	466,803	-	-	5,000	-	546,251
-	-	-	-	-	70,843	27,814	98,657
16,351	74,448	466,803	-	-	75,843	27,814	5,077,388
45,278	1,093	(334,135)	-	14,610	(8,158)	1,360	(1,665,766)
-	-	-	-	-	-	-	2,617
-	-	64,217	-	-	-	-	64,217
-	-	242,327	-	-	-	-	1,685,327
-	-	-	(1,122)	-	-	-	(459,971)
-	-	306,544	(1,122)	-	-	-	1,292,190
45,278	1,093	(27,591)	(1,122)	14,610	(8,158)	1,360	(373,576)
404,336	171,557	77,306	1,122	324,724	(1,009,110)	(403,698)	1,335,432
\$ 449,614	\$ 172,650	\$ 49,715	\$ -	\$ 339,334	\$ (1,017,268)	\$ (402,338)	\$ 961,856

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Park & Recreation Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 2,054	\$ 2,054	\$ 3,183	\$ 1,129
Charges for Goods and Services	856,000	856,000	946,530	90,530
Interest Revenue	30,000	30,000	36,078	6,078
Rentals	70,150	70,150	102,813	32,663
Donations	95,888	95,888	99,663	3,775
Miscellaneous	7,000	7,000	21,514	14,514
Total revenues	<u>1,061,092</u>	<u>1,061,092</u>	<u>1,209,781</u>	<u>148,689</u>
EXPENDITURES				
Culture and Recreation	2,516,100	2,561,050	2,488,185	72,865
Total expenditures	<u>2,516,100</u>	<u>2,561,050</u>	<u>2,488,185</u>	<u>72,865</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,455,008)</u>	<u>(1,499,958)</u>	<u>(1,278,404)</u>	<u>221,554</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	1,000	1,000	2,566	1,566
Transfers In	1,318,000	1,318,000	1,318,000	-
Total other financing sources (uses)	<u>1,319,000</u>	<u>1,319,000</u>	<u>1,320,566</u>	<u>1,566</u>
Net change in fund balances	(136,008)	(180,958)	42,162	223,120
Fund balances -- beginning	726,235	726,235	726,235	-
Fund balances -- ending	<u>\$ 590,227</u>	<u>\$ 545,277</u>	<u>\$ 768,397</u>	<u>\$ 223,120</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - BBB Sales Tax Fund**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue				
Sales	\$ 613,000	\$ 613,000	\$ 639,419	\$ 26,419
Interest Revenue	2,500	2,500	6,309	3,809
Miscellaneous	-	-	1,598	1,598
Total revenues	615,500	615,500	647,326	31,826
EXPENDITURES				
General Government	383,250	383,250	375,297	7,953
Culture and Recreation	170,000	170,000	170,000	-
Total expenditures	553,250	553,250	545,297	7,953
Excess (deficiency) of revenues over (under) expenditures	62,250	62,250	102,029	39,779
OTHER FINANCING SOURCES (USES)				
Transfers Out	(68,000)	(68,000)	(68,000)	-
Total other financing sources (uses)	(68,000)	(68,000)	(68,000)	-
Net change in fund balances	(5,750)	(5,750)	34,029	39,779
Fund balances -- beginning	115,267	115,267	115,267	-
Fund balances -- ending	\$ 109,517	\$ 109,517	\$ 149,296	\$ 39,779

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Recreation Center Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for Goods and Services	\$ 712,500	\$ 712,500	\$ 710,951	\$ (1,549)
Interest Revenue	8,400	8,400	8,955	555
Rentals	13,000	13,000	11,514	(1,486)
Donations	4,000	4,000	9,789	5,789
Miscellaneous	11,000	11,000	8,216	(2,784)
Total revenues	<u>748,900</u>	<u>748,900</u>	<u>749,425</u>	<u>525</u>
EXPENDITURES				
Culture and Recreation	<u>755,500</u>	<u>755,500</u>	<u>757,178</u>	<u>(1,678)</u>
Total expenditures	<u>755,500</u>	<u>755,500</u>	<u>757,178</u>	<u>(1,678)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,600)</u>	<u>(6,600)</u>	<u>(7,753)</u>	<u>(1,153)</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	100	100	51	(49)
Transfers In	10,000	10,000	10,000	-
Total other financing sources (uses)	<u>10,100</u>	<u>10,100</u>	<u>10,051</u>	<u>(49)</u>
Net change in fund balances	<u>3,500</u>	<u>3,500</u>	<u>2,298</u>	<u>(1,202)</u>
Fund balances -- beginning	<u>179,004</u>	<u>179,004</u>	<u>179,004</u>	<u>-</u>
Fund balances -- ending	<u>\$ 182,504</u>	<u>\$ 182,504</u>	<u>\$ 181,302</u>	<u>\$ (1,202)</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Casualty Reserve Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Revenue	\$ -	\$ -	\$ 340	\$ 340
Other Miscellaneous	-	-	19,970	19,970
Total revenues	<u>-</u>	<u>-</u>	<u>20,310</u>	<u>20,310</u>
EXPENDITURES				
General Government	100,000	100,000	34,033	65,967
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>34,033</u>	<u>65,967</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(100,000)</u>	<u>(100,000)</u>	<u>(13,723)</u>	<u>86,277</u>
Net change in fund balances	(100,000)	(100,000)	(13,723)	86,277
Fund balances -- beginning	100,000	100,000	100,000	-
Fund balances -- ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,277</u>	<u>\$ 86,277</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Library Building Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Revenue	\$ -	\$ -	\$ 24,043	\$ 24,043
Total revenues	<u>-</u>	<u>-</u>	<u>24,043</u>	<u>24,043</u>
EXPENDITURES				
Culture & Recreation	-	321,000	84,265	236,735
Total expenditures	<u>-</u>	<u>321,000</u>	<u>84,265</u>	<u>236,735</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(321,000)</u>	<u>(60,222)</u>	<u>260,778</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(450,000)	(390,849)	59,151
Total Other Financing Sources (Uses)	<u>-</u>	<u>(450,000)</u>	<u>(390,849)</u>	<u>59,151</u>
Net change in fund balances	<u>-</u>	<u>(771,000)</u>	<u>(451,071)</u>	<u>319,929</u>
Fund balances -- beginning	451,071	451,071	451,071	-
Fund balances -- ending	<u>\$ 451,071</u>	<u>\$ (319,929)</u>	<u>\$ -</u>	<u>\$ 319,929</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - E-911 Emergency Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Revenue				
Other Taxes	\$ 235,000	\$ 235,000	\$ 264,102	\$ 29,102
Interest Revenue	8,000	8,000	9,688	1,688
Contributions	105,600	105,600	105,600	-
Miscellaneous	500	500	40	(460)
Total revenues	<u>349,100</u>	<u>349,100</u>	<u>379,430</u>	<u>30,330</u>
EXPENDITURES				
Public Safety	<u>577,850</u>	<u>577,850</u>	<u>507,171</u>	<u>70,679</u>
Total expenditures	<u>577,850</u>	<u>577,850</u>	<u>507,171</u>	<u>70,679</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(228,750)</u>	<u>(228,750)</u>	<u>(127,741)</u>	<u>101,009</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>-</u>
Total other financing sources (uses)	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>-</u>
Net change in fund balances	<u>(113,750)</u>	<u>(113,750)</u>	<u>(12,741)</u>	<u>101,009</u>
Fund balances -- beginning	<u>197,618</u>	<u>197,618</u>	<u>197,618</u>	<u>-</u>
Fund balances -- ending	<u>\$ 83,868</u>	<u>\$ 83,868</u>	<u>\$ 184,877</u>	<u>\$ 101,009</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Library Fines Fund**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 338	\$ 338
Fines and Forfeits	13,000	13,000	18,032	5,032
Interest Revenue	17,200	17,200	18,437	1,237
Donations	-	-	9,644	9,644
Miscellaneous	11,500	11,500	15,178	3,678
Total revenues	41,700	41,700	61,629	19,929
EXPENDITURES				
Culture and Recreation	33,900	33,900	16,351	17,549
Total expenditures	33,900	33,900	16,351	17,549
Excess (deficiency) of revenues over (under) expenditures	7,800	7,800	45,278	37,478
Net change in fund balances	7,800	7,800	45,278	37,478
Fund balances -- beginning	404,336	404,336	404,336	-
Fund balances -- ending	\$ 412,136	\$ 412,136	\$ 449,614	\$ 37,478

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Urban Renewal Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Revenue	\$ 5,500	\$ 5,500	\$ 8,347	\$ 2,847
Rentals	2,400	2,400	2,600	200
Special Assessments	41,300	41,300	44,792	3,492
Miscellaneous	13,900	13,900	19,802	5,902
Total revenues	<u>63,100</u>	<u>63,100</u>	<u>75,541</u>	<u>12,441</u>
EXPENDITURES				
Conservation and Development	83,850	83,850	74,448	9,402
Total expenditures	<u>83,850</u>	<u>83,850</u>	<u>74,448</u>	<u>9,402</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,750)</u>	<u>(20,750)</u>	<u>1,093</u>	<u>21,843</u>
Net change in fund balances	(20,750)	(20,750)	1,093	21,843
Fund balances -- beginning	171,557	171,557	171,557	-
Fund balances -- ending	<u>\$ 150,807</u>	<u>\$ 150,807</u>	<u>\$ 172,650</u>	<u>\$ 21,843</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Big Sioux River Project Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 346,650	\$ 346,650	\$ 123,756	\$ (222,894)
Donations/Contributions	115,000	115,000	8,912	(106,088)
Total revenues	<u>461,650</u>	<u>461,650</u>	<u>132,668</u>	<u>(328,982)</u>
EXPENDITURES				
Conservation and Development	623,140	623,140	466,803	156,337
Total expenditures	<u>623,140</u>	<u>623,140</u>	<u>466,803</u>	<u>156,337</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(161,490)</u>	<u>(161,490)</u>	<u>(334,135)</u>	<u>(172,645)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	81,205	81,205	64,217	(16,988)
Transfer In	80,000	80,000	242,327	162,327
Total other financing sources (uses)	<u>161,205</u>	<u>161,205</u>	<u>306,544</u>	<u>145,339</u>
Net change in fund balances	(285)	(285)	(27,591)	(27,306)
Fund balances -- beginning	77,306	77,306	77,306	-
Fund balances -- ending	<u>\$ 77,021</u>	<u>\$ 77,021</u>	<u>\$ 49,715</u>	<u>\$ (27,306)</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Terry Redlin Freshwater Institute Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Donations/Contributions	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Conservation and Development	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(1,150)	(1,122)	28
Total other financing sources (uses)	<u>-</u>	<u>(1,150)</u>	<u>(1,122)</u>	<u>28</u>
Net change in fund balances	-	(1,150)	(1,122)	28
Fund balances -- beginning	<u>1,122</u>	<u>1,122</u>	<u>1,122</u>	<u>-</u>
Fund balances -- ending	<u>\$ 1,122</u>	<u>\$ (28)</u>	<u>\$ -</u>	<u>\$ 28</u>

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**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Save Lake Kampeska Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Revenue	\$ 24,050	\$ 24,050	\$ 14,610	\$ (9,440)
Total revenues	<u>24,050</u>	<u>24,050</u>	<u>14,610</u>	<u>(9,440)</u>
EXPENDITURES				
Capital Expenditures	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Total expenditures	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(325,950)</u>	<u>(325,950)</u>	<u>14,610</u>	<u>340,560</u>
Net change in fund balances	(325,950)	(325,950)	14,610	340,560
Fund balances -- beginning	<u>324,724</u>	<u>324,724</u>	<u>324,724</u>	<u>-</u>
Fund balances -- ending	<u>\$ (1,226)</u>	<u>\$ (1,226)</u>	<u>\$ 339,334</u>	<u>\$ 340,560</u>

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 Year Ended December 31, 2008

**Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Tax Increment Financing 2 Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Revenue	\$ 71,300	\$ 71,300	\$ 67,354	\$ (3,946)
Interest Revenue	-	-	331	331
Total Revenues	<u>71,300</u>	<u>71,300</u>	<u>67,685</u>	<u>(3,615)</u>
EXPENDITURES				
Conservation and Development	-	5,000	5,000	-
Debt Service	<u>72,900</u>	<u>72,900</u>	<u>70,843</u>	<u>2,057</u>
Total Expenditures	<u>72,900</u>	<u>77,900</u>	<u>75,843</u>	<u>2,057</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,600)</u>	<u>(6,600)</u>	<u>(8,158)</u>	<u>(1,558)</u>
Net Change in fund balances	(1,600)	(6,600)	(8,158)	(1,558)
Fund Balances - beginning	<u>(1,009,110)</u>	<u>(1,009,110)</u>	<u>(1,009,110)</u>	<u>-</u>
Fund Balances - ending	<u>\$ (1,010,710)</u>	<u>\$ (1,015,710)</u>	<u>\$ (1,017,268)</u>	<u>\$ (1,558)</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Tax Increment Financing 3 Fund**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 32,000	\$ 32,000	\$ 29,148	\$ (2,852)
Interest Revenue	-	-	26	26
Total revenues	32,000	32,000	29,174	(2,826)
EXPENDITURES				
Debt Service	28,500	28,500	27,814	686
Total expenditures	28,500	28,500	27,814	686
Excess (deficiency) of revenues over (under) expenditures	3,500	3,500	1,360	(2,140)
Net change in fund balances	3,500	3,500	1,360	(2,140)
Fund balances -- beginning	(403,698)	(403,698)	(403,698)	-
Fund balances -- ending	\$ (400,198)	\$ (400,198)	\$ (402,338)	\$ (2,140)

Combining Balance Sheet - Nonmajor Debt Service Fund

	<u>GO Bond 2002</u>
ASSETS	
Current assets:	
Pooled Cash and Investments	\$ 142,524
Property Taxes Receivable	10,938
Interest Receivable	2,492
Total assets	<u><u>155,954</u></u>
LIABILITIES AND FUND BALANCES	
Current liabilities:	
Deferred Revenue	2,492
Total liabilities	<u>2,492</u>
Fund Balances:	
Unreserved, reported in Debt Service	153,462
Total fund balances	<u>153,462</u>
Total liabilities and fund balances	<u><u>\$ 155,954</u></u>

City of Watertown
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Year Ended December 31, 2008

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balance - Nonmajor Debt Service Fund**

	<u>GO Bond 2002</u>
REVENUES	
Tax Revenue	
Property	\$ 430,293
Interest Revenue	8,885
Total revenues	<u>439,178</u>
EXPENDITURES	
Debt Service	<u>410,528</u>
Total expenditures	<u>410,528</u>
Excess (deficiency) of revenues over expenditures	28,650
Fund balances -- beginning	<u>124,812</u>
Fund balances -- ending	<u><u>\$ 153,462</u></u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Debt Service Fund - GO Bonds 2002**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Revenue				
Property	\$ 430,529	\$ 430,529	\$ 430,293	\$ (236)
Interest Revenue	4,000	4,000	8,885	4,885
Total revenues	<u>434,529</u>	<u>434,529</u>	<u>439,178</u>	<u>4,649</u>
EXPENDITURES				
Debt Service	411,100	411,100	410,528	572
Total expenditures	<u>411,100</u>	<u>411,100</u>	<u>410,528</u>	<u>572</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,429</u>	<u>23,429</u>	<u>28,650</u>	<u>5,221</u>
Net change in fund balances	23,429	23,429	28,650	5,221
Fund balances -- beginning	124,812	124,812	124,812	-
Fund balances -- ending	<u>\$ 148,241</u>	<u>\$ 148,241</u>	<u>\$ 153,462</u>	<u>\$ 5,221</u>

City of Watertown
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 Year Ended December 31, 2008

**Combining Statement of Revenues, Expenditures, and Changes
 in Fund Balance - Nonmajor Capital Project Fund**

	Family Aquatics Center
	<u> </u>
REVENUES	
Interest Revenue	\$ 33,021
Total revenues	<u>33,021</u>
EXPENDITURES	
Capital Outlay	
Capital Outlay	4,753
Total expenditures	<u>4,753</u>
Excess (deficiency) of revenues over expenditures	<u>28,268</u>
OTHER FINANCING SOURCES (USES)	
Transfers Out	(817,257)
Total Other Financing Sources (Uses)	<u>(817,257)</u>
Net change in fund balances	(788,989)
Fund balances -- beginning	<u>788,989</u>
Fund balances -- ending	<u><u>\$ -</u></u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

**Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Capital Project Fund - Family Aquatics Center**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest Revenue	\$ -	\$ -	\$ 33,021	\$ 33,021
Total revenues	-	-	33,021	33,021
EXPENDITURES				
Capital Outlay	-	-	4,753	(4,753)
Total expenditures	-	-	4,753	(4,753)
Excess (deficiency) of revenues over (under) expenditures	-	-	28,268	28,268
OTHER FINANCING SOURCES (USES)				
Transfer Out		(850,000)	(817,257)	32,743
Total Other Financing Sources (Uses)	-	(850,000)	(817,257)	32,743
Net change in fund balances	-	(850,000)	(788,989)	61,011
Fund balances -- beginning	788,989	788,989	788,989	-
Fund balances -- ending	\$ 788,989	\$ (61,011)	\$ -	\$ 61,011

City of Watertown
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Combining Statement of Net Assets - Nonmajor Business-Type Funds

	Enterprise Funds		
	Solid Waste Fund	Airport Fund	Total
ASSETS			
Current assets:			
Pooled Cash and Investments	\$ 3,255,070	\$ -	\$ 3,255,070
Accounts Receivable	192,764	5,242	198,006
Interest Receivable	43,805	-	43,805
Deferred Receivable	-	196,319	196,319
Due from Other Funds	4	-	4
Due from Other Sources	-	637	637
Due From Other Governments	-	318,063	318,063
Inventory	56,357	685	57,042
Restricted Cash	366,236	-	366,236
Total Current assets:	3,914,236	520,946	4,435,182
Noncurrent assets:			
Land	38,174	320,699	358,873
Buildings and Structures	407,669	1,181,313	1,588,982
Furniture Equipment Machinery	3,218,543	1,951,666	5,170,209
Improvements Other Than Buildings	3,017,070	14,204,912	17,221,982
Construction in Progress	-	1,673	1,673
Accumulated Depreciation	(2,428,521)	(5,915,920)	(8,344,441)
Total Noncurrent assets:	4,252,935	11,744,343	15,997,278
Total assets	8,167,171	12,265,289	20,432,460
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts payable	92,873	23,437	116,310
Retainage Payable	40,524	-	40,524
Due to other funds	-	156,146	156,146
Deferred revenue	-	196,319	196,319
Accrued Vacation and Sick Leave	28,308	4,520	32,828
Total Current liabilities:	161,705	380,422	542,127
Noncurrent liabilities:			
Accrued Vacation and Sick Leave	84,924	13,562	98,486
Other Post Employment Benefits	4,853	578	5,431
Closure/Post Closure Liability	220,122	-	220,122
Total Noncurrent liabilities:	309,899	14,140	324,039
Total liabilities	471,604	394,562	866,166
NET ASSETS			
Invested in capital assets, net of related debt	4,252,935	11,744,343	15,997,278
Restricted for Financial Assurance	146,114	-	146,114
Unrestricted	3,296,518	126,384	3,422,902
Total net assets	\$ 7,695,567	\$ 11,870,727	\$ 19,566,294

City of Watertown
 Comprehensive Annual Financial Report
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**Combining Statement of Revenues, Expenses and Changes
 in Net Assets - Nonmajor Business-Type Funds**

	Enterprise Funds		
	Solid Waste Fund	Airport Fund	Total
Operating revenues:			
Charges for Goods and Services	\$ 2,096,324	\$ 18,721	\$ 2,115,045
Rentals	-	105,686	105,686
Miscellaneous	30,263	10,926	41,189
Total Operating	2,126,587	135,333	2,261,920
Operating expenses:			
Personal Services	879,369	135,826	1,015,195
Supplies	255,922	42,646	298,568
Utilities	35,529	34,044	69,573
Other Charges	453,024	135,443	588,467
Depreciation	289,071	304,816	593,887
Total operating expenses	1,912,915	652,775	2,565,690
Operating Income (loss)	213,672	(517,442)	(303,770)
Nonoperating revenues (expenses):			
Tax Revenue	-	9,794	9,794
Interest Revenue	149,295	-	149,295
Sale of Capital Assets	14,581	94,915	109,496
Total nonoperating revenues (expenses)	163,876	104,709	268,585
Income (loss) before contributions and transfers	377,548	(412,733)	(35,185)
Transfers In	-	107,000	107,000
Transfers Out	(107,600)	-	(107,600)
Capital Contributions	-	723,060	723,060
Change in net assets	269,948	417,327	687,275
Total net assets -- beginning	7,425,619	11,453,400	18,879,019
Total net assets -- ending	\$ 7,695,567	\$ 11,870,727	\$ 19,566,294

City of Watertown
 Comprehensive Annual Financial Report
 For Year Ended December 31, 2008

Combining Statement of Cash Flows - Nonmajor Business-Type Funds

	Solid Waste Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customer including deposits	\$ 2,122,999	\$ 138,411	\$ 2,261,410
Payments to suppliers	(774,770)	(388,758)	(1,163,528)
Payments to employees	(877,761)	(133,100)	(1,010,861)
Other Payments	(4,063)	(106)	(4,169)
Net cash provided (used) by operating activities	<u>466,405</u>	<u>(383,553)</u>	<u>82,852</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net borrowing (repayments) from other fund	-	156,146	156,146
Tax Revenue	-	9,794	9,794
Transfers Out	(107,600)	-	(107,600)
Transfers In	-	107,000	107,000
Net cash provided (used) by noncapital financing activities	<u>(107,600)</u>	<u>272,940</u>	<u>165,340</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(689,333)	(848,202)	(1,537,535)
Capital Grant	-	820,812	820,812
Proceeds from sales of capital assets	1,831	83,610	85,441
Net cash provided (used) by capital and related financing activities	<u>(687,502)</u>	<u>56,220</u>	<u>(631,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	165,515	-	165,515
Net cash provided by investing activities	<u>165,515</u>	<u>-</u>	<u>165,515</u>
Net increase (decrease) in cash and cash equivalents	(163,182)	(54,393)	(217,575)
Pooled Cash and Investments - beginning of year	3,784,488	54,393	3,838,881
Pooled Cash and Investments - end of year	3,621,306	-	3,621,306
Less Restricted Pooled Cash and Investments	(366,236)	-	(366,236)
Pooled Cash and Investment Per Balance Sheet	<u>\$ 3,255,070</u>	<u>\$ -</u>	<u>\$ 3,255,070</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 213,672	\$ (517,442)	\$ (303,770)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	289,071	304,816	593,887
Changes in assets and Liabilities:			
Accounts Payable - Supplier	(55,080)	(176,619)	(231,699)
Customer Receivables	(3,840)	3,077	(763)
Inventory	(4,063)	(106)	(4,169)
Other operating receivables	575	(6)	569
Closure/Post closure costs	24,462	-	24,462
Other Post Employment Benefits	4,853	578	5,431
Salaries & Benefits Payable	(3,245)	2,149	(1,096)
Net Cash provided (used) by operating activities	<u>\$ 466,405</u>	<u>\$ (383,553)</u>	<u>\$ 82,852</u>

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2008

Combining Statement of Fiduciary Net Assets - Fiduciary Funds

	Agency Funds			
	125 Escrow Agency Fund	Redemption Agency Fund	Security Deposit Agency Fund	Total
ASSETS				
Pooled Cash and Investments	\$ 18,400	\$ 9,146	\$ 33,958	\$ 61,504
Total Assets	18,400	9,146	33,958	61,504
LIABILITIES				
Due to Others	18,400	9,146	33,958	61,504
Total Liabilities	\$ 18,400	\$ 9,146	\$ 33,958	\$ 61,504

City of Watertown
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**Combining Statement of Changes in Assets and Liabilities
 All Agency Funds**

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
125 Escrow Fund				
Assets:				
Pooled Cash and Investments	\$ 20,410	\$ 121,406	\$ 123,416	\$ 18,400
Liabilities:				
Due to Flex Claims	\$ 20,410	\$ 121,406	\$ 123,416	\$ 18,400
Redemption Fund				
Assets:				
Pooled Cash and Investments	\$ 4,873	\$ 43,197	\$ 38,924	\$ 9,146
Liabilities:				
Due to Certificate Holders	\$ 4,873	\$ 43,197	\$ 38,924	\$ 9,146
Bid Deposit Fund				
Assets:				
Pooled Cash and Investments	\$ 32,458	\$ 2,000	\$ 500	\$ 33,958
Liabilities:				
Bidder's Deposits	\$ 32,458	\$ 2,000	\$ 500	\$ 33,958
Total All Agency Funds				
Assets:				
Pooled Cash and Investments	\$ 57,741	\$ 166,603	\$ 162,840	\$ 61,504
TOTAL ASSETS	\$ 57,741	\$ 166,603	\$ 162,840	\$ 61,504
Liabilities:				
Due to Flex Claims	\$ 20,410	\$ 121,406	\$ 123,416	\$ 18,400
Due to Certificate Holders	4,873	43,197	38,924	9,146
Due to Bidders	32,458	2,000	500	33,958
TOTAL LIABILITIES	\$ 57,741	\$ 166,603	\$ 162,840	\$ 61,504

Statistical Section

This part of the City of Watertown's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

Contents Page

Financial Trends 112

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity 118

These schedules contain information to help the reader assess two of the government's significant local revenue sources, property and sales tax.

Debt Capacity 120

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt, and the government's ability to issue additional debt in the future.

Demographic and Economic Information 126

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information 128

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

City of Watertown
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Statistics (Unaudited)

Table 1

Net Assets by Component (accrual basis of accounting)
 Last Six Fiscal Years

	2003	2004	2005
Governmental Activities			
Invested in capital assets, net of related debt	\$ 29,803,761	\$ 33,131,711	\$ 38,778,621
Restricted	2,741,327	334,529	(252,416)
Unrestricted	17,582,839	19,583,536	20,184,885
Total Governmental Activities Net Assets	50,127,927	53,049,776	58,711,090
Business-Type Activities			
Invested in capital assets, net of related debt	74,331,082	76,631,882	78,257,049
Restricted	995,286	1,125,182	1,627,448
Unrestricted	5,730,930	8,268,507	8,311,211
Total Business-Type Activities Net Assets	81,057,298	86,025,571	88,195,708
Primary Government			
Invested in capital assets, net of related debt	104,134,843	109,763,593	117,035,670
Restricted	3,736,613	1,459,711	1,375,032
Unrestricted	23,313,769	27,852,043	28,496,096
Total Primary Government Net Assets	\$ 131,185,225	\$ 139,075,347	\$ 146,906,798

Table 2

Changes in Net Assets (accrual basis of accounting)
 Last Six Fiscal Years

	2003	2004	2005
Expenses			
Governmental Activities			
General Government	\$ 2,257,020	\$ 2,661,507	\$ 2,526,647
Public Safety	4,291,815	4,539,227	4,577,510
Public Works	4,159,945	2,203,276	2,907,346
Health and Welfare	49,664	55,762	131,608
Culture and Recreation	3,224,296	3,655,310	4,324,997
Conservation and Development	533,290	4,333,120	2,002,869
Interest on Long-Term Debt	452,080	437,605	775,177
Total Governmental Activities	14,968,110	17,885,807	17,246,154
Business-Type Activities			
Sewer	3,184,029	2,391,907	2,580,467
Solid Waste	1,461,076	1,336,739	1,521,945
Airport	482,980	388,741	452,915
Electric	12,599,077	13,183,290	14,287,836
Water	2,200,679	2,257,159	2,389,920
Gas	17,235,194	17,235,497	20,550,668
Water Bond	396,457	378,313	364,944
Total Business-Type Activities Expenses	37,559,492	37,171,646	42,148,695
Total Primary Government Expenses	\$ 52,527,602	\$ 55,057,453	\$ 59,394,849

Due to the unavailability of historical data, we were not able to present ten years of statistical data.

City of Watertown
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	2006	2007	2008
\$	42,910,080	\$ 47,791,276	\$ 51,029,214
	5,384,568	4,744,766	4,688,698
	18,515,631	20,525,046	23,032,412
	<u>66,810,279</u>	<u>73,061,088</u>	<u>78,750,324</u>
	80,830,075	93,713,787	97,151,295
	2,332,710	2,250,823	2,321,033
	7,970,219	5,883,775	6,105,604
	<u>91,133,004</u>	<u>101,848,385</u>	<u>105,577,932</u>
	123,740,155	141,505,063	148,180,509
	7,717,278	6,995,589	7,009,731
	<u>26,485,850</u>	<u>26,408,821</u>	<u>29,138,016</u>
\$	<u><u>157,943,283</u></u>	<u><u>\$ 174,909,473</u></u>	<u><u>\$ 184,328,256</u></u>

	2006	2007	2008
\$	2,263,546	\$ 2,081,938	\$ 2,013,451
	5,162,524	6,027,544	6,027,524
	2,923,705	5,210,444	3,924,863
	128,194	152,548	112,178
	4,663,705	5,398,262	4,663,565
	1,351,546	1,127,959	2,367,988
	943,562	969,371	980,531
	<u>17,436,782</u>	<u>20,968,066</u>	<u>20,090,100</u>
	2,462,574	2,614,782	2,654,696
	1,635,773	1,801,588	1,912,915
	427,644	517,809	652,775
	14,854,667	16,732,001	19,057,099
	2,648,436	2,836,951	3,189,027
	22,540,265	22,960,556	36,286,483
	361,564	415,885	-
	<u>44,930,923</u>	<u>47,879,572</u>	<u>63,752,995</u>
\$	<u><u>62,367,705</u></u>	<u><u>\$ 68,847,638</u></u>	<u><u>\$ 83,843,095</u></u>

City of Watertown
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 Year Ended December 31, 2008

Table 2 (continued)
 Changes in Net Assets (accrual basis of accounting)
 Last Six Fiscal Years

	2003	2004	2005
Program Revenues			
Governmental Activities			
Charges for Services	\$ 1,974,919	\$ 1,989,925	\$ 2,491,382
Operating Grants and Contributions	903,245	893,600	802,673
Capital Grants and Contributions	2,990,696	4,874,487	2,414,636
Total Governmental Activities Program Revenues	<u>5,868,860</u>	<u>7,758,012</u>	<u>5,708,691</u>
Business-Type Activities			
Charges for Services	39,336,990	40,444,961	44,104,782
Operating Grants and Contributions	390,300	-	3,072
Capital Grants and Contributions	2,431,122	649,932	804,509
Total Business-Type Activities Program Revenues	<u>42,158,412</u>	<u>41,094,893</u>	<u>44,912,363</u>
Total Primary Government Program Revenues	<u>48,027,272</u>	<u>48,852,905</u>	<u>50,621,054</u>
Net (Expenses) Revenues			
Governmental Activities	(9,099,250)	(10,127,795)	(11,537,463)
Business-Type Activities	4,598,920	3,923,247	2,763,668
Total Primary Government Net Expense	<u>(4,500,330)</u>	<u>(6,204,548)</u>	<u>(8,773,795)</u>
Governmental Activities			
Taxes			
Property Tax	2,234,664	2,272,325	2,428,888
Sales and Use Taxes	9,814,202	9,664,195	10,836,904
Other Taxes	453,568	489,661	503,469
Licenses & Permits	157,394	156,836	-
Unrestricted Grants and Contributions	561,422	518,725	532,410
Investment Earning	413,605	445,590	968,867
Rentals	81,421	72,633	-
Miscellaneous	184,220	186,143	423,882
Sales of Capital Assets	10,231	219,050	44,642
Premiums from Bonds	-	-	-
Transfers	1,070,000	(849,943)	980,500
Total Governmental Activities	<u>14,980,727</u>	<u>13,175,215</u>	<u>16,719,562</u>
Business-Type Activities			
Taxes			
Other Taxes	10,662	10,731	11,747
Investment Earning	162,552	159,971	291,193
Sales of Capital Assets	-	-	-
Miscellaneous	-	-	-
Transfers	(1,070,000)	849,943	(980,500)
Total Business-Type Activities	<u>(896,786)</u>	<u>1,020,645</u>	<u>(677,560)</u>
Total Primary Government General Revenues	<u>14,083,941</u>	<u>14,195,860</u>	<u>16,042,002</u>
Change in Net Assets			
Governmental Activities	5,881,477	3,047,420	5,182,099
Business-Type Activities	3,702,134	4,943,892	2,086,108
Total Primary Government	<u>\$ 9,583,611</u>	<u>\$ 7,991,312</u>	<u>\$ 7,268,207</u>

Due to the unavailability of historical data, we were not able to present ten years of statistical data.

City of Watertown
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	2006	2007	2008
\$	2,923,204	\$ 2,918,490	\$ 3,196,050
	696,445	461,103	592,547
	1,752,712	3,333,292	2,204,146
	<u>5,372,361</u>	<u>6,712,885</u>	<u>5,992,743</u>
	47,409,525	49,407,529	65,425,872
	-	-	-
	845,719	9,481,462	2,960,700
	<u>48,255,244</u>	<u>58,888,991</u>	<u>68,386,572</u>
	<u>53,627,605</u>	<u>65,601,876</u>	<u>74,379,315</u>
	(12,064,421)	(14,255,181)	(14,097,357)
	<u>3,324,321</u>	<u>11,009,419</u>	<u>4,633,577</u>
	<u>(8,740,100)</u>	<u>(3,245,762)</u>	<u>(9,463,780)</u>
	2,714,384	2,860,183	3,077,979
	11,121,297	12,188,673	12,391,871
	569,358	535,745	575,150
	-	-	-
	553,627	779,009	824,082
	1,548,508	1,586,553	1,255,522
	-	-	-
	275,763	323,635	297,984
	19,084	-	-
	12,466	-	-
	<u>1,041,020</u>	<u>766,300</u>	<u>1,364,005</u>
	<u>17,855,507</u>	<u>19,040,098</u>	<u>19,786,593</u>
	10,190	10,346	9,794
	493,474	461,917	342,516
	16	-	-
	-	-	107,665
	<u>(1,041,020)</u>	<u>(766,300)</u>	<u>(1,364,005)</u>
	<u>(537,340)</u>	<u>(294,037)</u>	<u>(904,030)</u>
	<u>17,318,167</u>	<u>18,746,061</u>	<u>18,882,563</u>
	5,791,086	4,784,917	5,689,236
	2,786,981	10,715,382	3,729,547
\$	<u>8,578,067</u>	<u>\$ 15,500,299</u>	<u>\$ 9,418,783</u>

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Table 3
 Fund Balances of Governmental Funds (modified accrual basis of accounting)
 Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004
General Fund						
Reserved	\$ 915,220	\$ 1,158,456	\$ 1,254,095	\$ 1,337,466	\$ 218,863	\$ 205,811
Unreserved	4,310,517	3,974,579	3,815,903	3,822,121	5,516,181	5,315,644
Total General Fund	5,225,737	5,133,035	5,069,998	5,159,587	5,735,044	5,521,455
All Other Governmental Funds						
Reserved	517,753	3,898,948	6,144,450	4,853,767	5,372,849	9,709,398
Unreserved, Reported in						
Special Revenue Funds	8,347,629	5,202,587	5,031,748	4,986,161	6,884,621	1,248,689
Debt Service Funds	-	-	-	44	27,885	48,326
Capital Projects Funds	-	-	-	5,900,837	3,667,467	4,911,083
Total All Other Governmental Funds	\$ 8,865,382	\$ 9,101,535	\$ 11,176,198	\$ 15,740,809	\$ 15,952,822	\$ 15,917,496

Table 4
 Changes in Fund Balances of Governmental Funds (modified accrual basis of accounting)
 Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004
Revenues						
Taxes	\$ 9,547,952	\$ 10,114,783	\$ 10,304,243	\$ 11,144,475	\$ 12,438,926	\$ 12,426,181
Licenses and Permits	126,381	122,206	141,177	152,245	157,394	156,397
Intergovernmental	1,813,949	999,972	2,411,084	1,245,396	1,522,039	2,282,204
Charges for Goods and Services	1,412,788	1,468,211	1,521,630	1,563,828	1,837,039	1,834,901
Fines and Forfeitures	87,917	107,970	87,094	53,795	79,962	65,783
Interest	773,401	797,655	990,358	605,836	467,245	442,510
Miscellaneous Revenue	996,757	732,523	808,186	995,439	1,317,295	1,994,612
Total Revenues	14,759,145	14,343,320	16,263,772	15,761,014	17,819,900	19,202,588
Expenditures						
General Government	2,324,782	2,253,144	2,011,839	2,112,456	2,219,020	2,421,133
Public Safety	3,681,759	3,964,057	4,090,660	4,133,011	4,003,820	4,271,301
Public Work	1,608,816	1,717,027	2,140,423	2,001,154	1,658,289	1,571,473
Health and Welfare	75,669	42,071	45,883	58,957	49,545	54,463
Culture and Recreation	2,958,980	3,150,727	3,317,948	4,255,720	3,289,021	3,411,169
Conservation and Development	352,037	303,916	322,525	477,382	502,000	966,920
Contributions to Other Gov't	-	-	-	-	-	-
Capital Outlay	3,830,010	3,386,911	3,770,966	8,050,441	8,409,546	12,163,445
Debt Service						
Principal	60,766	64,501	68,501	104,470	208,735	366,177
Interest	33,108	29,373	25,373	58,537	343,489	374,996
Administrative Charges	-	-	-	-	800	1,500
Total Expenditures	14,925,927	14,911,727	15,794,118	21,252,128	20,684,265	25,602,577
Revenues Over (Under) Expenditures	(166,782)	(568,407)	469,654	(5,491,114)	(2,864,365)	(6,399,989)
Other Financing Sources (Uses)						
Sales of Capital Assets	13,812	16,318	196,869	350,179	10,231	191,550
Comp for Loss of Capital Assets	-	-	-	-	-	-
Proceeds from Borrowing	169,181	-	459,640	5,530,000	1,909,768	4,989,014
Transfer In	2,164,673	1,893,312	2,377,000	3,424,650	2,852,000	3,371,226
Transfer Out	(1,517,928)	(1,234,241)	(1,471,961)	(2,509,014)	(1,782,000)	(2,400,726)
Total Other Financing Sources (Uses)	829,738	675,389	1,561,548	6,795,815	2,989,999	6,151,064
Net Change in Fund Balances	\$ 662,956	\$ 106,982	\$ 2,031,202	\$ 1,304,701	\$ 125,634	\$ (248,925)
Debt service as a percentage of Dut noncapital expenditures	0.0%	0.0%	0.0%	0.0%	4.1%	0.0%

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2005	2006	2007	2008
\$ 96,593	\$ 111,140	\$ 464,377	\$ 460,519
5,687,386	5,668,844	5,673,028	6,086,492
5,783,979	5,779,984	6,137,405	6,547,011
1,402,621	2,004,425	5,817,730	6,046,771
11,042,195	15,798,469	11,778,008	14,581,378
70,475	95,835	124,812	153,462
2,394,660	805,250	788,989	-
\$ 14,909,951	\$ 18,703,979	\$ 18,509,539	\$ 20,781,611

2005	2006	2007	2008
\$ 13,769,261	\$ 14,319,732	\$ 15,485,565	\$ 16,035,282
161,952	230,185	299,872	228,960
1,395,457	1,145,538	2,302,724	2,067,182
2,073,901	2,403,288	2,415,740	2,598,905
69,087	79,904	90,756	87,082
881,016	1,330,062	1,562,728	1,375,784
2,136,374	1,258,173	1,250,948	862,324
20,487,048	20,766,882	23,408,333	23,255,519

2,411,779	1,953,217	1,824,808	2,003,829
4,489,573	4,978,559	6,857,734	5,925,253
2,079,050	2,094,081	7,039,201	5,589,803
131,059	127,180	151,971	112,208
3,461,596	4,348,380	6,863,660	5,352,446
714,668	725,469	1,161,056	1,731,205
-	355,000	282,500	-
7,618,326	6,764,013	62,109	4,753
534,133	705,616	797,537	846,333
814,716	925,437	970,676	979,795
2,300	2,300	2,000	2,000
22,257,200	22,979,252	26,013,252	22,547,625
(1,770,152)	(2,212,370)	(2,604,919)	707,894
44,641	13,836	29,310	20,521
-	-	449	-
-	4,997,466	1,641,787	589,258
3,188,646	3,620,740	2,646,300	4,193,233
(2,208,146)	(2,629,639)	(1,880,000)	(2,829,228)
1,025,141	6,002,403	2,437,846	1,973,784
\$ (745,011)	\$ 3,790,033	\$ (167,073)	\$ 2,681,678

0.0% 0.0% 8.9% 9.6%

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Table 5
 Assessed Value and Actual Value of Taxable Property
 Last Ten Fiscal Years
 (in thousands of dollars)

Fiscal Year	Residential Property	Commercial Property	Total Taxable		Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
			Assessed Value	Total Direct Tax Rate		
1999	490,728,932	210,160,691	700,889,623	2.38	\$ 824,576,027	85%
2000	511,629,912	209,428,565	721,058,477	2.30	\$ 848,304,091	85%
2001	527,450,166	218,691,574	746,141,740	2.37	\$ 877,813,812	85%
2002	546,939,911	218,826,902	765,766,813	2.98	\$ 900,902,133	85%
2003	593,301,053	262,560,784	855,861,837	2.82	\$ 1,006,896,279	85%
2004	631,449,813	272,109,739	903,559,552	2.80	\$ 1,063,011,238	85%
2005	685,167,843	303,272,316	988,440,159	2.73	\$ 1,162,870,478	85%
2006	707,991,200	313,375,833	1,021,367,033	2.67	\$ 1,201,608,274	85%
2007	862,037,766	320,139,830	1,182,177,596	2.50	\$ 1,383,147,787	85%
2008	863,073,456	340,213,014	1,203,286,470	2.58	\$ 1,415,631,141	85%

Source: Codington County Board of Equalization.

Table 6
 Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years

Fiscal Year	City of Watertown			County			Overlapping Rates				Total Direct & Overlapping Rates
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage	Watertown School District				
							Operating Millage	Debt Service Millage	Total School Millage	Special Districts	
1999	2.38	0.00	2.38	2.71	0.00	2.71	21.12	0.27	21.40	0.87	27.35
2000	2.30	0.00	2.30	2.72	0.00	2.72	18.97	0.26	19.23	0.85	25.10
2001	2.37	0.00	2.37	2.74	0.00	2.74	18.93	0.27	19.20	0.89	25.19
2002	2.39	0.59	2.98	2.78	0.00	2.78	17.77	0.27	18.05	0.90	24.70
2003	2.33	0.49	2.82	4.16	0.00	4.16	16.92	0.28	17.19	0.90	25.06
2004	2.32	0.48	2.80	3.93	0.00	3.93	16.08	0.00	16.08	0.79	23.60
2005	2.28	0.45	2.73	3.89	0.00	3.89	15.73	0.00	15.73	0.79	23.14
2006	2.25	0.42	2.67	3.88	0.00	3.88	14.92	0.00	14.92	0.72	22.19
2007	2.11	0.39	2.50	3.67	0.00	3.67	13.84	0.00	13.84	1.24	21.25
2008	2.19	0.39	2.58	3.73	0.00	3.73	13.51	0.00	13.51	1.15	20.97

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Table 7
 Principal Taxpayers
 Current Year and Ten Years Ago

Taxpayer	2008			1999		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-Mart Real Estate	\$ 10,669,860	1	0.89%	\$		
Developers Diversified	9,500,329	2	0.79%	7,378,414	2	1.06%
Glacial Lakes Energy	8,809,451	3	0.73%			
Watertown Development Co.	7,969,429	4	0.66%			
Menard Inc.	7,714,161	5	0.64%			
Watertown Co-op Elevator	4,116,130	6	0.34%			
Angus Industries	3,885,123	7	0.32%			
Dayton Hudson Corp.	3,805,263	8	0.32%	3,532,974	4	0.51%
Robert Endres	3,676,073	9	0.31%			
Premiere Bankcard	3,625,750	10	0.30%	3,121,270	6	0.45%
Western Minn. Municipal Power				7,571,592	1	1.09%
US West Communications				7,365,341	3	1.06%
Univest Covington (Runnings)				3,315,550	5	0.48%
KMART Corporation				2,474,264	9	0.35%
Smith Equipment Mfg.				2,864,949	7	0.41%
Nash Finch Company				2,561,725	8	0.37%
Shopko Stores, Inc				2,447,633	10	0.35%
Totals	\$ 63,771,569		5.30%	\$ 42,633,712		6.13%

Entire City Assessed Valuation for 2008: \$ 1,203,286,470

DATA SOURCE: Office of the Director of Equalization

NOTE: The Codington County Director of Equalization(DOE) is the tax assessor for the property within the City of Watertown.

Table 8
 Property Tax Levies and Collections
 Last Ten Fiscal Years

Fiscal Year Ended Dec. 31,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collection to Date	
	Amount	Percentage of Levy	Percentage of Levy		Amount	Percentage of Levy
1999	1,499,873	1,488,239	99.22	11,632	1,499,871	100.00
2000	1,560,069	1,530,453	98.10	29,614	1,560,067	100.00
2001	1,653,331	1,627,423	98.43	25,846	1,653,269	100.00
2002	2,229,346	2,201,803	98.76	27,543	2,229,346	100.00
2003	2,264,712	2,229,407	98.44	34,977	2,264,384	99.99
2004	2,423,462	2,393,487	98.76	28,745	2,422,232	99.95
2005	2,709,691	2,677,281	98.80	14,787	2,692,068	99.35
2006	2,853,893	2,832,111	99.24	14,587	2,846,698	99.75
2007	3,086,308	3,051,987	98.89	0	3,051,987	98.89
2008	2,917,856 (see note below)					

NOTE: (1) The year shown on this table indicates the year of the levy for collection in the next year, the 2008 tax levy will be collected In the year 2009, so such information is not available at the time of preparing this table.

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Table 9
 Historical Sales and Use Tax Receipts
 Last Ten Fiscal Years

Year	General Sales Tax	Capital Improvement Sales Tax	Pledged Revenues (1)
1999	\$ 3,957,083	\$ 3,532,907	\$ 1,766,453
2000	4,103,408	3,665,393	1,832,696
2001	4,223,930	3,772,058	1,886,029
2002	4,542,267	4,080,566	2,040,278
2003	4,910,352	4,423,589	2,211,778
2004	4,805,879	4,334,930	2,408,294
2005	5,403,276	4,880,858	2,701,638
2006	5,551,722	4,997,364	2,776,313
2007	5,748,587	5,691,884	2,845,942
2008	5,875,447	5,865,987	2,932,994

(1) Pledged revenues are that portion of the proceeds of the Sales Tax in excess of the proceeds produced by the first one percent (1%) of the Sales Tax, but not exceeding the proceeds produced by a rate of one-half of one percent (1/2 of 1%)

Table 10
 Ratio of Outstanding Debt by Type
 Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business Type Activities				Percentage of Personal Income	Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Sales Tax Revenue Bonds	SRF Loans #6 & #8	Installment Contracts	Water Bonds	Term Loan Payable	Total Primary Government			
1999	0	456,858	0	0	83,252	2,590,000	6,294,108	9,424,218	5.03%	187,530,720	536
2000	0	411,702	0	0	63,894	2,375,000	5,939,369	8,789,965	2.22%	396,179,749	434
2001	0	364,038	0	0	502,697	2,155,000	5,488,602	8,510,337	2.15%	396,179,749	421
2002	5,530,000	313,728	0	0	448,537	1,925,000	4,936,704	13,153,969	3.32%	396,179,749	650
2003	5,530,000	260,625	1,905,000	0	397,375	1,685,000	4,824,981	14,602,981	3.69%	396,179,749	722
2004	5,420,000	204,573	6,745,000	0	356,636	1,435,000	4,810,065	18,971,274	4.79%	396,179,749	937
2005	5,295,000	145,409	6,435,000	0	316,667	1,175,000	4,261,290	17,628,366	4.45%	396,179,749	871
2006	5,160,000	82,960	10,955,000	0	273,500	900,000	3,636,238	21,007,698	5.30%	396,179,749	1,038
2007	5,010,000	662,501	10,420,000	0	226,880	0	3,960,755	20,280,136	5.12%	396,179,749	1,002
2008	4,840,000	592,830	9,865,000	1,584,455	176,530	0	6,170,351	23,229,166	5.86%	396,179,749	1,148

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

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Table 11
 Ratio of Net General Obligation Bonded Debt
 Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Percentage of Personal Income	Per Capita
1999	0	0	0.00%	N/A
2000	0	0	0.00%	N/A
2001	0	0	0.00%	N/A
2002	5,530,000	0.72%	1.40%	273
2003	5,530,000	0.65%	1.40%	273
2004	5,420,000	0.60%	1.37%	268
2005	5,295,000	0.54%	1.34%	262
2006	5,160,000	0.51%	1.30%	255
2007	5,010,000	0.42%	1.26%	248
2008	4,840,000	0.40%	1.22%	239

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
 Due to the bonds being issued in 2002, ten years worth of statistical data cannot be provided.

Table 12
 Direct and Overlapping Governmental Activities Debt
 As of December 31, 2008

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
School District	\$ 6,525,532	88%	\$ 5,742,468
Subtotal, overlapping debt			<u>5,742,468</u>
City of Watertown direct debt			<u>4,840,000</u>
Total direct and overlapping debt			<u><u>\$ 10,582,468</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the County Auditors Office. Debt outstanding data provided by the Watertown School District.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City of Watertown. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Watertown. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying debt, of each overlapping government.

Note: The percentage of overlapping debt applicable is estimated by using taxable assessed property values. Applicable percentages were estimated by determining the portion of the schools taxable assessed value that is within the City's boundaries and dividing it by the School's total taxable assessed value.

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Table 13
 Legal Debt Margin Information
 Last Ten Fiscal Years

	Fiscal Year					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Debt Limit (5% limit)	34,876,204	35,957,691	37,169,544	38,288,341	42,793,092	45,177,978
Total net debt applicable to limit	1,328,482	1,212,051	1,516,831	6,853,206	8,561,916	13,100,156
Legal debt margin	33,547,722	34,745,640	35,652,713	31,435,135	34,231,176	32,077,822
Total net debt applicable to the limit as a percentage of debt limit	3.81%	3.37%	4.08%	17.90%	20.01%	29.00%

Note: The State of South Dakota Constitution sets two legal debt limits on municipalities. The City has an unrestricted (i.e. for any legally authorized purpose) legal debt limit equal to 5% of the total assessed value of taxable property. In addition the Constitution permits the City to issue debt for water or sewer improvements in an amount equal to 10% of the total value of taxable property. Water or sewer debt that applies against the 10% limit does not apply against the 5% limit.

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	Fiscal Year			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt Limit (5% limit)	49,422,008	51,068,352	59,108,880	60,164,324
Total net debt applicable to limit	12,468,034	16,646,334	16,740,869	17,965,985
Legal debt margin	36,953,974	34,422,018	42,368,011	42,198,339
Total net debt applicable to the limit as a percentage of debt limit	25.23%	32.60%	28.32%	29.86%

Legal Debt Margin Calculation for Fiscal Year 2008

	"No-Limit" Debt	Debt Capacity at 5% (Unrestricted)	Additional 10% Debt Capacity (Water/Sewer)
2008 Assessed Value	<u>\$1,203,286,470</u>		
Maximum Debt Capacity:		\$60,164,324	\$120,328,647
Existing Bonds:			
GO Bonds (Event Center; 3.0-5.15 % interest)		4,840,000	
SRF Loan No. 2 (Wastewater Revenue Surcharge)	89,265		
SRF Loan No. 3 (Wastewater Revenue Surcharge)	1,367,063		
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,870,922		
SRF Loan No. 6 (Sales Tax)		1,000,667	
SRF Loan No. 7 (Wastewater Revenue Surcharge)	859,497		
SRF Loan No. 8 (Sales Tax)		583,788	
SRF Loan Clean Water (Wastewater Revenue Surcharge)	483,604		
Single Pay Bank Loan (3.97% interest)		1,500,000	
2003 Sales Tax Revenue Bonds(2.5%-4.05%)		1,030,000	
2004 Sales Tax Revenue Bonds(2.25%-4.6%)		4,295,000	
2006 Sales Tax Revenue Bonds (3.35-4.55%)		4,540,000	
Total Bonded Debt	4,670,351	17,789,455	-
Other Debt:			
Capital Lease - Fire Truck	592,830		
Purchase Contract - Hanten Property		176,530	
Total Other Debt	592,830	176,530	-
Total Debt	5,263,181	17,965,985	-
Available Debt Capacity	N/A	\$42,198,339	\$120,328,647

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Table 14
 Pledged-Revenue Coverage
 Last Ten Fiscal Year

Fiscal Year	1993 Water Revenue Bonds						State Revolving Fund Loans		
	Utility	Less:	Net	Debt Service			Utility	Less:	Net
	Service Charges	Operating Expenses	Available Revenue	Principal	Interest	Coverage	Service Charges	Operating Expenses	Available Revenue
1999	549,674	73,709	475,965	205,000	125,058	1.44	2,320,088	1,147,643	1,172,445
2000	571,908	97,376	474,532	215,000	117,472	1.43	2,334,972	1,180,232	1,154,740
2001	551,730	102,349	449,381	220,000	109,088	1.37	2,301,109	1,441,085	860,024
2002	562,856	110,432	452,424	230,000	100,288	1.37	2,352,785	1,218,927	1,133,858
2003	622,974	125,079	497,895	240,000	90,743	1.51	2,516,687	1,269,017	1,247,670
2004	636,579	125,203	511,376	250,000	80,423	1.55	2,525,042	1,261,487	1,263,555
2005	657,829	123,212	534,617	260,000	69,173	1.62	2,642,218	1,387,179	1,255,039
2006	633,028	124,002	509,026	275,000	57,212	1.53	2,711,597	1,299,419	1,412,178
2007	472,666	115,578	357,088	900,000	90,537	0.36	2,574,196	1,469,253	1,104,943
2008	-	-	-	-	-	-	2,689,856	1,469,475	1,220,381

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating Expenses do not include interest, depreciation, or amortization expenses.

The Sales Tax Revenue Bonds are backed by 50% of the sales tax collected in the Capital Improvement Fund.

All of the outstanding Water Revenue Bonds were called and paid off in 2008.

City of Watertown
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 Year Ended December 31, 2008

State Revolving Fund Loans (cont)			Sales Tax Revenue Bonds			
			Net			
Debt Service			Available	Debt Service		
Principal	Interest	Coverage	Revenue	Principal	Interest	Coverage
455,192	296,018	1.56	-	-	-	-
354,739	273,460	1.84	-	-	-	-
490,768	252,994	1.16	-	-	-	-
511,897	237,061	1.51	-	-	-	-
533,954	215,005	1.67	-	-	-	-
556,972	191,988	1.69	2,384,212	160,000	73,115	10.23
580,996	167,964	1.68	2,684,472	310,000	296,176	4.43
643,235	177,985	1.72	2,776,313	465,000	377,296	3.30
671,977	142,117	1.36	2,845,942	535,000	433,257	2.94
633,505	157,523	1.54	2,932,994	555,000	417,415	3.02

City of Watertown
 Comprehensive Annual Financial Report
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Table 15
 Demographic Statistics
 Last Ten Fiscal Years

Fiscal Year	Popu- lation (1)	Per Capita Income (2)	Median Age (1)	Education Level in Years of Formal Schooling	School Enrollment(3)	Unemploy- ment Rate(2)
1999	17,592	\$10,660	32.8	12.2	4,104	3.1%
2000	20,237	\$19,577	35.3	12.9	4,033	3.1%
2001	20,237	\$19,577	35.3	12.9	3,935	6.3%
2002	20,237	\$19,577	35.3	12.9	3,880	4.0%
2003	20,237	\$19,577	35.3	12.9	3,839	4.2%
2004	20,237	\$19,577	35.3	12.9	3,777	4.1%
2005	20,237	\$19,577	35.3	12.9	3,831	3.7%
2006	20,237	\$19,577	35.3	12.9	3,816	3.3%
2007	20,237	\$19,577	35.3	12.9	3,734	3.0%
2008	20,237	\$19,577	35.3	12.9	3,777	4.1%

DATA SOURCE:

- (1) U.S. Dept of Commerce, Bureau of Census.
 Education: U.S. Department of Commerce, Bureau of Census.
 (Up-date every 10 years.)

1990 Census data presented as follows:

- 18 years and over-years of school completed:
 Elementary through 8th grade - 2,047
 9th through 12th grade, no diploma - 1,728
 High school graduate - 6,780
 Some college, no degree - 2,687
 Associates Degree - 1,104
 Bachelor's Degree - 1,387
 Graduate or professional degree - 517

2000 Census detail data presented as follows:

- 25 years and over-years of school completed:
 Elementary through 8th grade - 1,246
 9th through 12th grade, no diploma - 1,156
 High school graduate - 6,242
 Some college, no degree - 3,404
 Associates Degree - 1,248
 Bachelor's Degree - 2,286
 Graduate or professional degree - 796

Median level shown is an estimate based on a weighted average of the 1990 and 2000 Census figures.

- (2) Business Research Bureau - University of South Dakota.
 (3) Annual School Census by the Board of Education. (Kindergarten through Grade 12-Public Schools only- does not include Private or Vocational School)

City of Watertown
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 Year Ended December 31, 2008

Table 16
 Principal Employers
 Current year and Ten Years Ago

Employer	2008			1999		
	Employees	Rank	Percentage of Total City Employed	Employees	Rank	Percentage of Total City Employed
Watertown School District	835	1	4.13%	705	1	4.00%
Terex Utilities	589	2	2.91%	375	4	2.13%
Prairie Lakes Healthcare System	551	3	2.72%	550	2	3.12%
Premier Bankcard	510	4	2.52%	195	9	1.11%
Angus Palm	417	5	2.06%	300	6	1.70%
City of Watertown	343	6	1.69%	285	7	1.62%
Walmart Supercenter	320	7	1.58%			
HyVee	280	8	1.38%			
Human Service Agency	255	9	1.26%			
OEM Worldwide	250	10	1.24%			
Persona				220	8	1.25%
Minnesota Rubber				302	5	1.71%
CoEv Magnetics				100	10	0.57%
Midcom Inc.				400	3	2.27%
Total	<u>4,350</u>		<u>21.49%</u>	<u>3,432</u>		<u>19.48%</u>

Source: Focus Watertown

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Table 17
 Full-Time Equivalent City Government Employees by Function/Program
 Last Ten Fiscal Years

<u>Function/Program</u>	<u>Full-Time Equivalent Employees as of December 31</u>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Government										
Mayor/City Council	11	11	11	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Attorney	0.75	0.75	0.75	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Finance	6.5	6.5	6.5	6.5	6.5	7.74	7.5	7.5	7.5	7.58
Information Technology	0	0	0	0	0	0	0	1	1	1
Engineering	4.35	4.37	4.73	4.73	4.73	4.58	4.58	4.6	5.6	5.6
Public Safety										
Police	40.1	40.18	39.18	34.06	34.06	34.06	34.06	35.06	40.06	40.06
E-911	0	0	0	8	8	8.5	8.5	8.5	9	9.4
Fire/Ambulance	28.5	28.5	29	29	29	29	29	29	32	32
Public Works										
Public Works Director	4	4	4	3	3.2	1.7	2.02	2.06	2.06	2.06
Building Inspector	1.5	1.5	1.5	1.5	0	0	0	0	0	0
Streets	12.88	12.88	13.87	13.87	13.87	12.44	13.87	14.03	14.08	14.12
Cemetery	3.27	3.27	3.27	3.27	3.2	2.98	2.96	2.9	2.92	3.11
Health and Welfare										
Animal Control	1	1	1	1	1	1.23	1.23	1.23	1.3	1.22
Culture and Recreation										
Park and Recreation	37.66	39.64	44.95	46.22	48.56	48.32	46.51	47.06	55.52	53.77
Community Recreation Center	18.13	12.04	13.34	13.63	13.13	13.87	14.72	14.72	14.37	13.48
Forestry	2.88	3.15	3.08	3.07	3.07	3.07	3.08	3.08	3.08	2.93
Library	11.95	12.06	13.06	13.11	13.84	13.84	13.94	12.94	12.94	12.94
Conservation & Development										
Sioux River Watershed Project	1.48	1.48	1.48	2.5	2.75	2.75	2.75	2.75	2.75	3.75
Lake Kampeska Rip Rap	0.2	0	0	0	0	0	0	0	0	0
Terry Redlin Freshwater Institute	0	0	0	1	1	1	1	1	1	0
Planning and Zoning	0	0	0	0	0	3	4.24	4.86	5.65	5.62
Urban Renewal	0.9	0.9	0.9	0.9	0.68	0.68	0.68	0.68	0.75	0.48
Wastewater										
Wastewater	17.69	17.2	15.12	14.62	14.62	14.62	14.62	14.62	14.5	14.5
Refuse Collection										
Refuse Collection	17.69	17.9	16.94	14.74	16.25	16.25	16.5	16.5	16.5	16.5
Airport										
Airport	2.7	2.79	2.75	2.75	2.67	3.67	2.67	2.67	2.34	3.06
Electric										
Electric	34	34	33	32	31	31	31	31	31	33
Gas										
Gas	14	15	15	14	14	15	15	15	15	14
Water										
Water	12	12	14	13	13	13	13	13	14	17

Source: City Departments

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Table 18
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police										
Physical Arrests	675	779	558	494	569	1,046	1,367	2,108	2,189	2,049
Accidents	1,067	1,064	1,049	1,133	1,059	1,084	1,063	904	939	775
Traffic Violations	2,149	3,013	1,655	912	826	1,202	1,470	2,260	2,783	2,052
Fire										
Emergency Responses	1,340	1,333	1,442	1,434	1,571	1,588	1,696	1,725	1,626	1,706
Fire Calls	358	337	290	333	278	484	426	387	483	691
Inspections	450	470	442	N/A	230	469	185	286	174	297
Refuse Collection										
* Refuse Collected (tons per day)				87	94	102	99	102	104	106
* Recyclables collected (tons per day)				5	4	5	2	2	2	2
Other Public Works										
Crack Sealed Streets (blocks)	114	140	N/A	108	120	110	168	123	40	38
Seal Coat Streets (blocks)	97	160	160	140	160	80	186	165	138	154
* Street Resurfacing (blocks)				51	62	38	55	50	51	54
Parks and Recreation										
Community Center Admissions	3,619	3,275	3,283	3,955	4,335	4,257	4,304	4,274	4,337	4,485
Participants in Youth Programs	6,513	6,745	5,984	6,263	5,640	7,281	4,920	5,922	4,961	5,568
Library										
Items in Collection	70,611	74,887	75,214	70,660	85,325	85,693	86,391	87,582	89,578	98,154
Total Items Loaned	227,598	230,101	247,225	218,769	213,579	207,321	192,115	195,524	196,798	234,366
Wastewater										
Avg sewage treatment (mill per day)	2.80	2.34	2.82	2.71	2.52	2.77	2.73	2.36	3.17	3.00
Airport										
Boardings per year	8,585	6,121	5,015	6,570	7,888	8,735	8,975	5,920	5,131	4,804

Source: City Departments

* Due to the unavailability of historical data, we were not able to present these statistics retroactive to 1999.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2008

Table 19
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	8	8	11	11	11	11	12	12	13	14
Fire Stations	1	1	1	1	1	1	1	1	1	1
Refuse collection										
* Collection Trucks						8	9	9	9	9
Other public works										
*** Streets (miles)							148	151	154	157
Streetlights	1874	1956	1966	2049	2144	2209	2316	2420	2546	2616
* Traffic signals						26	26	26	26	26
Parks and Recreation										
* Acreage						486	486	486	486	486
** Derby Downs clubhouse & arena (acres)						0	80	80	80	80
* Playgrounds						19	19	19	19	19
* Baseball/softball fields						25	25	25	25	25
* Soccer/football fields						12	12	12	12	12
Recreation Centers	1	1	1	1	1	1	1	1	1	1
Airport										
Runways	2	2	2	2	2	2	2	2	2	2

Source: City Departments

Notes:

- * Statistical data not available prior to 2004
- ** Derby Downs was transferred into the Parks and Recreation in 2005
- *** Corrected number based on Department of Transportation miles used in Geographic Information System



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

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

To the City Council
City of Watertown, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watertown, South Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City of Watertown, South Dakota's basic financial statements and have issued our report thereon dated June 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Watertown, South Dakota'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, South Dakota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, South Dakota's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Watertown, South Dakota's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Watertown, South Dakota's financial statements that is more than inconsequential will not be prevented or detected by the City of Watertown, South Dakota's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Watertown, South Dakota in a separate communication dated June 16, 2009.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the City of Watertown, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter of public record and its distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
June 16, 2009



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

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

To the City Council
City of Watertown, South Dakota

Compliance

We have audited the compliance of the City of Watertown, South Dakota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. However, we have not audited the compliance of The Housing and Redevelopment Commission, a component unit of the City of Watertown, South Dakota. The City of Watertown, South Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of current audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Watertown, South Dakota's management. Our responsibility is to express an opinion on the City of Watertown, South Dakota's compliance based on our audit.

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

In our opinion, the City of Watertown, South Dakota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Watertown, South Dakota 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 the City of Watertown, South Dakota's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, South Dakota's internal control over compliance.

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

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

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

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the City of Watertown, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter of public record and its distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
June 16, 2009

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2008</u>
Department of Commerce:			
Indirect Federal Funding:			
Pass Through Codington County, Public Safety Interoperable Communications Grant Program	11.555	--	\$ <u>159,940</u>
Department of Housing & Urban Development:			
Direct Federal Funding:			
Economic Development Initiative – Special Project, Neighborhood Initiative & Miscellaneous Grants	14.251	B-08-SP-SD-0570	<u>17,545</u>
Department of Justice:			
Indirect Federal Funding:			
SD Division of Criminal Investigation, Office of Attorney General, Missing Children's Assistance	16.543	2007-DD-BX-K256	1,665
SD Department of Corrections, Title V – Delinquency Prevention Program	16.548	--	<u>21,614</u>
			<u>23,279</u>
Direct Federal Funding:			
Office of Community Oriented Policing Services, Public Safety Partnerships & Community Policing Grants	16.710	2006CKWX0659	<u>7,258</u>
Total Department of Justice			<u>30,537</u>
Department of Transportation:			
Indirect Federal Funding:			
SD Department of Public Safety, Office of Highway Safety, State & Community Highway Safety	20.600	--	9,326
	20.600	2009-21-14	13,159
Alcohol Traffic Safety & Drunk Driving Prevention Incentive Grants	20.601	--	10,205
	20.601	2009-05-02	2,954
SD Office of Emergency Management, Interagency Hazardous Materials Public Sector Training & Planning Grants	20.703	--	13,204
	20.703	--	8,337
	20.703	--	<u>8,588</u>
			<u>65,773</u>

CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008
(Continued)

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2008</u>
Direct Federal Funding:			
Airport Improvement Program – Major Program	20.106	3-46-0058-18-06	183,998
	20.106	3-46-0058-19-07	512,676
	20.106	3-46-0058-20-08	<u>1,589</u>
			<u>698,263</u>
Total Department of Transportation			<u>764,036</u>
General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency, Donation of Federal Surplus Personal Property - Note 2	39.003	--	<u>1,073</u>
National Endowment for the Humanities:			
Direct Federal Funding:			
Promotion of the Humanities – Public Programs	45.164	LS-50127-08	<u>2,500</u>
Institute of Museum & Library Services:			
Indirect Federal Funding:			
SD Department of Education, SD State Library, Grant to States	45.310	--	<u>1,194</u>
Direct Federal Funding:			
Museums for America	45.301	MA-02-05-0056-05	<u>3,183</u>
Total Institute of Museum & Library Services			<u>4,377</u>
Environmental Protection Agency:			
Indirect Federal Funding:			
SD Department of Environment and Natural Resources, Nonpoint Source Implementation Grant	66.460	C9-99818504-0	20,881
	66.460	C9-99818508-0	<u>38,703</u>
			<u>59,584</u>
Homeland Security:			
Indirect Federal Funding:			
SD Office of Homeland Security, Homeland Security Grant Program	97.067	--	8,736
	97.067	--	74
SD Office of Homeland Security, Pass Through Codington County, Homeland Security Grant Program	97.067	--	2,974
	97.067	--	<u>147,939</u>
			<u>159,723</u>

CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008
(Continued)

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2008</u>
Direct Federal Funding:			
Assistance to Firefighters Grant	97.044	EMW-2007-FF-00453	35,303
Transportation Security Administration, Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR017	37,901
			<u>73,204</u>
Total Homeland Security			<u>232,927</u>
GRAND TOTAL - Note 3			<u>\$ 1,272,519</u>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the municipality and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule 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 the amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the municipality.

Note 3: The amount only includes the federal expenditures of the City of Watertown, the primary government, and does not include the federal expenditures of the Watertown Housing and Redevelopment Commission, a component unit of the City of Watertown.

CITY OF WATERTOWN
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS

The prior audit report disclosed no written audit findings.

PRIOR OTHER AUDIT FINDINGS

The prior audit report disclosed no written audit findings.

CITY OF WATERTOWN
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008

A. SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements.
2. No material weaknesses were disclosed by our audit of the financial statements and the major federal programs.
3. Our audit did not disclose any noncompliance which was material to the financial statements.
4. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
5. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
6. The federal awards tested as a major program was Airport Improvement Program (20.106).
7. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
8. The City of Watertown did qualify as a low-risk entity.

B. CURRENT FEDERAL COMPLIANCE AUDIT FINDINGS
There are no current federal compliance audit findings to disclose.

C. CURRENT OTHER AUDIT FINDINGS
There are no current other audit findings to disclose.

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