

COMPREHENSIVE ANNUAL

Financial Report

2012 FISCAL YEAR

January 1, 2012 to December 31, 2012

Prepared by: The City Finance Office

Rochelle M. Ebbers, CPA
Finance Officer



CITY OF WATERTOWN, SOUTH DAKOTA

About the Cover

The City of Watertown provides citizens with numerous Park and Recreation activities. The Parks division of the City maintains the Recreation Trail that has currently completed twenty nine miles of biking and walking trails from the east side of town by the Redlin Art Center to around Lake Kampeska. When the project is completed it will span 58 miles. The City also provides fifteen tennis courts, seven basketball courts, six sand volleyball courts, seventeen ball fields, and a soccer complex for those looking to participate in or observe the various outdoor activities. Additionally, there is both an indoor and outdoor ice skating rink and a skate park. For a map of the parks please visit <http://www.watertownsd.us/index.aspx?NID=346>.

The City has twenty five park areas where families can spend time using the playground equipment, take in a game of disc golf or horseshoes, or simply enjoy the outdoors by utilizing one of the picnic shelters. For those who want to have a little taste of farming but do not have the space available, the City has established one hundred and fifty four garden plots available for rent.

For more information on the various Park & Recreation activities available to the public please visit <http://www.watertownsd.us/index.aspx?nid=164>.

2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT CITY OF WATERTOWN, SOUTH DAKOTA



January 1, 2012 – December 31, 2012



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



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June 19, 2013

CITY OF
WATERTOWN

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

Honorable Gary Williams, 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, 2012.

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, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Watertown's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Mayor 605-882-6200
Municipal Airport 605-882-6209
Building Services 605-882-6201
Mt. Hope Cemetery 605-882-6208
City Attorney 605-882-6200
Engineering & Planning 605-882-6202
Finance Office 605-882-6203 FAX 605-882-6218
Fire Department 605-886-4733 FAX 605-886-0795
Library 605-882-6220 FAX 605-882-6221
Park, Rec & Forestry Dept. 605-882-6260 FAX 605-882-5204
Police Dept. 605-882-6210 FAX 605-882-6216
Solid Waste Dept. 605-882-6219
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

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, presented on pages as 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 from the broader perspective of the environment within which the City of Watertown operates.

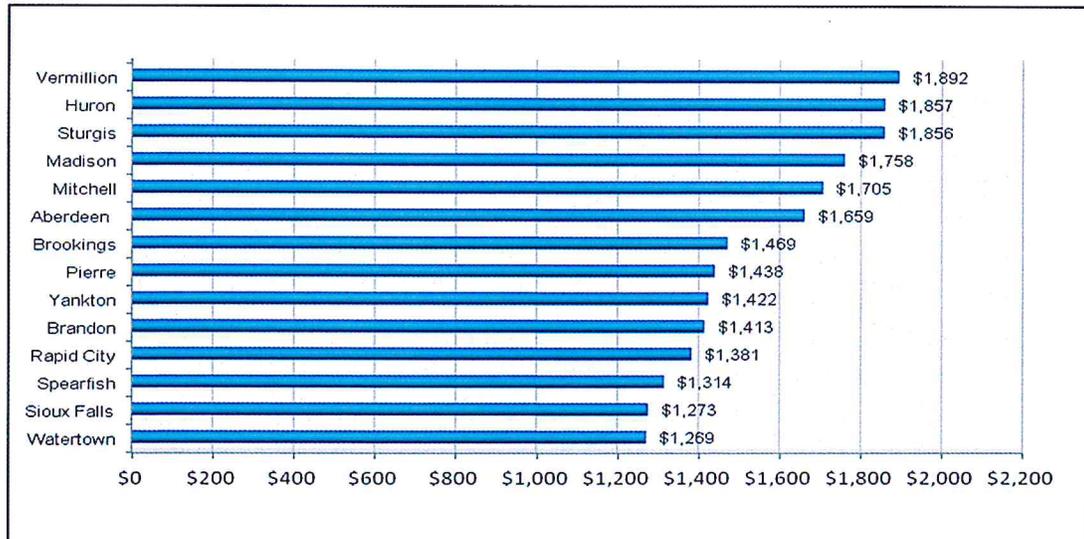
Economic Conditions and Outlook

In 2012, the national economy continued to struggle to gain any progress in the slow recovery. The local economy, however, has remained steady with General Fund sales tax revenues showing an increase and ended 2012 exceeding budgeted revenues by 12.5%. 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 \$1,448,237 was put back into unassigned fund balance to replenish the fund balance from past deficits. The City once again has 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 minimize the negative impact of an 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 16,265 from December 31, 2011 to December 31, 2012 and the total employment increased from 15,490 to 15,635 individuals for those dates, respectively. Unemployment for Codington County was at 3.9% which is lower than the national level at year end.

Even with the slow recovery in the economy, the citizens of Watertown still enjoyed the lowest property tax rate among the largest 14 cities in South Dakota. Total taxes paid including city, county and school district on a \$100,000 home for 2010 tax levy due in 2011 is shown on the following graph.



The total number of building permits increased to 516 compared to 468 in 2011. Out of the 516 permits issued in 2012, 73 were for new construction while 443 were for remodel/additions compared to 2011 at 60 and 408 respectively. The value of the work decreased in 2012 to \$44,034,425 compared to the 2011 value of \$49,551,475.

Major Initiatives

Some major capital initiatives started or completed during 2012 are listed below:

Main Fire Station Remodel – The construction for the Main Station remodel for the Fire Department began in 2012 and will be completed around July 2013. The main station is centrally located in Uptown Watertown allowing the Fire Department to provide coverage for the majority of City residents. The station was last updated in 1965 and has continuous roofing and heating system repairs. The remodel will also increase the square footage to allow for more offices, sleeping quarters and storage space. It will also allow for a drive through bay so large fire trucks don't have to back out of the garage and into oncoming traffic. Most of the costs associated with this project have been paid from the Capital Improvement Sales Tax Fund using second penny sales tax revenues.

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 will increase 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 will be complete by June of 2014 and will be paid from the Capital Improvement Sales Tax fund using second penny sales tax revenues.

A major runway reconstruction project was completed at the Watertown Regional Airport in 2012. Runway 17/35 was originally built in the 1940's and was showing signs of wear. This project included the reconstruction of Runway 17/35 and Runway End 30 and associated exit taxiways. The project was completed using concrete versus asphalt to extend the life of the runway. Having a regional airport with essential air services is vital to the City for both citizens and future economic growth. As with most major airport improvements, this project was funded with 95% federal funds, 3% State aviation funds and the balance from Capital Improvement Sales Tax Funds.

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 billing insurance companies for fire calls and charging for ambulance service provided outside city limits.

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, future 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 SRF project to construct a new pump lift station, a new preliminary treatment facility and a new interceptor sewer will replace the outdated equipment currently in place. 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 the near draught conditions affecting most of the state. The water levels on both Lake Kampeska and the Big Sioux River that runs through the City saw all time lows which allowed lake residents the opportunity to make necessary repairs to their lakeshore property from past flooding events. However, this is an issue that has a constant impact on the community and permanent solutions need to be found 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, 2011. This was the

thirtieth consecutive year that the City of Watertown has achieved this prestigious award (fiscal years ended 1982-2011).

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,

A handwritten signature in black ink, appearing to read 'Rochelle Ebbers', with a stylized flourish at the end.

Rochelle Ebbers, CPA, CPFO
Finance Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Watertown
South Dakota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Emery

Executive Director

Municipal Officials

Governing Boards	Expires
LIBRARY BOARD	
Jackie Baxter	July, 2013
Judy Trzynka	July, 2014
Dave Weigel	July, 2014
Tom Linngren	July, 2015
Cathy Zubke	July, 2015
Mike Danforth - Liaison	
MUNICIPAL UTILITIES BOARD	
Dustin Padgett	July, 2013
Mike Luken	July, 2014
Wayne Schultz	July, 2015
Ernie Wight	July, 2016
David Strait	July, 2017
Bruce Buhler - Liaison	
PARK & RECREATION BOARD	
Jean Doyen	July, 2013
Heidi Stoick	July, 2013
Jim Stoudt	July, 2014
Kim Bellum	July, 2015
Dennis Murphy	July, 2015
Scott Johnston	July, 2017
Mike Danforth - Liaison	
COMMUNITY RECREATION BOARD	
Cal VenJohn	July, 2013
Keith Enstad	July, 2013
Tom Franken	July, 2014
Lorene Wasland	July, 2014
Bob Weiss	July, 2015
Brian Richter	July, 2015
Jon McAreavey	no term
Darrell Stacey	no term
Scott Johnston	no term
Mike Christians - Liaison	
Jon Solum - Liaison	

Municipal Officials

City Elected Officials

Expires

MAYOR

Gary Williams

July, 2013

ALDERPERSONS

WARD A

Dennis Solberg

July, 2013

Mike Danforth

July, 2015

Mike Danforth - Liaison

Bill Rieffenberger

July, 2013

Jon Solum

July, 2015

WARD C

Dana Jones

July, 2013

Alvin Meisenheimer

July, 2015

WARD D

Steve Thorson

July, 2013

Bruce Buhler

July, 2015

WARD E

Mike Christians

July, 2013

Russ Wilkins

July, 2015

City Appointed Officers

CITY ATTORNEY

Stanton Fox

BUILDING OFFICIAL

Ken Bucholz

RECREATION CENTER DIRECTOR

John Small

POLICE CHIEF

Jo Vitek

CITY ENGINEER

Tom Drake

STREET SUPERINTENDENT

Michael Rye

FINANCE OFFICER

Rochelle Ebbers

SUPERINTENDENT OF UTILITIES

Steve Lehner

FIRE CHIEF

Doug Kranz

WASTE WATER/SOLID WASTE SUPERINTENDENT

Mike Boerger

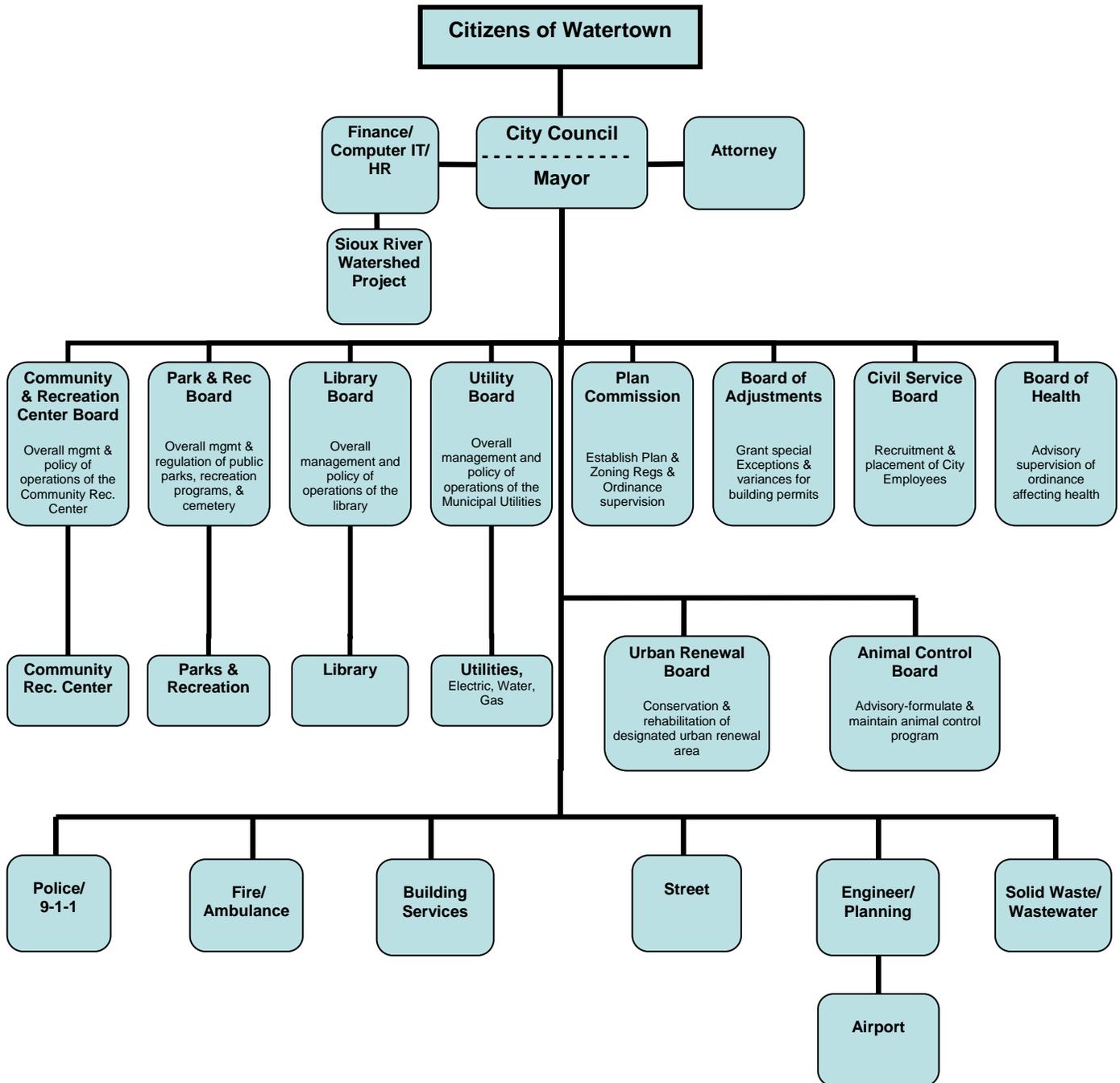
LIBRARY DIRECTOR

Michael Mullin

PARK & RECREATION DIRECTOR

Terry Jorgenson

Organizational Chart



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WILLIAM NEALE & CO., P.C.

Certified Public Accountants

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, 2012 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. We did not audit the financial statements of The Housing and Redevelopment Commission, which represents 100 percent of the assets, net assets, and revenues of the component unit column. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission, is based on the report of the other auditors.

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 controls 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 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, 2012, 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, 68 through 72, and page 73 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 financial statements. The introductory section, combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, statistical section, and 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, and Schedule of Expenditures of Federal Awards have 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 financial statements and, accordingly, we express no opinion on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013 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.

William Neale & Co., P.C.

Watertown, South Dakota
June 17, 2013

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, 2012. 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 2012, total assets of the City exceeded liabilities by \$246 million. This amount is referred to as the City's "net position." Of this net position amount, \$35 million may be used to meet the City's ongoing obligations to citizens and creditors. The \$246 million net position amount is comprised of three major components:

The City's total net position increased during 2012 by approximately \$30.8 million. Of this increase, \$19.5 million occurred within the City's governmental activities and the remaining \$11.3 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 (\$8.2 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.

An increase in net position in the business-type activities is somewhat analogous to what a private sector business may report as net profit. The most significant factor influencing the \$11.3 million increase in net position within the business-type activities this year is increase in capital grants and contributions. Of the \$11.3 million increase in the net position of the business-type activities, \$9.3 million occurred as a result of state and federal grants, developer donations and contributions to the Enterprise Funds from Governmental Funds. Therefore, capital contributions made from these various sources to the Sewer, Solid Waste and Airport Enterprise Funds, which were used for airport infrastructure improvements, recycling programs and for the construction of sanitary and storm sewers, are also a reason behind the increase in the net position of the business-type activities.

As of the close of 2012, the City's Governmental Funds reported combined ending fund balances of \$24.5 million. Of this total amount, \$21.9 million is available for spending at the City's discretion, although only about \$6.7 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, 2012, is \$55 million including \$3.5 million that will become due and payable during 2013.

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.

Management's Discussion and Analysis

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.

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 16 individual governmental funds for 2012. 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

Management's Discussion and Analysis

General Fund and Capital Improvement Fund which are considered to be major funds. Data from the other 14 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.

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 \$245,832,882 at the close of the fiscal year ending December 31, 2012.

	Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and Other Assets	\$ 25,408,520	\$ 27,533,918	\$ 25,463,328	\$ 27,374,641	\$ 50,871,848	\$ 54,908,559
Capital Assets	85,306,158	101,308,649	144,770,072	152,529,638	230,076,230	253,838,287
Total Assets	110,714,678	128,842,567	170,233,400	179,904,279	280,948,078	308,746,846
Long-term Debt Outstanding	19,166,136	18,028,358	38,475,818	36,991,443	57,641,954	55,019,801
Other Liabilities	1,180,733	952,375	5,108,345	5,007,179	6,289,078	5,959,554
Total Liabilities	20,346,869	18,980,733	43,584,163	41,998,622	63,931,032	60,979,355
Total Deferred Inflows of Resources	627,029	615,279	1,397,907	1,319,330	2,024,936	1,934,609
Net Position:						
Net Investment in Capital Assets	67,767,554	85,000,053	108,084,421	117,465,744	175,851,975	202,465,797
Restricted	4,056,531	3,739,347	4,971,973	4,920,074	9,028,504	8,659,421
Unrestricted	17,916,695	20,507,155	12,194,936	14,200,509	30,111,631	34,707,664
Total Net Position	\$ 89,740,780	\$ 109,246,555	\$125,251,330	\$ 136,586,327	\$ 214,992,110	\$ 245,832,882

Management's Discussion and Analysis

By far the largest portion (82.4%) of the City's net position is represented by \$202.5 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 \$8.7 million comprises 3.5% of the total net position. These assets are subject to external restrictions on how they may be used.

The remaining balance of \$34.7 million, or 14.1%, 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 \$94.6 million including more than \$50.6 million from charges for services. This means that 53 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 \$18.4 million of total revenues, or about 19 cents of every revenue dollar.

The City's net position increased by \$30.9 million or 14.3% 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.

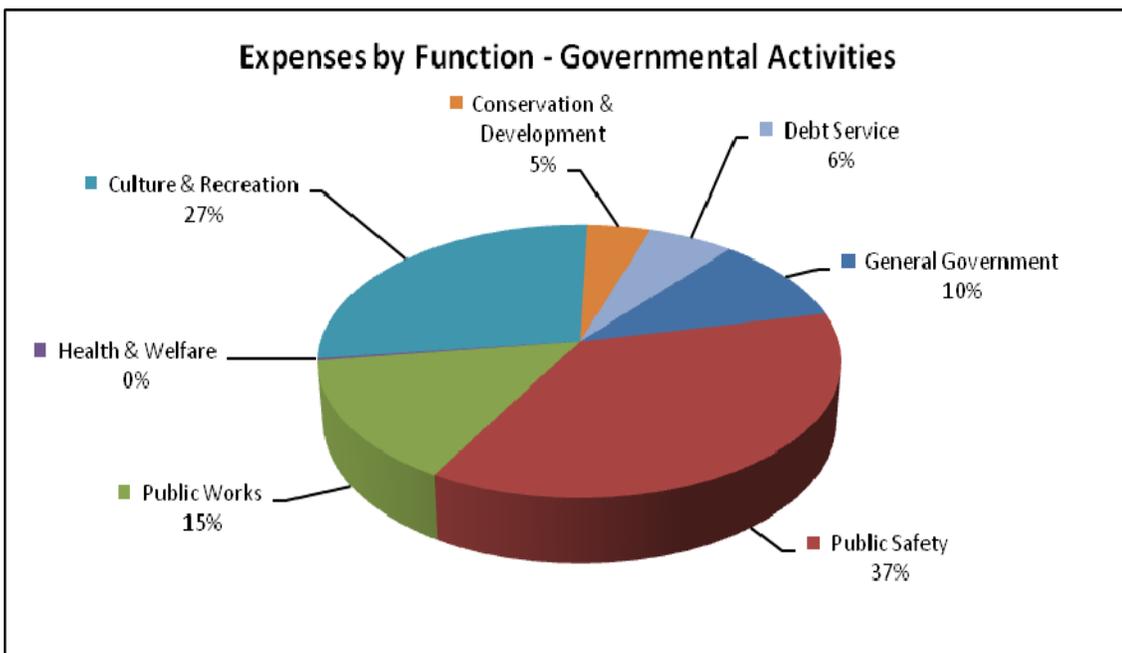
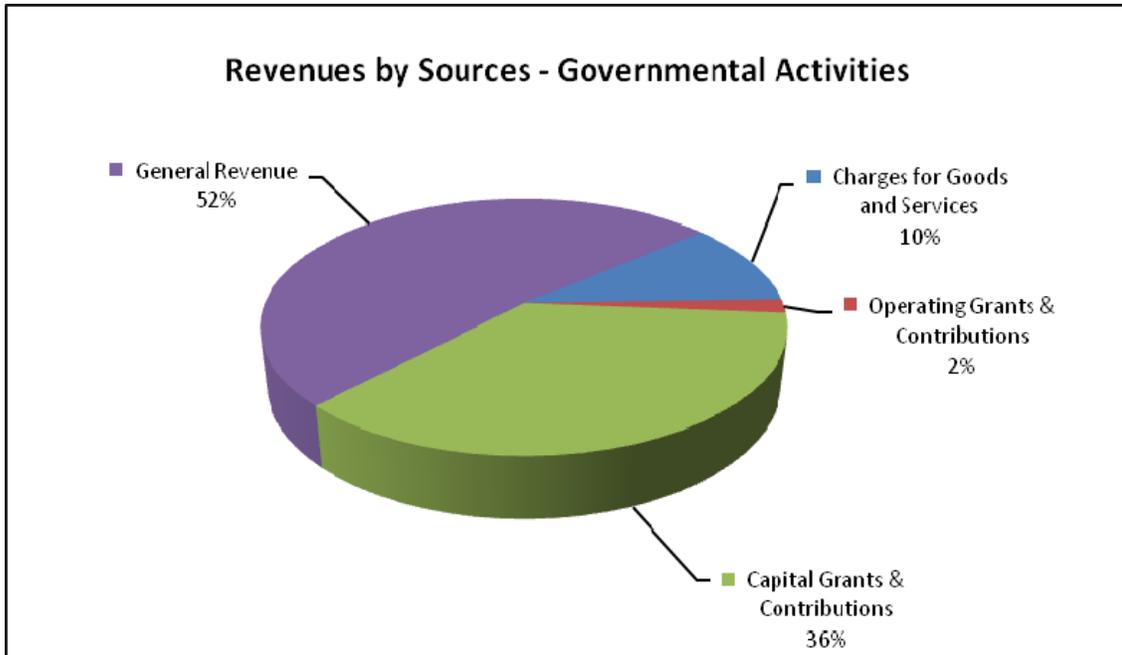
	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,307,192	\$ 4,104,286	\$ 47,252,841	\$ 46,450,137	\$ 50,560,033	\$ 50,554,423
Operating Grants and Contributions	747,499	659,139	1,067,742	179,884	1,815,241	839,023
Capital Grants and Contributions	4,490,263	13,877,663	1,280,359	9,274,509	5,770,622	23,152,172
General Revenues:						
Taxes	17,589,177	18,422,895	8,261	4,865	17,597,438	18,427,760
State Shared Revenues	780,300	844,462	-	-	780,300	844,462
Other	856,940	645,270	224,740	129,752	1,081,680	775,022
Total Revenues	27,771,371	38,553,715	49,833,943	56,039,147	77,605,314	94,592,862
Expenses:						
General Government	2,121,098	2,179,248	-	-	2,121,098	2,179,248
Public Safety	7,792,889	7,607,436	-	-	7,792,889	7,607,436
Public Works	3,872,691	3,045,042	-	-	3,872,691	3,045,042
Health and Welfare	106,977	51,181	-	-	106,977	51,181
Culture and Recreation	5,571,198	5,717,719	-	-	5,571,198	5,717,719
Conservation and Development	824,564	937,887	-	-	824,564	937,887
Debt Service	1,193,734	1,264,972	-	-	1,193,734	1,264,972
Sewer	-	-	3,685,485	3,553,717	3,685,485	3,553,717
Solid Waste	-	-	2,225,436	2,247,821	2,225,436	2,247,821
Airport	-	-	766,861	835,405	766,861	835,405
Electric	-	-	23,085,560	23,075,668	23,085,560	23,075,668
Water	-	-	3,642,761	5,169,923	3,642,761	5,169,923
Gas	-	-	10,182,905	8,013,641	10,182,905	8,013,641
Total Expenses	21,483,151	20,803,485	43,589,008	42,896,175	65,072,159	63,699,660
Excess (Deficiency) Before Transfers	6,288,220	17,750,230	6,244,935	13,142,972	12,533,155	30,893,202
Transfers	1,240,844	1,807,975	(1,240,844)	(1,807,975)	-	-
Change in Net Position	7,529,064	19,558,205	5,004,091	11,334,997	12,533,155	30,893,202
Net Position - Beginning	82,211,716	89,688,350	120,247,239	125,251,330	202,458,955	214,939,680
Net Position - Ending	\$ 89,740,780	\$ 109,246,555	\$125,251,330	\$ 136,586,327	\$214,992,110	\$ 245,832,882

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the City's net position by \$19.6 million, accounting for 63.3% 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 to capital asset acquisition or construction.

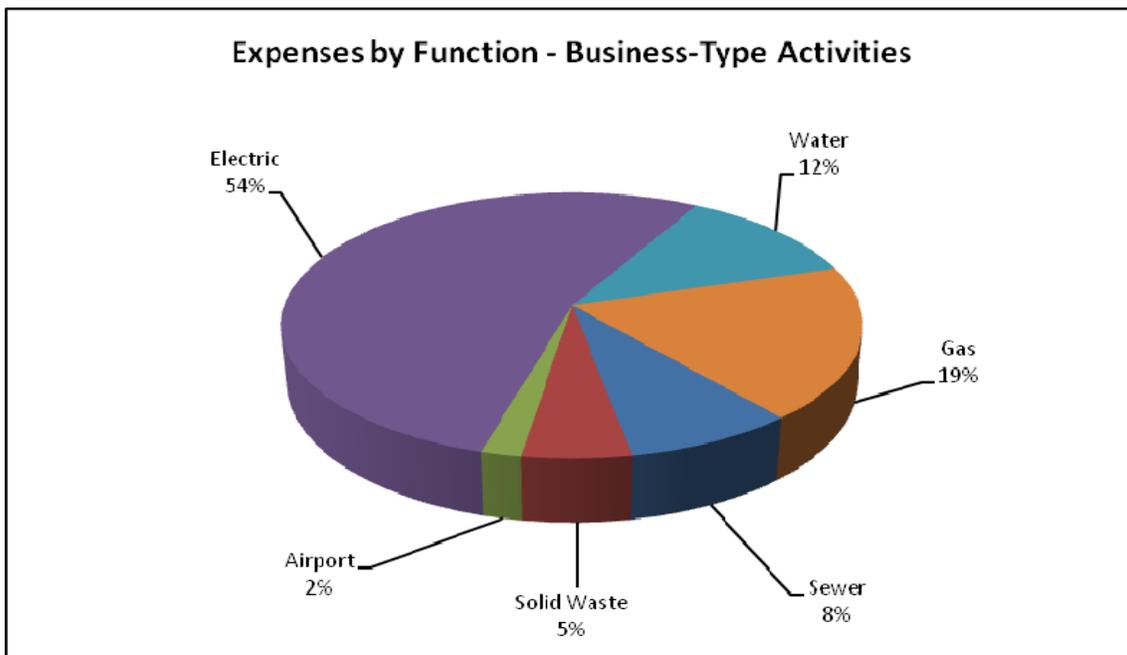
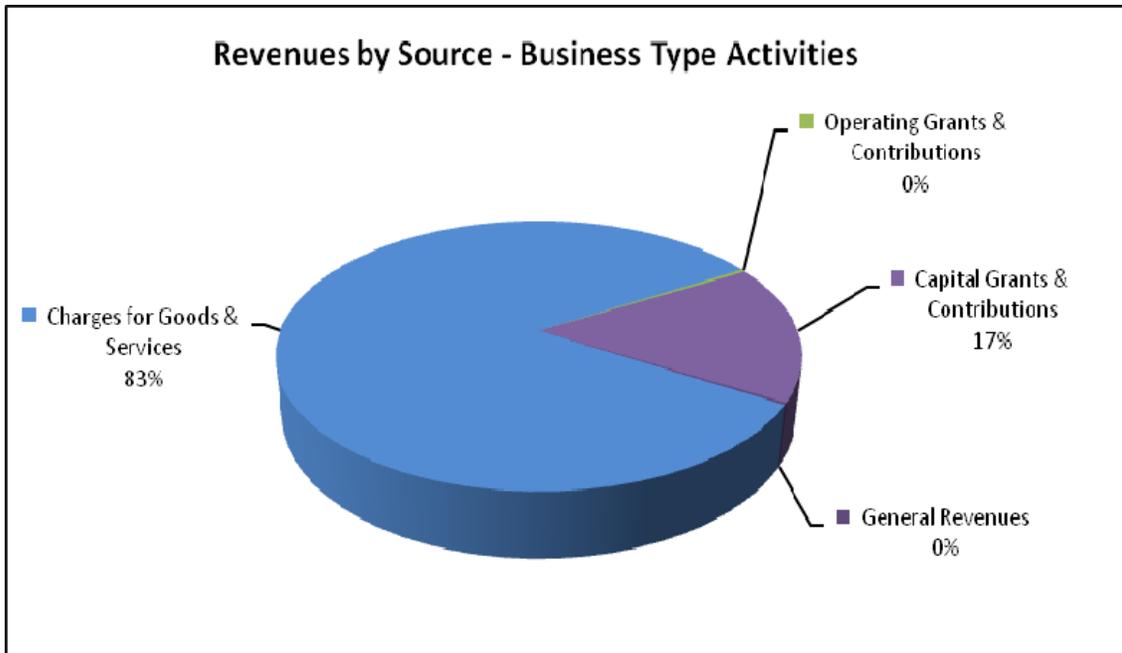
The following charts summarize the revenues and expenses associated with Governmental Activities:



Management's Discussion and Analysis

Business-Type Activities

Business-type activities increased the City's net position by \$11.3 million, accounting for 36.7% 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 2012, the City's governmental funds reported combined fund balance total of \$24.5 million, an increase of \$2.7 million, or 12.6% from 2011. Of the total fund balance, the City has internally earmarked \$15.6 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 \$1,448,237, or about 25.0%, from 2011. 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 2012, \$5 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 \$6.7 million is about 51.7% of 2012 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 increased by \$1.2 million or 5.8%. This increase resulted from several large projects within the Capital Improvement Fund including the Main Fire Station remodel project and the Children's Zoo and Otter Exhibit improvement project being started but not substantially complete at the end of 2012. Revenue allocated to these projects in 2012 will be carried over in 2013 to complete these projects. As of the end of 2012, there was no 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 \$.6 million, or 1.0%, on operating income of \$291,490. The amount of operating income equals approximately 8.7% of operating revenues for this fund. The increase in net position is attributable to capital contributions of \$.8 million and a slight increase in operating revenues of \$.1 million.

Electric, Gas, and Water Funds – Net position in the Electric, Gas and Water Funds increased by a combined \$2.7 million or 5.7%. This increase resulted from overall strong operating income from electric, gas and water utility services.

Airport Fund – Net position increased by \$7.9 million, or 6.4%. This increase is mostly due to capital contributions of \$8.2 million.

General Budgetary Highlights

The final 2012 General Fund expenditure budget reflects an increase to the original budget almost \$443,500, or about 3.5%, with the majority of this increase in the public works functional area. The majority of the increase was in the public works budget due to the special assessment road and alley projects completed in 2012.

Actual General Fund expenditures were about \$904,000, or 7.2%, less than the original budget. The difference between the original budgeted expenditures and actual results was largely due to unspent contingency funds, having a mild winter causing less snow removal budget and a decrease in the ambulance personnel budget.

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, 2012, totals \$253,838,287 (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 2012 by \$23.8 million or 10.3%.

Major capital asset events during the 2012 included the following:

- Street system improvements completed - \$2.3 million
- Completion of NE Interceptor sewer project - \$.3 million
- Begin construction on the Main Fire Station Remodel - \$1.6 million
- Purchase of a refuse truck and recycle containers - \$.5 million
- Completed Airport runway 17/35 reconstruction project - \$7.2 million

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

Long-term debt

At the end of 2012 the City had total debt outstanding of \$55,019,801 in General Obligation Bonds, Sales Tax Bonds and other long-term obligations. This is a decrease of 4.5% or about \$2.6 million. The significant long-term debt activity for the year was the refinancing of the 2003 and 2004 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, 2012 the GO Bond has an outstanding balance of \$4,115,000.

The City has outstanding \$3,785,000 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 \$3,640,000 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 street, sanitary sewer and storm sewer improvements, and the Family Aquatic Center.

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

Economic Outlook and Next Year's Budget

The City adopted the 2013 budget in mid-2012 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 is more positive than the stagnant recovery in the national markets. The City's 2013 sales tax revenue is projected to be 2% higher than the 2012 budgeted amount. The trend in retail sales taxes has continued to remain steady over the first few months of 2013, however, the percent increase over the previous year continues to decrease giving the appearance of a plateau in sales tax increases. The 2013 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 2012 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 Obama care reform and federal budgets available for continued grant programs, 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.

Management's Discussion and Analysis

Overall, the 2013 budget reflects a decrease in planned spending of \$5.5 million, or 12.8%, from the original 2012 budget. This decrease is due to the Airport runway project being budgeted and completed in 2012 causing an \$8.0 million decrease in capital expenditures in the Airport Fund in 2013. The sales-tax-dependent General Fund budget reflects an increase of \$252,300, or 1.8%. 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 2012 with an overall increase in the taxable value of real property of \$28.5 million reflecting an \$18.6 million increase from new property placed on the tax rolls and a \$9.9 million increase by virtue of the reappraisal process. This amount represents a net increase in the property tax base of 2.4% with real growth in the tax base from new property of slightly more than 1.5%. As a result of all of these changes and with a slight increase in the General Fund mill levy from \$2.321 per \$1,000 of value to \$2.376 per \$1,000, General Fund property tax revenues will increase by approximately \$135,000, or about 4.8%. In addition, the special property tax levy used to repay the Event Center GO Bonds will generate approximately \$446,000 in property tax revenues for the Debt Service Fund.

Requests for Information

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statement of Net Position

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission
ASSETS				
Pooled Cash and Investments	\$ 20,794,063	\$ 12,434,565	\$ 33,228,628	\$ -
Non-Pooled Cash and Investments	-	-	-	303,343
Receivables, net	4,733,515	6,607,495	11,341,010	2,897
Due from Other Governments	254,135	778,574	1,032,709	-
Inventories	122,540	1,249,267	1,371,807	-
Deposits	330,054	-	330,054	-
Prepaid Expenses	666	38,065	38,731	31,156
Internal Balances	(429,450)	429,450	-	-
Deposit for Flexible Spending	-	11,877	11,877	-
Restricted Pooled Cash and Investments	1,728,395	5,825,348	7,553,743	-
Capital Assets:				
Land and Work in Progress	14,647,261	4,397,054	19,044,315	145,152
Other Capital Assets, Net of Depreciation	86,661,388	148,132,584	234,793,972	814,624
Total assets	<u>128,842,567</u>	<u>179,904,279</u>	<u>308,746,846</u>	<u>1,297,172</u>
LIABILITIES				
Accounts Payable	784,991	4,087,628	4,872,619	19,563
Salaries Payable	-	89,106	89,106	-
Retainage Payable	148,779	74,987	223,766	-
Accrued Interest Payable	18,605	281,208	299,813	-
Customer Deposits	-	474,250	474,250	11,014
Long-term Liabilities:				
Due within one year	1,488,891	2,003,545	3,492,436	13,874
Due in more than one year	16,539,467	34,987,898	51,527,365	-
Total liabilities	<u>18,980,733</u>	<u>41,998,622</u>	<u>60,979,355</u>	<u>44,451</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue	615,279	590,819	1,206,098	-
Revenues Collected in Advance	-	728,511	728,511	-
Total Deferred Inflows of Resources	<u>615,279</u>	<u>1,319,330</u>	<u>1,934,609</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	85,000,053	117,465,744	202,465,797	959,776
Restricted for Cemetery Perpetual Care:				
Expendable	6,024	-	6,024	-
Nonexpendable	50,000	-	50,000	-
Restricted for Conservation & Development	325,157	-	325,157	-
Restricted for Culture & Recreation	953,660	-	953,660	-
Restricted for Debt Service	1,892,987	2,847,450	4,740,437	-
Restricted for Public Safety	181,465	-	181,465	-
Restricted for Operation & Maintenance	-	186,058	186,058	-
Restricted for Replacement & Depreciation	-	1,886,566	1,886,566	-
Restricted for Cumulative Reserve Fund	330,054	-	330,054	-
Restricted for Housing Assistance Payments	-	-	-	44,723
Unrestricted	20,507,155	14,200,509	34,707,664	248,222
Total net position	<u>\$ 109,246,555</u>	<u>\$ 136,586,327</u>	<u>\$ 245,832,882</u>	<u>\$ 1,252,721</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, 2012

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	\$ 2,179,248	\$ 110,237	\$ 436	\$ -
Public Safety	7,607,436	1,267,262	215,478	5,770
Public Works	3,045,042	347,757	135,000	12,993,870
Health and Welfare	51,181	-	-	-
Culture and Recreation	5,717,719	2,155,501	161,503	774,995
Conservation and Development	937,887	223,529	146,722	103,028
Interest on Long-Term Debt	1,264,972	-	-	-
Total governmental activities	<u>20,803,485</u>	<u>4,104,286</u>	<u>659,139</u>	<u>13,877,663</u>
Business-Type Activities:				
Sewer	3,553,717	3,369,238	167,485	782,182
Solid Waste	2,247,821	2,322,098	12,399	217,549
Airport	835,405	119,981	-	8,220,484
Electric	23,075,668	24,941,694	-	54,294
Water	5,169,923	5,514,814	-	-
Gas	8,013,641	10,182,312	-	-
Total business-type activities	<u>42,896,175</u>	<u>46,450,137</u>	<u>179,884</u>	<u>9,274,509</u>
Total primary government	<u>63,699,660</u>	<u>50,554,423</u>	<u>839,023</u>	<u>23,152,172</u>
Component units:				
Watertown Housing and Redev.	1,293,037	262,601	613,724	-
Total Component Units	<u>\$ 1,293,037</u>	<u>\$ 262,601</u>	<u>\$ 613,724</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

Transfers

Total general revenues & transfers
 Change in net position

Net position - beginning
 Adjustment for implementation of GASB 65
 Net position - beginning after restatement
 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, 2012

Statement of Activities (continued)

Net(Expense) Revenue and Changes in Net Position				
Primary Government				Component Unit
Governmental Activities	Business-Type Activities	Total		Housing and Redevelopment Commission
\$ (2,068,575)	\$ -	\$ (2,068,575)		\$ -
(6,118,926)	-	(6,118,926)		-
10,431,585	-	10,431,585		-
(51,181)	-	(51,181)		-
(2,625,720)	-	(2,625,720)		-
(464,608)	-	(464,608)		-
(1,264,972)	-	(1,264,972)		-
<u>(2,162,397)</u>	<u>-</u>	<u>(2,162,397)</u>		<u>-</u>
-	765,188	765,188		-
-	304,225	304,225		-
-	7,505,060	7,505,060		-
-	1,920,320	1,920,320		-
-	344,891	344,891		-
-	2,168,671	2,168,671		-
-	13,008,355	13,008,355		-
<u>(2,162,397)</u>	<u>13,008,355</u>	<u>10,845,958</u>		<u>-</u>
-	-	-		(416,712)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (416,712)</u>
3,662,785	-	3,662,785		-
14,201,502	-	14,201,502		-
558,608	4,865	563,473		-
844,462	-	844,462		-
522,308	124,287	646,595		1,171
103,667	-	103,667		15,384
19,295	5,465	24,760		-
<u>1,807,975</u>	<u>(1,807,975)</u>	<u>-</u>		<u>-</u>
<u>21,720,602</u>	<u>(1,673,358)</u>	<u>20,047,244</u>		<u>16,555</u>
<u>19,558,205</u>	<u>11,334,997</u>	<u>30,893,202</u>		<u>(400,157)</u>
89,740,780	125,251,330	214,992,110		1,652,878
(52,430)	-	(52,430)		-
<u>89,688,350</u>	<u>125,251,330</u>	<u>214,939,680</u>		<u>1,652,878</u>
<u>\$ 109,246,555</u>	<u>\$ 136,586,327</u>	<u>\$ 245,832,882</u>		<u>\$ 1,252,721</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, 2012

Balance Sheet - Governmental Funds

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Pooled Cash and Investments	\$ 5,485,678	\$ 13,464,788	\$ 1,843,597	\$ 20,794,063
Property Taxes Receivable	52,195	-	8,413	60,608
Sales Tax Receivable	1,244,895	1,244,718	112,241	2,601,854
Accounts Receivable	319,804	-	80,255	400,059
Special Assessments Receivable	357,489	244,463	1,622	603,574
Interest Receivable	5,020	15,306	2,123	22,449
Loans Receivable	4,995	841,177	105,199	951,371
Deferred Receivable	-	9,600	84,000	93,600
Due From Other Funds	498,765	-	-	498,765
Due From Other Governments	148,640	31,897	73,598	254,135
Inventory	99,495	-	23,045	122,540
Prepaid Items	-	-	666	666
Deposits	330,054	-	-	330,054
Advance To Other Fund	-	5,522,781	-	5,522,781
Restricted Assets:				
Pooled Cash and Investments	70,370	1,637,604	20,421	1,728,395
Total assets	<u>8,617,400</u>	<u>23,012,334</u>	<u>2,355,180</u>	<u>33,984,914</u>
LIABILITIES				
Accounts Payable	338,712	244,135	202,144	784,991
Retainage Payable	3,021	145,758	-	148,779
Advance From Other Fund	-	-	6,450,996	6,450,996
Total liabilities	<u>341,733</u>	<u>389,893</u>	<u>6,653,140</u>	<u>7,384,766</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	759,511	647,302	103,479	1,510,292
Unearned Revenue	277,216	254,063	84,000	615,279
Total Deferred Inflows of Resources	<u>1,036,727</u>	<u>901,365</u>	<u>187,479</u>	<u>2,125,571</u>
FUND BALANCES				
Nonspendable for:				
Inventory	99,495	-	23,045	122,540
Cemetery Perpetual Care	50,000	-	-	50,000
Advances	-	5,522,781	-	5,522,781
Restricted for:				
Debt Service	-	1,637,604	255,383	1,892,987
BBB Sales Tax	-	-	150,438	150,438
Event Center Theater	-	-	4,569	4,569
E-911 Services	-	-	181,465	181,465
Library	-	-	457,102	457,102
Urban Renewal Loans	-	-	15,852	15,852
Cable TV Security	14,347	-	-	14,347
Cemetery Perpetual Care	6,024	-	-	6,024
Casualty Reserve	-	-	65,919	65,919
Assigned for:				
Cumulative Reserve Fund	330,054	-	-	330,054
Park Development	-	-	68,656	68,656
Golf Course	-	-	46,939	46,939
Zoo Improvements	-	-	12,114	12,114
Other Purposes	-	14,560,691	588,675	15,149,366
Unassigned:	6,739,020	-	(6,355,596)	383,424
Total fund balances	<u>7,238,940</u>	<u>21,721,076</u>	<u>(4,485,439)</u>	<u>24,474,577</u>
Total liabilities and fund balances	<u>\$ 8,617,400</u>	<u>\$ 23,012,334</u>	<u>\$ 2,355,180</u>	<u>\$ 33,984,914</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, 2012

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

Fund balances of governmental funds \$ 24,474,577

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	126,641,064	
Accumulated Depreciation	<u>(25,332,415)</u>	101,308,649

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	(4,115,000)	
2006 Revenue Bonds	(3,785,000)	
2012 Revenue Bonds	(3,640,000)	
SRF Loan #6 - CW	(994,985)	
SRF Loan #6 - NPS	(93,848)	
SRF Loan #8 - CW	(443,662)	
SRF Loan #8 - NPS	(49,641)	
SRF Loan #10 - CW	(2,535,278)	
SRF Loan #11 - CW	(188,754)	
Fire Truck Lease Payable	(357,785)	
Golf Cart Lease Payable	(104,643)	
Accrued Interest Payable	(18,605)	
Other Post Employment Benefits	(212,155)	
Compensated Absences	<u>(1,507,607)</u>	(18,046,963)

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	22,449	
Special Assessments	80,272	
Franchise Fees	31,429	
E-911 Surcharges	44,292	
Grants	10,790	
General Sales and Use Tax	<u>1,321,060</u>	1,510,292

Net Position of governmental activities \$ 109,246,555

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 2,806,910	\$ -	\$ 855,875	\$ 3,662,785
Sales	6,802,708	6,800,967	698,051	14,301,726
Other Taxes	384,221	-	180,583	564,804
Licenses and Permits	270,639	-	-	270,639
Intergovernmental	1,166,891	752,412	160,222	2,079,525
Charges for Goods and Services	1,165,082	-	2,196,372	3,361,454
Fines and Forfeits	43,911	-	18,558	62,469
Interest Revenue	23,293	513,752	10,685	547,730
Rentals	-	-	129,369	129,369
Special Assessments	169,101	53,794	50,387	273,282
Donations/Contributions	6,770	19,833	349,491	376,094
Miscellaneous	195,558	19,563	91,415	306,536
Total revenues	<u>13,035,084</u>	<u>8,160,321</u>	<u>4,741,008</u>	<u>25,936,413</u>
EXPENDITURES				
Current:				
General Government	1,758,636	-	406,651	2,165,287
Public Safety	5,986,428	1,802,543	727,857	8,516,828
Public Works	2,666,894	2,708,519	-	5,375,413
Health and Welfare	51,181	-	-	51,181
Culture and Recreation	942,260	568,255	3,981,451	5,491,966
Conservation and Development	262,441	142,438	362,263	767,142
Debt Service	-	1,387,483	888,235	2,275,718
Total expenditures	<u>11,667,840</u>	<u>6,609,238</u>	<u>6,366,457</u>	<u>24,643,535</u>
Excess (deficiency) of revenues over expenditures	<u>1,367,244</u>	<u>1,551,083</u>	<u>(1,625,449)</u>	<u>1,292,878</u>
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	103,793	48,500	6,821	159,114
Refunding Bond Issuance	-	4,165,000	-	4,165,000
Payment to Refunded Bond Escrow Agent	-	(4,258,943)	-	(4,258,943)
Transfers Out	(1,676,000)	(320,000)	(58,000)	(2,054,000)
Transfers In	1,653,200	-	1,779,000	3,432,200
Total other financing sources (uses)	<u>80,993</u>	<u>(365,443)</u>	<u>1,727,821</u>	<u>1,443,371</u>
Net Change in Fund Balances	1,448,237	1,185,640	102,372	2,736,249
Fund balances -- beginning	<u>5,790,703</u>	<u>20,535,436</u>	<u>(4,587,811)</u>	<u>21,738,328</u>
Fund balances -- ending	<u>\$ 7,238,940</u>	<u>\$ 21,721,076</u>	<u>\$ (4,485,439)</u>	<u>\$ 24,474,577</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, 2012

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 \$ 2,736,249

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	5,410,740	
Transfer of Capital Asset	429,775	
Less Current Depreciation	<u>(2,489,206)</u>	3,351,309

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.

(359,007)

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

Donated capital assets	12,993,870	
Gain on trade of capital assets	16,319	
Changes in deferred revenue:		
Interest	(25,422)	
Special Assessments	7,073	
Sales Taxes	(100,224)	
Franchise Fees	26	
E-911 Surcharges	(6,222)	
Grants	<u>(68,225)</u>	12,817,195

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	(4,165,000)	
Repayment of Bond Principal	5,394,742	
Restricted Non-Pooled Cash and Investments	(133,913)	
Principal Forgiveness (SRF Loans - ARRA)	<u>266</u>	1,096,095

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

(41,730)

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.

(50,500)

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		8,594
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Change in net position of governmental activities \$ 19,558,205

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statement of Net Position - Proprietary Funds

	Sewer Fund	Eletric Fund	Water Fund
ASSETS			
Current assets:			
Pooled Cash and Investments	\$ 2,231,553	\$ 5,626,819	\$ 55,464
Accounts Receivable	319,405	2,139,914	429,855
Unbilled Accounts Receivable	-	726,771	126,967
Interest Receivable	4,387	4,967	-
Deferred Receivable	-	-	-
Due From Other Funds	-	-	-
Due From Other Governments	1,141	-	-
Advance To Other Fund	928,215	-	-
Inventory	168,985	469,849	302,067
Prepaid Expense	-	8,192	28,867
Deposit for Flexible Spending	-	11,877	-
Restricted Pooled Cash and Investments	2,349,114	474,250	2,570,960
Total Current assets:	<u>6,002,800</u>	<u>9,462,639</u>	<u>3,514,180</u>
Noncurrent assets:			
Land	1,764,321	350,253	510,669
Buildings and Structures	35,773,870	6,660,511	20,475,512
Furniture Equipment Machinery	1,287,804	1,469,475	376,033
Improvements Other Than Buildings	47,492,430	35,714,995	27,906,595
Intangible Property	-	-	-
Construction in Progress	-	527,290	71,517
Accumulated Depreciation	(21,448,099)	(27,229,126)	(13,032,737)
Accumulated Amortization	-	(14,966)	(7,143)
Total Noncurrent assets:	<u>64,870,326</u>	<u>17,478,432</u>	<u>36,300,446</u>
Total assets	<u>70,873,126</u>	<u>26,941,071</u>	<u>39,814,626</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	61,571	2,157,051	217,074
Salaries Payable	-	40,819	24,704
Retainage Payable	8,900	-	-
Due to Other Funds	-	67	3,300,000
Loans Payable	713,769	-	942,914
Accrued Interest Payable	100,423	-	180,785
Accrued Vacation and Sick Leave	40,298	123,509	73,604
Customer Deposits	-	474,250	-
Total Current liabilities:	<u>924,961</u>	<u>2,795,696</u>	<u>4,739,081</u>
Noncurrent liabilities:			
Accrued Vacation and Sick Leave	120,894	370,526	220,812
Other Post Employment Benefits	17,965	33,477	16,739
Closure/Post Closure Liability	-	-	-
Loans Payable	12,099,609	-	21,307,602
Total Noncurrent liabilities:	<u>12,238,468</u>	<u>404,003</u>	<u>21,545,153</u>
Total liabilities	<u>13,163,429</u>	<u>3,199,699</u>	<u>26,284,234</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned Revenue	-	-	-
Revenues Collected in Advance	-	273,766	15,814
Total Deferred Inflows of Resources	<u>-</u>	<u>273,766</u>	<u>15,814</u>
NET POSITION			
Net Investment in Capital Assets	52,056,948	17,478,432	14,049,930
Restricted for SRF O&M	186,058	-	-
Restricted for SRF R&D	1,886,566	-	-
Restricted for Debt Service	276,490	-	2,570,960
Unrestricted	3,303,635	5,989,174	(3,106,312)
Total net position	<u>\$ 57,709,697</u>	<u>\$ 23,467,606</u>	<u>\$ 13,514,578</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, 2012

Statement of Net Position - Proprietary Funds (continued)

Gas Fund		Airport Fund		Other Proprietary Funds		Total Proprietary Funds	
\$	1,813,978	\$	-	\$	2,706,751	\$	12,434,565
	1,452,361		4,620		222,103		4,568,258
	578,163		-		-		1,431,901
	4,231		-		2,932		16,517
	-		590,819		-		590,819
	3,300,000		-		67		3,300,067
	-		662,708		114,725		778,574
	-		-		-		928,215
	226,477		26,689		55,200		1,249,267
	1,006		-		-		38,065
	-		-		-		11,877
	-		-		431,024		5,825,348
	<u>7,376,216</u>		<u>1,284,836</u>		<u>3,532,802</u>		<u>31,173,473</u>
	43,861		268,561		38,174		2,975,839
	1,020,717		1,720,395		993,472		66,644,477
	619,799		2,136,887		4,618,827		10,508,825
	15,211,429		22,476,418		3,244,641		152,046,508
	470,654		-		-		470,654
	-		822,408		-		1,421,215
	(9,288,819)		(7,192,388)		(3,121,008)		(81,312,177)
	(203,594)		-		-		(225,703)
	<u>7,874,047</u>		<u>20,232,281</u>		<u>5,774,106</u>		<u>152,529,638</u>
	<u>15,250,263</u>		<u>21,517,117</u>		<u>9,306,908</u>		<u>183,703,111</u>
	1,096,494		242,495		312,943		4,087,628
	23,583		-		-		89,106
	-		66,087		-		74,987
	-		498,765		-		3,798,832
	-		-		-		1,656,683
	-		-		-		281,208
	73,652		5,484		30,315		346,862
	-		-		-		474,250
	<u>1,193,729</u>		<u>812,831</u>		<u>343,258</u>		<u>10,809,556</u>
	220,956		16,450		90,945		1,040,583
	16,739		3,717		20,443		109,080
	-		-		431,024		431,024
	-		-		-		33,407,211
	<u>237,695</u>		<u>20,167</u>		<u>542,412</u>		<u>34,987,898</u>
	<u>1,431,424</u>		<u>832,998</u>		<u>885,670</u>		<u>45,797,454</u>
	-		590,819		-		590,819
	438,931		-		-		728,511
	<u>438,931</u>		<u>590,819</u>		<u>-</u>		<u>1,319,330</u>
	7,874,047		20,232,281		5,774,106		117,465,744
	-		-		-		186,058
	-		-		-		1,886,566
	-		-		-		2,847,450
	5,505,861		(138,981)		2,647,132		14,200,509
\$	<u>13,379,908</u>	\$	<u>20,093,300</u>	\$	<u>8,421,238</u>	\$	<u>136,586,327</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, 2012

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	\$ 1,964,831	\$ 24,675,402	\$ 2,980,990
Miscellaneous	11,312	191,584	161,479
Rentals	-	74,708	190,815
Revenue Dedicated to Servicing Debt	1,393,095	-	2,181,530
Total operating revenues	<u>3,369,238</u>	<u>24,941,694</u>	<u>5,514,814</u>
OPERATING EXPENSES			
Personal Services	928,579	-	-
Supplies	117,000	-	-
Utilities	237,388	-	-
Other Charges	331,562	-	-
Production	-	18,577,542	1,394,956
Distribution	-	1,939,970	805,891
Transmission	-	3,000	-
Accounts and Commercial	-	613,406	255,013
Administrative and General	-	369,839	240,682
Other Miscellaneous Expense	-	24,873	28,947
Depreciation	1,463,219	1,526,564	1,674,871
Amortization	-	9,758	4,639
Total operating expenses	<u>3,077,748</u>	<u>23,064,952</u>	<u>4,404,999</u>
Operating Income (Loss)	<u>291,490</u>	<u>1,876,742</u>	<u>1,109,815</u>
NONOPERATING REVENUES (EXPENSES)			
Tax Revenue	-	-	-
Intergovernmental	167,485	-	-
Interest Revenue	78,378	18,542	-
Interest Expense	(415,969)	-	(734,343)
Contributions	(60,000)	-	-
Gain(Loss) on Disposition of Capital Assets	5,465	(10,716)	(460,356)
Total nonoperating revenues (expenses)	<u>(224,641)</u>	<u>7,826</u>	<u>(1,194,699)</u>
Income (loss) before contributions and transfers	66,849	1,884,568	(84,884)
Transfers In	-	-	-
Transfers Out	(260,700)	(731,042)	(90,000)
Capital Contributions	782,182	54,294	-
Change in net position	<u>588,331</u>	<u>1,207,820</u>	<u>(174,884)</u>
Total net position -- beginning	<u>57,121,366</u>	<u>22,259,786</u>	<u>13,689,462</u>
Total net position -- ending	<u>\$ 57,709,697</u>	<u>\$ 23,467,606</u>	<u>\$ 13,514,578</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, 2012

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

Gas Fund	Airport Fund	Other Proprietary Funds	Total Proprietary Funds
\$ 10,137,952	\$ 14,585	\$ 2,261,478	\$ 42,035,238
38,150	-	60,620	463,145
6,210	105,396	-	377,129
-	-	-	3,574,625
<u>10,182,312</u>	<u>119,981</u>	<u>2,322,098</u>	<u>46,450,137</u>
-	212,042	973,532	2,114,153
-	39,427	289,003	445,430
-	36,853	20,703	294,944
-	200,060	463,342	994,964
5,923,192	-	-	25,895,690
928,248	-	-	3,674,109
-	-	-	3,000
362,042	-	-	1,230,461
178,198	-	-	788,719
19,760	-	-	73,580
582,664	347,023	461,241	6,055,582
18,082	-	-	32,479
<u>8,012,186</u>	<u>835,405</u>	<u>2,207,821</u>	<u>41,603,111</u>
<u>2,170,126</u>	<u>(715,424)</u>	<u>114,277</u>	<u>4,847,026</u>
-	4,865	-	4,865
-	-	12,399	179,884
16,362	-	11,005	124,287
-	-	-	(1,150,312)
-	-	(40,000)	(100,000)
(1,455)	-	-	(467,062)
<u>14,907</u>	<u>4,865</u>	<u>(16,596)</u>	<u>(1,408,338)</u>
2,185,033	(710,559)	97,681	3,438,688
-	365,000	-	365,000
(487,358)	-	(174,100)	(1,743,200)
-	8,220,484	217,549	9,274,509
<u>1,697,675</u>	<u>7,874,925</u>	<u>141,130</u>	<u>11,334,997</u>
<u>11,682,233</u>	<u>12,218,375</u>	<u>8,280,108</u>	<u>125,251,330</u>
<u>\$ 13,379,908</u>	<u>\$ 20,093,300</u>	<u>\$ 8,421,238</u>	<u>\$ 136,586,327</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, 2012

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	\$ 3,370,183	\$ 24,959,673
Cash Receipts for Interfund Services Provided	19,591	1,261,848
Payments to Suppliers	(870,186)	(18,945,372)
Payments to Employees	(915,929)	(2,436,133)
Payments for Interfund Services Used	(233,470)	(33,409)
Other Operating Cash Receipts	11,312	-
Other Payments	-	(1,308,128)
Net cash provided (used) by operating activities	<u>1,381,501</u>	<u>3,498,479</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Interfund Loans	-	-
Repayments of Interfund Loans	-	-
Tax Revenue	-	-
Intergovernmental Revenue	99,845	-
Contribution	(60,000)	-
Transfers Out	(260,700)	(731,042)
Transfers In	-	-
Net cash provided (used) by noncapital financing activities	<u>(220,855)</u>	<u>(731,042)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(723,176)	(2,030,196)
Interest payments on SRF Loan	(410,583)	-
Proceeds from SRF Loan	507,140	-
Principal payments on SRF Loan	(660,509)	-
Capital Grant	-	54,294
Retirement Work in Progress	-	(370)
Proceeds from sales of capital assets	5,465	-
Net cash provided (used) by capital and related financing activities	<u>(1,281,663)</u>	<u>(1,976,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	22,045	22,278
Net cash provided by investing activities	<u>22,045</u>	<u>22,278</u>
Net increase (decrease) in cash and cash equivalents	(98,972)	813,443
Pooled Cash and Investments - beginning of year	4,679,639	5,287,626
Pooled Cash and Investments - end of year	4,580,667	6,101,069
Less Restricted Pooled Cash and Investments	(2,349,114)	(474,250)
Pooled Cash and Investments Per Balance Sheet	<u>\$ 2,231,553</u>	<u>\$ 5,626,819</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 291,490	\$ 1,876,742
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,463,219	1,536,322
Changes in assets and Liabilities:		
Accounts Payable - Other	(403,904)	94,622
Accounts Payable	-	33,696
Customer Receivables	31,848	37,018
Inventory	(13,802)	(43,064)
Other Operating Receivables	-	(26,009)
Other Post Employment Benefits	4,257	5,001
Closure/Post closure costs	-	-
Salaries & Benefits Payable	8,393	(15,849)
Net Cash provided (used) by operating activities	<u>\$ 1,381,501</u>	<u>\$ 3,498,479</u>
Noncash Investing, Capital, and Financing Activities:		
Loss on Disposal of Capital Assets Not Affecting Operating Income	\$ -	\$ (10,716)
Contributions of Capital Assets	\$ 782,182	\$ 54,294

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statement of Cash Flows - Proprietary Funds (continued)

Water Fund		Gas Fund		Airport Fund		Other Proprietary Funds		Total Proprietary Funds	
\$	5,359,256	\$	10,180,996	\$	117,698	\$	2,168,608	\$	46,156,414
	519,169		285,294		-		-		2,085,902
	(1,351,562)		(5,927,152)		(58,731)		(575,522)		(27,728,525)
	(1,382,741)		(1,351,143)		(211,592)		(954,772)		(7,252,310)
	(522,344)		(12,362)		-		-		(801,585)
	-		-		-		60,620		71,932
	(2,566)		(524,280)		-		-		(1,834,974)
	<u>2,619,212</u>		<u>2,651,353</u>		<u>(152,625)</u>		<u>698,934</u>		<u>10,696,854</u>
	3,300,000		(3,300,000)		479,435		-		479,435
	(3,960,000)		3,960,000		-		-		-
	-		-		4,865		-		4,865
	-		-		-		-		99,845
	-		-		-		(40,000)		(100,000)
	(90,000)		(487,358)		-		(174,100)		(1,743,200)
	-		-		365,000		-		365,000
	<u>(750,000)</u>		<u>172,642</u>		<u>849,300</u>		<u>(214,100)</u>		<u>(894,055)</u>
	(595,847)		(1,386,321)		(8,272,220)		(522,302)		(13,530,062)
	(741,760)		-		7,575,545		-		6,423,202
	-		-		-		-		507,140
	(912,881)		-		-		-		(1,573,390)
	-		-		-		229,948		284,242
	(1,643)		(10,063)		-		-		(12,076)
	-		-		-		-		5,465
	<u>(2,252,131)</u>		<u>(1,396,384)</u>		<u>(696,675)</u>		<u>(292,354)</u>		<u>(7,895,479)</u>
	-		19,251		-		14,089		77,663
	-		19,251		-		14,089		77,663
	(382,919)		1,446,862		-		206,569		1,984,983
	3,009,343		367,116		-		2,931,207		16,274,931
	2,626,424		1,813,978		-		3,137,776		18,259,914
	<u>(2,570,960)</u>		<u>-</u>		<u>-</u>		<u>(431,025)</u>		<u>(5,825,349)</u>
\$	<u>55,464</u>	\$	<u>1,813,978</u>	\$	<u>-</u>	\$	<u>2,706,751</u>	\$	<u>12,434,565</u>
\$	1,109,815	\$	2,170,126	\$	(715,424)	\$	114,277	\$	4,847,026
	1,679,510		600,746		347,023		461,241		6,088,061
	-		-		21		(197)		(309,458)
	30,840		(201,567)		226,395		98,615		187,979
	(136,161)		84,626		(2,283)		21,923		36,971
	(40,605)		22,541		(8,807)		222		(83,515)
	(17,670)		(41,777)		-		(114,792)		(200,248)
	2,501		2,501		881		4,845		19,986
	-		-		-		98,885		98,885
	(9,018)		14,157		(431)		13,915		11,167
\$	<u>2,619,212</u>	\$	<u>2,651,353</u>	\$	<u>(152,625)</u>	\$	<u>698,934</u>	\$	<u>10,696,854</u>
\$	(30,581)	\$	(1,455)	\$	-	\$	-	\$	(42,752)
\$	-	\$	-	\$	8,220,484	\$	217,549	\$	9,274,509

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

City of Watertown
Comprehensive Annual Financial Report
Year Ended December 31, 2012

Statement of Fiduciary Net Position - Fiduciary Funds

	Agency Funds
	<hr/>
ASSETS	
Pooled Cash and Investments	\$ 94,903
Interest Receivable	30
Total Assets	<hr/> 94,933 <hr/>
LIABILITIES	
Due to Others	94,903
Total Liabilities	<hr/> 94,903 <hr/>
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenue	30
Total Deferred Inflows of Resources	<hr/> \$ 30 <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 Government Account 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.

For the year ended December 31, 2012, the City implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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.

For the year ended December 31, 2012, the City implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement provides guidance for proper classification of previous 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.

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.

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.

Notes to the Financial Statements

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 and debt service funds.

The City reports the following major proprietary funds:

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

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

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

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

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 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

Notes to the Financial Statements

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."

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

Notes to the Financial Statements

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 2012.

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 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.

Notes to the Financial Statements

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

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

Long-Term Obligations: In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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. The constraint may be enacted by a body or official to which the governing board has delegated the authority to assign amounts to be used for specific purposes (resolutions and motions). The “Assigned for Other Purposes” is the fund balance that is available for appropriation in the Capital Improvement Fund and Other Special Revenue Funds.
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 contractual provisions.

B. Net Position/Fund Balance Deficits

As of December 31, 2012, the following funds have deficit fund balances in the amount shown:

Tax Increment Financing 1 Fund	\$ (2,097,888)
Tax Increment Financing 2 Fund	\$ (1,151,182)
Tax Increment Financing 3 Fund	\$ (272,267)
Tax Increment Financing 5 Fund	\$ (2,075,636)
Tax Increment Financing 6 Fund	\$ (825,057)

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, 2012, 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, 2012, 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 2013 is included in the accompanying financial statements, since such taxes become due and payable on January 1, 2013, 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, 2012 was \$2.74 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, 2012:

	Interest	Taxes	Accounts	Special Assessments	Loans	Deferred	Unbilled Accounts	Total
General Fund	\$ 5,020	\$ 1,297,090	\$ 319,804	\$ 357,489	\$ 4,995	\$ -	\$ -	\$ 1,984,398
Capital Improvement	15,306	1,244,718	-	244,463	841,177	9,600	-	2,355,264
Sewer	4,387	-	319,405	-	-	-	-	323,792
Electric	4,967	-	2,139,914	-	-	-	726,771	2,871,652
Water	-	-	429,855	-	-	-	126,967	556,822
Gas	4,231	-	1,452,361	-	-	-	578,163	2,034,755
Airport	-	-	4,620	-	-	590,819	-	595,439
Nonmajor and Other	5,055	120,654	302,358	1,622	105,199	84,000	-	618,888
	<u>\$ 38,966</u>	<u>\$ 2,662,462</u>	<u>\$4,968,317</u>	<u>\$ 603,574</u>	<u>\$ 951,371</u>	<u>\$ 684,419</u>	<u>\$1,431,901</u>	<u>\$11,341,010</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	\$ 17,660
Uncollectibles related to water sales	4,159
Uncollectibles related to gas sales	<u>9,669</u>
Total uncollectibles of the current fiscal year	\$ 31,488

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

	<u>Unavailable</u>
Interest receivable (general fund)	\$ 5,020
Interest receivable (special revenue funds)	17,082
Interest receivable (debt service fund)	347
Sales tax receivable (general fund)	632,000
Sales tax receivable (special revenue funds)	689,060
Special assessments not yet due (general fund)	357,489
Special assessments not yet due (special revenue funds)	244,463
Accounts receivable - Franchise Fees (general fund)	31,429
Accounts receivable - E-911 surcharges (special revenue funds)	44,292
Due from other governments (general fund)	10,789
Deferred Receivables - leases (special revenue funds)	<u>93,600</u>
Total	\$ 2,125,571

Notes to the Financial Statements

D. Due From Other Governments

Amounts due from other governments include the following at December 31, 2012:

	Due from Federal	Due from State	Total
Primary Government:			
Governmental Activities			
General Fund	\$ 40,278	\$ 108,362	\$ 148,640
Capital Improvement Fund	10,866	21,031	31,897
E-911 Fund	-	13,158	13,158
Sioux River Watershed Fund	60,440	-	60,440
Total Governmental Activities	111,584	142,551	254,135
Business-Type Activities			
Enterprise Funds			
Sewer	-	1,141	1,141
Solid Waste	-	114,725	114,725
Airport	462,346	200,362	662,708
Total Business-Type Activities	462,346	316,228	778,574
Total	\$ 573,930	\$ 458,779	\$ 1,032,709

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, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Airport Fund	\$ 498,765
Gas Fund	Water Fund	3,300,000
Solid Waste Fund	Electric Fund	67

F. Interfund Transfers

Transfers are budgeted to subsidize the operations of the fund receiving the transfer. Interfund transfers for the year ended December 31, 2012 were as follows:

	General Fund	Nonmajor Governmental Funds	Airport Fund	Total
Transfers Out				
General Fund	\$ -	\$ 1,471,000	\$ 205,000	\$ 1,676,000
Capital Improvement Fund	-	160,000	160,000	320,000
Sewer Fund	260,700	-	-	260,700
Electric Fund	731,042	-	-	731,042
Gas Fund	487,358	-	-	487,358
Water Fund	-	90,000	-	90,000
Nonmajor Governmental Funds	-	58,000	-	58,000
Nonmajor Business-Type Funds	174,100	-	-	174,100
	\$ 1,653,200	\$ 1,779,000	\$ 365,000	\$ 3,797,200

*The transfer out balance in the Water Fund and the transfer in balance of the General Fund do not include \$429,775; this is the amount of a capital asset transfer from the Water Fund to the General Fund.

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%.

H. Leases

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

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

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

Notes to the Financial Statements

The rental payments, based on the minimum rent, that are payable for the term of the lease have been accrued as a deferred receivable in the Park & Recreation Fund. The following is a schedule, by year, of the future rentals on the lease of the land as of December 31, 2012:

2013	\$	6,000
2014		6,000
2015		6,000
2016		6,000
2017		6,000
2018-22		30,000
2023-26		24,000
Total	\$	84,000

Special Revenue Fund – Capital Improvement: Lease of farmland with original cost of: \$144,365; Carrying amount \$144,365; Depreciation on asset to date: land/non-depreciable. The lease expires December 31, 2014. The rental payments payable for the term of the lease have been accrued as a deferred receivable in the Capital Improvement Fund. The following is a schedule, by year, of the future rentals on the lease of farmland as of December 31, 2012:

2013	\$	4,800
2014		4,800
Total	\$	9,600

Business-Type Fund – Airport: Lease of building space with original cost of leased asset: Building \$57,239; Carrying amount: \$37,773; Depreciation on asset to date: \$19,466. Lease expires in 2020. The rental payments that are payable for the terms of the leases have been accrued as deferred receivables in the Airport Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2012:

2013	\$	3,404
2014		3,404
2015		3,404
2016		3,404
2017		3,404
2018-20		9,361
Total	\$	26,381

Lease of building space with original cost of leased asset: Building \$403,167; Carrying amount: \$265,877; Depreciation on asset to date: \$137,290. Lease expires in 2014. The rental payments that are payable for the terms of the leases have been accrued as deferred receivables in the Airport Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2012:

2013	\$	22,123
2014		7,374
Total	\$	29,497

Notes to the Financial Statements

Lease of building space with original cost of leased asset: Building \$64,265; Carrying amount: \$42,410; Depreciation on asset to date: \$21,855. Lease expires in 2020. The rental payments that are payable for the terms of the leases have been accrued as deferred receivables in the Airport Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2012:

2013	\$	17,000
2014		17,000
2015		17,000
2016		17,000
2017		17,000
2018-20		45,333
Total	\$	130,333

Lease of various parcels of land with original cost of leased assets: Land \$13,165; Carrying amount: \$13,165; Depreciation on assets to date: land/non-depreciable. Rental payments payable for the terms of the leases ranging from 2013 to 2034 have been accrued as deferred receivables in the Airport Fund. The following is a schedule, by year, of the future rentals on the lease of the building spaces as of December 31, 2012:

2013	\$	12,424
2014		12,168
2015		16,905
2016		17,193
2017		21,929
2018-22		99,090
2023-27		97,430
2028-32		97,430
2033-35		30,039
Total	\$	404,608

Notes to the Financial Statements

I. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 13,203,046	\$ 420,508	\$ (321,342)	\$ 13,302,212
Construction in Progress	539,558	1,711,033	(485,034)	1,765,557
Depreciable Assets:				
Buildings & Structures	31,550,312	559,723	-	32,110,035
Improvements other than Buildings	53,527,340	16,183,734	(432,221)	69,278,853
Equipment & Automotive	9,970,543	472,615	(258,752)	10,184,406
Totals	108,790,799	19,347,613	(1,497,349)	126,641,063
Less Accumulated Depreciation:				
Buildings & Structures	(5,725,237)	(682,399)	-	(6,407,636)
Improvements other than Buildings	(12,382,123)	(878,914)	432,221	(12,828,816)
Equipment & Automotive	(5,377,281)	(935,487)	216,806	(6,095,962)
Total Accumulated Depreciation	(23,484,641)	(2,496,800)	649,027	(25,332,414)
Governmental Activities Capital Assets, net	\$ 85,306,158	\$ 16,850,813	\$ (848,322)	\$ 101,308,649

*Accumulated Depreciation additions amount of \$2,496,800 includes \$2,489,206 of depreciation expense and \$7,594 of accumulated depreciation on assets transferred in from other funds.

Business-Type Activities

Non-Depreciable Assets				
Land	\$ 2,963,989	\$ 11,850	\$ -	\$ 2,975,839
Construction in Progress	841,275	1,417,365	(837,425)	1,421,215
Depreciable Assets:				
Intangible Property	470,654	-	-	470,654
Buildings & Structures	66,693,491	127,690	(176,704)	66,644,477
Improvements Other than Buildings	140,580,163	12,585,227	(1,118,882)	152,046,508
Equipment & Automotive	9,815,034	1,043,372	(349,581)	10,508,825
Totals at Historical Cost	221,364,606	15,185,504	(2,482,592)	234,067,518
Less Accumulated Depreciation:				
Amortization of Intangible Property	(193,186)	(32,517)	-	(225,703)
Buildings & Structures	(17,180,470)	(1,777,185)	141,758	(18,815,897)
Improvements Other than Buildings	(53,276,680)	(3,514,176)	653,376	(56,137,480)
Equipment & Automotive	(5,944,198)	(764,183)	349,581	(6,358,800)
Total Accumulated Depreciation	(76,594,534)	(6,088,061)	1,144,715	(81,537,880)
Business-Type Activities Capital Assets, net	\$ 144,770,072	\$ 9,097,443	\$ (1,337,877)	\$ 152,529,638

*The decrease in accumulated depreciation for any given class of assets may exceed the decrease reported in those assets due to asset transfers from the business-type funds to the governmental funds.

Notes to the Financial Statements

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

Governmental Activities:	Depreciation Expense
General Government	\$ 56,506
Public Safety	682,969
Public Works	793,435
Culture & Recreation	749,580
Conservation & Development	206,716
Total Depreciation Expense - Governmental Activities	\$ 2,489,206
Business-Type Activities:	
Sewer	\$ 1,463,219
Solid Waste	461,241
Airport	347,023
Electric	1,536,322
Water	1,679,510
Gas	600,746
Total Depreciation Expense - Business-Type Activities	\$ 6,088,061

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

Project	Contracted Amount	Expended to 12/31/12	Committed
Governmental Funds:			
4 th Ave S to 10 Ave N Bike Trail	\$ -	\$ 7,960	\$ -
Phosphorus Plant Remodel	237,719	40,829	196,890
Children's Zoo/Otter Exhibit	1,769,400	152,643	1,616,757
Main Fire Station Remodel	2,452,300	1,564,125	888,175
	<u>4,459,419</u>	<u>1,765,557</u>	<u>2,701,822</u>
Enterprise Funds:			
Airport FBP Ramp Reconstruction	876,642	822,408	54,234
Water Tower Reconstruction Project	2,191,020	45,176	2,145,844
Electric System Force Account Projects	-	527,290	-
Water System Force Account Projects	-	26,341	-
	<u>3,067,662</u>	<u>1,421,215</u>	<u>2,200,078</u>
Total Primary Government	<u>\$ 7,527,081</u>	<u>\$ 3,186,772</u>	<u>\$ 4,901,900</u>

Notes to the Financial Statements

J. Long-Term Debt

Long-term debt consists of bonded indebtedness, installment purchase contracts, capital leases, compensated absences, and other post employment benefits. A summary of long-term debt issued and retired during 2012 and outstanding balances as of December 31, 2012 follows:

	Balance Outstanding 12/31/2011	Additions During 2012	Deletions During 2012	Balance Outstanding 12/31/2012	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	\$ 919,879	\$ -	\$ 165,301	\$ 754,578	\$ 174,152
State Revolving Fund-Loan #5: Original Issue \$2,055,000; 3.5% Interest, Due in 2025	1,600,233	-	96,703	1,503,530	100,133
State Revolving Fund-Loan #7 CW; Original Issue \$847,170; 2.25% interest; Due in 2029	718,399	-	34,491	683,908	35,274
State Revolving Fund-Loan #7 NPS; Original Issue \$81,205; 2.25% interest; Due in 2029	72,079	-	3,460	68,619	3,539
State Revolving Fund-Loan #9 CW; Original Issue \$16,446,000; 3.0% interest; due in 2031	10,211,663	117,270	526,190	9,802,743	400,672
State Revolving Fund-Loan Drinking Water; Original Issue \$23,760,000; 3.25% interest; Due in 2030	23,163,397	-	912,881	22,250,516	942,913
Total Loans Payable				<u>35,063,894</u>	<u>1,656,683</u>
Compensated Absences Payable	1,368,935	605,518	587,008	1,387,445	346,862
Other Post Employment Benefits (OPEB)	89,094	62,411	42,425	109,080	-
Closure/Post Closure Costs	332,139	98,885	-	431,024	-
TOTAL BUSINESS-TYPE ACTIVITIES				<u>36,991,443</u>	<u>2,003,545</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	4,415,000	-	300,000	4,115,000	315,000
Total GO Bonds				<u>4,115,000</u>	<u>315,000</u>
2003 Sales Tax Revenue Bond – CIP Sewer Proj; Original Issue \$1,905,000 2.5-4.05% interest; Due in 2013	435,000	-	435,000	-	-
2004 Sales Tax Revenue Bond – Family Aquatic Center; Original Issue \$5,000,000; 2.25-4.6% interest; Due in 2024	3,670,000	-	3,670,000	-	-
2006 Sales Tax Revenue Bond – Library Expansion Project; Original Issue \$4,985,000; 3.35-4.55% interest; due in 2026	3,985,000	-	200,000	3,785,000	205,000
2012 Sales Tax Revenue - Refunding Bond – CIP Sewer Project & Family Aquatic Center \$4,165,000; 0.4-2.7% interest; due in 2024	-	4,165,000	525,000	3,640,000	315,000
Total Sales Tax Revenue Bonds				<u>7,425,000</u>	<u>520,000</u>
Loans Payable					
State Revolving Fund Loan #6-CW; Original Issue \$1,189,145; 2.25% interest; due in 2029	1,044,257	-	49,272	994,985	50,390
State Revolving Fund Loan #6-NPS; Original Issue \$113,985; 2.25% interest; due in 2028	98,760	-	4,912	93,848	5,024
State Revolving Fund-Loan #8-CW; Original Issue \$612,877; 2.25% interest; due in 2029	466,037	-	22,375	443,662	22,883
State Revolving Fund-Loan #8-NPS; Original Issue \$58,747; 2.25% interest; due in 2029	52,145	-	2,504	49,641	2,560
State Revolving Fund-Loan #10-CW; Original Issue \$3,330,000; 3.0% interest; due in 2031	2,636,608	-	101,330	2,535,278	104,177
State Revolving Fund-Loan #11-CW; Original Issue \$815,000; 3.0% interest; due in 2032	192,293	-	3,539	188,754	7,239
Total Loans Payable				<u>4,306,168</u>	<u>192,273</u>

City of Watertown
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Notes to the Financial Statements

LONG-TERM DEBT (continued)	Balance Outstanding 12/31/2011	Additions During 2012	Deletions During 2012	Balance Outstanding 12/31/2012	Due Within One Year
Long-Term Capital Leases					
Fire Truck Lease – Leasing 2 Inc. Original Issue \$645,458; 4.46% interest	420,445	-	62,660	357,785	65,454
Golf Cart Lease – DeLage Landen Public Finance LLC; 4.45% interest; Original Issue \$160,448	123,059	-	18,416	104,643	19,262
Total Long-Term Capital Leases				<u>462,428</u>	<u>84,716</u>
Compensated Absences Payable					
General Fund	1,119,273	570,354	525,666	1,163,961	290,990
Special Revenue Funds	346,604	165,194	168,152	343,646	85,912
Other Post Employment Benefits (OPEB)					
General Fund	122,858	82,100	44,519	160,439	-
Special Revenue Funds	38,797	28,222	15,303	51,716	-
				<u>1,719,762</u>	<u>376,902</u>
TOTAL GOVERNMENTAL ACTIVITIES				<u>18,028,358</u>	<u>1,488,891</u>
TOTAL OF BONDS, INSTALLMENT CONTRACTS & CAPITAL LEASES				<u>\$ 55,019,801</u>	<u>\$ 3,492,436</u>

*Compensated absences in the Governmental Funds have typically been liquidated from the General, Park, Recreation & Forestry, Recreation Center, Upper Big Sioux Watershed 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
2013	\$ 315,000	\$ 110,390	\$ 425,390
2014	330,000	106,452	436,452
2015	350,000	101,008	451,008
2016	375,000	93,657	468,657
2017	395,000	84,845	479,845
2018-22	2,350,000	238,185	2,588,185
Totals	<u>\$ 4,115,000</u>	<u>\$ 734,537</u>	<u>\$ 4,849,537</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.

In 2012, the City issued \$4,165,000 in Sales Tax Revenue Refunding Bonds, Series 2012 with an interest rate ranging from 0.4-2.7%, to pay off 2003 and 2004 Sales Tax Revenue Bonds of which \$4,105,000 will be paid with refunding bond proceeds.

Notes to the Financial Statements

The proceeds of the refunding issue in the amount of \$4,258,943 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements of the City.

The City refunded the debt to reduce its total debt service payments over the next 13 years by \$446,104 and to obtain an economic gain of \$389,158.

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

2006 Sales Tax Revenue Bonds (Library)				2012 Sales Tax Revenue Bonds - Refunding			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2013	\$ 205,000	\$ 161,135	\$ 366,135	2013	\$ 315,000	\$ 64,610	\$ 379,610
2014	215,000	153,242	368,242	2014	280,000	62,248	342,248
2015	220,000	144,858	364,858	2015	280,000	59,727	339,727
2016	230,000	136,058	366,058	2016	280,000	56,648	336,648
2017	240,000	126,743	366,743	2017	285,000	53,147	338,147
2018-22	1,360,000	476,100	1,836,100	2018-22	1,500,000	191,900	1,691,900
2023-27	1,315,000	152,187	1,467,187	2023-27	700,000	28,700	728,700
Totals	<u>\$3,785,000</u>	<u>\$1,350,323</u>	<u>\$ 5,135,323</u>	Totals	<u>\$3,640,000</u>	<u>\$ 516,980</u>	<u>\$ 4,156,980</u>

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. SRF Loan No. 9 was approved for \$16,446,000 to complete five sewer projects with 10% principal forgiveness. The drawdown amount on this loan was \$11,405,785 and had not been completed before December 31, 2012.

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

SRF Loan #3				SRF Loan #5			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2013	\$ 174,152	\$ 36,224	\$ 210,376	2013	\$ 100,133	\$ 51,319	\$ 151,452
2014	183,476	26,899	210,375	2014	103,684	47,768	151,452
2015	193,300	17,076	210,376	2015	107,360	44,091	151,451
2016	203,650	6,726	210,376	2016	111,168	40,284	151,452
Totals	<u>\$ 754,578</u>	<u>\$ 86,925</u>	<u>\$ 841,503</u>	2017	115,110	36,342	151,452
				2018-22	639,752	117,504	757,256
				2023-27	326,323	14,442	340,765
				Totals	<u>\$1,503,530</u>	<u>\$ 351,750</u>	<u>\$1,855,280</u>

Notes to the Financial Statements

SRF Loan #7				SRF Loan #7-NPS			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2013	\$ 35,274	\$ 15,091	\$ 50,365	2013	\$ 3,539	\$ 1,514	\$ 5,053
2014	36,074	14,291	50,365	2014	3,619	1,434	5,053
2015	36,893	13,473	50,366	2015	3,701	1,352	5,053
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
2018-22	206,466	45,360	251,826	2018-22	20,716	4,551	25,267
2023-27	230,977	20,849	251,826	2023-27	23,175	2,092	25,267
2028-32	61,908	1,049	62,957	2028-32	6,212	105	6,317
Totals	\$ 683,908	\$ 134,529	\$ 818,437	Totals	\$ 68,619	\$ 13,498	\$ 82,117

SRF Loan #9				Water System Revenue Bonds Series 2008			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2013	\$ 400,672	\$ 288,044	\$ 688,716	2013	\$ 942,913	\$ 711,727	\$ 1,654,640
2014	412,828	275,888	688,716	2014	973,934	680,707	1,654,641
2015	425,353	263,363	688,716	2015	1,005,974	648,667	1,654,641
2016	438,257	250,458	688,715	2016	1,039,069	615,572	1,654,641
2017	451,554	237,162	688,716	2017	1,073,253	581,388	1,654,641
2018-22	2,471,771	971,808	3,443,579	2018-22	5,919,697	2,353,507	8,273,204
2023-27	2,870,180	573,398	3,443,578	2023-27	6,959,646	1,313,558	8,273,204
2028-32	2,280,169	130,336	2,410,505	2028-32	4,336,030	214,232	4,550,262
Totals	\$9,750,784	\$2,990,457	\$12,741,241	Totals	\$22,250,516	\$ 7,119,358	\$29,369,874

The amortization schedule principal amount of \$9,750,784 on SRF Loan #9 does not include the 2012 drawdown requests of \$51,959 for expenses incurred before December 31, 2012.

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

Notes to the Financial Statements

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.

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			
Year	Principal	Interest	Total
2013	\$ 50,390	\$ 21,964	\$ 72,354
2014	51,534	20,820	72,354
2015	52,703	19,651	72,354
2016	53,899	18,455	72,354
2017	55,122	17,232	72,354
2018-22	294,947	66,824	361,771
2023-27	329,964	31,808	361,772
2028-32	106,426	2,105	108,531
Totals	\$ 994,985	\$ 198,859	\$ 1,193,844

SRF Loan #6 NPS			
Year	Principal	Interest	Total
2013	\$ 5,024	\$ 2,069	\$ 7,093
2014	5,138	1,955	7,093
2015	5,255	1,839	7,094
2016	5,373	1,720	7,093
2017	5,495	1,598	7,093
2018-22	29,406	6,060	35,466
2023-27	32,897	2,569	35,466
2028-32	5,260	60	5,320
Totals	\$ 93,848	\$ 17,870	\$ 117,718

SRF Loan #8 CW			
Year	Principal	Interest	Total
2013	\$ 22,883	\$ 9,790	\$ 32,673
2014	23,402	9,271	32,673
2015	23,933	8,740	32,673
2016	24,476	8,197	32,673
2017	25,031	7,642	32,673
2018-22	133,938	29,426	163,364
2023-27	149,838	13,525	163,363
2028-32	40,161	680	40,841
Total	\$ 443,662	\$ 87,271	\$ 530,933

SRF Loan #8 NPS			
Year	Principal	Interest	Total
2013	\$ 2,560	\$ 1,096	\$ 3,656
2014	2,618	1,037	3,655
2015	2,678	978	3,656
2016	2,739	917	3,656
2017	2,801	855	3,656
2018-22	14,986	3,293	18,279
2023-27	16,765	1,513	18,278
2028-32	4,494	76	4,570
Total	\$ 49,641	\$ 9,765	\$ 59,406

Notes to the Financial Statements

SRF Loan #10				SRF Loan #11			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2013	\$ 104,177	\$ 74,894	\$ 179,071	2013	\$ 7,239	\$ 5,582	\$ 12,821
2014	107,338	71,733	179,071	2014	7,459	5,362	12,821
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
2018-22	642,679	252,678	895,357	2018-22	44,659	19,446	64,105
2023-27	746,269	149,088	895,357	2023-27	51,856	12,248	64,104
2028-32	592,863	33,888	626,751	2028-32	53,780	3,913	57,693
Totals	\$ 2,535,278	\$ 777,542	\$ 3,312,820	Totals	\$ 188,754	\$ 61,252	\$ 250,006

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, 2012, is \$357,785. 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
2013	\$ 65,454	\$ 15,953	\$ 81,407
2014	68,372	13,034	81,406
2015	71,421	9,985	81,406
2016	74,606	6,801	81,407
2017	77,932	3,475	81,407
Totals	\$ 357,785	\$ 49,248	\$ 407,033

The City entered into a contract with NB Golf, LLC in 2010 for the purpose of acquiring 45 golf carts. The asset acquired through the capital lease is valued at \$160,448 and the principal balance remaining on this capital lease as of December 31, 2012, is \$104,643. The asset is included in the capital asset account, equipment and automotive, and is being depreciated. The golf carts were financed under an equipment lease agreement between the City and De Lage Landen Public Finance, LLC who has a security interest in the golf carts. Lease payments are made from the Parks, Recreation and Forestry Fund with annual debt service requirements to maturity for the capital lease as follows:

Capital Lease – Golf Carts			
Year	Principal	Interest	Total
2013	\$ 19,262	\$ 4,498	\$ 23,760
2014	85,381	3,629	89,010
Totals	\$ 104,643	\$ 8,127	\$ 112,770

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)
2012 Assessed Value	<u>\$ 1,334,980,885</u>		
Maximum Debt Capacity:		\$66,749,044	\$133,498,089
Existing Bonds:			
GO Refinancing Bonds (Event Center; 1-3.35% interest)	-	4,115,000	-
SRF Loan No. 3 (Wastewater Revenue Surcharge)	754,578	-	-
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,503,530	-	-
SRF Loan No. 7-CW (Wastewater Revenue Surcharge)	683,908	-	-
SRF Loan No. 7-NPS (Wastewater Revenue Surcharge)	68,618	-	-
SRF Loan No. 9-CW (Wastewater Revenue Surcharge)	9,802,743	-	-
SRF Loan Drinking Water (Water Revenue Surcharge)	22,250,516	-	-
SRF Loan No. 6-CW (Sales Tax)	-	994,985	-
SRF Loan No. 6-NPS (Sales Tax)	-	93,848	-
SRF Loan No. 8-CW (Sales Tax)	-	443,662	-
SRF Loan No. 8-NPS (Sales Tax)	-	49,641	-
SRF Loan No. 10-CW (Sales Tax)	-	2,535,278	-
SRF Loan No. 11-CW (Sales Tax)	-	188,754	-
2006 Sales Tax Revenue Bonds (3.35-4.55%)	-	3,785,000	-
2012 Sales Tax Revenue Bonds (0.4%-2.7%)	-	3,640,000	-
Total Bonded Debt	35,063,893	15,846,168	-
Other Debt:			
Capital Lease – Fire Truck	357,785	-	-
Capital Lease – Golf Carts	104,643	-	-
Total Other Debt	462,428	-	-
Total Debt	35,526,321	15,846,168	-
Available Debt Capacity	N/A	<u>\$50,902,876</u>	<u>\$133,498,089</u>

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, 2012.

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, 2012, there were three series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$4,567,005.

K. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the City to place a final cover on the landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2009 a new survey of the landfill was done and changes in estimates were made. The information presented in the financial statements use these new estimates. The \$431,024 reported as a liability for landfill closure and postclosure care costs at December 31, 2012, represents the cumulative amount reported to date based on the use of 22% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,459,776 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. The City expects to close the landfill in the year 2078. 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, 2012, investments of \$431,024 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>2012</u>	<u>2011</u>	<u>2010</u>
Closure/Postclosure Liability	\$431,024	\$332,139	\$283,172

L. Retirement Plan

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

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, 2012, 2011 and 2010 were \$854,038, \$844,614, and \$822,958 respectively, equal to the required contributions each year.

M. Other Postemployment Benefits

During fiscal 2008, the City adopted the provisions of GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded on December 31, 2012 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 261 active and 17 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	\$ 177,204
Interest on net OPEB obligation	10,030
Adjustment to annual required contribution	<u>(14,501)</u>
Annual OPEB cost (expense)	172,733
Contributions made	<u>(102,247)</u>
Increase in net OPEB obligation	70,486
Net OPEB obligation – beginning of year	<u>250,749</u>
Net OPEB obligation – end of year	<u>\$ 321,235</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, 2012, 2011 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$172,733	59.1%	\$321,235
2011	\$199,031	76.4%	\$250,749
2010	\$187,735	68.6%	\$203,751

Notes to the Financial Statements

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2012 was as follows:

Actuarial accrued liability (AAL)	\$ 1,471,636
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,471,636
Funded ratio (actuarial value of plan assets/ AAL)	0%
Covered payroll (active plan members)	\$ 12,752,071
UAAL as a percentage of covered payroll	11.5%

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, 2012 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 9% initially, reduced by decrements to an ultimate rate of 5% in 9 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.

N. 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 5. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2012, 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, 2012, 3 claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$2,725. At December 31, 2012, the estimated accrued liability was not a material amount. The City does not anticipate any changes in employment practices or elimination of any positions currently held. The history of unemployment payments indicates that most benefits were paid on temporary personnel.

B. Employee Health Insurance

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

C. Liability Insurance

The City purchases liability insurance for some risks related to torts and theft or damage to property from commercial insurance carriers. In addition, the City has obtained coverage for liability through the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made 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	\$ 161,077
Automobile Coverage	\$ 2,000,000	None	\$ 101,151
Public Officials Liability	\$ 2,000,000	\$ 2,500	\$ 16,204
Law Enforcement Liability	\$ 2,000,000	\$ 3,000	\$ 20,965
Commercial Insurance Carriers			
Buildings, Contents, Boiler & Machinery	Replacement Cost	\$ 10,000	\$ 76,595
Airport Liability	\$ 10,000,000	None	\$ 7,870
Official & Employee Bond	\$ 250,000	\$ 1,000	\$ 1,922

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

End of City's First Full Year	(2007)	50%
End of City's Second Full Year	(2008)	60%
End of City's Third Full Year	(2009)	70%
End of City's Fourth Full Year	(2010)	80%
End of City's Fifth Full Year	(2011)	90%
End of City's Sixth Full Year	(2012)	100%

As of December 31, 2012, the City of Watertown has a vested balance in the cumulative reserve fund of \$330,054. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Notes to the Financial Statements

D. Workmen's Compensation

The City is a member of South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The 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 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.

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City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 2,814,442	\$ 2,814,442	\$ 2,806,910	\$ (7,532)
Sales	6,048,000	6,048,000	6,802,708	754,708
Other Taxes	350,000	350,000	384,221	34,221
Licenses & Permits	196,650	196,650	270,639	73,989
Intergovernmental	990,600	990,600	1,166,891	176,291
Charges for Goods and Services	956,510	956,510	1,165,082	208,572
Fines and Forfeits	58,740	58,740	43,911	(14,829)
Interest Revenue	60,000	60,000	23,293	(36,707)
Special Assessments	31,000	31,000	169,101	138,101
Donations	2,500	2,500	6,770	4,270
Miscellaneous	178,300	178,300	195,558	17,258
Total Revenues	<u>11,686,742</u>	<u>11,686,742</u>	<u>13,035,084</u>	<u>1,348,342</u>
EXPENDITURES				
General Government				
Legislative	576,075	561,075	252,483	308,592
Financial Administration	706,290	706,290	668,441	37,849
Other	843,270	893,720	837,712	56,008
Public Safety				
Police	3,203,560	3,270,345	3,140,394	129,951
Fire Fighting & Prevention	878,930	952,330	874,777	77,553
Ambulance Service	2,190,050	2,199,850	1,971,257	228,593
Public Works				
Highways, Streets and Roadways	1,644,350	1,900,200	1,803,091	97,109
Snow Removal	411,710	411,710	185,173	226,537
Street Lighting	474,900	474,900	477,635	(2,735)
Storm Sewer/Flood/Control	59,350	59,350	36,974	22,376
Cemetery	167,630	167,630	164,021	3,609
Health and Welfare				
Mosquito Control	89,600	89,600	51,181	38,419
Animal Control	77,250	77,250	-	77,250
Culture and Recreation				
Forestry	181,560	181,560	173,668	7,892
Library	792,265	794,515	768,592	25,923
Conservation and Development				
Building Services	274,650	274,650	262,441	12,209
Total Expenditures	<u>12,571,440</u>	<u>13,014,975</u>	<u>11,667,840</u>	<u>1,347,135</u>
Excess (deficiency) of revenues over expenditures	<u>(884,698)</u>	<u>(1,328,233)</u>	<u>1,367,244</u>	<u>2,695,477</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	-	-	103,793	103,793
Transfers In	1,653,200	1,653,200	1,653,200	-
Transfers (Out)	(1,676,000)	(1,676,000)	(1,676,000)	-
Total other financing sources (uses)	(22,800)	(22,800)	80,993	103,793
Net Change in fund balances	(907,498)	(1,351,033)	1,448,237	2,799,270
Fund Balances - beginning	5,790,703	5,790,703	5,790,703	-
Fund Balances - ending	\$ 4,883,205	\$ 4,439,670	\$ 7,238,940	\$ 2,799,270

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 6,048,000	\$ 6,048,000	\$ 6,800,967	\$ 752,967
Intergovernmental	25,000	25,000	752,412	727,412
Interest Revenue	200,000	200,000	513,752	313,752
Special Assessments	-	-	53,794	53,794
Donations/Contributions	325,000	325,000	19,833	(305,167)
Miscellaneous	-	-	19,563	19,563
Total Revenues	<u>6,598,000</u>	<u>6,598,000</u>	<u>8,160,321</u>	<u>1,562,321</u>
EXPENDITURES				
Public Safety				
Public Safety Improvements	2,500,000	3,195,475	1,802,543	1,392,932
Public Works				
Street System Improvements	1,245,000	1,994,790	2,284,504	(289,714)
Storm Sewer/Flood Projects	400,000	1,700,000	424,015	1,275,985
Culture and Recreation				
Recreational Facility Improvements	2,051,220	2,567,800	568,255	1,999,545
Conservation and Development				
Industrial Park & Other Infrastructure	45,000	515,100	142,438	372,662
Debt Service	<u>1,335,500</u>	<u>1,506,700</u>	<u>1,387,483</u>	<u>119,217</u>
Total Expenditures	<u>7,576,720</u>	<u>11,479,865</u>	<u>6,609,238</u>	<u>4,870,627</u>
Excess (deficiency) of revenues over expenditures	<u>(978,720)</u>	<u>(4,881,865)</u>	<u>1,551,083</u>	<u>6,432,948</u>
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	48,500	48,500
Refunding Bond Issuance	-	-	4,165,000	4,165,000
Payment to Refunded Bond Escrow Agent	-	-	(4,258,943)	(4,258,943)
Transfers Out	<u>(320,000)</u>	<u>(320,000)</u>	<u>(320,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(320,000)</u>	<u>(320,000)</u>	<u>(365,443)</u>	<u>(45,443)</u>
Net Change in fund balances	(1,298,720)	(5,201,865)	1,185,640	6,387,505
Fund Balances - beginning	<u>20,535,436</u>	<u>20,535,436</u>	<u>20,535,436</u>	<u>-</u>
Fund Balances - ending	<u>\$ 19,236,716</u>	<u>\$ 15,333,571</u>	<u>\$ 21,721,076</u>	<u>\$ 6,387,505</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, 2012.

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, 2012

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
1/1/2012	-	1,471,636	1,471,636	0.0%	12,752,071	11.5%
1/1/2010	-	1,862,964	1,862,964	0.0%	11,629,201	16.0%
1/1/2008	-	1,616,278	1,616,278	0.0%	10,636,883	15.2%

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Combining Balance Sheet - Nonmajor Governmental Funds

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
ASSETS			
Pooled Cash and Investments	\$ 1,596,627	\$ 246,970	\$ 1,843,597
Property Taxes Receivable	-	8,413	8,413
Sales Tax Receivable	112,241	-	112,241
Accounts Receivable	80,255	-	80,255
Special Assessments Receivable	1,622	-	1,622
Interest Receivable	1,776	347	2,123
Loans Receivable	105,199	-	105,199
Deferred Receivable	84,000	-	84,000
Due From Other Governments	73,598	-	73,598
Inventory	23,045	-	23,045
Prepaid Items	666	-	666
Restricted Assets:			
Pooled Cash and Investments	20,421	-	20,421
Total assets	<u>2,099,450</u>	<u>255,730</u>	<u>2,355,180</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	202,144	-	202,144
Advance From Other Fund	6,450,996	-	6,450,996
Total liabilities	<u>6,653,140</u>	<u>-</u>	<u>6,653,140</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue	103,132	347	103,479
Unearned Revenue	84,000	-	84,000
Total Deferred Inflows of Resources	<u>187,132</u>	<u>347</u>	<u>187,479</u>
FUND BALANCES			
Nonspendable for:			
Inventory	23,045	-	23,045
Restricted for:			
Debt Service	-	255,383	255,383
BBB Sales Tax	150,438	-	150,438
Event Center Theater	4,569	-	4,569
E-911 Services	181,465	-	181,465
Library	457,102	-	457,102
Urban Renewal Loans	15,852	-	15,852
Casualty Reserve	65,919	-	65,919
Assigned for:			
Park Development	68,656	-	68,656
Golf Course	46,939	-	46,939
Zoo Improvements	12,114	-	12,114
Other Purposes	588,675	-	588,675
Unassigned:	(6,355,596)	-	(6,355,596)
Total fund balances	<u>(4,740,822)</u>	<u>255,383</u>	<u>(4,485,439)</u>
Total liabilities and fund balances	<u>\$ 2,099,450</u>	<u>\$ 255,730</u>	<u>\$ 2,355,180</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
REVENUES			
Tax Revenue			
Property	\$ 421,495	\$ 434,380	\$ 855,875
Sales	698,051	-	698,051
Other Taxes	180,583	-	180,583
Intergovernmental	160,222	-	160,222
Charges for Goods and Services	2,196,372	-	2,196,372
Fines and Forfeits	18,558	-	18,558
Interest Revenue	9,037	1,648	10,685
Rentals	129,369	-	129,369
Special Assessments	50,387	-	50,387
Donations/Contributions	349,491	-	349,491
Miscellaneous	91,415	-	91,415
Total revenues	<u>4,304,980</u>	<u>436,028</u>	<u>4,741,008</u>
EXPENDITURES			
Current:			
General Government	406,651	-	406,651
Public Safety	727,857	-	727,857
Culture and Recreation	3,981,451	-	3,981,451
Conservation and Development	362,263	-	362,263
Debt Service	474,345	413,890	888,235
Total expenditures	<u>5,952,567</u>	<u>413,890</u>	<u>6,366,457</u>
Excess (deficiency) of revenues over expenditures	<u>(1,647,587)</u>	<u>22,138</u>	<u>(1,625,449)</u>
OTHER FINANCING SOURCES (USES)			
Sale of Municipal Property	6,821	-	6,821
Transfers In	1,779,000	-	1,779,000
Transfers Out	(58,000)	-	(58,000)
Total other financing sources (uses)	<u>1,727,821</u>	<u>-</u>	<u>1,727,821</u>
Net Change in Fund Balances	80,234	22,138	102,372
Fund balances -- beginning	(4,821,056)	233,245	(4,587,811)
Fund balances -- ending	<u>\$ (4,740,822)</u>	<u>\$ 255,383</u>	<u>\$ (4,485,439)</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
 Year Ended December 31, 2012

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	\$ 461,975	\$ 140,358	\$ 120,638	\$ 66,464	\$ 135,531	\$ 462,751
Sales Tax Receivable	-	112,241	-	-	-	-
Accounts Receivable	-	-	-	-	80,255	-
Special Assessments Receivable	-	-	-	-	-	-
Interest Receivable	561	157	104	40	178	459
Loans Receivable	-	-	-	-	-	-
Deferred Receivable	84,000	-	-	-	-	-
Due From Other Governments	-	-	-	-	13,158	-
Inventory	23,045	-	-	-	-	-
Prepaid Items	-	-	666	-	-	-
Restricted Cash	-	4,569	-	-	-	-
Total assets	569,581	257,325	121,408	66,504	229,122	463,210
LIABILITIES AND FUND BALANCES						
LIABILITES						
Accounts Payable	76,094	45,097	33,672	545	3,187	5,649
Advance From Other Fund	-	-	-	-	-	-
Total liabilities	76,094	45,097	33,672	545	3,187	5,649
DEFERRED INFLOWS OF RESOURCES						
Deferred Revenue	561	57,221	104	40	44,470	459
Unearned Revenue	84,000	-	-	-	-	-
Total Deffered Inflows of Resources	84,561	57,221	104	40	44,470	459
FUND BALANCES						
Nonspendable for:						
Inventory	23,045	-	-	-	-	-
Restricted for:						
BBB Sales Tax	-	150,438	-	-	-	-
Event Center Theater	-	4,569	-	-	-	-
E-911 Services	-	-	-	-	181,465	-
Library	-	-	-	-	-	457,102
Urban Renewal Loans	-	-	-	-	-	-
Casualty Reserve	-	-	-	65,919	-	-
Assigned for:						
Park Development	68,656	-	-	-	-	-
Golf Course	46,939	-	-	-	-	-
Zoo Improvements	12,114	-	-	-	-	-
Other Purposes	258,172	-	87,632	-	-	-
Unassigned:	-	-	-	-	-	-
Total fund balances	408,926	155,007	87,632	65,919	181,465	457,102
Total liabilities and fund balances	\$ 569,581	\$ 257,325	\$ 121,408	\$ 66,504	\$ 229,122	\$ 463,210

City of Watertown
 Comprehensive Annual Financial Report
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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
\$ 139,336	\$ 40,608	\$ 5,412	\$ 4,982	\$ 4,822	\$ 4,528	\$ 9,222	\$ 1,596,627
-	-	-	-	-	-	-	112,241
-	-	-	-	-	-	-	80,255
1,622	-	-	-	-	-	-	1,622
152	-	57	13	28	4	23	1,776
105,199	-	-	-	-	-	-	105,199
-	-	-	-	-	-	-	84,000
-	60,440	-	-	-	-	-	73,598
-	-	-	-	-	-	-	23,045
-	-	-	-	-	-	-	666
15,852	-	-	-	-	-	-	20,421
<u>262,161</u>	<u>101,048</u>	<u>5,469</u>	<u>4,995</u>	<u>4,850</u>	<u>4,532</u>	<u>9,245</u>	<u>2,099,450</u>
3,286	34,614	-	-	-	-	-	202,144
-	-	2,103,300	1,156,164	277,089	2,080,164	834,279	6,450,996
<u>3,286</u>	<u>34,614</u>	<u>2,103,300</u>	<u>1,156,164</u>	<u>277,089</u>	<u>2,080,164</u>	<u>834,279</u>	<u>6,653,140</u>
152	-	57	13	28	4	23	103,132
-	-	-	-	-	-	-	84,000
<u>152</u>	<u>-</u>	<u>57</u>	<u>13</u>	<u>28</u>	<u>4</u>	<u>23</u>	<u>187,132</u>
-	-	-	-	-	-	-	23,045
-	-	-	-	-	-	-	150,438
-	-	-	-	-	-	-	4,569
-	-	-	-	-	-	-	181,465
-	-	-	-	-	-	-	457,102
15,852	-	-	-	-	-	-	15,852
-	-	-	-	-	-	-	65,919
-	-	-	-	-	-	-	68,656
-	-	-	-	-	-	-	46,939
-	-	-	-	-	-	-	12,114
242,871	-	-	-	-	-	-	588,675
-	66,434	(2,097,888)	(1,151,182)	(272,267)	(2,075,636)	(825,057)	(6,355,596)
<u>258,723</u>	<u>66,434</u>	<u>(2,097,888)</u>	<u>(1,151,182)</u>	<u>(272,267)</u>	<u>(2,075,636)</u>	<u>(825,057)</u>	<u>(4,740,822)</u>
\$ 262,161	\$ 101,048	\$ 5,469	\$ 4,995	\$ 4,850	\$ 4,532	\$ 9,245	\$ 2,099,450

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

	Park & Recreation Fund	BBB Sales Tax Fund	Recreation Center Fund	Casualty Reserve Fund	E-911 Emergency Fund	Library Fines Fund
REVENUES						
Tax Revenue						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales	-	698,051	-	-	-	-
Other Taxes	-	-	-	-	180,583	-
Intergovernmental	12,750	-	-	-	-	750
Charges for Goods and Services	1,149,672	-	806,788	-	239,912	-
Fines and Forfeits	-	-	-	-	-	18,558
Interest Revenue	2,861	660	531	215	1,118	2,286
Rentals	119,880	-	6,789	-	-	-
Special Assessments	-	-	-	-	-	-
Donations/ Contributions	130,333	-	16,133	-	85,960	14,037
Miscellaneous	12,451	1,785	19,348	32,747	5,773	16,331
Total revenues	1,427,947	700,496	849,589	32,962	513,346	51,962
EXPENDITURES						
Current:						
General Government	-	406,106	-	545	-	-
Public Safety	-	-	-	-	727,857	-
Culture and Recreation	2,866,024	188,885	870,193	-	-	56,349
Conservation and Development	-	-	-	-	-	-
Debt Service	23,760	-	-	-	-	-
Total expenditures	2,889,784	594,991	870,193	545	727,857	56,349
Excess (deficiency) of revenues over expenditures	(1,461,837)	105,505	(20,604)	32,417	(214,511)	(4,387)
OTHER FINANCING SOURCES (USES)						
Sale of Municipal Property	6,800	-	21	-	-	-
Transfers In	1,458,000	-	21,000	-	160,000	-
Transfers Out	-	(58,000)	-	-	-	-
Total other financing sources (uses)	1,464,800	(58,000)	21,021	-	160,000	-
Net change in fund balances	2,963	47,505	417	32,417	(54,511)	(4,387)
Fund balances -- beginning	405,963	107,502	87,215	33,502	235,976	461,489
Fund balances -- ending	\$ 408,926	\$ 155,007	\$ 87,632	\$ 65,919	\$ 181,465	\$ 457,102

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balance-
 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
\$ -	\$ -	\$ 244,477	\$ 43,986	\$ 69,011	\$ 6,075	\$ 57,946	\$ 421,495
-	-	-	-	-	-	-	698,051
-	-	-	-	-	-	-	180,583
-	146,722	-	-	-	-	-	160,222
-	-	-	-	-	-	-	2,196,372
-	-	-	-	-	-	-	18,558
813	-	249	56	145	27	76	9,037
2,700	-	-	-	-	-	-	129,369
50,387	-	-	-	-	-	-	50,387
-	103,028	-	-	-	-	-	349,491
2,980	-	-	-	-	-	-	91,415
56,880	249,750	244,726	44,042	69,156	6,102	58,022	4,304,980
-	-	-	-	-	-	-	406,651
-	-	-	-	-	-	-	727,857
-	-	-	-	-	-	-	3,981,451
39,953	322,310	-	-	-	-	-	362,263
-	-	152,590	79,214	21,170	138,820	58,791	474,345
39,953	322,310	152,590	79,214	21,170	138,820	58,791	5,952,567
16,927	(72,560)	92,136	(35,172)	47,986	(132,718)	(769)	(1,647,587)
-	-	-	-	-	-	-	6,821
-	140,000	-	-	-	-	-	1,779,000
-	-	-	-	-	-	-	(58,000)
-	140,000	-	-	-	-	-	1,727,821
16,927	67,440	92,136	(35,172)	47,986	(132,718)	(769)	80,234
241,796	(1,006)	(2,190,024)	(1,116,010)	(320,253)	(1,942,918)	(824,288)	(4,821,056)
\$ 258,723	\$ 66,434	\$ (2,097,888)	\$ (1,151,182)	\$ (272,267)	\$ (2,075,636)	\$ (825,057)	\$ (4,740,822)

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Goods and Services	\$ 1,143,100	\$ 1,143,100	\$ 1,149,672	\$ 6,572
Intergovernmental	-	-	12,750	12,750
Interest Revenue	7,500	7,500	2,861	(4,639)
Rentals	119,225	119,225	119,880	655
Donations	108,000	108,000	130,333	22,333
Miscellaneous	8,450	8,450	12,451	4,001
Total revenues	<u>1,386,275</u>	<u>1,386,275</u>	<u>1,427,947</u>	<u>41,672</u>
EXPENDITURES				
Culture and Recreation	3,002,157	3,041,307	2,866,024	175,283
Debt Service	23,760	23,760	23,760	-
Total expenditures	<u>3,025,917</u>	<u>3,065,067</u>	<u>2,889,784</u>	<u>175,283</u>
Excess (deficiency) of revenues over expenditures	<u>(1,639,642)</u>	<u>(1,678,792)</u>	<u>(1,461,837)</u>	<u>216,955</u>
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	3,000	3,000	6,800	3,800
Transfers In	1,458,000	1,458,000	1,458,000	-
Total other financing sources (uses)	<u>1,461,000</u>	<u>1,461,000</u>	<u>1,464,800</u>	<u>3,800</u>
Net change in fund balances	(178,642)	(217,792)	2,963	220,755
Fund balances -- beginning	405,963	405,963	405,963	-
Fund balances -- ending	<u>\$ 227,321</u>	<u>\$ 188,171</u>	<u>\$ 408,926</u>	<u>\$ 220,755</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	\$ 650,000	\$ 650,000	\$ 698,051	\$ 48,051
Interest Revenue	750	750	660	(90)
Miscellaneous	-	-	1,785	1,785
Total revenues	<u>650,750</u>	<u>650,750</u>	<u>700,496</u>	<u>49,746</u>
EXPENDITURES				
General Government	418,250	419,870	406,106	13,764
Culture and Recreation	188,885	188,885	188,885	-
Total expenditures	<u>607,135</u>	<u>608,755</u>	<u>594,991</u>	<u>13,764</u>
Excess (deficiency) of revenues over expenditures	<u>43,615</u>	<u>41,995</u>	<u>105,505</u>	<u>63,510</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(58,000)	(58,000)	(58,000)	-
Total other financing sources (uses)	<u>(58,000)</u>	<u>(58,000)</u>	<u>(58,000)</u>	<u>-</u>
Net change in fund balances	(14,385)	(16,005)	47,505	63,510
Fund balances -- beginning	<u>107,502</u>	<u>107,502</u>	<u>107,502</u>	<u>-</u>
Fund balances -- ending	<u>\$ 93,117</u>	<u>\$ 91,497</u>	<u>\$ 155,007</u>	<u>\$ 63,510</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	\$ 801,000	\$ 801,000	\$ 806,788	\$ 5,788
Interest Revenue	3,000	3,000	531	(2,469)
Rentals	9,000	9,000	6,789	(2,211)
Donations	6,000	6,000	16,133	10,133
Miscellaneous	21,000	21,000	19,348	(1,652)
Total revenues	840,000	840,000	849,589	9,589
EXPENDITURES				
Culture and Recreation	865,210	885,060	870,193	14,867
Total expenditures	865,210	885,060	870,193	14,867
Excess (deficiency) of revenues over expenditures	(25,210)	(45,060)	(20,604)	24,456
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	21	21
Transfers In	21,000	21,000	21,000	-
Total other financing sources (uses)	21,000	21,000	21,021	21
Net change in fund balances	(4,210)	(24,060)	417	24,477
Fund balances -- beginning	87,215	87,215	87,215	-
Fund balances -- ending	\$ 83,005	\$ 63,155	\$ 87,632	\$ 24,477

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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	\$ 500	\$ 500	\$ 215	\$ (285)
Other Miscellaneous	1,500	1,500	32,747	31,247
Total revenues	2,000	2,000	32,962	30,962
EXPENDITURES				
General Government	34,500	34,500	545	33,955
Total expenditures	34,500	34,500	545	33,955
Excess (deficiency) of revenues over expenditures	(32,500)	(32,500)	32,417	64,917
Net change in fund balances	(32,500)	(32,500)	32,417	64,917
Fund balances -- beginning	33,502	33,502	33,502	-
Fund balances -- ending	\$ 1,002	\$ 1,002	\$ 65,919	\$ 64,917

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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				
Tax Revenue				
Other Taxes	\$ 250,000	\$ 250,000	\$ 180,583	\$ (69,417)
Charges for Goods and Services	-	-	239,912	239,912
Interest Revenue	2,000	2,000	1,118	(882)
Contributions	171,920	171,920	85,960	(85,960)
Miscellaneous	6,000	6,000	5,773	(227)
Total revenues	<u>429,920</u>	<u>429,920</u>	<u>513,346</u>	<u>83,426</u>
EXPENDITURES				
Public Safety	<u>759,600</u>	<u>759,600</u>	<u>727,857</u>	<u>31,743</u>
Total expenditures	<u>759,600</u>	<u>759,600</u>	<u>727,857</u>	<u>31,743</u>
Excess (deficiency) of revenues over expenditures	<u>(329,680)</u>	<u>(329,680)</u>	<u>(214,511)</u>	<u>115,169</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>160,000</u>	<u>160,000</u>	<u>160,000</u>	<u>-</u>
Total other financing sources (uses)	<u>160,000</u>	<u>160,000</u>	<u>160,000</u>	<u>-</u>
Net change in fund balances	<u>(169,680)</u>	<u>(169,680)</u>	<u>(54,511)</u>	<u>115,169</u>
Fund balances -- beginning	<u>235,976</u>	<u>235,976</u>	<u>235,976</u>	<u>-</u>
Fund balances -- ending	<u>\$ 66,296</u>	<u>\$ 66,296</u>	<u>\$ 181,465</u>	<u>\$ 115,169</u>

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 750	\$ 750
Fines and Forfeits	21,500	21,500	18,558	(2,942)
Interest Revenue	5,000	5,000	2,286	(2,714)
Donations/Contributions	-	-	14,037	14,037
Miscellaneous	15,000	15,000	16,331	1,331
Total revenues	41,500	41,500	51,962	10,462
EXPENDITURES				
Culture and Recreation	45,170	73,970	56,349	17,621
Total expenditures	45,170	73,970	56,349	17,621
Excess (deficiency) of revenues over expenditures	(3,670)	(32,470)	(4,387)	28,083
Net change in fund balances	(3,670)	(32,470)	(4,387)	28,083
Fund balances -- beginning	461,489	461,489	461,489	-
Fund balances -- ending	\$ 457,819	\$ 429,019	\$ 457,102	\$ 28,083

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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	\$ 2,200	\$ 2,200	\$ 813	\$ (1,387)
Rentals	2,400	2,400	2,700	300
Special Assessments	48,000	48,000	50,387	2,387
Miscellaneous	1,600	1,600	2,980	1,380
Total revenues	<u>54,200</u>	<u>54,200</u>	<u>56,880</u>	<u>2,680</u>
EXPENDITURES				
Conservation and Development	46,260	46,260	39,953	6,307
Total expenditures	<u>46,260</u>	<u>46,260</u>	<u>39,953</u>	<u>6,307</u>
Excess (deficiency) of revenues over expenditures	<u>7,940</u>	<u>7,940</u>	<u>16,927</u>	<u>8,987</u>
Net change in fund balances	7,940	7,940	16,927	8,987
Fund balances -- beginning	241,796	241,796	241,796	-
Fund balances -- ending	<u>\$ 249,736</u>	<u>\$ 249,736</u>	<u>\$ 258,723</u>	<u>\$ 8,987</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	\$ 325,000	\$ 325,000	\$ 146,722	\$ (178,278)
Donations/Contributions	34,000	34,000	103,028	69,028
Total revenues	<u>359,000</u>	<u>359,000</u>	<u>249,750</u>	<u>(109,250)</u>
EXPENDITURES				
Conservation and Development	521,890	521,890	322,310	199,580
Total expenditures	<u>521,890</u>	<u>521,890</u>	<u>322,310</u>	<u>199,580</u>
Excess (deficiency) of revenues over expenditures	<u>(162,890)</u>	<u>(162,890)</u>	<u>(72,560)</u>	<u>90,330</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	140,000	140,000	140,000	-
Total other financing sources (uses)	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>-</u>
Net change in fund balances	(22,890)	(22,890)	67,440	90,330
Fund balances -- beginning	(1,006)	(1,006)	(1,006)	-
Fund balances -- ending	<u>\$ (23,896)</u>	<u>\$ (23,896)</u>	<u>\$ 66,434</u>	<u>\$ 90,330</u>

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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	\$ 245,000	\$ 245,000	\$ 244,477	\$ (523)
Interest Revenue	200	200	249	49
Total Revenues	<u>245,200</u>	<u>245,200</u>	<u>244,726</u>	<u>(474)</u>
EXPENDITURES				
Debt Service	<u>154,300</u>	<u>154,300</u>	<u>152,590</u>	<u>1,710</u>
Total Expenditures	<u>154,300</u>	<u>154,300</u>	<u>152,590</u>	<u>1,710</u>
Excess (deficiency) of revenues over expenditures	<u>90,900</u>	<u>90,900</u>	<u>92,136</u>	<u>1,236</u>
Net Change in fund balances	90,900	90,900	92,136	1,236
Fund Balances -- beginning	(2,190,024)	(2,190,024)	(2,190,024)	-
Fund Balances -- ending	<u>\$ (2,099,124)</u>	<u>\$ (2,099,124)</u>	<u>\$ (2,097,888)</u>	<u>\$ 1,236</u>

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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	\$ 45,130	\$ 45,130	\$ 43,986	\$ (1,144)
Interest Revenue	65	65	56	(9)
Total Revenues	45,195	45,195	44,042	(1,153)
EXPENDITURES				
Debt Service	79,400	79,400	79,214	186
Total Expenditures	79,400	79,400	79,214	186
Excess (deficiency) of revenues over expenditures	(34,205)	(34,205)	(35,172)	(967)
Net Change in fund balances	(34,205)	(34,205)	(35,172)	(967)
Fund Balances -- beginning	(1,116,010)	(1,116,010)	(1,116,010)	-
Fund Balances -- ending	\$ (1,150,215)	\$ (1,150,215)	\$ (1,151,182)	\$ (967)

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 70,860	\$ 70,860	\$ 69,011	\$ (1,849)
Interest Revenue	70	70	145	75
Total revenues	70,930	70,930	69,156	(1,774)
EXPENDITURES				
Debt Service	22,100	22,100	21,170	930
Total expenditures	22,100	22,100	21,170	930
Excess (deficiency) of revenues over expenditures	48,830	48,830	47,986	(844)
Net change in fund balances	48,830	48,830	47,986	(844)
Fund balances -- beginning	(320,253)	(320,253)	(320,253)	-
Fund balances -- ending	\$ (271,423)	\$ (271,423)	\$ (272,267)	\$ (844)

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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	\$ 5,250	\$ 5,250	\$ 6,075	\$ 825
Interest Revenue	-	-	27	27
Total revenues	5,250	5,250	6,102	852
EXPENDITURES				
Debt Service	61,425	129,325	138,820	(9,495)
Total expenditures	61,425	129,325	138,820	(9,495)
Excess (deficiency) of revenues over expenditures	(56,175)	(124,075)	(132,718)	(8,643)
Net change in fund balances	(56,175)	(124,075)	(132,718)	(8,643)
Fund balances -- beginning	(1,942,918)	(1,942,918)	(1,942,918)	-
Fund balances -- ending	\$ (1,999,093)	\$ (2,066,993)	\$ (2,075,636)	\$ (8,643)

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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	\$ 42,950	\$ 42,950	\$ 57,946	\$ 14,996
Interest Revenue	30	30	76	46
Total revenues	42,980	42,980	58,022	15,042
EXPENDITURES				
Debt Service	60,750	60,750	58,791	1,959
Total expenditures	60,750	60,750	58,791	1,959
Excess (deficiency) of revenues over expenditures	(17,770)	(17,770)	(769)	17,001
Net change in fund balances	(17,770)	(17,770)	(769)	17,001
Fund balances -- beginning	(824,288)	(824,288)	(824,288)	-
Fund balances -- ending	\$ (842,058)	\$ (842,058)	\$ (825,057)	\$ 17,001

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	\$ 246,970
Property Taxes Receivable	8,413
Interest Receivable	347
Total assets	<u>255,730</u>
LIABILITIES AND FUND BALANCES	
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenue	347
Total Deferred Inflows of Resources	<u>347</u>
FUND BALANCES	
Restricted for:	
Debt Service	255,383
Total fund balances	<u>255,383</u>
Total liabilities and fund balances	<u>\$ 255,730</u>

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

	<u>GO Bonds</u>
REVENUES	
Tax Revenue	
Property	\$ 434,380
Interest Revenue	1,648
Total revenues	<u>436,028</u>
EXPENDITURES	
Debt Service	<u>413,890</u>
Total expenditures	<u>413,890</u>
Excess (deficiency) of revenues over expenditures	22,138
Fund balances -- beginning	<u>233,245</u>
Fund balances -- ending	<u>\$ 255,383</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	\$ 434,250	\$ 434,250	\$ 434,380	\$ 130
Interest Revenue	3,000	3,000	1,648	(1,352)
Total revenues	<u>437,250</u>	<u>437,250</u>	<u>436,028</u>	<u>(1,222)</u>
EXPENDITURES				
Debt Service	414,390	414,390	413,890	500
Total expenditures	<u>414,390</u>	<u>414,390</u>	<u>413,890</u>	<u>500</u>
Excess (deficiency) of revenues over expenditures	<u>22,860</u>	<u>22,860</u>	<u>22,138</u>	<u>(722)</u>
Net change in fund balances	22,860	22,860	22,138	(722)
Fund balances -- beginning	233,245	233,245	233,245	-
Fund balances -- ending	<u>\$ 256,105</u>	<u>\$ 256,105</u>	<u>\$ 255,383</u>	<u>\$ (722)</u>

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.

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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	\$ 2,706,751	\$ 2,706,751
Accounts Receivable	222,103	222,103
Interest Receivable	2,932	2,932
Due from Other Funds	67	67
Due From Other Governments	114,725	114,725
Inventory	55,200	55,200
Restricted Cash	431,024	431,024
Total Current assets:	<u>3,532,802</u>	<u>3,532,802</u>
Noncurrent assets:		
Land	38,174	38,174
Buildings and Structures	993,472	993,472
Furniture Equipment Machinery	4,618,827	4,618,827
Improvements Other Than Buildings	3,244,641	3,244,641
Accumulated Depreciation	(3,121,008)	(3,121,008)
Total Noncurrent assets:	<u>5,774,106</u>	<u>5,774,106</u>
Total assets	<u>9,306,908</u>	<u>9,306,908</u>
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts Payable	312,943	312,943
Accrued Vacation and Sick Leave	30,315	30,315
Total Current liabilities:	<u>343,258</u>	<u>343,258</u>
Noncurrent liabilities:		
Accrued Vacation and Sick Leave	90,945	90,945
Other Post Employment Benefits	20,443	20,443
Closure/Post Closure Liability	431,024	431,024
Total Noncurrent liabilities:	<u>542,412</u>	<u>542,412</u>
Total liabilities	<u>885,670</u>	<u>885,670</u>
Net Investment in Capital Assets	5,774,106	5,774,106
Unrestricted	2,647,132	2,647,132
Total net position	<u>\$ 8,421,238</u>	<u>\$ 8,421,238</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 2,261,478	\$ 2,261,478
Miscellaneous	60,620	60,620
Total Operating revenues	<u>2,322,098</u>	<u>2,322,098</u>
OPERATING EXPENSES		
Personal Services	973,532	973,532
Supplies	289,003	289,003
Utilities	20,703	20,703
Other Charges	463,342	463,342
Depreciation	461,241	461,241
Total operating expenses	<u>2,207,821</u>	<u>2,207,821</u>
Operating Income (Loss)	<u>114,277</u>	<u>114,277</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental Revenue	12,399	12,399
Interest Revenue	11,005	11,005
Contributions	(40,000)	(40,000)
Total nonoperating revenues (expenses)	<u>(16,596)</u>	<u>(16,596)</u>
Income (loss) before contributions and transfers	97,681	97,681
Transfers Out	(174,100)	(174,100)
Capital Contributions	217,549	217,549
Change in net position	<u>141,130</u>	<u>141,130</u>
Total net position -- beginning	<u>8,280,108</u>	<u>8,280,108</u>
Total net position -- ending	<u>\$ 8,421,238</u>	<u>\$ 8,421,238</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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	\$ 2,168,608	\$ 2,168,608
Payments to suppliers	(575,522)	(575,522)
Payments to employees	(954,772)	(954,772)
Other Operating Cash Receipts	60,620	60,620
Net cash provided (used) by operating activities	<u>698,934</u>	<u>698,934</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contribution	(40,000)	(40,000)
Transfers Out	(174,100)	(174,100)
Net cash provided (used) by noncapital financing activities	<u>(214,100)</u>	<u>(214,100)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(522,302)	(522,302)
Capital Grant	229,948	229,948
Net cash provided (used) by capital and related financing activities	<u>(292,354)</u>	<u>(292,354)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	14,089	14,089
Net cash provided by investing activities	<u>14,089</u>	<u>14,089</u>
Net increase (decrease) in cash and cash equivalents	206,569	206,569
Pooled Cash and Investments - beginning of year	2,931,207	2,931,207
Pooled Cash and Investments - end of year	3,137,776	3,137,776
Less Restricted Pooled Cash and Investments	(431,025)	(431,025)
Pooled Cash and Investment Per Balance Sheet	<u>\$ 2,706,751</u>	<u>\$ 2,706,751</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 114,277	\$ 114,277
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	461,241	461,241
Changes in assets and Liabilities:		
Accounts Payable - Other	(197)	(197)
Accounts Payable - Supplier	98,615	98,615
Customer Receivables	21,923	21,923
Inventory	222	222
Other operating receivables	(114,792)	(114,792)
Closure/Post closure costs	98,885	98,885
Other Post Employment Benefits	4,845	4,845
Salaries & Benefits Payable	13,915	13,915
Net Cash provided (used) by operating activities	<u>\$ 698,934</u>	<u>\$ 698,934</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
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Combining Statement of Fiduciary Net Position - Fiduciary Funds

	<u>Agency Funds</u>			<u>Total</u>
	<u>125 Escrow Agency Fund</u>	<u>Redemption Agency Fund</u>	<u>Security Deposit Agency Fund</u>	
ASSETS				
Pooled Cash and Investments	\$ 30,547	\$ 500	\$ 63,856	\$ 94,903
Interest Receivable	-	-	30	30
Total Assets	<u>30,547</u>	<u>500</u>	<u>63,886</u>	<u>94,933</u>
LIABILITIES				
Due to Others	30,547	500	63,856	94,903
Total Liabilities	<u>\$ 30,547</u>	<u>\$ 500</u>	<u>\$ 63,856</u>	<u>\$ 94,903</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	-	-	30	30
Total Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 30</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Combining Statement of Changes in Assets and Liabilities
 All Agency Funds

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2012</u>
125 Escrow Fund				
Assets:				
Pooled Cash and Investments	\$ 16,074	\$ 276,483	\$ 262,010	\$ 30,547
Liabilities:				
Due to Flex Claims	\$ 16,074	\$ 276,483	\$ 262,010	\$ 30,547
Redemption Fund				
Assets:				
Pooled Cash and Investments	\$ -	\$ 11,535	\$ 11,035	\$ 500
Liabilities:				
Due to Certificate Holders	\$ -	\$ 11,535	\$ 11,035	\$ 500
Security Deposit Fund				
Assets:				
Pooled Cash and Investments	\$ 64,208	\$ 148	\$ 500	\$ 63,856
Interest Receivable	68	-	38	30
Total Assets	<u>\$ 64,276</u>	<u>\$ 148</u>	<u>\$ 538</u>	<u>\$ 63,886</u>
Liabilities:				
Accounts Payable	\$ 500	\$ -	\$ 500	\$ -
Bidder's Deposits	63,708	148	-	63,856
Total Liabilities	<u>\$ 64,208</u>	<u>\$ 148</u>	<u>\$ 500</u>	<u>\$ 63,856</u>
Deferred Inflows of Resources:				
Deferred Revenue	\$ 68	\$ -	\$ 38	\$ 30
Total Deferred Inflows of Resources	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 30</u>
Total All Agency Funds				
Assets:				
Pooled Cash and Investments	\$ 80,282	\$ 288,166	\$ 273,545	\$ 94,903
Interest Receivable	68	-	38	30
Total Assets	<u>\$ 80,350</u>	<u>\$ 288,166</u>	<u>\$ 273,583</u>	<u>\$ 94,933</u>
Liabilities:				
Due to Flex Claims	\$ 16,074	\$ 276,483	\$ 262,010	\$ 30,547
Due to Certificate Holders	-	11,535	11,035	500
Accounts Payable	500	-	500	-
Due to Bidders	63,708	148	-	63,856
Total Liabilities	<u>\$ 80,282</u>	<u>\$ 288,166</u>	<u>\$ 273,545</u>	<u>\$ 94,903</u>
Deferred Inflows of Resources:				
Deferred Revenue	\$ 68	\$ -	\$ 38	\$ 30
Total Deferred Inflows of Resources	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 30</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 108

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

Revenue Capacity 118

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

Debt Capacity 120

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

Demographic and Economic Information 126

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

Operating Information 128

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

Table 1
Net Position by Component (accrual basis of accounting)
Last Ten Fiscal Years

	2003	2004	2005	2006
Governmental Activities				
Net Investment in Capital Assets	\$ 29,803,761	\$ 33,131,711	\$ 38,778,621	\$ 42,910,080
Restricted	2,741,327	334,529	(252,416)	5,384,568
Unrestricted	17,582,839	19,583,536	20,184,885	18,515,631
Total Governmental Activities Net Position	50,127,927	53,049,776	58,711,090	66,810,279
Business-Type Activities				
Net Investment in Capital Assets	74,331,082	76,631,882	78,257,049	80,830,075
Restricted	995,286	1,125,182	1,627,448	2,332,710
Unrestricted	5,730,930	8,268,507	8,311,211	7,970,219
Total Business-Type Activities Net Position	81,057,298	86,025,571	88,195,708	91,133,004
Primary Government				
Net Investment in Capital Assets	104,134,843	109,763,593	117,035,670	123,740,155
Restricted	3,736,613	1,459,711	1,375,032	7,717,278
Unrestricted	23,313,769	27,852,043	28,496,096	26,485,850
Total Primary Government Net Position	\$ 131,185,225	\$ 139,075,347	\$ 146,906,798	\$ 157,943,283

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

	2007	2008	2009	2010	2011	2012
\$	47,791,276	\$ 51,029,214	\$ 55,524,697	\$ 60,575,273	\$ 67,767,554	\$ 85,000,053
	4,744,766	4,688,698	4,248,755	4,270,785	4,056,531	3,739,347
	20,525,046	23,032,412	20,768,250	17,365,658	17,916,695	20,507,155
	73,061,088	78,750,324	80,541,702	82,211,716	89,740,780	109,246,555
	93,713,787	97,151,295	101,568,572	104,804,892	108,084,421	117,465,744
	2,250,823	2,321,033	4,144,904	4,968,431	4,971,973	4,920,074
	5,883,775	6,105,604	7,861,507	10,473,916	12,194,936	14,200,509
	101,848,385	105,577,932	113,574,983	120,247,239	125,251,330	136,586,327
	141,505,063	148,180,509	157,093,269	165,380,165	175,851,975	202,465,797
	6,995,589	7,009,731	8,393,659	9,239,216	9,028,504	8,659,421
	26,408,821	29,138,016	28,629,757	27,839,574	30,111,631	34,707,664
\$	174,909,473	\$ 184,328,256	\$ 194,116,685	\$ 202,458,955	\$ 214,992,110	\$ 245,832,882

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

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

	2003	2004	2005	2006
Expenses				
Governmental Activities				
General Government	\$ 2,257,020	\$ 2,661,507	\$ 2,526,647	\$ 2,263,546
Public Safety	4,291,815	4,539,227	4,577,510	5,162,524
Public Works	4,159,945	2,203,276	2,907,346	2,923,705
Health and Welfare	49,664	55,762	131,608	128,194
Culture and Recreation	3,224,296	3,655,310	4,324,997	4,663,705
Conservation and Development	533,290	4,333,120	2,002,869	1,351,546
Interest on Long-Term Debt	452,080	437,605	775,177	943,562
Total Governmental Activities	14,968,110	17,885,807	17,246,154	17,436,782
Business-Type Activities				
Sewer	3,184,029	2,391,907	2,580,467	2,462,574
Solid Waste	1,461,076	1,336,739	1,521,945	1,635,773
Airport	482,980	388,741	452,915	427,644
Electric	12,599,077	13,183,290	14,287,836	14,854,667
Water	2,200,679	2,257,159	2,389,920	2,648,436
Gas	17,235,194	17,235,497	20,550,668	22,540,265
Water Bond	396,457	378,313	364,944	361,564
Total Business-Type Activities Expenses	37,559,492	37,171,646	42,148,695	44,930,923
Total Primary Government Expenses	52,527,602	55,057,453	59,394,849	62,367,705
Program Revenues				
Governmental Activities				
Charges for Services				
General Government	1,123	328	88,003	88,937
Public Safety	626,352	582,815	759,822	810,005
Public Works	106,451	126,272	179,367	193,486
Health and Welfare	2,790	1,280	2,200	2,950
Culture and Recreation	1,215,368	1,250,135	1,359,572	1,633,329
Conservation and Development	22,835	29,095	102,418	194,497
Operating Grants and Contributions	903,245	893,600	802,673	696,445
Capital Grants and Contributions	2,990,696	4,874,487	2,414,636	1,752,712
Total Governmental Activities Program Revenues	5,868,860	7,758,012	5,708,691	5,372,361
Business-Type Activities				
Charges for Services				
Sewer	2,541,841	2,540,141	2,653,177	2,718,978
Solid Waste	1,882,158	1,951,976	1,958,100	2,023,769
Airport	121,496	133,426	104,681	112,719
Electric	14,203,032	14,681,182	15,767,071	16,112,853
Water	1,995,796	2,138,580	2,050,867	2,138,417
Gas	17,973,900	18,373,187	20,930,499	23,669,760
Water Bond	618,767	626,469	640,387	633,029
Operating Grants and Contributions	390,300	-	3,072	-
Capital Grants and Contributions	2,431,122	649,932	804,509	845,719
Total Business-Type Activities Program Revenues	42,158,412	41,094,893	44,912,363	48,255,244
Total Primary Government Program Revenues	48,027,272	48,852,905	50,621,054	53,627,605
Net (Expenses) Revenues				
Governmental Activities	(9,099,250)	(10,127,795)	(11,537,463)	(12,064,421)
Business-Type Activities	4,598,920	3,923,247	2,763,668	3,324,321
Total Primary Government Net Expense	\$ (4,500,330)	\$ (6,204,548)	\$ (8,773,795)	\$ (8,740,100)

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

	2007	2008	2009	2010	2011	2012
\$	2,081,938	\$ 2,013,451	\$ 2,239,381	\$ 2,310,431	\$ 2,121,098	\$ 2,179,248
	6,027,544	6,027,524	6,995,236	6,690,164	7,792,889	7,607,436
	5,210,444	3,924,863	5,567,390	6,572,449	3,872,691	3,045,042
	152,548	112,178	143,252	155,521	106,977	51,181
	5,398,262	4,663,565	4,447,026	5,082,426	5,571,198	5,717,719
	1,127,959	2,367,988	2,185,846	4,077,887	824,564	937,887
	969,371	980,531	989,693	1,000,750	1,193,734	1,264,972
	20,968,066	20,090,100	22,567,824	25,889,628	21,483,151	20,803,485
	2,614,782	2,654,696	2,795,065	2,827,414	3,685,485	3,553,717
	1,801,588	1,912,915	1,883,078	2,231,953	2,225,436	2,247,821
	517,809	652,775	684,003	731,815	766,861	835,405
	16,732,001	19,057,099	21,067,051	22,278,923	23,085,560	23,075,668
	2,836,951	3,189,027	3,018,896	3,328,414	3,642,761	5,169,923
	22,960,556	36,286,483	22,675,100	18,590,439	10,182,905	8,013,641
	415,885	-	-	-	-	-
	47,879,572	63,752,995	52,123,193	49,988,958	43,589,008	42,896,175
	68,847,638	83,843,095	74,691,017	75,878,586	65,072,159	63,699,660
	110,331	94,191	95,725	102,738	109,666	110,237
	761,711	883,982	848,182	804,582	847,295	1,267,262
	120,870	233,702	136,082	209,369	177,996	347,757
	1,795	2,805	2,120	2,460	1,440	-
	1,712,916	1,791,085	1,844,853	1,946,663	1,998,369	2,155,501
	210,867	190,285	149,469	182,063	172,426	223,529
	461,103	592,547	1,500,508	1,187,355	747,499	659,139
	3,333,292	2,204,146	1,039,834	3,501,985	4,490,263	13,877,663
	6,712,885	5,992,743	5,616,773	7,937,215	8,544,954	18,641,088
	2,740,310	2,723,042	2,662,905	2,749,380	3,268,702	3,369,238
	2,073,322	2,126,587	2,158,445	2,143,671	2,228,029	2,322,098
	181,990	135,333	122,541	115,443	114,843	119,981
	18,213,206	20,873,566	22,586,756	23,392,522	25,063,172	24,941,694
	2,467,522	3,232,484	4,154,367	4,145,187	4,288,038	5,514,814
	23,258,513	36,333,029	25,617,261	20,139,602	12,290,057	10,182,312
	472,666	-	-	-	-	-
	-	-	137,144	61,087	1,067,742	179,884
	9,481,462	2,960,700	3,181,150	4,856,309	1,280,359	9,274,509
	58,888,991	68,384,741	60,620,569	57,603,201	49,600,942	55,904,530
	65,601,876	74,377,484	66,237,342	65,540,416	58,145,896	74,545,618
	(14,255,181)	(14,097,357)	(16,951,051)	(17,952,413)	(12,938,197)	(2,162,397)
	11,009,419	4,631,746	8,497,376	7,614,243	6,011,934	13,008,355
\$	(3,245,762)	(9,465,611)	(8,453,675)	(10,338,170)	(6,926,263)	10,845,958

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

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

	2003	2004	2005	2006
Governmental Activities				
Taxes				
Property Taxes	\$ 2,234,664	\$ 2,272,325	\$ 2,428,888	\$ 2,714,384
Sales and Use Taxes	9,814,202	9,664,195	10,836,904	11,121,297
Other Taxes	453,568	489,661	503,469	569,358
Licenses & Permits	157,394	156,836	-	-
State Shared Revenues	561,422	518,725	532,410	553,627
Investment Earnings	413,605	445,590	968,867	1,548,508
Rentals	81,421	72,633	-	-
Miscellaneous	184,220	186,143	423,882	275,762
Sales of Capital Assets	10,231	219,050	44,642	19,084
Premiums from Bonds	-	-	-	12,466
Transfers	1,070,000	(849,943)	980,500	1,041,020
Total Governmental Activities	<u>14,980,727</u>	<u>13,175,215</u>	<u>16,719,562</u>	<u>17,855,506</u>
Business-Type Activities				
Taxes				
Other Taxes	10,662	10,731	11,747	10,190
Investment Earnings	162,552	159,971	291,193	493,476
Sales of Capital Assets	-	-	-	16
Miscellaneous	-	-	-	-
Transfers	(1,070,000)	849,943	(980,500)	(1,041,020)
Total Business-Type Activities	<u>(896,786)</u>	<u>1,020,645</u>	<u>(677,560)</u>	<u>(537,338)</u>
Total Primary Government General Revenues	<u>14,083,941</u>	<u>14,195,860</u>	<u>16,042,002</u>	<u>17,318,168</u>
Change in Net Position				
Governmental Activities	5,881,477	3,047,420	5,182,099	5,791,085
Business-Type Activities	3,702,134	4,943,892	2,086,108	2,786,983
Total Primary Government	<u>\$ 9,583,611</u>	<u>\$ 7,991,312</u>	<u>\$ 7,268,207</u>	<u>\$ 8,578,068</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

	2007	2008	2009	2010	2011	2012
\$	2,860,183	\$ 3,077,979	\$ 3,217,832	\$ 3,409,712	\$ 3,527,126	\$ 3,662,785
	12,188,673	12,391,871	12,078,171	12,722,695	13,417,259	14,201,502
	535,745	575,150	580,539	604,185	644,792	558,608
	-	-	-	-	-	-
	779,009	824,082	677,265	737,314	780,300	844,462
	1,586,553	1,255,522	931,412	657,381	566,533	522,308
	-	-	-	-	-	-
	323,635	297,984	519,310	223,836	290,407	103,667
	-	-	-	-	-	19,295
	-	-	-	-	-	-
	766,300	1,364,005	737,900	1,267,304	1,240,844	1,807,975
	19,040,098	19,786,593	18,742,429	19,622,427	20,467,261	21,720,602
	10,346	9,794	7,764	9,398	8,261	4,865
	461,917	342,516	205,653	158,880	-	124,287
	-	-	-	-	80,110	5,465
	-	109,496	24,158	157,039	144,630	-
	(766,300)	(1,364,005)	(737,900)	(1,267,304)	(1,240,844)	(1,807,975)
	(294,037)	(902,199)	(500,325)	(941,987)	(1,007,843)	(1,673,358)
	18,746,061	18,884,394	18,242,104	18,680,440	19,459,418	20,047,244
	4,784,917	5,689,236	1,791,378	1,670,014	7,529,064	19,558,205
	10,715,382	3,729,547	7,997,051	6,672,256	5,004,091	11,334,997
\$	15,500,299	\$ 9,418,783	\$ 9,788,429	\$ 8,342,270	\$ 12,533,155	\$ 30,893,202

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

	2003	2004	2005	2006
General Fund				
Reserved	\$ 218,863	\$ 205,811	\$ 96,593	\$ 111,140
Unreserved	5,516,181	5,315,644	5,687,386	5,668,844
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total General Fund	<u>5,735,044</u>	<u>5,521,455</u>	<u>5,783,979</u>	<u>5,779,984</u>
All Other Governmental Funds				
Reserved	5,372,849	9,709,398	1,402,621	2,004,425
Unreserved, Reported in				
Special Revenue Funds	6,884,621	1,248,689	11,042,195	15,798,469
Debt Service Funds	27,885	48,326	70,475	95,835
Capital Projects Funds	3,667,467	4,911,083	2,394,660	805,250
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total All Other Governmental Funds	<u>\$ 15,952,822</u>	<u>\$ 15,917,496</u>	<u>\$ 14,909,951</u>	<u>\$ 18,703,979</u>

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	2007	2008	2009	2010	2011	2012
\$	464,377	\$ 460,519	\$ 485,273	\$ 471,288	\$ -	\$ -
	5,673,028	6,086,492	5,123,231	5,179,949	-	-
	-	-	-	-	191,384	149,495
	-	-	-	-	20,307	20,371
	-	-	-	-	1,834,287	330,054
	-	-	-	-	3,744,725	6,739,020
	6,137,405	6,547,011	5,608,504	5,651,237	5,790,703	7,238,940
	5,817,730	6,046,771	5,676,516	7,430,002	-	-
	11,778,008	14,581,378	13,004,547	7,973,744	-	-
	124,812	153,462	181,979	208,507	-	-
	788,989	-	-	-	-	-
	-	-	-	-	5,590,064	5,545,826
	-	-	-	-	2,932,836	2,768,332
	-	-	-	-	13,819,224	15,277,075
	-	-	-	-	(6,394,499)	(6,355,596)
\$	18,509,539	\$ 20,781,611	\$ 18,863,042	\$ 15,612,253	\$ 15,947,625	\$ 17,235,637

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

	2003	2004	2005	2006	2007
Revenues					
Taxes	\$ 12,438,926	\$ 12,426,181	\$ 13,769,261	\$ 14,319,732	\$ 15,485,565
Licenses and Permits	157,394	156,397	161,952	230,185	299,872
Intergovernmental	1,522,039	2,282,204	1,395,457	1,145,538	2,302,724
Charges for Goods and Services	1,837,039	1,834,901	2,073,901	2,403,288	2,415,740
Fines and Forfeitures	79,962	65,783	69,087	79,904	90,756
Interest	467,245	442,510	881,016	1,330,062	1,562,728
Miscellaneous Revenue	1,317,295	1,994,612	2,136,374	1,258,173	1,250,948
Total Revenues	17,819,900	19,202,588	20,487,048	20,766,882	23,408,333
Expenditures					
General Government	2,219,020	2,421,133	2,411,779	1,953,217	1,824,808
Public Safety	4,003,820	4,271,301	4,489,573	4,978,559	6,857,734
Public Work	1,658,289	1,571,473	2,079,050	2,094,081	7,039,201
Health and Welfare	49,545	54,463	131,059	127,180	151,971
Culture and Recreation	3,289,021	3,411,169	3,461,596	4,348,380	6,863,660
Conservation and Development	502,000	966,920	714,668	725,469	1,161,056
Contributions to Other Gov't	-	-	-	355,000	282,500
Capital Outlay	8,409,546	12,163,445	7,618,326	6,764,013	62,109
Debt Service					
Principal	208,735	366,177	534,133	705,616	797,537
Interest	343,489	374,996	814,716	925,437	970,676
Administrative Charges	800	1,500	2,300	2,300	2,000
Bond Issuance Costs	-	-	-	-	-
Total Expenditures	20,684,265	25,602,577	22,257,200	22,979,252	26,013,252
Revenues Over (Under) Expenditures	(2,864,365)	(6,399,989)	(1,770,152)	(2,212,370)	(2,604,919)
Other Financing Sources (Uses)					
Sales of Municipal Property	10,231	191,550	44,641	13,836	29,759
Long-Term Debt Issuance	1,909,768	4,989,014	-	4,997,466	1,641,787
Premium on Bonds Issued	-	-	-	-	-
Pmt To Refunded Bond Escrow Agent	-	-	-	-	-
Transfer In	2,852,000	3,371,226	3,188,646	3,620,740	2,646,300
Transfer Out	(1,782,000)	(2,400,726)	(2,208,146)	(2,629,639)	(1,880,000)
Total Other Financing Sources (Uses)	2,989,999	6,151,064	1,025,141	6,002,403	2,437,846
Net Change in Fund Balances	\$ 125,634	\$ (248,925)	\$ (745,011)	\$ 3,790,033	\$ (167,073)
Debt service as a % of noncapital expenditures	1.3%	4.7%	5.8%	10.2%	11.5%

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	2008	2009	2010	2011	2012
\$	16,035,282	\$ 15,897,362	\$ 16,655,844	\$ 17,400,555	\$ 18,529,315
	228,960	191,135	227,893	217,234	270,639
	2,067,182	2,199,694	2,588,137	4,090,514	2,079,525
	2,598,905	2,640,488	2,742,393	2,788,625	3,361,454
	87,082	85,449	81,556	71,284	62,469
	1,375,784	1,033,825	742,083	617,191	547,730
	862,324	1,081,741	3,038,795	1,110,025	1,085,281
	23,255,519	23,129,694	26,076,701	26,295,428	25,936,413
	2,003,829	2,466,700	2,252,324	2,214,463	2,165,287
	5,925,253	7,642,490	11,570,206	12,263,026	8,516,828
	5,589,803	6,697,461	7,448,552	4,422,104	5,375,413
	112,208	142,427	155,327	123,925	51,181
	5,352,446	6,188,672	6,357,466	5,653,602	5,491,966
	1,731,205	1,999,344	3,876,901	596,354	767,142
	-	-	-	-	-
	4,753	-	-	-	-
	846,333	904,123	1,005,962	1,102,395	1,289,742
	979,795	989,794	1,001,326	1,188,733	927,973
	2,000	2,000	2,000	2,750	3,550
	-	-	58,785	-	54,453
	22,547,625	27,033,011	33,728,849	27,567,352	24,643,535
	707,894	(3,903,317)	(7,652,148)	(1,271,924)	1,292,878
	20,521	44,461	6,305	1,815	159,114
	589,258	263,880	7,526,374	530,997	4,165,000
	-	-	3,022	-	-
	-	-	(4,358,913)	-	(4,258,943)
	4,193,233	3,160,400	3,148,666	2,996,750	3,432,200
	(2,829,228)	(2,422,500)	(1,881,362)	(1,782,800)	(2,054,000)
	1,973,784	1,046,241	4,444,092	1,746,762	1,443,371
\$	2,681,678	\$ (2,857,076)	\$ (3,208,056)	\$ 474,838	\$ 2,736,249
	7.4%	8.8%	8.3%	11.3%	12.1%

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

Fiscal Year	Residential Property	Commercial Property	Total Assessed Value	Total Direct Tax Rate	Estimated Actual Value	Assessed Value as a % of Actual Value
2003	\$ 593,301,053	\$ 262,560,784	\$ 855,861,837	2.82	\$ 1,006,896,279	85%
2004	631,449,813	272,109,739	903,559,552	2.80	1,063,011,238	85%
2005	685,167,843	303,272,316	988,440,159	2.73	1,162,870,478	85%
2006	707,991,200	313,375,833	1,021,367,033	2.67	1,201,608,274	85%
2007	862,037,766	320,139,830	1,182,177,596	2.50	1,383,147,787	85%
2008	863,073,456	340,213,014	1,203,286,470	2.58	1,415,631,141	85%
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%

Source: Codington County Board of Equalization.

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

Fiscal Year	City of Watertown			Overlapping Rates							
	Operating Millage	Debt Service Millage	Total City Millage	County			Watertown School District			Special Districts	Total Direct & Overlapping Rates
				Operating Millage	Debt Service Millage	Total County Millage	Operating Millage	Debt Service Millage	Total School Millage		
2003	2.33	0.49	2.82	4.16	0.00	4.16	16.92	0.28	17.19	0.90	25.06
2004	2.32	0.48	2.80	3.93	0.00	3.93	16.08	0.00	16.08	0.79	23.60
2005	2.28	0.45	2.73	3.89	0.00	3.89	15.73	0.00	15.73	0.79	23.14
2006	2.25	0.42	2.67	3.88	0.00	3.88	14.92	0.00	14.92	0.72	22.19
2007	2.11	0.39	2.50	3.67	0.00	3.67	13.84	0.00	13.84	1.24	21.25
2008	2.19	0.39	2.58	3.73	0.00	3.73	13.51	0.00	13.51	1.15	20.97
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

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Table 7
Principal Taxpayers
Current Year and Ten Years Ago

Taxpayer	2012			2003		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
Wal-Mart Real Estate	\$ 10,167,803	1	0.76%	\$ -	-	-
Glacial Lakes Energy	9,544,417	2	0.71%	-	-	-
Watertown Development Co.	8,941,214	3	0.67%	3,210,685	7	0.38%
Menards	7,716,758	4	0.58%	3,924,962	4	0.46%
Watertown Co-op Elevator	7,202,692	5	0.54%	-	-	-
Watertown Plaza LLC	5,908,331	5	0.44%	-	-	-
Les McElhany & David McElhany	4,352,058	7	0.33%	-	-	-
Stone Oil Company	4,287,391	8	0.32%	-	-	-
Robert Endres	3,990,468	9	0.30%	-	-	-
Michael B. Lantsberger	3,918,137	10	0.29%	-	-	-
Western Minnesota Municipal Power	-	-	-	4,819,508	3	0.56%
Premier Bankcard	-	-	-	3,198,493	8	0.37%
US West Communications	-	-	-	7,615,711	2	0.89%
Univest Covington (Runnings)	-	-	-	3,256,470	6	0.38%
Mary Goepfert	-	-	-	3,080,397	9	0.36%
Smith Equipment Mfg.	-	-	-	2,990,732	10	0.35%
Developers Diversified	-	-	-	10,358,161	1	1.21%
Dayton Hudson Corp.	-	-	-	3,641,286	5	0.43%
Totals	\$ 66,029,269		4.95%	\$ 46,096,405		5.39%

Entire City Assessed Valuation for 2012: \$ 1,334,980,885

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
2003	2,264,712	2,229,407	98.44	35,305	2,264,712	100.00
2004	2,423,462	2,393,487	98.76	29,975	2,423,462	100.00
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	33,151	3,085,138	99.96
2008	2,917,856	2,861,444	98.07	47,865	2,909,309	99.71
2009	3,058,313	3,005,960	98.29	41,976	3,047,936	99.66
2010	3,122,913	3,070,025	98.31	38,705	3,108,730	99.55
2011	3,236,316	3,190,847	98.60	-	3,190,847	98.60
2012	3,383,139 (see note below)					

NOTE: (1) The year shown on this table indicates the year of the levy for collection in the next year, the 2012 tax levy will be collected in the year 2013, 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)
2003	\$ 4,910,352	\$ 4,423,589	\$ 2,211,778
2004	4,805,879	4,334,930	2,408,294
2005	5,403,276	4,880,858	2,701,638
2006	5,551,722	4,997,364	2,776,313
2007	5,748,587	5,691,884	2,845,942
2008	5,875,447	5,865,987	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

(1) Pledged revenues for 2003, 2004 and 2006 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, but not exceeding the proceeds produced by a rate of one-half of one percent (1/2 of 1%). All of the Capital Improvement Sales Tax revenues are pledged for the repayment of SRF Loans No. 6 and 8

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

Fiscal Year	Governmental Activities				Business Type Activities			Total Primary Government	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				
2003	5,530,000	260,625	1,905,000	-	397,375	1,685,000	4,824,981	14,602,981	3.69%	396,179,749	722
2004	5,420,000	204,573	6,745,000	-	356,636	1,435,000	4,810,065	18,971,274	4.79%	396,179,749	937
2005	5,295,000	145,409	6,435,000	-	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

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
2003	5,530,000	27,885	5,502,115	0.72%	1.39%	272
2004	5,420,000	48,326	5,371,674	0.63%	1.36%	265
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

Table 12
Direct and Overlapping Governmental Activities Debt
As of December 31, 2012

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
School District	\$ 3,270,000	78%	\$ 2,537,520
Subtotal, overlapping debt			2,537,520
City of Watertown direct debt			16,308,596
Total direct and overlapping debt			<u>\$ 18,846,116</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

	2003	2004	2005	2006	2007	2008
Debt Limit (5% limit)	42,793,092	45,177,978	49,422,008	51,068,352	59,108,880	60,164,324
Total net debt applicable to limit	8,561,916	13,100,156	12,468,034	16,646,334	16,740,869	17,965,985
Legal debt margin	34,231,176	32,077,822	36,953,974	34,422,018	42,368,011	42,198,339
Total net debt applicable to the limit as a percentage of debt limit	20.01%	29.00%	25.23%	32.60%	28.32%	29.86%

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

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	2009	2010	2011	2012
Debt Limit (5% limit)	64,385,338	65,448,786	65,694,742	66,749,044
Total net debt applicable to limit	15,880,715	18,092,857	16,995,100	15,846,168
Legal debt margin	48,504,623	47,355,929	48,699,642	50,902,876
Total net debt applicable to the limit as a percentage of debt limit	24.67%	27.64%	25.87%	23.74%

Legal Debt Margin Calculation for Fiscal Year 2012

	"No-Limit" Debt	Debt Capacity at 5% (Unrestricted)	Additional 10% Debt Capacity (Water/Sewer)
2012 Assessed Value			
		<u>\$1,334,980,885</u>	
Maximum Debt Capacity:	\$ -	\$66,749,044	\$133,498,089
Existing Bonds:			
GO Refinancing Bonds (Event Center; 1.0-3.35% interest)	-	4,115,000	-
SRF Loan No. 3 (Wastewater Revenue Surcharge)	754,578	-	-
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,503,530	-	-
SRF Loan No. 6-CW (Sales Tax)	-	994,985	-
SRF Loan No. 6-NPS (Sales Tax)	-	93,848	-
SRF Loan No. 7-CW (Wastewater Revenue Surcharge)	683,908	-	-
SRF Loan No. 7-NPS (Wastewater Revenue Surcharge)	68,618	-	-
SRF Loan No. 8-CW (Sales Tax)	-	443,662	-
SRF Loan No. 8-NPS (Sales Tax)	-	49,641	-
SRF Loan No. 9-CW (Wastewater Revenue Surcharge)	9,802,743	-	-
SRF Loan No. 10-CW (Sales Tax)	-	2,535,278	-
SRF Loan No. 11-CW (Sales Tax)	-	188,754	-
SRF Loan Drinking Water (Water Revenue Surcharge)	22,250,516	-	-
2006 Sales Tax Revenue Bonds (3.35-4.55%)	-	3,785,000	-
2012 Sales Tax Revenue Bonds (0.4-2.7%)	-	3,640,000	-
Total Bonded Debt	35,063,893	15,846,168	-
Other Debt:			
Capital Lease - Fire Truck	357,785	-	-
Capital Lease - Golf Carts	104,643	-	-
Total Other Debt	462,428	-	-
Total Debt	35,526,321	15,846,168	-
Available Debt Capacity	N/A	\$50,902,876	\$133,498,089

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

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			
2003	622,974	125,079	497,895	240,000	90,743	1.51	2,516,687	1,269,017	1,247,670
2004	636,579	125,203	511,376	250,000	80,423	1.55	2,525,042	1,261,487	1,263,555
2005	657,829	123,212	534,617	260,000	69,173	1.62	2,642,218	1,387,179	1,255,039
2006	633,028	124,002	509,026	275,000	57,212	1.53	2,711,597	1,299,419	1,412,178
2007	472,666	115,578	357,088	900,000	90,537	0.36	2,574,196	1,469,253	1,104,943
2008	-	-	-	-	-	-	2,689,856	1,469,475	1,220,381
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	-	-	-	-	-	-	3,357,926	1,614,529	1,743,397

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.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

State Revolving Fund Loans (cont)			Sales Tax Revenue Bonds			
Debt Service			Net	Debt Service		
Principal	Interest	Coverage	Available	Principal	Interest	Coverage
			Revenue			
533,954	215,005	1.67	-	-	-	-
556,972	191,988	1.69	2,384,212	160,000	73,115	-
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
183,666	121,241	5.72	6,800,967	725,000	218,668	7.21

Statistics (Unaudited)

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)
2003	20,237	19,577	35.3	12.9	3,839	4.2%
2004	20,237	19,577	35.3	12.9	3,777	4.1%
2005	20,237	19,577	35.3	12.9	3,831	3.7%
2006	20,237	19,577	35.3	12.9	3,816	3.3%
2007	20,237	19,577	35.3	12.9	3,734	3.0%
2008	20,237	19,577	35.3	12.9	3,777	4.1%
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%

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	2012			2003		
	Employees	Rank	Percentage of Total City Employed	Employees	Rank	Percentage of Total City Employed
Watertown School District	835	1	3.89%	835	1	4.13%
Angus Palm	578	2	2.69%	342	6	1.69%
Terex Utilities	520	3	2.42%	363	5	1.79%
Prairie Lakes Healthcare System	483	4	2.25%	560	3	2.77%
Premier Bankcard	350	5	1.63%	610	2	3.01%
City of Watertown	343	6	1.60%	330	7	1.63%
HyVee	310	7	1.44%	-	-	-
Walmart Supercenter	310	8	1.44%	425	4	2.10%
OEM Worldwide	300	9	1.40%	-	-	-
Jenkins Living Center	248	10	1.15%	205	9	1.01%
Dakota Sioux Casino	-	-	-	200	10	0.99%
Oak Valley Farms	-	-	-	256	8	1.27%
Total	4,277		19.91%	4,126		20.39%

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	6.50	7.74	7.50	7.50	7.50	7.58	7.69	7.53	7.58	7.00
Information Technology	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Engineering	4.73	4.58	4.58	4.60	5.60	5.60	5.34	5.63	7.36	7.41
Public Safety										
Police	34.06	34.06	34.06	35.06	40.06	40.06	41.06	41.25	41.56	42.01
E-911	8.00	8.50	8.50	8.50	9.00	9.40	10.00	9.80	12.80	12.80
Fire/Ambulance	29.00	29.00	29.00	29.00	32.00	32.00	34.00	37.00	34.00	37.00
Public Works										
Public Works Director	3.20	1.70	2.02	2.06	2.06	2.06	2.06	2.06	-	-
Streets	13.87	12.44	13.87	14.03	14.08	14.12	13.96	13.92	14.26	12.77
Cemetery	3.20	2.98	2.96	2.90	2.92	3.11	3.13	3.08	3.08	3.13
Building Services	-	-	-	-	-	-	-	5.48	4.48	4.47
Health and Welfare										
Animal Control	1.00	1.23	1.23	1.23	1.30	1.22	1.40	1.40	1.40	-
Culture and Recreation										
Park and Recreation	48.56	48.32	46.51	47.06	55.52	53.77	55.50	54.64	54.09	50.97
Community Recreation Center	13.13	13.87	14.72	14.72	14.37	13.48	14.98	14.59	14.63	14.38
Forestry	3.07	3.07	3.08	3.08	3.08	2.93	2.93	2.93	2.93	2.84
Library	13.84	13.84	13.94	12.94	12.94	12.94	12.94	12.94	12.94	11.49
Conservation & Development										
Sioux River Watershed Project	2.75	2.75	2.75	2.75	2.75	3.75	2.70	2.72	2.65	1.62
Terry Redlin Freshwater Institute	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
Planning and Zoning	-	3.00	4.24	4.86	5.65	5.62	5.52	-	-	-
Urban Renewal	0.68	0.68	0.68	0.68	0.75	0.48	0.37	0.40	0.40	0.20
Wastewater										
Wastewater	14.62	14.62	14.62	14.62	14.50	14.50	14.50	14.50	14.50	14.50
Refuse Collection										
Refuse Collection	16.25	16.25	16.50	16.50	16.50	16.50	16.69	16.69	16.64	16.62
Airport										
Airport	2.67	3.67	2.67	2.67	2.34	3.06	3.00	3.75	4.08	4.04
Electric										
Electric	31.00	31.00	31.00	31.00	31.00	33.00	33.00	32.00	30.00	31.00
Gas										
Gas	14.00	15.00	15.00	15.00	15.00	14.00	14.00	14.00	14.00	15.00
Water										
Water	13.00	13.00	13.00	13.00	14.00	17.00	16.00	17.00	18.00	16.00

Source: City Departments

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2012

Statistics (Unaudited)

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

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical Arrests	569	1,046	1,367	2,108	2,189	2,049	1,864	1,913	2,205	2,148
Accidents	1,059	1,084	1,063	904	939	775	855	875	860	793
Traffic Violations	826	1,202	1,470	2,260	2,783	2,052	1,925	1,435	1,305	1,411
Fire										
Emergency Responses	1,571	1,588	1,696	1,725	1,626	1,706	1,804	1,839	1,857	2,185
Fire Calls	278	484	426	387	483	691	597	392	385	485
Inspections	230	469	185	286	174	297	607	617	285	342
Solid Waste										
Refuse Deposited (tons per day)	94	102	99	102	104	106	111	121	123	137
Recyclables collected (tons per day)	4	5	2	2	2	2	2	2	2	2
Other Public Works										
Crack Sealed Streets (blocks)	120	110	168	123	40	38	0	0	0	0
Seal Coat Streets (blocks)	160	80	186	165	138	154	148	130	128	145
Street Resurfacing (blocks)	62	38	55	50	51	54	36	51	58	44
Parks and Recreation										
Community Center Memberships	4,335	4,257	4,304	4,274	4,337	4,485	4,597	4,573	4,614	4,971
Participants in Youth Programs	5,640	7,281	4,920	5,922	4,961	5,568	4,477	4,547	4,740	5,305
Library										
Items in Collection	85,325	85,693	86,391	87,582	89,578	98,154	100,012	101,430	110,209	110,923
Total Items Loaned	213,579	207,321	192,115	195,524	196,798	234,366	271,589	261,058	263,643	228,680
Wastewater										
Avg sewage treatment (mill gal per day)	2.52	2.77	2.73	2.36	3.17	3.00	3.27	3.60	3.99	2.42
Airport										
Boardings per year	7,888	8,735	8,975	5,920	5,131	4,804	4,609	7,576	8,924	5,679

Source: City Departments

Statistics (Unaudited)

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Function/Program</u>										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	11	11	12	12	13	14	14	14	15	14
Fire Stations	1	1	1	1	1	1	1	1	2	2
Refuse collection										
* Collection Trucks		8	9	9	9	9	9	9	8	7
Other public works										
*** Streets (miles)			148	151	154	157	157	158	158	163
Streetlights	2144	2209	2316	2420	2546	2616	2684	2691	2676	2688
* Traffic signals		26	26	26	26	26	37	39	39	39
Parks and Recreation										
* Acreage		486	486	486	486	486	486	486	631	631
** Derby Downs clubhouse & arena (acres)			80	80	80	80	80	80	80	80
* Playgrounds		19	19	19	19	19	21	21	21	21
* Baseball/softball fields		25	25	25	25	25	25	25	18	18
* Soccer/football fields		12	12	12	12	12	12	12	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

Notes:

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



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

**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, 2012 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, 2013. 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 a 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 a 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, 2013



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, 2012. 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 \$613,724 in federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2012. Our audit, described above, 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, 2012.

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.



Watertown, South Dakota
June 17, 2013

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2012</u>
Department of Housing & Urban Development:			
Direct Federal Funding:			
Economic Development Initiative – Special Project, Neighborhood Initiative & Miscellaneous Grants	14.251	B-08-SP-SD-0570	\$ <u>34,835</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>1,107</u>
Direct Federal Funding:			
Bureau of Justice Assistance, Bulletproof Vest Partnership Program	16.607	–	1,980
Office of Community Oriented Policing Services: Public Safety Partnership & Community Policing Grants	16.710	2011UMWX0169	<u>51,702</u>
			<u>53,682</u>
Total Department of Justice			<u>54,789</u>
Department of Transportation:			
Indirect Federal Funding:			
SD Department of Transportation, Highway Planning & Construction	20.205	EM 8015(36) PCN 010D	13,186
SD Department of Public Safety, Office of Highway Safety, State & Community Highway Safety	20.600	NHTSA 2012-47-46	12,217
	20.600	NHTSA 2013-27-64	3,085
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	NHTSA 2013-27-64	<u>9,304</u>
			<u>37,792</u>
Direct Federal Funding:			
Airport Improvement Program – Major Program	20.106	3-46-0058-23-10	20,202
	20.106	3-46-0058-24-10	6,314
	20.106	3-46-0058-25-11	7,158,569
	20.106	3-46-0058-26-12	<u>682,517</u>
			<u>7,867,602</u>
Total Department of Transportation			<u>7,905,394</u>

CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012
(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 2012</u>
General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency, Donation of Federal Surplus Personal Property - Note 2	39.003	--	<u>778</u>
National Endowment for the Humanities:			
Direct Federal Funding:			
Promotion of the Humanities – Public Programs	45.164	--	<u>750</u>
Environmental Protection Agency:			
Indirect Federal Funding:			
SD Department of Environment and Natural Resources, Nonpoint Source Implementation Grant	66.460	C9-99818508-0	45,203
	66.460	C9-99818512-0	<u>101,519</u>
Total Environmental Protection Agency			<u>146,722</u>
Department of Health & Human Services:			
Indirect Federal Funding:			
SD Department of Health, Community Transformation Grants	93.531	12CTG07	<u>12,750</u>
Homeland Security:			
Indirect Federal Funding:			
SD Department of Public Safety, Office of Emergency Management, Emergency Management Performance Grants	97.042	--	436
SD Department of Public Safety, Office of Homeland Security, Homeland Security Grant Program	97.067	--	70,012
SD Department of Public Safety, Office of Homeland Security, Pass Through Codington County, Homeland Security Grant Program	97.067	--	<u>51,754</u>
			<u>122,202</u>

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012
(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 2012</u>
Direct Federal Funding:			
Assistance to Firefighters Grant	97.044	EMW-2007-FF-00453	12,665
Transportation Security Administration, Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR017	22,851
			<u>35,516</u>
Total Homeland Security			<u>157,718</u>
GRAND TOTAL - Note 3			<u>\$ 8,313,736</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, 2012

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, 2012

A. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

1. An unqualified 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 unqualified opinion was issued on compliance with the requirements applicable to major programs.
5. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
6. The federal awards tested as a major program was Airport Improvement Program (20.106).
7. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
8. The City of Watertown did qualify as a low-risk entity.

B. CURRENT FEDERAL COMPLIANCE AUDIT FINDINGS

There are no written current federal compliance audit findings to report.

C. CURRENT OTHER AUDIT FINDINGS

There are no written current other audit findings to report.