

2014

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT
CITY OF WATERTOWN, SOUTH DAKOTA**



January 1, 2014 – December 31, 2014



**Prepared by THE CITY FINANCE OFFICE
Rochelle Ebbers, CPA, Finance Officer**



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CITY OF
WATERTOWN

June 17, 2015

23 Second St. NE
P.O. Box 910
Watertown, SD 57201-0910
www.watertownsd.us

Honorable Steve Thorson, 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, 2014.

The report was prepared by the City 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 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.

Management of the City is responsible for establishing and maintaining an accounting and internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Watertown's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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, 2014, 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 unmodified opinion that the City of Watertown's financial statements for the fiscal year ended December 31, 2014, 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.

Mayor
605-882-6200
Fax: 605-882-5214

Regional Airport
605-882-6209
Fax: 605-882-5285

Building Services
605-882-6201
Fax: 605-882-5264

Mt. Hope Cemetery
605-882-6208

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

Engineering
& Planning
605-882-6202
Fax: 605-882-5264

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

Fire Department
605-882-5030
FAX 605-882-5041

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

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

Wastewater
Treatment Facility
605-882-6243
FAX 605-882-6242

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 operates under a Home Rule Charter and is aldermanic in form with ten alderpersons and a full-time 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 throughout the year. The City Council is responsible for adopting the budget, 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, streets, solid waste collection and disposal, planning, culture and recreation, sewer, airport and utility services including water, electric and gas. For financial reporting purposes, all funds involved in providing these services are included based on financial accountability. Financial accountability is determined by several inherent factors, including fiscal dependence, ability to impose will upon the entity’s governing body, provision of specific financial burdens or benefits and separate legal entity status. The Housing and Redevelopment Commission is a legally separate authority whose board is appointed by the City Council and reported separately as a component unit within the City of Watertown financial statements.

The annual budget serves as the basis for the City of Watertown’s financial planning, development and control. The budget ordinance must be adopted by a majority of the Council members no later than September 30 of each year. Once the budget is approved, the expenditures incorporated within the budget become legally binding and the actual expenditures cannot exceed the budgeted amounts unless amended through a supplemental appropriation ordinance or other permitted means. Even though it is not necessary to make formal appropriations for enterprise funds, an annual budget is developed and published no later than December 31 of each year. Because enterprise fund revenues and expenses fluctuate with changing service and delivery levels, flexible budgets are used for planning, control and evaluation purposes. All appropriations, except for capital expenditures, shall lapse at the close of the fiscal year. Under the Home Rule Charter, an appropriation for capital expenditures shall continue in force until expended, revised or repealed unless three years pass without activity.

Budgetary control is monitored at the function level. All funds budgeted in accordance with state statute are included in the budget-to-actual comparisons which are part of the required supplemental information and supplementary information.

Factors Affecting Financial Condition

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

Economic Conditions and Outlook

In 2014, the national economy remained stable showing small gains in the recovery process. The local economy has continued to remain steady with General Fund sales tax revenues showing an increase and ended 2014 exceeding budgeted revenues by 13.9%. The original budget anticipated no unassigned fund balance was going to be needed to fill the gap between General Fund anticipated revenues and expenditures. With the sales tax revenues exceeding budgeted levels, the net change in fund balance of \$973,955 was put back into unassigned fund balance to help offset any future recessionary impact. The City continues to have a healthy unassigned fund balance to not only assist in an economic downturn but to accommodate future growth needs of the City. The governing body's past practice of budgeting conservatively will help to ensure there will be adequate unassigned fund balance available in the General Fund to accommodate future needs or economic downturns.

The labor force in Codington County increased from 16,175 to 16,345 from December 31, 2013 to December 31, 2014 and the total employment increased from 15,635 to 15,780 individuals for those dates, respectively. Unemployment for Codington County was at 3.5% which is lower than the national level at year end.

The total number of building permits increased to 566 compared to 521 in 2013. Out of the 566 permits issued in 2014, 96 were for new construction while 470 were for remodel/additions compared to 2013 at 103 and 418, respectively. The value of the work increased in 2014 to \$62,544,820 compared to the 2013 value of \$45,309,940. The increase in new construction permits indicates the strength of the local economy and confidence in its sustainability in future years.

Major Initiatives

Some major capital initiatives started or completed during 2014 are listed below:

Community Recreation Facility – The construction for the new Recreation Facility and flat floor space will begin in the spring of 2015 and will be completed around January of 2017. The new facility will replace the current Community Recreation Center and pool complex that is currently adjacent to the High School. The facility will be located next to the new Middle School with approximately 104,000 square feet of space that will hold five gymnasiums, an 8 lane pool with a zero entry leisure pool, and a larger walking/running track. The architect, owner's rep, and construction manager at risk were chosen in 2014 to assist with the design, bidding and construction phases of the project. The costs associated with this project will be paid from Sales Tax Revenue bonds using second penny sales tax revenues to repay the bonds. \$10 million of the bonds were issued in December of 2014 with another \$10 million planned for early 2015.

Children's Zoo and Otter Exhibit – The expansion of the current Children's Zoo will offer a hands-on experience for children and adults. An addition of an Otter Exhibit increases the number of animals and exhibits available for public viewing. These two projects are expected to increase the number of zoo visitors offering new and exciting sites for all ages. This project was completed at the end of 2014 and was paid from the Capital Improvement Sales Tax Fund using second penny sales tax revenues.

Golf Course Water Intake Renovation – The Golf Course's water source is an intake unit in Lake Kameska. Because of the low water levels the past couple years, the Golf Course experienced extensive damage to the pumps and sprinkler heads due to sand being sucked into the water intake unit. This project will extend the intake unit out further into the lake where deeper water will prevent this situation from reoccurring. The construction was substantially completed November 2014 but will be tested and officially turned on during the spring of 2015. This project was paid from the Capital Improvement Sales Tax Fund using second penny sales tax revenues.

11th Street North project – This project includes an extension of 11th Street to provide access to the new Middle School as well as incorporating the first round-a-bout within the city. The project area is a dense residential district with the Middle School, Community Recreation Facility and Church being

added to the area. The decision for the round-a-bout was to keep traffic moving smoothly while providing efficient pedestrian crossing. This project is anticipated to be completed by July of 2015 and will be paid from the Capital Improvement Sales Tax Fund using second penny sales tax revenues.

Long-Term Planning

The City of Watertown is committed to providing the best services possible at an affordable rate. The Mayor and Department Heads continue to look for new revenue sources to keep up with rising costs associated with the demand for quality services. Some revenue sources identified are increasing rates to townships for fire calls outside city limits and charging the county for ambulance service provided to inmates without insurance coverage.

In addition to providing affordable services to the public, the City strives to be fiscally responsible for the day-to-day operations within the city departments. There has been increased focus on extending the life of equipment to minimize replacement purchases until the end of the equipment's useful life to ensure current revenue sources can cover expenditures. Since personnel costs make up the largest portion of the operating budgets, there has been an increased focus on ensuring a sustainable revenue source is identified for any additional personnel requests. With the gradual increases in sales tax revenues, ongoing equipment needs and additional personnel will be prioritized and replaced or added based on need.

Another important service is providing sanitary sewer services to the residents of the City. The State Revolving Loan Fund project that constructed a new pump lift station, a new preliminary treatment facility and a new interceptor sewer has replaced the outdated equipment that had been in place for many years. This puts the City in a proactive position for future residential and industrial growth within the community.

The flooding issue that has plagued the City of Watertown along with other communities around the area was not an issue this past year due to another year without any substantial rainfall. The water levels on both Lake Kampeska and the Big Sioux River that runs through the City continued to be well below the full level allowing lake residents the opportunity to make further repairs to their lakeshore property from past flooding events. However, this is an issue that has a constant impact on the community and continued work with the Corp of Engineers to complete a feasibility study to find permanent solutions along with funding sources to complete this large of a project.

With the continued focus on keeping local dollars in the community versus going out of town or out of state to purchase goods and services, the shop local campaign continues to encourage businesses to promote local products and services encouraging citizens to spend within the community. The \$2 per night room tax collected by the local hotel establishments within the city also allows the Convention and Visitors Bureau to actively promote the facilities enticing various sporting events and conventions to hold their events in Watertown.

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, 2013. This was the thirty-second consecutive year that the City of Watertown has achieved this prestigious award (fiscal years ended 1982-2013).

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,



Rochelle Ebbers, CPA, CPFO
Finance Officer



Government Finance Officers Association

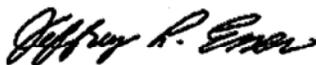
**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Watertown
South Dakota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013



Executive Director/CEO

Municipal Officials

| Governing Boards | Expires |
|------------------------------------|----------------|
| LIBRARY BOARD | |
| Tom Linngren | July, 2015 |
| Cathy Zubke | July, 2015 |
| Jackie Baxter | July, 2016 |
| Judy Trzynka | July, 2017 |
| Dave Weigel | July, 2017 |
| Mike Danforth - Liaison | |
| MUNICIPAL UTILITIES BOARD | |
| Wayne Schultz | July, 2015 |
| Ernie Wight | July, 2016 |
| David Strait | July, 2017 |
| Dustin Padgett | July, 2018 |
| Mike Luken | July, 2019 |
| Don Roby - Liaison | |
| PARK & RECREATION BOARD | |
| Pat Shriver | July, 2015 |
| Dennis Murphy | July, 2015 |
| Scott Johnston | July, 2017 |
| Lee Rycraft | July, 2018 |
| Heidi Stoick | July, 2018 |
| Jay Johnson | July, 2019 |
| Jon Solum - Liaison | |
| COMMUNITY RECREATION BOARD | |
| Bob Weiss | July, 2015 |
| Brian Richter | July, 2015 |
| Mike Petersen | July, 2016 |
| Keith Enstad | July, 2016 |
| Tom Franken | July, 2017 |
| Carrie Dylla | July, 2017 |
| Jon McAreavey | no term |
| Darrell Stacey | no term |
| Scott Johnston | no term |
| Mike Danforth - Liaison | |
| Randy Tupper - Liaison | |

Municipal Officials

City Elected Officials

Expires

MAYOR

Steve Thorson July, 2017

ALDERPERSONS

WARD A

Mike Danforth July, 2015

Don Roby July, 2017

WARD B

Jon Solum July, 2015

Bill Rieffenberger July, 2017

WARD C

Alvin Meisenheimer July, 2015

Beth Mantey July, 2017

WARD D

Bruce Buhler July, 2015

Randy Tupper July, 2017

WARD E

Russ Wilkins July, 2015

Dan Albertsen July, 2017

City Appointed Officers

CITY ATTORNEY

Stanton Fox

BUILDING OFFICIAL

Ken Bucholz

RECREATION CENTER DIRECTOR

John Small

POLICE CHIEF

Lee McPeck

ACTING CITY ENGINEER

Sarah Caron

STREET SUPERINTENDENT

Robin Beynon

FINANCE OFFICER

Rochelle Ebbers

SUPERINTENDENT OF UTILITIES

Steve Lehner

FIRE CHIEF

Doug Kranz

WASTE WATER/SOLID WASTE SUPERINTENDENT

Mike Boerger

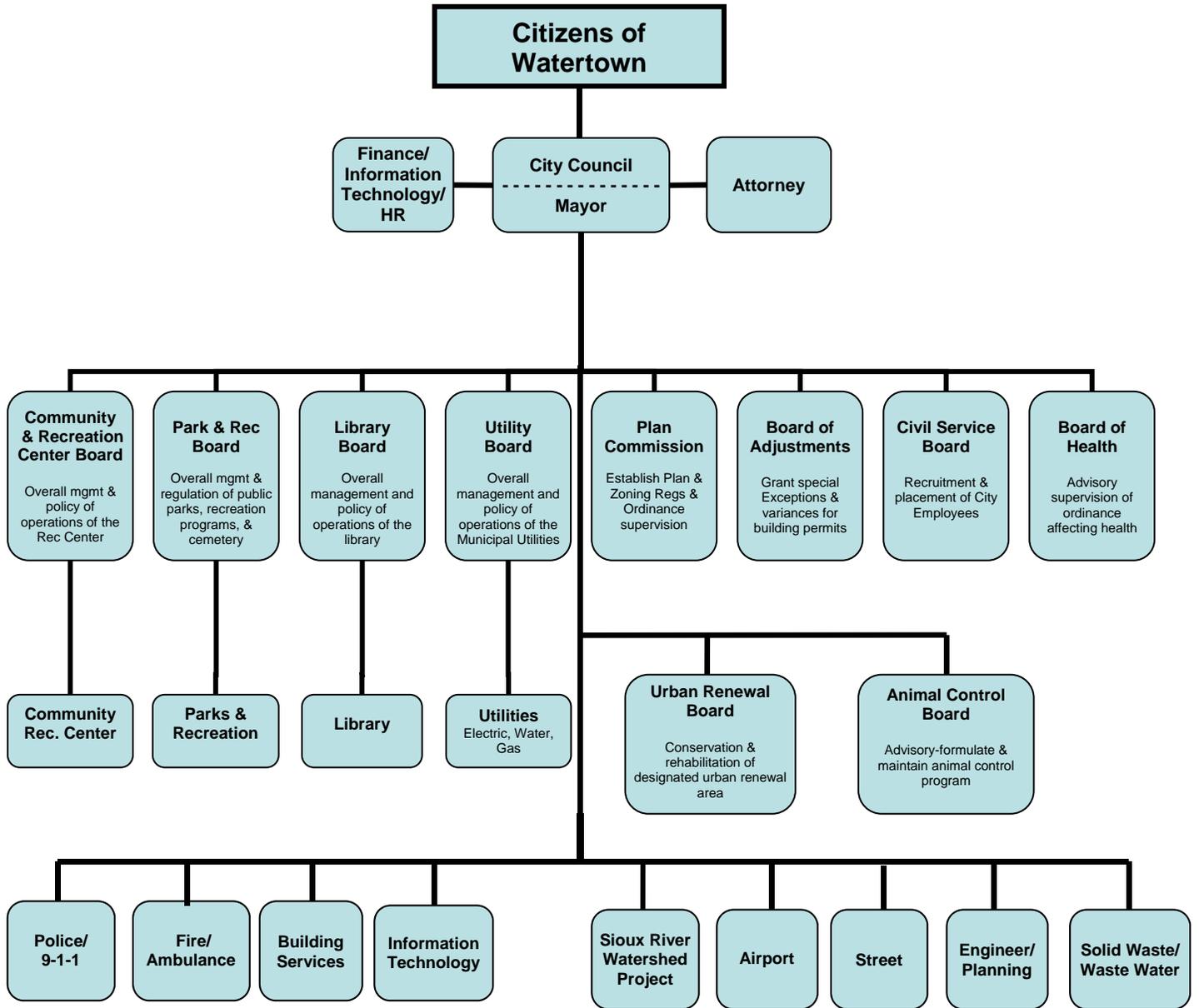
LIBRARY DIRECTOR

Michael Mullin

PARK & RECREATION DIRECTOR

Jay DeLange

Organizational Chart



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INDEPENDENT AUDITOR'S 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 (City) as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 position, and revenues of the component unit column. Those 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 solely 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, and the Schedule of Funding Progress on pages 16 through 24, 66 through 70, and page 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, on our consideration of the City's internal control over financial reporting and 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* in considering the City's internal control over financial reporting and compliance.



Watertown, South Dakota
June 17, 2015

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, 2014. 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 2014, total assets of the City exceeded liabilities by \$270 million. This amount is referred to as the City's "net position." Of this net position amount, \$40 million may be used to meet the City's ongoing obligations to citizens and creditors. The \$270 million net position amount is comprised of three major components:

The City's total net position increased during 2014 by approximately \$11.0 million. Of this increase, \$6.3 million occurred within the City's governmental activities and the remaining \$4.7 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 (\$8.0 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 position, however, when those revenues are spent, the decrease in net position 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 position will tend to increase.

The net position for the business-type activities is somewhat related to what private sector business may report as a net profit. The increase of \$4.7 million in net position reflects the business-type activities revenues that continue to exceed expenses.

As of the close of 2014, the City's Governmental Funds reported combined ending fund balances of \$35.0 million. Of this total amount, \$15.5 million is available for spending at the City's discretion, although only about \$7.1 million is within the City's General Fund and is held as unassigned for any specific purpose. The City's total long-term debt as of December 31, 2014, is \$58.5 million including \$4.0 million that will become due and payable during 2015.

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 a business. The City has six proprietary funds – the Sewer Fund, Solid Waste Fund, Airport Fund, Water Fund, Electric Fund and 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 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.

Management's Discussion and Analysis

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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 17 individual governmental funds for 2014. 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 and Capital Improvement Fund 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 is provided in the form of combining statements following the required supplementary information.

Management's Discussion and Analysis

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. 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, gas and airport funds are considered to be major funds. Data from the other enterprise fund is in a single aggregated presentation. Individual fund data for the non-major enterprise fund 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.

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

Government-wide Financial Analysis

Net Position. As presented on the following table, the City's assets exceeded liabilities by \$270,336,556 at the close of the fiscal year ending December 31, 2014.

| | Net Position | | | | | |
|----------------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Current and Other Assets | \$ 28,378,025 | \$ 38,559,707 | \$ 32,155,735 | \$ 32,135,306 | \$ 60,533,760 | \$ 70,695,013 |
| Capital Assets | 106,055,831 | 111,348,326 | 153,683,359 | 154,655,209 | 259,739,190 | 266,003,535 |
| Total Assets | 134,433,856 | 149,908,033 | 185,839,094 | 186,790,515 | 320,272,950 | 336,698,548 |
| Long-term Debt Outstanding | 17,116,727 | 26,099,433 | 35,573,962 | 32,386,687 | 52,690,689 | 58,486,120 |
| Other Liabilities | 1,716,347 | 1,872,080 | 6,544,553 | 6,003,792 | 8,260,900 | 7,875,872 |
| Total Liabilities | 18,833,074 | 27,971,513 | 42,118,515 | 38,390,479 | 60,951,589 | 66,361,992 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 90,859,225 | 87,327,962 | 120,161,321 | 124,349,767 | 211,020,546 | 211,677,729 |
| Restricted | 3,729,910 | 14,701,445 | 5,123,610 | 3,784,553 | 8,853,520 | 18,485,998 |
| Unrestricted | 21,011,647 | 19,907,113 | 18,435,648 | 20,265,716 | 39,447,295 | 40,172,829 |
| Total Net Position | \$ 115,600,782 | \$ 121,936,520 | \$ 143,720,579 | \$ 148,400,036 | \$ 259,321,361 | \$ 270,336,556 |

Management's Discussion and Analysis

By far the largest portion (78.3%) of the City's net position is represented by \$211.7 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.

The restricted net position of \$18.5 million comprises 6.8% of the total net position. These assets are subject to external restrictions on how they may be used.

The remaining balance of \$40.2 million, or 14.9%, in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Certain balances within unrestricted net position have internally imposed limitations which may further control the purpose for which such net position may be used.

Changes in net position. The City's revenues for the year totaled \$81.5 million including approximately \$55.2 million from charges for services. This means that 68 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 \$19.6 million of total revenues, or about 24 cents of every revenue dollar.

The City's net position increased by \$11.0 million or 4.2% during the current fiscal year as shown on the following table. This increase is attributable to the stable growth in the community requiring a substantial investment in infrastructure and other assets. More details that account for the change in net position are provided in the following analysis of the governmental and business-type activities.

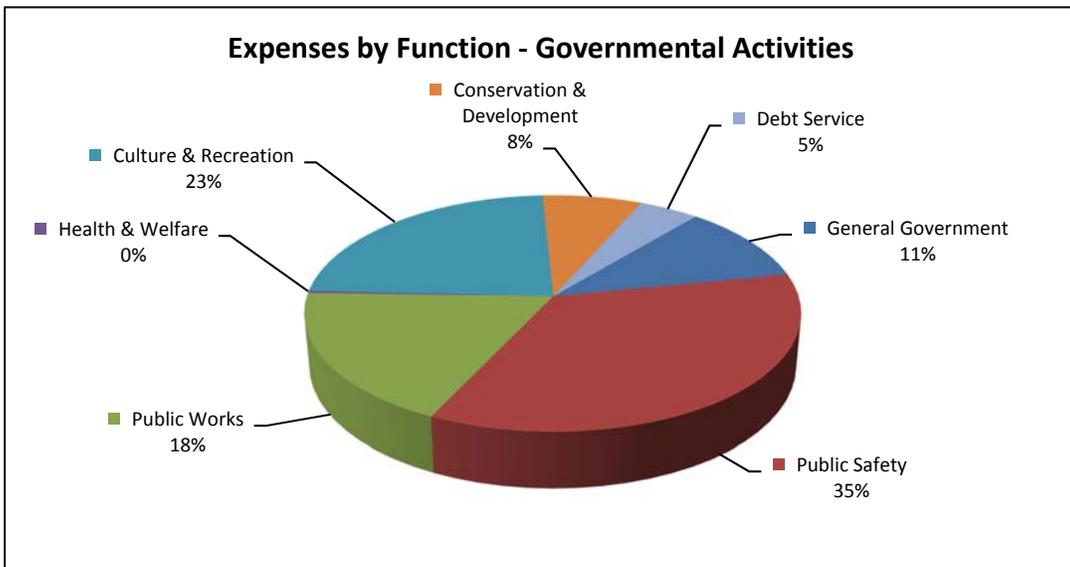
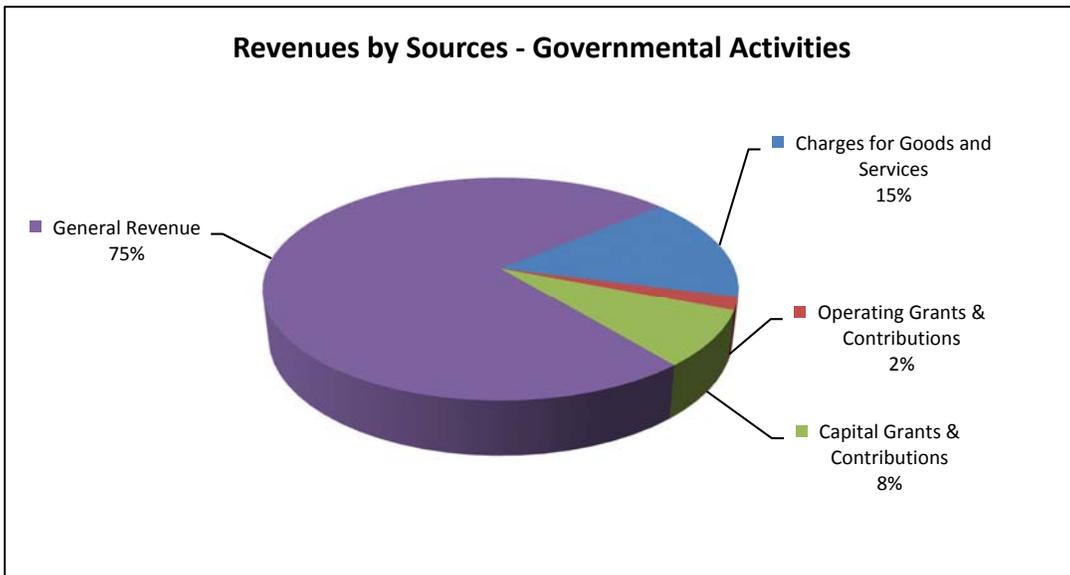
| | Changes in Net Position | | | | | |
|--------------------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 4,356,705 | \$ 4,481,847 | \$ 50,462,573 | \$ 50,696,814 | \$ 54,819,278 | \$ 55,178,661 |
| Operating Grants and Contributions | 694,993 | 556,333 | 63,628 | 14,189 | 758,621 | 570,522 |
| Capital Grants and Contributions | 1,057,552 | 2,373,711 | 1,801,569 | 1,729,098 | 2,859,121 | 4,102,809 |
| General Revenues: | | | | | | |
| Taxes | 18,649,735 | 19,607,198 | 6,032 | 9,576 | 18,655,767 | 19,616,774 |
| State Shared Revenues | 934,849 | 1,003,738 | - | - | 934,849 | 1,003,738 |
| Other | 798,747 | 1,479,378 | 191,262 | 119,756 | 990,009 | 1,599,134 |
| Total Revenues | 26,492,581 | 29,502,205 | 52,525,064 | 52,569,433 | 79,017,645 | 82,071,638 |
| Expenses: | | | | | | |
| General Government | 2,278,875 | 2,626,947 | - | - | 2,278,875 | 2,626,947 |
| Public Safety | 8,014,490 | 8,577,724 | - | - | 8,014,490 | 8,577,724 |
| Public Works | 3,127,223 | 4,478,011 | - | - | 3,127,223 | 4,478,011 |
| Health and Welfare | 68,610 | 76,368 | - | - | 68,610 | 76,368 |
| Culture and Recreation | 5,666,008 | 5,710,860 | - | - | 5,666,008 | 5,710,860 |
| Conservation and Development | 1,511,981 | 1,812,665 | - | - | 1,511,981 | 1,812,665 |
| Debt Service | 923,567 | 1,091,127 | - | - | 923,567 | 1,091,127 |
| Sewer | - | - | 3,589,083 | 3,654,114 | 3,589,083 | 3,654,114 |
| Solid Waste | - | - | 2,295,305 | 2,389,520 | 2,295,305 | 2,389,520 |
| Airport | - | - | 1,042,696 | 1,046,734 | 1,042,696 | 1,046,734 |
| Electric | - | - | 23,842,210 | 24,422,931 | 23,842,210 | 24,422,931 |
| Water | - | - | 4,707,937 | 4,829,106 | 4,707,937 | 4,829,106 |
| Gas | - | - | 8,461,181 | 10,340,336 | 8,461,181 | 10,340,336 |
| Total Expenses | 21,590,754 | 24,373,702 | 43,938,412 | 46,682,741 | 65,529,166 | 71,056,443 |
| Excess (Deficiency) Before Transfers | 4,901,827 | 5,128,503 | 8,586,652 | 5,886,692 | 13,488,479 | 11,015,195 |
| Transfers | 1,452,400 | 1,207,235 | (1,452,400) | (1,207,235) | - | - |
| Change in Net Position | 6,354,227 | 6,335,738 | 7,134,252 | 4,679,457 | 13,488,479 | 11,015,195 |
| Net Position - Beginning | 109,246,555 | 115,600,782 | 136,586,327 | 143,720,579 | 245,832,882 | 259,321,361 |
| Net Position - Ending | \$ 115,600,782 | \$ 121,936,520 | \$ 143,720,579 | \$ 148,400,036 | \$ 259,321,361 | \$ 270,336,556 |

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the City's net position by \$6.3 million, accounting for 57.5% of the total growth in the net position 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 capital asset acquisition or construction.

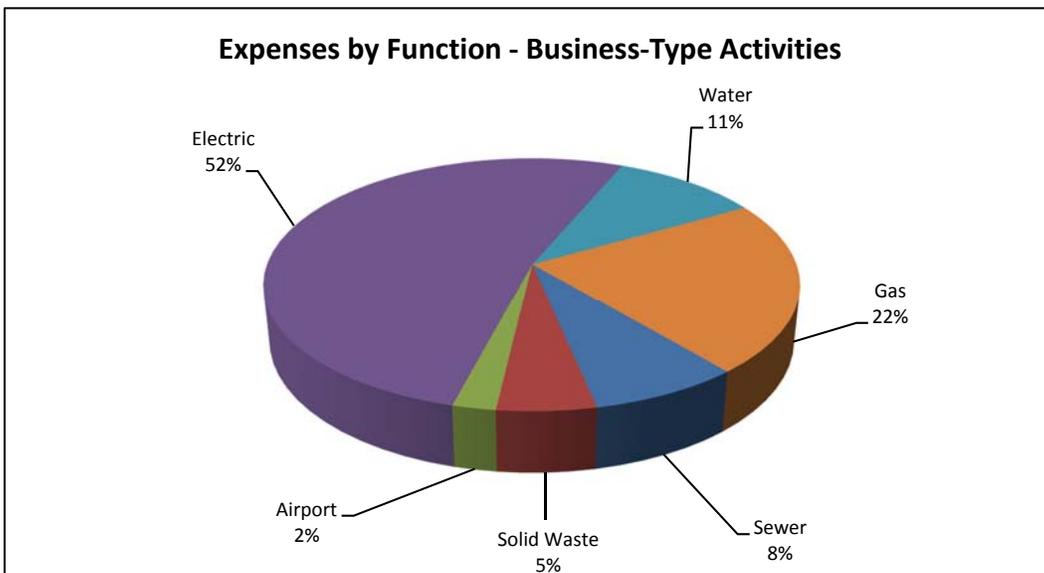
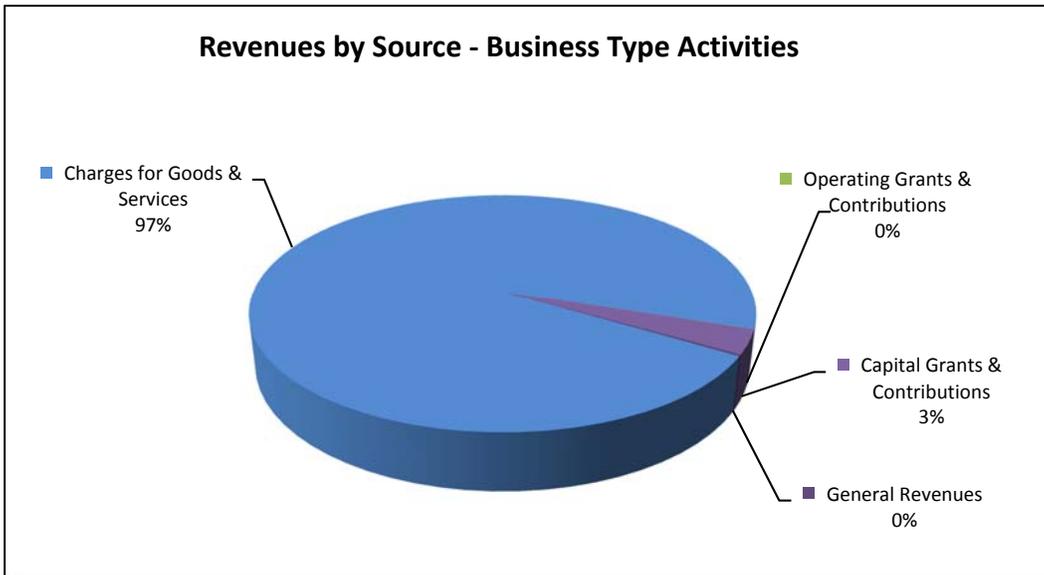
The following charts summarize the revenues and expenses associated with Governmental Activities:



Management's Discussion and Analysis

Business-Type Activities

Business-type activities increased the City's net position by \$4.7 million, accounting for 42.5% of the total growth in the City's net position. Key reasons for this increase, as discussed above, include the large operating income of the Electric, Water and Gas Enterprise funds and the capital grants to the Airport Fund. 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, unassigned 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 2014, the City's governmental funds reported combined fund balance total of \$35.0 million, an increase of \$9.9 million, or 39.3% from 2013. Of the total fund balance, the City has internally earmarked \$15.7 million for specific purposes which are reported as assigned for in the fund balances.

General Fund – The General Fund is the chief operating fund of the City. The fund balance increased by \$973,955, or about 12.3%, from 2013. Even with a more stable economy allowing sales tax revenues to exceed budgeted projections, interest earnings continue to fall below projected amounts and prior year earnings. As of the end of 2014, \$1.8 million of net position are either nonspendable, restricted, or assigned in the General Fund for future capital outlay or other specified purposes. The unassigned fund balance of \$7.1 million is about 51.5% of 2014 General Fund revenues. The nonspendable, restricted, and assigned amounts will not affect the availability of fund resources for future use.

Capital Improvement Fund – The fund balance decreased by \$415,287 or 1.9%. This decrease resulted from several large projects within the Capital Improvement Fund including the Golf Course water intake project and the Children's Zoo and Otter Exhibit improvement project that were substantially completed in 2014. Excess Fund Balance was allocated to partially fund the completion of these projects. As of the end of 2014, there was \$4.7 million of capital outlay accumulation set aside in the Capital Improvement Fund for future capital spending. The reserved amounts will not affect the availability of fund resources for future use.

Proprietary Funds

Sewer Fund – Net position increased by \$717,674, or 1.2%, on operating income of \$221,713. The amount of operating income equals approximately 6.4% of operating revenues for this fund. The increase in net position is attributable to a significant increase in capital contributions.

Electric, Gas, and Water Funds – Net position in the Electric, Gas and Water Funds increased by a combined \$4.3 million or 7.5%. This increase resulted from overall strong operating income from electric, gas and water utility services.

Airport Fund – Net position decreased by \$180,967, or 0.9%. This decrease is mostly due to an increase in Depreciation Expense and revenues and transfers in not exceeding expenses.

General Budgetary Highlights

The final 2014 General Fund expenditure budget reflects an increase to the original budget of \$365,000, or about 2.4%, with the majority of this increase in the public works functional area. The increases were in the public works budget due to the special assessment road and alley projects completed in 2014, public safety budget due to unanticipated grant funds, and the transfers out budget due to contingency transfers to other funds outside the General Fund.

Actual General Fund expenditures were about \$578,600, or 4.0%, less than the original budget. The difference between the original budgeted expenditures and actual results was due to unspent contingency funds, having a mild winter causing less snow removal budget and a large piece of equipment that will be purchased in 2015 instead of 2014.

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, 2014, totals \$266,003,535 (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 2014 by \$6.3 million or 2.4%.

Major capital asset events during the 2014 included the following:

- Street system improvements completed - \$.8 million
- Children's Zoo and Otter Exhibit- \$1.2 million
- Golf Course Irrigation Project - \$.9 million
- Purchase Land for Community Recreation Facility - \$.7 million
- Sewer improvements - \$.6 million

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

Long-term debt

At the end of 2014 the City had total debt outstanding of \$58,486,120 in General Obligation Bonds, Sales Tax Bonds and other long-term obligations. This is an increase of 11.0% or about \$5.8 million. The significant long-term debt activity for the year was the issuance of 2014 Sales Tax Revenue Bonds.

The City has General Obligation (GO) Bonds 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. As of December 31, 2014 the GO Bond has an outstanding balance of \$3,470,000.

The City has outstanding \$3,365,000 in Sales Tax Revenue Bonds, Series 2006. 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 Regional Library.

The City has outstanding \$3,045,000 in Sales Tax Revenue Bonds, Series 2012, these bonds were the result of refinancing the 2003 and 2004 Sales Tax Revenue Bonds. 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 storm sewer improvements and the Family Aquatic Center.

The City has outstanding \$10,000,000 in Sales Tax Revenue Bonds, Series 2014. 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 will be used for the construction of the Community Recreation Facility.

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

Economic Outlook and Next Year's Budget

The City adopted the 2014 budget in mid-2013 with the expectation of a stable local economy with an optimistic outlook that the economy would continue to be steady with the potential of slight growth both in the economy and in the City's property tax base. The sales tax revenues reflected moderate growth in the local economy which continues to be at a higher rate than the recovery in the national markets. The City's 2015 sales tax revenue is projected to be 3% higher than the 2014 budgeted amount. The trend in retail sales taxes has shown a 3.5% increase over the first few months of 2015 which helps to reiterate the continued strength of the local economy as well as the consumer faith in the sustainability of the current economic conditions. The 2015 General Fund budget was established with the intention of using no fund balance to fund the General Fund expenditures. This reflects the continued improvement in the local retail economy throughout 2014 resulting in improved sales tax revenues. With the continued concern about the stability of the national economy and the uncertainty of several federal policies such as the Affordable Care Act reform and federal budgets available for continued grant programs,

Management's Discussion and Analysis

revenues will be monitored very carefully in the coming budget year to mitigate any financial implications of any negative trends to the overall City budget.

Overall, the 2015 budget reflects an increase in planned spending of \$36.1 million, or 91.8%, from the original 2014 budget. This increase in capital expenditures is due to multiple large projects budgeted to begin in 2015 including the Community Recreation Facility, 5-plex softball fields, and a two sheets of ice complex. The sales-tax-dependent General Fund budget reflects an increase of \$990,185, or 6.6%. Revenues will continue to be monitored very carefully in the coming budget year to ensure adequate coverage for the planned expenditures without the use of any fund balance.

Growth of the City's property tax base increased in 2014 with an overall increase in the taxable value of real property of \$72.4 million reflecting a \$28.1 million increase from new property placed on the tax rolls and a \$44.2 million increase by virtue of the reappraisal process. This amount represents a net increase in the property tax base of 5.6% with real growth in the tax base from new property of slightly less than 3.9%. As a result of all of these changes and with a slight decrease in the General Fund mill levy from \$2.373 per \$1,000 of value to \$2.327 per \$1,000, General Fund property tax revenues will increase by approximately \$107,000, or about 3.5%. In addition, the special property tax levy used to repay the Event Center GO Bonds will generate \$473,500 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, and (605) 882-6203.

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2014

Statement of Net Position

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|-----------------------|--------------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Housing and Redevelopment Commission |
| ASSETS | | | | |
| Pooled Cash and Investments | \$ 31,186,332 | \$ 18,262,386 | \$ 49,448,718 | \$ - |
| Non-Pooled Cash and Investments | - | - | - | 413,375 |
| Receivables, net | 4,074,868 | 6,014,700 | 10,089,568 | 7,232 |
| Due from Other Sources | 30,612 | - | 30,612 | - |
| Due from Other Governments | 332,570 | 35,834 | 368,404 | - |
| Inventories | 149,765 | 1,425,744 | 1,575,509 | - |
| Deposits | 330,054 | - | 330,054 | - |
| Prepaid Expenses | - | 268,885 | 268,885 | 21,505 |
| Internal Balances | (1,025,929) | 1,025,929 | - | - |
| Deposit for Flexible Spending | - | 11,991 | 11,991 | - |
| Restricted Pooled Cash and Investments | 3,481,435 | 5,089,837 | 8,571,272 | - |
| Capital Assets: | | | | |
| Land and Construction in Progress | 17,570,378 | 5,062,026 | 22,632,404 | 145,152 |
| Other Capital Assets, Net of Depreciation | 93,777,948 | 149,593,183 | 243,371,131 | 640,257 |
| Total assets | <u>149,908,033</u> | <u>186,790,515</u> | <u>336,698,548</u> | <u>1,227,521</u> |
| LIABILITIES | | | | |
| Accounts Payable | 1,276,300 | 4,148,045 | 5,424,345 | 1,736 |
| Salaries Payable | - | 108,647 | 108,647 | - |
| Retainage Payable | 49,188 | - | 49,188 | - |
| Accrued Interest Payable | 38,875 | 241,604 | 280,479 | - |
| Other Accrued Expenses | - | - | - | 22,330 |
| Customer Deposits | - | 804,770 | 804,770 | 15,345 |
| Revenues Collected in Advance | - | 700,726 | 700,726 | - |
| Unearned Revenue | 507,717 | - | 507,717 | - |
| Long-term Liabilities: | | | | |
| Due within one year | 1,917,973 | 2,189,024 | 4,106,997 | - |
| Due in more than one year | 24,181,460 | 30,197,663 | 54,379,123 | - |
| Total liabilities | <u>27,971,513</u> | <u>38,390,479</u> | <u>66,361,992</u> | <u>39,411</u> |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 87,327,962 | 124,349,767 | 211,677,729 | 785,409 |
| Restricted for Cemetery Perpetual Care: | | | | |
| Expendable | 6,024 | - | 6,024 | - |
| Nonexpendable | 50,000 | - | 50,000 | - |
| Restricted for Conservation & Development | 490,847 | - | 490,847 | - |
| Restricted for Culture & Recreation | 888,891 | - | 888,891 | - |
| Restricted for Debt Service | 3,602,475 | 1,259,977 | 4,862,452 | - |
| Restricted for Capital Projects | 9,296,974 | - | 9,296,974 | - |
| Restricted for Public Safety | 36,180 | - | 36,180 | - |
| Restricted for Operation & Maintenance | - | 221,919 | 221,919 | - |
| Restricted for Replacement & Depreciation | - | 2,302,657 | 2,302,657 | - |
| Restricted for Cumulative Reserve Fund | 330,054 | - | 330,054 | - |
| Unrestricted | 19,907,113 | 20,265,716 | 40,172,829 | 402,701 |
| Total net position | <u>\$ 121,936,520</u> | <u>\$ 148,400,036</u> | <u>\$ 270,336,556</u> | <u>\$ 1,188,110</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, 2014

Statement of Activities

| Functions/Programs | Expenses | Program Revenues | | |
|--------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 2,626,947 | \$ 125,562 | \$ - | \$ 63,162 |
| Public Safety | 8,577,724 | 1,577,811 | 240,981 | 16,280 |
| Public Works | 4,478,011 | 314,157 | - | 1,992,357 |
| Health and Welfare | 76,368 | - | - | 12,268 |
| Culture and Recreation | 5,710,860 | 2,199,184 | 250,754 | 246,171 |
| Conservation and Development | 1,812,665 | 265,133 | 64,598 | 43,473 |
| Interest on Long-Term Debt | 1,091,127 | - | - | - |
| Total governmental activities | <u>24,373,702</u> | <u>4,481,847</u> | <u>556,333</u> | <u>2,373,711</u> |
| Business-Type Activities: | | | | |
| Sewer | 3,654,114 | 3,450,537 | 14,189 | 1,069,980 |
| Solid Waste | 2,389,520 | 2,446,657 | - | 26,077 |
| Airport | 1,046,734 | 154,058 | - | 211,626 |
| Electric | 24,422,931 | 27,317,371 | - | 421,415 |
| Water | 4,829,106 | 5,265,645 | - | - |
| Gas | 10,340,336 | 12,062,546 | - | - |
| Total business-type activities | <u>46,682,741</u> | <u>50,696,814</u> | <u>14,189</u> | <u>1,729,098</u> |
| Total primary government | <u>71,056,443</u> | <u>55,178,661</u> | <u>570,522</u> | <u>4,102,809</u> |
| Component units: | | | | |
| Watertown Housing and Redev. | 1,217,052 | 309,513 | 854,527 | - |
| Total Component Units | <u>\$ 1,217,052</u> | <u>\$ 309,513</u> | <u>\$ 854,527</u> | <u>\$ -</u> |

General revenues:
 Taxes
 Property Taxes
 Sales and Use Taxes
 Other Taxes
 State Shared Revenues
 Interest Earned
 Other Miscellaneous
 Sale of Capital Assets
 Premiums on Bonds Issued

Transfers

Total general revenues & transfers
 Change in net position

Net position - beginning
 Net position - ending

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

Statement of Activities (continued)

| Net(Expense) Revenue and Changes in Net Position | | | Component Unit Housing and Redevelopment Commission |
|---|-----------------------------|-----------------------|--|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | |
| \$ (2,438,223) | \$ - | \$ (2,438,223) | \$ - |
| (6,742,652) | - | (6,742,652) | - |
| (2,171,497) | - | (2,171,497) | - |
| (64,100) | - | (64,100) | - |
| (3,014,751) | - | (3,014,751) | - |
| (1,439,461) | - | (1,439,461) | - |
| (1,091,127) | - | (1,091,127) | - |
| <u>(16,961,811)</u> | <u>-</u> | <u>(16,961,811)</u> | <u>-</u> |
| - | 880,592 | 880,592 | - |
| - | 83,214 | 83,214 | - |
| - | (681,050) | (681,050) | - |
| - | 3,315,855 | 3,315,855 | - |
| - | 436,539 | 436,539 | - |
| - | 1,722,210 | 1,722,210 | - |
| - | 5,757,360 | 5,757,360 | - |
| <u>(16,961,811)</u> | <u>5,757,360</u> | <u>(11,204,451)</u> | <u>-</u> |
| - | - | - | (53,012) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (53,012)</u> |
| 4,023,023 | - | 4,023,023 | - |
| 15,218,434 | - | 15,218,434 | - |
| 365,741 | 9,576 | 375,317 | - |
| 1,003,738 | - | 1,003,738 | - |
| 511,979 | 154,702 | 666,681 | 1,161 |
| 917,971 | - | 917,971 | 15,237 |
| 2,825 | (34,946) | (32,121) | - |
| 46,603 | - | 46,603 | - |
| <u>1,207,235</u> | <u>(1,207,235)</u> | <u>-</u> | <u>-</u> |
| <u>23,297,549</u> | <u>(1,077,903)</u> | <u>22,219,646</u> | <u>16,398</u> |
| <u>6,335,738</u> | <u>4,679,457</u> | <u>11,015,195</u> | <u>(36,614)</u> |
| <u>115,600,782</u> | <u>143,720,579</u> | <u>259,321,361</u> | <u>1,224,724</u> |
| <u>\$ 121,936,520</u> | <u>\$ 148,400,036</u> | <u>\$ 270,336,556</u> | <u>\$ 1,188,110</u> |

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

City of Watertown
Comprehensive Annual Financial Report
December 31, 2014

Balance Sheet - Governmental Funds

| | General Fund | Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-----------------------------|-----------------------------|-----------------------------|
| ASSETS | | | | |
| Pooled Cash and Investments | \$ 8,189,625 | \$ 11,704,220 | \$ 11,292,487 | \$ 31,186,332 |
| Property Taxes Receivable | 58,136 | - | 8,842 | 66,978 |
| Sales Tax Receivable | 822,296 | 822,080 | 77,610 | 1,721,986 |
| Accounts Receivable | 219,876 | - | 88,017 | 307,893 |
| Special Assessments Receivable | 434,809 | 237,939 | 865 | 673,613 |
| Interest Receivable | 8,354 | 18,972 | 2,257 | 29,583 |
| Loans Receivable | - | 1,193,826 | 80,989 | 1,274,815 |
| Due From Other Funds | 45,829 | - | - | 45,829 |
| Due From Other Governments | 137,400 | 174,824 | 20,346 | 332,570 |
| Due From Other Sources | - | 30,612 | - | 30,612 |
| Inventory | 117,034 | - | 32,731 | 149,765 |
| Deposits | 330,054 | - | - | 330,054 |
| Advance To Other Fund | - | 5,334,245 | - | 5,334,245 |
| Restricted Assets: | | | | |
| Pooled Cash and Investments | 133,539 | 3,301,322 | 46,574 | 3,481,435 |
| Total assets | 10,496,952 | 22,818,040 | 11,650,718 | 44,965,710 |
| LIABILITIES | | | | |
| Accounts Payable | 418,132 | 570,054 | 288,114 | 1,276,300 |
| Retainage Payable | - | 49,188 | - | 49,188 |
| Advance From Other Fund | - | - | 6,406,003 | 6,406,003 |
| Total liabilities | 418,132 | 619,242 | 6,694,117 | 7,731,491 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue | 1,168,668 | 943,865 | 119,314 | 2,231,847 |
| Total Deferred Inflows of Resources | 1,168,668 | 943,865 | 119,314 | 2,231,847 |
| FUND BALANCES | | | | |
| Nonspendable for: | | | | |
| Inventory | 117,034 | - | 32,731 | 149,765 |
| Cemetery Perpetual Care | 50,000 | - | - | 50,000 |
| Advances | - | 5,334,245 | - | 5,334,245 |
| Restricted for: | | | | |
| Debt Service | - | 2,585,322 | 301,153 | 2,886,475 |
| Capital Projects | - | - | 9,296,974 | 9,296,974 |
| BBB Sales Tax | - | - | 161,085 | 161,085 |
| Event Center | - | - | 768 | 768 |
| Big Sioux River Project | - | - | 249,278 | 249,278 |
| E-911 Services | - | - | 36,180 | 36,180 |
| Library | - | - | 266,383 | 266,383 |
| Urban Renewal Loans | - | - | 45,806 | 45,806 |
| Cable TV Security | 14,437 | - | - | 14,437 |
| Cemetery Perpetual Care | 6,024 | - | - | 6,024 |
| Casualty Reserve | - | - | 40,825 | 40,825 |
| Assigned for: | | | | |
| Capital Outlay | 1,206,010 | 4,651,872 | 225,862 | 6,083,744 |
| Land | - | 716,000 | - | 716,000 |
| Cumulative Reserve Fund | 330,054 | - | - | 330,054 |
| Group Health Premium | 52,483 | - | - | 52,483 |
| Park Development | - | - | 91,171 | 91,171 |
| Golf Course | - | - | 47,248 | 47,248 |
| Zoo Improvements | - | - | 7,967 | 7,967 |
| Other Purposes | - | 7,967,494 | 413,292 | 8,380,786 |
| Unassigned: | 7,134,110 | - | (6,379,436) | 754,674 |
| Total fund balances | 8,910,152 | 21,254,933 | 4,837,287 | 35,002,372 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 10,496,952 | \$ 22,818,040 | \$ 11,650,718 | \$ 44,965,710 |

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 Position

Fund balances of governmental funds \$ 35,002,372

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

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

| | | |
|--------------------------|---------------------|-------------|
| Capital Assets | 140,099,567 | |
| Accumulated Depreciation | <u>(28,751,241)</u> | 111,348,326 |

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. The costs associated with issuance of long-term debt are reported as assets in the government-wide financial statements for future interest payments and amortized as an adjustment to interest expense in the statement of activities over the life of the debt.

| | | |
|--------------------------------|--------------------|--------------|
| GO Bonds | (3,470,000) | |
| 2006 Revenue Bonds | (3,365,000) | |
| 2012 Revenue Bonds | (3,045,000) | |
| 2014 Revenue Bonds | (10,000,000) | |
| SRF Loan #6 - CW | (893,061) | |
| SRF Loan #6 - NPS | (83,686) | |
| SRF Loan #8 - CW | (397,377) | |
| SRF Loan #8 - NPS | (44,463) | |
| SRF Loan #10 - CW | (2,323,762) | |
| SRF Loan #11 - CW | (174,056) | |
| Fire Truck Lease Payable | (223,959) | |
| Accrued Interest Payable | (38,875) | |
| Other Post Employment Benefits | (304,257) | |
| Compensated Absences | <u>(1,774,812)</u> | (26,138,308) |

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 | 29,583 | |
| Special Assessments | 165,031 | |
| Franchise Fees | 31,259 | |
| E-911 Surcharges | 53,581 | |
| Grants | 7,129 | |
| General Sales and Use Tax | <u>1,437,547</u> | 1,724,130 |

Net Position of governmental activities \$ 121,936,520

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

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

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| REVENUES | | | | |
| Tax Revenue | | | | |
| Property | \$ 3,065,308 | \$ - | \$ 957,715 | \$ 4,023,023 |
| Sales | 7,214,979 | 7,203,788 | 730,345 | 15,149,112 |
| Other Taxes | 363,226 | - | - | 363,226 |
| Licenses and Permits | 310,437 | - | - | 310,437 |
| Intergovernmental | 1,236,090 | 174,824 | 84,598 | 1,495,512 |
| Charges for Goods and Services | 1,220,767 | - | 2,563,365 | 3,784,132 |
| Fines and Forfeits | 28,613 | - | 17,985 | 46,598 |
| Interest Revenue | 22,786 | 471,134 | 6,911 | 500,831 |
| Rentals | - | - | 138,881 | 138,881 |
| Special Assessments | 63,605 | - | 52,565 | 116,170 |
| Donations/Contributions | 21,708 | 51,347 | 294,227 | 367,282 |
| Miscellaneous | 287,714 | 27,844 | 74,495 | 390,053 |
| Total revenues | <u>13,835,233</u> | <u>7,928,937</u> | <u>4,921,087</u> | <u>26,685,257</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 2,013,851 | - | 722,013 | 2,735,864 |
| Public Safety | 6,770,708 | 163,284 | 822,409 | 7,756,401 |
| Public Works | 2,422,286 | 3,439,132 | - | 5,861,418 |
| Health and Welfare | 76,110 | - | - | 76,110 |
| Culture and Recreation | 970,965 | 2,519,874 | 5,043,496 | 8,534,335 |
| Conservation and Development | 287,965 | 1,106,530 | 242,138 | 1,636,633 |
| Debt Service | - | 1,101,065 | 1,145,189 | 2,246,254 |
| Total expenditures | <u>12,541,885</u> | <u>8,329,885</u> | <u>7,975,245</u> | <u>28,847,015</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,293,348</u> | <u>(400,948)</u> | <u>(3,054,158)</u> | <u>(2,161,758)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Municipal Property | 3,457 | 716,276 | 66,168 | 785,901 |
| Bond Proceeds | - | - | 10,000,000 | 10,000,000 |
| Premium on Bonds Issued | - | - | 46,603 | 46,603 |
| Transfers Out | (1,950,700) | (780,615) | (58,000) | (2,789,315) |
| Transfers In | 1,627,850 | 50,000 | 2,318,700 | 3,996,550 |
| Total other financing sources (uses) | <u>(319,393)</u> | <u>(14,339)</u> | <u>12,373,471</u> | <u>12,039,739</u> |
| Net Change in Fund Balances | 973,955 | (415,287) | 9,319,313 | 9,877,981 |
| Fund balances -- beginning | <u>7,936,197</u> | <u>21,670,220</u> | <u>(4,482,026)</u> | <u>25,124,391</u> |
| Fund balances -- ending | <u>\$ 8,910,152</u> | <u>\$ 21,254,933</u> | <u>\$ 4,837,287</u> | <u>\$ 35,002,372</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, 2014

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

Net change in fund balances --total governmental funds \$ 9,877,981

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 exceeds depreciation in the current period.

| | | |
|--------------------------------|--------------------|-----------|
| Expenditure for Capital Assets | 6,606,688 | |
| Less Current Depreciation | <u>(3,138,953)</u> | 3,467,735 |

In the statement of activities, the loss on disposal of assets and transfer of assets are reported, whereas in the governmental funds, the disposal of capital assets and transfer of assets are not reflected.

(255,159)

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

| | | |
|------------------------------------|------------|-----------|
| Donated capital assets | 2,068,476 | |
| Gain on transfer of capital assets | 2,043 | |
| Gain on trade of capital assets | 9,400 | |
| Changes in deferred revenue: | | |
| Interest | 11,148 | |
| Special Assessments | 85,629 | |
| Sales Taxes | 69,322 | |
| Franchise Fees | (5,954) | |
| E-911 Surcharges | 8,469 | |
| Grants | <u>469</u> | 2,249,002 |

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 current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

| | | |
|-----------------------------|------------------|-------------|
| Issuance of Bonds | (10,000,000) | |
| Repayment of Bond Principal | <u>1,176,242</u> | (8,823,758) |

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

(113,765)

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.

(45,183)

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 | | (21,115) |
|------------------------------------|--|----------|

| | | |
|---|--|----------------------------|
| Change in net position of governmental activities | | <u><u>\$ 6,335,738</u></u> |
|---|--|----------------------------|

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

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2014

Statement of Net Position - Proprietary Funds

| | Sewer Fund | Electric Fund | Water Fund |
|--|----------------------|----------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Pooled Cash and Investments | \$ 1,757,297 | \$ 8,583,894 | \$ 221,293 |
| Accounts Receivable | 294,609 | 2,307,121 | 342,655 |
| Unbilled Accounts Receivable | - | 585,342 | 140,776 |
| Other Receivable | - | - | - |
| Interest Receivable | 5,224 | 8,554 | - |
| Due From Other Funds | - | - | - |
| Due From Other Governments | - | - | - |
| Advance To Other Fund | 1,065,147 | - | - |
| Inventory | 172,372 | 689,964 | 308,640 |
| Prepaid Expense | - | 114,563 | 62,387 |
| Deposit for Flexible Spending | - | 11,991 | - |
| Restricted Pooled Cash and Investments | 2,804,344 | 804,770 | 980,208 |
| Total Current assets: | <u>6,098,993</u> | <u>13,106,199</u> | <u>2,055,959</u> |
| Noncurrent assets: | | | |
| Land | 1,764,321 | 372,752 | 510,669 |
| Buildings and Structures | 35,918,047 | 5,617,759 | 22,342,924 |
| Furniture Equipment Machinery | 1,316,573 | 1,616,552 | 478,796 |
| Improvements Other Than Buildings | 49,432,780 | 38,357,569 | 28,394,076 |
| Intangible Property | - | - | - |
| Construction in Progress | 85,644 | 1,325,353 | 390,147 |
| Accumulated Depreciation | (24,265,791) | (28,039,320) | (15,173,763) |
| Accumulated Amortization | - | (38,324) | (18,340) |
| Total Noncurrent assets: | <u>64,251,574</u> | <u>19,212,341</u> | <u>36,924,509</u> |
| Total assets | <u>70,350,567</u> | <u>32,318,540</u> | <u>38,980,468</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts Payable | 181,809 | 2,300,323 | 219,021 |
| Salaries Payable | - | 51,407 | 28,546 |
| Revenues Collected in Advance | - | 270,545 | 49,531 |
| Due to Other Funds | - | 38 | 5,000,000 |
| Loans Payable | 774,707 | - | 1,055,722 |
| Accrued Interest Payable | 88,680 | - | 152,924 |
| Accrued Vacation and Sick Leave | 45,409 | 127,301 | 73,033 |
| Customer Deposits | - | 804,770 | - |
| Total Current liabilities: | <u>1,090,605</u> | <u>3,554,384</u> | <u>6,578,777</u> |
| Noncurrent liabilities: | | | |
| Accrued Vacation and Sick Leave | 136,227 | 381,903 | 219,099 |
| Other Post Employment Benefits | 24,676 | 44,028 | 22,014 |
| Closure/Post Closure Liability | - | - | - |
| Loans Payable | 10,709,254 | - | 17,765,759 |
| Total Noncurrent liabilities: | <u>10,870,157</u> | <u>425,931</u> | <u>18,006,872</u> |
| Total liabilities | <u>11,960,762</u> | <u>3,980,315</u> | <u>24,585,649</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 52,767,613 | 19,212,341 | 18,103,028 |
| Restricted for SRF O&M | 221,919 | - | - |
| Restricted for SRF R&D | 2,302,657 | - | - |
| Restricted for Debt Service | 279,769 | - | 980,208 |
| Unrestricted | 2,817,847 | 9,125,884 | (4,688,417) |
| Total net position | <u>\$ 58,389,805</u> | <u>\$ 28,338,225</u> | <u>\$ 14,394,819</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 Position - Proprietary Funds (continued)

| Gas Fund | | Airport Fund | | Other Proprietary Funds | | Total Proprietary Funds | |
|----------|-------------------|--------------|-------------------|-------------------------|------------------|-------------------------|--------------------|
| \$ | 5,401,106 | \$ | - | \$ | 2,298,796 | \$ | 18,262,386 |
| | 1,566,281 | | 5,595 | | 263,849 | | 4,780,110 |
| | 477,348 | | - | | - | | 1,203,466 |
| | 4,720 | | - | | - | | 4,720 |
| | 9,266 | | - | | 3,360 | | 26,404 |
| | 5,000,000 | | - | | 38 | | 5,000,038 |
| | - | | 35,834 | | - | | 35,834 |
| | - | | - | | - | | 1,065,147 |
| | 184,766 | | 36,903 | | 33,099 | | 1,425,744 |
| | 91,935 | | - | | - | | 268,885 |
| | - | | - | | - | | 11,991 |
| | - | | - | | 500,515 | | 5,089,837 |
| | <u>12,735,422</u> | | <u>78,332</u> | | <u>3,099,657</u> | | <u>37,174,562</u> |
| | 43,861 | | 248,453 | | 38,175 | | 2,978,231 |
| | 1,023,118 | | 1,720,395 | | 993,472 | | 67,615,715 |
| | 706,920 | | 2,994,726 | | 4,542,650 | | 11,656,217 |
| | 15,930,923 | | 23,669,210 | | 3,828,222 | | 159,612,780 |
| | 470,654 | | - | | - | | 470,654 |
| | 39,898 | | - | | 242,753 | | 2,083,795 |
| | (10,271,580) | | (8,360,434) | | (3,352,819) | | (89,463,707) |
| | (241,812) | | - | | - | | (298,476) |
| | <u>7,701,982</u> | | <u>20,272,350</u> | | <u>6,292,453</u> | | <u>154,655,209</u> |
| | <u>20,437,404</u> | | <u>20,350,682</u> | | <u>9,392,110</u> | | <u>191,829,771</u> |
| | 1,312,652 | | 27,778 | | 106,462 | | 4,148,045 |
| | 28,694 | | - | | - | | 108,647 |
| | 380,650 | | - | | - | | 700,726 |
| | - | | 39,218 | | - | | 5,039,256 |
| | - | | - | | - | | 1,830,429 |
| | - | | - | | - | | 241,604 |
| | 77,766 | | 1,675 | | 33,411 | | 358,595 |
| | - | | - | | - | | 804,770 |
| | <u>1,799,762</u> | | <u>68,671</u> | | <u>139,873</u> | | <u>13,232,072</u> |
| | 233,299 | | 5,026 | | 100,235 | | 1,075,789 |
| | 22,014 | | 4,957 | | 28,657 | | 146,346 |
| | - | | - | | 500,515 | | 500,515 |
| | - | | - | | - | | 28,475,013 |
| | <u>255,313</u> | | <u>9,983</u> | | <u>629,407</u> | | <u>30,197,663</u> |
| | <u>2,055,075</u> | | <u>78,654</u> | | <u>769,280</u> | | <u>43,429,735</u> |
| | 7,701,982 | | 20,272,350 | | 6,292,453 | | 124,349,767 |
| | - | | - | | - | | 221,919 |
| | - | | - | | - | | 2,302,657 |
| | - | | - | | - | | 1,259,977 |
| | 10,680,347 | | (322) | | 2,330,377 | | 20,265,716 |
| \$ | <u>18,382,329</u> | \$ | <u>20,272,028</u> | \$ | <u>8,622,830</u> | \$ | <u>148,400,036</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, 2014

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds

| | <u>Sewer Fund</u> | <u>Electric Fund</u> | <u>Water Fund</u> |
|--|----------------------|----------------------|----------------------|
| OPERATING REVENUES | | | |
| Charges for Goods and Services | \$ 2,012,307 | \$ 27,043,291 | \$ 2,761,630 |
| Miscellaneous | 11,350 | 211,451 | 210,641 |
| Rentals | - | 62,629 | 202,595 |
| Revenue Dedicated to Servicing Debt | 1,426,880 | - | 2,090,779 |
| Total operating revenues | <u>3,450,537</u> | <u>27,317,371</u> | <u>5,265,645</u> |
| OPERATING EXPENSES | | | |
| Personal Services | 1,028,150 | - | - |
| Supplies | 122,287 | - | - |
| Utilities | 273,825 | - | - |
| Other Charges | 367,741 | - | - |
| Production | - | 18,469,499 | 1,344,352 |
| Distribution | - | 2,032,088 | 815,146 |
| Transmission | - | 1,622,678 | - |
| Accounts and Commercial | - | 642,737 | 301,580 |
| Administrative and General | - | 438,510 | 228,521 |
| Other Miscellaneous Expense | - | 29,408 | 95,052 |
| Depreciation | 1,436,821 | 1,176,143 | 1,390,443 |
| Amortization | - | 11,868 | 5,692 |
| Total operating expenses | <u>3,228,824</u> | <u>24,422,931</u> | <u>4,180,786</u> |
| Operating Income (Loss) | <u>221,713</u> | <u>2,894,440</u> | <u>1,084,859</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Tax Revenue | - | - | - |
| Intergovernmental | 14,189 | - | - |
| Interest Revenue | 88,585 | 26,042 | - |
| Interest Expense | (365,290) | - | (648,320) |
| Contributions | (60,000) | - | - |
| Gain(Loss) on Disposition of Capital Assets | 21,747 | (80,167) | 1,329 |
| Total nonoperating revenues (expenses) | <u>(300,769)</u> | <u>(54,125)</u> | <u>(646,991)</u> |
| Income (loss) before contributions and transfers | (79,056) | 2,840,315 | 437,868 |
| Transfers In | - | - | - |
| Transfers Out | (273,250) | (689,040) | (90,000) |
| Capital Contributions | 1,069,980 | 421,415 | - |
| Change in net position | <u>717,674</u> | <u>2,572,690</u> | <u>347,868</u> |
| Total net position -- beginning | 57,672,131 | 25,765,535 | 14,046,951 |
| Total net position -- ending | <u>\$ 58,389,805</u> | <u>\$ 28,338,225</u> | <u>\$ 14,394,819</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, 2014

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

| Gas Fund | | Airport Fund | | Other Proprietary Funds | | Total Proprietary Funds | |
|----------|------------|--------------|------------|-------------------------|-----------|-------------------------|-------------|
| \$ | 12,021,650 | \$ | 11,857 | \$ | 2,437,158 | \$ | 46,287,893 |
| | 37,471 | | 2,773 | | 9,499 | | 483,185 |
| | 3,425 | | 139,428 | | - | | 408,077 |
| | - | | - | | - | | 3,517,659 |
| | 12,062,546 | | 154,058 | | 2,446,657 | | 50,696,814 |
| | - | | 182,412 | | 1,059,895 | | 2,270,457 |
| | - | | 36,959 | | 275,142 | | 434,388 |
| | - | | 38,219 | | 37,097 | | 349,141 |
| | - | | 187,063 | | 531,314 | | 1,086,118 |
| | 8,114,095 | | - | | - | | 27,927,946 |
| | 1,101,377 | | - | | - | | 3,948,611 |
| | - | | - | | - | | 1,622,678 |
| | 385,078 | | - | | - | | 1,329,395 |
| | 226,997 | | - | | - | | 894,028 |
| | 22,118 | | - | | - | | 146,578 |
| | 471,440 | | 602,081 | | 446,072 | | 5,523,000 |
| | 19,231 | | - | | - | | 36,791 |
| | 10,340,336 | | 1,046,734 | | 2,349,520 | | 45,569,131 |
| | 1,722,210 | | (892,676) | | 97,137 | | 5,127,683 |
| | - | | 9,576 | | - | | 9,576 |
| | - | | - | | - | | 14,189 |
| | 28,608 | | - | | 11,467 | | 154,702 |
| | - | | - | | - | | (1,013,610) |
| | - | | - | | (40,000) | | (100,000) |
| | 41,415 | | (20,108) | | 838 | | (34,946) |
| | 70,023 | | (10,532) | | (27,695) | | (970,089) |
| | 1,792,233 | | (903,208) | | 69,442 | | 4,157,594 |
| | - | | 510,615 | | - | | 510,615 |
| | (459,360) | | - | | (206,200) | | (1,717,850) |
| | - | | 211,626 | | 26,077 | | 1,729,098 |
| | 1,332,873 | | (180,967) | | (110,681) | | 4,679,457 |
| | 17,049,456 | | 20,452,995 | | 8,733,511 | | 143,720,579 |
| \$ | 18,382,329 | \$ | 20,272,028 | \$ | 8,622,830 | \$ | 148,400,036 |

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

City of Watertown
Comprehensive Annual Financial Report
Year Ended December 31, 2014

Statement of Cash Flows - Proprietary Funds

| | <u>Sewer Fund</u> | <u>Electric Fund</u> |
|---|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Receipts from Customer Including Deposits | \$ 3,421,797 | \$ 27,609,113 |
| Cash Receipts for Interfund Services Provided | 21,124 | 1,298,645 |
| Payments to Suppliers | (402,961) | (20,583,096) |
| Payments to Employees | (1,008,872) | (2,633,328) |
| Payments for Interfund Services Used | (269,672) | (41,109) |
| Other Operating Cash Receipts | 11,350 | - |
| Other Payments | - | (1,472,302) |
| Net cash provided (used) by operating activities | <u>1,772,766</u> | <u>4,177,923</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Proceeds from Interfund Loans | - | - |
| Repayments of Interfund Loans | - | - |
| Tax Revenue | - | - |
| Contribution | (60,000) | 421,415 |
| Transfers Out | (273,250) | (689,040) |
| Transfers In | - | - |
| Net cash provided (used) by noncapital financing activities | <u>(333,250)</u> | <u>(267,625)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (428,238) | (2,849,301) |
| Interest payments on SRF Loan | (371,001) | - |
| Proceeds from SRF Loan | 27,921 | - |
| Principal payments on SRF Loan | (744,208) | - |
| Capital Grant | - | - |
| Retirement Work in Progress | - | (129) |
| Proceeds from sales of capital assets | 747 | 3,312 |
| Net cash provided (used) by capital and related financing activities | <u>(1,514,779)</u> | <u>(2,846,118)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 16,026 | 23,956 |
| Net cash provided by investing activities | <u>16,026</u> | <u>23,956</u> |
| Net increase (decrease) in cash and cash equivalents | (59,237) | 1,088,136 |
| Pooled Cash and Investments - beginning of year | 4,620,878 | 8,300,528 |
| Pooled Cash and Investments - end of year | 4,561,641 | 9,388,664 |
| Less Restricted Pooled Cash and Investments | (2,804,344) | (804,770) |
| Pooled Cash and Investments Per Balance Sheet | <u>\$ 1,757,297</u> | <u>\$ 8,583,894</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ 221,713 | \$ 2,894,440 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 1,436,821 | 1,188,011 |
| Changes in assets and Liabilities: | | |
| Accounts Payable - Other | 97,250 | 121,669 |
| Accounts Payable | - | (186,620) |
| Customer Receivables | 3,734 | 211,482 |
| Inventory | (6,029) | (157,624) |
| Other Operating Receivables | - | 78,129 |
| Other Post Employment Benefits | 3,541 | 8,907 |
| Closure/Post closure costs | - | - |
| Salaries & Benefits Payable | 15,736 | 19,529 |
| Net Cash provided (used) by operating activities | <u>\$ 1,772,766</u> | <u>\$ 4,177,923</u> |
| Noncash Investing, Capital, and Financing Activities: | | |
| Loss on Disposal of Capital Assets Not Affecting Operating Income | \$ - | \$ 83,479 |
| Contributions of Capital Assets | \$ 1,069,980 | \$ 421,415 |

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

Statement of Cash Flows - Proprietary Funds (continued)

| Water Fund | | Gas Fund | | Airport Fund | | Other Proprietary Funds | | Total Proprietary Funds | |
|------------|--------------------|----------|------------------|--------------|------------------|-------------------------|------------------|-------------------------|--------------------|
| \$ | 5,280,221 | \$ | 12,750,144 | \$ | 148,535 | \$ | 2,653,841 | \$ | 51,863,651 |
| | 497,111 | | 353,837 | | - | | - | | 2,170,717 |
| | (1,292,831) | | (8,227,440) | | (302,937) | | (923,746) | | (31,733,011) |
| | (1,503,514) | | (1,437,647) | | (193,629) | | (1,064,620) | | (7,841,610) |
| | (472,783) | | (14,063) | | - | | - | | (797,627) |
| | - | | - | | 2,773 | | 9,499 | | 23,622 |
| | (3,788) | | (650,047) | | - | | - | | (2,126,137) |
| | <u>2,504,416</u> | | <u>2,774,784</u> | | <u>(345,258)</u> | | <u>674,974</u> | | <u>11,559,605</u> |
| | 5,000,000 | | (5,000,000) | | 39,218 | | - | | 39,218 |
| | (4,700,000) | | 4,700,000 | | (1,182,578) | | - | | (1,182,578) |
| | - | | - | | 9,576 | | - | | 9,576 |
| | - | | - | | - | | (40,000) | | 321,415 |
| | (90,000) | | (459,360) | | - | | (206,200) | | (1,717,850) |
| | - | | - | | 510,615 | | - | | 510,615 |
| | <u>210,000</u> | | <u>(759,360)</u> | | <u>(623,169)</u> | | <u>(246,200)</u> | | <u>(2,019,604)</u> |
| | (920,594) | | (535,930) | | (298,815) | | (554,078) | | (5,586,956) |
| | (668,520) | | - | | - | | - | | (1,039,521) |
| | - | | - | | - | | - | | 27,921 |
| | (2,486,121) | | - | | - | | - | | (3,230,329) |
| | - | | - | | 1,267,242 | | 26,077 | | 1,293,319 |
| | - | | (3,411) | | - | | - | | (3,540) |
| | 1,329 | | 41,415 | | - | | 838 | | 47,641 |
| | <u>(4,073,906)</u> | | <u>(497,926)</u> | | <u>968,427</u> | | <u>(527,163)</u> | | <u>(8,491,465)</u> |
| | - | | 26,075 | | - | | 10,401 | | 76,458 |
| | - | | 26,075 | | - | | 10,401 | | 76,458 |
| | (1,359,490) | | 1,543,573 | | - | | (87,988) | | 1,124,994 |
| | 2,560,991 | | 3,857,533 | | - | | 2,887,299 | | 22,227,229 |
| | 1,201,501 | | 5,401,106 | | - | | 2,799,311 | | 23,352,223 |
| | (980,208) | | - | | - | | (500,515) | | (5,089,837) |
| \$ | <u>221,293</u> | \$ | <u>5,401,106</u> | \$ | <u>-</u> | \$ | <u>2,298,796</u> | \$ | <u>18,262,386</u> |
| \$ | 1,084,859 | \$ | 1,722,210 | \$ | (892,676) | \$ | 97,137 | \$ | 5,127,683 |
| | 1,396,135 | | 490,671 | | 602,081 | | 446,072 | | 5,559,791 |
| | - | | - | | 131 | | 99 | | 219,149 |
| | (136) | | (167,172) | | (42,623) | | (102,655) | | (499,206) |
| | (4,987) | | 538,604 | | (2,750) | | (17,436) | | 728,647 |
| | 1,277 | | 25,597 | | 1,796 | | 3,284 | | (131,699) |
| | 51,672 | | 151,104 | | - | | 234,118 | | 515,023 |
| | 4,453 | | 4,453 | | 733 | | 4,030 | | 26,117 |
| | - | | - | | - | | 19,079 | | 19,079 |
| | (28,857) | | 9,317 | | (11,950) | | (8,754) | | (4,979) |
| \$ | <u>2,504,416</u> | \$ | <u>2,774,784</u> | \$ | <u>(345,258)</u> | \$ | <u>674,974</u> | \$ | <u>11,559,605</u> |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | 83,479 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | 1,491,395 |

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

City of Watertown
Comprehensive Annual Financial Report
December 31, 2014

Statement of Net Position - Fiduciary Funds

| | Agency Funds |
|-----------------------------|-------------------------|
| | <hr/> |
| ASSETS | |
| Pooled Cash and Investments | \$ 84,546 |
| Interest Receivable | 35 |
| Total Assets | <hr/> 84,581 <hr/> |
| LIABILITIES | |
| Due to Others | 84,581 |
| Total Liabilities | <hr/> 84,581 <hr/> |

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

Notes to the Financial Statements

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 unit, an entity 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.

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions the City has changed accounting policies. This important new standard has left the total amount reported as fund balance unchanged, but has altered the categories and terminology.

With the implementation of GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position the City has changed accounting policies. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, Elements of Financial Statements.

With the implementation of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities the City has changed accounting policies. This statement provides guidance for proper classification of previously reported assets and liabilities in accordance with Concepts Statement No. 4, Elements of Financial Statements.

Government-wide Financial Statements

The Statement of Net Position 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.

Notes to the Financial Statements

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 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 fund 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 projects 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.

Notes to the Financial Statements

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.

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 Flexible 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 second penny City sales tax.

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

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.

The *Airport Fund* accounts for the activities of the government’s airport operations.

Other Proprietary Funds is a summarization of all of the non-major proprietary funds. This includes the Solid Waste Fund.

C. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe how 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

Notes to the Financial Statements

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.

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 nonspendable fund balance account which indicates that they do not constitute "available spendable resources" since they are not a component of net current position. 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. There was no interest capitalized in the proprietary funds for 2014.

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 Position and on each proprietary fund's Statement of Net Position.

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.

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.

G. Proprietary Funds Revenue and Expense Classifications:

In the proprietary funds Statement of Revenues, Expenses, and Changes in Net Position, 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

Notes to the Financial Statements

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 Position 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 nonspendable fund balance account in the applicable governmental funds to indicate they are not available for appropriation and are not available spendable financial resources.

Restricted Assets and Restricted Net Position: Assets and net position whose use is restricted for construction, debt service, or the payment of specific claims and benefits have been classified as restricted assets and restricted net position 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 as well as in the business-type fund and government-wide financial statements when used (consumption method). The inventories reported in the governmental fund financial statements are off-set by a nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of current assets. 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, compensatory time, and sick pay benefits. The accumulation of unused vacation and compensatory 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 compensatory 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.

Unavailable Revenue: As sources of revenue become measurable, even though not currently available, they are generally recorded as receivable and unavailable 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 position. Bonds payable are reported net of the applicable bond premium or discount.

Notes to the Financial Statements

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 position and is displayed in three components.

1. Net Investment in Capital Assets – 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 position – Consists of net positions 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 position – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements: Fund balance is displayed in five components based on the spending constraints placed on them. The following classifications describe the spending constraints:

1. Nonspendable Fund Balance – amounts that cannot be spent because they are either (a) not in spendable form (such as inventory) or (b) legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts restricted that are either (a) externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed Fund Balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (ordinance) of the entity’s governing board.
4. Assigned Fund Balance – amounts that are constrained by the government’s “intent” to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by the City Council, Parks, Recreation & Forestry Board, Library Board or Urban Renewal Board which has been granted delegated authority by either the governing body or State statute.
5. Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts reported only in the General Fund.

Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds do not have fund equity.

Net Position/Fund Balances: It is the City’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. The City will first use restricted fund balance, committed fund balance will be considered next and assigned fund balance third when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

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.

Notes to the Financial Statements

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 and contractual provisions.

B. Net Position/Fund Balance Deficits

As of December 31, 2014, the following funds have deficit fund balances in the amount shown:

| | |
|--------------------------------|----------------|
| Tax Increment Financing 1 Fund | \$ (1,866,780) |
| Tax Increment Financing 2 Fund | \$ (1,219,447) |
| Tax Increment Financing 3 Fund | \$ (160,695) |
| Tax Increment Financing 5 Fund | \$ (2,367,386) |
| Tax Increment Financing 6 Fund | \$ (765,128) |

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 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.

Notes to the Financial Statements

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, 2014, 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, 2014, the deposits of the Authority were fully insured or collateralized as required by SDCL 4-6A, and the non-pooled cash and investments consist of checking, savings and certificates of deposits.

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. No accrual for the property tax levy becoming due in January of 2015 is included in the accompanying financial statements, since such taxes become due and payable on January 1, 2015, 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, 2014 was \$2.68 per \$1,000 of taxable valuation.

Notes to the Financial Statements

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, 2014:

| | Interest | Other | Taxes | Accounts | Special Assessments | Loans | Unbilled Accounts | Total |
|----------------------------|------------------|-----------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|
| General Fund | \$ 8,354 | \$ - | \$ 880,432 | \$ 219,876 | \$ 434,809 | \$ - | \$ - | \$ 1,543,471 |
| Capital Improvement | 18,972 | - | 822,080 | - | 237,939 | 1,193,826 | - | 2,272,817 |
| Sewer | 5,224 | - | - | 294,609 | - | - | - | 299,833 |
| Electric | 8,554 | - | - | 2,307,121 | - | - | 585,342 | 2,901,017 |
| Water | - | - | - | 342,655 | - | - | 140,776 | 483,431 |
| Gas | 9,266 | 4,720 | - | 1,566,281 | - | - | 477,348 | 2,057,615 |
| Airport | - | - | - | 5,595 | - | - | - | 5,595 |
| Nonmajor and Other | 5,617 | - | 86,452 | 351,866 | 865 | 80,989 | - | 525,789 |
| | <u>\$ 55,987</u> | <u>\$ 4,720</u> | <u>\$ 1,788,964</u> | <u>\$5,088,003</u> | <u>\$ 673,613</u> | <u>\$ 1,274,815</u> | <u>\$1,203,466</u> | <u>\$10,089,568</u> |

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

| | |
|--|------------------|
| Uncollectibles related to electric sales | \$ 20,379 |
| Uncollectibles related to water sales | 2,845 |
| Uncollectibles related to gas sales | <u>11,657</u> |
| Total uncollectibles of the current fiscal year | \$ 34,881 |

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

| | |
|--|---------------------|
| Interest receivable (general fund) | \$ 8,354 |
| Interest receivable (special revenue funds) | 20,754 |
| Interest receivable (debt service fund) | 475 |
| Sales tax receivable (general fund) | 687,117 |
| Sales tax receivable (special revenue funds) | 750,430 |
| Special assessments not yet due (general fund) | 434,809 |
| Special assessments not yet due (special revenue funds) | 237,939 |
| Accounts receivable - Franchise Fees (general fund) | 31,259 |
| Accounts receivable - E-911 surcharges (special revenue funds) | 53,581 |
| Due from other governments (general fund) | <u>7,129</u> |
| Total | \$ 2,231,847 |

Notes to the Financial Statements

D. Due From Other Governments

Amounts due from other governments include the following at December 31, 2014:

| | Due from Federal | Due from State | Total |
|---------------------------------|---------------------|-------------------|-------------------|
| Primary Government: | | | |
| Governmental Activities | | | |
| General Fund | \$ 10,744 | \$ 126,656 | \$ 137,400 |
| Capital Improvement Fund | 12,824 | 162,000 | 174,824 |
| E-911 Fund | - | 12,588 | 12,588 |
| Sioux River Watershed Fund | 7,758 | - | 7,758 |
| Total Governmental Activities | <u>31,326</u> | <u>301,244</u> | <u>332,570</u> |
| Business-Type Activities | | | |
| Enterprise Funds | | | |
| Airport | 31,870 | 3,964 | 35,834 |
| Total Business-Type Activities | <u>31,870</u> | <u>3,964</u> | <u>35,834</u> |
| Total | <u>\$ 63,196</u> | <u>\$ 305,208</u> | <u>\$ 368,404</u> |

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, 2014, is as follows:

| Receivable Fund | Payable Fund | Amount |
|------------------|---------------|-----------|
| General Fund | Airport Fund | \$ 39,218 |
| General Fund | E-911 Fund | 6,611 |
| Gas Fund | Water Fund | 5,000,000 |
| Solid Waste Fund | Electric Fund | 38 |

F. Interfund Transfers

Transfers are budgeted to subsidize the operations of the fund receiving the transfer. Interfund transfers for the year ended December 31, 2014 were as follows:

| | General Fund | Capital Improvement Fund | Nonmajor Governmental Funds | Airport Fund | Total |
|------------------------------|---------------------|--------------------------------|-----------------------------------|-------------------|---------------------|
| Transfers Out | | | | | |
| General Fund | \$ - | \$ 50,000 | \$ 1,740,700 | \$ 160,000 | \$ 1,950,700 |
| Capital Improvement Fund | - | - | 430,000 | 350,615 | 780,615 |
| Sewer Fund | 273,250 | - | - | - | 273,250 |
| Electric Fund | 689,040 | - | - | - | 689,040 |
| Gas Fund | 459,360 | - | - | - | 459,360 |
| Water Fund | - | - | 90,000 | - | 90,000 |
| Nonmajor Governmental Funds | - | - | 58,000 | - | 58,000 |
| Nonmajor Business-Type Funds | 206,200 | - | - | - | 206,200 |
| | <u>\$ 1,627,850</u> | <u>\$ 50,000</u> | <u>\$ 2,318,700</u> | <u>\$ 510,615</u> | <u>\$ 4,507,165</u> |

Notes to the Financial Statements

G. Advances

The City made an inter-fund loan in 2004 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 used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 1 district. The loan terms state the loan will be paid back as property taxes are collected by the TIF 1 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

The City made another inter-fund loan in 2004 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 used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 2 district. The loan terms state that the loan will be paid back as property taxes are collected by the TIF 2 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

The City made another inter-fund loan in 2005 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 used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 3 district. The loan terms state that the loan will be paid back as property taxes are collected by the TIF 3 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

The City made another inter-fund loan in 2010 from the Capital Improvement Fund and the Sewer Fund to the TIF 5 Fund in the amount of \$1,825,000. As authorized in Resolution 10-40, the City used available funds from the Capital Improvement and Sewer Funds to finance the project costs for the public improvements made in the TIF 5 district. The loan terms state the loan will be paid back to the Capital Improvement Fund first as property taxes are collected by the TIF 5 Fund over a period not to exceed twenty years at an interest rate of 7.00%. If the Capital Improvement Fund loan is repaid within the twenty years, the Sewer Fund will be repaid back at an interest rate of 7.00%.

The City made another inter-fund loan in 2010 from the Capital Improvement Fund to the TIF 6 Fund in the amount of \$800,000. As authorized in Resolution 09-34, the City used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 6 district. The loan terms state that the loan will be paid back as property taxes are collected by the TIF 6 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

Notes to the Financial Statements

H. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|-----------------------|---------------------|-----------------------|-----------------------|
| Governmental Activities: | | | | |
| Non-Depreciable Assets | | | | |
| Land | \$ 14,100,284 | \$ 2,166,764 | \$ (113,722) | \$ 16,153,326 |
| Construction in Progress | 1,763,044 | 1,353,187 | (1,699,179) | 1,417,052 |
| Depreciable Assets: | | | | |
| Buildings & Structures | 34,942,441 | 1,425,841 | - | 36,368,282 |
| Improvements other than Buildings | 71,398,036 | 4,810,841 | (147,563) | 76,061,314 |
| Equipment & Automotive | 10,747,838 | 646,067 | (235,154) | 11,158,751 |
| Totals | 132,951,643 | 10,402,700 | (2,195,618) | 141,158,725 |
| Less Accumulated Depreciation: | | | | |
| Buildings & Structures | (7,099,832) | (1,006,534) | - | (8,106,366) |
| Improvements other than Buildings | (13,075,220) | (1,246,633) | 147,563 | (14,174,290) |
| Equipment & Automotive | (6,720,760) | (952,371) | 143,388 | (7,529,743) |
| Total Accumulated Depreciation | (26,895,812) | (3,205,538) | 290,951 | (29,810,399) |
| Governmental Activities Capital Assets, net | \$ 106,055,831 | \$ 7,197,162 | \$ (1,904,667) | \$ 111,348,326 |
| Business-Type Activities | | | | |
| Non-Depreciable Assets | | | | |
| Land | \$ 2,975,839 | \$ 113,408 | \$ (111,015) | \$ 2,978,232 |
| Construction in Progress | 1,814,254 | 1,298,090 | (1,028,550) | 2,083,794 |
| Depreciable Assets: | | | | |
| Intangible Property | 470,654 | - | - | 470,654 |
| Buildings & Structures | 68,627,626 | 968,273 | (1,980,185) | 67,615,714 |
| Improvements Other than Buildings | 154,172,237 | 8,597,170 | (3,156,627) | 159,612,780 |
| Equipment & Automotive | 11,480,833 | 1,123,233 | (947,848) | 11,656,218 |
| Totals at Historical Cost | 239,541,443 | 12,100,174 | (7,224,225) | 244,417,392 |
| Less Accumulated Depreciation: | | | | |
| Amortization of Intangible Property | (261,686) | (36,791) | - | (298,477) |
| Buildings & Structures | (19,908,149) | (1,454,801) | 618,060 | (20,744,890) |
| Improvements Other than Buildings | (58,576,365) | (3,248,122) | 89,784 | (61,734,703) |
| Equipment & Automotive | (7,111,884) | (818,034) | 945,805 | (6,984,113) |
| Total Accumulated Depreciation | (85,858,084) | (5,557,748) | 1,653,649 | (89,762,183) |
| Business-Type Activities Capital Assets, net | \$ 153,683,359 | \$ 6,542,426 | \$ (5,570,576) | \$ 154,655,209 |

* The depreciation expense for governmental activities of \$3,138,953 includes accumulated depreciation additions of \$3,205,538 less \$66,585 of accumulated depreciation on assets transferred in from business-type activities. The depreciation expense for business-type activities of \$5,559,791 includes accumulated depreciation additions of \$5,557,748 plus \$2,043 of accumulated depreciation on assets transferred in from governmental activities.

Notes to the Financial Statements

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

| Governmental Activities: | Depreciation Expense |
|--|-----------------------------|
| General Government | \$ 59,303 |
| Public Safety | 986,341 |
| Public Works | 1,097,334 |
| Culture & Recreation | 828,543 |
| Conservation & Development | 167,432 |
| Total Depreciation Expense - Governmental Activities | \$ 3,138,953 |
| | |
| Business-Type Activities: | |
| Sewer | \$ 1,436,821 |
| Solid Waste | 446,072 |
| Airport | 602,081 |
| Electric | 1,188,011 |
| Water | 1,396,135 |
| Gas | 490,671 |
| Total Depreciation Expense - Business-Type Activities | \$ 5,559,791 |

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

| Project | Contracted Amount | Expended to 12/31/14 | Committed |
|--|----------------------|-------------------------|---------------------|
| Governmental Funds: | | | |
| Community Recreation Facility | \$ - | 580,366 | \$ - |
| South Broadway Bridge Project | - | 58,298 | - |
| 11 th St. N & Drainage Pond | 1,244,643 | 618,326 | 626,317 |
| 23 rd St. East Box Culvert – Willow Creek | - | 160,062 | - |
| | <u>1,244,643</u> | <u>1,417,052</u> | <u>626,317</u> |
| Enterprise Funds: | | | |
| Alkalinity Storage & Feed Building | 488,420 | 58,420 | 430,000 |
| SCADA System Upgrades | - | 27,223 | - |
| Landfill Cell #6 Design & Construction | 56,370 | 56,370 | - |
| Landfill Compost Pad | - | 186,383 | - |
| Gas System Force Account Projects | - | 39,898 | - |
| Electric System Force Account Projects | - | 1,325,353 | - |
| Water System Force Account Projects | - | 390,147 | - |
| | <u>544,790</u> | <u>2,083,794</u> | <u>430,000</u> |
| Total Primary Government | <u>\$ 1,789,433</u> | <u>\$ 3,500,846</u> | <u>\$ 1,056,317</u> |

Notes to the Financial Statements

I. 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 2014 and outstanding balances as of December 31, 2014 follows:

| | Balance Outstanding 12/31/2013 | Additions During 2014 | Deletions During 2014 | Balance Outstanding 12/31/2014 | Due Within One Year |
|--|--------------------------------------|-----------------------------|-----------------------------|--------------------------------------|------------------------|
| BUSINESS-TYPE ACTIVITIES: | | | | | |
| Loans Payable | | | | | |
| State Revolving Fund-Loan #3; Original Issue | | | | | |
| | \$ | | | | |
| \$2,583,734; 5.25% Interest, Due in 2016 | 580,426 | \$ - | \$ 183,476 | \$ 396,950 | \$ 193,300 |
| State Revolving Fund-Loan #5: Original Issue | | | | | |
| \$2,055,000; 3.5% Interest, Due in 2025 | 1,403,397 | - | 103,683 | 1,299,714 | 107,360 |
| State Revolving Fund-Loan #7 CW; Original Issue | | | | | |
| \$847,170; 2.25% interest; Due in 2029 | 648,635 | - | 36,074 | 612,561 | 36,893 |
| State Revolving Fund-Loan #7 NPS; Original Issue | | | | | |
| \$81,205; 2.25% interest; Due in 2029 | 65,080 | - | 3,620 | 61,460 | 3,702 |
| State Revolving Fund-Loan #9 CW; Original Issue | | | | | |
| \$16,446,000; 3.0% interest; due in 2031 | 9,516,898 | 27,921 | 431,543 | 9,113,276 | 433,452 |
| State Revolving Fund-Loan Drinking Water; Original Issue | | | | | |
| \$23,760,000; 3.25% interest; Due in 2030 | 21,307,602 | - | 2,486,121 | 18,821,481 | 1,055,722 |
| Total Loans Payable | | | | <u>30,305,442</u> | <u>1,830,429</u> |
| Compensated Absences Payable | 1,450,260 | 599,632 | 615,508 | 1,434,384 | 358,595 |
| Other Post Employment Benefits (OPEB) | 120,229 | 83,028 | 56,911 | 146,346 | - |
| Closure/Post Closure Costs | 481,436 | 19,079 | - | 500,515 | - |
| TOTAL BUSINESS-TYPE ACTIVITIES | | | | <u>32,386,687</u> | <u>2,189,024</u> |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds Issued | | | | | |
| 2010 GO Refunding Bond – Event Center; General Obligation Bonds; Original Issue \$4,415,000; 1-3.35% interest; due in 2023 | 3,800,000 | - | 330,000 | 3,470,000 | 350,000 |
| Total GO Bonds | | | | <u>3,470,000</u> | <u>350,000</u> |
| 2006 Sales Tax Revenue | | | | | |
| Bond – Library Expansion Project; Original Issue \$4,985,000; 3.35-4.55% interest; due in 2026 | 3,580,000 | - | 215,000 | 3,365,000 | 220,000 |
| 2012 Sales Tax Revenue - Refunding | | | | | |
| Bond – CIP Sewer Project & Family Aquatic Center \$4,165,000; 0.4-2.7% interest; due in 2024 | 3,325,000 | - | 280,000 | 3,045,000 | 280,000 |
| 2014 Sales Tax Revenue | | | | | |
| Bond – Community Recreation Facility/Community Improv. \$10,000,000; 0.5-3.6% interest; due in 2035 | - | 10,000,000 | - | 10,000,000 | 350,000 |
| Total Sales Tax Revenue Bonds | | | | <u>16,410,000</u> | <u>850,000</u> |
| Loans Payable | | | | | |
| State Revolving Fund Loan #6-CW; Original Issue \$1,189,145; 2.25% interest; due in 2029 | 944,595 | - | 51,534 | 893,061 | 52,703 |
| State Revolving Fund Loan #6-NPS; Original Issue \$113,985; 2.25% interest; due in 2028 | 88,824 | - | 5,138 | 83,686 | 5,255 |
| State Revolving Fund-Loan #8-CW; Original Issue \$612,877; 2.25% interest; due in 2029 | 420,779 | - | 23,402 | 397,377 | 23,933 |
| State Revolving Fund-Loan #8-NPS; Original Issue \$58,747; 2.25% interest; due in 2029 | 47,081 | - | 2,618 | 44,463 | 2,678 |
| State Revolving Fund-Loan #10-CW; Original Issue \$3,330,000; 3.0% interest; due in 2031 | 2,431,100 | - | 107,338 | 2,323,762 | 110,595 |
| State Revolving Fund-Loan #11-CW; Original Issue \$815,000; 3.0% interest; due in 2032 | 181,515 | - | 7,459 | 174,056 | 7,685 |
| Total Loans Payable | | | | <u>3,916,405</u> | <u>202,849</u> |

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

Notes to the Financial Statements

| LONG-TERM DEBT (continued) | Balance Outstanding 12/31/2013 | Additions During 2014 | Deletions During 2014 | Balance Outstanding 12/31/2014 | Due Within One Year |
|---|--------------------------------------|-----------------------------|-----------------------------|--------------------------------------|------------------------|
| Long-Term Capital Leases | | | | | |
| Fire Truck Lease – Leasing 2 Inc. Original Issue \$645,458; 4.46% interest | 292,331 | - | 68,372 | 223,959 | 71,421 |
| Golf Cart Lease – DeLage Landen Public Finance LLC; 4.45% interest; Original Issue \$160,448 | 85,381 | - | 85,381 | - | - |
| Total Long-Term Capital Leases | | | | <u>223,959</u> | <u>71,421</u> |
| Compensated Absences Payable | | | | | |
| General Fund | 1,266,421 | 641,615 | 565,263 | 1,342,773 | 335,693 |
| Special Revenue Funds | 394,626 | 212,879 | 175,466 | 432,039 | 108,010 |
| Other Post Employment Benefits (OPEB) | | | | | |
| General Fund | 196,199 | 89,174 | 54,859 | 230,514 | - |
| Special Revenue Funds | 62,875 | 28,243 | 17,375 | 73,743 | - |
| | | | | <u>2,079,069</u> | <u>443,703</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | | | | <u>26,099,433</u> | <u>1,917,973</u> |
| TOTAL OF BONDS, INSTALLMENT CONTRACTS & CAPITAL LEASES | | | | <u>\$ 58,486,120</u> | <u>\$ 4,106,997</u> |

*Compensated absences in the Governmental Funds have typically been liquidated from the General, Park & Recreation, Recreation Center, Big Sioux River Project and E-911 Funds.

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 Refunding Bonds | | |
|---------|---------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2015 | \$ 350,000 | \$ 101,008 | \$ 451,008 |
| 2016 | 375,000 | 93,657 | 468,657 |
| 2017 | 395,000 | 84,845 | 479,845 |
| 2018 | 410,000 | 74,575 | 484,575 |
| 2019 | 440,000 | 62,275 | 502,275 |
| 2020-24 | 1,500,000 | 101,335 | 1,601,335 |
| Totals | <u>\$ 3,470,000</u> | <u>\$ 517,695</u> | <u>\$ 3,987,695</u> |

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:

Notes to the Financial Statements

| 2006 Sales Tax Revenue Bonds | | | |
|-------------------------------------|--------------------|--------------------|---------------------|
| Year | Principal | Interest | Total |
| 2015 | \$ 220,000 | \$ 144,858 | \$ 364,858 |
| 2016 | 230,000 | 136,058 | 366,058 |
| 2017 | 240,000 | 126,742 | 366,742 |
| 2018 | 250,000 | 116,903 | 366,903 |
| 2019 | 260,000 | 106,590 | 366,590 |
| 2020-24 | 1,480,000 | 357,703 | 1,837,703 |
| 2025-29 | 685,000 | 47,092 | 732,092 |
| Totals | \$3,365,000 | \$1,035,946 | \$ 4,400,946 |

| 2012 Sales Tax Revenue Bonds - Refunding | | | |
|---|--------------------|-------------------|---------------------|
| Year | Principal | Interest | Total |
| 2015 | \$ 280,000 | \$ 59,727 | \$ 339,727 |
| 2016 | 280,000 | 56,648 | 336,648 |
| 2017 | 285,000 | 53,147 | 338,147 |
| 2018 | 285,000 | 49,158 | 334,158 |
| 2019 | 295,000 | 44,597 | 339,597 |
| 2020-24 | 1,620,000 | 126,845 | 1,746,845 |
| Totals | \$3,045,000 | \$ 390,122 | \$ 3,435,122 |

| 2014 Sales Tax Revenue Bonds | | | |
|-------------------------------------|---------------------|--------------------|----------------------|
| Year | Principal | Interest | Total |
| 2015 | \$ 350,000 | \$ 267,100 | \$ 617,100 |
| 2016 | 380,000 | 277,485 | 657,485 |
| 2017 | 385,000 | 269,885 | 654,885 |
| 2018 | 395,000 | 262,185 | 657,185 |
| 2019 | 405,000 | 254,285 | 659,285 |
| 2020-24 | 2,145,000 | 1,141,228 | 3,286,228 |
| 2025-29 | 2,445,000 | 842,171 | 3,287,171 |
| 2030-34 | 2,860,000 | 419,833 | 3,279,833 |
| 2035-39 | 635,000 | 22,860 | 657,860 |
| Totals | \$10,000,000 | \$3,757,032 | \$ 13,757,032 |

Loans – Business-Type Activities

The City has several State Revolving Fund (SRF) loans outstanding for various sewer and water projects. These loans will be repaid with pledged sewer user fees from the Sewer Enterprise Fund and pledged water user fees from the Water Fund.

Annual debt service requirements to maturity for SRF loans are as follows:

| SRF Loan #3 | | | |
|--------------------|-------------------|------------------|-------------------|
| Year | Principal | Interest | Total |
| 2015 | \$ 193,300 | \$ 17,076 | \$ 210,376 |
| 2016 | 203,650 | 6,726 | 210,376 |
| Totals | \$ 396,950 | \$ 23,802 | \$ 420,752 |

| SRF Loan #5 | | | |
|--------------------|--------------------|-------------------|--------------------|
| Year | Principal | Interest | Total |
| 2015 | \$ 107,360 | \$ 44,091 | \$ 151,451 |
| 2016 | 111,168 | 40,284 | 151,452 |
| 2017 | 115,110 | 36,342 | 151,452 |
| 2018 | 119,192 | 32,260 | 151,452 |
| 2019 | 123,418 | 28,033 | 151,451 |
| 2020-24 | 685,931 | 71,326 | 757,257 |
| 2025-29 | 37,535 | 328 | 37,863 |
| Totals | \$1,299,714 | \$ 252,664 | \$1,552,378 |

Notes to the Financial Statements

| SRF Loan #7 | | | | SRF Loan #7-NPS | | | |
|-------------|------------|------------|------------|-----------------|-----------|-----------|-----------|
| Year | Principal | Interest | Total | Year | Principal | Interest | Total |
| 2015 | \$ 36,893 | \$ 13,473 | \$ 50,366 | 2015 | \$ 3,702 | \$ 1,352 | \$ 5,054 |
| 2016 | 37,730 | 12,636 | 50,366 | 2016 | 3,786 | 1,268 | 5,054 |
| 2017 | 38,586 | 11,780 | 50,366 | 2017 | 3,871 | 1,182 | 5,053 |
| 2018 | 39,461 | 10,904 | 50,365 | 2018 | 3,959 | 1,094 | 5,053 |
| 2019 | 40,357 | 10,009 | 50,366 | 2019 | 4,049 | 1,004 | 5,053 |
| 2020-24 | 215,942 | 35,885 | 251,827 | 2020-24 | 21,666 | 3,600 | 25,266 |
| 2025-29 | 203,592 | 10,461 | 214,053 | 2025-29 | 20,427 | 1,050 | 21,477 |
| Totals | \$ 612,561 | \$ 105,148 | \$ 717,709 | Totals | \$ 61,460 | \$ 10,550 | \$ 72,010 |

| SRF Loan #9 | | | | Water System Revenue Bonds Series 2008 | | | |
|-------------|-------------|-------------|--------------|--|--------------|--------------|--------------|
| Year | Principal | Interest | Total | Year | Principal | Interest | Total |
| 2015 | \$ 433,452 | \$ 268,378 | \$ 701,830 | 2015 | \$ 1,055,722 | \$ 598,919 | \$ 1,654,641 |
| 2016 | 446,602 | 255,227 | 701,829 | 2016 | 1,090,454 | 564,187 | 1,654,641 |
| 2017 | 460,152 | 241,677 | 701,829 | 2017 | 1,126,328 | 528,313 | 1,654,641 |
| 2018 | 474,112 | 227,717 | 701,829 | 2018 | 1,163,382 | 491,259 | 1,654,641 |
| 2019 | 488,496 | 213,333 | 701,829 | 2019 | 1,201,655 | 452,985 | 1,654,640 |
| 2020-24 | 2,673,991 | 835,155 | 3,509,146 | 2020-24 | 6,627,923 | 1,645,281 | 8,273,204 |
| 2025-29 | 3,104,996 | 404,150 | 3,509,146 | 2025-29 | 6,556,017 | 490,784 | 7,046,801 |
| 2030-34 | 1,025,653 | 27,091 | 1,052,744 | Totals | \$18,821,481 | \$ 4,771,728 | \$23,593,209 |
| Totals | \$9,107,454 | \$2,472,728 | \$11,580,182 | | | | |

*The amortization schedule principal amount of \$9,107,454 on SRF Loan #9 does not include the 2014 drawdown requests of \$5,822 for expenses incurred before December 31, 2014.

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 and to secure the payment of principal and interest on the SRF Loans. In the past, sewer rates were increased in anticipation of the debt service payments on the SRF Loans No. 3, 5, 7, 7 NPS and 9 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

SRF Loan documents require that various "funds" and sub-accounts be used within the Water Fund for the purpose of application and proper allocation of revenue of the water system and to secure the payment of principal and interest on the SRF Loan. The water system users were charged a surcharge rate to cover the debt service payments on the Drinking Water SRF Loan. The surcharge rate collected within the Water Fund to finance debt service payments may not be used for any other purpose other than debt reduction of the Drinking Water SRF Loan.

Notes to the Financial Statements

The various revenue bond documents authorized the City to proceed with various wastewater and water system improvement projects and permitted the City to borrow money through the SRF program to finance these various improvements. The City has complied with all requirements of the various revenue bond resolutions and with all applicable requirements of the SRF Loan agreements entered into pursuant to these resolutions.

Loans – Governmental Activities

SRF Loans No. 6 and 8 consist of two portions: Clean Water (CW) and Non Point Source (NPS). The CW portions of the loans were used for storm sewer improvement projects. The NPS portions of the loans were used for watershed improvements. The draw downs for the CW and NPS portion of both loans are complete and annual debt service requirements to maturity for these projects have been established. SRF Loan No. 10 was used for two storm sewer improvement projects. SRF Loan No. 11 was used to complete the Watertown Police Departments “Green” Parking Lot. Payments are made from the Capital Improvement Sales Tax 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 |
| 2015 | \$ 52,703 | \$ 19,651 | \$ 72,354 | 2015 | \$ 5,255 | \$ 1,839 | \$ 7,094 |
| 2016 | 53,899 | 18,455 | 72,354 | 2016 | 5,373 | 1,720 | 7,093 |
| 2017 | 55,122 | 17,232 | 72,354 | 2017 | 5,496 | 1,598 | 7,094 |
| 2018 | 56,372 | 15,982 | 72,354 | 2018 | 5,620 | 1,473 | 7,093 |
| 2019 | 57,652 | 14,702 | 72,354 | 2019 | 5,748 | 1,345 | 7,093 |
| 2020-24 | 308,485 | 53,287 | 361,772 | 2020-24 | 30,755 | 4,711 | 35,466 |
| 2025-29 | 308,828 | 16,766 | 325,594 | 2025-29 | 25,439 | 1,160 | 26,599 |
| Totals | \$ 893,061 | \$ 156,075 | \$ 1,049,136 | Totals | \$ 83,686 | \$ 13,846 | \$ 97,532 |

| SRF Loan #8 CW | | | | SRF Loan #8 NPS | | | |
|-----------------------|-------------------|------------------|-------------------|------------------------|------------------|-----------------|------------------|
| Year | Principal | Interest | Total | Year | Principal | Interest | Total |
| 2015 | \$ 23,933 | \$ 8,740 | \$ 32,673 | 2015 | \$ 2,678 | \$ 978 | \$ 3,656 |
| 2016 | 24,476 | 8,197 | 32,673 | 2016 | 2,739 | 917 | 3,656 |
| 2017 | 25,031 | 7,642 | 32,673 | 2017 | 2,801 | 855 | 3,656 |
| 2018 | 25,599 | 7,074 | 32,673 | 2018 | 2,864 | 791 | 3,655 |
| 2019 | 26,180 | 6,493 | 32,673 | 2019 | 2,929 | 726 | 3,655 |
| 2020-24 | 140,085 | 23,279 | 163,364 | 2020-24 | 15,674 | 2,605 | 18,279 |
| 2025-29 | 132,073 | 6,786 | 138,859 | 2025-29 | 14,778 | 759 | 15,537 |
| Total | \$ 397,377 | \$ 68,211 | \$ 465,588 | Total | \$ 44,463 | \$ 7,631 | \$ 52,094 |

Notes to the Financial Statements

| SRF Loan #10 | | | | SRF Loan #11 | | | |
|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|------------------|-------------------|
| Year | Principal | Interest | Total | Year | Principal | Interest | Total |
| 2015 | \$ 110,595 | \$ 68,476 | \$ 179,071 | 2015 | \$ 7,685 | \$ 5,136 | \$ 12,821 |
| 2016 | 113,950 | 65,121 | 179,071 | 2016 | 7,918 | 4,903 | 12,821 |
| 2017 | 117,407 | 61,664 | 179,071 | 2017 | 8,158 | 4,662 | 12,820 |
| 2018 | 120,970 | 58,102 | 179,072 | 2018 | 8,406 | 4,415 | 12,821 |
| 2019 | 124,640 | 54,432 | 179,072 | 2019 | 8,661 | 4,160 | 12,821 |
| 2020-24 | 682,267 | 213,089 | 895,356 | 2020-24 | 47,409 | 16,695 | 64,104 |
| 2025-29 | 792,238 | 103,119 | 895,357 | 2025-29 | 55,051 | 9,053 | 64,104 |
| 2030-34 | 261,695 | 6,912 | 268,607 | 2030-34 | 30,768 | 1,283 | 32,051 |
| Totals | \$ 2,323,762 | \$ 630,915 | \$ 2,954,677 | Totals | \$ 174,056 | \$ 50,307 | \$ 224,363 |

Long-Term Capital Lease

The City entered into a contract with Leasing 2, Inc. in 2007 for the purpose of acquiring 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, 2014, is \$223,959. 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 security 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 |
| 2015 | \$ 71,421 | \$ 9,985 | \$ 81,406 |
| 2016 | 74,606 | 6,801 | 81,407 |
| 2017 | 77,932 | 3,475 | 81,407 |
| Totals | \$ 223,959 | \$ 20,261 | \$ 244,220 |

Notes to the Financial Statements

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.

| | "No-Limit" Debt | Debt Capacity at 5% (Unrestricted) | Additional 10% Debt Capacity (Water/Sewer) |
|---|-------------------------|--|--|
| 2014 Assessed Value | <u>\$ 1,457,979,941</u> | | |
| Maximum Debt Capacity: | | \$72,898,997 | \$145,979,994 |
| Existing Bonds: | | | |
| GO Refinancing Bonds (Event Center; 1-3.35% interest) | - | 3,470,000 | - |
| SRF Loan No. 3 (Wastewater Revenue Surcharge) | 396,950 | - | - |
| SRF Loan No. 5 (Wastewater Revenue Surcharge) | 1,299,714 | - | - |
| SRF Loan No. 7-CW (Wastewater Revenue Surcharge) | 612,561 | - | - |
| SRF Loan No. 7-NPS (Wastewater Revenue Surcharge) | 61,460 | - | - |
| SRF Loan No. 9-CW (Wastewater Revenue Surcharge) | 9,113,276 | - | - |
| SRF Loan Drinking Water (Water Revenue Surcharge) | 18,821,481 | - | - |
| SRF Loan No. 6-CW (Sales Tax) | - | 893,061 | - |
| SRF Loan No. 6-NPS (Sales Tax) | - | 83,686 | - |
| SRF Loan No. 8-CW (Sales Tax) | - | 397,377 | - |
| SRF Loan No. 8-NPS (Sales Tax) | - | 44,463 | - |
| SRF Loan No. 10-CW (Sales Tax) | - | 2,323,762 | - |
| SRF Loan No. 11-CW (Sales Tax) | - | 174,056 | - |
| 2006 Sales Tax Revenue Bonds (3.35-4.55%) | - | 3,365,000 | - |
| 2012 Sales Tax Revenue Bonds (0.4%-2.7%) | - | 3,045,000 | - |
| 2014 Sales Tax Revenue Bonds (0.5%-3.6%) | - | 10,000,000 | - |
| Total Bonded Debt | 30,305,442 | 23,796,405 | - |
| Other Debt: | | | |
| Capital Lease – Fire Truck | 223,959 | - | - |
| Total Other Debt | 223,959 | - | - |
| Total Debt | 30,529,401 | 23,796,405 | - |
| Available Debt Capacity | N/A | \$49,102,592 | \$145,979,994 |

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, 2014.

Notes to the Financial Statements

Compensated Absences

Annual leave is earned by all full-time employees 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, and 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.

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 is 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, 2014, there were three series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$3,627,690.

J. 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 \$500,515 reported as a liability for landfill closure and postclosure care costs at December 31, 2014, represents the cumulative amount reported to date based on the use of 26% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,447,009 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014. The City expects to close the landfill in the year 2055. 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, 2014, investments of \$500,515 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.

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|-------------------------------|-------------|-------------|-------------|
| Closure/Postclosure Liability | \$500,515 | \$481,436 | \$431,024 |

K. 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.

Notes to the Financial Statements

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety employees contribute at eight percent. 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 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, 2014, 2013 and 2012 were \$951,692, \$920,295 and \$854,038 respectively, equal to the required contributions each year.

L. 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 on December 31, 2014 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 263 active and 26 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 | \$ 207,208 |
| Interest on net OPEB obligation | 15,172 |
| Adjustment to annual required contribution | (21,935) |
| Annual OPEB cost (expense) | <u>200,445</u> |
| Contributions made | <u>(129,145)</u> |
| Increase in net OPEB obligation | 71,300 |
| Net OPEB obligation – beginning of year | <u>379,303</u> |
| Net OPEB obligation – end of year | <u>\$ 450,603</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending December 31, 2014, 2013 and 2012 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 2014 | \$200,445 | 64.4% | \$450,603 |
| 2013 | \$174,175 | 66.6% | \$379,303 |
| 2012 | \$172,733 | 59.1% | \$321,235 |

Notes to the Financial Statements

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2014 was as follows:

| | |
|--|---------------|
| Actuarial accrued liability (AAL) | \$ 1,732,182 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | \$ 1,732,182 |
| Funded ratio (actuarial value of plan assets/ AAL) | 0% |
| Covered payroll (active plan members) | \$ 13,876,825 |
| UAAL as a percentage of covered payroll | 12.5% |

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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% interest discount rate and an annual medical healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5% in 8 years. Both rates include a 3.0% inflation assumption. The unfunded actuarial accrued liability (UAAL) is amortized as a level dollar amount over 30 years. Differences between the expected and actual UAAL in future years will be amortized over 30 years using an open amortization period.

M. Segment Information for Enterprise Funds

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

NOTE 4. 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, 2014, 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 equity set aside 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, 2014, four claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$791. At December 31, 2014, the estimated accrued liability at year end was \$2,468. 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 by 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 | \$ 291,122 |
| Automobile Coverage | \$ 2,000,000 | None | \$ 110,764 |
| Public Officials Liability | \$ 2,000,000 | \$ 2,500 | \$ 22,134 |
| Law Enforcement Liability | \$ 2,000,000 | \$ 3,000 | \$ 20,495 |
| Buildings, Contents, Boiler & Machinery | Replacement Cost | \$ 10,000 | \$ 172,400 |
| Commercial Insurance Carriers | | | |
| Airport Liability | \$ 10,000,000 | None | \$ 7,870 |
| Official & Employee Bond | \$ 250,000 | \$ 1,000 | \$ 1,585 |

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. As of December 31, 2012 the City had reached its sixth full year and was eligible 100% refund if needed. As of December 31, 2014, the City of Watertown has a vested balance in the cumulative reserve fund of \$330,054. No additional money will be added to the cumulative reserve fund. 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.

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 objective of the Fund is to formulate, develop, and administer on behalf of the member organizations a program of worker's compensation coverage to obtain lower costs for coverage and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to

Notes to the Financial Statements

and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide coverage for its employees under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. Coverage limits are set by state statute.

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.

NOTE 5. Subsequent Events

On March 17, 2014, the City Council passed Resolution No. 14-09, which was amended by Resolution No. 14-32 passed on November 17, 2014, authorizing the issuance of sales tax revenue bonds in a principal amount not to exceed \$24,000,000 for the purpose of financing all or a portion of the cost of a new multi-purpose facility. The City issued \$10,000,000 of sales tax revenue bonds in 2014 and an additional \$10,000,000 in 2015.

On October 20, 2014, the City Council passed Resolution No. 14-29, which was amended by Resolution No. 14-33 passed on November 17, 2014, authorizing the issuance of sales tax revenue refunding bonds in the approximate principal amount of \$3,600,000 for the repayment of the 2006 sales tax revenue bonds. The City issued \$3,375,000 of sales tax revenue refunding bonds in 2015.

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City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|-------------------|--------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | | | | |
| Property | \$ 3,066,528 | \$ 3,066,528 | \$ 3,065,308 | \$ (1,220) |
| Sales | 6,336,500 | 6,336,500 | 7,214,979 | 878,479 |
| Other Taxes | 382,000 | 382,000 | 363,226 | (18,774) |
| Licenses & Permits | 211,400 | 211,400 | 310,437 | 99,037 |
| Intergovernmental | 963,980 | 963,980 | 1,236,090 | 272,110 |
| Charges for Goods and Services | 1,131,720 | 1,131,720 | 1,220,767 | 89,047 |
| Fines and Forfeits | 46,000 | 46,000 | 28,613 | (17,387) |
| Interest Revenue | 17,000 | 17,000 | 22,786 | 5,786 |
| Special Assessments | 35,000 | 35,000 | 63,605 | 28,605 |
| Donations/Contributions | 4,500 | 4,500 | 21,708 | 17,208 |
| Miscellaneous | 196,255 | 196,255 | 287,714 | 91,459 |
| Total Revenues | <u>12,390,883</u> | <u>12,390,883</u> | <u>13,835,233</u> | <u>1,444,350</u> |
| EXPENDITURES | | | | |
| General Government | | | | |
| Legislative | 574,050 | 473,003 | 289,464 | 183,539 |
| Financial Administration | 763,830 | 811,830 | 796,522 | 15,308 |
| Other | 941,950 | 1,005,525 | 927,865 | 77,660 |
| Public Safety | | | | |
| Police | 3,517,665 | 3,543,245 | 3,484,426 | 58,819 |
| Fire Fighting & Prevention | 1,009,800 | 1,100,424 | 1,029,155 | 71,269 |
| Ambulance Service | 2,279,370 | 2,282,540 | 2,257,127 | 25,413 |
| Public Works | | | | |
| Highways, Streets and Roadways | 1,600,890 | 1,699,600 | 1,415,389 | 284,211 |
| Snow Removal | 413,640 | 413,640 | 293,679 | 119,961 |
| Street Lighting | 479,850 | 486,850 | 485,751 | 1,099 |
| Storm Sewer/Flood/Control | 62,290 | 62,290 | 39,331 | 22,959 |
| Cemetery | 186,970 | 190,730 | 188,136 | 2,594 |
| Health and Welfare | | | | |
| Mosquito Control | 100,140 | 100,140 | 76,110 | 24,030 |
| Culture and Recreation | | | | |
| Forestry | 194,535 | 215,475 | 212,270 | 3,205 |
| Library | 794,710 | 794,710 | 758,695 | 36,015 |
| Conservation and Development | | | | |
| Building Services | 301,470 | 305,470 | 287,965 | 17,505 |
| Total Expenditures | <u>13,221,160</u> | <u>13,485,472</u> | <u>12,541,885</u> | <u>943,587</u> |
| Excess (deficiency) of revenues over expenditures | <u>(830,277)</u> | <u>(1,094,589)</u> | <u>1,293,348</u> | <u>2,387,937</u> |

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---------------------------------------|------------------|--------------|--------------|---|
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Municipal Property | - | - | 3,457 | 3,457 |
| Transfers In | 1,627,850 | 1,627,850 | 1,627,850 | - |
| Transfers (Out) | (1,850,000) | (1,950,700) | (1,950,700) | - |
| Total other financing sources (uses) | (222,150) | (322,850) | (319,393) | 3,457 |
| Net Change in fund balances | (1,052,427) | (1,417,439) | 973,955 | 2,391,394 |
| Fund Balances - beginning | 7,936,197 | 7,936,197 | 7,936,197 | - |
| Fund Balances - ending | \$ 6,883,770 | \$ 6,518,758 | \$ 8,910,152 | \$ 2,391,394 |

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

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 | \$ 6,336,500 | \$ 6,336,500 | \$ 7,203,788 | \$ 867,288 |
| Intergovernmental | 1,218,800 | 1,218,800 | 174,824 | (1,043,976) |
| Interest Revenue | 506,000 | 506,000 | 471,134 | (34,866) |
| Donations/Contributions | 22,000 | 22,000 | 51,347 | 29,347 |
| Miscellaneous | - | - | 27,844 | 27,844 |
| Total Revenues | <u>8,083,300</u> | <u>8,083,300</u> | <u>7,928,937</u> | <u>(154,363)</u> |
| EXPENDITURES | | | | |
| Public Safety | | | | |
| Public Safety Improvements | 124,000 | 160,250 | 163,284 | (3,034) |
| Public Works | | | | |
| Street System Improvements | 3,929,000 | 5,037,560 | 2,530,384 | 2,507,176 |
| Storm Sewer/Flood Projects | 475,000 | 1,366,190 | 908,748 | 457,442 |
| Culture and Recreation | | | | |
| Recreational Facility Improvements | 2,359,100 | 4,483,035 | 2,519,874 | 1,963,161 |
| Conservation and Development | | | | |
| Industrial Park & Other Infrastructure | 925,000 | 1,210,090 | 1,106,530 | 103,560 |
| Debt Service | <u>1,101,580</u> | <u>1,101,580</u> | <u>1,101,065</u> | <u>515</u> |
| Total Expenditures | <u>8,913,680</u> | <u>13,358,705</u> | <u>8,329,885</u> | <u>5,028,820</u> |
| Excess (deficiency) of revenues over expenditures | <u>(830,380)</u> | <u>(5,275,405)</u> | <u>(400,948)</u> | <u>4,874,457</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Municipal Property | - | - | 716,276 | 716,276 |
| Transfers In | - | - | 50,000 | 50,000 |
| Transfers Out | (647,500) | (780,615) | (780,615) | - |
| Total other financing sources (uses) | <u>(647,500)</u> | <u>(780,615)</u> | <u>(14,339)</u> | <u>766,276</u> |
| Net Change in fund balances | (1,477,880) | (6,056,020) | (415,287) | 5,640,733 |
| Fund Balances - beginning | <u>21,670,220</u> | <u>21,670,220</u> | <u>21,670,220</u> | <u>-</u> |
| Fund Balances - ending | <u>\$ 20,192,340</u> | <u>\$ 15,614,200</u> | <u>\$ 21,254,933</u> | <u>\$ 5,640,733</u> |

Required Supplementary Information
Notes to Required Supplementary Information – Budgetary Reporting

The Schedule

The Budgetary Comparison Schedules provide comparisons of the original and legally amended budget with actual amounts on a sub-function level for the General Fund and Capital Improvement Fund. In addition to the required general fund presentation, the special revenue fund presented has a legally adopted annual budget and is reported as a major fund 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 and the actual expenditures must be held to budgeted amounts at the department level (i.e., Finance, Police, Fire, Street, etc.) unless amended as permitted by state law or home rule charter. (See item No. 7 below).
5. The governing board may include in the General Fund an operating budget 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. Home Rule Charter allows the City Council to transfer unencumbered appropriation balance from one department to the appropriation of another department. Home Rule Charter also allows the finance officer to transfer part or all of any unencumbered appropriation balance among programs within a department upon approval by the council.
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 item No. 5 and No. 7 above.

Required Supplementary Information
Notes to Required Supplementary Information – Budgetary Reporting

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, 2014.

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.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

Required Supplementary Information - Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--------------------------------------|--|-------------------------|-------------------------|----------------------------|--|
| 01/01/2014 | - | 1,732,182 | 1,732,182 | 0.0% | 13,876,825 | 12.5% |
| 01/01/2012 | - | 1,471,636 | 1,471,636 | 0.0% | 12,752,071 | 11.5% |
| 01/01/2010 | - | 1,862,964 | 1,862,964 | 0.0% | 11,629,201 | 16.0% |

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2014

Combining Balance Sheet - Nonmajor Governmental Funds

| | Special Revenue Funds | Debt Service Fund | Capital Project Fund | Total Governmental Funds |
|---|--------------------------------------|----------------------------------|-------------------------------------|---|
| ASSETS | | | | |
| Pooled Cash and Investments | \$ 1,616,267 | \$ 292,311 | \$ 9,383,909 | \$ 11,292,487 |
| Property Taxes Receivable | - | 8,842 | - | 8,842 |
| Sales Tax Receivable | 77,610 | - | - | 77,610 |
| Accounts Receivable | 88,017 | - | - | 88,017 |
| Special Assessments Receivable | 865 | - | - | 865 |
| Interest Receivable | 1,782 | 475 | - | 2,257 |
| Loans Receivable | 80,989 | - | - | 80,989 |
| Due From Other Governments | 20,346 | - | - | 20,346 |
| Inventory | 32,731 | - | - | 32,731 |
| Restricted Assets: | | | | |
| Pooled Cash and Investments | 46,574 | - | - | 46,574 |
| Total assets | 1,965,181 | 301,628 | 9,383,909 | 11,650,718 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | 201,179 | - | 86,935 | 288,114 |
| Advance From Other Fund | 6,406,003 | - | - | 6,406,003 |
| Total liabilities | 6,607,182 | - | 86,935 | 6,694,117 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue | 118,839 | 475 | - | 119,314 |
| Total Deffered Inflows of Resources | 118,839 | 475 | - | 119,314 |
| FUND BALANCES | | | | |
| Nonspendable for: | | | | |
| Inventory | 32,731 | - | - | 32,731 |
| Restricted for: | | | | |
| Debt Service | - | 301,153 | - | 301,153 |
| Capital Projects | - | - | 9,296,974 | 9,296,974 |
| BBB Sales Tax | 161,085 | - | - | 161,085 |
| Event Center | 768 | - | - | 768 |
| Big Sioux River Project | 249,278 | - | - | 249,278 |
| E-911 Services | 36,180 | - | - | 36,180 |
| Library | 266,383 | - | - | 266,383 |
| Urban Renewal Loans | 45,806 | - | - | 45,806 |
| Casualty Reserve | 40,825 | - | - | 40,825 |
| Assigned for: | | | | |
| Capital Outlay | 225,862 | - | - | 225,862 |
| Park Development | 91,171 | - | - | 91,171 |
| Golf Course | 47,248 | - | - | 47,248 |
| Zoo Improvements | 7,967 | - | - | 7,967 |
| Other Purposes | 413,292 | - | - | 413,292 |
| Unassigned: | (6,379,436) | - | - | (6,379,436) |
| Total fund balances | (4,760,840) | 301,153 | 9,296,974 | 4,837,287 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,965,181 | \$ 301,628 | \$ 9,383,909 | \$ 11,650,718 |

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

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 | \$ 499,268 | \$ 458,447 | \$ - | \$ 957,715 |
| Sales | 730,345 | - | - | 730,345 |
| Intergovernmental | 84,598 | - | - | 84,598 |
| Charges for Goods and Services | 2,563,365 | - | - | 2,563,365 |
| Fines and Forfeits | 17,985 | - | - | 17,985 |
| Interest Revenue | 5,544 | 1,367 | - | 6,911 |
| Rentals | 138,881 | - | - | 138,881 |
| Special Assessments | 52,565 | - | - | 52,565 |
| Donations/Contributions | 294,227 | - | - | 294,227 |
| Miscellaneous | 74,495 | - | - | 74,495 |
| Total revenues | <u>4,461,273</u> | <u>459,814</u> | <u>-</u> | <u>4,921,087</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 722,013 | - | - | 722,013 |
| Public Safety | 822,409 | - | - | 822,409 |
| Culture and Recreation | 4,463,130 | - | 580,366 | 5,043,496 |
| Conservation and Development | 242,138 | - | - | 242,138 |
| Debt Service | 539,474 | 436,452 | 169,263 | 1,145,189 |
| Total expenditures | <u>6,789,164</u> | <u>436,452</u> | <u>749,629</u> | <u>7,975,245</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,327,891)</u> | <u>23,362</u> | <u>(749,629)</u> | <u>(3,054,158)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Municipal Property | 66,168 | - | - | 66,168 |
| Bond Proceeds | - | - | 10,000,000 | 10,000,000 |
| Premium on Bonds Issued | - | - | 46,603 | 46,603 |
| Transfers In | 2,318,700 | - | - | 2,318,700 |
| Transfers Out | (58,000) | - | - | (58,000) |
| Total other financing sources (uses) | <u>2,326,868</u> | <u>-</u> | <u>10,046,603</u> | <u>12,373,471</u> |
| Net Change in Fund Balances | <u>(1,023)</u> | <u>23,362</u> | <u>9,296,974</u> | <u>9,319,313</u> |
| Fund balances -- beginning | <u>(4,759,817)</u> | <u>277,791</u> | <u>-</u> | <u>(4,482,026)</u> |
| Fund balances -- ending | <u>\$ (4,760,840)</u> | <u>\$ 301,153</u> | <u>\$ 9,296,974</u> | <u>\$ 4,837,287</u> |

Combining Statements

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.

E-911 Emergency Fund – to account for the \$1.25 per phone line surcharge assessed to customers of private phone companies operating within Codrington 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.

Tax Increment Financing 1 Fund – to account for the revenues and expenditures of the Tax Increment District (TID) #1. This TID was created to capture the incremental tax revenue generated by development of the Hanten Industrial Park and to pay for infrastructure improvements in the park.

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

Tax Increment Financing 5 Fund – to account for the revenues and expenditures of the Tax Increment District (TID) #5. This TID was created to capture the incremental tax revenue generated by development of the 1st Avenue North Extension area and to pay for road construction costs.

Tax Increment Financing 6 Fund – to account for the revenues and expenditures of the Tax Increment District (TID) #6. This TID was created to capture the incremental tax revenue generated by development of the Pheasant Ridge Industrial Park and to pay for site improvements, land costs and road improvements in the park.

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City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2014

Combining Balance Sheet - Nonmajor Special Revenue Funds

| | Park & Recreation Fund | BBB Sales Tax Fund | Recreation Center Fund | Casualty Reserve Fund | E-911 Emergency Fund | Library Fines Fund |
|--|------------------------------|--------------------------|------------------------------|-----------------------------|----------------------------|--------------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Pooled Cash and Investments | \$ 605,892 | \$ 213,466 | \$ 85,696 | \$ 41,925 | \$ - | \$ 276,709 |
| Sales Tax Receivable | - | 77,610 | - | - | - | - |
| Accounts Receivable | - | - | - | - | 88,017 | - |
| Special Assessments Receivable | - | - | - | - | - | - |
| Interest Receivable | 718 | 205 | 85 | 48 | 38 | 406 |
| Loans Receivable | - | - | - | - | - | - |
| Due From Other Governments | - | - | - | - | 12,588 | - |
| Inventory | 32,731 | - | - | - | - | - |
| Restricted Cash | - | 768 | - | - | - | - |
| Total assets | 639,341 | 292,049 | 85,781 | 41,973 | 100,643 | 277,115 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES | | | | | | |
| Accounts Payable | 72,102 | 66,515 | 29,709 | 1,100 | 4,233 | 10,326 |
| Advance From Other Fund | - | - | - | - | 6,611 | - |
| Total liabilities | 72,102 | 66,515 | 29,709 | 1,100 | 10,844 | 10,326 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable Revenue | 718 | 63,681 | 85 | 48 | 53,619 | 406 |
| Total Deferred Inflows of Resources | 718 | 63,681 | 85 | 48 | 53,619 | 406 |
| FUND BALANCES | | | | | | |
| Nonspendable for: | | | | | | |
| Inventory | 32,731 | - | - | - | - | - |
| Restricted for: | | | | | | |
| BBB Sales Tax | - | 161,085 | - | - | - | - |
| Event Center | - | 768 | - | - | - | - |
| Big Sioux River Project | - | - | - | - | - | - |
| E-911 Services | - | - | - | - | 36,180 | - |
| Library | - | - | - | - | - | 266,383 |
| Urban Renewal Loans | - | - | - | - | - | - |
| Casualty Reserve | - | - | - | 40,825 | - | - |
| Assigned for: | | | | | | |
| Capital Outlay | 169,875 | - | 55,987 | - | - | - |
| Park Development | 91,171 | - | - | - | - | - |
| Golf Course | 47,248 | - | - | - | - | - |
| Zoo Improvements | 7,967 | - | - | - | - | - |
| Other Purposes | 217,529 | - | - | - | - | - |
| Unassigned: | - | - | - | - | - | - |
| Total fund balances | 566,521 | 161,853 | 55,987 | 40,825 | 36,180 | 266,383 |
| Total liabilities, deferred inflows of resources and fund balance | \$ 639,341 | \$ 292,049 | \$ 85,781 | \$ 41,973 | \$ 100,643 | \$ 277,115 |

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Combining Balance Sheet - Nonmajor Special Revenue Funds (continued)

| Urban Renewal Fund | Big Sioux River Project Fund | Tax Increment Financing 1 Fund | Tax Increment Financing 2 Fund | Tax Increment Financing 3 Fund | Tax Increment Financing 5 Fund | Tax Increment Financing 6 Fund | Total |
|--------------------------|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------|
| \$ 114,928 | \$ 257,695 | \$ 5,779 | \$ 3,341 | \$ 5,099 | \$ 1,572 | \$ 4,165 | \$ 1,616,267 |
| - | - | - | - | - | - | - | 77,610 |
| - | - | - | - | - | - | - | 88,017 |
| 865 | - | - | - | - | - | - | 865 |
| 176 | - | 56 | 13 | 13 | 3 | 21 | 1,782 |
| 80,989 | - | - | - | - | - | - | 80,989 |
| - | 7,758 | - | - | - | - | - | 20,346 |
| - | - | - | - | - | - | - | 32,731 |
| 45,806 | - | - | - | - | - | - | 46,574 |
| <u>242,764</u> | <u>265,453</u> | <u>5,835</u> | <u>3,354</u> | <u>5,112</u> | <u>1,575</u> | <u>4,186</u> | <u>1,965,181</u> |
| 1,019 | 16,175 | - | - | - | - | - | 201,179 |
| - | - | 1,872,559 | 1,222,788 | 165,794 | 2,368,958 | 769,293 | 6,406,003 |
| <u>1,019</u> | <u>16,175</u> | <u>1,872,559</u> | <u>1,222,788</u> | <u>165,794</u> | <u>2,368,958</u> | <u>769,293</u> | <u>6,607,182</u> |
| 176 | - | 56 | 13 | 13 | 3 | 21 | 118,839 |
| <u>176</u> | <u>-</u> | <u>56</u> | <u>13</u> | <u>13</u> | <u>3</u> | <u>21</u> | <u>118,839</u> |
| - | - | - | - | - | - | - | 32,731 |
| - | - | - | - | - | - | - | 161,085 |
| - | - | - | - | - | - | - | 768 |
| - | 249,278 | - | - | - | - | - | 249,278 |
| - | - | - | - | - | - | - | 36,180 |
| - | - | - | - | - | - | - | 266,383 |
| 45,806 | - | - | - | - | - | - | 45,806 |
| - | - | - | - | - | - | - | 40,825 |
| - | - | - | - | - | - | - | 225,862 |
| - | - | - | - | - | - | - | 91,171 |
| - | - | - | - | - | - | - | 47,248 |
| - | - | - | - | - | - | - | 7,967 |
| 195,763 | - | - | - | - | - | - | 413,292 |
| - | - | (1,866,780) | (1,219,447) | (160,695) | (2,367,386) | (765,128) | (6,379,436) |
| <u>241,569</u> | <u>249,278</u> | <u>(1,866,780)</u> | <u>(1,219,447)</u> | <u>(160,695)</u> | <u>(2,367,386)</u> | <u>(765,128)</u> | <u>(4,760,840)</u> |
| \$ 242,764 | \$ 265,453 | \$ 5,835 | \$ 3,354 | \$ 5,112 | \$ 1,575 | \$ 4,186 | \$ 1,965,181 |

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

| | Park & Recreation Fund | BBB Sales Tax Fund | Recreation Center Fund | Casualty Reserve Fund | E-911 Emergency Fund | Library Fines Fund |
|---|------------------------------|--------------------------|------------------------------|-----------------------------|----------------------------|--------------------------|
| REVENUES | | | | | | |
| Tax Revenue | | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sales | - | 730,345 | - | - | - | - |
| Intergovernmental | 20,000 | - | - | - | - | - |
| Charges for Goods and Services | 1,175,785 | - | 868,755 | - | 518,825 | - |
| Fines and Forfeits | - | - | - | - | - | 17,985 |
| Interest Revenue | 1,981 | 606 | 310 | 158 | 259 | 1,411 |
| Rentals | 131,895 | - | 4,586 | - | - | - |
| Special Assessments | - | - | - | - | - | - |
| Donations/ Contributions | 240,551 | - | 2,424 | - | - | 7,779 |
| Miscellaneous | 22,493 | 768 | 9,447 | 10,557 | 11,154 | 17,524 |
| Total revenues | 1,592,705 | 731,719 | 885,522 | 10,715 | 530,238 | 44,699 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Government | - | 711,360 | - | 10,653 | - | - |
| Public Safety | - | - | - | - | 822,409 | - |
| Culture and Recreation | 3,334,524 | - | 943,959 | - | - | 184,647 |
| Conservation and Development | - | - | - | - | - | - |
| Debt Service | 89,010 | - | - | - | - | - |
| Total expenditures | 3,423,534 | 711,360 | 943,959 | 10,653 | 822,409 | 184,647 |
| Excess (deficiency) of revenues over expenditures | (1,830,829) | 20,359 | (58,437) | 62 | (292,171) | (139,948) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Sale of Municipal Property | 66,168 | - | - | - | - | - |
| Transfers In | 1,908,000 | 30,100 | 60,600 | - | 180,000 | - |
| Transfers Out | - | (58,000) | - | - | - | - |
| Total other financing sources (uses) | 1,974,168 | (27,900) | 60,600 | - | 180,000 | - |
| Net change in fund balances | 143,339 | (7,541) | 2,163 | 62 | (112,171) | (139,948) |
| Fund balances -- beginning | 423,182 | 169,394 | 53,824 | 40,763 | 148,351 | 406,331 |
| Fund balances -- ending | \$ 566,521 | \$ 161,853 | \$ 55,987 | \$ 40,825 | \$ 36,180 | \$ 266,383 |

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

| Urban Renewal Fund | Big Sioux River Project Fund | Tax Increment Financing 1 Fund | Tax Increment Financing 2 Fund | Tax Increment Financing 3 Fund | Tax Increment Financing 5 Fund | Tax Increment Financing 6 Fund | Total |
|--------------------------|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------|
| \$ - | \$ - | \$ 263,724 | \$ 52,822 | \$ 72,405 | \$ 7,302 | \$ 103,015 | \$ 499,268 |
| - | - | - | - | - | - | - | 730,345 |
| - | 64,598 | - | - | - | - | - | 84,598 |
| - | - | - | - | - | - | - | 2,563,365 |
| - | - | - | - | - | - | - | 17,985 |
| 521 | - | 149 | 36 | 34 | 14 | 65 | 5,544 |
| 2,400 | - | - | - | - | - | - | 138,881 |
| 52,565 | - | - | - | - | - | - | 52,565 |
| - | 43,473 | - | - | - | - | - | 294,227 |
| 2,552 | - | - | - | - | - | - | 74,495 |
| 58,038 | 108,071 | 263,873 | 52,858 | 72,439 | 7,316 | 103,080 | 4,461,273 |
| - | - | - | - | - | - | - | 722,013 |
| - | - | - | - | - | - | - | 822,409 |
| - | - | - | - | - | - | - | 4,463,130 |
| 41,420 | 200,718 | - | - | - | - | - | 242,138 |
| - | - | 138,510 | 84,053 | 13,439 | 157,811 | 56,651 | 539,474 |
| 41,420 | 200,718 | 138,510 | 84,053 | 13,439 | 157,811 | 56,651 | 6,789,164 |
| 16,618 | (92,647) | 125,363 | (31,195) | 59,000 | (150,495) | 46,429 | (2,327,891) |
| - | - | - | - | - | - | - | 66,168 |
| - | 140,000 | - | - | - | - | - | 2,318,700 |
| - | - | - | - | - | - | - | (58,000) |
| - | 140,000 | - | - | - | - | - | 2,326,868 |
| 16,618 | 47,353 | 125,363 | (31,195) | 59,000 | (150,495) | 46,429 | (1,023) |
| 224,951 | 201,925 | (1,992,143) | (1,188,252) | (219,695) | (2,216,891) | (811,557) | (4,759,817) |
| \$ 241,569 | \$ 249,278 | \$ (1,866,780) | \$ (1,219,447) | \$ (160,695) | \$ (2,367,386) | \$ (765,128) | \$ (4,760,840) |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Goods and Services | \$ 1,135,350 | \$ 1,135,350 | \$ 1,175,785 | \$ 40,435 |
| Intergovernmental | 20,000 | 20,000 | 20,000 | - |
| Interest Revenue | 1,500 | 1,500 | 1,981 | 481 |
| Rentals | 116,525 | 116,525 | 131,895 | 15,370 |
| Donations | 213,500 | 213,500 | 240,551 | 27,051 |
| Miscellaneous | 14,900 | 14,900 | 22,493 | 7,593 |
| Total revenues | <u>1,501,775</u> | <u>1,501,775</u> | <u>1,592,705</u> | <u>90,930</u> |
| EXPENDITURES | | | | |
| Culture and Recreation | 3,458,235 | 3,532,783 | 3,334,524 | 198,259 |
| Debt Service | 89,010 | 89,010 | 89,010 | - |
| Total expenditures | <u>3,547,245</u> | <u>3,621,793</u> | <u>3,423,534</u> | <u>198,259</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,045,470)</u> | <u>(2,120,018)</u> | <u>(1,830,829)</u> | <u>289,189</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Municipal Property | 66,250 | 66,250 | 66,168 | (82) |
| Transfers In | 1,908,000 | 1,908,000 | 1,908,000 | - |
| Total other financing sources (uses) | <u>1,974,250</u> | <u>1,974,250</u> | <u>1,974,168</u> | <u>(82)</u> |
| Net change in fund balances | (71,220) | (145,768) | 143,339 | 289,107 |
| Fund balances -- beginning | 423,182 | 423,182 | 423,182 | - |
| Fund balances -- ending | <u>\$ 351,962</u> | <u>\$ 277,414</u> | <u>\$ 566,521</u> | <u>\$ 289,107</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 | \$ 675,000 | \$ 675,000 | \$ 730,345 | \$ 55,345 |
| Interest Revenue | 500 | 500 | 606 | 106 |
| Miscellaneous | 1,000 | 1,000 | 768 | (232) |
| Total revenues | <u>676,500</u> | <u>676,500</u> | <u>731,719</u> | <u>55,219</u> |
| EXPENDITURES | | | | |
| General Government | 437,500 | 496,204 | 512,710 | (16,506) |
| Culture and Recreation | 198,650 | 198,650 | 198,650 | - |
| Total expenditures | <u>636,150</u> | <u>694,854</u> | <u>711,360</u> | <u>(16,506)</u> |
| Excess (deficiency) of revenues over expenditures | <u>40,350</u> | <u>(18,354)</u> | <u>20,359</u> | <u>38,713</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | 30,100 | 30,100 |
| Transfers Out | (58,000) | (58,000) | (58,000) | - |
| Total other financing sources (uses) | <u>(58,000)</u> | <u>(58,000)</u> | <u>(27,900)</u> | <u>30,100</u> |
| Net change in fund balances | <u>(17,650)</u> | <u>(76,354)</u> | <u>(7,541)</u> | <u>68,813</u> |
| Fund balances -- beginning | <u>169,394</u> | <u>169,394</u> | <u>169,394</u> | <u>-</u> |
| Fund balances -- ending | <u>\$ 151,744</u> | <u>\$ 93,040</u> | <u>\$ 161,853</u> | <u>\$ 68,813</u> |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|------------|------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Goods and Services | \$ 851,000 | \$ 851,000 | \$ 868,755 | \$ 17,755 |
| Interest Revenue | 1,000 | 1,000 | 310 | (690) |
| Rentals | 8,000 | 8,000 | 4,586 | (3,414) |
| Donations | 6,000 | 6,000 | 2,424 | (3,576) |
| Miscellaneous | 21,000 | 21,000 | 9,447 | (11,553) |
| Total revenues | 887,000 | 887,000 | 885,522 | (1,478) |
| EXPENDITURES | | | | |
| Culture and Recreation | 937,000 | 947,600 | 943,959 | 3,641 |
| Total expenditures | 937,000 | 947,600 | 943,959 | 3,641 |
| Excess (deficiency) of revenues over expenditures | (50,000) | (60,600) | (58,437) | 2,163 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 50,000 | 50,000 | 60,600 | 10,600 |
| Total other financing sources (uses) | 50,000 | 50,000 | 60,600 | 10,600 |
| Net change in fund balances | - | (10,600) | 2,163 | 12,763 |
| Fund balances -- beginning | 53,824 | 53,824 | 53,824 | - |
| Fund balances -- ending | \$ 53,824 | \$ 43,224 | \$ 55,987 | \$ 12,763 |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------|-----------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Interest Revenue | \$ 200 | \$ 200 | \$ 158 | \$ (42) |
| Other Miscellaneous | 1,500 | 1,500 | 10,557 | 9,057 |
| Total revenues | 1,700 | 1,700 | 10,715 | 9,015 |
| EXPENDITURES | | | | |
| General Government | 41,000 | 41,000 | 10,653 | 30,347 |
| Total expenditures | 41,000 | 41,000 | 10,653 | 30,347 |
| Excess (deficiency) of revenues over expenditures | (39,300) | (39,300) | 62 | 39,362 |
| Net change in fund balances | (39,300) | (39,300) | 62 | 39,362 |
| Fund balances -- beginning | 40,763 | 40,763 | 40,763 | - |
| Fund balances -- ending | \$ 1,463 | \$ 1,463 | \$ 40,825 | \$ 39,362 |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|------------|------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Goods and Services | \$ 553,000 | \$ 553,000 | \$ 518,825 | \$ (34,175) |
| Interest Revenue | 2,000 | 2,000 | 259 | (1,741) |
| Miscellaneous | 11,500 | 11,500 | 11,154 | (346) |
| Total revenues | 566,500 | 566,500 | 530,238 | (36,262) |
| EXPENDITURES | | | | |
| Public Safety | 870,800 | 870,800 | 822,409 | 48,391 |
| Total expenditures | 870,800 | 870,800 | 822,409 | 48,391 |
| Excess (deficiency) of revenues over expenditures | (304,300) | (304,300) | (292,171) | 12,129 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 180,000 | 180,000 | 180,000 | - |
| Total other financing sources (uses) | 180,000 | 180,000 | 180,000 | - |
| Net change in fund balances | (124,300) | (124,300) | (112,171) | 12,129 |
| Fund balances -- beginning | 148,351 | 148,351 | 148,351 | - |
| Fund balances -- ending | \$ 24,051 | \$ 24,051 | \$ 36,180 | \$ 12,129 |

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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 | | | | |
| Fines and Forfeits | \$ 18,500 | \$ 18,500 | \$ 17,985 | (515) |
| Interest Revenue | 500 | 500 | 1,411 | 911 |
| Donations/Contributions | - | - | 7,779 | 7,779 |
| Miscellaneous | 16,000 | 16,000 | 17,524 | 1,524 |
| Total revenues | <u>35,000</u> | <u>35,000</u> | <u>44,699</u> | <u>9,699</u> |
| EXPENDITURES | | | | |
| Culture and Recreation | 187,050 | 187,050 | 184,647 | 2,403 |
| Total expenditures | <u>187,050</u> | <u>187,050</u> | <u>184,647</u> | <u>2,403</u> |
| Excess (deficiency) of revenues over expenditures | <u>(152,050)</u> | <u>(152,050)</u> | <u>(139,948)</u> | <u>12,102</u> |
| Net change in fund balances | (152,050) | (152,050) | (139,948) | 12,102 |
| Fund balances -- beginning | 406,331 | 406,331 | 406,331 | - |
| Fund balances -- ending | <u>\$ 254,281</u> | <u>\$ 254,281</u> | <u>\$ 266,383</u> | <u>\$ 12,102</u> |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Interest Revenue | \$ 550 | \$ 550 | \$ 521 | \$ (29) |
| Rentals | 2,400 | 2,400 | 2,400 | - |
| Special Assessments | 50,600 | 50,600 | 52,565 | 1,965 |
| Miscellaneous | 3,100 | 3,100 | 2,552 | (548) |
| Total revenues | <u>56,650</u> | <u>56,650</u> | <u>58,038</u> | <u>1,388</u> |
| EXPENDITURES | | | | |
| Conservation and Development | 44,400 | 44,400 | 41,420 | 2,980 |
| Total expenditures | <u>44,400</u> | <u>44,400</u> | <u>41,420</u> | <u>2,980</u> |
| Excess (deficiency) of revenues over expenditures | <u>12,250</u> | <u>12,250</u> | <u>16,618</u> | <u>4,368</u> |
| Net change in fund balances | 12,250 | 12,250 | 16,618 | 4,368 |
| Fund balances -- beginning | <u>224,951</u> | <u>224,951</u> | <u>224,951</u> | <u>-</u> |
| Fund balances -- ending | <u>\$ 237,201</u> | <u>\$ 237,201</u> | <u>\$ 241,569</u> | <u>\$ 4,368</u> |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|------------|------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 165,000 | \$ 165,000 | \$ 64,598 | \$ (100,402) |
| Donations/Contributions | 33,330 | 33,330 | 43,473 | 10,143 |
| Total revenues | 198,330 | 198,330 | 108,071 | (90,259) |
| EXPENDITURES | | | | |
| Conservation and Development | 397,570 | 397,570 | 200,718 | 196,852 |
| Total expenditures | 397,570 | 397,570 | 200,718 | 196,852 |
| Excess (deficiency) of revenues over expenditures | (199,240) | (199,240) | (92,647) | 106,593 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer In | 140,000 | 140,000 | 140,000 | - |
| Total other financing sources (uses) | 140,000 | 140,000 | 140,000 | - |
| Net change in fund balances | (59,240) | (59,240) | 47,353 | 106,593 |
| Fund balances -- beginning | 201,925 | 201,925 | 201,925 | - |
| Fund balances -- ending | \$ 142,685 | \$ 142,685 | \$ 249,278 | \$ 106,593 |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | \$ 260,000 | \$ 260,000 | \$ 263,724 | \$ 3,724 |
| Interest Revenue | 200 | 200 | 149 | (51) |
| Total Revenues | 260,200 | 260,200 | 263,873 | 3,673 |
| EXPENDITURES | | | | |
| Debt Service | 139,220 | 139,220 | 138,510 | 710 |
| Total Expenditures | 139,220 | 139,220 | 138,510 | 710 |
| Excess (deficiency) of revenues over expenditures | 120,980 | 120,980 | 125,363 | 4,383 |
| Net Change in fund balances | 120,980 | 120,980 | 125,363 | 4,383 |
| Fund Balances -- beginning | (1,992,143) | (1,992,143) | (1,992,143) | - |
| Fund Balances -- ending | \$ (1,871,163) | \$ (1,871,163) | \$ (1,866,780) | \$ 4,383 |

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

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | \$ 46,500 | \$ 46,500 | \$ 52,822 | \$ 6,322 |
| Interest Revenue | 50 | 50 | 36 | (14) |
| Total Revenues | 46,550 | 46,550 | 52,858 | 6,308 |
| EXPENDITURES | | | | |
| Debt Service | 84,250 | 84,250 | 84,053 | 197 |
| Total Expenditures | 84,250 | 84,250 | 84,053 | 197 |
| Excess (deficiency) of revenues over expenditures | (37,700) | (37,700) | (31,195) | 6,505 |
| Net Change in fund balances | (37,700) | (37,700) | (31,195) | 6,505 |
| Fund Balances -- beginning | (1,188,252) | (1,188,252) | (1,188,252) | - |
| Fund Balances -- ending | \$ (1,225,952) | \$ (1,225,952) | \$ (1,219,447) | \$ 6,505 |

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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Tax Increment Financing 3 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 | \$ 73,000 | \$ 73,000 | \$ 72,405 | \$ (595) |
| Interest Revenue | 50 | 50 | 34 | (16) |
| Total revenues | <u>73,050</u> | <u>73,050</u> | <u>72,439</u> | <u>(611)</u> |
| EXPENDITURES | | | | |
| Debt Service | 13,510 | 13,510 | 13,439 | 71 |
| Total expenditures | <u>13,510</u> | <u>13,510</u> | <u>13,439</u> | <u>71</u> |
| Excess (deficiency) of revenues over expenditures | <u>59,540</u> | <u>59,540</u> | <u>59,000</u> | <u>(540)</u> |
| Net change in fund balances | 59,540 | 59,540 | 59,000 | (540) |
| Fund balances -- beginning | (219,695) | (219,695) | (219,695) | - |
| Fund balances -- ending | <u>\$ (160,155)</u> | <u>\$ (160,155)</u> | <u>\$ (160,695)</u> | <u>\$ (540)</u> |

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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual -Tax Increment Financing 5 Fund

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | \$ 7,000 | \$ 7,000 | \$ 7,302 | \$ 302 |
| Interest Revenue | 25 | 25 | 14 | (11) |
| Total revenues | 7,025 | 7,025 | 7,316 | 291 |
| EXPENDITURES | | | | |
| Debt Service | 86,990 | 157,790 | 157,811 | (21) |
| Total expenditures | 86,990 | 157,790 | 157,811 | (21) |
| Excess (deficiency) of revenues over expenditures | (79,965) | (150,765) | (150,495) | 270 |
| Net change in fund balances | (79,965) | (150,765) | (150,495) | 270 |
| Fund balances -- beginning | (2,216,891) | (2,216,891) | (2,216,891) | - |
| Fund balances -- ending | \$ (2,296,856) | \$ (2,367,656) | \$ (2,367,386) | \$ 270 |

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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual -Tax Increment Financing 6 Fund

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|--------------|--------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | \$ 77,250 | \$ 77,250 | \$ 103,015 | \$ 25,765 |
| Interest Revenue | 50 | 50 | 65 | 15 |
| Total revenues | 77,300 | 77,300 | 103,080 | 25,780 |
| EXPENDITURES | | | | |
| Debt Service | 58,250 | 58,250 | 56,651 | 1,599 |
| Total expenditures | 58,250 | 58,250 | 56,651 | 1,599 |
| Excess (deficiency) of revenues over expenditures | 19,050 | 19,050 | 46,429 | 27,379 |
| Net change in fund balances | 19,050 | 19,050 | 46,429 | 27,379 |
| Fund balances -- beginning | (811,557) | (811,557) | (811,557) | - |
| Fund balances -- ending | \$ (792,507) | \$ (792,507) | \$ (765,128) | \$ 27,379 |

Combining Statements

Nonmajor Debt Service Funds

GO Bond – to account for the general obligation bonds issued in 2002 for the construction of the Watertown Event Center and the refinancing bonds issued in 2010.

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Combining Balance Sheet - Nonmajor Debt Service Fund

| | <u>GO Bonds</u> |
|---|-------------------|
| ASSETS | |
| Current assets: | |
| Pooled Cash and Investments | \$ 292,311 |
| Property Taxes Receivable | 8,842 |
| Interest Receivable | 475 |
| Total assets | <u>301,628</u> |
| LIABILITIES AND FUND BALANCES | |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable Revenue | 475 |
| Total Deferred Inflows of Resources | <u>475</u> |
| FUND BALANCES | |
| Restricted for: | |
| Debt Service | 301,153 |
| Total fund balances | <u>301,153</u> |
| Total liabilities, deferred inflow of resources and fund balances | <u>\$ 301,628</u> |

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Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Nonmajor Debt Service Fund

| | <u>GO Bonds</u> |
|---|-------------------|
| REVENUES | |
| Tax Revenue | |
| Property | \$ 458,447 |
| Interest Revenue | 1,367 |
| Total revenues | <u>459,814</u> |
| EXPENDITURES | |
| Debt Service | <u>436,452</u> |
| Total expenditures | <u>436,452</u> |
| Excess (deficiency) of revenues over expenditures | 23,362 |
| Fund balances -- beginning | <u>277,791</u> |
| Fund balances -- ending | <u>\$ 301,153</u> |

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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - GO Bond Fund

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Tax Revenue | | | | |
| Property | \$ 458,250 | \$ 458,250 | \$ 458,447 | \$ 197 |
| Interest Revenue | 1,000 | 1,000 | 1,367 | 367 |
| Total revenues | <u>459,250</u> | <u>459,250</u> | <u>459,814</u> | <u>564</u> |
| EXPENDITURES | | | | |
| Debt Service | 437,450 | 437,450 | 436,452 | 998 |
| Total expenditures | <u>437,450</u> | <u>437,450</u> | <u>436,452</u> | <u>998</u> |
| Excess (deficiency) of revenues over expenditures | <u>21,800</u> | <u>21,800</u> | <u>23,362</u> | <u>1,562</u> |
| Net change in fund balances | 21,800 | 21,800 | 23,362 | 1,562 |
| Fund balances -- beginning | 277,791 | 277,791 | 277,791 | - |
| Fund balances -- ending | <u>\$ 299,591</u> | <u>\$ 299,591</u> | <u>\$ 301,153</u> | <u>\$ 1,562</u> |

Combining Statements

Nonmajor Capital Project Fund

The Capital Project Fund accounts for the Sales Tax Revenue Bond proceeds that will be used for the construction of the Community Recreation Facility, 5-plex softball complex and two-sheets of ice complex.

Combining Balance Sheet - Nonmajor Capital Project Fund

| | Capital Project Fund |
|---|---------------------------------|
| ASSETS | |
| Current assets: | |
| Pooled Cash and Investments | \$ 9,383,909 |
| Total assets | <u>9,383,909</u> |
| LIABILITIES AND FUND BALANCES | |
| LIABILITIES | |
| Accounts Payable | 86,935 |
| Total Liabilities | <u>86,935</u> |
| FUND BALANCES | |
| Restricted for: | |
| Capital Projects | 9,296,974 |
| Total fund balances | <u>9,296,974</u> |
| Total liabilities, deferred inflow of resources and fund balances | <u>\$ 9,383,909</u> |

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Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Nonmajor Capital Project Fund

| | Capital Project Fund |
|---|---------------------------------|
| EXPENDITURES | |
| Culture and Recreation | \$ 580,366 |
| Debt Service | 169,263 |
| Total expenditures | <u>749,629</u> |
| Excess (deficiency) of revenues over expenditures | (749,629) |
| OTHER FINANCING SOURCES (USES) | |
| Bond Proceeds | 10,000,000 |
| Premium on Bonds Issued | 46,603 |
| Total other financing sources (uses) | <u>10,046,603</u> |
| Net Change in Fund Balance | 9,296,974 |
| Fund balances -- beginning | <u>-</u> |
| Fund balances -- ending | <u>\$ 9,296,974</u> |

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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Capital Project Fund

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|-------|--------------|---|
| | Original | Final | | |
| EXPENDITURES | | | | |
| Culture and Recreation | \$ - | \$ - | \$ 580,366 | \$ (580,366) |
| Debt Service | - | - | 169,263 | (169,263) |
| Total Expenditures | - | - | 749,629 | (749,629) |
| Excess (deficiency) of revenues over expenditures | - | - | (749,629) | (749,629) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond Proceeds | - | - | 10,000,000 | 10,000,000 |
| Premiums on Bonds Issued | - | - | 46,603 | 46,603 |
| Total other financing sources (uses) | - | - | 10,046,603 | 10,046,603 |
| Net Change in fund balances | - | - | 9,296,974 | 9,296,974 |
| Fund Balances - beginning | - | - | - | - |
| Fund Balances - ending | \$ - | \$ - | \$ 9,296,974 | \$ 9,296,974 |

Combining Statements

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.

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

| | <u>Enterprise Funds</u> | |
|--------------------------------------|-------------------------|---------------------|
| | <u>Solid Waste Fund</u> | <u>Total</u> |
| ASSETS | | |
| Current assets: | | |
| Pooled Cash and Investments | \$ 2,298,796 | \$ 2,298,796 |
| Accounts Receivable | 263,849 | 263,849 |
| Interest Receivable | 3,360 | 3,360 |
| Due from Other Funds | 38 | 38 |
| Inventory | 33,099 | 33,099 |
| Restricted Cash | 500,515 | 500,515 |
| Total Current assets: | <u>3,099,657</u> | <u>3,099,657</u> |
| Noncurrent assets: | | |
| Land | 38,175 | 38,175 |
| Buildings and Structures | 993,472 | 993,472 |
| Furniture Equipment Machinery | 4,542,650 | 4,542,650 |
| Improvements Other Than Buildings | 3,828,222 | 3,828,222 |
| Construction in Progress | 242,753 | 242,753 |
| Accumulated Depreciation | (3,352,819) | (3,352,819) |
| Total Noncurrent assets: | <u>6,292,453</u> | <u>6,292,453</u> |
| Total assets | <u>9,392,110</u> | <u>9,392,110</u> |
| LIABILITIES AND FUND BALANCES | | |
| Current liabilities: | | |
| Accounts Payable | 106,462 | 106,462 |
| Accrued Vacation and Sick Leave | 33,411 | 33,411 |
| Total Current liabilities: | <u>139,873</u> | <u>139,873</u> |
| Noncurrent liabilities: | | |
| Accrued Vacation and Sick Leave | 100,235 | 100,235 |
| Other Post Employment Benefits | 28,657 | 28,657 |
| Closure/Post Closure Liability | 500,515 | 500,515 |
| Total Noncurrent liabilities: | <u>629,407</u> | <u>629,407</u> |
| Total liabilities | <u>769,280</u> | <u>769,280</u> |
| Net Investment in Capital Assets | 6,292,453 | 6,292,453 |
| Unrestricted | 2,330,377 | 2,330,377 |
| Total net position | <u>\$ 8,622,830</u> | <u>\$ 8,622,830</u> |

City of Watertown
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Combining Statement of Revenues, Expenses, and Changes in Net Position-
 Nonmajor Business-Type Funds

| | <u>Enterprise Funds</u> | |
|--|-------------------------|---------------------|
| | <u>Solid Waste Fund</u> | <u>Total</u> |
| OPERATING REVENUES | | |
| Charges for Goods and Services | \$ 2,437,158 | \$ 2,437,158 |
| Miscellaneous | 9,499 | 9,499 |
| Total Operating revenues | <u>2,446,657</u> | <u>2,446,657</u> |
| OPERATING EXPENSES | | |
| Personal Services | 1,059,895 | 1,059,895 |
| Supplies | 275,142 | 275,142 |
| Utilities | 37,097 | 37,097 |
| Other Charges | 531,314 | 531,314 |
| Depreciation | 446,072 | 446,072 |
| Total operating expenses | <u>2,349,520</u> | <u>2,349,520</u> |
| Operating Income (Loss) | <u>97,137</u> | <u>97,137</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest Revenue | 11,467 | 11,467 |
| Contributions | (40,000) | (40,000) |
| Gain(Loss) on Disposition of Capital Assets | 838 | 838 |
| Total nonoperating revenues (expenses) | <u>(27,695)</u> | <u>(27,695)</u> |
| Income (loss) before contributions and transfers | 69,442 | 69,442 |
| Transfers Out | (206,200) | (206,200) |
| Capital Contributions | 26,077 | 26,077 |
| Change in net position | (110,681) | (110,681) |
| Total net position -- beginning | <u>8,733,511</u> | <u>8,733,511</u> |
| Total net position -- ending | <u>\$ 8,622,830</u> | <u>\$ 8,622,830</u> |

City of Watertown
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Combining Statement of Cash Flows - Nonmajor Business-Type Funds

| | Enterprise Funds | |
|---|-------------------------|---------------------|
| | Solid Waste Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customer including deposits | \$ 2,653,841 | \$ 2,653,841 |
| Payments to suppliers | (923,746) | (923,746) |
| Payments to employees | (1,064,620) | (1,064,620) |
| Other Operating Cash Receipts | 9,499 | 9,499 |
| Net cash provided (used) by operating activities | <u>674,974</u> | <u>674,974</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Contribution | (40,000) | (40,000) |
| Transfers Out | (206,200) | (206,200) |
| Net cash provided (used) by noncapital financing activities | <u>(246,200)</u> | <u>(246,200)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (554,078) | (554,078) |
| Capital Grant | 26,077 | 26,077 |
| Proceeds from sales of capital assets | 838 | 838 |
| Net cash provided (used) by capital and related financing activities | <u>(527,163)</u> | <u>(527,163)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 10,401 | 10,401 |
| Net cash provided by investing activities | <u>10,401</u> | <u>10,401</u> |
| Net increase (decrease) in cash and cash equivalents | (87,988) | (87,988) |
| Pooled Cash and Investments - beginning of year | 2,887,299 | 2,887,299 |
| Pooled Cash and Investments - end of year | 2,799,311 | 2,799,311 |
| Less Restricted Pooled Cash and Investments | (500,515) | (500,515) |
| Pooled Cash and Investment Per Balance Sheet | <u>\$ 2,298,796</u> | <u>\$ 2,298,796</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ 97,137 | \$ 97,137 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 446,072 | 446,072 |
| Changes in assets and Liabilities: | | |
| Accounts Payable - Other | 99 | 99 |
| Accounts Payable - Supplier | (102,655) | (102,655) |
| Customer Receivables | (17,436) | (17,436) |
| Inventory | 3,284 | 3,284 |
| Other operating receivables | 234,118 | 234,118 |
| Closure/Post closure costs | 19,079 | 19,079 |
| Other Post Employment Benefits | 4,030 | 4,030 |
| Salaries & Benefits Payable | (8,754) | (8,754) |
| Net Cash provided (used) by operating activities | <u>\$ 674,974</u> | <u>\$ 674,974</u> |

Combining Statements

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.

City of Watertown
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Combining Statement of Net Position - Fiduciary Funds

| | Agency Funds | | | Total |
|-----------------------------|---------------------------|---------------------------|---------------------------------|------------------|
| | 125 Escrow Agency Fund | Redemption Agency Fund | Security Deposit Agency Fund | |
| ASSETS | | | | |
| Pooled Cash and Investments | \$ 20,548 | \$ 500 | \$ 63,498 | \$ 84,546 |
| Interest Receivable | - | - | 35 | 35 |
| Total Assets | <u>20,548</u> | <u>500</u> | <u>63,533</u> | <u>84,581</u> |
| LIABILITIES | | | | |
| Due to Others | 20,548 | 500 | 63,533 | 84,581 |
| Total Liabilities | <u>\$ 20,548</u> | <u>\$ 500</u> | <u>\$ 63,533</u> | <u>\$ 84,581</u> |

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

| | <u>Balance January 1, 2014</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31, 2014</u> |
|-------------------------------|--|------------------|-------------------|--|
| 125 Escrow Fund | | | | |
| Assets: | | | | |
| Pooled Cash and Investments | \$ 25,470 | \$ 85,140 | \$ 90,062 | \$ 20,548 |
| Liabilities: | | | | |
| Due to Flex Claims | \$ 25,470 | \$ 85,140 | \$ 90,062 | \$ 20,548 |
| Redemption Fund | | | | |
| Assets: | | | | |
| Pooled Cash and Investments | \$ 500 | \$ - | \$ - | \$ 500 |
| Liabilities: | | | | |
| Due to Certificate Holders | \$ 500 | \$ - | \$ - | \$ 500 |
| Security Deposit Fund | | | | |
| Assets: | | | | |
| Pooled Cash and Investments | \$ 63,391 | \$ 607 | \$ 500 | \$ 63,498 |
| Interest Receivable | 23 | 12 | - | 35 |
| Total Assets | <u>\$ 63,414</u> | <u>\$ 619</u> | <u>\$ 500</u> | <u>\$ 63,533</u> |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ 500 | \$ 500 | \$ - |
| Bidder's Deposits | 63,414 | 619 | 500 | 63,533 |
| Total Liabilities | <u>\$ 63,414</u> | <u>\$ 1,119</u> | <u>\$ 1,000</u> | <u>\$ 63,533</u> |
| Total All Agency Funds | | | | |
| Assets: | | | | |
| Pooled Cash and Investments | \$ 89,361 | \$ 85,747 | \$ 90,562 | \$ 84,546 |
| Interest Receivable | 23 | 12 | - | 35 |
| Total Assets | <u>\$ 89,384</u> | <u>\$ 85,759</u> | <u>\$ 90,562</u> | <u>\$ 84,581</u> |
| Liabilities: | | | | |
| Due to Flex Claims | \$ 25,470 | \$ 85,140 | \$ 90,062 | \$ 20,548 |
| Due to Certificate Holders | 500 | - | - | 500 |
| Accounts Payable | - | 500 | 500 | - |
| Due to Bidders | 63,414 | 619 | 500 | 63,533 |
| Total Liabilities | <u>\$ 89,384</u> | <u>\$ 86,259</u> | <u>\$ 91,062</u> | <u>\$ 84,581</u> |

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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 110

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 120

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

Debt Capacity 122

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 128

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 131

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 Position by Component (accrual basis of accounting)
Last Ten Fiscal Years

| | 2005 | 2006 | 2007 | 2008 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Governmental Activities | | | | |
| Net Investment in Capital Assets | \$ 38,778,621 | \$ 42,910,080 | \$ 47,791,276 | \$ 51,029,214 |
| Restricted | (252,416) | 5,384,568 | 4,744,766 | 4,688,698 |
| Unrestricted | 20,184,885 | 18,515,631 | 20,525,046 | 23,032,412 |
| Total Governmental Activities Net Position | 58,711,090 | 66,810,279 | 73,061,088 | 78,750,324 |
| Business-Type Activities | | | | |
| Net Investment in Capital Assets | 78,257,049 | 80,830,075 | 93,713,787 | 97,151,295 |
| Restricted | 1,627,448 | 2,332,710 | 2,250,823 | 2,321,033 |
| Unrestricted | 8,311,211 | 7,970,219 | 5,883,775 | 6,105,604 |
| Total Business-Type Activities Net Position | 88,195,708 | 91,133,004 | 101,848,385 | 105,577,932 |
| Primary Government | | | | |
| Net Investment in Capital Assets | 117,035,670 | 123,740,155 | 141,505,063 | 148,180,509 |
| Restricted | 1,375,032 | 7,717,278 | 6,995,589 | 7,009,731 |
| Unrestricted | 28,496,096 | 26,485,850 | 26,408,821 | 29,138,016 |
| Total Primary Government Net Position | \$ 146,906,798 | \$ 157,943,283 | \$ 174,909,473 | \$ 184,328,256 |

City of Watertown
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 Year Ended December 31, 2014

Statistics (Unaudited)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|-------------|----------------|----------------|----------------|----------------|----------------|
| \$ | 55,524,697 | \$ 60,575,273 | \$ 67,767,554 | \$ 85,000,053 | \$ 90,859,225 | \$ 87,327,962 |
| | 4,248,755 | 4,270,785 | 4,056,531 | 3,739,347 | 3,729,910 | 14,701,445 |
| | 20,768,250 | 17,365,658 | 17,916,695 | 20,507,155 | 21,011,647 | 19,907,113 |
| | 80,541,702 | 82,211,716 | 89,740,780 | 109,246,555 | 115,600,782 | 121,936,520 |
| | 101,568,572 | 104,804,892 | 108,084,421 | 117,465,744 | 120,161,321 | 124,349,767 |
| | 4,144,904 | 4,968,431 | 4,971,973 | 4,920,074 | 5,123,610 | 3,784,553 |
| | 7,861,507 | 10,473,916 | 12,194,936 | 14,200,509 | 18,435,648 | 20,265,716 |
| | 113,574,983 | 120,247,239 | 125,251,330 | 136,586,327 | 143,720,579 | 148,400,036 |
| | 157,093,269 | 165,380,165 | 175,851,975 | 202,465,797 | 211,020,546 | 211,677,729 |
| | 8,393,659 | 9,239,216 | 9,028,504 | 8,659,421 | 8,853,520 | 18,485,998 |
| | 28,629,757 | 27,839,574 | 30,111,631 | 34,707,664 | 39,447,295 | 40,172,829 |
| \$ | 194,116,685 | \$ 202,458,955 | \$ 214,992,110 | \$ 245,832,882 | \$ 259,321,361 | \$ 270,336,556 |

City of Watertown
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Statistics (Unaudited)

Table 2
Changes in Net Position (accrual basis of accounting)
Last Ten Fiscal Years

| | 2005 | 2006 | 2007 | 2008 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Expenses | | | | |
| Governmental Activities | | | | |
| General Government | \$ 2,526,647 | \$ 2,263,546 | \$ 2,081,938 | \$ 2,013,451 |
| Public Safety | 4,577,510 | 5,162,524 | 6,027,544 | 6,027,524 |
| Public Works | 2,907,346 | 2,923,705 | 5,210,444 | 3,924,863 |
| Health and Welfare | 131,608 | 128,194 | 152,548 | 112,178 |
| Culture and Recreation | 4,324,997 | 4,663,705 | 5,398,262 | 4,663,565 |
| Conservation and Development | 2,002,869 | 1,351,546 | 1,127,959 | 2,367,988 |
| Interest on Long-Term Debt | 775,177 | 943,562 | 969,371 | 980,531 |
| Total Governmental Activities | 17,246,154 | 17,436,782 | 20,968,066 | 20,090,100 |
| Business-Type Activities | | | | |
| Sewer | 2,580,467 | 2,462,574 | 2,614,782 | 2,654,696 |
| Solid Waste | 1,521,945 | 1,635,773 | 1,801,588 | 1,912,915 |
| Airport | 452,915 | 427,644 | 517,809 | 652,775 |
| Electric | 14,287,836 | 14,854,667 | 16,732,001 | 19,057,099 |
| Water | 2,389,920 | 2,648,436 | 2,836,951 | 3,189,027 |
| Gas | 20,550,668 | 22,540,265 | 22,960,556 | 36,286,483 |
| Water Bond | 364,944 | 361,564 | 415,885 | - |
| Total Business-Type Activities Expenses | 42,148,695 | 44,930,923 | 47,879,572 | 63,752,995 |
| Total Primary Government Expenses | 59,394,849 | 62,367,705 | 68,847,638 | 83,843,095 |
| Program Revenues | | | | |
| Governmental Activities | | | | |
| Charges for Services | | | | |
| General Government | 88,003 | 88,937 | 110,331 | 94,191 |
| Public Safety | 759,822 | 810,005 | 761,711 | 883,982 |
| Public Works | 179,367 | 193,486 | 120,870 | 233,702 |
| Health and Welfare | 2,200 | 2,950 | 1,795 | 2,805 |
| Culture and Recreation | 1,359,572 | 1,633,329 | 1,712,916 | 1,791,085 |
| Conservation and Development | 102,418 | 194,497 | 210,867 | 190,285 |
| Operating Grants and Contributions | 802,673 | 696,445 | 461,103 | 592,547 |
| Capital Grants and Contributions | 2,414,636 | 1,752,712 | 3,333,292 | 2,204,146 |
| Total Governmental Activities Program Revenues | 5,708,691 | 5,372,361 | 6,712,885 | 5,992,743 |
| Business-Type Activities | | | | |
| Charges for Services | | | | |
| Sewer | 2,653,177 | 2,718,978 | 2,740,310 | 2,723,042 |
| Solid Waste | 1,958,100 | 2,023,769 | 2,073,322 | 2,126,587 |
| Airport | 104,681 | 112,719 | 181,990 | 135,333 |
| Electric | 15,767,071 | 16,112,853 | 18,213,206 | 20,873,566 |
| Water | 2,050,867 | 2,138,417 | 2,467,522 | 3,232,484 |
| Gas | 20,930,499 | 23,669,760 | 23,258,513 | 36,333,029 |
| Water Bond | 640,387 | 633,029 | 472,666 | - |
| Operating Grants and Contributions | 3,072 | - | - | - |
| Capital Grants and Contributions | 804,509 | 845,719 | 9,481,462 | 2,960,700 |
| Total Business-Type Activities Program Revenues | 44,912,363 | 48,255,244 | 58,888,991 | 68,384,741 |
| Total Primary Government Program Revenues | 50,621,054 | 53,627,605 | 65,601,876 | 74,377,484 |
| Net (Expenses) Revenues | | | | |
| Governmental Activities | (11,537,463) | (12,064,421) | (14,255,181) | (14,097,357) |
| Business-Type Activities | 2,763,668 | 3,324,321 | 11,009,419 | 4,631,746 |
| Total Primary Government Net Expense | \$ (8,773,795) | \$ (8,740,100) | \$ (3,245,762) | \$ (9,465,611) |

City of Watertown
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Statistics (Unaudited)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ | 2,239,381 | \$ 2,310,431 | \$ 2,121,098 | \$ 2,179,248 | \$ 2,278,875 | \$ 2,626,947 |
| | 6,995,236 | 6,690,164 | 7,792,889 | 7,607,436 | 8,014,490 | 8,577,724 |
| | 5,567,390 | 6,572,449 | 3,872,691 | 3,045,042 | 3,127,223 | 4,478,011 |
| | 143,252 | 155,521 | 106,977 | 51,181 | 68,610 | 76,368 |
| | 4,447,026 | 5,082,426 | 5,571,198 | 5,717,719 | 5,666,008 | 5,710,860 |
| | 2,185,846 | 4,077,887 | 824,564 | 937,887 | 1,511,981 | 1,812,665 |
| | 989,693 | 1,000,750 | 1,193,734 | 1,264,972 | 923,567 | 1,091,127 |
| | 22,567,824 | 25,889,628 | 21,483,151 | 20,803,485 | 21,590,754 | 24,373,702 |
| | 2,795,065 | 2,827,414 | 3,685,485 | 3,553,717 | 3,589,083 | 3,654,114 |
| | 1,883,078 | 2,231,953 | 2,225,436 | 2,247,821 | 2,295,305 | 2,389,520 |
| | 684,003 | 731,815 | 766,861 | 835,405 | 1,042,696 | 1,046,734 |
| | 21,067,051 | 22,278,923 | 23,085,560 | 23,075,668 | 23,842,210 | 24,422,931 |
| | 3,018,896 | 3,328,414 | 3,642,761 | 5,169,923 | 4,707,937 | 4,829,106 |
| | 22,675,100 | 18,590,439 | 10,182,905 | 8,013,641 | 8,461,181 | 10,340,336 |
| | - | - | - | - | - | - |
| | 52,123,193 | 49,988,958 | 43,589,008 | 42,896,175 | 43,938,412 | 46,682,741 |
| | 74,691,017 | 75,878,586 | 65,072,159 | 63,699,660 | 65,529,166 | 71,056,443 |
| | 95,725 | 102,738 | 109,666 | 110,237 | 118,522 | 125,562 |
| | 848,182 | 804,582 | 847,295 | 1,267,262 | 1,594,057 | 1,577,811 |
| | 136,082 | 209,369 | 177,996 | 347,757 | 257,342 | 314,157 |
| | 2,120 | 2,460 | 1,440 | - | - | - |
| | 1,844,853 | 1,946,663 | 1,998,369 | 2,155,501 | 2,176,508 | 2,199,184 |
| | 149,469 | 182,063 | 172,426 | 223,529 | 210,276 | 265,133 |
| | 1,500,508 | 1,187,355 | 747,499 | 659,139 | 694,993 | 556,333 |
| | 1,039,834 | 3,501,985 | 4,490,263 | 13,877,663 | 1,057,552 | 2,373,711 |
| | 5,616,773 | 7,937,215 | 8,544,954 | 18,641,088 | 6,109,250 | 7,411,891 |
| | 2,662,905 | 2,749,380 | 3,268,702 | 3,369,238 | 3,413,812 | 3,450,537 |
| | 2,158,445 | 2,143,671 | 2,228,029 | 2,322,098 | 2,411,245 | 2,446,657 |
| | 122,541 | 115,443 | 114,843 | 119,981 | 143,536 | 154,058 |
| | 22,586,756 | 23,392,522 | 25,063,172 | 24,941,694 | 26,671,481 | 27,317,371 |
| | 4,154,367 | 4,145,187 | 4,288,038 | 5,514,814 | 5,323,126 | 5,265,645 |
| | 25,617,261 | 20,139,602 | 12,290,057 | 10,182,312 | 12,499,373 | 12,062,546 |
| | - | - | - | - | - | - |
| | 137,144 | 61,087 | 1,067,742 | 179,884 | 63,628 | 14,189 |
| | 3,181,150 | 4,856,309 | 1,280,359 | 9,274,509 | 1,801,569 | 1,729,098 |
| | 60,620,569 | 57,603,201 | 49,600,942 | 55,904,530 | 52,327,770 | 52,440,101 |
| | 66,237,342 | 65,540,416 | 58,145,896 | 74,545,618 | 58,437,020 | 59,851,992 |
| | (16,951,051) | (17,952,413) | (12,938,197) | (2,162,397) | (15,481,504) | (16,961,811) |
| | 8,497,376 | 7,614,243 | 6,011,934 | 13,008,355 | 8,389,358 | 5,757,360 |
| \$ | (8,453,675) | (10,338,170) | (6,926,263) | (10,845,958) | (7,092,146) | (11,204,451) |

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Statistics (Unaudited)

Table 2 (continued)
Changes in Net Position (accrual basis of accounting)
Last Ten Fiscal Years

| | 2005 | 2006 | 2007 | 2008 |
|---|---------------------|---------------------|----------------------|---------------------|
| Governmental Activities | | | | |
| Taxes | | | | |
| Property Taxes | \$ 2,428,888 | \$ 2,714,384 | \$ 2,860,183 | \$ 3,077,979 |
| Sales and Use Taxes | 10,836,904 | 11,121,297 | 12,188,673 | 12,391,871 |
| Other Taxes | 503,469 | 569,358 | 535,745 | 575,150 |
| State Shared Revenues | 532,410 | 553,627 | 779,009 | 824,082 |
| Investment Earnings | 968,867 | 1,548,508 | 1,586,553 | 1,255,522 |
| Miscellaneous | 423,882 | 275,762 | 323,635 | 297,984 |
| Sales of Capital Assets | 44,642 | 19,084 | - | - |
| Premiums from Bonds | - | 12,466 | - | - |
| Transfers | 980,500 | 1,041,020 | 766,300 | 1,364,005 |
| Total Governmental Activities | <u>16,719,562</u> | <u>17,855,506</u> | <u>19,040,098</u> | <u>19,786,593</u> |
| Business-Type Activities | | | | |
| Taxes | | | | |
| Other Taxes | 11,747 | 10,190 | 10,346 | 9,794 |
| Investment Earnings | 291,193 | 493,476 | 461,917 | 342,516 |
| Sales of Capital Assets | - | 16 | - | - |
| Miscellaneous | - | - | - | 109,496 |
| Transfers | (980,500) | (1,041,020) | (766,300) | (1,364,005) |
| Total Business-Type Activities | <u>(677,560)</u> | <u>(537,338)</u> | <u>(294,037)</u> | <u>(902,199)</u> |
| Total Primary Government General Revenues | <u>16,042,002</u> | <u>17,318,168</u> | <u>18,746,061</u> | <u>18,884,394</u> |
| Change in Net Position | | | | |
| Governmental Activities | 5,182,099 | 5,791,085 | 4,784,917 | 5,689,236 |
| Business-Type Activities | 2,086,108 | 2,786,983 | 10,715,382 | 3,729,547 |
| Total Primary Government | <u>\$ 7,268,207</u> | <u>\$ 8,578,068</u> | <u>\$ 15,500,299</u> | <u>\$ 9,418,783</u> |

City of Watertown
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 Year Ended December 31, 2014

Statistics (Unaudited)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|------------|--------------|---------------|---------------|---------------|---------------|
| \$ | 3,217,832 | \$ 3,409,712 | \$ 3,527,126 | \$ 3,662,785 | \$ 3,839,601 | \$ 4,023,023 |
| | 12,078,171 | 12,722,695 | 13,417,259 | 14,201,502 | 14,435,880 | 15,218,434 |
| | 580,539 | 604,185 | 644,792 | 558,608 | 374,254 | 365,741 |
| | 677,265 | 737,314 | 780,300 | 844,462 | 934,849 | 1,003,738 |
| | 931,412 | 657,381 | 566,533 | 522,308 | 495,797 | 511,979 |
| | 519,310 | 223,836 | 290,407 | 103,667 | 297,966 | 917,971 |
| | - | - | - | 19,295 | 4,984 | 2,825 |
| | - | - | - | - | - | 46,603 |
| | 737,900 | 1,267,304 | 1,240,844 | 1,807,975 | 1,452,400 | 1,207,235 |
| | 18,742,429 | 19,622,427 | 20,467,261 | 21,720,602 | 21,835,731 | 23,297,549 |
| | 7,764 | 9,398 | 8,261 | 4,865 | 6,032 | 9,576 |
| | 205,653 | 158,880 | - | 124,287 | 132,601 | 154,702 |
| | - | - | 80,110 | 5,465 | 58,661 | (34,946) |
| | 24,158 | 157,039 | 144,630 | - | - | - |
| | (737,900) | (1,267,304) | (1,240,844) | (1,807,975) | (1,452,400) | (1,207,235) |
| | (500,325) | (941,987) | (1,007,843) | (1,673,358) | (1,255,106) | (1,077,903) |
| | 18,242,104 | 18,680,440 | 19,459,418 | 20,047,244 | 20,580,625 | 22,219,646 |
| | 1,791,378 | 1,670,014 | 7,529,064 | 19,558,205 | 6,354,227 | 6,335,738 |
| | 7,997,051 | 6,672,256 | 5,004,091 | 11,334,997 | 7,134,252 | 4,679,457 |
| \$ | 9,788,429 | \$ 8,342,270 | \$ 12,533,155 | \$ 30,893,202 | \$ 13,488,479 | \$ 11,015,195 |

City of Watertown
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Statistics (Unaudited)

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

| | 2005 | 2006 | 2007 | 2008 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| General Fund | | | | |
| Reserved | \$ 96,593 | \$ 111,140 | \$ 464,377 | \$ 460,519 |
| Unreserved | 5,687,386 | 5,668,844 | 5,673,028 | 6,086,492 |
| Nonspendable | - | - | - | - |
| Restricted | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total General Fund | <u>5,783,979</u> | <u>5,779,984</u> | <u>6,137,405</u> | <u>6,547,011</u> |
| All Other Governmental Funds | | | | |
| Reserved | 1,402,621 | 2,004,425 | 5,817,730 | 6,046,771 |
| Unreserved, Reported in | | | | |
| Special Revenue Funds | 11,042,195 | 15,798,469 | 11,778,008 | 14,581,378 |
| Debt Service Funds | 70,475 | 95,835 | 124,812 | 153,462 |
| Capital Projects Funds | 2,394,660 | 805,250 | 788,989 | - |
| Nonspendable | - | - | - | - |
| Restricted | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total All Other Governmental Funds | <u>\$ 14,909,951</u> | <u>\$ 18,703,979</u> | <u>\$ 18,509,539</u> | <u>\$ 20,781,611</u> |

Note: Prior to 2011 the City didn't account for fund balance in accordance with GASB 54.

City of Watertown
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Statistics (Unaudited)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|------------|---------------|---------------|---------------|---------------|---------------|
| \$ | 485,273 | \$ 471,288 | \$ - | \$ - | \$ - | \$ - |
| | 5,123,231 | 5,179,949 | - | - | - | - |
| | - | - | 191,384 | 149,495 | 143,545 | 167,034 |
| | - | - | 20,307 | 20,371 | 20,415 | 20,461 |
| | - | - | 1,834,287 | 330,054 | 1,174,896 | 1,588,547 |
| | - | - | 3,744,725 | 6,739,020 | 6,597,341 | 7,134,110 |
| | 5,608,504 | 5,651,237 | 5,790,703 | 7,238,940 | 7,936,197 | 8,910,152 |
| | 5,676,516 | 7,430,002 | - | - | - | - |
| | 13,004,547 | 7,973,744 | - | - | - | - |
| | 181,979 | 208,507 | - | - | - | - |
| | - | - | - | - | - | - |
| | - | - | 5,590,064 | 5,545,826 | 5,510,296 | 5,366,976 |
| | - | - | 2,932,836 | 2,768,332 | 2,872,687 | 12,983,774 |
| | - | - | 13,819,224 | 15,277,075 | 15,233,749 | 14,120,906 |
| | - | - | (6,394,499) | (6,355,596) | (6,428,538) | (6,379,436) |
| \$ | 18,863,042 | \$ 15,612,253 | \$ 15,947,625 | \$ 17,235,637 | \$ 17,188,194 | \$ 26,092,220 |

City of Watertown
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 Year Ended December 31, 2014

Statistics (Unaudited)

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

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Revenues | | | | | |
| Taxes | \$ 13,769,261 | \$ 14,319,732 | \$ 15,485,565 | \$ 16,035,282 | \$ 15,897,362 |
| Licenses and Permits | 161,952 | 230,185 | 299,872 | 228,960 | 191,135 |
| Intergovernmental | 1,395,457 | 1,145,538 | 2,302,724 | 2,067,182 | 2,199,694 |
| Charges for Goods and Services | 2,073,901 | 2,403,288 | 2,415,740 | 2,598,905 | 2,640,488 |
| Fines and Forfeitures | 69,087 | 79,904 | 90,756 | 87,082 | 85,449 |
| Interest | 881,016 | 1,330,062 | 1,562,728 | 1,375,784 | 1,033,825 |
| Miscellaneous Revenue | 2,136,374 | 1,258,173 | 1,250,948 | 862,324 | 1,081,741 |
| Total Revenues | 20,487,048 | 20,766,882 | 23,408,333 | 23,255,519 | 23,129,694 |
| Expenditures | | | | | |
| General Government | 2,411,779 | 1,953,217 | 1,824,808 | 2,003,829 | 2,466,700 |
| Public Safety | 4,489,573 | 4,978,559 | 6,857,734 | 5,925,253 | 7,642,490 |
| Public Work | 2,079,050 | 2,094,081 | 7,039,201 | 5,589,803 | 6,697,461 |
| Health and Welfare | 131,059 | 127,180 | 151,971 | 112,208 | 142,427 |
| Culture and Recreation | 3,461,596 | 4,348,380 | 6,863,660 | 5,352,446 | 6,188,672 |
| Conservation and Development | 714,668 | 725,469 | 1,161,056 | 1,731,205 | 1,999,344 |
| Contributions to Other Gov't | - | 355,000 | 282,500 | - | - |
| Capital Outlay | 7,618,326 | 6,764,013 | 62,109 | 4,753 | - |
| Debt Service | | | | | |
| Principal | 534,133 | 705,616 | 797,537 | 846,333 | 904,123 |
| Interest | 814,716 | 925,437 | 970,676 | 979,795 | 989,794 |
| Administrative Charges | 2,300 | 2,300 | 2,000 | 2,000 | 2,000 |
| Bond Issuance Costs | - | - | - | - | - |
| Total Expenditures | 22,257,200 | 22,979,252 | 26,013,252 | 22,547,625 | 27,033,011 |
| Revenues Over (Under) Expenditures | (1,770,152) | (2,212,370) | (2,604,919) | 707,894 | (3,903,317) |
| Other Financing Sources (Uses) | | | | | |
| Sales of Municipal Property | 44,641 | 13,836 | 29,759 | 20,521 | 44,461 |
| Long-Term Debt Issuance | - | 4,997,466 | 1,641,787 | 589,258 | 263,880 |
| Premium on Bonds Issued | - | - | - | - | - |
| Pmt To Refunded Bond Escrow Agent | - | - | - | - | - |
| Transfer In | 3,188,646 | 3,620,740 | 2,646,300 | 4,193,233 | 3,160,400 |
| Transfer Out | (2,208,146) | (2,629,639) | (1,880,000) | (2,829,228) | (2,422,500) |
| Total Other Financing Sources (Uses) | 1,025,141 | 6,002,403 | 2,437,846 | 1,973,784 | 1,046,241 |
| Net Change in Fund Balances | \$ (745,011) | \$ 3,790,033 | \$ (167,073) | \$ 2,681,678 | \$ (2,857,076) |
| Debt service as a % of noncapital expenditures | 5.8% | 10.2% | 11.5% | 7.4% | 8.8% |

City of Watertown
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Statistics (Unaudited)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|----|-------------|---------------|---------------|---------------|---------------|
| \$ | 16,655,844 | \$ 17,400,555 | \$ 18,529,315 | \$ 18,595,966 | \$ 19,535,361 |
| | 227,893 | 217,234 | 270,639 | 259,051 | 310,437 |
| | 2,588,137 | 4,090,514 | 2,079,525 | 1,761,169 | 1,495,512 |
| | 2,742,393 | 2,788,625 | 3,361,454 | 3,673,367 | 3,784,132 |
| | 81,556 | 71,284 | 62,469 | 54,866 | 46,598 |
| | 742,083 | 617,191 | 547,730 | 499,811 | 500,831 |
| | 3,038,795 | 1,110,025 | 1,085,281 | 1,169,723 | 1,012,386 |
| | 26,076,701 | 26,295,428 | 25,936,413 | 26,013,953 | 26,685,257 |
| | 2,252,324 | 2,214,463 | 2,165,287 | 2,308,602 | 2,735,864 |
| | 11,570,206 | 12,263,026 | 8,516,828 | 8,597,330 | 7,756,401 |
| | 7,448,552 | 4,422,104 | 5,375,413 | 4,358,255 | 5,861,418 |
| | 155,327 | 123,925 | 51,181 | 68,610 | 76,110 |
| | 6,357,466 | 5,653,602 | 5,491,966 | 8,100,662 | 8,534,335 |
| | 3,876,901 | 596,354 | 767,142 | 1,484,772 | 1,636,633 |
| | - | - | - | - | - |
| | - | - | - | - | - |
| | 1,005,962 | 1,102,395 | 1,289,742 | 1,111,990 | 1,176,242 |
| | 1,001,326 | 1,188,733 | 927,973 | 922,912 | 899,249 |
| | 2,000 | 2,750 | 3,550 | 1,500 | 1,500 |
| | 58,785 | - | 54,453 | - | 169,263 |
| | 33,728,849 | 27,567,352 | 24,643,535 | 26,954,633 | 28,847,015 |
| | (7,652,148) | (1,271,924) | 1,292,878 | (940,680) | (2,161,758) |
| | 6,305 | 1,815 | 159,114 | 138,094 | 785,901 |
| | 7,526,374 | 530,997 | 4,165,000 | - | 10,000,000 |
| | 3,022 | - | - | - | 46,603 |
| | (4,358,913) | - | (4,258,943) | - | - |
| | 3,148,666 | 2,996,750 | 3,432,200 | 3,815,400 | 3,996,550 |
| | (1,881,362) | (1,782,800) | (2,054,000) | (2,363,000) | (2,789,315) |
| | 4,444,092 | 1,746,762 | 1,443,371 | 1,590,494 | 12,039,739 |
| \$ | (3,208,056) | \$ 474,838 | \$ 2,736,249 | \$ 649,814 | \$ 9,877,981 |
| | 8.3% | 11.3% | 12.1% | 10.5% | 11.0% |

City of Watertown
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Statistics (Unaudited)

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 Assessed Value | Total Direct Tax Rate | Estimated Actual Value | Assessed Value as a % of Actual Value |
|-------------|----------------------|---------------------|----------------------|-----------------------|------------------------|---------------------------------------|
| 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% |
| 2009 | 921,168,488 | 366,738,271 | 1,287,906,759 | 2.65 | 1,515,184,422 | 85% |
| 2010 | 927,815,856 | 381,159,855 | 1,308,975,711 | 2.59 | 1,539,971,425 | 85% |
| 2011 | 932,257,198 | 381,637,650 | 1,313,894,848 | 2.68 | 1,545,758,645 | 85% |
| 2012 | 944,992,929 | 389,987,956 | 1,334,980,885 | 2.74 | 1,570,565,747 | 85% |
| 2013 | 982,112,861 | 404,026,919 | 1,386,139,780 | 2.73 | 1,630,752,682 | 85% |
| 2014 | 1,033,567,191 | 424,412,750 | 1,457,979,941 | 2.68 | 1,715,270,519 | 85% |

Source: Codington County Board of Equalization.

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

| Fiscal Year | City of Waterown | | | Overlapping Rates | | | | | | | Total Direct & Overlapping Rates |
|-------------|-------------------|----------------------|--------------------|-------------------|----------------------|----------------------|---------------------------|----------------------|----------------------|-------------------|----------------------------------|
| | Operating Millage | Debt Service Millage | Total City Millage | County | | | Watertown School District | | | Special Districts | |
| | | | | Operating Millage | Debt Service Millage | Total County Millage | Operating Millage | Debt Service Millage | Total School Millage | | |
| 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 |
| 2009 | 2.26 | 0.39 | 2.65 | 3.73 | 0.00 | 3.73 | 13.40 | 0.00 | 13.40 | 1.14 | 20.92 |
| 2010 | 2.20 | 0.39 | 2.59 | 3.66 | 0.00 | 3.66 | 13.22 | 0.00 | 13.22 | 1.05 | 20.52 |
| 2011 | 2.32 | 0.36 | 2.68 | 3.71 | 0.00 | 3.71 | 13.22 | 0.00 | 13.22 | 1.02 | 20.63 |
| 2012 | 2.38 | 0.36 | 2.74 | 3.63 | 0.00 | 3.63 | 13.39 | 0.00 | 13.39 | 0.97 | 20.73 |
| 2013 | 2.37 | 0.36 | 2.73 | 3.58 | 0.00 | 3.58 | 14.08 | 0.00 | 14.08 | 0.97 | 21.36 |
| 2014 | 2.33 | 0.35 | 2.68 | 3.44 | 0.00 | 3.44 | 13.92 | 0.00 | 13.92 | 0.93 | 20.97 |

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Table 7
Principal Taxpayers
Current Year and Ten Years Ago

| Taxpayer | 2014 | | | 2005 | | |
|-----------------------------------|----------------|------|------------------------------------|----------------|------|------------------------------------|
| | Assessed Value | Rank | Percentage of Total Assessed Value | Assessed Value | Rank | Percentage of Total Assessed Value |
| Wal-Mart Real Estate | 10,279,090 | 1 | 0.71% | 5,360,285 | 5 | 0.54% |
| Glacial Lakes Energy | 9,973,922 | 2 | 0.68% | 4,657,027 | 6 | 0.47% |
| Watertown Co-op Elevator | 8,440,875 | 3 | 0.58% | - | - | - |
| Menards | 8,296,442 | 4 | 0.57% | 4,612,010 | 7 | 0.47% |
| Watertown Plaza LLC | 5,855,917 | 5 | 0.40% | - | - | - |
| Worthington Industries | 5,408,091 | 6 | 0.37% | - | - | - |
| Watertown Development Co. | 4,819,006 | 7 | 0.33% | 7,444,513 | 2 | 0.75% |
| Stone Oil Company | 4,504,153 | 8 | 0.31% | - | - | - |
| Les McElhany & David McElhany | 4,387,420 | 9 | 0.30% | - | - | - |
| Michael B. Lantsberger | 4,312,106 | 10 | 0.30% | - | - | - |
| Western Minnesota Municipal Power | - | - | - | 5,714,103 | 4 | 0.58% |
| Premier Bankcard | - | - | - | 3,346,023 | 10 | 0.34% |
| US West Communications | - | - | - | 6,009,323 | 3 | 0.61% |
| Univest Covington (Runnings) | - | - | - | 3,611,384 | 9 | 0.37% |
| Developers Diversified | - | - | - | 10,986,983 | 1 | 1.11% |
| Dayton Hudson Corp. | - | - | - | 3,852,665 | 8 | 0.39% |
| Totals | 66,277,022 | | 4.55% | 55,594,316 | | 5.62% |

Entire City Assessed Valuation for 2014: \$ 1,457,979,941

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 | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collection to Date | |
|----------------------------|---------------------|--|--------------------|---------------------------------|--------------------------|--------------------|
| | for the Fiscal Year | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2005 | 2,709,691 | 2,677,281 | 98.80 | 32,410 | 2,709,691 | 100.00 |
| 2006 | 2,853,893 | 2,832,111 | 99.24 | 21,737 | 2,853,848 | 100.00 |
| 2007 | 3,086,308 | 3,051,987 | 98.89 | 34,321 | 3,086,308 | 100.00 |
| 2008 | 3,210,432 | 3,179,206 | 99.03 | 31,000 | 3,210,206 | 99.99 |
| 2009 | 3,400,681 | 3,374,430 | 99.23 | 25,835 | 3,400,265 | 99.99 |
| 2010 | 3,520,622 | 3,496,951 | 99.33 | 22,593 | 3,519,544 | 99.97 |
| 2011 | 3,657,796 | 3,636,544 | 99.42 | 17,681 | 3,654,225 | 99.90 |
| 2012 | 3,832,251 | 3,814,038 | 99.52 | 9,904 | 3,823,942 | 99.78 |
| 2013 | 4,013,830 | 3,993,802 | 99.50 | - | 3,993,802 | 99.50 |
| 2014 | 4,138,450 | (see note below) | | | | |

Note: (1) The year shown on this table indicates the year of the levy for collection in the next year, the 2014 tax levy will be collected in the year 2015, 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) |
|------|----------------------|----------------------------------|-------------------------|
| 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 | 5,865,987 |
| 2009 | 5,750,139 | 5,748,865 | 5,748,865 |
| 2010 | 6,012,216 | 6,006,708 | 6,006,708 |
| 2011 | 6,291,800 | 6,289,668 | 6,289,668 |
| 2012 | 6,802,708 | 6,800,967 | 6,800,967 |
| 2013 | 6,842,601 | 6,835,289 | 6,835,289 |
| 2014 | 7,214,979 | 7,203,788 | 7,203,788 |

(1) Pledged revenues for 2006, 2012 and 2014 Sales Tax Bonds 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. All of the Capital Improvement Sales Tax revenues are pledged for the repayment of SRF Loans No. 6, 8, 10 and 11.

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, #10, & #11 | Installment Contracts | Water Bonds | Loan Payables | Total Primary Government | | | |
| 2005 | 5,295,000 | 145,409 | 6,435,000 | - | 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 | - | 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 | - | 226,880 | - | 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 | - | 6,170,351 | 23,229,166 | 5.86% | 396,179,749 | 1,148 |
| 2009 | 4,655,000 | 537,856 | 9,295,000 | 1,808,563 | 122,152 | - | 6,588,809 | 23,007,380 | 5.81% | 396,179,749 | 1,137 |
| 2010 | 4,640,000 | 621,126 | 8,700,000 | 4,689,433 | 63,424 | - | 25,977,890 | 44,691,873 | 8.62% | 518,446,588 | 2,080 |
| 2011 | 4,415,000 | 543,504 | 8,090,000 | 4,490,100 | - | - | 36,685,650 | 54,224,254 | 10.46% | 518,446,588 | 2,524 |
| 2012 | 4,115,000 | 462,428 | 7,425,000 | 4,306,168 | - | - | 35,063,893 | 51,372,489 | 9.91% | 518,446,588 | 2,391 |
| 2013 | 3,800,000 | 377,712 | 6,905,000 | 4,113,894 | - | - | 33,522,038 | 48,718,644 | 9.40% | 518,446,588 | 2,268 |
| 2014 | 3,470,000 | 223,958 | 16,410,000 | 3,916,405 | - | - | 30,305,442 | 54,325,805 | 10.48% | 518,446,588 | 2,529 |

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 | Less: Amounts Available in Debt Service Fund | Total | Percentage of Actual Value of Property | Percentage of Personal Income | Per Capita |
|-------------|--------------------------|--|-----------|--|-------------------------------|------------|
| 2005 | 5,295,000 | 70,475 | 5,224,525 | 0.58% | 1.32% | 258 |
| 2006 | 5,160,000 | 95,835 | 5,064,165 | 0.51% | 1.28% | 250 |
| 2007 | 5,010,000 | 124,812 | 4,885,188 | 0.48% | 1.23% | 241 |
| 2008 | 4,840,000 | 153,462 | 4,686,538 | 0.40% | 1.18% | 232 |
| 2009 | 4,655,000 | 181,979 | 4,473,021 | 0.37% | 1.13% | 221 |
| 2010 | 4,640,000 | 208,507 | 4,431,493 | 0.34% | 1.12% | 206 |
| 2011 | 4,415,000 | 233,245 | 4,181,755 | 0.32% | 0.81% | 195 |
| 2012 | 4,115,000 | 255,383 | 3,859,617 | 0.29% | 0.74% | 180 |
| 2013 | 3,800,000 | 277,791 | 3,522,209 | 0.25% | 0.68% | 164 |
| 2014 | 3,470,000 | 301,153 | 3,168,847 | 0.23% | 0.61% | 148 |

Table 12
Direct and Overlapping Governmental Activities Debt
As of December 31, 2014

| Governmental Unit | Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Overlapping Debt |
|-----------------------------------|------------------|---------------------------------|-------------------------------------|
| Debt repaid with property taxes: | | | |
| School District | \$ 20,117,950 | 76% | \$ 15,349,996 |
| Subtotal, overlapping debt | | | 15,349,996 |
| City of Watertown direct debt | | | 24,020,363 |
| Total direct and overlapping debt | | | <u>\$ 39,370,359</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

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------------|------------|------------|------------|------------|------------|
| Debt Limit (5% limit) | 49,422,008 | 51,068,352 | 59,108,880 | 60,164,324 | 64,385,338 | 65,448,786 |
| Total net debt applicable to limit | 12,468,034 | 16,646,334 | 16,740,869 | 17,965,985 | 15,880,715 | 18,092,857 |
| Legal debt margin | 36,953,974 | 34,422,018 | 42,368,011 | 42,198,339 | 48,504,623 | 47,355,929 |
| Total net debt applicable to the limit as a percentage of debt limit | 25.23% | 32.60% | 28.32% | 29.86% | 24.67% | 27.64% |

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.

City of Watertown
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| | 2011 | 2012 | 2013 | 2014 |
|---|------------|------------|------------|------------|
| Debt Limit (5% limit) | 65,694,742 | 66,749,044 | 69,306,989 | 72,898,997 |
| Total net debt applicable to limit | 16,995,100 | 15,846,168 | 14,818,894 | 23,796,405 |
| Legal debt margin | 48,699,642 | 50,902,876 | 54,488,095 | 49,102,592 |
| Total net debt applicable to the limit as a percentage of debt limit | 25.87% | 23.74% | 21.38% | 32.64% |

Legal Debt Margin Calculation for Fiscal Year 2014

| | "No-Limit" Debt | Debt Capacity at 5% (Unrestricted) | Additional 10% Debt Capacity (Water/Sewer) |
|---|------------------------|--|--|
| 2014 Assessed Value | | | |
| | <u>\$1,457,979,941</u> | | |
| Maximum Debt Capacity: | - | 72,898,997 | 145,797,994 |
| Existing Bonds: | | | |
| GO Refinancing Bonds (Event Center; 1.0-3.35% interest) | - | 3,470,000 | - |
| SRF Loan No. 3 (Wastewater Revenue Surcharge) | 396,950 | - | - |
| SRF Loan No. 5 (Wastewater Revenue Surcharge) | 1,299,714 | - | - |
| SRF Loan No. 6-CW (Sales Tax) | - | 893,061 | - |
| SRF Loan No. 6-NPS (Sales Tax) | - | 83,686 | - |
| SRF Loan No. 7-CW (Wastewater Revenue Surcharge) | 612,561 | - | - |
| SRF Loan No. 7-NPS (Wastewater Revenue Surcharge) | 61,460 | - | - |
| SRF Loan No. 8-CW (Sales Tax) | - | 397,377 | - |
| SRF Loan No. 8-NPS (Sales Tax) | - | 44,463 | - |
| SRF Loan No. 9-CW (Wastewater Revenue Surcharge) | 9,113,276 | - | - |
| SRF Loan No. 10-CW (Sales Tax) | - | 2,323,762 | - |
| SRF Loan No. 11-CW (Sales Tax) | - | 174,056 | - |
| SRF Loan Drinking Water (Water Revenue Surcharge) | 18,821,481 | - | - |
| 2006 Sales Tax Revenue Bonds (3.35-4.55%) | - | 3,365,000 | - |
| 2012 Sales Tax Revenue Bonds (0.4-2.7%) | - | 3,045,000 | - |
| 2014 Sales Tax Revenue Bonds (0.5%-3.6%) | - | 10,000,000 | - |
| Total Bonded Debt | 30,305,442 | 23,796,405 | - |
| Other Debt: | | | |
| Capital Lease - Fire Truck | 223,959 | - | - |
| Total Other Debt | 223,959 | - | - |
| Total Debt | 30,529,401 | 23,796,405 | - |
| Available Debt Capacity | N/A | 49,102,592 | 145,797,994 |

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Statistics (Unaudited)

Table 14
Pledged-Revenue Coverage
Last Ten Fiscal Year

| Fiscal Year | 1993 Water Revenue Bonds | | | | | | State Revolving Fund Loans | | |
|----------------|-------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|-------------------------------|--------------------------------|-----------------------------|
| | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | | Utility Service Charges | Less: Operating Expenses | Net Available Revenue |
| | | | | Principal | Interest | Coverage | | | |
| 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 |
| 2009 | - | - | - | - | - | - | 2,650,728 | 1,531,910 | 1,118,818 |
| 2010 | - | - | - | - | - | - | 2,738,892 | 1,502,013 | 1,236,879 |
| 2011 | - | - | - | - | - | - | 3,253,856 | 1,669,074 | 1,584,782 |
| 2012 | - | - | - | - | - | - | 8,520,446 | 4,340,018 | 4,180,428 |
| 2013 | - | - | - | - | - | - | 8,326,760 | 4,322,245 | 4,004,515 |
| 2014 | - | - | - | - | - | - | 8,291,596 | 4,576,654 | 3,714,942 |

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, amortization, and other post employment benefit expenses.

The Sales Tax Revenue Bonds are backed by 50% of the sales tax collected in the Capital Improvement Fund.
 The SRF Loans are backed by 100% of all sales tax collected in the Capital Improvement Fund.

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

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| State Revolving Fund Loans (cont) | | | Sales Tax Revenue Bonds | | | |
|-----------------------------------|-----------|----------|-------------------------|--------------|----------|----------|
| Debt Service | | | Net Available | Debt Service | | |
| Principal | Interest | Coverage | Revenue | Principal | Interest | Coverage |
| 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 | 5,865,987 | 555,000 | 417,415 | 6.03 |
| 343,481 | 148,618 | 2.27 | 5,748,865 | 570,000 | 399,890 | 5.93 |
| 342,063 | 285,891 | 1.97 | 6,006,708 | 595,000 | 381,230 | 6.15 |
| 287,401 | 129,845 | 3.80 | 6,289,668 | 610,000 | 360,545 | 6.48 |
| 1,542,743 | 1,113,425 | 1.57 | 6,800,967 | 725,000 | 218,668 | 7.21 |
| 1,656,683 | 1,103,919 | 1.45 | 6,835,289 | 520,000 | 225,745 | 9.17 |
| 1,730,328 | 1,037,795 | 1.34 | 7,203,788 | 495,000 | 215,490 | 10.14 |

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Table 15
Demographic Statistics
Last Ten Fiscal Years

| Fiscal Year | Population (1) | Per Capita Income (1) | Median Age (1) | Education in Years of Formal Schooling (1) | School Enrollment (2) | Unemployment Rate (3) |
|-------------|----------------|-----------------------|----------------|--|-----------------------|-----------------------|
| 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% |
| 2009 | 20,237 | 19,577 | 35.3 | 12.9 | 3,708 | 5.5% |
| 2010 | 21,482 | 24,134 | 36.6 | 13.0 | 3,687 | 4.7% |
| 2011 | 21,482 | 24,134 | 36.6 | 13.0 | 3,743 | 4.4% |
| 2012 | 21,482 | 24,134 | 36.6 | 13.0 | 3,876 | 4.0% |
| 2013 | 21,482 | 24,134 | 36.6 | 13.0 | 3,795 | 3.5% |
| 2014 | 21,482 | 24,134 | 36.6 | 13.0 | 3,918 | 3.5% |

DATA SOURCE:

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

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

2010 Census detail data presented as follows:

25 years and over-years of school completed:

- Elementary through 8th grade - 763
- 9th through 12th grade, no diploma - 500
- High school graduate - 4,801
- Some college, no degree - 2,970
- Associates Degree - 1,374
- Bachelor's Degree - 2,748
- Graduate or professional degree - 722

Median level shown is an estimate based on a weighted average of the 2000 and 2010 Census figures

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

Statistics (Unaudited)

Table 16
Principal Employers
Current Year and Ten Years Ago

| Employer | 2014 | | | 2005 | | |
|---------------------------------|--------------|------|-----------------------------------|--------------|------|-----------------------------------|
| | Employees | Rank | Percentage of Total City Employed | Employees | Rank | Percentage of Total City Employed |
| Watertown School District | 900 | 1 | 4.19% | 830 | 1 | 4.10% |
| Terex Utilities | 608 | 2 | 2.83% | 373 | 5 | 1.84% |
| Prairie Lakes Healthcare System | 540 | 3 | 2.51% | 511 | 3 | 2.53% |
| HyVee | 414 | 4 | 1.93% | 265 | 8 | 1.31% |
| Worthington Industries | 376 | 5 | 1.75% | 363 | 6 | 1.79% |
| Premier Bankcard | 365 | 6 | 1.70% | 573 | 2 | 2.83% |
| City of Watertown | 348 | 7 | 1.62% | 350 | 7 | 1.73% |
| Dakota Bodies | 261 | 8 | 1.21% | - | | - |
| Sparton | 257 | 9 | 1.20% | - | | - |
| Jenkins Living Center | 255 | 10 | 1.19% | - | | - |
| Human Service Agency | - | | - | 235 | 10 | 1.16% |
| Walmart Supercenter | - | | - | 375 | 4 | 1.85% |
| Oak Valley Farms | - | | - | 245 | 9 | 1.21% |
| Total | 4,324 | | 20.13% | 4,120 | | 20.36% |

Source: Focus Watertown

Statistics (Unaudited)

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

| Function/Program | Full-Time Equivalent Employees as of December 31 | | | | | | | | | |
|---------------------------------------|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| General Government | | | | | | | | | | |
| Mayor/City Council | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 |
| Attorney | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Finance | 7.50 | 7.50 | 7.50 | 7.58 | 7.69 | 7.53 | 7.58 | 7.00 | 7.10 | 7.10 |
| Information Technology | - | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Engineering | 4.58 | 4.60 | 5.60 | 5.60 | 5.34 | 5.63 | 7.36 | 7.41 | 7.36 | 7.47 |
| Public Safety | | | | | | | | | | |
| Police | 34.06 | 35.06 | 40.06 | 40.06 | 41.06 | 41.25 | 41.56 | 42.01 | 42.57 | 42.35 |
| E-911 | 8.50 | 8.50 | 9.00 | 9.40 | 10.00 | 9.80 | 12.80 | 12.80 | 12.80 | 12.80 |
| Fire/Ambulance | 29.00 | 29.00 | 32.00 | 32.00 | 34.00 | 37.00 | 34.00 | 37.00 | 37.00 | 37.43 |
| Public Works | | | | | | | | | | |
| Public Works Director | 2.02 | 2.06 | 2.06 | 2.06 | 2.06 | 2.06 | - | - | - | - |
| Streets | 13.87 | 14.03 | 14.08 | 14.12 | 13.96 | 13.92 | 14.26 | 12.77 | 14.02 | 12.95 |
| Cemetery | 2.96 | 2.90 | 2.92 | 3.11 | 3.13 | 3.08 | 3.08 | 3.13 | 3.15 | 3.11 |
| Building Services | - | - | - | - | - | 5.48 | 4.48 | 4.47 | 4.46 | 4.47 |
| Health and Welfare | | | | | | | | | | |
| Animal Control | 1.23 | 1.23 | 1.30 | 1.22 | 1.40 | 1.40 | 1.40 | - | - | - |
| Culture and Recreation | | | | | | | | | | |
| Park and Recreation | 46.51 | 47.06 | 55.52 | 53.77 | 55.50 | 54.64 | 54.09 | 50.97 | 51.15 | 54.00 |
| Community Recreation Center | 14.72 | 14.72 | 14.37 | 13.48 | 14.98 | 14.59 | 14.63 | 14.38 | 14.81 | 15.02 |
| Forestry | 3.08 | 3.08 | 3.08 | 2.93 | 2.93 | 2.93 | 2.93 | 2.84 | 2.46 | 3.03 |
| Library | 13.94 | 12.94 | 12.94 | 12.94 | 12.94 | 12.94 | 12.94 | 11.49 | 11.44 | 11.14 |
| Conservation & Development | | | | | | | | | | |
| Sioux River Watershed Project | 2.75 | 2.75 | 2.75 | 3.75 | 2.70 | 2.72 | 2.65 | 1.62 | 1.64 | 1.63 |
| Terry Redlin Freshwater Institute | 1.00 | 1.00 | 1.00 | - | - | - | - | - | - | - |
| Planning and Zoning | 4.24 | 4.86 | 5.65 | 5.62 | 5.52 | - | - | - | - | - |
| Urban Renewal | 0.68 | 0.68 | 0.75 | 0.48 | 0.37 | 0.40 | 0.40 | 0.20 | 0.06 | 0.11 |
| Wastewater | | | | | | | | | | |
| Wastewater | 14.62 | 14.62 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 |
| Refuse Collection | | | | | | | | | | |
| Refuse Collection | 16.50 | 16.50 | 16.50 | 16.50 | 16.69 | 16.69 | 16.64 | 16.62 | 16.74 | 16.64 |
| Airport | | | | | | | | | | |
| Airport | 2.67 | 2.67 | 2.34 | 3.06 | 3.00 | 3.75 | 4.08 | 4.04 | 3.02 | 4.07 |
| Electric | | | | | | | | | | |
| Electric | 31.00 | 31.00 | 31.00 | 33.00 | 33.00 | 32.00 | 30.00 | 31.00 | 30.00 | 30.00 |
| Gas | | | | | | | | | | |
| Gas | 15.00 | 15.00 | 15.00 | 14.00 | 14.00 | 14.00 | 14.00 | 15.00 | 14.00 | 15.00 |
| Water | | | | | | | | | | |
| Water | 13.00 | 13.00 | 14.00 | 17.00 | 16.00 | 17.00 | 18.00 | 16.00 | 18.00 | 17.00 |

Source: City Departments

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2014

Statistics (Unaudited)

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

| Function/Program | Fiscal Year | | | | | | | | | |
|---|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Police | | | | | | | | | | |
| Physical Arrests | 1,367 | 2,108 | 2,189 | 2,049 | 1,864 | 1,913 | 2,205 | 2,148 | 2,461 | 2,020 |
| Accidents | 1,063 | 904 | 939 | 775 | 855 | 875 | 860 | 793 | 794 | 763 |
| Traffic Violations | 1,470 | 2,260 | 2,783 | 2,052 | 1,925 | 1,435 | 1,305 | 1,411 | 1,359 | 1,366 |
| Fire | | | | | | | | | | |
| Emergency Responses | 1,696 | 1,725 | 1,626 | 1,706 | 1,804 | 1,839 | 1,857 | 2,185 | 2,211 | 2,114 |
| Fire Calls | 426 | 387 | 483 | 691 | 597 | 392 | 385 | 485 | 460 | 375 |
| Inspections | 185 | 286 | 174 | 297 | 607 | 617 | 285 | 342 | 314 | 411 |
| Solid Waste | | | | | | | | | | |
| Refuse Deposited (tons per day) | 99 | 102 | 104 | 106 | 111 | 121 | 123 | 137 | 141 | 149 |
| Recyclables collected (tons per day) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Other Public Works | | | | | | | | | | |
| Crack Sealed Streets (blocks) | 168 | 123 | 40 | 38 | - | - | - | - | - | 41 |
| Seal Coat Streets (blocks) | 186 | 165 | 138 | 154 | 148 | 130 | 128 | 145 | 134 | 149 |
| Street Resurfacing (blocks) | 55 | 50 | 51 | 54 | 36 | 51 | 58 | 44 | 35 | 48 |
| Parks and Recreation | | | | | | | | | | |
| Community Center Memberships | 4,304 | 4,274 | 4,337 | 4,485 | 4,597 | 4,573 | 4,614 | 4,971 | 4,842 | 4,820 |
| Participants in Youth Programs | 4,920 | 5,922 | 4,961 | 5,568 | 4,477 | 4,547 | 4,740 | 5,305 | 5,266 | 5,147 |
| Library | | | | | | | | | | |
| Items in Collection | 86,391 | 87,582 | 89,578 | 98,154 | 100,012 | 101,430 | 110,209 | 110,923 | 135,690 | 140,130 |
| Total Items Loaned | 192,115 | 195,524 | 196,798 | 234,366 | 271,589 | 261,058 | 263,643 | 228,680 | 221,072 | 218,621 |
| Wastewater | | | | | | | | | | |
| Avg sewage treatment (mill gal per day) | 2.73 | 2.36 | 3.17 | 3.00 | 3.27 | 3.60 | 3.99 | 2.42 | 2.90 | 3.00 |
| Airport | | | | | | | | | | |
| Boardings per year | 8,975 | 5,920 | 5,131 | 4,804 | 4,609 | 7,576 | 8,924 | 5,679 | 4,447 | 1,968 |

Source: City Departments

Statistics (Unaudited)

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

| <u>Function/Program</u> | <u>Fiscal Year</u> | | | | | | | | | |
|---------------------------------------|--------------------|------|------|------|------|------|------|------|------|------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol Units | 12 | 12 | 13 | 14 | 14 | 14 | 15 | 14 | 14 | 14 |
| Fire Stations | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 |
| Refuse collection | | | | | | | | | | |
| Collection Trucks | 9 | 9 | 9 | 9 | 9 | 9 | 8 | 7 | 7 | 7 |
| Other public works | | | | | | | | | | |
| Streets (miles) | 148 | 151 | 154 | 157 | 157 | 158 | 158 | 163 | 170 | 170 |
| Streetlights | 2316 | 2420 | 2546 | 2616 | 2684 | 2691 | 2676 | 2688 | 2640 | 2646 |
| Traffic signals | 26 | 26 | 26 | 26 | 37 | 39 | 39 | 39 | 31 | 31 |
| Parks and Recreation | | | | | | | | | | |
| Acreage | 486 | 486 | 486 | 486 | 486 | 486 | 631 | 631 | 631 | 631 |
| Derby Downs clubhouse & arena (acres) | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| Playgrounds | 19 | 19 | 19 | 19 | 21 | 21 | 21 | 21 | 21 | 21 |
| Baseball/softball fields | 25 | 25 | 25 | 25 | 25 | 25 | 18 | 18 | 18 | 18 |
| Soccer/football fields | 12 | 12 | 12 | 12 | 12 | 12 | 16 | 16 | 16 | 16 |
| 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



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 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, 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 (City) as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2015. Our report includes a reference to other auditors who audited the financial statements of The Housing and Redevelopment Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
June 17, 2015



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Watertown, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Watertown, South Dakota (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City'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.

The City's basic financial statements include the operations of The Housing and Redevelopment Commission, which received \$854,527 in federal awards which is not included in the schedule during the year ended December 31, 2014. Our audit, described below, did not include the operations of The Housing and Redevelopment Commission because The Housing and Redevelopment Commission engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above.

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'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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Watertown, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
June 17, 2015

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

| <u>Federal Grantor/Pass-Through Grantor Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Grantor's Number</u> | <u>Expenditures Amount 2014</u> |
|---|------------------------------------|--|---|
| Department of Interior: | | | |
| Indirect Federal Funding: | | | |
| SD Game, Fish & Parks, Sport Fish Restoration Program | 15.605 | F-38-DB 55 | \$ <u>12,823</u> |
| Department of Justice: | | | |
| Indirect Federal Funding: | | | |
| SD Office of Attorney General, Recovery Act – Internet Crimes Against Children Task Force Program (ICAC) | 16.800 | -- | <u>1,062</u> |
| Direct Federal Funding: | | | |
| Bureau of Justice Assistance, Bulletproof Vest Partnership Program | 16.607 | -- | 995 |
| Office of Community Oriented Policing Services: Public Safety Partnership & Community Policing Grants | 16.710 | 2011UMWX0169 | <u>39,827</u> |
| | | | <u>40,822</u> |
| Total Department of Justice | | | <u>41,884</u> |
| Department of Transportation: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Public Safety, Office of Highway Safety, State & Community Highway Safety | 20.600 | NHTSA 2015-27-47 | 2,648 |
| Alcohol Impaired Driving Countermeasures Incentive Grants | 20.601 | NHTSA 2014-47-46 | 14,601 |
| SD Office of Emergency Management, Interagency Hazardous Materials Public Sector Training & Planning Grants | 20.703 | -- | <u>43,903</u> |
| | | | <u>61,152</u> |
| Direct Federal Funding: | | | |
| Airport Improvement Program – Major Program | 20.106 | 3-46-0058-25-11 | 20,207 |
| | 20.106 | 3-46-0058-26-12 | 116,810 |
| | 20.106 | 3-46-0058-27-13 | 54,186 |
| | 20.106 | 3-46-0058-28-14 | <u>6,055</u> |
| | | | <u>197,258</u> |
| Total Department of Transportation | | | <u>258,410</u> |

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014
(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 2014</u> |
|---|------------------------------------|--|---|
| General Services Administration: | | | |
| Indirect Federal Funding: | | | |
| SD Federal Property Agency, Donation of Federal Surplus Personal Property - Note 2 | 39.003 | -- | <u>7,445</u> |
| Environmental Protection Agency: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Environment and Natural Resources, Nonpoint Source Implementation Grant | 66.460 | C9-99818512-0 | <u>64,599</u> |
| Department of Health & Human Services: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Health, Community Transformation Grants | 93.531 | 14CTG08 | <u>20,000</u> |
| Homeland Security: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Public Safety, Office of Homeland Security, Homeland Security Grant Program | 97.067 | -- | <u>97,123</u> |
| Direct Federal Funding: | | | |
| Transportation Security Administration, Law Enforcement Officer Reimbursement Agreement Program | 97.090 | HSTS0213HSLR762 | <u>17,795</u> |
| Total Homeland Security | | | <u>114,918</u> |
| GRAND TOTAL - Note 3 | | | <u>\$ 520,079</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, 2014**

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, 2014

A. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

1. An unmodified opinion was issued on the financial statements of each opinion unit.
2. No material weaknesses or significant deficiencies were disclosed by our audit of the financial statements.
3. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

4. An unmodified 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 major programs were 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 written current federal compliance audit findings to report.

C. CURRENT OTHER AUDIT FINDINGS

There are no written current other audit findings to report.