

CITY OF WATERTOWN

Watertown, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

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, 2016, 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.

To the City Council
City of Watertown

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

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, 2016 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.

Emphasis of Matters

As discussed in Note I, the City of Watertown adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, effective January 1, 2016. Our opinions are not modified with respect to this matter.

As discussed in Note IV.I to the financial statements, net position as of December 31, 2015 has been restated to reflect a change in accounting policy related to the reclassification of certain repair and maintenance costs from capital assets to expense from prior periods. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information 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.

To the City Council
City of Watertown

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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and is 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 supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 26, 2017

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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, 2016. 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 2016 totaled \$131.4 million which is an increase of \$2.3 million or 1.8% from the 2015 restated amount. Of the \$131.4 million in total net position, \$54.4 million was related to governmental activities and \$77.0 million was related to business-type activities.
- ◆ During the year, the City's governmental activities expenses were \$0.7 million more than the \$24.9 million generated in taxes and other revenues for the governmental programs. This is compared to 2015 when revenues exceeded expenses by \$1.9 million. Capital grants and contribution decreased significantly in 2016 contributing to the shortfall.
- ◆ In the City's business-type activities, revenues and capital grants contributions increased from \$10.1 million to \$11.1 million and expenses increased by \$0.4 million to \$8.1 million. Capital contributions decreased from \$0.3 million in 2015 to \$0.1 million in 2016. Charges for services increased by \$1.1 million. Expenses remained steady in the Storm Water Utility but increased by \$0.1 million in the Water Utility and by \$0.3 million in the Wastewater Utility.
- ◆ The total cost of the City's governmental activities programs increased \$1.1 million or 4.5% to \$25.6 million.
- ◆ The combined fund balance of the governmental funds increased slightly to just under \$16.6 million.
- ◆ Capital assets for the City increased \$0.1 million from \$164.5 million to \$164.6 million. Governmental activities saw a decrease of \$0.6 million and the business-type activities increased \$0.7 million.
- ◆ General obligation debt for governmental activities decreased from \$41.3 million to \$39.9 million. The City issued \$3.0 million in new G.O. debt, \$805,00 of taxable refunding bonds and \$945,000 of water revenue refunding bonds. Revenue debt of business-type activities decreased from \$18.4 million to \$16.2 million. No new debt was issued for the business-type activities while \$2.2 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, 2016

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 and liabilities and deferred inflows of revenues– 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, 2016

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 \$131.4 million. The majority of the net position, \$77.0 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 \$54.4 million.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>
Current and other assets	\$ 33.5	\$ 32.5	\$ 9.1	\$ 7.8	\$ 42.6	\$ 40.3	(5.4)%
Capital Assets	<u>77.8</u>	<u>77.2</u>	<u>86.8</u>	<u>87.3</u>	<u>164.6</u>	<u>164.5</u>	(0.1)%
Total assets	111.3	109.7	95.9	95.1	207.2	204.8	(1.2)%
Pension related amounts	1.9	6.6	0.2	0.9	2.1	7.5	257.1%
Unamortized loss on advance refunding	—	—	0.1	0.1	0.1	0.1	0.0%
Total deferred outflows of resources	1.9	6.6	0.3	1.0	2.2	7.6	245.5%
Long-term debt outstanding	38.1	38.1	18.1	15.8	56.2	53.9	(4.1)%
Other liabilities	<u>6.7</u>	<u>6.8</u>	<u>3.0</u>	<u>3.0</u>	<u>9.7</u>	<u>9.8</u>	1.0%
Total liabilities	44.8	44.9	21.1	18.8	65.9	63.7	(3.3)%
Pension Related amounts	-	2.5	-	0.3	-	2.8	
Unearned revenues	<u>14.1</u>	<u>14.5</u>	—	—	<u>14.1</u>	<u>14.5</u>	2.8%
Total deferred inflows of resources	14.1	17.0	-	0.3	14.1	17.3	22.7%
Net Position							
Net investment in capital assets	44.2	44.9	67.2	70.2	109.2	113.1	3.6%
Restricted	10.5	8.9	4.4	4.3	14.9	13.2	(11.4)%
Unrestricted	<u>(0.4)</u>	<u>0.6</u>	<u>3.5</u>	<u>2.5</u>	<u>5.3</u>	<u>5.1</u>	(3.8)%
Total net position-end of year	\$ 54.3	\$ 54.4	\$ 75.1*	\$ 77.0	\$ 129.4*	\$ 131.4	1.8%

*as restated

Net position of the City's governmental activities increased \$0.1 million during 2016 bringing the total to \$54.4 million. 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 \$0.6 million surplus year-end.

The net position of the City's business-type activities increased \$2.2 million. The unrestricted position decreased by \$1.0 million from \$3.5 to \$2.5 million. The wastewater utility saw the largest net position increase at \$1.1 million with the water utility increasing \$0.6 million and the storm water utility increasing \$0.5 million.

Changes in net position. The City's 2016 total revenues (excluding capital contributions and transfers) increased by \$1.3 million bringing the total to \$35.6 million. Property taxes and other taxes increased by \$0.2 million, charges for services increased by \$1.2 million and operating grants and contributions decreased by \$0.3 million. Capital grants and contributions decreased by \$1.8 million. Other revenues remained constant. Total expenses increase by \$1.5 million or 4.7% to \$33.7 million. The governmental activities saw an increase of \$1.1 million in expenses while the business-type activities saw an increase of \$0.4 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, 2016

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>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>
Revenues							
Program revenues							
Charges for Services	\$ 4.0	\$ 4.1	\$ 9.8	\$10.9	\$ 13.8	\$ 15.0	8.7%
Capital grants and contributions	1.9	0.3	0.3	0.1	2.2	0.4	(81.8)%
Operating grants and contributions	2.5	2.2	-	-	2.5	2.2	(12.0)%
General revenues							
Property taxes	13.9	14.1	-	-	13.9	14.1	1.4%
Other taxes	0.5	0.5	-	-	0.5	0.5	0.0%
Intergovernmental	3.1	3.2	-	-	3.1	3.2	3.2%
Investment income	0.1	0.1	-	-	0.1	0.1	0.0%
Gain(loss) on sale of assets	-	-	-	0.1	-	0.1	100.0%
Others	<u>0.4</u>	<u>0.4</u>	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>0.4</u>	0.0%
Total revenues	26.4	24.9	10.1	11.1	36.5	36.0	(1.4)%
Expenses							
General government	2.2	2.1	-	-	2.2	2.1	(4.5)%
Public safety	7.0	7.9	-	-	7.0	7.9	12.9%
Public works	9.4	8.7	-	-	9.4	8.7	(7.4)%
Health and human services	0.7	0.8	-	-	0.7	0.8	14.3%
Culture, education and recreation	3.0	3.4	-	-	3.0	3.4	13.3%
Conservation and development	0.6	0.7	-	-	0.6	0.7	16.7%
Interest and fiscal charges	1.6	2.0	-	-	1.6	2.0	25.0%
Water	-	-	2.7	2.8	2.7	2.8	3.7%
Wastewater	-	-	3.8	4.1	3.8	4.1	7.9%
Storm water	-	-	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	0.0%
Total expenses	24.5	25.6	7.7	8.1	32.2	33.7	4.7%
Excess (Deficiency) before transfers	1.9	(0.7)	2.4	3.0	4.3	2.3	(46.5)%
Transfers	<u>0.8</u>	<u>0.8</u>	<u>(0.8)</u>	<u>(0.8)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	2.7	0.1	1.6	2.2	4.3	2.3	
BEGINNING NET POSITION	\$51.6	\$54.3	\$ 73.5*	74.8*	\$ 125.1*	\$ 129.1*	
ENDING NET POSITION	\$54.3	\$54.4	\$ 75.1	\$ 77.0	\$ 129.4	\$ 131.4	1.8%

* as restated

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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

Governmental Activities. Revenues for the City's governmental activities decreased \$1.5 million or 5.7% totaling \$24.9 million. Property taxes account for more than half of the total, followed by Charges for Services and Intergovernmental revenues. 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. Capital grants and contributions decreased \$1.6 million. Property taxes increased by \$0.2 million or 1.4% in 2016.

Governmental activities expenses increased by \$1.1 million or 4.5% to \$25.6 million. Public safety saw the largest increase at \$0.9 million. This increase was due full staffing in both the police and fire departments. Culture, education and recreation increased by \$0.4 million as did Interest and fiscal charges. Health and human services and Conservation and development both increased by \$0.1 million. Public works saw the largest decrease at \$0.7 million. General Government decreased by \$0.1 million. Public safety includes police, fire, and building, safety and zoning. Culture, education and recreation include the library and park and recreation departments. Expenses exceeded revenues by \$0.7 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 2016 was \$25.6million.
- ◆ The net cost for these activities was \$18.9 million with \$14.1 million coming from property taxes, \$3.2 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 (\$4.1 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>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>
General government	\$ 2.2	\$ 2.1	(4.5)%	\$ 1.9	\$ 1.8	(5.3)%
Public safety	7.0	7.9	12.9%	5.5	6.5	18.2%
Public works	9.4	8.7	(7.4)%	4.5	5.3	17.8%
Health and human services	0.7	0.8	14.3%	0.3	0.3	0.0%
Culture, education and recreation	3.0	3.4	13.3%	1.6	2.4	50.0%
Conservation and development	0.6	0.7	16.7%	0.6	0.6	0.0%
Other	1.6	2.0	25.0%	1.6	2.0	25.0%
Total	\$ 24.5	\$ 25.6	4.5%	\$16.0	\$18.9	18.1%

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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

Business-type Activities. Revenues of the City's business-type activities charges for services increased from \$9.8 million to \$11.0 million. Expenses also increased by \$0.4 million with expenses in the Wastewater Utility accounting for \$0.3 million of the total. Expenses in the Water Utility increased by \$0.1 million and expenses remained the same in the Storm Water Utility. (Refer to Table A-4). Factors contributing to the results included:

- ◆ Increase in rates for the Wastewater and Storm Water utilities for the entire year plus a rate increase for the Water Utility effective July 1.
- ◆ Decrease in expenses associated with operation and maintenance with main breaks.
- ◆ Lower power and fuel costs associated with the mild winter and stable gas prices.

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 2015-2016
	2015	2016	2015	2016	2015	2016	2015	2016	
Revenues									
Program revenues									
Capital grants and contributions	0.2	0.1	0.1	0.0	0.0	0.0	0.3	0.1	(66.7)%
Charges for services	4.0	4.1	4.5	5.2	1.3	1.7	9.8	11.0	12.2%
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	4.2	4.2	4.6	5.2	1.3	1.7	10.1	11.1	9.9%
Expenses	2.7	2.8	3.8	4.1	1.2	1.2	7.7	8.1	5.2%
Excess (deficiency) before transfers	1.5	1.4	0.8	1.1	0.1	0.5	2.4	3.0	25.0%
Transfers	<u>(0.8)</u>	<u>(0.8)</u>	-	-	-	-	<u>(0.8)</u>	<u>(0.8)</u>	
CHANGE IN NET POSITION	0.7	0.6	0.8	1.1	0.1	0.5	1.6	2.2	37.5%
BEGINNING NET POSITION	25.1*	25.6**	35.1*	35.8**	13.3*	13.4	73.5*	74.8**	
ENDING NET POSITION	25.8	26.2	35.9	36.9	13.4	13.9	75.1	77.0	2.9%

* restated due to the implementation of accounting standard GASB 68.

** restated due to a change in accounting policy associated with capitalization methods for water well rehabilitation projects in accordance with PSCW guidelines.

Net position of the business-type activities increased by \$2.2 million of the restated 2015 amount. The Wastewater Utility increased \$1.1 million followed by the Water Utility with \$.06 million and Storm Water Utility with \$0.5 million. Total revenues increased from \$10.1 million to \$11.1 million or 9.9%. Charges for services increased \$1.2 million or 12.2%. Total revenues in the Wastewater Utility increased by \$0.6 million or 13.0%. The Storm Water Utility saw an increase of \$0.4 million while the Water Utility remained unchanged. Total expenses of the business-type activities increased by \$0.4 million or 5.2%. Of this total, the expenses in the Wastewater Utility increased by \$.03 million or 7.9%.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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 just under \$16.6 million, which is an increase of \$399,336 from the previous year. \$279,803 of this balance is non-spendable. There is \$11.8 million that is restricted, committed or assigned. This leaves \$4.6 million that is unassigned.

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

	<u>2015</u>	<u>2016</u>
Non-spendable:		
General Fund	\$ 203,190	\$ 251,653
Other Funds	29,605	28,150
Restricted:		
EMT/Act 102	6,931	6,931
Debt Fund	564,196	342,406
Other Funds	8,425,918	8,838,169
Committed:		
Capital project funds	1,060,895	856,481
Other Funds	454,453	594,240
Assigned:		
General Fund	1,134,978	1,179,722
Unassigned		
General Fund	4,343,748	4,595,705
Other Funds	<u>(31,585)</u>	<u>(101,792)</u>
Total Fund Balance	\$16,192,329	\$16,591,665

General Fund

The general fund balance total fund balance was \$6.0 million, which represents 37.8% of the final budget amount for year-end December 31, 2016. Of that amount, \$1.4 million is non-spendable or assigned. This leaves \$4.6 million or 76.7% unassigned, meaning it is available for appropriation. This amount represents 28.8% of the original general fund adopted budget expenses for the year 2016. In December of 2014, the Common Council adopted a policy stating that the undesignated fund balance should be between twenty (20%) and thirty (30%) percent of the annual adopted budget expenses, with a goal of twenty-five (25%) percent. The city's current unassigned general fund balance exceeds the goal the Common Council has set.

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 \$342,406 is restricted for future debt service.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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

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, 2016, is \$856,481, all of which is committed for the completion of projects that were not fully complete by year end.

Other Non-Major Governmental Funds

The fund balance of all other governmental funds is \$9,358,767 out of which \$8.8 million is restricted with a small amount that is non-spendable. TID #5's fund balance at \$4.6 million is the largest share of the non-major governmental funds. At year end, the City was working towards the creation of TID #7 to target rehabilitation in an older section of City containing primarily industrial properties.

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 2016 final budget had anticipated using \$191,751 of fund balance to balance the budget plus included \$46,424 of carryovers from the previous year which would have caused a fund balance decrease of \$238,175.

Instead, final budget to actual numbers for 2016 show a general fund balance increase of \$345,164. Total revenues overall were higher than budget by \$175,071. Increased revenues from court fines, EMS charges, recreation revenues, and several grants provided the additional revenue. Total expenditures were \$433,268 less than the final budget. Decreased expenditures in public works including street lighting costs and equipment repairs contributed to the majority of this amount along with savings in General Government from property and liability insurance having lower than anticipated increases. Lower gasoline prices resulted in savings in all areas of the budget.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had invested \$164.6 million in capital assets as presented in Table A-6. The largest investment was infrastructure, including roads, bridges, airport, and sidewalks, which totaled \$50.4 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	
	2015	2016	2015	2016	2015	2016	2015 – 2016	%
Buildings & improvements	11.9	11.7	-	-	11.9	11.7	(0.2)	(1.7)%
Equipment	6.0	7.1	-	-	6.0	7.1	1.1	18.3%
Infrastructure	52.0	50.4	-	-	52.0	50.4	(1.6)	(3.1)%
Land	7.9	8.0	1.5	1.5	9.4	9.5	0.1	1.1%
Construction in progress	0.0	0.0	0.4	3.3	0.4	3.3	2.9	725.0%
Water System	-	-	30.2	29.1	30.2	29.1	(1.1)	(3.6)%
Wastewater System	-	-	40.9	39.7	40.9	39.7	(1.2)	(2.9)%
Storm Water System	-	-	13.7	13.8	13.7	13.8	(0.1)	(0.7)%
Total	77.8	77.2	86.7	87.4	164.5	164.6	(0.1)	(0.1)%

The City plans to spend approximately \$3.0 million in fiscal year 2017 in the governmental funds on capital assets. Major projects include purchasing a refuse truck, rehabilitation work on the dam and continued street rehabilitation work. The water utility will finalize construction on a new water central plant and maintenance buildings estimated at \$10.8 million. 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, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (cont.)

Long-Term Debt

At year-end the City had \$41.6 million in general obligation bonds and notes outstanding, a decrease of \$1.6 million or 3.7% over last year as shown in Table A-7. \$3.0 million is anticipated to be borrowed in 2017 primarily for equipment purchases, dam work and street reconstruction work. The water utility recently completed updating its master plan and will be looking to borrow in 2017 to begin the infrastructure and plant updates needed for the business-type activities.

Revenue bonds decreased \$2.2 million to \$16.2 million at year end which was a 12.0% decrease over 2015. No new debt was issued in 2016 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	
	2015	2016	2015	2016	2015	2016	Dollar	%
General obligation bonds (backed by the City)	41.3	39.9	1.9	1.7	43.2	41.6	(1.6)	(3.7)%
Revenue bonds and notes (backed by specific revenues)	-	-	18.4	16.2	18.4	16.2	(2.2)	(12.0)%
Total	41.3	39.9	20.3	17.9	61.6	57.8	(3.8)	(6.2)%

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, 2016, the City's total equalized value was \$1.319 billion giving us a legal debt capacity of \$65.9 million. At December 31, 2016, the City is currently at 63.0% of capacity. We have additional borrowing capacity of \$24.3 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 2016.

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 \$1.319 billion, increased by \$31 million over the past year. The 2010 census has our population at 23,936. New construction totaled \$31.6 million which is a decrease over the previous year's total of \$42.3 million. A total of 25 new living units were constructed which included 17 new single family homes and 4 duplexes. In addition, Kwik-Trip constructed a new store and car wash, BASO Gas Products constructed a new industrial building, and Glory Global Solutions undertook interior renovations and a warehouse addition.

CITY OF WATERTOWN

UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and For the Year Ended December 31, 2016

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

The 2017 general fund operating budget expenditures are at \$16,124,600 an increase of \$190,300 or 1.2% over the 2016 original budget which was the maximum allowable increase to stay within the limits for the expenditure restraint program. The budget contains projected salary increases of 2% for 2017 and anticipates using approximately \$199,990 of fund balance mainly for capital items and one-time expenses in the general fund. The City continues to implement a branding initiative in conjunction with the Chamber of Commerce and Watertown Economic Development Corp. and is continuing work toward downtown redevelopment.

The 2017 debt budget expenditures are at \$4.1 million, the same as in 2015. 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. Work will continue in 2017 in TID #5 towards downtown redevelopment.

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. Recommended rate increases for water and sewer were approved following completion of a 5 year plan conducted by Baker Tilly Virchow Krause, LLP. Wastewater rates increased 12.5% in 2016. A rate increase is before the PSC to finance the construction of the water central plant and other infrastructure. Rates are estimated to increase by 28% in April of 2017.

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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
ASSETS				
Cash and investments	\$ 13,592,289	\$ 3,702,370	\$ 17,294,659	\$ 200,339
Taxes receivable	15,068,443	-	15,068,443	-
Other receivables (net)	1,436,542	952,917	2,389,459	29,891
Prepaid items and inventories	214,435	187,585	402,020	11,679
Other assets	-	750	750	-
Internal balances	2,195,283	(2,195,283)	-	-
Restricted assets				
Cash and investments	-	5,114,710	5,114,710	511,079
Capital Assets				
Construction in progress	-	3,325,381	3,325,381	-
Land	7,959,340	1,524,214	9,483,554	156,592
Other capital assets, net of depreciation	69,215,464	82,510,425	151,725,889	939,636
Total Assets	<u>109,681,796</u>	<u>95,123,069</u>	<u>204,804,865</u>	<u>1,849,216</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	6,647,019	873,686	7,520,705	71,296
Unamortized loss on advance refunding	-	106,902	106,902	-
Total Deferred Outflows of Resources	<u>6,647,019</u>	<u>980,588</u>	<u>7,627,607</u>	<u>71,296</u>
LIABILITIES				
Accounts payable and accrued expenses	1,137,249	324,498	1,461,747	214,690
Deposits	300,018	-	300,018	-
Liabilities Payable From Restricted Assets				
Current portion of revenue bonds	-	2,278,045	2,278,045	-
Accrued interest	-	80,770	80,770	-
Noncurrent Liabilities				
Due within one year	5,385,514	273,082	5,658,596	350,000
Due in more than one year	<u>38,054,669</u>	<u>15,840,598</u>	<u>53,895,267</u>	<u>23,315</u>
Total Liabilities	<u>44,877,450</u>	<u>18,796,993</u>	<u>63,674,443</u>	<u>588,005</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related amounts	2,497,794	327,135	2,824,929	28,343
Unearned revenues	<u>14,538,827</u>	-	<u>14,538,827</u>	<u>1,802</u>
Total Deferred Inflows of Resources	<u>17,036,621</u>	<u>327,135</u>	<u>17,363,756</u>	<u>30,145</u>
NET POSITION				
Net investment in capital assets	44,857,185	70,187,507	113,077,799	1,096,228
Restricted				
Debt service	38,784	1,519,837	1,558,621	-
TID activities	6,610,390	-	6,610,390	-
Grant programs	53,420	-	53,420	29,731
Loan programs	1,740,220	-	1,740,220	-
Developer fees	214,064	-	214,064	-
Trust purposes	18,200	-	18,200	-
Library	251,874	-	251,874	-
Capital asset replacement	-	2,633,775	2,633,775	-
Depreciation	-	129,731	129,731	-
Unrestricted	<u>630,607</u>	<u>2,508,679</u>	<u>5,106,179</u>	<u>176,403</u>
TOTAL NET POSITION	<u>\$ 54,414,744</u>	<u>\$ 76,979,529</u>	<u>\$ 131,394,273</u>	<u>\$ 1,302,362</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Unit
	Expenses	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	\$ 2,117,981	\$ 337,844	\$ 4,398	\$ -	\$ (1,775,739)	\$ -	\$ (1,775,739)	
Public safety	7,926,605	1,266,613	120,823	-	(6,539,169)	-	(6,539,169)	
Public works	8,674,657	1,442,676	1,563,143	339,130	(5,329,708)	-	(5,329,708)	
Health and human services	753,484	290,144	178,139	-	(285,201)	-	(285,201)	
Culture, education, and recreation	3,442,076	788,066	310,284	-	(2,343,726)	-	(2,343,726)	
Conservation and development	648,597	-	16,537	-	(632,060)	-	(632,060)	
Interest and fiscal charges	2,026,586	-	-	-	(2,026,586)	-	(2,026,586)	
Total Governmental Activities	<u>25,589,986</u>	<u>4,125,343</u>	<u>2,193,324</u>	<u>339,130</u>	<u>(18,932,189)</u>	<u>-</u>	<u>(18,932,189)</u>	
Business-type Activities								
Water	2,835,403	4,063,165	-	92,800	-	1,320,562	1,320,562	
Wastewater	4,132,037	5,193,227	-	-	-	1,061,190	1,061,190	
Stormwater	1,238,802	1,672,635	-	-	-	433,833	433,833	
Total Business-type Activities	<u>8,206,242</u>	<u>10,929,027</u>	<u>-</u>	<u>92,800</u>	<u>-</u>	<u>2,815,585</u>	<u>2,815,585</u>	
Total Primary Government	<u>\$ 33,796,228</u>	<u>\$ 15,054,370</u>	<u>\$ 2,193,324</u>	<u>\$ 431,930</u>	<u>(18,932,189)</u>	<u>2,815,585</u>	<u>(16,116,604)</u>	
Component Unit								
Community Development Authority	<u>\$ 559,140</u>	<u>\$ 318,714</u>	<u>\$ 103,780</u>	<u>\$ 78,460</u>				\$ (58,186)
General Revenues								
Taxes								
Property taxes, levied for general purposes					7,989,588	-	7,989,588	-
Property taxes, levied for debt service					3,768,217	-	3,768,217	-
Property taxes, tax increment					2,374,642	-	2,374,642	-
Other taxes					517,502	-	517,502	-
Intergovernmental revenues not restricted to specific programs					3,146,545	-	3,146,545	-
Investment income					131,982	31,712	163,694	14,393
Gain on sale of assets					47,475	76,283	123,758	(2,398)
Miscellaneous					247,333	62,350	309,683	100
Transfers					823,355	(823,355)	-	-
Total General Revenues and Transfers					<u>19,046,639</u>	<u>(653,010)</u>	<u>18,393,629</u>	<u>12,095</u>
Change in Net Position					114,450	2,162,575	2,277,025	(46,091)
NET POSITION - Beginning of Year (as restated)					54,300,294	74,816,954	129,117,248	1,348,453
NET POSITION - END OF YEAR					<u>\$ 54,414,744</u>	<u>\$ 76,979,529</u>	<u>\$ 131,394,273</u>	<u>\$ 1,302,362</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2016

	General	Debt Service	General Capital Projects	Nonmajor Governmental Funds	Totals
ASSETS					
Cash and investments	\$ 3,525,050	\$ 342,406	\$ 938,477	\$ 8,786,356	\$ 13,592,289
Receivables (net)					
Taxes	8,705,627	3,868,217	18,331	2,468,722	15,060,897
Delinquent personal property taxes	7,546	-	-	-	7,546
Accounts	294,563	-	2,125	131,237	427,925
Accrued interest	16,050	-	-	-	16,050
Grants	-	-	-	23,385	23,385
Due from other funds	2,689,957	-	-	-	2,689,957
Special assessments	28,766	-	31,700	-	60,466
Loans	-	15,179	-	893,537	908,716
Prepaid items	204,485	-	-	9,950	214,435
TOTAL ASSETS	\$ 15,472,044	\$ 4,225,802	\$ 990,633	\$ 12,313,187	\$ 33,001,666
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 137,265	\$ -	\$ 72,507	\$ 128,855	\$ 338,627
Accrued liabilities	450,820	-	-	17,387	468,207
Due to other funds	428,072	-	-	66,602	494,674
Other liabilities	-	-	11,614	300,018	311,632
Total Liabilities	1,016,157	-	84,121	512,862	1,613,140
Deferred Inflows of Resources					
Unearned revenues	8,261,722	3,868,217	-	2,408,888	14,538,827
Unavailable revenues	160,154	15,179	50,031	32,670	258,034
Total Deferred Inflows of Resources	8,421,876	3,883,396	50,031	2,441,558	14,796,861
Fund Balances					
Nonspendable:					
Delinquent personal property taxes	7,546	-	-	-	7,546
Prepaid items	204,485	-	-	9,950	214,435
Non-current receivables	39,622	-	-	-	39,622
Permanent trust	-	-	-	18,200	18,200
Restricted	6,931	342,406	-	8,838,169	9,187,506
Committed	-	-	856,481	594,240	1,450,721
Assigned	1,179,722	-	-	-	1,179,722
Unassigned, reported in general fund	4,595,705	-	-	-	4,595,705
Unassigned (deficit)	-	-	-	(101,792)	(101,792)
Total Fund Balances	6,034,011	342,406	856,481	9,358,767	16,591,665
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 15,472,044	\$ 4,225,802	\$ 990,633	\$ 12,313,187	\$ 33,001,666

See accompanying notes to financial statements.

CITY OF WATERTOWN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION As of December 31, 2016

Total Fund Balances - Governmental Funds	\$ 16,591,665
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.	77,174,804
Some receivables that are not currently available are reported as unavailable revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements. See Note II.A.	258,034
The net pension liability does not relate to current financial resources and is not reported in the governmental funds.	(1,186,892)
Deferred outflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds	6,647,019
Deferred inflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds	(2,497,794)
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.	<u>(42,572,092)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 54,414,744</u>

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, 2016

	General	Debt Service	General Capital Projects	Nonmajor Governmental Funds	Totals
REVENUES					
Taxes	\$ 8,530,197	\$ 3,768,217	\$ -	\$ 2,374,642	\$ 14,673,056
Special assessments	-	-	25,467	-	25,467
Intergovernmental	4,274,807	-	-	881,179	5,155,986
Licenses and permits	480,900	-	-	195,298	676,198
Public charges for services	1,377,445	-	36,260	1,537,285	2,950,990
Intergovernmental charges for service	209,961	-	-	-	209,961
Investment income	22,764	-	9,897	50,877	83,538
Miscellaneous	160,521	16,860	13,680	519,516	710,577
Total Revenues	<u>15,056,595</u>	<u>3,785,077</u>	<u>85,304</u>	<u>5,558,797</u>	<u>24,485,773</u>
EXPENDITURES					
Current					
General government	1,952,256	-	-	-	1,952,256
Public safety	7,057,188	-	-	-	7,057,188
Public works	3,058,245	-	-	1,668,791	4,727,036
Health and human services	375,116	-	-	392,925	768,041
Culture, education, and recreation	2,541,193	-	-	697,080	3,238,273
Conservation and development	217,802	-	-	144,915	362,717
Public service enterprises	247,437	-	-	-	247,437
Capital Outlay	98,219	-	2,699,523	750,465	3,548,207
Debt Service					
Principal	-	3,120,127	-	999,847	4,119,974
Interest, issuance costs and fiscal charges	-	952,453	-	441,207	1,393,660
Principal on capital leases	-	54,355	-	225,000	279,355
Interest on capital leases	-	17,205	-	13,155	30,360
Total Expenditures	<u>15,547,456</u>	<u>4,144,140</u>	<u>2,699,523</u>	<u>5,333,385</u>	<u>27,724,504</u>
Excess (deficiency) of revenues over expenditures	<u>(490,861)</u>	<u>(359,063)</u>	<u>(2,614,219)</u>	<u>225,412</u>	<u>(3,238,731)</u>
OTHER FINANCING SOURCES (USES)					
Debt issued	-	7,190,000	2,375,000	445,000	10,010,000
Premium on debt issued	-	707,145	-	32,698	739,843
Payments to refunding escrow	-	(7,744,372)	-	(238,234)	(7,982,606)
Sale of assets	12,670	-	34,805	-	47,475
Transfer in - tax equivalent	823,355	-	-	-	823,355
Transfers in	-	-	-	548,469	548,469
Transfers out	-	(15,500)	-	(532,969)	(548,469)
Total Other Financing Sources (Uses)	<u>836,025</u>	<u>137,273</u>	<u>2,409,805</u>	<u>254,964</u>	<u>3,638,067</u>
Net Change in Fund Balances	345,164	(221,790)	(204,414)	480,376	399,336
FUND BALANCES - Beginning of Year	<u>5,688,847</u>	<u>564,196</u>	<u>1,060,895</u>	<u>8,878,391</u>	<u>16,192,329</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,034,011</u>	<u>\$ 342,406</u>	<u>\$ 856,481</u>	<u>\$ 9,358,767</u>	<u>\$ 16,591,665</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, 2016

Net change in fund balances - total governmental funds	\$	399,336
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements		3,548,207
Some items reported as capital outlay are not capitalized		(1,049,353)
Depreciation is reported in the government-wide statements		(3,250,067)
Net book value of assets retired		(171,540)
Contributed capital assets are reported as revenues in the government-wide statements.		270,000
<p>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.</p>		
Special assessments		11,629
EMS services		50,439
Accrued Interest		25,335
Land contract and loan receivable		(15,995)
Transit grants receivable		6,427
<p>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.</p>		
Debt issued		(10,010,000)
Capital leases repaid		279,355
Principal repaid		11,447,474
<p>Governmental funds report debt premiums as other financing sources. However, in the statement of net position, these are reported as additions to long-term debt. These are allocated over the period the debt is outstanding in the statement of activities and are reported as interest expense.</p>		
Debt premium		(739,843)
Amortization of premium		16,751
<p>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.</p>		
Net pension liability		(2,981,507)
Deferred outflows of resources related to pensions		4,763,670
Deferred inflows of resources related to pensions		(2,497,794)
Compensated absences		(23,862)
Accrued interest on debt		35,788
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	114,450

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF NET POSITION ENTERPRISE FUNDS As of December 31, 2016

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
ASSETS				
CURRENT ASSETS				
Cash and investments	\$ 124,269	\$ 2,170,960	\$ 757,140	\$ 3,052,369
Interest receivable	3,132	-	-	3,132
Restricted assets				
Redemption account	402,912	1,197,695	-	1,600,607
Accounts receivable	349,384	441,309	157,119	947,812
Due from other funds	168,570	217,649	52,934	439,153
Inventories	126,501	-	-	126,501
Prepaid items	19,180	32,861	9,043	61,084
Total Current Assets	1,193,948	4,060,474	976,236	6,230,658
NONCURRENT ASSETS				
Restricted Assets				
Cash and investments	880,328	2,633,775	-	3,514,103
Capital Assets				
Land	210,990	648,923	664,301	1,524,214
Construction in progress	3,264,259	-	61,122	3,325,381
Property and equipment	43,380,588	57,660,447	19,962,244	121,003,279
Less: Accumulated depreciation	(14,305,255)	(18,006,087)	(6,181,512)	(38,492,854)
Other Assets				
Cash and investments	-	650,001	-	650,001
Nonutility property	750	-	-	750
Special assessments	-	1,973	-	1,973
Total Noncurrent Assets	33,431,660	43,589,032	14,506,155	91,526,847
Total Assets	34,625,608	47,649,506	15,482,391	97,757,505
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on advance refunding	63,938	-	42,964	106,902
Deferred outflows related to pension	382,971	311,799	178,916	873,686
Total Deferred Outflows of Resources	446,909	311,799	221,880	980,588

See accompanying notes to financial statements.

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	\$ 230,408	\$ 39,849	\$ 4,249	\$ 274,506
Compensated absences	15,554	24,726	-	40,280
Accrued wages	18,275	21,407	968	40,650
Accrued interest	2,726	2,726	3,890	9,342
Due to other funds	2,634,436	-	-	2,634,436
Current portion of general obligation debt	5,151	5,151	222,500	232,802
Liabilities Payable From Restricted Assets				
Current portion of revenue bonds	555,000	1,723,045	-	2,278,045
Accrued interest	32,341	48,429	-	80,770
Total Current Liabilities	<u>3,493,891</u>	<u>1,865,333</u>	<u>231,607</u>	<u>5,590,831</u>
NONCURRENT LIABILITIES				
Long-Term Debt				
Revenue bonds	4,950,000	8,960,932	-	13,910,932
General obligation debt	46,764	46,764	1,335,000	1,428,528
Unamortized debt premium	214,694	-	68,841	283,535
Other Liabilities				
Net pension liability	70,550	53,235	31,662	155,447
Compensated absences	33,361	28,795	-	62,156
Total Noncurrent Liabilities	<u>5,315,369</u>	<u>9,089,726</u>	<u>1,435,503</u>	<u>15,840,598</u>
Total Liabilities	<u>8,809,260</u>	<u>10,955,059</u>	<u>1,667,110</u>	<u>21,431,429</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	<u>148,469</u>	<u>112,033</u>	<u>66,633</u>	<u>327,135</u>
NET POSITION				
Net investment in capital assets	27,645,423	29,619,306	12,922,778	70,187,507
Restricted for debt service	370,571	1,149,266	-	1,519,837
Restricted for capital asset replacement	-	2,633,775	-	2,633,775
Restricted for depreciation	129,731	-	-	129,731
Unrestricted (deficit)	<u>(2,030,937)</u>	<u>3,491,866</u>	<u>1,047,750</u>	<u>2,508,679</u>
TOTAL NET POSITION	<u>\$ 26,114,788</u>	<u>\$ 36,894,213</u>	<u>\$ 13,970,528</u>	<u>\$ 76,979,529</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, 2016

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
OPERATING REVENUES				
Charges for services	\$ 4,063,165	\$ 5,193,227	\$ 1,672,635	\$ 10,929,027
Total Operating Revenues	<u>4,063,165</u>	<u>5,193,227</u>	<u>1,672,635</u>	<u>10,929,027</u>
OPERATING EXPENSES				
Operation and maintenance	1,729,611	2,179,824	656,816	4,566,251
Depreciation	909,608	1,639,995	493,174	3,042,777
Total Operating Expenses	<u>2,639,219</u>	<u>3,819,819</u>	<u>1,149,990</u>	<u>7,609,028</u>
Operating Income	<u>1,423,946</u>	<u>1,373,408</u>	<u>522,645</u>	<u>3,319,999</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	8,364	20,864	2,484	31,712
Miscellaneous revenues	-	-	62,350	62,350
Proceeds from sale of fixed assets	-	-	76,283	76,283
Amortization of premium	9,832	-	-	9,832
Interest expense	<u>(206,016)</u>	<u>(312,218)</u>	<u>(88,812)</u>	<u>(607,046)</u>
Total Nonoperating Revenues (Expenses)	<u>(187,820)</u>	<u>(291,354)</u>	<u>52,305</u>	<u>(426,869)</u>
Income Before Contributions and Transfers	1,236,126	1,082,054	574,950	2,893,130
CAPITAL CONTRIBUTIONS	92,800	-	-	92,800
TRANSFERS - TAX EQUIVALENT	<u>(823,355)</u>	<u>-</u>	<u>-</u>	<u>(823,355)</u>
Change in Net Position	505,571	1,082,054	574,950	2,162,575
NET POSITION - Beginning of Year (as restated)	<u>25,609,217</u>	<u>35,812,159</u>	<u>13,395,578</u>	<u>74,816,954</u>
NET POSITION - END OF YEAR	<u>\$ 26,114,788</u>	<u>\$ 36,894,213</u>	<u>\$ 13,970,528</u>	<u>\$ 76,979,529</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2016

	Water Utility	Wastewater Utility	Stormwater Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 4,143,333	\$ 5,139,305	\$ 1,680,771	\$ 10,963,409
Paid to suppliers for goods and services	(1,283,845)	(1,605,999)	(349,077)	(3,238,921)
Paid to employees for services	(512,527)	(534,593)	(286,154)	(1,333,274)
Net Cash Flows From Operating Activities	<u>2,346,961</u>	<u>2,998,713</u>	<u>1,045,540</u>	<u>6,391,214</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Paid to city for tax equivalent	(784,749)	-	-	(784,749)
Debt retired	(4,530)	(4,530)	-	(9,060)
Interest paid	(2,971)	(2,971)	-	(5,942)
Net Cash Flows From Noncapital Financing Activities	<u>(792,250)</u>	<u>(7,501)</u>	<u>-</u>	<u>(799,751)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Debt retired	(545,000)	(1,676,743)	(1,445,000)	(3,666,743)
Interest paid	(206,123)	(317,157)	(95,133)	(618,413)
Proceeds from debt issue	-	-	1,240,000	1,240,000
Debt issuance costs	-	-	(50,125)	(50,125)
Acquisition and construction of capital assets	(2,995,884)	(374,029)	(577,921)	(3,947,834)
Temporary financing for capital	1,800,000	-	-	1,800,000
Salvage on retirement of assets	-	-	76,283	76,283
Capital contributions received	91,800	-	80,315	172,115
Net Cash Flows From Capital and Related Financing Activities	<u>(1,855,207)</u>	<u>(2,367,929)</u>	<u>(771,581)</u>	<u>(4,994,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments purchase	(770,838)	(1,998,392)	-	(2,769,230)
Investment income	5,232	20,864	2,484	28,580
Net Cash Flows From Investing Activities	<u>(765,606)</u>	<u>(1,977,528)</u>	<u>2,484</u>	<u>(2,740,650)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,066,102)	(1,354,245)	276,443	(2,143,904)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,702,773</u>	<u>6,008,284</u>	<u>480,697</u>	<u>8,191,754</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 636,671</u>	<u>\$ 4,654,039</u>	<u>\$ 757,140</u>	<u>\$ 6,047,850</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	\$ 1,423,946	\$ 1,373,408	\$ 522,645	\$ 3,319,999
Nonoperating income	-	-	62,350	62,350
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities				
Depreciation expense	909,608	1,639,995	493,174	3,042,777
Depreciation charged to other funds	51,885	-	-	51,885
Changes in assets and liabilities				
Accounts receivable	18,185	(26,203)	(46,426)	(54,444)
Due from other funds	18,749	(16,638)	(7,788)	(5,677)
Inventories	(13,149)	-	-	(13,149)
Prepaid items	743	(559)	(10)	174
Due to other funds	-	(14,064)	-	(14,064)
Accounts payable	(99,684)	(5,941)	-	(105,625)
Compensated absences	(2,707)	1,555	-	(1,152)
Other current liabilities	(1,154)	5,763	(2,188)	2,421
Pension related deferrals and liabilities	40,539	41,397	23,783	105,719
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,346,961</u>	<u>\$ 2,998,713</u>	<u>\$ 1,045,540</u>	<u>\$ 6,391,214</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES				
Adjustment related to restatement	<u>\$ (276,108)</u>	<u>\$ -</u>	<u>\$ -</u>	
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION				
Cash and investments	\$ 124,269	\$ 2,170,960	\$ 757,140	\$ 3,052,369
Restricted cash and investments - current	402,912	1,197,695	-	1,600,607
Restricted cash and investments - noncurrent	880,328	2,633,775	-	3,514,103
Other assets - cash and investments	-	650,001	-	650,001
Total Cash and Investments	1,407,509	6,652,431	757,140	8,817,080
Less: Noncash equivalents	<u>(770,838)</u>	<u>(1,998,392)</u>	<u>-</u>	<u>(2,769,230)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 636,671</u>	<u>\$ 4,654,039</u>	<u>\$ 757,140</u>	<u>\$ 6,047,850</u>

See accompanying notes to financial statements.

CITY OF WATERTOWN

STATEMENT OF ASSETS AND LIABILITIES

AGENCY FUND

As of December 31, 2016

	<u>Tax Collection Fund</u>
ASSETS	
Cash and investments	\$ 15,202,647
Taxes receivable	<u>3,006,606</u>
TOTAL ASSETS	<u>\$ 18,209,253</u>
LIABILITIES	
Due to other taxing units	<u>\$ 18,209,253</u>
TOTAL LIABILITIES	<u>\$ 18,209,253</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, 2016

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, 2016

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.J. 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, 2016. Separately issued financial statements of the Community Development Authority may be obtained from the CDA's office.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In February 2015, the GASB issued statement No. 72 - *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

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

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.

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.

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, 2016

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	Developer Parks Fund
CDBG Economic Fund	Environmental Health Fund
CDBG Housing Rehab Fund	Emergency Preparedness Fund
Library Fund	Library Trust Fund
Riverfest Fund	Solid Waste Fund
Seal-A-Smile 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. 3	TID No. 6
TID No. 4	TID No. 7
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, 2016

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, 2016

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 utilities 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.
- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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.)

- 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
- Concentration of credit 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 methods and inputs as outlined in Note IV. A. 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, 2016, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

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, 2016, the fair value of the Foundation's assets was substantially equal to the city's share as reported in Note IV. A.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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.)

See Note IV. A. for further information.

2. Receivables

Property tax calendar - 2016 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	April 30, 2016
Third installment due	July 31, 2016
Personal property taxes in full	January 31, 2017
Tax sale - 2016 delinquent real estate taxes	October 2019

Accounts receivable have been shown net of an allowance for uncollectible accounts for EMS service of \$240,059. 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 \$82,498.

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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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.)

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 one 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.

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. No 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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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.)

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 Systems	7 - 100 Years
Infrastructure	40 - 80 Years
Airport	20 - 30 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.

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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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 (cont.)

The city provides postemployment health insurance benefits for all eligible employees. Eligibility is based on retiring from the city meeting certain age requirements and with a minimum of ten years of service. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. Employees may convert \$60 (police 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 premiums are paid 50 percent by the converted sick leave 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 not material. The number of participants currently eligible to receive benefits is one. 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, 2016, 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.

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 \$639,800, made up of two issues.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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.)

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	\$ 44,857,185	\$ 70,187,507	\$ (1,966,893)	\$ 113,077,799
Unrestricted	630,607	2,508,679	1,966,893	5,106,179

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, 2016

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 do not meet the criteria to be classified as restricted or committed. The City Council has, by resolution, adopted a financial policy authorizing the Clerk/Treasurer to assign amounts for a specific purpose. 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, 2016

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 20% to 30% of annual general fund budgeted expenditures, with a targeted goal of 25%. The unassigned general fund balance at year end was \$4,635,327 or 28.8% of 2016 general fund budgeted expenditures.

See Note IV. H. for further information.

11. Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Basis for Existing Rates

Water Utility

Current water rates were approved by the Public Service Commission of Wisconsin effective July 16, 2016.

Wastewater Utility

Current wastewater rates were approved by the Public works Committee on January 1, 2016.

Stormwater Utility

Current stormwater rates were approved by the city council effective January 2, 2016.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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 some receivables that are not currently available are reported as unavailable revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements. The details of this \$258,034 difference are as follows:

Special assessments receivable	\$	94,630
Loans receivable		15,179
EMS accounts receivable		99,505
Transit accounts receivable		23,385
Accrued Interest		<u>25,335</u>
Combined Adjustment for Unavailable Revenue	\$	<u><u>258,034</u></u>

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	\$	39,903,350
Compensated absences		1,113,346
Capital leases		312,488
Accrued interest		318,801
Premium on debt		<u>924,107</u>
Combined Adjustment for Long-Term Liabilities	\$	<u><u>42,572,092</u></u>

NOTE III - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

A budget has been adopted for the majority of funds. A budget has not been formally adopted for TID No. 7 capital projects fund. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. EXCESS EXPENDITURES AND OTHER FINANCING USES OVER APPROPRIATIONS

Funds	Budgeted Expenditures	Actual Expenditures	Excess Expenditures Over Budget
Debt service fund	\$ 4,098,552	\$ 11,904,012	\$ 7,805,460
TID No. 4 capital projects fund	449,857	546,875	97,018
Riverfest fund	430,710	440,065	9,355
Developer parks fund	34,000	37,101	3,101

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.

C. DEFICIT BALANCES

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

As of December 31, 2016, the following individual funds held a deficit balance:

Fund	Amount	Reason
Transit system fund	\$ 45,227	Grant revenue is unavailable
TID No. 6 capital projects fund	16,943	Excess of expenditures over revenues
TID No. 7 capital projects fund	39,622	Excess of expenditures over revenues

TIF district deficits are anticipated to be funded with future incremental taxes levied over the life of the districts, which is 27 years for the districts created before October 1, 1995, and 23 years for districts created thereafter through September 30, 2004. Beginning October 1, 2004, the life of new districts varies by type of district (20-27 years) and may be extended in some cases.

The Transit system fund deficit is anticipated to be funded with future grant revenues.

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 2013 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, 2016

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:

	Carrying Value	Statement Balances	Associated Risks
Deposits	\$ 4,038,428	\$ 5,429,557	Custodial credit
U.S. agencies - implicitly guaranteed	2,211,158	2,211,158	Credit, Custodial credit, Concentration of credit, interest rate
U.S. agencies - explicitly guaranteed	1,769,613	1,769,613	Custodial credit, Interest rate
LGIP	22,852,215	22,852,215	Credit
Watertown Area Community Foundation	91,080	91,080	Interest rate, credit
Certificates of deposit (negotiable)	5,778,200	5,778,200	Credit, Custodial credit, Concentration of credit, interest rate
Cash on hand	871,322	-	N/A
Total Deposits and Investments	\$ 37,612,016	\$ 38,131,823	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 17,294,659		
Restricted cash and investments	5,114,710		
Per statement of assets and liabilities - agency fund			
Cash and investments	15,202,647		
Total Deposits and Investments	\$ 37,612,016		

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 Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government).

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. \$500,000 of the city's investments are covered by SIPC. Additionally, through London insurers, accounts have additional securities coverage of \$149.5 million per customer, subject to a \$500 million aggregate firm limit.

The city maintains collateral agreements with its banks. At December 31, 2016, the banks had pledged various government securities in the amount of \$4,691,607 to secure the city's deposits.

The city categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > Level 2 - Inputs are significant other observable inputs

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. agencies - implicitly guaranteed	\$ -	\$ 2,211,158	\$ -	\$ 2,211,158
U.S. agencies - explicitly guaranteed	-	1,769,613	-	1,769,613
Certificates of deposits (negotiable)	-	<u>5,778,200</u>	-	<u>5,778,200</u>
Total	<u>\$ -</u>	<u>\$ 9,758,971</u>	<u>\$ -</u>	<u>\$ 9,758,971</u>

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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

Credit Risk (cont.)

As of December 31, 2016, the city's investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
U.S agencies - implicitly guaranteed Certificates of deposits (negotiable)	AA+ Not rated	Aaa Not rated

The city also 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, 2016, the city's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)			
		Less than 1	1-5	6-10	11-15
US agencies Certificates of deposits (negotiable)	\$ 3,980,771	\$ -	\$ 3,980,771	\$ -	\$ -
	<u>5,778,200</u>	<u>2,880,395</u>	<u>2,897,805</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 9,758,971</u>	<u>\$ 2,880,395</u>	<u>\$ 6,878,576</u>	<u>\$ -</u>	<u>\$ -</u>

The average maturity for the \$91,080 held by the Watertown Area Community Foundation was not available.

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

B. RECEIVABLES

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 to be loaned to other businesses and/or 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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. RECEIVABLES (cont.)

At December 31, 2016, the city has not exceeded the maximum amount of program income that it may retain or the amount of time for which funds may be held without use. 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, 2016:

Restricted Assets	
Redemption account	\$ 1,600,607
Reserve account	750,597
Depreciation account	129,731
Replacement account	<u>2,633,775</u>
Total Restricted Assets	<u>\$ 5,114,710</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 7,869,340	\$ 285,000	\$ 195,000	\$ 7,959,340
Total Capital Assets Not Being Depreciated	7,869,340	285,000	195,000	7,959,340
Capital assets being depreciated				
Land improvements	3,231,199	229,238	20,000	3,440,437
Buildings	19,296,306	132,431	35,112	19,393,625
Machinery and equipment	13,783,431	1,618,154	696,704	14,704,881
Roads	75,908,341	456,910	485,610	75,879,641
Bridges	7,916,338	-	-	7,916,338
Sidewalks	2,710,798	47,121	15,688	2,742,231
Dams	927,703	-	-	927,703
Airport	3,904,963	-	-	3,904,963
Rail spur	895,335	-	-	895,335
Total Capital Assets Being Depreciated	128,574,414	2,483,854	1,253,114	129,805,154
Total Capital Assets	136,443,754	2,768,854	1,448,114	137,764,494
Less: Accumulated depreciation for				
Land improvements	(1,329,239)	(97,154)	22,500	(1,403,893)
Buildings	(9,284,591)	(483,411)	35,312	(9,732,690)
Machinery and equipment	(7,740,449)	(714,740)	851,498	(7,603,691)
Roads	(33,667,770)	(1,788,790)	353,818	(35,102,742)
Bridges	(1,631,093)	(98,312)	-	(1,729,405)
Sidewalks	(997,258)	(38,801)	13,446	(1,022,613)
Dams	(97,830)	(11,596)	-	(109,426)
Airport	(3,810,844)	(6,072)	-	(3,816,916)
Rail spur	(57,123)	(11,191)	-	(68,314)
Total Accumulated Depreciation	(58,616,197)	(3,250,067)	1,276,574	(60,589,690)
Net Capital Assets Being Depreciated	69,958,217	(766,213)	(23,460)	69,215,464
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 77,827,557	\$ (481,213)	\$ 171,540	\$ 77,174,804

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 197,861
Public safety	266,308
Public works	2,513,716
Culture, recreation, education	253,105
Health and human services	<u>19,077</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 3,250,067</u></u>

	Beginning Balance	Adjustments*	Additions	Deletions	Ending Balance
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 1,524,214	\$ -	\$ -	\$ -	\$ 1,524,214
Construction in progress	<u>356,345</u>	<u>-</u>	<u>2,969,036</u>	<u>-</u>	<u>3,325,381</u>
Total Capital Assets Not Being Depreciated	<u>1,880,559</u>	<u>-</u>	<u>2,969,036</u>	<u>-</u>	<u>4,849,595</u>
Capital assets being depreciated					
Water system	43,367,750	-	122,251	109,413	43,380,588
Wastewater system	57,488,652	-	374,029	202,234	57,660,447
Stormwater system	<u>19,780,042</u>	<u>-</u>	<u>518,929</u>	<u>336,727</u>	<u>19,962,244</u>
Total Capital Assets Being Depreciated	<u>120,636,444</u>	<u>-</u>	<u>1,015,209</u>	<u>648,374</u>	<u>121,003,279</u>
Total Capital Assets	<u>122,517,003</u>	<u>-</u>	<u>3,984,245</u>	<u>648,374</u>	<u>125,852,874</u>
Less: Accumulated depreciation for					
Water system	(13,177,068)	(210,455)	(961,493)	43,761	(14,305,255)
Wastewater system	(16,568,325)	-	(1,639,995)	202,233	(18,006,087)
Stormwater system	<u>(6,025,065)</u>	<u>-</u>	<u>(477,316)</u>	<u>320,869</u>	<u>(6,181,512)</u>
Total Accumulated Depreciation	<u>(35,770,458)</u>	<u>(210,455)</u>	<u>(3,078,804)</u>	<u>566,863</u>	<u>(38,492,854)</u>
Net Capital Assets Being Depreciated	<u>84,865,986</u>	<u>(210,455)</u>	<u>(2,063,595)</u>	<u>81,511</u>	<u>82,510,425</u>
Business-type Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 86,746,545</u></u>	<u><u>\$ (210,455)</u></u>	<u><u>\$ 905,441</u></u>	<u><u>\$ 81,511</u></u>	<u><u>\$ 87,360,020</u></u>

* Water accumulated depreciation adjustments are the result of capital asset and expense re-classifications made during the year at the request of the Wisconsin Public Service Commission.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Business-type Activities

Water		\$ 909,608
Sewer		1,639,995
Stormwater		<u>493,174</u>
Total Business-type Activities Depreciation Expense		<u><u>\$ 3,042,777</u></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:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General fund	Water utility	\$ 823,355	\$ -
General fund	TID No. 6	16,943	-
General fund	TID No. 7	39,622	39,622
General fund	Transit	10,037	-
Water utility	General fund	168,570	-
General fund	Water utility	1,800,000	-
Wastewater utility	General fund	206,568	-
Stormwater utility	General fund	52,934	-
Wastewater utility	Water Utility	<u>11,081</u>	-
Total - Fund Financial Statements		3,129,110	
Less: Fund eliminations		(66,602)	
Less: Government-wide eliminations		<u>(867,225)</u>	
Total Internal Balances - Government-Wide Statement of Net Position		<u><u>\$ 2,195,283</u></u>	

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

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

Interfund Receivables/Payables (cont.)

Receivable Fund	Payable Fund	Amount
Governmental Activities	Business-type Activities	\$ 2,623,355
Business-type Activities	Governmental Activities	<u>(428,072)</u>
Total Government-Wide Financial Statements		<u>\$ 2,195,283</u>

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	\$ 532,969	Contribution
General fund	Water utility	823,355	Tax equivalent
Library trust	Debt service	<u>15,500</u>	Library costs
Sub-Total		1,371,824	
Less: Fund eliminations		<u>(548,469)</u>	
Total Transfers - Government-Wide Statement of Activities		<u>\$ 823,355</u>	

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, 2016

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

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable					
General obligation debt	\$ 41,340,824	\$ 10,010,000	\$ 11,447,474	\$ 39,903,350	\$ 4,623,831
(Discounts)/Premiums	<u>201,015</u>	<u>739,843</u>	<u>16,751</u>	<u>924,107</u>	<u>-</u>
Sub-totals	<u>41,541,839</u>	<u>10,749,843</u>	<u>11,464,225</u>	<u>40,827,457</u>	<u>4,623,831</u>
Other Liabilities					
Accumulated vacation	695,358	704,779	695,358	704,779	704,779
Vested sick leave	394,126	408,567	394,126	408,567	-
Capital leases	591,843	-	279,355	312,488	56,904
Net pension liability	-	<u>1,186,892</u>	-	<u>1,186,892</u>	-
Total Other Liabilities	<u>1,681,327</u>	<u>2,300,238</u>	<u>1,368,839</u>	<u>2,612,726</u>	<u>761,683</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 43,223,166</u>	<u>\$ 13,050,081</u>	<u>\$ 12,833,064</u>	<u>\$ 43,440,183</u>	<u>\$ 5,385,514</u>
Business-type Activities					
Bonds and Notes Payable					
General obligation debt	\$ 1,875,390	\$ 1,240,000	\$ 1,454,060	\$ 1,661,330	\$ 232,802
Revenue bonds	18,410,720	-	2,221,743	16,188,977	2,278,045
(Discounts)/Premiums	<u>228,696</u>	<u>80,314</u>	<u>25,475</u>	<u>283,535</u>	<u>-</u>
Sub-totals	<u>20,514,806</u>	<u>1,320,314</u>	<u>3,701,278</u>	<u>18,133,842</u>	<u>2,510,847</u>
Other Liabilities					
Vested compensated absences	103,923	102,436	103,923	102,436	40,280
Net pension liability	-	<u>155,447</u>	-	<u>155,447</u>	-
Total Other Liabilities	<u>103,923</u>	<u>257,883</u>	<u>103,923</u>	<u>257,883</u>	<u>40,280</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 20,618,729</u>	<u>\$ 1,578,197</u>	<u>\$ 3,805,201</u>	<u>\$ 18,391,725</u>	<u>\$ 2,551,127</u>

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, 2016, was \$65,987,320. Total general obligation debt outstanding at year end was \$41,564,680.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

F. LONG-TERM OBLIGATIONS (cont.)

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.

Governmental Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
State trust fund loan	12/15/03	2023	5.25%	\$ 1,127,322	\$ 761,418
Bonds	4/23/07	2022	3.60 - 4.05%	1,510,000	112,500
Bonds	7/22/08	2023	4.00 - 4.15%	6,345,000	710,000
Promissory notes	6/23/09	2019	2.50 - 4.00%	7,165,000	2,050,000
Refunding bonds	7/21/10	2021	2.00 - 3.50%	4,395,000	2,510,000
Bonds	8/3/10	2030	2.95 - 4.00%	1,305,000	1,195,000
Promissory notes	8/3/10	2020	1.50 - 2.90%	1,125,000	490,000
State trust fund loan	3/16/10	2030	5.50%	2,500,000	2,006,146
State trust fund loan	3/16/10	2030	5.50%	1,000,000	802,458
State trust fund loan	9/21/10	2030	5.25%	825,000	695,016
Promissory notes	3/10/11	2020	2.00 - 3.40%	1,420,000	675,000
Refunding bonds	3/16/11	2026	2.00 - 4.25%	1,100,000	640,000
Bonds	3/23/12	2021	2.00 - 3.00%	1,805,000	1,155,000
Refunding bonds	8/28/12	2021	2.00 - 1.75%	1,850,000	1,735,000
Refunding bonds	2/26/13	2025	2.00 - 2.50%	7,625,000	5,785,000
Promissory notes	2/26/13	2022	2.00%	1,560,000	1,080,000
Promissory notes	3/19/14	2023	2.00 - 3.00%	3,300,000	2,610,000
Promissory notes	3/10/15	2024	2.00 - 3.00%	4,080,000	4,080,000
Refunding bonds	3/10/15	2027	2.00 - 4.00%	710,000	665,000
State trust fund loan	5/5/15	2020	3%	168,000	135,812
Bonds	2/23/16	2025	3%	2,600,000	2,600,000
Refunding bonds	2/23/16	2028	2.00 - 3.00%	7,410,000	7,410,000

Total Governmental Activities - General Obligation Debt \$ 39,903,350

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Business-type Activities

<u>General Obligation Debt</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2016</u>
State trust fund loan	12/15/03	2023	5.25%	\$ 153,726	\$ 103,830
Bonds	4/23/07	2022	3.50 - 4.05%	1,510,000	112,500
Bonds	7/22/08	2023	4.00 - 4.15%	1,450,000	205,000
Refunding Bonds	2/23/16	2028	3%	1,240,000	<u>1,240,000</u>
Total Business-type Activities - General Obligation Debt					<u>\$ 1,661,330</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Governmental Activities General Obligation Debt</u>		<u>Business-type Activities General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 4,623,831	\$ 1,170,804	\$ 232,802	\$ 72,097
2018	4,756,459	1,035,364	241,626	63,711
2019	4,657,904	896,914	243,054	33,000
2020	4,590,222	777,930	254,585	26,424
2021	4,538,487	645,878	266,255	18,299
2022-2026	13,473,257	1,618,261	423,008	12,643
2027-2030	<u>3,263,190</u>	<u>263,717</u>	-	-
Totals	<u>\$ 39,903,350</u>	<u>\$ 6,408,868</u>	<u>\$ 1,661,330</u>	<u>\$ 226,174</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 utility has pledged future revenues, net of specified operating expenses, to repay revenue bonds issued in 2007-2012. Proceeds from the bonds provided financing for the plant construction capital projects. The bonds are payable solely from water revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require 18% of net revenues. The total principal and interest remaining to be paid on the bonds is \$6,605,525. Principal and interest paid for the current year and total customer net revenues were \$751,123 and \$2,341,918, respectively.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt (cont.)

The wastewater utility has pledged future revenues, net of specified operating expenses, to repay revenue bonds issued in 1997-2003. Proceeds from the bonds provided financing for the plant construction capital projects. The bonds are payable solely from wastewater revenues and are payable through 2021. Annual principal and interest payments on the bonds are expected to require 64% of net revenues. The total principal and interest remaining to be paid on the bonds is \$11,583,623. Principal and interest paid for the current year and total customer net revenues were \$1,993,900 and \$3,035,372, respectively.

Revenue debt payable at December 31, 2016, consists of the following:

Business-type Activities Revenue Debt

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
<u>Water Utility</u>					
Revenue bonds	4/23/07	2027	4.00 - 4.10%	\$ 2,095,000	\$ 1,355,000
Revenue bonds	4/23/12	2032	2.00 - 3.50%	5,880,000	<u>4,150,000</u>
				Total Water Utility	<u>5,505,000</u>
<u>Sewer Utility</u>					
Revenue bonds	8/13/97	2017	3.023%	1,100,937	72,155
Revenue bonds	1/8/03	2022	2.750%	24,875,636	<u>10,611,822</u>
				Total Sewer Utility	<u>10,683,977</u>
Total Business-type Activities - Revenue Debt					<u>\$ 16,188,977</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt (cont.)

Debt service requirements to maturity are as follows:

Years	Business-type Activities Revenue Debt	
	Principal	Interest
2017	\$ 2,278,045	\$ 458,864
2018	2,276,289	393,698
2019	2,337,937	327,710
2020	2,410,868	257,244
2021	2,480,116	182,119
2022-2026	3,520,722	298,679
2027-2031	750,000	79,494
2032	135,000	2,363
Totals	<u>\$ 16,188,977</u>	<u>\$ 2,000,171</u>

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, 2016

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

F. LONG-TERM OBLIGATIONS (cont.)

Advance Refunding

On February 23, 2016, the city issued \$8,650,000 in general obligation bonds with an average coupon rate of 2-3% to advance refund \$8,570,000 of outstanding bonds with an average coupon rate of 3.85-4.875%. The net proceeds along with existing funds of the city were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The cash flow requirements on the refunded debt prior to the advance refunding was \$11,468,702 from 2016 through 2028. The cash flow requirements on the refunding bonds are \$10,549,268 from 2016 through 2028. The advance refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$656,474.

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 lease was paid off in 2016.

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

<u>Years</u>	Governmental Activities		
	Principal	Interest	Totals
2017	\$ 56,904	\$ 14,656	\$ 71,560
2018	59,573	11,987	71,560
2019	62,367	9,193	71,560
2020	65,292	6,268	71,560
2021	68,352	3,206	71,558
Totals	\$ 312,488	\$ 45,310	\$ 357,798

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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, 2016, includes the following:

Governmental Activities

Net Investment in Capital Assets	
Land	\$ 7,959,340
Other capital assets, net of accumulated depreciation	69,215,464
Less: Long-term capital related debt outstanding (excluding unspent capital related debt proceeds)	<u>(32,317,619)</u>
Total Net Investment in Capital Assets	<u>44,857,185</u>
Restricted	
Debt service	38,784
TID Activities	6,610,390
Grant programs	53,420
Loan programs	1,740,220
Developer fees	214,064
Trust funds	18,200
Library	<u>251,874</u>
Total Restricted	<u>8,926,952</u>
Unrestricted	<u>630,607</u>
Total Governmental Activities Net Position	<u>\$ 54,414,744</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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, 2016, include the following:

	General Fund	Debt Service	General Capital Projects	Nonmajor Funds	Totals
Fund Balances					
Nonspendable:					
Delinquent personal property taxes	\$ 7,546	\$ -	\$ -	\$ -	\$ 7,546
Prepaid items	204,485	-	-	9,950	214,435
Non-current receivables	39,622	-	-	-	39,622
Permanent trust	-	-	-	18,200	18,200
Restricted for:					
Debt service	-	342,406	-	-	342,406
TID activities	-	-	-	6,601,105	6,601,105
Library	-	-	-	251,874	251,874
Grant/loan programs	-	-	-	1,771,126	1,771,126
Emergency management training	6,931	-	-	-	6,931
Developer parks	-	-	-	214,064	214,064
Committed to:					
General capital projects	-	-	856,481	-	856,481
Riverfest operations	-	-	-	62,827	62,827
	-	-	-	209,603	209,603
Environmental health	-	-	-	299,298	299,298
Health program activities	-	-	-	22,512	22,512
Assigned to:					
Water utility tax equivalent	823,355	-	-	-	823,355
Carryovers	37,677	-	-	-	37,677
Subsequent year's budget	199,990	-	-	-	199,990
General reserve projects	118,700	-	-	-	118,700
Unassigned (deficit):	4,595,705	-	-	(101,792)	4,493,913
Total Fund Balances	\$ 6,034,011	\$ 342,406	\$ 856,481	\$ 9,358,767	\$ 16,591,665

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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
Construction in progress	3,325,381
Other capital assets, net of accumulated depreciation	82,510,425
Less: Long-term debt outstanding	(17,746,477)
Plus: Unspent capital related debt proceeds	750,597
Plus: Unamortized debt issuance costs	(283,535)
Plus: Unamortized loss on advance refunding	106,902
Total Net Investment in Capital Assets	<u>70,187,507</u>
Restricted	
Debt service	1,519,837
Replacement	2,633,775
Depreciation	129,731
Total Restricted	<u>4,283,343</u>
Unrestricted	<u>2,508,679</u>
Total Business-type Activities Net Position	<u>\$ 76,979,529</u>

I. RESTATEMENT OF NET POSITION

Net position has been restated for a change in accounting policy related to expensing certain maintenance and repair costs in the beginning January 1, 2015 and ending December 31, 2015 net position. Costs associated with previously recognized capital assets and related accumulated depreciation have been reclassified out of plant in service to net position for beginning and ending net assets from 2015.

Business-type activities Net Position - December 31, 2015 (as reported)	\$ 75,093,061
Less: Adjustments for costs reclassified and related accumulated depreciation	<u>(276,107)</u>
Net Position - December 31, 2015 (as restated)	<u>\$ 74,816,954</u>
Water utility Net Position - December 31, 2015 (as reported)	\$ 25,885,324
Less: Adjustments for costs reclassified and related accumulated depreciation	<u>(276,107)</u>
Net Position - December 31, 2015 (as restated)	<u>\$ 25,609,217</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. 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.

	<u>Carrying Value</u>	<u>Statement Balances</u>
Checking, Savings and CD's	\$ 229,869	\$ 229,869
Checking - restricted for bonds*	<u>481,549</u>	<u>481,549</u>
Total Deposits and Investments	<u>\$ 711,418</u>	<u>\$ 711,418</u>

Custodial Credit Risk

Deposits

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

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

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

c. Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance	Useful Lives (Years)
Construction in progress	\$ 6,200	\$ -	\$ 6,200	\$ -	
Land	156,592	-	-	156,592	
Buildings	4,187,248	78,460	3,924	4,261,784	40
Equipment	367,112	8,453	21,616	353,949	3-10
Less: Accumulated depreciation	<u>(3,528,411)</u>	<u>(170,833)</u>	<u>23,147</u>	<u>(3,676,097)</u>	
Totals	<u>\$ 1,188,741</u>	<u>\$ (83,920)</u>	<u>\$ 54,887</u>	<u>\$ 1,096,228</u>	

d. Long-Term Obligations

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.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
2006A Redevelopment Lease Revenue Bonds	\$ 675,000	\$ -	\$ 325,000	\$ 350,000	\$ 350,000
Unfunded pension liability	<u>10,349</u>	<u>12,966</u>	<u>-</u>	<u>23,315</u>	<u>-</u>
Totals	<u>\$ 685,349</u>	<u>\$ 12,966</u>	<u>\$ 325,000</u>	<u>\$ 373,315</u>	<u>\$ 350,000</u>

Debt service requirements to maturity are as follows:

	Principal	Interest	Totals
2017	<u>\$ 350,000</u>	<u>\$ 6,650</u>	<u>\$ 356,650</u>
Totals	<u>\$ 350,000</u>	<u>\$ 6,650</u>	<u>\$ 356,650</u>

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System

Summary of Significant Accounting Policies

Pension. For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. 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.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Required contributions for protective employees are the same rate 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.

During the reporting period, the WRS recognized \$7,939 in contributions from the CDA.

Contribution rates as of September 30, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the CDA reported an liability of \$13,222 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The CDA's proportion of the net pension liability was based on the CDA's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the CDA's proportion was 0.00081366%, which was an increase of 0.00001373% from its proportion measured as of December 31, 2014.

For the year ended September 30, 2016, the CDA recognized pension expense of \$15,791.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

At September 30, 2016, the CDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 27,825
Changes in assumptions	9,251	-
Net differences between projected and actual earnings on pension plan investments	46,872	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,338	518
Employer contributions subsequent to the measurement date	<u>5,835</u>	<u>-</u>
Totals	<u>\$ 71,296</u>	<u>\$ 28,343</u>

\$5,835 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 16,986	\$ 6,884
2018	16,986	6,884
2019	16,986	6,884
2020	14,207	6,799
2021	296	892
Thereafter	-	-

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

e. Employee Retirement System (cont.)

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the CDA's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the CDA's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the CDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
CDA's proportionate share of the net pension liability (asset)	\$92,738	\$13,222	\$(48,882)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

At September 30, 2016, the CDA reported a payable to the pension plan of \$712, which represents contractually required contributions outstanding as of the end of the year.

f. Restatement of Net Position

The CDA reclassified prior year capital funds reported as operating subsidy in the prior year. As a result, net position for the CDA decreased by \$34,719.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

J. COMPONENT UNIT (cont.)

COMMUNITY DEVELOPMENT AUTHORITY (cont.)

g. Subsequent Event

In December 2016, the city approved dissolution of the CDA.

NOTE V - OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. 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.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Required contributions for protective employees are the same rate 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.

During the reporting period, the WRS recognized \$800,343 in contributions from the city.

Contribution rates as of December 31, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the city reported a liability of \$1,342,339 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The city's proportion of the net pension liability was based on the city's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the city's proportion was 0.08260644%, which was a decrease of 0.00039843% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the city recognized pension expense of \$1,629,419.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

At December 31, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 227,085	\$ 2,824,929
Changes in assumptions	939,159	-
Net differences between projected and actual earnings on pension plan investments	5,495,918	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	44,201	-
Employer contributions subsequent to the measurement date	814,342	-
Totals	\$ 7,520,705	\$ 2,824,929

\$814,342 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 1,742,085	\$ 683,638
2018	1,742,085	683,638
2019	1,742,085	683,638
2020	1,449,625	683,638
2021	30,483	90,377

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
 <u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate. The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$9,415,189	\$1,342,339	\$(4,962,701)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

At December 31, 2016, the city reported a payable to the pension plan of \$127,488, which represents contractually required contributions outstanding as of the end of the year.

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 2016 was \$3,434. The estimated liability for future payments based on current pension payment amounts and actuarial table mortality rates for covered individuals is \$0. 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.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

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, 2016. Work that has been completed on these projects but not yet paid for (including contract retainages) is reflected as accounts payable and expenditures.

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

General Capital Projects Fund	\$	277,074
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D. SUBSEQUENT EVENTS

In December 2016, the city approved dissolution of the CDA in 2017.

On January 3, 2017, the city approved creation of the City of Watertown Housing Authority following the dissolution of the CDA.

On January 16, 2017, the city issued general obligation promissory notes in the amount of \$3,000,000 with an interest rate of 2.50%. This amount will be used for various capital projects.

On January 16, 2017, the city issued general obligation promissory notes in the amount of \$805,000 with an interest rate of 2.60%. This amount will be used for refunding of outstanding general obligation debt.

On April 23, 2017, the water utility issued \$945,000 in Water System Revenue Refunding Bonds. The debt is payable over 10 years and bears an interest rate between 2.00 - 3.00%. Additionally, on April 18, 2017, the city approved the issuance of \$10,757,910 in Water System Revenue Bonds to be issued on May 10, 2017. The debt is payable over 10 years and bears a net interest rate of 1.87%

The PSCW approved new water rates effective April 12, 2017. The revised rates will be effective for service rendered on and after April 15, 2017.

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

E. TAX ABATEMENT

Tax abatements are a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The city is disclosing all abatement agreements individually.

The city, through its Tax Incremental Financing Districts (TID), has entered into tax abatement agreements with developers in the form of tax incremental financing incentive payments to stimulate economic development. The abatements are authorized through the TID project plans. The developers pay property taxes as they become due, and after meeting the criteria established in the development agreements, are entitled to future incentive payments that directly correlate to the taxes paid.

<u>Agreement Description</u>	<u>Calculation Method</u>	<u>Developer Commitment</u>	<u>2016 Payments</u>
\$3,000,000 incentive payment from the city for which the city took out a 20 year loan. Developer guaranteed tax increments to cover annual city debt payments on the loan. Excess increments over debt payments are paid to the developer.	Excess increment	Developer agreed to construct an approximate 85,000 square foot building for a supermarket and a 10,000 square foot building for a bank with an estimated equalized value of \$13,064,837.	\$ 50,724
The city will contribute \$450,000 to the developer upon substantial completion of the Riverwalk work. Unpaid amount will accrue interest at the rate of 6.25%. Outstanding balance at December 31, 2016 was \$449,222.	Tax increment	Developer agreed to construct a housing complex	40,847

CITY OF WATERTOWN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

NOTE V - OTHER INFORMATION (cont.)

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

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

- > *Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- > *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > *Statement No. 80, Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*
- > *Statement No. 81, Irrevocable Split-Interest Agreements*
- > *Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
TAXES				
General property taxes for city purposes	\$ 7,989,556	\$ 7,989,556	\$ 7,989,555	\$ (1)
Room taxes	124,000	124,000	126,341	2,341
Payments in lieu of taxes	366,800	366,800	391,161	24,361
Tax chargebacks	13,500	13,500	33	(13,467)
Interest on taxes	26,000	26,000	23,107	(2,893)
TOTALS	<u>8,519,856</u>	<u>8,519,856</u>	<u>8,530,197</u>	<u>10,341</u>
INTERGOVERNMENTAL				
Shared taxes from state	3,015,315	3,015,315	3,028,992	13,677
Computer exemption aid	36,289	36,289	43,768	7,479
Fire insurance from state	50,000	50,000	53,968	3,968
State aid - service to state facilities	2,500	2,500	2,766	266
State aid - police training	6,600	6,600	5,440	(1,160)
State aid - road allotment	983,141	983,141	983,141	-
State aid - connecting streets	49,479	49,479	48,981	(498)
State aid - health department grant	76,669	76,669	73,163	(3,506)
State aid - gas tax refund	7,250	7,250	6,787	(463)
Urban forestry grant	-	-	25,000	25,000
Police grant - Dept. of Justice	8,000	8,000	2,801	(5,199)
TOTALS	<u>4,235,243</u>	<u>4,235,243</u>	<u>4,274,807</u>	<u>39,564</u>
LICENSES AND PERMITS				
Class A - malt - retail and grocery	1,800	1,800	2,000	200
Class A - liquor - liquor store	6,000	6,000	6,200	200
Class B - malt and liquor	28,800	28,800	25,045	(3,755)
Class B - malt only	1,900	1,900	1,650	(250)
Class B - malt - special events	325	325	260	(65)
Special events licenses - police officers	1,000	1,000	675	(325)
Beverage operator licenses	27,000	27,000	20,460	(6,540)
Cigarette licenses	750	750	825	75
Dog licenses	11,500	11,500	11,724	224
Cat licenses	1,700	1,700	1,905	205
Dog penalties	1,200	1,200	1,410	210
Soft drink licenses	260	260	245	(15)
Miscellaneous licenses	1,000	1,000	570	(430)
Music licenses	625	625	750	125

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
LICENSES AND PERMITS (cont.)				
Bicycle license fees	\$ 300	\$ 300	\$ 235	\$ (65)
Building permits, plan approval and state stickers	125,300	125,300	98,103	(27,197)
Demolition permits	700	700	350	(350)
Registration of vacant buildings	850	850	700	(150)
Chicken permits	-	-	250	250
Occupy street/sidewalk	900	900	910	10
Heating permits	20,000	20,000	21,557	1,557
Electric permits	32,000	32,000	32,127	127
Plumbing permits	14,000	14,000	11,821	(2,179)
Swimming pool permits	150	150	325	175
Sign permits	500	500	700	200
Fire protection permits	1,500	1,500	1,900	400
Miscellaneous permits	25	25	165	140
Court penalties and costs	225,000	225,000	238,038	13,038
TOTALS	505,085	505,085	480,900	(24,185)
PUBLIC CHARGES FOR SERVICES				
Clerk and treasurer fees	4,800	4,800	5,598	798
Publication fees	3,900	3,900	4,400	500
Attorney fees	800	800	-	(800)
Sale of materials and supplies	500	500	680	180
Cable TV fees	263,000	263,000	251,295	(11,705)
Appeal fees	-	-	700	700
Site plan review fees	4,000	4,000	3,400	(600)
Public hearing fees	10,000	10,000	7,000	(3,000)
Cable TV revenue	1,000	1,000	826	(174)
Reimbursement from prior year	-	-	8,793	8,793
Sales tax discount	150	150	147	(3)
Miscellaneous	15,000	15,000	18,805	3,805
Charges for city services - tax exempt property	26,000	26,000	26,400	400
Stipulation and waiver fees	50	50	70	20
Police department revenue	11,700	11,700	13,452	1,752
Alarm permits/response fees	2,500	2,500	6,225	3,725
Ambulance - EMS charges	540,000	540,000	551,452	11,452
Fire cost recovery	4,000	4,000	-	(4,000)
Fire donations	-	-	250	250
Health department revenue	10,000	10,000	27,898	11,123
County aid - health check	15,000	15,000	-	16,775
Parking violations	35,000	35,000	29,837	(5,163)
Survey Fees	240	240	-	(240)
Weed cutting	3,000	3,000	-	(3,000)
Yard waste exemption	225	225	200	(25)
Fees for plans and specs	-	-	540	540

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC CHARGES FOR SERVICES (cont.)				
Public works charges for services	\$ 1,700	\$ 1,700	\$ 5,618	\$ 3,918
Recreation department revenues	110,000	110,000	127,137	17,137
Recreation department concessions	1,500	1,500	1,603	103
Ticket sales revenue	300	300	495	195
Aquatic center revenue	160,000	160,000	152,827	(7,173)
Indoor swimming pool	46,000	46,000	51,196	5,196
Senior center revenue	2,500	2,500	4,237	1,737
Senior center memberships	5,800	5,800	6,378	578
Senior center rental fees	12,000	12,000	12,215	215
Park rentals	25,000	25,000	34,126	9,126
Miscellaneous park revenues	30,000	30,000	23,645	(6,355)
TOTALS	<u>1,345,665</u>	<u>1,345,665</u>	<u>1,377,445</u>	<u>56,780</u>
INTERGOVERNMENTAL CHARGES FOR SERVICES				
Fire protection services - townships	210,000	210,000	209,961	(39)
INVESTMENT INCOME				
Investment income	8,000	8,000	22,764	14,764
MISCELLANEOUS REVENUES				
Insurance dividends	50,000	50,000	38,519	(11,481)
Tower rental	27,600	27,600	2,300	(25,300)
Airport crop land rental	200	200	-	(200)
Airport hangar rental	10,000	10,000	14,433	4,433
Airport fuel tax	5,500	5,500	4,340	(1,160)
Airport terminal rent	2,400	2,400	2,400	-
Billboard rent	-	-	2,415	2,415
Fire prevention programs	-	-	16,677	16,677
Police K-9	-	-	125	125
Police donations	10,000	10,000	41,937	31,937
Senior center fundraising	10,000	10,000	16,537	6,537
Brandt/Park Park	-	-	716	716
4th of July parade	-	-	13,145	13,145
Christmas Parade	-	-	6,977	6,977
TOTALS	<u>115,700</u>	<u>115,700</u>	<u>160,521</u>	<u>44,821</u>
OTHER FINANCING SOURCES				
Sale of assets	25,000	25,000	12,670	(12,330)
Transfer in - tax equivalent	778,000	778,000	823,355	45,355
TOTALS	<u>803,000</u>	<u>803,000</u>	<u>836,025</u>	<u>33,025</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>15,742,549</u>	<u>15,742,549</u>	<u>15,892,620</u>	<u>175,071</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
GENERAL GOVERNMENT				
Common council	\$ 82,260	\$ 82,260	\$ 82,716	\$ (456)
Commissions and committees	250	250	76	174
Municipal court	123,407	123,407	129,669	(6,262)
Mayor	131,821	142,447	113,752	28,695
Clerk/treasurer	417,920	434,920	426,110	8,810
Elections	52,768	52,768	46,174	6,594
Assessment of property	67,800	67,800	69,512	(1,712)
Accounting and auditing	50,000	50,000	42,154	7,846
City attorney	191,979	191,979	178,346	13,633
Special legal fees	30,000	30,000	14,401	15,599
Municipal building	307,948	307,948	312,987	(5,039)
Other buildings	5,500	5,500	4,481	1,019
Property and liability insurance	474,000	474,000	459,785	14,215
Employee Bonds	600	600	520	80
Retiree health insurance	18,000	18,000	3,124	14,876
Employee assistance program	800	800	498	302
Employee Best Flex 125 Plan	4,500	4,500	4,435	65
Employee pay plan study/training	5,000	5,000	-	5,000
Police and fire pension	2,934	2,934	2,933	1
Unemployment compensation	1,000	1,000	190	810
Cable TV	55,329	55,329	55,537	(208)
Other general government	-	-	4,856	(4,856)
Contingency	25,000	-	-	-
TOTALS	<u>2,048,816</u>	<u>2,051,442</u>	<u>1,952,256</u>	<u>99,186</u>
PUBLIC SAFETY				
Police	3,923,472	3,926,881	3,778,600	148,281
Crossing guards	37,430	37,430	36,837	593
Dispatch center	672,273	668,864	653,807	15,057
Fire department	2,322,150	2,322,150	2,355,258	(33,108)
Building inspection	244,461	244,461	226,890	17,571
Emergency government	5,500	5,500	5,796	(296)
TOTALS	<u>7,205,286</u>	<u>7,205,286</u>	<u>7,057,188</u>	<u>148,098</u>

CITY OF WATERTOWN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND (cont.)
 For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC WORKS				
Engineering	\$ 441,656	\$ 496,398	\$ 485,511	\$ 10,887
Planning	28,000	28,000	5,603	22,397
Machinery and equipment	447,228	447,228	405,021	42,207
Garages and sheds	116,058	116,058	98,664	17,394
Street administration	278,079	278,079	275,123	2,956
Service to other departments	66,265	66,265	84,399	(18,134)
Traffic control	31,000	46,500	33,673	12,827
Street maintenance	694,242	694,242	672,354	21,888
Snow and ice control	390,714	447,714	409,477	38,237
Signs and markings	92,905	92,905	84,975	7,930
Street lighting	501,000	403,228	326,391	76,837
Airport	183,506	183,506	177,054	6,452
TOTALS	<u>3,270,653</u>	<u>3,300,123</u>	<u>3,058,245</u>	<u>241,878</u>
HEALTH AND HUMAN SERVICES				
Health care	<u>391,973</u>	<u>393,788</u>	<u>375,116</u>	<u>18,672</u>
CULTURE, EDUCATION, AND RECREATION				
Library	716,808	716,808	716,808	-
Celebrations and entertainment	13,000	13,000	13,000	-
Recreation administration	189,629	189,629	188,204	1,425
Recreation	113,376	113,376	123,535	(10,159)
Aquatic center	229,788	229,788	226,311	3,477
Indoor pool	179,257	179,257	140,168	39,089
Senior & community center	249,643	262,156	258,841	3,315
Parks	850,352	850,352	854,851	(4,499)
Park garage	20,700	20,700	19,475	1,225
TOTALS	<u>2,562,553</u>	<u>2,575,066</u>	<u>2,541,193</u>	<u>33,873</u>
CONSERVATION AND DEVELOPMENT				
Economic development	<u>226,269</u>	<u>226,269</u>	<u>217,802</u>	<u>8,467</u>
TOTALS	<u>226,269</u>	<u>226,269</u>	<u>217,802</u>	<u>8,467</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC SERVICE ENTERPRISES				
Cemetery	\$ 48,000	\$ 48,000	\$ 48,000	\$ -
Chamber Main Street	80,000	80,000	127,437	(47,437)
Humane society	59,000	59,000	59,000	-
Watertown Family Center	5,000	5,000	5,000	-
Watertown Area Cares Clinic	5,000	5,000	5,000	-
Historic Preservation Grant			-	-
Historical Society	3,000	3,000	3,000	-
TOTALS	<u>200,000</u>	<u>200,000</u>	<u>247,437</u>	<u>(47,437)</u>
CAPITAL OUTLAY				
Fire prevention programs			8,690	(8,690)
Police department donations	10,000	10,000	38,782	(28,782)
Police canine unit	2,500	2,500	-	2,500
Police accreditation	-	-	697	(697)
Senior center fundraising	10,000	10,000	24,401	(14,401)
Brandt Quirk Park Baseball			209	(209)
EMT training/Act 102	-	-	498	(498)
4th of July Parade	4,250	4,250	17,325	(13,075)
Christmas Parade	2,000	2,000	7,617	(5,617)
TOTALS	<u>28,750</u>	<u>28,750</u>	<u>98,219</u>	<u>(69,469)</u>
TOTAL EXPENDITURES	<u>15,934,300</u>	<u>15,980,724</u>	<u>15,547,456</u>	<u>433,268</u>
Net change in fund balance	(191,751)	(238,175)	345,164	583,339
FUND BALANCE - Beginning of Year	<u>5,688,847</u>	<u>5,688,847</u>	<u>5,688,847</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,497,096</u>	<u>\$ 5,450,672</u>	<u>\$ 6,034,011</u>	<u>\$ 583,339</u>

CITY OF WATERTOWN

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) -
WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2016

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
12/31/16	0.08260644%	\$ 1,342,339	\$ 9,542,681	14.07%	98.20%
12/31/15	0.08300487%	(2,038,827)	9,184,102	22.20%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2016

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/16	\$ 814,342	\$ 814,342	\$ -	\$ 9,764,018	8.34%
12/31/15	815,395	815,395	-	9,542,681	8.54%

CITY OF WATERTOWN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2016

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 \$37,677 in general fund. Budgets are adopted at the department level of expenditure.

WISCONSIN RETIREMENT SYSTEM

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The city is required to present the last ten fiscal years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

Changes in benefit terms. There were no changes of benefit terms for any participating employer in the Wisconsin Retirement System.

Changes in Assumptions. There were no changes in assumptions.

SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of December 31, 2016

	Special Revenue Funds			
	Transit System Fund	CDBG Economic Fund	CDBG Housing Rehab Fund	Library Fund
ASSETS				
Cash and investments	\$ -	\$ 758,363	\$ 88,320	\$ 185,478
Taxes receivable	-	-	-	-
Accounts receivable	-	-	-	-
Grants receivable	23,385	-	-	-
Loans receivable (net)	-	151,059	742,478	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 23,385</u>	<u>\$ 909,422</u>	<u>\$ 830,798</u>	<u>\$ 185,478</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 35,190	\$ -	\$ -	\$ 7,804
Accrued liabilities	-	-	-	-
Due to other funds	10,037	-	-	-
Other liabilities	-	-	-	-
Total Liabilities	<u>45,227</u>	<u>-</u>	<u>-</u>	<u>7,804</u>
Deferred Inflows of Resources				
Unearned revenues	-	-	-	-
Unavailable revenues	23,385	-	-	-
Total Deferred Inflows of Resources	<u>23,385</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable:				
Prepaid items	-	-	-	-
Permanent trust	-	-	-	-
Restricted	-	909,422	830,798	177,674
Committed	-	-	-	-
Unassigned (deficit)	(45,227)	-	-	-
Total Fund Balances	<u>(45,227)</u>	<u>909,422</u>	<u>830,798</u>	<u>177,674</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 23,385</u>	<u>\$ 909,422</u>	<u>\$ 830,798</u>	<u>\$ 185,478</u>

Special Revenue Funds						
Riverfest Fund	Developer Parks Fund	Environmental Health Fund	Emergency Preparedness Fund	Seal-A-Smile Fund	Library Trust	Solid Waste Fund
\$ 61,037	\$ 214,064	\$ 309,738	\$ 32,290	\$ 22,877	\$ 74,200	\$ 70,522
-	-	-	-	-	-	59,834
1,790	-	-	-	-	-	120,162
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	4,358	2	-	-	5,590
<u>\$ 62,827</u>	<u>\$ 214,064</u>	<u>\$ 314,096</u>	<u>\$ 32,292</u>	<u>\$ 22,877</u>	<u>\$ 74,200</u>	<u>\$ 256,108</u>
\$ -	\$ -	\$ 2,970	\$ 230	\$ -	\$ -	\$ 32,517
-	-	7,470	1,154	365	-	8,398
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	10,440	1,384	365	-	40,915
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	4,358	2	-	-	5,590
-	-	-	-	-	-	-
-	214,064	-	30,906	-	74,200	-
62,827	-	299,298	-	22,512	-	209,603
-	-	-	-	-	-	-
<u>62,827</u>	<u>214,064</u>	<u>303,656</u>	<u>30,908</u>	<u>22,512</u>	<u>74,200</u>	<u>215,193</u>
<u>\$ 62,827</u>	<u>\$ 214,064</u>	<u>\$ 314,096</u>	<u>\$ 32,292</u>	<u>\$ 22,877</u>	<u>\$ 74,200</u>	<u>\$ 256,108</u>

CITY OF WATERTOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of December 31, 2016

	Capital Projects Funds					Permanent Fund Library Trust	Total Nonmajor Funds
	TID No. 3	TID No. 4	TID No. 5	TID No. 6	TID No. 7		
ASSETS							
Cash and investments	\$ 742,058	\$ 1,260,581	\$ 4,948,628	\$ -	\$ -	\$ 18,200	\$ 8,786,356
Taxes receivable	1,462,195	489,004	390,240	67,449	-	-	2,468,722
Accounts receivable	-	-	9,285	-	-	-	131,237
Grants receivable	-	-	-	-	-	-	23,385
Loans receivable	-	-	-	-	-	-	893,537
Prepaid items	-	-	-	-	-	-	9,950
TOTAL ASSETS	\$ 2,204,253	\$ 1,749,585	\$ 5,348,153	\$ 67,449	\$ -	\$ 18,200	\$ 12,313,187
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 50,144	\$ -	\$ -	\$ -	\$ 128,855
Accrued liabilities	-	-	-	-	-	-	17,387
Due to other funds	-	-	-	16,943	39,622	-	66,602
Other liabilities	-	-	300,018	-	-	-	300,018
Total Liabilities	-	-	350,162	16,943	39,622	-	512,862
Deferred Inflows of Resources							
Unearned revenues	1,462,195	489,004	390,240	67,449	-	-	2,408,888
Unavailable revenues	-	-	9,285	-	-	-	32,670
Total Deferred Inflows of Resources	1,462,195	489,004	399,525	67,449	-	-	2,441,558
Fund Balances							
Nonspendable:							
Prepaid items	-	-	-	-	-	-	9,950
Permanent trust	-	-	-	-	-	18,200	18,200
Restricted	742,058	1,260,581	4,598,466	-	-	-	8,838,169
Committed	-	-	-	-	-	-	594,240
Unassigned (deficit)	-	-	-	(16,943)	(39,622)	-	(101,792)
Total Fund Balances	742,058	1,260,581	4,598,466	(16,943)	(39,622)	18,200	9,358,767
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,204,253	\$ 1,749,585	\$ 5,348,153	\$ 67,449	\$ -	\$ 18,200	\$ 12,313,187

CITY OF WATERTOWN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Special Revenue Funds			
	Transit System Fund	CDBG Economic Fund	CDBG Housing Rehab Fund	Library Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	417,709	-	-	231,569
Licenses and permits	-	-	-	-
Public charges for services	286,890	-	-	31,723
Investment income	-	8,984	318	-
Miscellaneous	-	-	-	20,238
Total Revenues	<u>704,599</u>	<u>8,984</u>	<u>318</u>	<u>283,530</u>
EXPENDITURES				
Current				
Public works	737,382	-	-	-
Health and human services	-	-	-	-
Culture, education, and recreation	-	-	-	255,715
Conservation and development	-	10	17,661	-
Capital outlay	-	-	-	6,297
Debt Service				
Principal	-	-	-	-
Interest, issuance costs and fiscal charges	-	-	-	-
Principal on capital lease	-	-	-	-
Interest on capital lease	-	-	-	-
Total Expenditures	<u>737,382</u>	<u>10</u>	<u>17,661</u>	<u>262,012</u>
Excess (deficiency) of revenues over expenditures	<u>(32,783)</u>	<u>8,974</u>	<u>(17,343)</u>	<u>21,518</u>
OTHER FINANCING SOURCES (USES)				
Debt Issued	-	-	-	-
Premium on debt issued	-	-	-	-
Payments to refunding escrow	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(32,783)	8,974	(17,343)	21,518
FUND BALANCES (DEFICIT) - Beginning of Year	<u>(12,444)</u>	<u>900,448</u>	<u>848,141</u>	<u>156,156</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (45,227)</u>	<u>\$ 909,422</u>	<u>\$ 830,798</u>	<u>\$ 177,674</u>

Special Revenue Funds

Riverfest Fund	Developer Parks Fund	Environmental Health Fund	Emergency Preparedness Fund	Seal-A-Smile Fund	Library Trust	Solid Waste Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,664	-	40,458	34,356	13,387	-	121,504
-	-	195,298	-	-	-	-
-	-	126,910	-	-	-	1,091,762
169	963	-	-	-	6,007	-
431,938	-	7,280	-	-	23,489	13,612
<u>437,771</u>	<u>963</u>	<u>369,946</u>	<u>34,356</u>	<u>13,387</u>	<u>29,496</u>	<u>1,226,878</u>
-	-	-	-	-	-	931,409
-	-	351,449	30,409	11,067	-	-
440,065	-	-	-	-	1,300	-
-	-	-	-	-	-	-
-	37,101	-	-	-	6,000	252,000
-	-	-	-	-	-	138,200
-	-	-	-	-	-	26,643
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>440,065</u>	<u>37,101</u>	<u>351,449</u>	<u>30,409</u>	<u>11,067</u>	<u>7,300</u>	<u>1,348,252</u>
(2,294)	(36,138)	18,497	3,947	2,320	22,196	(121,374)
-	-	-	-	-	-	225,000
-	-	-	-	-	-	17,061
-	-	-	-	-	-	-
-	-	-	-	-	15,500	-
-	-	-	-	-	-	-
-	-	-	-	-	15,500	242,061
(2,294)	(36,138)	18,497	3,947	2,320	37,696	120,687
65,121	250,202	285,159	26,961	20,192	36,504	94,506
<u>\$ 62,827</u>	<u>\$ 214,064</u>	<u>\$ 303,656</u>	<u>\$ 30,908</u>	<u>\$ 22,512</u>	<u>\$ 74,200</u>	<u>\$ 215,193</u>

CITY OF WATERTOWN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Capital Projects Funds					Permanent Fund Library Trust	Total Nonmajor Funds
	TID No.3	TID No.4	TID No. 5	TID No. 6	TID No. 7		
REVENUES							
Taxes	\$ 1,474,653	\$ 356,196	\$ 479,678	\$ 64,115	\$ -	\$ -	\$ 2,374,642
Intergovernmental	5,891	552	10,089	-	-	-	881,179
Licenses and permits	-	-	-	-	-	-	195,298
Public charges for services	-	-	-	-	-	-	1,537,285
Investment income	3,947	4,393	26,096	-	-	-	50,877
Miscellaneous	-	20	22,939	-	-	-	519,516
Total Revenues	<u>1,484,491</u>	<u>361,161</u>	<u>538,802</u>	<u>64,115</u>	<u>-</u>	<u>-</u>	<u>5,558,797</u>
EXPENDITURES							
Current							
Public works	-	-	-	-	-	-	1,668,791
Health and human services	-	-	-	-	-	-	392,925
Culture, education, and recreation	-	-	-	-	-	-	697,080
Conservation and development	397	150	91,571	150	34,976	-	144,915
Capital outlay	-	-	449,067	-	-	-	750,465
Debt Service							
Principal	515,000	105,000	196,647	45,000	-	-	999,847
Interest, issuance costs and fiscal charges	49,945	106,183	237,023	21,413	-	-	441,207
Principal on capital lease	-	225,000	-	-	-	-	225,000
Interest on capital lease	-	13,155	-	-	-	-	13,155
Total Expenditures	<u>565,342</u>	<u>449,488</u>	<u>974,308</u>	<u>66,563</u>	<u>34,976</u>	<u>-</u>	<u>5,333,385</u>
Excess (deficiency) of revenues over expenditures	<u>919,149</u>	<u>(88,327)</u>	<u>(435,506)</u>	<u>(2,448)</u>	<u>(34,976)</u>	<u>-</u>	<u>225,412</u>
OTHER FINANCING SOURCES							
Debt issued	-	90,000	130,000	-	-	-	445,000
Premium on debt issued	-	6,484	9,153	-	-	-	32,698
Payments to refunding escrow	-	(97,387)	(140,847)	-	-	-	(238,234)
Transfers in	-	532,969	-	-	-	-	548,469
Transfers out	(532,969)	-	-	-	-	-	(532,969)
Total Other Financing Sources	<u>(532,969)</u>	<u>532,066</u>	<u>(1,694)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,964</u>
Net change in fund balance	386,180	443,739	(437,200)	(2,448)	(34,976)	-	480,376
FUND BALANCES (DEFICIT) - Beginning of Year	<u>355,878</u>	<u>816,842</u>	<u>5,035,666</u>	<u>(14,495)</u>	<u>(4,646)</u>	<u>18,200</u>	<u>8,878,391</u>
END OF YEAR	<u>\$ 742,058</u>	<u>\$ 1,260,581</u>	<u>\$ 4,598,466</u>	<u>\$ (16,943)</u>	<u>\$ (39,622)</u>	<u>\$ 18,200</u>	<u>\$ 9,358,767</u>