

CITY OF WATERTOWN

Watertown, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2014

CITY OF WATERTOWN

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Watertown
Watertown, Wisconsin

Report on the Financial Statements

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, Wisconsin, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Watertown's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Community Development Authority of the City of Watertown, which is reported as a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Community Development Authority of the City of Watertown, which is reported as a discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 of Watertown'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 of Watertown'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.

To the City Council
City of Watertown

Opinion

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, Wisconsin, as of December 31, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule as listed in the table of contents 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 of Watertown's basic financial statements. The combining financial statements as listed in the table of contents 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Baker Silly Viechno Krause, LLP
Madison, Wisconsin
March 26, 2015

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

Our discussion and analysis of the City of Watertown's financial performance provides an overview of the City's financial activities for the fiscal year that ended on December 31, 2014. Please read it in conjunction with the City's financial statements following this section:

FINANCIAL HIGHLIGHTS

- ◆ The City's total net position at the end of 2014 totaled \$120.9 million which is an increase of \$3.0 million or 2.5% from the 2013 amount. Of the \$120.9 million in total net position, \$47.9 million was related to governmental activities and \$73.0 million was related to business-type activities.
- ◆ During the year, the City's governmental activities expenses were \$0.9 million less than the \$23.5 million generated in taxes and other revenues for the governmental programs. This is compared to 2013 when expenses exceeded revenues by \$1.1 million.
- ◆ In the City's business-type activities, revenues and capital grants contributions remained the same at \$10.1 million while expenses increased \$0.2 million to \$8.0 million. Capital contributions were \$0.2 million in 2013 and in 2014.
- ◆ The total cost of the City's governmental activities programs decreased \$1.5 million or 6.2% to \$22.6 million.
- ◆ The combined fund balance of the governmental funds increased to \$16.1 million.
- ◆ Capital assets for the City decreased \$0.7 million from \$164.0 million to \$163.3 million. Governmental activities saw a decrease of \$0.4 million and the business-type activities decreased \$0.3 million.
- ◆ General obligation debt for governmental activities decreased from \$42.4 million to \$42.1 million. The City issued \$3.3 million in new G.O. debt. Revenue debt of business-type activities decreased from \$22.6 million to \$20.5 million. No new debt was issued for the business-type activities while \$2.1 million of debt was retired.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

- ◆ *Management's discussion and analysis*
- ◆ *Basic financial statements*
 - Government-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- ◆ *Required Supplementary information*
- ◆ *Combining statements for non-major governmental funds*

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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 City government and report the City's operations in *more detail* than the government-wide statements. 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 these required elements, we have included a section with combining statements that provide details about our non-major governmental funds. The non-major funds are added together and presented in a single column in the basic financial statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all governmental assets and liabilities. All of the current year's revenues and expenses are accounted for in the statements of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the City's financial health, or position.

- ◆ Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- ◆ To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base, economy, and rate of growth.

The government-wide financial statements of the City are divided into three categories:

- ◆ *Governmental activities* – Most of the City's basic services are included here, such as police, fire, public works, park & recreation, library, and general administration. Property taxes and state aid finance most of these activities.
- ◆ *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and storm water utilities are included here.
- ◆ *Component Units* – the City includes the Community Development Authority in its report. Although legally separate, this "component unit" is important because the City is financially accountable for them. Separately issued financial statements are prepared for the Community Development Authority.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

- ◆ *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- ◆ *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. These services include water, sewer, and storm water utilities. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information about activities the City operates like a business.
- ◆ *Fiduciary funds* – The City is the trustee, or fiduciary, for collection of all property taxes within the City for all taxing districts, including the Watertown Unified School District, Jefferson and Dodge Counties, and Madison Area Technical College. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position. The City's combined net position was \$120.9 million. The majority of the net position, \$73.0 million, belongs to the business-type activities of the City. The business-type activities of the City consist of the water, sewer, and storm water utilities. The governmental activities had net position totaling \$47.9 million.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (cont.)

Table A-1
City of Watertown's Net Position
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Current and other assets	\$ 29.7	\$ 31.3	\$ 9.9	\$ 9.0	\$ 39.6	\$ 40.3	1.8%
Capital Assets	<u>76.3</u>	<u>75.9</u>	<u>87.7</u>	<u>87.4</u>	<u>164.0</u>	<u>163.3</u>	(0.4)%
Total assets	106.0	107.2	97.6	96.4	203.6	203.6	0.0%
Unamortized loss on advance refunding	—	—	0.1	0.1	0.1	0.1	0.0%
Total deferred outflows of resources	-	-	0.1	0.1	0.1	0.1	0.0%
Long-term debt outstanding	40.2	39.1	23.0	20.6	63.2	59.7	(5.4)%
Other liabilities	<u>6.0</u>	<u>6.3</u>	<u>3.0</u>	<u>2.9</u>	<u>9.0</u>	<u>9.2</u>	2.2%
Total liabilities	46.2	45.4	26.0	23.5	72.2	68.9	(4.4)%
Unearned revenues	<u>13.6</u>	<u>13.9</u>	—	—	<u>13.6</u>	<u>13.9</u>	2.2%
Total deferred inflows of resources	13.6	13.9	-	-	13.6	13.9	2.2%
Net Position							
Net investment in capital assets	41.2	42.0	63.4	65.5	102.1	105.1	0.7%
Restricted	8.3	8.8	4.0	3.9	12.3	12.7	3.3%
Unrestricted	<u>(3.3)</u>	<u>(2.9)</u>	<u>4.3</u>	<u>3.6</u>	<u>3.5</u>	<u>3.1</u>	200.0%
Total net position-end of year	\$ 46.2	\$ 47.9	\$ 71.7	\$ 73.0	\$ 117.9	\$ 120.9	2.5%

Net position of the City's governmental activities increased by 3.7% during 2014 bringing the total to \$47.9 million compared to \$46.2 at the end of 2013. The majority of net position was either restricted to the purposes it can be used or is invested in capital assets (buildings, roads, equipment, and so on). The governmental activities had a \$2.9 million deficit year-end.

The net position of the City's business-type activities increased \$1.3 million or 1.8% to \$73.0 million, including unrestricted position of \$3.5 million. The water utility saw an increase of \$0.5 million, the sewer utility saw an increase of \$0.7 million and the storm water utility saw an increase of \$0.1 million.

Changes in net position. The City's 2014 total revenues (excluding capital contributions and transfers) increased by \$0.6 million bringing the total to \$33.3 million. Property taxes increased by \$1.0 million, charges for services and operating grants and contributions decreased by \$0.2 million each. All other revenues remained constant. Total expenses decreased by \$1.3 million or 4.1% to \$30.6 million. The governmental activities saw a decrease of \$1.5 million in expenses while the business-type activities saw an increase of \$0.2 million. Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (cont.)

Table A-2
Change in City of Watertown's Net Position
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Revenues							
Program revenues							
Charges for Services	\$ 3.5	\$ 3.3	\$ 9.9	\$ 9.9	\$ 13.4	\$ 13.2	(1.5)%
Capital grants and contributions	0.2	0.1	0.2	0.2	0.4	0.3	(25.0)%
Operating grants and contributions	2.5	2.3	-	-	2.5	2.3	(8.0)%
General revenues							
Property taxes	12.6	13.6	-	-	12.6	13.6	7.9%
Other taxes	0.4	0.4	-	-	0.4	0.4	0.0%
Intergovernmental	3.1	3.1	-	-	3.1	3.1	0.0%
Investment income	0.1	0.1	-	-	0.1	0.1	0.0%
Others	<u>0.6</u>	<u>0.6</u>	<u>-</u>	<u>-</u>	<u>0.6</u>	<u>0.6</u>	0.0%
Total revenues	23.0	23.5	10.1	10.1	33.1	33.6	1.5%
Expenses							
General government	2.1	2.1	-	-	2.1	2.1	0.0%
Public safety	7.1	7.2	-	-	7.1	7.2	1.4%
Public works	8.1	7.4	-	-	8.1	7.4	(8.6)%
Health and human services	0.6	0.7	-	-	0.6	0.7	16.7%
Culture, education and recreation	3.4	3.3	-	-	3.4	3.3	(2.9)%
Conservation and development	0.5	0.5	-	-	0.5	0.5	0.0%
Interest and fiscal charges	2.3	1.4	-	-	2.3	1.4	(39.1)%
Water	-	-	2.8	2.8	2.8	2.8	0.0%
Wastewater	-	-	3.9	3.9	3.9	3.9	0.0%
Storm water	<u>-</u>	<u>-</u>	<u>1.1</u>	<u>1.3</u>	<u>1.1</u>	<u>1.3</u>	18.2%
Total expenses	24.1	22.6	7.8	8.0	31.9	30.6	(4.1)%
Excess (Deficiency) before transfers	(1.1)	0.9	2.3	2.1	1.2	3.0	150.0%
Transfers	<u>0.7</u>	<u>0.8</u>	<u>(0.7)</u>	<u>(0.8)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(0.4)	1.7	1.6	1.3	1.2	3.0	
BEGINNING NET POSITION	\$46.6	\$46.2	\$ 70.1	\$ 71.7	\$ 116.7	\$ 117.9	
ENDING NET POSITION	\$46.2	\$47.9	\$ 71.7	\$ 73.0	\$ 117.9	\$ 120.9	2.5%

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (cont.)

Governmental Activities. Revenues for the City's governmental activities total \$23.5 million, with property taxes accounting for more than half of the total, followed by Intergovernmental revenues and then charges for services. Shared revenue from the State of Wisconsin makes up most of the Intergovernmental revenues. EMS charges, building permits, court fines, cable TV, and recreation fees are included in charges for services. Property taxes increased by \$1.0 million or 7.9% in 2014.

Governmental activities expenses decreased by \$1.5 million or 6.2% to \$22.6 million. Interest and fiscal charges decreased by \$0.9 million, public works decreased by \$0.7 million and culture, education and recreation decreased by \$0.1 million. Public safety and human services increased by \$0.1 million each. General government and conservation and development remained unchanged from 2013. Public safety includes police, fire, and building, safety and zoning. Culture, education and recreation include the library and park and recreation departments. Revenues exceeded expenses by \$0.9 million prior to transfers of \$0.8 million.

Table A-3 presents the total cost of each of the City's governmental activities as well as each activity's net cost. Activity's net cost is total cost minus fees generated by the activities and direct intergovernmental aid. The net cost shows the financial burden placed on the City's taxpayers or indirect revenue sources by each of these activities.

- ◆ The cost of all *governmental* activities during 2014 was \$22.6 million.
- ◆ The net cost for these activities was \$16.8 million with \$13.6 million coming from property taxes, \$3.1 million from unrestricted shared revenue and from other revenues like interest.
- ◆ The balance of the costs of the *governmental* activities was paid for by:
 - Those who directly benefited from the programs by paying for services (\$3.3 million) or
 - Other governments and organizations that subsidized certain programs with grants and Contributions.

**Table A-3
Net Cost of City of Watertown Governmental Activities
(in millions of dollars)**

	Total Cost Of Services		Percentage Change	Net Cost Of Services		Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
General government	\$ 2.1	\$ 2.1	0.0%	\$ 2.0	\$ 2.0	0.0%
Public safety	7.1	7.2	1.4%	5.8	6.1	5.2%
Public works	8.1	7.4	(8.6)%	5.0	4.4	(12.0)%
Health and human services	0.6	0.7	16.7%	0.1	0.2	100.0%
Culture, education and recreation	3.4	3.3	(2.9)%	2.3	2.2	4.3%
Conservation and development	0.5	0.5	0.0%	0.5	0.5	0.0%
Other	<u>2.3</u>	<u>1.4</u>	(39.1)%	<u>2.3</u>	<u>1.4</u>	(39.1)%
Total	\$ 24.1	\$ 22.6	(6.2)%	\$ 18.0	\$ 16.8	(6.7)%

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (cont.)

Business-type Activities. Revenues of the City's business-type activities remained unchanged at \$9.9 million and expenses increased by \$0.2 million to \$8.0 million. (Refer to Table A-4). Factors contributing to the results included:

- ◆ Increase in repairs to water infrastructure.
- ◆ Level power and fuel costs, depreciation expenses, and modest salary increases.

Table A-4 presents the Net Position activity in each of the City's business-type activities.

Table A-4
Change in Business Type Activities
(in millions of dollars)

	Water Utility		Wastewater Utility		Storm Water Utility		Total		Total Percentage Change 2013-2014
	2013	2014	2013	2014	2013	2014	2013	2014	
Revenues									
Program revenues									
Capital grants and contributions	0.0	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.0%
Charges for services	4.0	4.0	4.7	4.6	1.2	1.3	9.9	9.9	0.0%
General revenues									
Investment Income	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	0.0%
Total Revenue	4.0	4.1	4.8	4.6	1.3	1.4	10.1	10.1	0.0%
Expenses	2.8	2.8	3.9	3.9	1.1	1.3	7.8	8.0	2.6%
Excess (deficiency) before transfers	1.2	1.3	0.9	0.7	0.2	0.1	2.3	2.1	(8.7)%
Transfers	<u>(0.7)</u>	<u>(0.8)</u>	-	-	-	-	<u>(0.7)</u>	<u>(0.8)</u>	14.3%
CHANGE IN NET POSITION	0.5	0.5	0.9	0.7	0.2	0.1	1.6	1.3	(18.8)%
BEGINNING NET POSITION	23.9	24.4	33.3	34.2	12.9	13.1	70.1	71.7	
ENDING NET POSITION	24.4	24.9	34.2	34.9	13.1	13.2	71.7	73.0	1.8%

Net position of the business-type activities increased by \$1.3 million. The Wastewater Utility saw the greatest increase with \$0.7 million followed by the Water Utility with \$0.5 million and Storm Water Utility with \$0.1 million. Revenues in Water and Storm Water increased by \$0.1 million each, however the Wastewater Utility saw a decrease of \$0.2 million. Expenses in the Storm Water Utility increased by \$0.2 million and expenses remained unchanged in both the Water and Wastewater utilities.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City of Watertown's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financial requirements. In particular, unassigned fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds reported a combined fund balance of \$16.1 million, which is an increase of \$1.3 million from the previous year. \$281,042 of this balance is non-spendable. There is \$12.3 million that is restricted, committed or assigned. This leaves \$3.5 million that is unassigned.

**Table A-5
City of Watertown Governmental Fund Balance**

	<u>2013</u>	<u>2014</u>
Non-spendable:		
General Fund	255,768	251,302
Other Funds	27,338	29,740
Restricted:		
EMT/Act 102	19,864	3,715
Debt Fund	1,096,812	830,950
Other Funds	7,623,155	8,282,687
Committed:		
Capital project funds	700,547	1,688,657
Other Funds	391,564	348,915
Assigned:		
General Fund	1,322,999	1,130,444
Unassigned		
General Fund	3,448,568	3,725,483
Other Funds	<u>(104,781)</u>	<u>(155,751)</u>
Total Fund Balance	14,781,834	16,136,142

General Fund

The general fund balance total fund balance was \$5.1 million, which represents 32.8% of the final budget amount for year-end December 31, 2014. Of that amount, \$1.4 million is non-spendable or assigned. This leaves \$3.7 million or 72.9% unassigned, meaning it is available for appropriation. This amount represents 24.6% of general fund expenditures for year-end December 31, 2014. In June of 1996, the Common Council adopted a policy stating that the undesignated fund balance should be between ten and twenty percent of general fund expenditures, with a goal of fifteen percent. The city's current unassigned general fund balance exceeds the goal the Common Council has set.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (cont.)

Debt Service Fund

The City's debt service fund accounts for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs. The entire fund balance of \$830,950 is restricted for future debt service.

Capital Projects Funds

The City's capital projects funds account for the funds accumulated for the purpose of obtaining capital assets or for capital projects and other expenditures that are unique and are not normal operating or maintenance type expenditures reportable within the general fund or other governmental funds. The total fund balance as of December 31, 2014, is \$1,688,657, all of which is committed for the completion of projects that were not fully complete by year end.

TID No. 3

The city's TID No. 3 fund accounts for and report financial resources that are restricted to expenditures outlined in the TID Project Plan. The total fund balance of \$5.0 million is restricted for future TID activities.

Other Non-Major Governmental Funds

The fund balance of all other governmental funds is \$3,478,546 out of which \$3.2 million is restricted with a small amount that is non-spendable.

Proprietary Funds

The City of Watertown's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the city's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgets are adopted at the department level of expenditures. Over the course of the year, the Common Council revised the City Budget several times to transfer amounts between accounts.

The 2014 final budget had anticipated using \$393,198 of fund balance to balance the budget plus included \$19,386 of carryovers from the previous year which would have caused a fund balance decrease of \$412,584.

Instead, final budget to actual numbers for 2014 show a general fund balance increase of \$63,745. Revenues overall were slightly higher than budget by \$22,842. Decreased expenditures in general government, public safety, and culture, education and recreation attributed to this fund balance increase. Savings in public liability and other insurance, particularly, workman's compensation premiums, contributed to the general government decrease. The majority of the decreased expenditures in public safety and culture, education and recreation were due to employment vacancies. Turnover in our police department left several positions vacant concurrently while hiring recruitment occurred. The retirement of our Parks, Recreation & Forestry Director provided an opportunity to restructure the management of our park and street department's maintenance staff.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had invested \$163.3 million in capital assets as presented in Table A-6. The largest investment was infrastructure, including roads, bridges, airport, and sidewalks, which totaled \$52.7 million net of depreciation. Buildings and improvements followed with \$11.7 million net of depreciation.

Table A-6
City of Watertown Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Change	
	2013	2014	2013	2014	2013	2014	2013 – 2014	%
Buildings & improvements	11.9	11.7	-	-	11.9	11.7	(0.2)	(1.7)%
Equipment	4.1	4.8	-	-	4.1	4.8	0.7	17.1%
Infrastructure	53.7	52.7	-	-	53.7	52.7	(1.0)	(1.9)%
Land	6.6	6.7	1.5	1.5	8.1	8.2	0.1	1.2%
Construction in progress	0.0	0.0	0.8	0.0	0.8	0.0	(0.8)	(1000)%
Water System	-	-	29.6	29.8	29.6	29.8	0.2	0.7%
Wastewater System	-	-	43.1	42.2	43.1	42.2	(0.9)	(2.1)%
Storm Water System	-	-	12.7	13.9	12.7	13.9	1.2	9.4%
Total	76.3	75.9	87.7	87.4	164.0	163.3	(0.7)	(0.4)%

The City plans to spend approximately \$3.0 million in fiscal year 2015 in the governmental funds on capital assets. Major projects include an aggressive program of continuing street reconstructions, reconstruction of the N. Second Street bridge and several equipment replacements. The sewer and water utilities are planning to spend \$2.7 million during 2015 for rehabilitation work and equipment upgrades. The water utility will continue its conversion to auto meter reads. More detailed information can be found in the Notes to Financial Statements – IV. D. Capital Assets.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION (cont.)

Long-Term Debt

At year-end the City had \$42.1 million in general obligation bonds and notes outstanding, a decrease of \$0.3 million or 0.7% from last year as shown in Table A-7. \$3.0 million is anticipated to be borrowed in 2015 primarily for street work, reconstruction of the N. Second Street bridge and equipment purchases. The water utility recently completed updating its master plan and will be looking to borrow in 2015 or 2016 to begin the infrastructure updates needed for the business-type activities.

Revenue bonds decreased \$2.1 million to \$20.5 million at year end which was a 9.3% decrease from 2013. No new debt was issued in 2014 for any of the business-type activities. More detailed information can be found in the Notes to Financial Statements – IV.F. Long-Term Obligations.

Table A-7
City of Watertown Outstanding Debt
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Change Dollar %	
	2013	2014	2013	2014	2013	2014	2013 – 2014	
General obligation bonds (backed by the City)	42.4	42.1	2.3	2.0	44.7	44.1	(0.6)	(1.3)%
Revenue bonds and notes (backed by specific revenues)	-	-	22.6	20.5	22.6	20.5	(2.1)	(9.3)%
Total	42.4	42.1	24.9	22.5	67.3	64.6	(2.7)	(4.0)%

The City has the power to incur indebtedness for City purposes specified by statute in an aggregate amount, not to exceed 5 percent of the equalized value of taxable property in the City. On January 1, 2014, the City's total equalized value was \$1.282 billion giving us a legal debt capacity of \$64.1 million. At December 31, 2014, the City is currently at 68.9% of capacity. We have additional borrowing capacity of \$22.0 million.

In 2013, Moody's Investor Service downgraded the City of Watertown's ratings from Aa3 to Aa2 and concurrently downgraded the city's Community Development Authority lease revenue debt from A2 to A1. The primary reason given for the downgrade was the significant decline in valuation as well as declining socioeconomic indicators and an elevated debt burden. Moody's has continued the Aa2 and A1 ratings in 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City has a strategic location just north of Interstate 94 between Milwaukee and Madison. The City's tax base, currently at \$1.282 billion, increased by \$25 million over the past year. The 2010 census has our population at 23,936. New construction totaled \$15.8 million which is a decrease from the previous year's total of \$20.4 million. There were 14 new single family homes included plus two 8-unit apartment buildings and two duplexes for the year.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (cont.)

The 2015 general fund operating budget expenditures are at \$15,824,611, an increase of \$278,398 or 1.8% over the 2014 original budget. The budget contains projected salary increases of 3% for 2015 and anticipates using approximately \$167,593 of fund balance mainly for capital items and one-time expenses in the general fund. Changes in health insurance for 2015 to a deductible plan were implemented. Employees have a \$1,000 family deductible and a \$500 single deductible. This change in health plans kept the increase for health insurance at approximately 3% compared to the over 13% increase we were facing. The City has also begun a branding initiative entering into a three-way agreement with the Watertown Economic Development Corporation and the Watertown Area Chamber of Commerce to fund this project.

The 2015 debt budget expenditures are at \$4.0 million, an increase of \$439,479 or 12.3% over the 2014 budget. In 2012, TID #3 became a donor TID for TID #4 and #5. This eliminated the need to raise tax dollars to cover the increment shortfall in TID #4.

As for the City's business-type activities, we anticipate positive cash flow for all entities. Sewer and storm water rates are adjusted and approved by the Public Works Commission. Water and sewer rates will be reviewed upon completion of a 5 year plan currently being conducted by Baker Tilly Virchow Krause, LLP.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City Clerk/Treasurer's Office, 106 Jones Street, Watertown, WI 53094.

CITY OF WATERTOWN

STATEMENT OF NET POSITION As of December 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business- type Activities	Totals	
ASSETS				
Cash and investments	\$ 14,555,216	\$ 3,494,858	\$ 18,050,074	\$ 219,601
Taxes receivable	14,412,051	-	14,412,051	-
Other receivables (net)	1,741,390	871,223	2,612,613	19,130
Prepaid items and inventories	256,897	166,744	423,641	10,684
Other assets	-	750	750	-
Internal balances	332,812	(332,812)	-	-
Lease receivable	-	-	-	550,000
Restricted cash and investments	-	4,767,294	4,767,294	471,663
Capital Assets				
Construction in progress	-	-	-	6,200
Land	6,761,240	1,524,214	8,285,454	156,592
Other capital assets, net of depreciation	69,186,098	85,911,397	155,097,495	1,102,591
Total Assets	107,245,704	96,403,668	203,649,372	2,536,461
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on advance refunding	-	72,278	72,278	-
Total Deferred Outflows of Resources	-	72,278	72,278	-
LIABILITIES				
Accounts payable and accrued expenses	1,044,950	435,799	1,480,749	107,975
Deposits	300,545	-	300,545	-
Noncurrent Liabilities				
Due within one year	4,984,095	2,401,392	7,385,487	300,000
Due in more than one year	39,116,225	20,591,593	59,707,818	685,560
Total Liabilities	45,445,815	23,428,784	68,874,599	1,093,535
DEFERRED INFLOWS OF RESOURCES				
Unearned revenues	13,871,633	-	13,871,633	1,128
Total Deferred Inflows of Resources	13,871,633	-	13,871,633	1,128
NET POSITION				
Net investment in capital assets	42,043,631	65,491,407	105,170,943	1,265,383
Restricted				
Debt service	502,018	1,437,803	1,939,821	-
TID activities	6,012,679	-	6,012,679	-
Grant programs	39,834	-	39,834	-
Loan programs	1,825,296	-	1,825,296	-
Developer fees	226,098	-	226,098	-
Trust purposes	18,200	-	18,200	-
Library	190,223	-	190,223	-
Capital asset replacement	-	2,346,575	2,346,575	-
Depreciation	-	129,731	129,731	-
Unrestricted (deficit)	(2,929,723)	3,641,646	3,076,018	176,415
TOTAL NET POSITION	\$ 47,928,256	\$ 73,047,162	\$ 120,975,418	\$ 1,441,798

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Totals	
Primary Government								
Governmental Activities								
General government	\$ 2,063,195	\$ 86,822	\$ 20,123	\$ -	\$ (1,956,250)	\$ -	\$ (1,956,250)	
Public safety	7,235,664	1,016,973	110,545	-	(6,108,146)	-	(6,108,146)	
Public works	7,417,654	1,175,335	1,717,680	123,117	(4,401,522)	-	(4,401,522)	
Health and human services	697,232	266,260	195,059	-	(235,913)	-	(235,913)	
Culture, education, and recreation	3,280,753	792,903	271,194	12,448	(2,204,208)	-	(2,204,208)	
Conservation and development	531,138	-	14,734	10,700	(505,704)	-	(505,704)	
Interest and fiscal charges	1,461,897	-	-	-	(1,461,897)	-	(1,461,897)	
Total Governmental Activities	<u>22,687,533</u>	<u>3,338,293</u>	<u>2,329,335</u>	<u>146,265</u>	<u>(16,873,640)</u>	<u>-</u>	<u>(16,873,640)</u>	
Business-type Activities								
Water	2,821,842	4,074,004	-	65,560	-	1,317,722	1,317,722	
Wastewater	3,921,331	4,579,576	-	32,105	-	690,350	690,350	
Stormwater	1,317,962	1,291,943	-	120,225	-	94,206	94,206	
Total Business-type Activities	<u>8,061,135</u>	<u>9,945,523</u>	<u>-</u>	<u>217,890</u>	<u>-</u>	<u>2,102,278</u>	<u>2,102,278</u>	
Total Primary Government	<u>\$ 30,748,668</u>	<u>\$ 13,283,816</u>	<u>\$ 2,329,335</u>	<u>\$ 364,155</u>	<u>(16,873,640)</u>	<u>2,102,278</u>	<u>(14,771,362)</u>	
Component Unit								
Community Development Authority	<u>\$ 627,239</u>	<u>\$ 310,820</u>	<u>\$ 63,875</u>	<u>\$ 71,330</u>				\$ (181,214)
General Revenues								
Taxes								
Property taxes, levied for general purposes					7,551,561	-	7,551,561	-
Property taxes, levied for debt service					3,378,217	-	3,378,217	-
Property taxes, tax increment					2,676,470	-	2,676,470	-
Other taxes					395,075	-	395,075	-
Intergovernmental revenues not restricted to specific programs					3,107,838	-	3,107,838	-
Investment income					57,241	20,992	78,233	37,816
Miscellaneous					617,965	-	617,965	2,383
Transfers					<u>777,842</u>	<u>(777,842)</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers					<u>18,562,209</u>	<u>(756,850)</u>	<u>17,805,359</u>	<u>40,199</u>
Change in Net Position					1,688,569	1,345,428	3,033,997	(141,015)
NET POSITION - Beginning of Year					<u>46,239,687</u>	<u>71,701,734</u>	<u>117,941,421</u>	<u>1,582,813</u>
NET POSITION - END OF YEAR					<u>\$ 47,928,256</u>	<u>\$ 73,047,162</u>	<u>\$ 120,975,418</u>	<u>\$ 1,441,798</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2014

	General	Debt Service	General Capital Projects	TID No. 3	Nonmajor Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 4,250,522	\$ 830,950	\$ 1,740,054	\$ 5,027,045	\$ 2,706,645	\$ 14,555,216
Receivables (net)						
Taxes	8,331,622	3,653,217	18,838	1,511,036	891,393	14,406,106
Delinquent personal property taxes	5,945	-	-	-	-	5,945
Accounts	174,996	-	-	-	88,675	263,671
Grants	-	-	40,627	-	143,329	183,956
Due from other funds	965,539	-	-	-	-	965,539
Special assessments	28,765	-	33,393	-	-	62,158
Loans	-	46,601	-	-	1,185,004	1,231,605
Prepaid items	245,357	-	-	-	11,540	256,897
TOTAL ASSETS	\$ 14,002,746	\$ 4,530,768	\$ 1,832,912	\$ 6,538,081	\$ 5,026,586	\$ 31,931,093
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 79,751	\$ -	\$ 61,182	\$ -	\$ 82,878	\$ 223,811
Accrued liabilities	414,764	-	-	-	-	414,764
Due to other funds	445,030	-	-	-	187,697	632,727
Other liabilities	-	-	30,842	-	300,545	331,387
Total Liabilities	<u>939,545</u>	<u>-</u>	<u>92,024</u>	<u>-</u>	<u>571,120</u>	<u>1,602,689</u>
Deferred Inflows of Resources						
Unearned revenues	7,868,439	3,653,217	-	1,511,036	838,941	13,871,633
Unavailable revenues	83,818	46,601	52,231	-	137,979	320,629
Total Deferred Inflows of Resources	<u>7,952,257</u>	<u>3,699,818</u>	<u>52,231</u>	<u>1,511,036</u>	<u>976,920</u>	<u>14,192,262</u>
Fund Balances						
Nonspendable:						
Delinquent personal property taxes	5,945	-	-	-	-	5,945
Prepaid items	245,357	-	-	-	11,540	256,897
Permanent trust	-	-	-	-	18,200	18,200
Restricted	3,715	830,950	-	5,027,045	3,255,642	9,117,352
Committed	-	-	1,688,657	-	348,915	2,037,572
Assigned	1,130,444	-	-	-	-	1,130,444
Unassigned, reported in general fund	3,725,483	-	-	-	-	3,725,483
Unassigned (deficit)	-	-	-	-	(155,751)	(155,751)
Total Fund Balances	<u>5,110,944</u>	<u>830,950</u>	<u>1,688,657</u>	<u>5,027,045</u>	<u>3,478,546</u>	<u>16,136,142</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 14,002,746	\$ 4,530,768	\$ 1,832,912	\$ 6,538,081	\$ 5,026,586	
Amounts reported for governmental activities in the statement of net positions are different because:						
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.						
See Note IV.D.						75,947,338
Some receivables that are not currently available are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements. See Note II.A.						
						320,629
Some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds. See Note II.A.						
						(44,475,853)
NET POSITION OF GOVERNMENTAL ACTIVITIES						\$ 47,928,256

See accompanying notes to financial statements.

CITY OF WATERTOWN

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

For the Year Ended December 31, 2014

	General	Debt Service	General Capital Projects	TID No. 3	Nonmajor Governmental Funds	Totals
REVENUES						
Taxes	\$ 7,972,538	\$ 3,378,217	\$ -	\$ 1,595,177	\$ 1,081,294	\$ 14,027,226
Special assessments	-	-	787	-	-	787
Intergovernmental	4,347,132	-	90,865	10,292	868,435	5,316,724
Licenses and permits	416,267	-	-	-	185,619	601,886
Public charges for services	1,251,362	-	57,723	-	1,276,198	2,585,283
Intergovernmental charges for service	202,161	-	-	-	-	202,161
Investment income	6,556	-	2,181	3,517	19,085	31,339
Miscellaneous	203,827	15,454	105,259	-	537,799	862,339
Total Revenues	<u>14,399,843</u>	<u>3,393,671</u>	<u>256,815</u>	<u>1,608,986</u>	<u>3,968,430</u>	<u>23,627,745</u>
EXPENDITURES						
Current						
General government	1,965,104	-	-	-	-	1,965,104
Public safety	6,785,535	-	-	-	-	6,785,535
Public works	3,137,699	-	-	-	1,652,277	4,789,976
Health and human services	370,340	-	-	-	371,134	741,474
Culture, education, and recreation	2,363,754	-	-	-	716,305	3,080,059
Conservation and development	204,602	-	-	150	180,733	385,485
Public service enterprises	179,285	-	-	-	-	179,285
Capital Outlay	107,621	-	2,568,705	-	307,308	2,983,634
Debt Service						
Principal	-	2,661,353	-	475,000	444,813	3,581,166
Interest, issuance costs and fiscal charges	-	988,483	60,150	81,988	443,119	1,573,740
Principal on capital leases	-	49,594	-	-	300,000	349,594
Interest on capital leases	-	21,966	-	-	36,274	58,240
Total Expenditures	<u>15,113,940</u>	<u>3,721,396</u>	<u>2,628,855</u>	<u>557,138</u>	<u>4,451,963</u>	<u>26,473,292</u>
Excess (deficiency) of revenues over expenditures	<u>(714,097)</u>	<u>(327,725)</u>	<u>(2,372,040)</u>	<u>1,051,848</u>	<u>(483,533)</u>	<u>(2,845,547)</u>
OTHER FINANCING SOURCES (USES)						
Debt issued	-	-	3,300,000	-	-	3,300,000
Premium on debt issued	-	61,863	60,150	-	-	122,013
Transfer in - tax equivalent	777,842	-	-	-	-	777,842
Transfers in	-	-	-	-	797,075	797,075
Transfers out	-	-	-	(797,075)	-	(797,075)
Total Other Financing Sources (Uses)	<u>777,842</u>	<u>61,863</u>	<u>3,360,150</u>	<u>(797,075)</u>	<u>797,075</u>	<u>4,199,855</u>
Net Change in Fund Balances	63,745	(265,862)	988,110	254,773	313,542	1,354,308
FUND BALANCES - Beginning of Year	<u>5,047,199</u>	<u>1,096,812</u>	<u>700,547</u>	<u>4,772,272</u>	<u>3,165,004</u>	<u>14,781,834</u>
FUND BALANCES - END OF YEAR	<u>\$ 5,110,944</u>	<u>\$ 830,950</u>	<u>\$ 1,688,657</u>	<u>\$ 5,027,045</u>	<u>\$ 3,478,546</u>	<u>\$ 16,136,142</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds	\$ 1,354,308
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 net position the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities.	
Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements	2,983,634
Some items reported as capital outlay are not capitalized	(425,323)
Depreciation is reported in the government-wide statements	(3,126,840)
Net book value of assets retired	187,724
Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements.	
Special assessments	7,058
EMS services	(40,660)
Land contract and loan receivable	(13,659)
Transit grants receivable	17,777
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Debt issued	(3,300,000)
Capital leases repaid	349,594
Principal repaid	3,581,166
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	13,863
Police and fire pension	51,857
Accrued interest on debt	48,070
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,688,569</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF NET POSITION ENTERPRISE FUNDS As of December 31, 2014

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
ASSETS				
CURRENT ASSETS				
Cash and investments	\$ 902,371	\$ 1,583,816	\$ 358,670	\$ 2,844,857
Restricted assets				
Redemption account	387,846	1,152,019	-	1,539,865
Accounts receivable	362,128	394,741	112,381	869,250
Due from other funds	200,827	210,671	45,606	457,104
Inventories	109,304	-	-	109,304
Prepaid items	19,505	29,336	8,599	57,440
Total Current Assets	1,981,981	3,370,583	525,256	5,877,820
NONCURRENT ASSETS				
Restricted cash and investments	880,854	2,346,575	-	3,227,429
Capital Assets				
Land	210,990	648,923	664,301	1,524,214
Property and equipment	42,149,979	57,218,677	19,668,499	119,037,155
Less: Accumulated depreciation	(12,397,740)	(15,057,718)	(5,670,300)	(33,125,758)
Other Assets				
Cash and investments	-	650,001	-	650,001
Non-utility property	750	-	-	750
Special assessments	-	1,973	-	1,973
Total Non-Current Assets	30,844,833	45,808,431	14,662,500	91,315,764
Total Assets	32,826,814	49,179,014	15,187,756	97,193,584
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on advance refunding	72,278	-	-	72,278

See accompanying notes to financial statements.

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	\$ 213,690	\$ 38,752	\$ 34,991	\$ 287,433
Compensated absences	16,907	24,856	-	41,763
Accrued wages	13,533	15,985	5,536	35,054
Accrued interest	2,511	2,511	6,228	11,250
Due to other funds	777,842	12,074	-	789,916
Current portion of general obligation debt	3,971	3,971	195,000	202,942
Liabilities Payable From Restricted Assets				
Current portion of revenue bonds	525,000	1,631,687	-	2,156,687
Accrued interest	37,841	64,221	-	102,062
Total Current Liabilities	<u>1,591,295</u>	<u>1,794,057</u>	<u>241,755</u>	<u>3,627,107</u>
NON-CURRENT LIABILITIES				
Long-Term Debt				
Revenue bonds	6,050,000	12,360,720	-	18,410,720
General obligation debt	56,445	56,445	1,762,500	1,875,390
Unamortized debt premium	242,698	-	-	242,698
Other Liabilities				
Compensated absences	35,607	27,178	-	62,785
Total Non-Current Liabilities	<u>6,384,750</u>	<u>12,444,343</u>	<u>1,762,500</u>	<u>20,591,593</u>
Total Liabilities	<u>7,976,045</u>	<u>14,238,400</u>	<u>2,004,255</u>	<u>24,218,700</u>
NET POSITION				
Net investment in capital assets	23,968,932	28,817,475	12,705,000	65,491,407
Restricted for debt service	350,005	1,087,798	-	1,437,803
Restricted for capital asset replacement	-	2,346,575	-	2,346,575
Restricted for depreciation	129,731	-	-	129,731
Unrestricted	474,379	2,688,766	478,501	3,641,646
TOTAL NET POSITION	<u>\$ 24,923,047</u>	<u>\$ 34,940,614</u>	<u>\$ 13,183,501</u>	<u>\$ 73,047,162</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ENTERPRISE FUNDS

For the Year Ended December 31, 2014

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
OPERATING REVENUES				
Charges for services	\$ 4,074,004	\$ 4,579,576	\$ 1,291,943	\$ 9,945,523
Total Operating Revenues	<u>4,074,004</u>	<u>4,579,576</u>	<u>1,291,943</u>	<u>9,945,523</u>
OPERATING EXPENSES				
Operation and maintenance	1,671,667	1,960,397	783,732	4,415,796
Depreciation	925,692	1,557,743	452,962	2,936,397
Total Operating Expenses	<u>2,597,359</u>	<u>3,518,140</u>	<u>1,236,694</u>	<u>7,352,193</u>
Operating Income	<u>1,476,645</u>	<u>1,061,436</u>	<u>55,249</u>	<u>2,593,330</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	1,398	3,182	518	5,098
Interest charged to construction	-	-	15,894	15,894
Amortization of premium	9,832	-	-	9,832
Interest expense	(234,315)	(403,191)	(81,268)	(718,774)
Total Nonoperating Revenues (Expenses)	<u>(223,085)</u>	<u>(400,009)</u>	<u>(64,856)</u>	<u>(687,950)</u>
Income (Loss) Before Contributions and Transfers	1,253,560	661,427	(9,607)	1,905,380
CAPITAL CONTRIBUTIONS	65,560	32,105	120,225	217,890
TRANSFERS - TAX EQUIVALENT	<u>(777,842)</u>	<u>-</u>	<u>-</u>	<u>(777,842)</u>
Change in Net Position	541,278	693,532	110,618	1,345,428
NET POSITION - Beginning of Year	<u>24,381,769</u>	<u>34,247,082</u>	<u>13,072,883</u>	<u>71,701,734</u>
NET POSITION - END OF YEAR	<u>\$24,923,047</u>	<u>\$34,940,614</u>	<u>\$13,183,501</u>	<u>\$73,047,162</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF CASH FLOWS ENTERPRISE FUNDS

For the Year Ended December 31, 2014

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 4,085,020	\$ 4,609,287	\$ 1,289,967	\$ 9,984,274
Paid to suppliers for goods and services	(1,172,921)	(1,411,092)	(479,506)	(3,063,519)
Paid to employees for services	(482,119)	(542,543)	(296,680)	(1,321,342)
Net Cash Flows From Operating Activities	<u>2,429,980</u>	<u>2,655,652</u>	<u>513,781</u>	<u>5,599,413</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Paid to city for tax equivalent	(783,479)	-	-	(783,479)
Debt retired	(3,447)	(3,447)	-	(6,894)
Interest paid	(3,353)	(3,353)	-	(6,706)
Net Cash Flows From Noncapital Financing Activities	<u>(790,279)</u>	<u>(6,800)</u>	<u>-</u>	<u>(797,079)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Debt retired	(515,000)	(1,587,841)	(190,000)	(2,292,841)
Interest paid	(233,122)	(407,288)	(82,196)	(722,606)
Acquisition and construction of capital assets	(1,150,705)	(863,414)	(1,028,322)	(3,042,441)
Salvage on retirement of assets	-	-	95,000	95,000
Capital contributions received	65,560	32,105	120,255	217,920
Net Cash Flows From Capital and Related Financing Activities	<u>(1,833,267)</u>	<u>(2,826,438)</u>	<u>(1,085,263)</u>	<u>(5,744,968)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	1,398	3,182	518	5,098
Net Cash Flows From Investing Activities	<u>1,398</u>	<u>3,182</u>	<u>518</u>	<u>5,098</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(192,168)	(174,404)	(570,964)	(937,536)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,363,239</u>	<u>5,906,815</u>	<u>929,634</u>	<u>9,199,688</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,171,071</u>	<u>\$ 5,732,411</u>	<u>\$ 358,670</u>	<u>\$ 8,262,152</u>

See accompanying notes to financial statements.

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	\$ 1,476,645	\$ 1,061,436	\$ 55,249	\$ 2,593,330
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities				
Depreciation expense	925,692	1,557,743	452,962	2,936,397
Depreciation charged to other funds	53,626	-	-	53,626
Changes in assets and liabilities				
Accounts receivable	(31,895)	21,341	(10,531)	(21,085)
Due from other funds	(10,715)	8,700	8,555	6,540
Inventories	(15,946)	-	-	(15,946)
Prepaid items	(198)	1,722	1,018	2,542
Due to other funds	(966)	13,040	-	12,074
Accounts payable	25,527	(4,404)	1,796	22,919
Compensated absences	5,852	917	-	6,769
Other current liabilities	2,358	(4,843)	4,732	2,247
	<u>2,358</u>	<u>(4,843)</u>	<u>4,732</u>	<u>2,247</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,429,980</u>	<u>\$ 2,655,652</u>	<u>\$ 513,781</u>	<u>\$ 5,599,413</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES				
Capitalized interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,894</u>	
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION				
Cash and investments	\$ 902,371	\$ 1,583,816	\$ 358,670	\$ 2,844,857
Restricted cash and investments - current	387,846	1,152,019	-	1,539,865
Restricted cash and investments - noncurrent	880,854	2,346,575	-	3,227,429
Other assets - cash and investments	-	650,001	-	650,001
	<u>-</u>	<u>650,001</u>	<u>-</u>	<u>650,001</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,171,071</u>	<u>\$ 5,732,411</u>	<u>\$ 358,670</u>	<u>\$ 8,262,152</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF ASSETS AND LIABILITIES

AGENCY FUND

As of December 31, 2014

	Tax Collection Fund
ASSETS	
Cash and investments	\$ 14,269,494
Taxes receivable	<u>3,808,277</u>
TOTAL ASSETS	<u>\$ 18,077,771</u>
LIABILITIES	
Due to other taxing units	<u>\$ 18,077,771</u>
TOTAL LIABILITIES	<u>\$ 18,077,771</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

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CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Watertown, Wisconsin conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

This report includes all of the funds of the city. The reporting entity for the city consists of the primary government and its component unit. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. REPORTING ENTITY (cont.)

Discretely Presented Component Unit

Community Development Authority (CDA) of the City of Watertown

The government-wide financial statements include the Community Development Authority ("CDA") as a component unit. The CDA is a legally separate organization. The board of the CDA is appointed by the mayor. Wisconsin Statutes provide for circumstances whereby the city can impose its will on the CDA, and also create a potential financial benefit to or burden on the city. See Note IV.I. As a component unit, the CDA's financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended September 30, 2014. Separately issued financial statements of the Community Development Authority may be obtained from the CDA's office.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

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, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balance, revenues, and expenditures/expenses.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. 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 or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the city believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The city reports the following major governmental funds:

- General Fund - accounts for the city's primary operating activities. It is used to account for and report all financial resources except those accounted for and reported in another fund.
- Debt service fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest, and related costs, other than TID or enterprise debt.
- General Capital projects fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets .
- Tax Incremental District (TID) No. 3 Capital Projects Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures outlined in the TID project plan.

The city reports the following major enterprise funds:

- Water Utility - accounts for operations of the water system
- Sewer Utility - accounts for operations of the sewer system
- Stormwater Utility - accounts for operations of the stormwater system

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The city reports the following nonmajor governmental funds:

Special Revenue Funds - used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

Transit System Fund	Environmental Health Fund
CDBG Economic Fund	Emergency Preparedness Fund
CDBG Housing Rehab Fund	Seal-A-Smile Fund
Library Fund	Library Trust Fund
Riverfest Fund	Solid Waste Fund
Developer Parks Fund	

Capital Projects Funds - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

TID No. 4	TID No. 6
TID No. 5	

Permanent Fund - used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Library Trust

In addition, the city reports the following fund types:

Agency Fund - used to account for and report assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection Fund

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred inflows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water, sewer, and stormwater and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred inflows. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the city is entitled the resources and the amounts are available. Amounts owed to the city which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time requirements) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are recorded as deferred inflows.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and unavailable revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

The 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 revenues of the water and wastewater utility are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for 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.

All Financial Statements

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/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the city considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of city funds is restricted by Wisconsin state statutes. Available investments are limited to:

- a. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- b. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

1. Deposits and Investments (cont.)

- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

Additional restrictions may arise from local charters, ordinances, resolutions and grant resolutions.

Investment of most trust funds including cemetery perpetual care funds, is regulated by Chapter 881 of the Wisconsin Statutes. Investment of library trust funds is regulated by Chapter 112. Those sections give broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The city has adopted an investment policy. That policy follows the state statute for allowable investments.

No policy exists for the following risks:

- Credit risk
- Custodial credit risk
- Interest rate risk

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank statement balance and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2014, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

1. Deposits and Investments (cont.)

The Watertown Area Community Foundation ("the Foundation") is a community endowment fund. The Foundation is not registered with the Securities and Exchange Commission. It constitutes a contractual agreement between the city and the Foundation with respect to investment of city assets. The Foundation reports the fair value of its underlying assets annually. At December 31, 2014, the fair value of the Foundation's assets was substantially equal to the city's share as reported in Note IV. A.

See Note IV. A. for further information.

2. Receivables

Property tax calendar - 2014 tax roll:

Lien date and levy date	December 2014
Tax bills mailed	December 2014
Payment in full, or	January 31, 2015
First installment due	January 31, 2015
Second installment due	April 30, 2015
Third installment due	July 31, 2015
Personal property taxes in full	January 31, 2015
Tax sale - 2014 delinquent real estate taxes	October 2017

Accounts receivable have been shown net of an allowance for uncollectible accounts for EMS service of \$75,147. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the water and sewer utilities because they have the right by law to place substantially all delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as internal balances.

The city has received federal and state grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The city records a loan receivable when the loan has been made and funds have been disbursed. The amount recorded as economic development and housing rehabilitation loans receivable has been reduced by an allowance for uncollectible accounts of \$51,677.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

2. Receivables (cont.)

It is the city's policy to record revenue when the initial loan is made from the federal and state grant funds. The net amount of the loan receivable balance is included in restricted fund balance. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as restricted fund balance in the fund financial statements.

3. Inventories and Prepaid Items

Governmental fund inventories, if material, are recorded at cost based on the FIFO method using the purchases method of accounting. Proprietary fund inventories are generally used for construction and/or for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction and/or operation and maintenance expense when used.

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.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

5. Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and \$50,000 for infrastructure assets, and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

5. Capital Assets (cont.)

Government-Wide Statements (cont.)

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. \$15,894 of net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Buildings	15 - 70	Years
Land Improvements	12 - 40	Years
Machinery and Equipment	5 - 45	Years
Utility System	7 - 100	Years
Infrastructure	40 - 80	Years
Airport	20 - 30	Years
Intangibles	2 - 100	Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

6. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

A deferred charge on refunding arises from the advance refunding of debt. The difference between the cost of the securities placed in trust for future payments of the refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the government-wide and proprietary fund financial statements.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

7. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources.

The city provides postemployment health insurance benefits for all eligible employees. Eligibility is based on retiring from the city with 10 years of service. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. Employees may convert \$60 (police and fire union \$50/day) per day for up to 120 days of accumulated sick leave to pay for health care premiums. The cost of those premiums is recognized as an expenditure as the premiums are paid. The cost is paid approximately 50 percent by the city and 50 percent by the employee. Funding for those costs is provided out of the current operating budget of the city. The contributions are financed on a pay as you go basis. Total expenditures for such premiums during the year were \$19,746. The number of participants currently eligible to receive benefits is three. The total amount outstanding at year end to be paid in the future is not material to these financial statements.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2014, are determined on the basis of current salary rates and include salary related payments.

8. Long-Term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the effective interest method. The balance at year end is shown as an increase or decrease in the liability section of the statement of net position.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

8. Long-Term Obligations/Conduit Debt (cont.)

The city has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the city. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is approximately \$1,238,663, made up of three issues.

9. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net positions that do not meet the definitions of "restricted" or "net investment in capital assets."

The net position section includes an adjustment for capital assets owned by the business-type activities column, but financed by the debt of the governmental activities column. The amount is a reduction of "net investment in capital assets", and an increase in "unrestricted" net position, shown only in the total column. A reconciliation of this adjustment is as follows:

	Governmental Activities	Business-type Activities	Adjustment	Total
Net investment in capital assets	\$ 42,043,631	\$ 65,491,407	\$ (2,364,095)	\$ 105,170,943
Unrestricted	(2,929,723)	3,641,646	2,364,095	3,076,018

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements

Governmental fund balances are displayed as follows:

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the City Council. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the City Council that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The city has adopted a financial policy authorizing the Clerk/Treasurer to assign amounts for a specific purpose. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The city considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the city would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements (cont.)

The city has a formal minimum fund balance policy. That policy is to maintain an unassigned general fund balance within a range of 10% to 20% of general fund expenditures. The unassigned general fund balance at year end was \$3,725,483 or 24.6% of 2014 general fund expenditures.

See Note IV. H. for further information.

11. Basis for Existing Rates

Water Utility

Current water rates were approved by the Public Service Commission of Wisconsin effective May 2, 2014.

Wastewater Utility

Current wastewater rates were approved by the Public works Committee on January 1, 2012.

NOTE II - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that . The details of this \$320,629 difference are as follows:

Special assessments receivable	\$	99,149
Loans receivable		46,601
EMS accounts receivable		36,900
Transit accounts receivable		<u>137,979</u>
Combined Adjustment for Unavailable Revenue	\$	<u><u>320,629</u></u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE II - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION (cont.)

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net position.

Bonds and notes payable	\$	42,105,319
Compensated absences		1,017,732
Capital leases		968,763
Police and fire pension		8,506
Accrued interest		<u>375,533</u>
Combined Adjustment for Long-Term Liabilities	\$	<u><u>44,475,853</u></u>

NOTE III - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

A budget has been adopted for the all funds except for Library Trust Special Revenue Fund. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

Funds	Budgeted Expenditures	Actual Expenditures	Excess Expenditures Over Budget
TID No. 4 capital projects fund	\$ 358,775	\$ 547,849	\$ 189,074
TID No. 5 capital projects fund	446,960	562,907	115,947
TID No. 6 capital projects fund	80,408	81,372	964
Library fund	264,167	291,411	27,244
Riverfest fund	423,900	433,935	10,035
Solid Waste fund	1,043,252	1,066,369	23,117
CDBG economic fund	2,000	20,776	18,776
CDBG housing rehab fund	5,000	42,243	37,243
Developer parks fund	-	129,675	129,675

The city controls expenditures at the department level. Some individual departments experienced expenditures which exceeded appropriations. The detail of those items can be found in the city's year-end budget to actual report.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE III - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

C. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of December 31, 2014, the following individual funds held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Transit system fund	\$ 155,751	Grant revenue is unavailable

The Transit system fund deficit will be reduced when unavailable revenues of \$137,979 are available as revenues in 2015.

D. LIMITATIONS ON THE CITY'S TAX LEVY

Wisconsin law limits the city's future tax levies. Generally the city is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the city's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. The city is required to reduce its allowable levy by the estimated amount of fee revenue it collects for certain services, if those services were funded in 2014 by the property tax levy. Levies can be increased above the allowable limits if the amount is approved by referendum.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The city's deposits and investments at year end were comprised of the following:

	<u>Carrying Value</u>	<u>Statement Balances</u>	<u>Associated Risks</u>
Deposits	\$ 21,139,636	\$ 21,601,752	Custodial credit risk
LGIP	14,847,561	14,847,561	Credit
Watertown Area Community Foundation	75,093	75,093	Interest rate, credit
Cash on hand	<u>1,024,572</u>	<u>-</u>	N/A
 Total Deposits and Investments	 <u>\$ 37,086,862</u>	 <u>\$ 36,524,406</u>	
 Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 18,050,074		
Restricted cash and investments	4,767,294		
Per statement of assets and liabilities - agency fund			
Cash and investments	<u>14,269,494</u>		
 Total Deposits and Investments	 <u>\$ 37,086,862</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

The city maintains collateral agreements with its banks. At December 31, 2014, the banks had pledged various government securities in the amount of \$21,248,748 to secure the city's deposits.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the city's deposits may not be returned to the city.

The city does not have any deposits exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The city held investments in the following external pools which are not rated:

Local Government Investment Pool

Watertown Area Community Foundation

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of December 31, 2014, the city's investments were as follows:

The average maturity for the \$75,093 held by the Watertown Area Community Foundation was not available.

See Note I.D.1. for further information on deposit and investment policies.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES

Receivables as of year end for the governmental individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>General Capital Projects</u>	<u>TID No. 3</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables						
Taxes	\$ 8,331,622	\$ 3,653,217	\$ 18,838	\$ 1,511,036	\$ 4,699,670	\$18,214,383
Delinquent taxes	5,945	-	-	-	-	5,945
Accounts/grants	250,143	-	40,627	-	232,004	522,774
Special assessments	28,765	-	33,393	-	-	62,158
Loans	-	46,601	-	-	1,236,681	1,283,282
Gross receivables	8,616,475	3,699,818	92,858	1,511,036	6,168,355	20,088,542
Less: Allowance for uncollectibles	<u>(75,147)</u>	-	-	-	<u>(51,677)</u>	<u>(126,824)</u>
Net Total Receivables	<u>\$ 8,541,328</u>	<u>\$ 3,699,818</u>	<u>\$ 92,858</u>	<u>\$ 1,511,036</u>	<u>\$ 6,116,678</u>	<u>\$19,961,718</u>
Amounts not expected to be collected within one year	<u>\$ 34,710</u>	<u>\$ 46,601</u>	<u>\$ 33,393</u>	<u>\$ -</u>	<u>\$ 1,185,004</u>	<u>\$ 1,299,708</u>

No allowance for uncollectibles was required for Water, Sewer and Stormwater utility receivables and they are all expected to be collected within one year.

Governmental funds report *unavailable or unearned revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used 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 *unavailable revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unearned</u>	<u>Unavailable</u>
Property taxes receivable for subsequent year	\$ 13,871,633	\$ -
Special assessments receivable	-	36,991
Special assessments not yet due	-	62,158
Loan receivable not due yet	-	46,601
EMS accounts receivable not available	-	36,900
Transit accounts receivable	-	137,979
Total Unearned/Unavailable Revenue for Governmental Funds	<u>\$ 13,871,633</u>	<u>\$ 320,629</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

For economic development loans, the city is limited by the Wisconsin Department of Administration to the amount of program income from economic development loans that it may retain and loan to other businesses and the amount of time for which funds may be held without use. Program income includes the principal and interest received from economic development loans repayments.

At December 31, 2014, the city has not exceeded the maximum amount that it may retain or time established. When it does, a liability to the state will be recorded.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long-Term Debt Accounts

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

Equipment Replacement Account

The wastewater utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Following is a list of restricted assets at December 31, 2014:

Restricted Assets	
Redemption account	\$ 1,539,865
Reserve account	751,123
Depreciation account	129,731
Replacement account	<u>2,346,575</u>
Total Restricted Assets	<u>4,767,294</u>
Less: Restricted assets not funded by revenues	
Reserve from borrowing	<u>(751,123)</u>
Total Restricted Assets Not Funded by Revenues	<u>(751,123)</u>
Current Liabilities Payable From Restricted Assets	<u>(102,062)</u>
Total Restricted Net Position	<u><u>\$ 3,914,109</u></u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 6,564,240	\$ 197,000	\$ -	\$ 6,761,240
Total Capital Assets Not Being Depreciated	6,564,240	197,000	-	6,761,240
Capital assets being depreciated				
Land improvements	2,245,427	269,016	-	2,514,443
Buildings	19,264,837	13,722	-	19,278,559
Machinery and equipment	12,081,680	1,133,389	455,243	12,759,826
Roads	74,962,266	877,151	469,636	75,369,781
Bridges	7,916,338	-	-	7,916,338
Sidewalks	2,526,760	68,033	4,087	2,590,706
Dams	927,703	-	-	927,703
Airport	3,904,963	-	-	3,904,963
Rail spur	588,903	-	-	588,903
Total Capital Assets Being Depreciated	124,418,877	2,361,311	928,966	125,851,222
Total Capital Assets	130,983,117	2,558,311	928,966	132,612,462
Less: Accumulated depreciation for				
Land improvements	(1,204,622)	(75,800)	-	(1,280,422)
Buildings	(8,367,161)	(483,183)	46,691	(8,803,653)
Machinery and equipment	(8,025,549)	(629,374)	645,307	(8,009,616)
Roads	(30,787,123)	(1,774,318)	421,632	(32,139,809)
Bridges	(1,434,411)	(98,341)	-	(1,532,752)
Sidewalks	(922,284)	(40,795)	3,060	(960,019)
Dams	(74,638)	(11,596)	-	(86,234)
Airport	(3,798,700)	(6,072)	-	(3,804,772)
Rail spur	(40,486)	(7,361)	-	(47,847)
Total Accumulated Depreciation	(54,654,974)	(3,126,840)	1,116,690	(56,665,124)
Net Capital Assets Being Depreciated	69,763,903	(765,529)	(187,724)	69,186,098
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 76,328,143	\$ (568,529)	\$ (187,724)	\$ 75,947,338

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 194,270
Public safety	212,221
Public works	2,479,600
Health and human services	17,194
Culture, recreation, education	<u>223,555</u>

Total Governmental Activities Depreciation Expense \$ 3,126,840

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 1,524,214	\$ -	\$ -	\$ 1,524,214
Construction in progress	<u>831,976</u>	<u>1,305,559</u>	<u>2,137,535</u>	<u>-</u>
Total Capital Assets Not Being depreciated	<u>2,356,190</u>	<u>1,305,559</u>	<u>2,137,535</u>	<u>1,524,214</u>
Capital assets being depreciated				
Water system	40,984,000	1,290,272	124,293	42,149,979
Wastewater system	56,730,239	589,967	101,529	57,218,677
Stormwater system	<u>17,982,564</u>	<u>1,806,761</u>	<u>120,826</u>	<u>19,668,499</u>
Total Capital Assets Being Depreciated	<u>115,696,803</u>	<u>3,687,000</u>	<u>346,648</u>	<u>119,037,155</u>
Total Capital Assets	<u>118,052,993</u>	<u>4,992,559</u>	<u>2,484,183</u>	<u>120,561,369</u>
Less: Accumulated depreciation for				
Water system	(11,542,715)	(979,973)	124,948	(12,397,740)
Wastewater system	(13,601,503)	(1,557,744)	101,529	(15,057,718)
Stormwater system	<u>(5,243,164)</u>	<u>(452,962)</u>	<u>25,826</u>	<u>(5,670,300)</u>
Total Accumulated Depreciation	<u>(30,387,382)</u>	<u>(2,990,679)</u>	<u>252,303</u>	<u>(33,125,758)</u>
Net Capital Assets Being Depreciated	<u>85,309,421</u>	<u>696,321</u>	<u>94,345</u>	<u>85,911,397</u>
Business-type Capital Assets, Net of Accumulated Depreciation	<u>\$ 87,665,611</u>	<u>\$ 2,001,880</u>	<u>\$ 2,231,880</u>	<u>\$ 87,435,611</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Business-type Activities

Water	\$ 925,692
Sewer	1,557,743
Storm	<u>452,962</u>
 Total Business-type Activities Depreciation Expense	 <u>\$ 2,936,397</u>

Depreciation expense is different from business-type activity accumulated depreciation additions because of joint metering, salvage cost of removal, internal allocations, and cost associated with the disposal of assets.

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund Receivables/Payables

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water utility	\$ 777,842
General fund	Transit system	119,069
General fund	Solid waste	68,628
Water utility	General fund	188,753
Water utility	Sewer utility	12,074
Wastewater utility	General fund	210,671
Stormwater utility	General fund	<u>45,606</u>
 Total - Fund Financial Statements		 1,422,643
Less: Fund eliminations		<u>(1,089,831)</u>
 Total Internal Balances - Government-Wide Statement of Net Position		 <u>\$ 332,812</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Activities	Business-type Activities	\$ 777,842
Business-type Activities	Governmental Activities	<u>(445,030)</u>
 Total Government-Wide Financial Statements		 <u>\$ 332,812</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Interfund Receivables/Payables (cont.)

All amounts are due within one year.

The principal purpose of these interfunds is payment in lieu of taxes and utility special assessments on the tax roll. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
TID No. 4	TID No. 3	\$ 479,063	Contribution
TID No. 5	TID No. 3	318,012	Contribution
General fund	Water utility	777,842	Tax equivalent
Sub-Total		1,574,917	
Less: Fund eliminations		(797,075)	
Total Transfers - Government-Wide Statement of Activities		\$ 777,842	
Fund Transferred To	Fund Transferred From	Amount	
Governmental Activities	Business-type Activities	\$ 777,842	
Business-type Activities	Governmental Activities	-	
Total Government-wide Financial Statements		\$ 777,842	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable					
General obligation debt	\$ 42,386,486	\$ 3,300,000	\$ 3,581,167	\$ 42,105,319	\$ 3,978,989
Sub-totals	42,386,486	3,300,000	3,581,167	42,105,319	3,978,989
Other Liabilities					
Accumulated vacation	614,763	625,253	614,763	625,253	625,253
Vested sick leave	416,832	872,975	897,328	392,479	-
Police and fire pension	60,363	-	51,857	8,506	2,933
Capital leases	1,318,357	-	349,594	968,763	376,920
Total Other Liabilities	2,410,315	1,498,228	1,913,542	1,995,001	1,005,106
Total Governmental Activities Long-Term Liabilities	\$ 44,796,801	\$ 4,798,228	\$ 5,494,709	\$ 44,100,320	\$ 4,984,095
Business-type Activities					
Bonds and Notes Payable					
General obligation debt	\$ 2,275,226	\$ -	\$ 196,894	\$ 2,078,332	\$ 202,942
Revenue bonds	22,670,248	-	2,102,841	20,567,407	2,156,687
Premium	256,700	-	14,002	242,698	-
Sub-totals	25,202,174	-	2,313,737	22,888,437	2,359,629
Other Liabilities					
Vested compensated absences	96,771	49,449	41,672	104,548	41,763
Total Other Liabilities	96,771	49,449	41,672	104,548	41,763
Total Business-type Activities Long-Term Liabilities	\$ 25,298,945	\$ 49,449	\$ 2,355,409	\$ 22,992,985	\$ 2,401,392

In accordance with Wisconsin Statutes, total general obligation indebtedness of the city may not exceed 5% of the equalized value of taxable property within the city's jurisdiction. The debt limit as of December 31, 2014, was \$64,121,190. Total general obligation debt outstanding at year end was \$44,183,651.

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the city. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Governmental Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2014
State trust fund loan	12/15/03	2023	5.25%	\$ 1,127,322	\$ 886,097
			4.150 -		
Bonds	4/1/05	2020	4.40%	1,470,000	120,000
Bonds	4/15/06	2021	3.60 - 4.15%	1,825,000	1,250,000
Bonds	4/23/07	2022	3.60 - 4.05%	1,510,000	967,500
State trust fund loan	4/9/07	2027	5.50%	958,000	728,354
Bonds	7/22/08	2023	4.00 - 4.15%	6,345,000	4,525,000
Refunding bonds	8/26/08	2028	4.875%	3,590,000	3,590,000
Promissory notes	6/23/09	2019	2.50 - 4.00%	7,165,000	3,655,000
Refunding bonds	7/21/10	2021	2.00 - 3.50%	4,395,000	3,425,000
Bonds	8/3/10	2030	2.95 - 4.00%	1,305,000	1,235,000
Promissory notes	8/3/10	2020	1.50 - 2.90%	1,125,000	715,000
State trust fund loan	3/16/10	2030	5.50%	2,500,000	2,188,462
State trust fund loan	3/16/10	2030	5.50%	1,000,000	875,385
State trust fund loan	9/21/10	2030	5.25%	825,000	759,521
Promissory notes	3/10/11	2020	2.00 - 3.40%	1,420,000	910,000
Refunding bonds	3/16/11	2026	2.00 - 4.25%	1,100,000	870,000
Bonds	3/23/12	2021	2.00 - 3.00%	1,805,000	1,415,000
Refunding bonds	8/28/12	2021	2.00 - 1.75%	1,850,000	1,795,000
Refunding bonds	2/26/13	2025	2.00 - 2.50%	7,625,000	7,480,000
Promissory notes	2/26/13	2022	2.00%	1,560,000	1,415,000
Promissory notes	3/19/14	2023	2.00 - 3.00%	3,300,000	<u>3,300,000</u>

Total Governmental Activities - General Obligation Debt \$ 42,105,319

Business-type Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2014
State trust fund loan	12/15/03	2023	5.25%	\$ 153,726	\$ 120,832
Bonds	4/23/07	2022	3.50 - 4.05%	1,510,000	967,500
Bonds	7/22/08	2023	4.00 - 4.15%	1,450,000	<u>990,000</u>

Total Business-type Activities - General Obligation Debt \$ 2,078,332

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Debt		Business-type Activities General Obligation Debt	
	Principal	Interest	Principal	Interest
2015	\$ 3,978,989	\$ 1,391,772	\$ 202,942	\$ 81,010
2016	4,084,722	1,273,998	211,560	72,691
2017	4,555,715	1,145,435	222,802	63,904
2018	4,682,308	1,007,018	234,126	54,607
2019	4,120,322	862,556	245,554	44,915
2020-2024	14,510,157	2,598,760	961,348	75,505
2025-2029	5,692,653	654,028	-	-
2030	480,453	21,531	-	-
Totals	<u>\$ 42,105,319</u>	<u>\$ 8,955,098</u>	<u>\$ 2,078,332</u>	<u>\$ 392,632</u>

Revenue Debt

Business-type activities revenue bonds are payable only from revenues derived from the operation of the water and wastewater utilities.

The water and wastewater utilities have pledged future revenues, net of specified operating expenses, to repay revenue bonds issued in 1997-2012. Proceeds from the bonds provided financing for the plant construction capital projects. The bonds are payable solely from water and wastewater revenues and are payable through 2032. Annual principal and interest payments on the bonds are expected to require 18% and 73% of net revenues. The total principal and interest remaining to be paid on the bonds is \$23,674,618. Principal and interest paid for the current year and total customer net revenues were \$2,743,251 and \$5,123,761, respectively.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt (cont.)

Revenue debt payable at December 31, 2014, consists of the following:

Business-type Activities Revenue Debt

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2014</u>
<u>Water Utility</u>					
Revenue bonds	4/23/07	2027	4.00 - 4.10%	\$ 2,095,000	\$ 1,540,000
Revenue bonds	4/23/12	2032	2.00 - 3.50%	5,880,000	<u>5,035,000</u>
				Total Water Utility	<u>6,575,000</u>
<u>Sewer Utility</u>					
Revenue bonds	8/13/97	2017	3.023%	1,100,937	210,176
Revenue bonds	1/8/03	2022	2.750%	24,875,636	<u>13,782,231</u>
				Total Sewer Utility	<u>13,992,407</u>
Total Business-type Activities - Revenue Debt					<u>\$ 20,567,407</u>

During 2003, the wastewater utility was authorized to issue \$29,393,448 of sewer system Clean Water Fund revenue bonds. The original amount reported above has been issued as of December 31, 2014.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	Business-type Activities Revenue Debt	
	Principal	Interest
2015	\$ 2,156,687	\$ 583,760
2016	2,221,744	523,280
2017	2,278,045	458,864
2018	2,276,289	393,698
2019	2,337,937	327,710
2020-2024	7,911,705	658,254
2025-2029	995,000	140,819
2030-2032	390,000	20,826
Totals	\$ 20,567,407	\$ 3,107,211

Capital Leases

Refer to Note IV. G.

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability, other post employment benefits obligation, and net pension obligation attributable to governmental activities will be liquidated primarily by the general fund.

A statutory mortgage lien upon the water and wastewater's system and any additions, improvements and extensions thereto is created by Section 66.0621 of the Wisconsin Statutes as provided for in the ordinances creating the revenue bond issue. The water and wastewater's system and the earnings of the system remain subject to the lien until payment in full of the principal and interest on the bonds.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

G. LEASE DISCLOSURES

Lessee - Capital Leases

The City of Watertown has entered into agreements with the Community Development Authority of the City of Watertown (CDA) for certain property and improvements in TID No. 4. In 2007, the CDA issued lease revenue bonds totaling \$6,670,000. The city expects that TID No. 4 revenues will be sufficient to make the lease payments to the CDA.

In addition, the city acquired a fire truck through a capital lease.

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2014</u>
Capital Leases					
2006 CDA capital lease	11/20/06	10/1/16	3.45-4.70%	\$ 6,670,000	\$ 550,000
2007 fire truck capital lease	6/1/07	6/16/21	4.68%	758,576	<u>418,763</u>
 Total Capital Leases					 <u>\$ 968,763</u>

<u>Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 376,920	\$ 44,965	\$ 421,885
2016	279,355	30,505	309,860
2017	56,904	14,656	71,560
2018	59,573	11,987	71,560
2019	62,367	9,193	71,560
2020-2021	<u>133,644</u>	<u>9,473</u>	<u>143,117</u>
 Totals	 <u>\$ 968,763</u>	 <u>\$ 120,779</u>	 <u>\$ 1,089,542</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

H. NET POSITION/FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2014, includes the following:

Governmental Activities

Net Investment in Capital Assets	
Land	\$ 6,761,240
Other capital assets, net of accumulated depreciation	69,186,098
Less: Long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(33,903,707)</u>
Total Net Investment in Capital Assets	<u>42,043,631</u>
Restricted	
Debt service	502,018
TID Activities	6,012,679
Grant programs	39,834
Loan programs	1,825,296
Developer fees	226,098
Trust funds	18,200
Library	<u>190,223</u>
Total Restricted	<u>8,814,348</u>
Unrestricted (deficit)	<u>(2,929,723)</u>
Total Governmental Activities Net Position	<u>\$ 47,928,256</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

H. NET POSITION/FUND BALANCES (cont.)

Governmental Funds

Governmental fund balances reported on the fund financial statements at December 31, 2014, include the following:

	General Fund	Debt Service	General Capital Projects	TID No. 3	Nonmajor Funds	Totals
Fund Balances						
Nonspendable:						
Delinquent personal property taxes	\$ 5,945	\$ -	\$ -	\$ -	\$ -	\$ 5,945
Prepaid items	245,357	-	-	-	11,540	256,897
Permanent trust	-	-	-	-	18,200	18,200
Restricted for:						
Debt service	-	830,950	-	-	-	830,950
TID activities	-	-	-	5,027,045	985,634	6,012,679
Library	-	-	-	-	190,223	190,223
Grant/loan programs	-	-	-	-	1,853,687	1,853,687
Emergency management training	3,715	-	-	-	-	3,715
Developer parks	-	-	-	-	226,098	226,098
Committed to:						
General capital projects	-	-	1,688,657	-	-	1,688,657
Riverfest operations	-	-	-	-	48,930	48,930
Refuse collection and recycling	-	-	-	-	42,813	42,813
Environmental health	-	-	-	-	246,547	246,547
Health program activities	-	-	-	-	10,625	10,625
Assigned to:						
Water utility tax equivalent	777,842	-	-	-	-	777,842
Carryovers	49,165	-	-	-	-	49,165
Subsequent year's budget	167,593	-	-	-	-	167,593
General reserve projects	135,844	-	-	-	-	135,844
Unassigned (deficit):	<u>3,725,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(155,751)</u>	<u>3,569,732</u>
Total Fund Balances	<u>\$ 5,110,944</u>	<u>\$ 830,950</u>	<u>\$ 1,688,657</u>	<u>\$ 5,027,045</u>	<u>\$ 3,478,546</u>	<u>\$16,136,142</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

H. NET POSITION/FUND BALANCES (cont.)

Business-type Activities

Net Investment in Capital Assets	
Land	\$ 1,524,214
Other capital assets, net of accumulated depreciation	85,911,397
Less: Long-term debt outstanding	(22,524,907)
Plus: Unspent capital related debt proceeds	751,123
Less: Unamortized premium	(242,698)
Plus: Unamortized loss on advance refunding	72,278
Total Net Investment in Capital Assets	<u>65,491,407</u>
Restricted	
Debt service	1,437,803
Replacement	2,346,575
Depreciation	129,731
Total Restricted	<u>3,914,109</u>
Unrestricted	<u>3,641,646</u>
Total Business-type Activities Net Position	<u>\$ 73,047,162</u>

I. COMPONENT UNIT

COMMUNITY DEVELOPMENT AUTHORITY

This report contains the Community Development Authority (CDA), which is included as a component unit.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

a. Basis of Accounting/Measurement Focus

The CDA follows the full accrual basis of accounting and the flow of economic resources measurement focus.

b. Deposits and Investments

State statutes and HUD regulations require that all CDA deposits be covered by insurance, surety bond, or collateral.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

b. Deposits and Investments (cont.)

	Carrying Amount	Bank Balance
Covered Deposits		
Insured, or collateralized with securities held by the CDA or its agent in the CDA's name	\$ 691,264	\$ 642,876
Total Covered Deposits	\$ 691,264	\$ 642,876

c. Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance	Useful Lives (Years)
Construction in progress	\$ 39,332	\$ -	\$ 33,132	\$ 6,200	
Land	156,592	-	-	156,592	
Buildings	4,002,608	95,165	-	4,097,773	40
Equipment	342,553	20,945	-	363,498	3-10
Less: Accumulated depreciation	(3,156,611)	(202,069)	-	(3,358,680)	
Totals	\$ 1,384,474	\$ (85,959)	\$ 33,132	\$ 1,265,383	

d. Long-Term Obligations

The CDA issued Redevelopment Lease Revenue Bonds Series 2006A for the purpose of providing financing for the City of Watertown's Tax Increment Financing District No. 4 (TID No. 4). Designated portions of the 2006A proceeds were retained in a debt service fund and a capitalized interest fund. Remaining proceeds were transferred to TID No. 4 for the purpose of financing various TID No. 4 projects.

On February 26, 2013, the City of Watertown issued \$7,625,000 in general obligation bonds with an average coupon rate of 2.11%. \$5,015,000 of this issue was used to refund the callable outstanding CDA Lease Revenue Bonds, Series 2006A which carried an average coupon rate of 4.34%. The net proceeds along with existing funds of the Watertown CDA were used to fund an escrow account invested in State and Local Government Securities. The escrow will disburse the semi-annual interest payments on the callable 2006A Bonds with its final disbursement on the call date of October 1, 2016 to prepay the outstanding principal on the 2006A bonds.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

d. Long-Term Obligations (cont.)

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
2006A Redevelopment Lease Revenue Bonds	\$ 1,250,000	\$ -	\$ 275,000	\$ 975,000	\$ 300,000
Unfunded pension liability	10,732	-	172	10,560	-
Totals	<u>\$ 1,260,732</u>	<u>\$ -</u>	<u>\$ 275,172</u>	<u>\$ 985,560</u>	<u>\$ 300,000</u>

Debt service requirements to maturity are as follows:

	Principal	Interest	Totals
2015	\$ 300,000	\$ 30,800	\$ 330,800
2016	325,000	19,313	344,313
2017	350,000	6,650	356,650
Totals	<u>\$ 975,000</u>	<u>\$ 56,763</u>	<u>\$ 1,031,763</u>

e. Employee Retirement System

All eligible CDA employees participate in the Wisconsin Retirement System ("WRS"), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. The payroll for employees covered by the WRS for the year ended September 30, 2014 was \$110,054; the CDA's total payroll was \$110,054.

The total required contribution for the year ended September 30, 2014 was \$15,518 or 14.10% of covered payroll. Of this amount, 100% was contributed for the current year. Total contributions for the years ended September 30, 2012 and 2013 were \$11,690 and \$16,353, respectively, equal to the required contributions for each year.

There was no unfunded liability as of September 30, 2014.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE V - OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible city employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees initially employed by a participating WRS employer prior to July 1, 2011, expected to work over 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees initially employed by a participating WRS employer on or after July 1, 2011, expected to work at least 1,200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011, the employee required contribution was changed to one-half of the actuarially determined contribution rate for employees in the General Employment category, and Executives and Elected Officials. Required contributions for protective employees are the same as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

Contribution rates for December 31, 2014 were:

	<u>Employee</u>	<u>Employer</u>
General	7.00%	7.00%
Executives and Elected Officials	7.75%	7.75%
Protective with Social Security	7.00%	10.10%
Protective without Social Security	7.00%	13.70%

The payroll for city employees covered by the WRS for the year ended December 31, 2014 was \$9,184,102; the employer's total payroll was \$9,831,352. The total required contribution for the year ended December 31, 2014 was \$1,380,028 or 15.0% of covered payroll. Of this amount, 100% was contributed for the current year. Total contributions for the years ended 2013 and 2012 were \$1,364,941 and \$1,213,708, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. A final average earnings is the average of the employee's three highest years' earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

As of December 31, 2014 there was no pension related debt for the city.

Protective employees of the city hired prior to 1948 are covered under the city's police and fire pension funds established under Chapter 62 of the Wisconsin Statutes. These pension plans were assumed by the Wisconsin Retirement Fund as of April 1, 1978. The city's total contribution to the fund during 2014 was \$2,404. The estimated liability for future payments based on current pension payment amounts and actuarial table mortality rates for covered individuals is \$8,506. This is included in the noncurrent liabilities for governmental activities on the statement of net position. See also Note IV.F.

B. RISK MANAGEMENT

The city is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

C. COMMITMENTS AND CONTINGENCIES

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

From time to time, the city is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the city attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the city's financial position or results of operations.

The city has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The city has active construction projects as of December 31, 2014. Work that has been completed on these projects but not yet paid for (including contract retainages) is reflected as accounts payable and expenditures.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE V - OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

The city has the following encumbrances outstanding at year end expected to be honored upon performance by the vendor:

General Capital Projects Fund	\$	1,277,097
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D. SUBSEQUENT EVENTS

On March 10, 2015, the city issued general obligation refunding bonds in the amount of \$4,080,000 with interest rates of 2-3%. This amount will be used for refunding of outstanding general obligation debt and capital projects.

On March 10, 2015, the city issued taxable general obligation refunding bonds in the amount of \$710,000 with interest rates of 2-4%. This amount will be used for refunding of outstanding general obligation debt.

E. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- > Statement No. 71, *Pension - Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68*

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
TAXES				
General property taxes for city purposes	\$ 7,530,295	\$ 7,530,295	\$ 7,530,295	\$ -
Room taxes	55,000	55,000	101,075	46,075
Payments in lieu of taxes	295,000	295,000	294,000	(1,000)
Tax chargebacks	-	-	21,266	21,266
Interest on taxes	26,000	26,000	25,902	(98)
TOTALS	<u>7,906,295</u>	<u>7,906,295</u>	<u>7,972,538</u>	<u>66,243</u>
INTERGOVERNMENTAL				
Shared taxes from state	2,981,773	2,981,773	2,995,272	13,499
Computer exemption aid	35,678	35,678	38,720	3,042
Fire insurance from state	46,000	46,000	52,435	6,435
State aid - service to state facilities	2,300	2,300	2,564	264
State aid - police training	6,600	6,600	5,760	(840)
State aid - road allotment	1,152,107	1,152,107	1,102,821	(49,286)
State aid - connecting streets	49,048	49,048	48,794	(254)
State aid - health department grant	68,514	68,514	77,854	9,340
State aid - gas tax refund	6,900	6,900	7,448	548
State aid - EMT training	-	-	2,300	2,300
Police grant - Dept. of Justice	8,000	8,000	13,164	5,164
TOTALS	<u>4,356,920</u>	<u>4,356,920</u>	<u>4,347,132</u>	<u>(9,788)</u>
LICENSES AND PERMITS				
Class A - malt - retail and grocery	1,000	1,000	1,200	200
Class A - liquor - liquor store	4,500	4,500	4,900	400
Class B - malt and liquor	26,500	26,500	26,633	133
Class B - malt only	900	900	2,100	1,200
Class B - malt - special events	250	250	325	75
Class A - malt - distributors	25	25	-	(25)
Special events licenses - police officers	1,000	1,000	1,095	95
Beverage operator licenses	19,000	19,000	21,072	2,072
Cigarette licenses	950	950	825	(125)
Dog licenses	7,500	7,500	11,542	4,042
Cat licenses	1,500	1,500	1,698	198
Dog penalties	1,000	1,000	1,115	115
Soft drink licenses	400	400	265	(135)
Miscellaneous licenses	1,100	1,100	720	(380)
Electrical licenses	1,000	1,000	-	(1,000)
Music licenses	675	675	750	75

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (cont.)
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
LICENSES AND PERMITS (cont.)				
Bicycle license fees	\$ 200	\$ 200	\$ 345	\$ 145
Building permits, plan approval and state stickers	100,200	100,200	78,045	(22,155)
Occupy street/sidewalk	875	875	805	(70)
Heating permits	20,000	20,000	18,495	(1,505)
Electric permits	34,000	34,000	30,588	(3,412)
Plumbing permits	16,000	16,000	15,985	(15)
Swimming pool permits	250	250	125	(125)
Sign permits	-	-	500	500
Fire protection permits	2,000	2,000	2,850	850
Miscellaneous permits	1,300	1,300	25	(1,275)
Court penalties and costs	240,000	240,000	194,264	(45,736)
TOTALS	<u>482,125</u>	<u>482,125</u>	<u>416,267</u>	<u>(65,858)</u>
PUBLIC CHARGES FOR SERVICES				
Clerk and treasurer fees	4,750	4,750	4,872	122
Publication fees	3,750	3,750	4,300	550
Sale of city equipment	7,000	7,000	18,772	11,772
Attorney fees	-	-	800	800
Sale of materials and supplies	400	400	303	(97)
Cable TV fees	240,000	240,000	255,958	15,958
Appeal fees	450	450	800	350
Site plan review fees	3,600	3,600	3,000	(600)
Public hearing fees	8,000	8,000	9,700	1,700
Cable TV revenue	-	-	1,015	1,015
Reimbursement from prior year	-	-	1,599	1,599
Sales tax discount	100	100	139	39
Developer fees-signs, etc.	100	100	-	(100)
Miscellaneous	1,500	1,500	4,459	2,959
Charges for city services - tax exempt property	26,000	26,000	26,000	-
Stipulation and waiver fees	50	50	65	15
Police department revenue	16,200	16,200	9,258	(6,942)
Alarm permits/response fees	2,500	2,500	45	(2,455)
Ambulance - EMS charges	490,000	490,000	476,319	(13,681)
Fire cost recovery	1,500	1,500	6,092	4,592
Health department revenue	17,000	17,000	15,188	(1,812)
County aid - health check	25,000	25,000	12,881	(12,119)
Parking violations	57,000	57,000	21,011	(35,989)
Weed cutting	7,500	7,500	2,610	(4,890)
Yard waste exemption	175	175	185	10
Fees for plans and specs	1,200	1,200	-	(1,200)

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (cont.) For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC CHARGES FOR SERVICES (cont.)				
Public works charges for services	\$ 4,500	\$ 4,500	\$ 2,293	\$ (2,207)
Recreation department revenues	110,000	110,000	108,934	(1,066)
Recreation department concessions	1,600	1,600	1,479	(121)
Ticket sales revenue	1,000	1,000	249	(751)
Aquatic center revenue	185,000	185,000	140,106	(44,894)
Indoor swimming pool	50,000	50,000	45,739	(4,261)
Senior center revenue	2,500	2,500	2,109	(391)
Senior center memberships	5,800	5,800	6,056	256
Senior center rental fees	8,000	8,000	11,752	3,752
Park rentals	24,000	24,000	24,999	999
Miscellaneous park revenues	10,000	10,000	32,275	22,275
TOTALS	<u>1,316,175</u>	<u>1,316,175</u>	<u>1,251,362</u>	<u>(64,813)</u>
INTERGOVERNMENTAL CHARGES FOR SERVICES				
Fire protection services - townships	<u>206,000</u>	<u>206,000</u>	<u>202,161</u>	<u>(3,839)</u>
INVESTMENT INCOME				
Investment income	<u>13,000</u>	<u>13,000</u>	<u>6,556</u>	<u>(6,444)</u>
MISCELLANEOUS REVENUES				
Insurance dividends	40,000	40,000	50,287	10,287
Tower rental	24,000	24,000	27,600	3,600
Airport crop land rental	3,100	3,100	16,502	13,402
Airport hangar rental	12,500	12,500	9,626	(2,874)
Airport fuel tax	5,000	5,000	5,254	254
Airport terminal rent	2,400	2,400	2,400	-
Fire training facility	-	-	20,000	20,000
Police K-9	1,500	1,500	-	(1,500)
Police donations	10,000	10,000	33,264	23,264
Fire donations	-	-	1,828	-
Senior center fundraising	10,000	10,000	14,734	4,734
4th of July parade	11,000	11,000	11,830	830
Christmas Parade	5,000	5,000	6,080	1,080
EMT training/Act 102	6,000	6,000	4,422	(1,578)
TOTALS	<u>130,500</u>	<u>130,500</u>	<u>203,827</u>	<u>71,499</u>
OTHER FINANCING SOURCES				
Transfer in - tax equivalent	<u>742,000</u>	<u>742,000</u>	<u>777,842</u>	<u>35,842</u>
TOTALS	<u>742,000</u>	<u>742,000</u>	<u>777,842</u>	<u>35,842</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>15,153,015</u>	<u>15,153,015</u>	<u>15,177,685</u>	<u>22,842</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (cont.) For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
GENERAL GOVERNMENT				
Common council	\$ 82,504	\$ 83,254	\$ 83,289	\$ (35)
Commissions and committees	500	500	230	270
Municipal court	130,230	130,230	126,766	3,464
Mayor	106,925	106,925	106,561	364
Clerk/treasurer	415,333	415,332	381,902	33,430
Elections	63,387	63,387	35,933	27,454
Assessment of property	68,400	68,400	67,240	1,160
Accounting and auditing	48,500	48,500	49,848	(1,348)
City attorney	186,854	186,854	168,446	18,408
Special legal fees	30,000	30,000	28,053	1,947
Municipal building	296,987	296,987	322,173	(25,186)
Other buildings	4,500	9,500	10,541	(1,041)
Property and liability insurance	581,500	519,036	432,196	86,840
Employee Bonds	1,800	1,800	150	1,650
Retiree health insurance	20,000	20,000	19,746	254
Employee assistance program	1,000	1,000	591	409
Employee Best Flex 125 Plan	600	600	1,616	(1,016)
Police and fire pension	17,500	17,500	2,404	15,096
Unemployment compensation	8,000	8,000	1,475	6,525
Cable TV	55,708	55,708	56,038	(330)
Other general government	5,000	5,000	69,906	(64,906)
Contingency	100,000	22,104	-	22,104
TOTALS	<u>2,225,228</u>	<u>2,090,617</u>	<u>1,965,104</u>	<u>125,513</u>
PUBLIC SAFETY				
Police	3,779,321	3,820,446	3,559,976	260,470
Crossing guards	34,489	34,489	33,610	879
Dispatch center	718,150	718,150	718,523	(373)
Fire department	2,222,631	2,222,631	2,272,398	(49,767)
Building inspection	230,165	219,165	195,666	23,499
Emergency government	5,500	5,500	5,362	138
TOTALS	<u>6,990,256</u>	<u>7,020,381</u>	<u>6,785,535</u>	<u>234,846</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND (cont.)
 For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC WORKS				
Engineering	\$ 326,251	\$ 387,659	\$ 369,079	\$ 18,580
Planning	14,000	14,000	19,488	(5,488)
Machinery and equipment	393,126	393,126	484,017	(90,891)
Garages and sheds	129,670	129,670	98,848	30,822
Street administration	251,159	251,159	248,800	2,359
Service to other departments	58,396	58,396	61,060	(2,664)
Traffic control	65,000	65,000	52,210	12,790
Street maintenance	693,001	693,001	637,968	55,033
Snow and ice control	350,958	413,422	421,738	(8,316)
Signs and markings	87,533	87,533	85,341	2,192
Street lighting	453,300	453,300	494,561	(41,261)
Airport	168,500	168,500	164,589	3,911
TOTALS	<u>2,990,894</u>	<u>3,114,766</u>	<u>3,137,699</u>	<u>(22,933)</u>
HEALTH AND HUMAN SERVICES				
Health care	<u>389,114</u>	<u>389,114</u>	<u>370,340</u>	<u>18,774</u>
CULTURE, EDUCATION, AND RECREATION				
Library	677,500	677,500	677,500	-
Celebrations and entertainment	12,700	12,700	12,700	-
Recreation administration	276,292	276,292	219,492	56,800
Recreation	108,820	108,820	102,248	6,572
Aquatic center	233,877	233,877	207,668	26,209
Indoor pool	163,698	163,698	158,037	5,661
Senior citizens building	231,253	231,253	229,977	1,276
Parks	778,771	778,771	737,188	41,583
Park garage	<u>19,100</u>	<u>19,100</u>	<u>18,944</u>	<u>156</u>
TOTALS	<u>2,502,011</u>	<u>2,502,011</u>	<u>2,363,754</u>	<u>138,257</u>
CONSERVATION AND DEVELOPMENT				
Forestry	171,460	171,460	149,602	21,858
Economic development	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>	<u>-</u>
TOTALS	<u>226,460</u>	<u>226,460</u>	<u>204,602</u>	<u>21,858</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (cont.) For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC SERVICE ENTERPRISES				
Cemetery	\$ 47,000	\$ 47,000	\$ 47,000	\$ -
Chamber Main Street	55,000	55,000	55,000	-
Humane society	57,000	57,000	57,000	-
Watertown Family Center	5,000	5,000	5,000	-
Watertown Area Cares Clinic	5,500	5,500	5,000	500
Historic Preservation Grant	-	-	7,285	(7,285)
Historical Society	3,000	3,000	3,000	-
TOTALS	<u>172,500</u>	<u>172,500</u>	<u>179,285</u>	<u>(6,785)</u>
CAPITAL OUTLAY				
Fire dept. training facility	-	-	11,000	(11,000)
Survive alive fire house	-	-	36	(36)
Police department donations	10,000	10,000	22,793	(12,793)
Police K-9 unit	2,500	2,500	-	2,500
Senior center fundraising	10,000	10,000	11,948	(1,948)
Brandt Quirk Park Baseball	-	-	8,609	(8,609)
EMT training/Act 102	6,000	6,000	20,571	(14,571)
EMT training - state assistance	-	-	3,858	(3,858)
4th of July Parade	14,750	14,750	13,110	1,640
Christmas Parade	6,500	6,500	5,320	1,180
Jack & Jill reserves	-	-	8,339	(8,339)
Library addition	-	-	2,037	(2,037)
TOTALS	<u>49,750</u>	<u>49,750</u>	<u>107,621</u>	<u>(57,871)</u>
TOTAL EXPENDITURES	<u>15,546,213</u>	<u>15,565,599</u>	<u>15,113,940</u>	<u>451,659</u>
Net change in fund balance	(393,198)	(412,584)	63,745	476,329
FUND BALANCE - Beginning of Year	<u>5,047,199</u>	<u>5,047,199</u>	<u>5,047,199</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 4,654,001</u>	<u>\$ 4,634,615</u>	<u>\$ 5,110,944</u>	<u>\$ 476,329</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF WATERTOWN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2014

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

The budgeted amounts presented include any amendments made. The city may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds council action.

Appropriation lapse at year end unless specifically carried over. Carryovers to the following year were \$49,165 in general fund. Budgets are adopted at the department level of expenditure.

SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

As of December 31, 2014

	Special Revenue Funds			
	Transit System Fund	CDBG Economic Fund	CDBG	
			Housing Rehab Fund	Library Fund
ASSETS				
Cash and investments	\$ -	\$ 581,026	\$ 59,266	\$ 141,774
Taxes receivable	-	-	-	-
Accounts receivable	-	-	-	-
Grants receivable	137,979	-	-	-
Loans receivable (net)	-	308,065	876,939	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 137,979</u>	<u>\$ 889,091</u>	<u>\$ 936,205</u>	<u>\$ 141,774</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 36,682	\$ -	\$ -	\$ 8,673
Due to other funds	119,069	-	-	-
Other liabilities	-	-	-	-
Total Liabilities	<u>155,751</u>	<u>-</u>	<u>-</u>	<u>8,673</u>
Deferred Inflows of Resources				
Unearned revenues	-	-	-	-
Unavailable revenues	137,979	-	-	-
Total Deferred Inflows of Resources	<u>137,979</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable:				
Prepaid items	-	-	-	-
Permanent trust	-	-	-	-
Restricted	-	889,091	936,205	133,101
Committed	-	-	-	-
Unassigned (deficit)	(155,751)	-	-	-
Total Fund Balances	<u>(155,751)</u>	<u>889,091</u>	<u>936,205</u>	<u>133,101</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 137,979</u>	<u>\$ 889,091</u>	<u>\$ 936,205</u>	<u>\$ 141,774</u>

Continued on
Next Page

Special Revenue Funds						
Riverfest Fund	Developer Parks Fund	Environmental Health Fund	Emergency Preparedness Fund	Seal-A-Smile Fund	Library Trust	Solid Waste Fund
\$ 48,930	\$ 226,098	\$ 252,240	\$ 29,221	\$ 10,625	\$ 57,122	\$ -
-	-	-	-	-	-	52,452
-	-	-	-	-	-	88,675
-	-	-	-	-	-	-
-	-	5,086	818	-	-	5,636
<u>\$ 48,930</u>	<u>\$ 226,098</u>	<u>\$ 257,326</u>	<u>\$ 30,039</u>	<u>\$ 10,625</u>	<u>\$ 57,122</u>	<u>\$ 146,763</u>
\$ -	\$ -	\$ 5,693	\$ 830	\$ -	\$ -	\$ 29,686
-	-	-	-	-	-	68,628
-	-	-	-	-	-	-
-	-	5,693	830	-	-	98,314
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	5,086	818	-	-	5,636
-	-	-	-	-	-	-
-	226,098	-	28,391	-	57,122	-
48,930	-	246,547	-	10,625	-	42,813
-	-	-	-	-	-	-
<u>48,930</u>	<u>226,098</u>	<u>251,633</u>	<u>29,209</u>	<u>10,625</u>	<u>57,122</u>	<u>48,449</u>
<u>\$ 48,930</u>	<u>\$ 226,098</u>	<u>\$ 257,326</u>	<u>\$ 30,039</u>	<u>\$ 10,625</u>	<u>\$ 57,122</u>	<u>\$ 146,763</u>

CITY OF WATERTOWN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of December 31, 2014

	Capital Projects Funds			Permanent Fund Library Trust	Total Nonmajor Funds
	TID	TID	TID		
	No. 4	No. 5	No. 6		
ASSETS					
Cash and investments	\$ 375,004	\$ 904,061	\$ 3,078	\$ 18,200	\$ 2,706,645
Taxes receivable	383,046	392,446	63,449	-	891,393
Accounts receivable	-	-	-	-	88,675
Grants receivable	-	5,350	-	-	143,329
Loans receivable	-	-	-	-	1,185,004
Prepaid items	-	-	-	-	11,540
TOTAL ASSETS	\$ 758,050	\$ 1,301,857	\$ 66,527	\$ 18,200	\$ 5,026,586
LIABILITIES, DEFERRED INFLOWS OF AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 1,314	\$ -	\$ 82,878
Due to other funds	-	-	-	-	187,697
Other liabilities	-	300,545	-	-	300,545
Total Liabilities	-	300,545	1,314	-	571,120
Deferred Inflows of Resources					
Unearned revenues	383,046	392,446	63,449	-	838,941
Unavailable revenues	-	-	-	-	137,979
Total Deferred Inflows of Resources	383,046	392,446	63,449	-	976,920
Fund Balances					
Nonspendable:					
Prepaid items	-	-	-	-	11,540
Permanent trust	-	-	-	18,200	18,200
Restricted	375,004	608,866	1,764	-	3,255,642
Committed	-	-	-	-	348,915
Unassigned (deficit)	-	-	-	-	(155,751)
Total Fund Balances	375,004	608,866	1,764	18,200	3,478,546
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 758,050	\$ 1,301,857	\$ 66,527	\$ 18,200	\$ 5,026,586

CITY OF WATERTOWN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	Special Revenue Funds			
	Transit	CDBG	CDBG	
	System	Economic	Housing	Library
	Fund	Fund	Rehab	Fund
	Fund	Fund	Fund	Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	409,192	-	-	221,479
Licenses and permits	-	-	-	-
Public charges for services	282,528	-	-	34,187
Investment income	-	14,418	549	-
Miscellaneous	-	-	-	23,498
Total Revenues	<u>691,720</u>	<u>14,418</u>	<u>549</u>	<u>279,164</u>
EXPENDITURES				
Current				
Public works	742,690	-	-	-
Health and human services	-	-	-	-
Culture, education, and recreation	-	-	-	275,708
Conservation and development	-	20,776	42,243	-
Capital outlay	-	-	-	15,703
Debt Service				
Principal	-	-	-	-
Interest, issuance costs and fiscal charges	-	-	-	-
Principal on capital lease	-	-	-	-
Interest on capital lease	-	-	-	-
Total Expenditures	<u>742,690</u>	<u>20,776</u>	<u>42,243</u>	<u>291,411</u>
Excess (deficiency) of revenues over expenditures	<u>(50,970)</u>	<u>(6,358)</u>	<u>(41,694)</u>	<u>(12,247)</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(50,970)	(6,358)	(41,694)	(12,247)
FUND BALANCES (DEFICIT) -				
Beginning of Year	<u>(104,781)</u>	<u>895,449</u>	<u>977,899</u>	<u>145,348</u>
FUND BALANCES (DEFICIT) - END OF YEAR				
END OF YEAR	<u>\$ (155,751)</u>	<u>\$ 889,091</u>	<u>\$ 936,205</u>	<u>\$ 133,101</u>

Special Revenue Funds						
Riverfest Fund	Developer Parks Fund	Environmental Health Fund	Emergency Preparedness Fund	Seal-A-Smile Fund	Library Trust	Solid Waste Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	46,849	36,424	22,551	-	105,779
-	-	185,619	-	-	-	-
-	12,448	95,892	-	-	-	851,143
20	269	-	-	-	3,050	-
<u>440,890</u>	<u>-</u>	<u>10,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,435</u>
<u>440,910</u>	<u>12,717</u>	<u>338,567</u>	<u>36,424</u>	<u>22,551</u>	<u>3,050</u>	<u>1,001,357</u>
-	-	-	-	-	-	909,587
-	-	330,663	26,988	13,483	-	-
433,935	60	-	-	-	6,602	-
-	-	-	-	-	-	-
-	129,615	-	-	-	155,000	6,540
-	-	-	-	-	-	126,400
-	-	-	-	-	-	23,842
-	-	-	-	-	-	-
<u>433,935</u>	<u>129,675</u>	<u>330,663</u>	<u>26,988</u>	<u>13,483</u>	<u>161,602</u>	<u>1,066,369</u>
<u>6,975</u>	<u>(116,958)</u>	<u>7,904</u>	<u>9,436</u>	<u>9,068</u>	<u>(158,552)</u>	<u>(65,012)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,975	(116,958)	7,904	9,436	9,068	(158,552)	(65,012)
<u>41,955</u>	<u>343,056</u>	<u>243,729</u>	<u>19,773</u>	<u>1,557</u>	<u>215,674</u>	<u>113,461</u>
<u>\$ 48,930</u>	<u>\$ 226,098</u>	<u>\$ 251,633</u>	<u>\$ 29,209</u>	<u>\$ 10,625</u>	<u>\$ 57,122</u>	<u>\$ 48,449</u>

CITY OF WATERTOWN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	Capital Projects Funds			Permanent Fund Library Trust	Total Nonmajor Funds
	TID No.4	TID No. 5	TID No. 6		
REVENUES					
Taxes	\$ 377,382	\$ 677,147	\$ 26,765	\$ -	\$ 1,081,294
Intergovernmental	420	25,741	-	-	868,435
Licenses and permits	-	-	-	-	185,619
Public charges for services	-	-	-	-	1,276,198
Investment income	335	429	15	-	19,085
Miscellaneous	-	18,769	-	-	537,799
Total Revenues	<u>378,137</u>	<u>722,086</u>	<u>26,780</u>	<u>-</u>	<u>3,968,430</u>
EXPENDITURES					
Current					
Public works	-	-	-	-	1,652,277
Health and human services	-	-	-	-	371,134
Culture, education, and recreation	-	-	-	-	716,305
Conservation and development	-	116,250	1,464	-	180,733
Capital outlay	450	-	-	-	307,308
Debt Service					
Principal	100,000	180,642	37,771	-	444,813
Interest, issuance costs and fiscal charges	111,125	266,015	42,137	-	443,119
Principal on capital lease	300,000	-	-	-	300,000
Interest on capital lease	36,274	-	-	-	36,274
Total Expenditures	<u>547,849</u>	<u>562,907</u>	<u>81,372</u>	<u>-</u>	<u>4,451,963</u>
Excess (deficiency) of revenues over expenditures	<u>(169,712)</u>	<u>159,179</u>	<u>(54,592)</u>	<u>-</u>	<u>(483,533)</u>
OTHER FINANCING SOURCES					
Transfers in	479,063	318,012	-	-	797,075
Total Other Financing Sources	<u>479,063</u>	<u>318,012</u>	<u>-</u>	<u>-</u>	<u>797,075</u>
Net change in fund balance	309,351	477,191	(54,592)	-	313,542
FUND BALANCES (DEFICIT) - Beginning of Year	<u>65,653</u>	<u>131,675</u>	<u>56,356</u>	<u>18,200</u>	<u>3,165,004</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 375,004</u>	<u>\$ 608,866</u>	<u>\$ 1,764</u>	<u>\$ 18,200</u>	<u>\$ 3,478,546</u>