

2015

COMPREHENSIVE ANNUAL FINANCIAL REPORT CITY OF WATERTOWN, SOUTH DAKOTA



January 1, 2015 – December 31, 2015



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



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**CITY OF
WATERTOWN**

June 22, 2016

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

Honorable Steve Thorson, Mayor
Members of the City Council
City of Watertown
Watertown, South Dakota, 57201

I am pleased to submit to you the Comprehensive Annual Financial Report for the City of Watertown, South Dakota, for the fiscal year ended December 31, 2015.

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

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

The City's financial statements have been audited by William Neale & Co., P.C. a firm of certified public accountants authorized by the State of South Dakota to conduct the audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Watertown for the fiscal year ended December 31, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Watertown's financial statements for the fiscal year ended December 31, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

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

Mt. Hope Cemetery
605-882-6208

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

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

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

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

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

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

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

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

Street Dept.
605-882-6207

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

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

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

Profile of the City of Watertown

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

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

The City provides the full range of municipal services normally associated with a municipality. These basic services include public safety, streets, solid waste collection and disposal, planning, culture and recreation, sewer, airport and utility services including water, electric and gas. For financial reporting purposes, all funds involved in providing these services are included based on financial accountability. Financial accountability is determined by several inherent factors, including fiscal dependence, ability to impose will upon the entity's governing body, provision of specific financial burdens or benefits and separate legal entity status. The Housing and Redevelopment Commission is a legally separate authority whose board is appointed by the City Council and reported separately as a component unit within the City of Watertown financial statements.

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

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

Factors Affecting Financial Condition

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

Economic Conditions and Outlook

In 2015, the national economy remained stable showing small gains in the recovery process. The local economy has continued to remain steady with General Fund sales tax revenues showing an increase and ended 2015 exceeding budgeted revenues by 10.5%. The original budget anticipated no unassigned fund balance was going to be needed to fill the gap between General Fund anticipated revenues and expenditures. With the sales tax revenues exceeding budgeted levels, the net change in fund balance of \$901,986 was put back into unassigned fund balance to help offset any future recessionary impact. The City continues to have a healthy unassigned fund balance to not only assist in an economic downturn but to accommodate future growth needs of the City. The governing body's past practice of budgeting conservatively will help to ensure there will be adequate unassigned fund balance available in the General Fund to accommodate future needs or economic downturns.

The labor force in Codrington County increased from 15,360 to 15,630 from December 31, 2014 to December 31, 2015 and the total employment increased from 14,810 to 15,085 individuals for those dates, respectively. Unemployment for Codrington County was at 3.5% which is lower than the national level at year end.

The total number of building permits increased to 595 compared to 566 in 2014. Out of the 595 permits issued in 2015, 80 were for new construction while 515 were for remodel/additions compared to 2014 at 96 and 470, respectively. The value of the work increased in 2015 to \$66,199,913 compared to the 2014 value of \$62,544,820. The increase in new construction permits indicates the strength of the local economy and confidence in its sustainability in future years.

Major Initiatives

Some major capital initiatives started or completed during 2015 are listed below:

Community Recreation Facility – The construction for the new Recreation Facility and flat floor space began in the spring of 2015 and will be completed around January of 2017. The new facility will replace the current Community Recreation Center and pool complex that is currently adjacent to the High School. The facility will be located next to the new Middle School with approximately 104,000 square feet of space that will hold five gymnasiums, an 8 lane pool with a zero entry leisure pool, and a larger walking/running track. The costs associated with this project will be paid from the issuance of Sales Tax Revenue bonds using second penny sales tax revenues to repay the bonds.

5-plex Softball Complex – The City currently has a softball complex that holds seven fields used by youth ages 10-18 as well as adults. Space is limited and the number of teams is at its capacity with no ability for expansion. The new complex is located adjacent to the ANZA Soccer Complex which allows for more room and shared parking. With the additional fields, the youth programs through the Recreation Department will allow those programs to use the current facility instead of neighborhood parks in residential areas. The new fields will also allow for future expansion of both the youth and the adult leagues. This project will be completed by the end of the year 2016 and associated costs will be paid from the issuance of Sales Tax Revenue bonds using second penny sales tax revenues to repay the bonds.

Golf Course Renovation Project – This project included the removal and reconstruction of nine greens making up the yellow course. With 3 courses consisting of 27 holes and a fall construction schedule, the disruption of play during construction period was minimal. The reconstruction modernized the greens to meet USGA standards for green construction. The project will also help ongoing maintenance with less turf issues. The costs associated with this project were paid from the Capital Improvement Sales Tax Fund using second penny sales tax revenues.

Long-Term Planning

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

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

Another important service is providing safe and reliable roads to the citizens of the community. The City has partnered with the State through a grant to create a pavement management system. The condition of all roads will be assessed and documented allowing the City to prioritize the reconstruction of roads based on traffic and condition. This will also help to create a road maintenance program to get the longest life possible out of the infrastructure before reconstruction is necessary. This puts the City in an excellent position to not only provide reliable infrastructure but to ensure the best use of taxpayer dollars in future budgets.

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

With the continued focus on keeping local dollars in the community versus going out of town or out of state to purchase goods and services, the shop local campaign continues to encourage businesses to promote local products and services encouraging citizens to spend within the community. The \$2 per night room tax collected by the local hotel establishments within the city also allows the Convention and Visitors Bureau to actively promote the facilities enticing various sporting events and conventions to hold their events in Watertown. There has also been an emphasis on ways to attract additional retail shops to Watertown making living and raising families in the community more attractive to prospective businesses and employees.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watertown for its comprehensive annual financial report for the fiscal year ended December 31, 2014. This was the thirty-third consecutive year that the City of Watertown has achieved this prestigious award (fiscal years ended 1982-2014).

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

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

Acknowledgments

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

Respectively submitted,



Rochelle Ebbers, CPA, CPFO
Finance Officer



Government Finance Officers Association

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

Presented to

**City of Watertown
South Dakota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2014

A handwritten signature in black ink, appearing to read 'Jeffrey R. Emer', is positioned above the title of the signatory.

Executive Director/CEO

Municipal Officials

Governing Boards	Expires
LIBRARY BOARD	
Jackie Baxter	July, 2016
Judy Trzynka	July, 2017
Dave Weigel	July, 2017
Deb Shephard	July, 2018
Anne Gabel	July, 2018
Bruce Buhler - Liaison	
MUNICIPAL UTILITIES BOARD	
Ernie Wight	July, 2016
David Strait	July, 2017
Dustin Padgett	July, 2018
Mike Luken	July, 2019
John Holley	July, 2020
Glen Vilhauer - Liaison	
PARK & RECREATION BOARD	
Scott Johnston	July, 2017
Lee Rycraft	July, 2018
Heidi Stoick	July, 2018
Jay Johnson	July, 2019
Pat Shriver	July, 2020
Justin Struckman	July, 2020
Jon Solum - Liaison	
COMMUNITY RECREATION BOARD	
Mike Petersen	July, 2016
Keith Enstad	July, 2016
Tom Franken	July, 2017
Carrie Dylla	July, 2017
Gary Grewing	July, 2018
Brian Richter	July, 2018
Jon McAreavey	no term
Darrell Stacey	no term
Scott Johnston	no term
Mike Danforth - Liaison	

Municipal Officials

City Elected Officials

Expires

MAYOR

Steve Thorson July, 2017

ALDERPERSONS

WARD A

Don Roby July, 2017

Michael Danforth July, 2019

WARD B

Bill Rieffenberger July, 2017

Jon Solum July, 2019

WARD C

Beth Mantey July, 2017

Brad Thorson July, 2019

WARD D

Randy Tupper July, 2017

Bruce Buhler July, 2019

WARD E

Dan Albertsen July, 2017

Glen Vilhauer July, 2019

City Appointed Officers

CITY ATTORNEY

Stanton Fox

BUILDING OFFICIAL

Ken Bucholz

RECREATION CENTER DIRECTOR

John Small

POLICE CHIEF

Lee McPeck

CITY ENGINEER

Shane Waterman

STREET SUPERINTENDENT

Robin Beynon

FINANCE OFFICER

Rochelle Ebbers

SUPERINTENDENT OF UTILITIES

Steve Lehner

FIRE CHIEF

Doug Kranz

WASTE WATER/SOLID WASTE SUPERINTENDENT

Mike Boerger

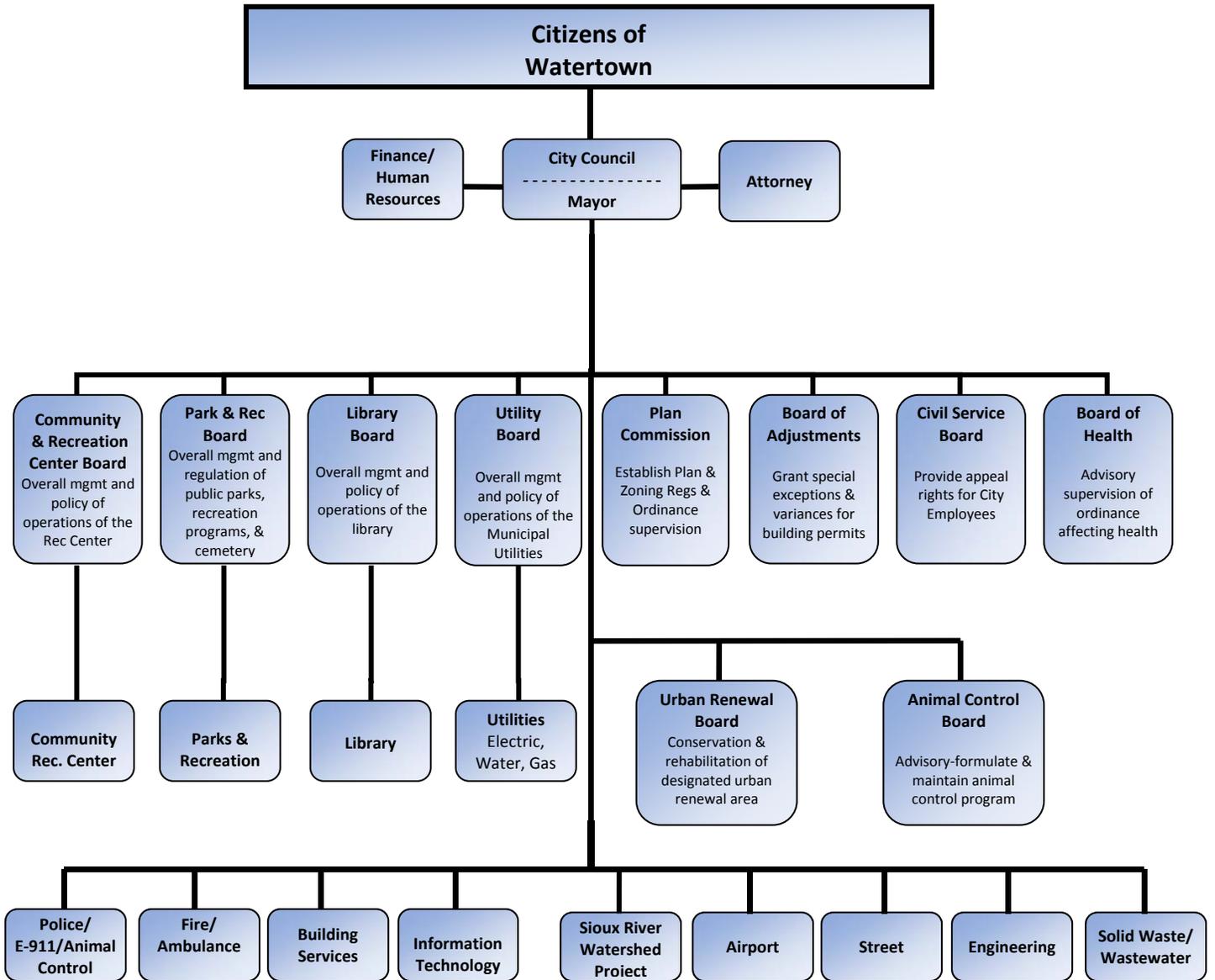
LIBRARY DIRECTOR

Michael Mullin

PARK & RECREATION DIRECTOR

Jay DeLange

Organizational Chart



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WILLIAM NEALE & CO., P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Watertown, South Dakota

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, South Dakota (City) as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Housing and Redevelopment Commission, which represents 100 percent of the assets, net position, and revenues of the component unit column. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, South Dakota as of December 31, 2015, 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 Matter

Adoption of New Accounting Standard. As described in Note 3.L. to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 3.L. to the financial statements, the City has retroactively restated the previously reported Net Position in accordance with this statement. 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 Management's Discussion and Analysis (MD&A), Budgetary Comparison Schedules, Schedule of Funding Progress, Schedule of Net Pension Asset, and Schedule of Contributions on pages 16 through 24 and pages 68 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, individual nonmajor fund budgetary comparison schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Watertown, South Dakota
June 22, 2016

Management's Discussion and Analysis

This discussion and analysis presents an overview of the financial activities and financial position for the City of Watertown (the "City") for the year ended December 31, 2015. Please read and consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the City's financial statements.

Financial Highlights

At the close of 2015, total assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$291 million. This amount is referred to as the City's "net position." Of this net position amount, \$19 million may be used to meet the City's ongoing obligations to citizens and creditors. The \$291 million net position amount is comprised of three major components:

•	Net investment in capital assets	\$ 236 million
•	Amounts restricted as to their use	\$ 36 million
•	Unrestricted net position	\$ 19 million

The City's total net position increased during 2015 by approximately \$16.8 million. Of this increase, \$9.4 million occurred within the City's governmental activities and the remaining \$7.4 million increase occurred within the City's business-type activities, or Enterprise Funds. The most significant reason for the increase in the governmental activities reflects the dedicated revenues of the Capital Improvement Fund. The revenues of the Capital Improvement Fund (\$8.5 million) are limited in their use to primarily acquiring or constructing capital assets which are then depreciated over the useful lives of those capital assets. Therefore, revenues generated in the Capital Improvement Fund result in an immediate increase in net position, however, when those revenues are spent, the decrease in net position is not immediate but, rather, is realized over a long period of time as the capital assets are depreciated. Unless and until the annual depreciation expense on those capital assets equals or exceeds those revenues, net position will tend to increase.

The net position for the business-type activities is somewhat related to what private sector business may report as a net profit. The increase of \$7.4 million in net position reflects the business-type activities revenues that continue to exceed expenses.

As of the close of 2015, the City's Governmental Funds reported combined ending fund balances of \$49.2 million. Of this total amount, \$14.0 million is available for spending at the City's discretion, although only about \$8.1 million is within the City's General Fund and is held as unassigned for any specific purpose. The City's total long-term debt as of December 31, 2015, is \$75.5 million including \$5.1 million that will become due and payable during 2016.

Overview of Financial Statements

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds and enterprise funds, each of which are added together and presented in a single column in the basic financial statements.

Management's Discussion and Analysis

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

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health & welfare, culture & recreation, conservation & development and debt service. The business-type activities of the City include the enterprise activities of the sewer, solid waste, airport, electric, water and gas funds.

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

Fund financial statements. A fund is a grouping of related accounts that are used to maintain financial control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintained 17 individual governmental funds for 2015. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Improvement Fund and Capital Projects Fund which are considered to be major funds. Data from the other 14 governmental funds are combined into a single aggregated presentation. Fund data for each individual non-major governmental fund is provided in the form of combining statements following the required supplementary information.

Management's Discussion and Analysis

The City adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided as required supplementary information for the General Fund and each major Special Revenue Fund to demonstrate compliance with this budget. In addition, a budgetary comparison statement has been provided for the Capital Projects Fund and non-major governmental funds following the required supplementary information.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

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

Government-wide Financial Analysis

Net Position. As presented on the following table, the City's assets exceeded liabilities by \$291,328,445 at the close of the fiscal year ending December 31, 2015.

	Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and Other Assets	\$ 38,559,707	\$ 56,452,203	\$ 32,135,306	\$ 34,002,788	\$ 70,695,013	\$ 90,454,991
Capital Assets	111,348,326	125,423,285	154,655,209	160,661,351	266,003,535	286,084,636
Total Assets	149,908,033	181,875,488	186,790,515	194,664,139	336,698,548	376,539,627
Deferred Outflows of Resources		4,080,486		2,476,254		6,556,740
Long-term Debt Outstanding	26,099,433	45,316,368	32,386,687	30,198,471	58,486,120	75,514,839
Other Liabilities	1,872,080	3,260,558	6,003,792	7,475,887	7,875,872	10,736,445
Total Liabilities	27,971,513	48,576,926	38,390,479	37,674,358	66,361,992	86,251,284
Deferred Inflows of Resources		3,447,025		2,069,613		5,516,638
Net Position:						
Net Investment in Capital Assets	87,327,962	103,295,621	124,349,767	132,695,267	211,677,729	235,990,888
Restricted	14,701,445	31,242,916	3,784,553	4,957,340	18,485,998	36,200,256
Unrestricted	19,907,113	(606,514)	20,265,716	19,743,815	40,172,829	19,137,301
Total Net Position	\$ 121,936,520	\$ 133,932,023	\$ 148,400,036	\$ 157,396,422	\$ 270,336,556	\$ 291,328,445

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Management's Discussion and Analysis

By far the largest portion (81.0%) of the City's net position is represented by \$236.0 million in investments in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted net position of \$36.2 million comprises 12.4% of the total net position. These assets are subject to external restrictions on how they may be used.

The remaining balance of \$19.1 million, or 6.6%, in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Certain balances within unrestricted net position have internally imposed limitations which may further control the purpose for which such net position may be used.

Changes in net position. The City's revenues for the year totaled \$86.2 million including approximately \$54.4 million from charges for services. This means that 63 cents of every revenue dollar came from charges for services (primarily the business-type funds such as Sewer, Solid Waste, Electric, Water and Gas). Taxes accounted for \$19.7 million of total revenues, or about 23 cents of every revenue dollar.

The City's net position increased by \$16.8 million or 6.2% during the current fiscal year as shown on the following table. This increase is attributable to the stable growth in the community requiring a substantial investment in infrastructure and other assets. More details that account for the change in net position are provided in the following analysis of the governmental and business-type activities.

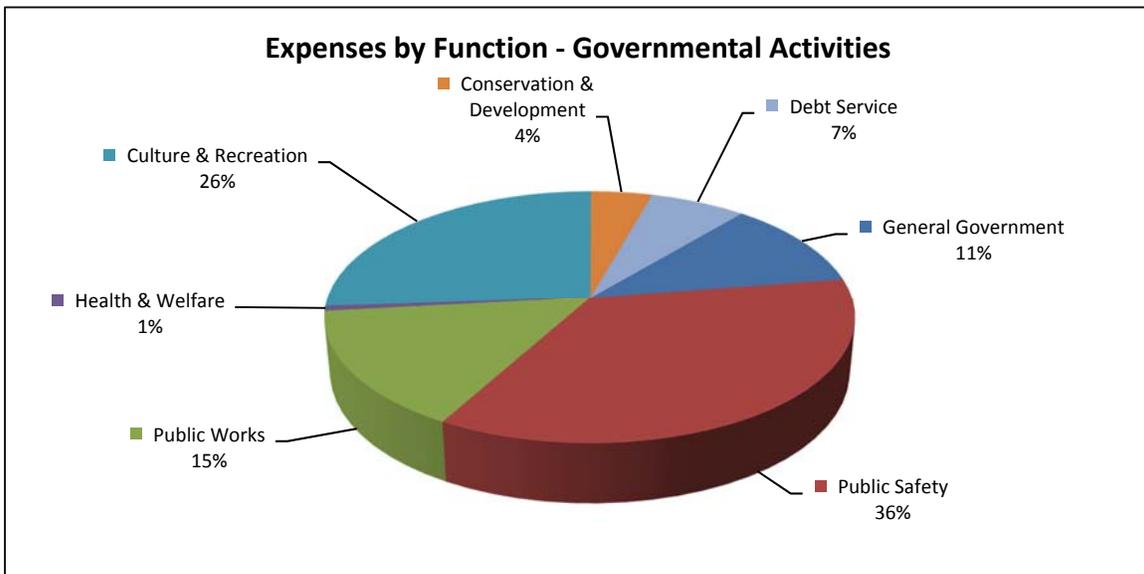
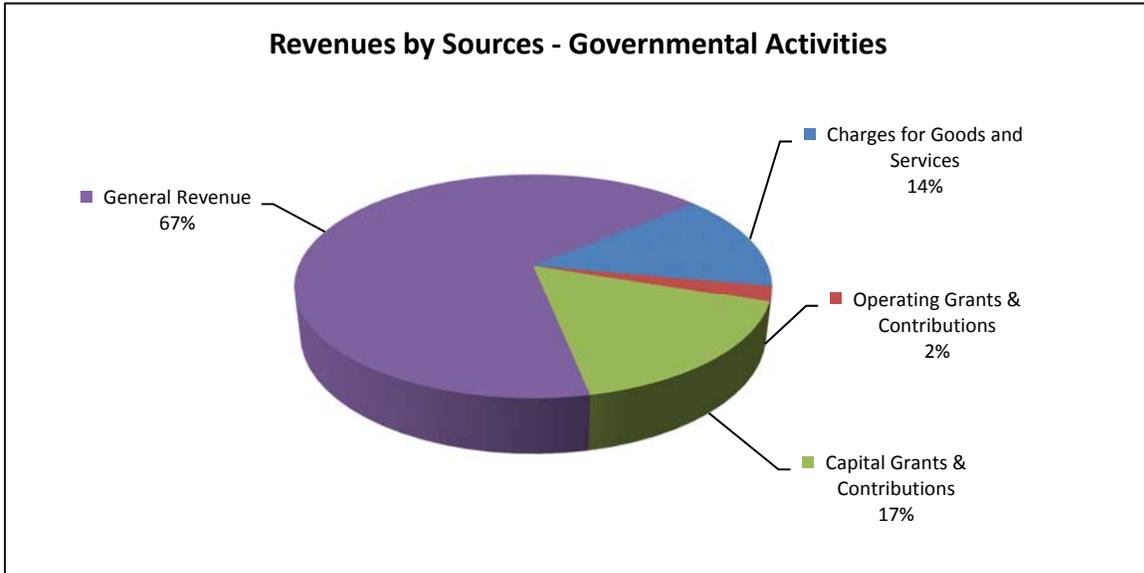
	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,481,847	\$ 4,562,083	\$ 50,696,814	\$ 49,840,478	\$ 55,178,661	\$ 54,402,561
Operating Grants and Contributions	556,333	732,088	14,189	201,975	570,522	934,063
Capital Grants and Contributions	2,373,711	5,436,484	1,729,098	3,376,383	4,102,809	8,812,867
General Revenues:						
Taxes	19,607,198	19,717,544	9,576	19,799	19,616,774	19,737,343
State Shared Revenues	1,003,738	1,023,327	-	-	1,003,738	1,023,327
Other	1,479,378	1,117,842	119,756	208,722	1,599,134	1,326,564
Total Revenues	29,502,205	32,589,368	52,569,433	53,647,357	82,071,638	86,236,725
Expenses:						
General Government	2,626,947	2,766,293	-	-	2,626,947	2,766,293
Public Safety	8,577,724	8,620,538	-	-	8,577,724	8,620,538
Public Works	4,478,011	3,675,342	-	-	4,478,011	3,675,342
Health and Welfare	76,368	157,151	-	-	76,368	157,151
Culture and Recreation	5,710,860	6,333,389	-	-	5,710,860	6,333,389
Conservation and Development	1,812,665	1,046,133	-	-	1,812,665	1,046,133
Debt Service	1,091,127	1,637,019	-	-	1,091,127	1,637,019
Sewer	-	-	3,654,114	3,682,300	3,654,114	3,682,300
Solid Waste	-	-	2,389,520	2,542,404	2,389,520	2,542,404
Airport	-	-	1,046,734	1,235,154	1,046,734	1,235,154
Electric	-	-	24,422,931	25,547,889	24,422,931	25,547,889
Water	-	-	4,829,106	4,351,502	4,829,106	4,351,502
Gas	-	-	10,340,336	7,864,515	10,340,336	7,864,515
Total Expenses	24,373,702	24,235,865	46,682,741	45,223,764	71,056,443	69,459,629
Excess (Deficiency) Before Transfers	5,128,503	8,353,503	5,886,692	8,423,593	11,015,195	16,777,096
Transfers	1,207,235	1,025,325	(1,207,235)	(1,025,325)	-	-
Change in Net Position	6,335,738	9,378,828	4,679,457	7,398,268	11,015,195	16,777,096
Net Position - Beginning	115,600,782	121,936,520	143,720,579	148,400,036	259,321,361	270,336,556
Prior Period Adjustment		2,616,675		1,598,118		4,214,793
Net Position - beginning after adjustment		124,553,195		149,998,154		274,551,349
Net Position - Ending	\$ 121,936,520	\$ 133,932,023	\$ 148,400,036	\$ 157,396,422	\$ 270,336,556	\$ 291,328,445

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the City's net position by \$9.4 million, accounting for 55.9% of the total growth in the net position of the City. As previously discussed, the reason for the majority of this increase is the limitation on the use of current Capital Improvement Fund revenues largely capital asset acquisition or construction.

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

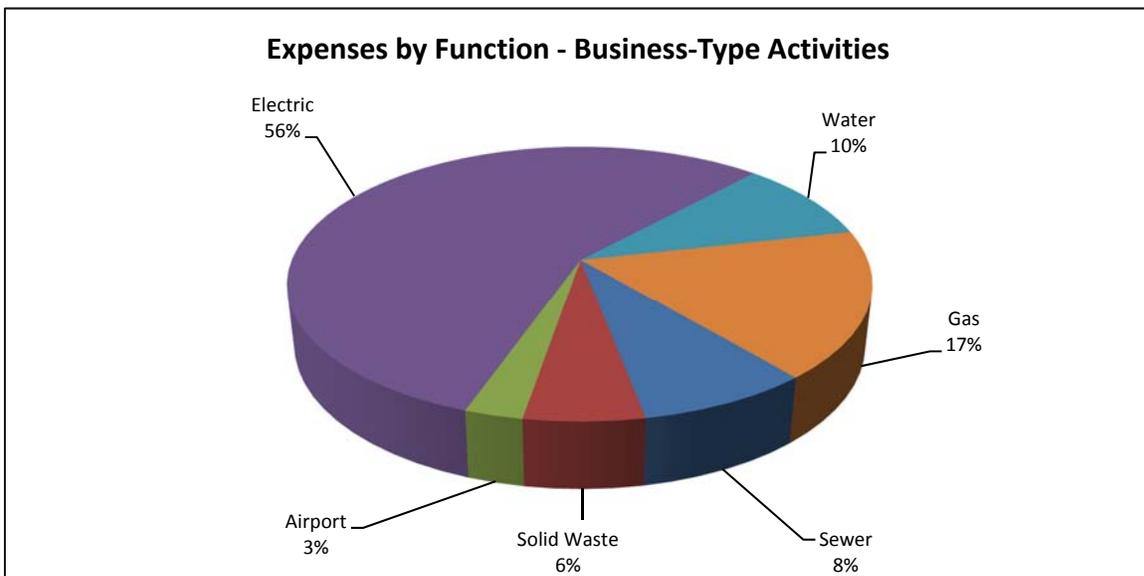
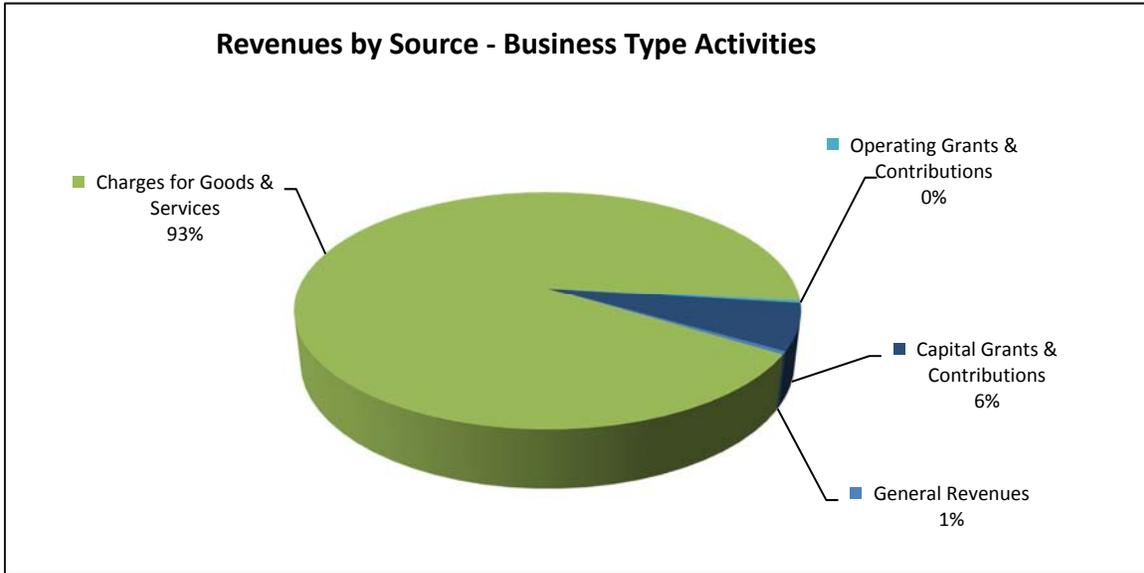


Management's Discussion and Analysis

Business-Type Activities

Business-type activities increased the City's net position by \$7.4 million, accounting for 44.1% of the total growth in the City's net position. Key reasons for this increase, as previously discussed, include the large operating income of the Electric, Water and Gas Enterprise funds and the capital grants to the Airport Fund.

The following charts summarize the revenues and expenses associated with Business-Type Activities:



Management's Discussion and Analysis

Financial Analysis of the City's Funds

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

Governmental Funds

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

As of the end of 2015, the City's governmental funds reported combined fund balance total of \$49.2 million, an increase of \$14.2 million, or 40.7% from 2014. Of the total fund balance, the City has internally earmarked \$20.1 million for specific purposes which are reported as assigned for in the fund balances.

General Fund – The General Fund is the chief operating fund of the City. The fund balance increased by \$901,986, or about 10.1%, from 2014. Even with a more stable economy allowing sales tax revenues to exceed budgeted projections, interest earnings continue to fall below projected amounts and prior year earnings. As of the end of 2015, \$1.7 million of net position are either nonspendable, restricted, or assigned in the General Fund for future capital outlay or other specified purposes. The unassigned fund balance of \$8.1 million is about 58.0% of 2015 General Fund revenues. The nonspendable, restricted, and assigned amounts will not affect the availability of fund resources for future use.

Capital Improvement Fund – The fund balance increased by \$1,605,787 or 7.6%. This increase resulted from sales tax revenues exceeding the estimated budget by 10.4% as well as unanticipated revenue proceeds from the sale of City owned land. There were also several projects within the Capital Improvement Fund including the Bike Trail Improvement project and the Sidewalk, Curb and Gutter project that were not completed by the end of 2015. Revenues allocated to these projects in 2015 will be carried over in 2016 to complete these projects. As of the end of 2015, there was \$6.2 million of capital outlay accumulation set aside in the Capital Improvement Fund for future capital spending. The reserved amounts will not affect the availability of fund resources for future use.

Capital Projects Fund – The fund balance increased by \$11,393,979 or 122.6%. This increase resulted from two additional bond issues completed in 2015 to finance the Community Center, 5-plex Softball Complex and new 2 sheet of Ice Complex. This Fund was created to ensure all bond proceeds including any interest accrued on unspent revenues are used to fund these projects. Once completed, the assets be maintained by the appropriate department and the Capital Projects Fund will be closed.

Proprietary Funds

Sewer Fund – Net position increased by \$2,154,341, or 3.7%, on operating income of \$273,680. The amount of operating income equals approximately 7.7% of operating revenues for this fund. The increase in net position is attributable to a significant increase in capital contributions.

Electric, Gas, and Water Funds – Net position in the Electric, Gas and Water Funds increased by a combined \$4.7 million or 7.6%. This increase resulted from overall strong operating income from electric, gas and water utility services.

Airport Fund – Net position increased by \$436,978, or 2.2%. This increase is mostly due to an increase in revenues collected and significant increase in capital contributions.

General Budgetary Highlights

The final 2015 General Fund expenditure budget reflects an increase to the original budget of \$356,000, or about 2.5%, with the majority of this increase in the public works functional area due to carryover of capital funds for the purchase of equipment. The other function that saw an increase was the public safety budget which increased due to receiving unanticipated grant funds.

Management's Discussion and Analysis

Actual General Fund expenditures were about \$1,322,204, or 9.4%, less than the original budget. The difference between the original budgeted expenditures and actual results was due to unspent contingency funds, having a mild winter causing less snow removal budget and three dump trucks that will be purchased in 2016 instead of 2015.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2015, totals \$286,084,636 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery & equipment, park facilities, roads and other infrastructure assets. The reported investment in capital assets increased during 2015 by \$20.1 million or 7.5%.

Major capital asset events during the 2015 included the following:

- Community Recreation Facility - \$7.3 million
- 5-Plex Softball Complex - \$1.4 million
- Golf Course Greens Project - \$.6 million
- Street Improvements - \$6.3 million
- Sewer improvements - \$2.9 million

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

Long-term debt

At the end of 2015 the City had total debt outstanding of \$75,514,839 in General Obligation Bonds, Sales Tax Bonds and other long-term obligations. This is an increase of 29.1% or about \$17.0 million. The significant long-term debt activity for the year was the issuance of 2015 Sales Tax Revenue Bonds Series 2015B and Series 2015C.

The City has General Obligation (GO) Bonds backed by the full faith and credit of the City. Principal and interest on these GO Bonds are secured and paid using revenues generated from a special property tax levy. As of December 31, 2015 the GO Bond has an outstanding balance of \$3,120,000.

The City has outstanding \$2,765,000 in Sales Tax Revenue Bonds, Series 2012, these bonds were the result of refinancing the 2003 and 2004 Sales Tax Revenue Bonds. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds were used to construct storm sewer improvements and the Family Aquatic Center.

The City has outstanding \$9,650,000 in Sales Tax Revenue Bonds, Series 2014. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds will be used for the construction of the Community Recreation Facility.

The City has outstanding \$3,100,000 in Sales Tax Revenue Bonds, Series 2015, these bonds were the result of refinancing the 2006 Sales Tax Revenue Bond. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds were used to construct the Regional Library.

The City has outstanding \$9,745,000 in Sales Tax Revenue Bonds, Series 2015B. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds will be used for the construction of the Community Recreation Facility.

The City has outstanding \$10,865,000 in Sales Tax Revenue Bonds, Series 2015C. The bonds are secured with and paid from the Capital Improvement Fund sales tax revenue. The City does not anticipate the use of any property tax dollars to pay for these bonds. These bonds will be used for the construction of the Community Recreation Facility.

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

Management's Discussion and Analysis

Economic Outlook and Next Year's Budget

The City adopted the 2015 budget in mid-2014 with the expectation of a stable local economy with an optimistic outlook that the economy would continue to be steady with the potential of slight growth both in the economy and in the City's property tax base. The sales tax revenues reflected moderate growth in the local economy which continues to be at a consistent rate to the national markets. The City's 2016 sales tax revenue is projected to be 4.5% higher than the 2015 budgeted amount. The trend in retail sales taxes has shown a slight decrease over the first few months of 2016 which has been expected with the slowdown of the local agriculture commodity market. However, the minimal decrease compared to the same period in 2015 shows the consumer faith in the sustainability of current economic conditions. The 2016 General Fund budget was established with the intention of using approximately \$350,000 of fund balance to fund the General Fund expenditures. The need to replace some large pieces of equipment for street and snow removal that had been delayed in previous year's budgets became a priority due to large repairs and overall poor condition of the equipment. The continued stability of the local retail economy resulting in increases in sales tax revenues allows for the use of available fund balance with little or no impact to the overall health of the fund. With the continued concern about the stability of the both the local and national economy along with the uncertainty of several federal policies and upcoming presidential election, revenues will need to be monitored very carefully in the coming budget year to mitigate any financial implications of any negative trends to the overall City budget.

Overall, the 2016 budget reflects a decrease in planned spending of \$0.7 million, or 0.9%, from the original 2015 budget. This decrease in capital expenditures is due to fewer large projects budgeted to begin in 2016. The sales-tax-dependent General Fund budget reflects an increase of \$924,340, or 5.8%. Revenues will continue to be monitored very carefully in the coming budget year to ensure adequate coverage for the planned expenditures with minimal use of any fund balance.

Growth of the City's property tax base increased in 2015 with an overall increase in the taxable value of real property of \$49.4 million reflecting a \$28.0 million increase from new property placed on the tax rolls and a \$21.4 million increase by virtue of the reappraisal process. This amount represents a net increase in the property tax base of 3.6% with real growth in the tax base from new property of slightly less than 2.1%. As a result of all of these changes and with no increase in the General Fund mill levy of \$2.675 per \$1,000 of value, General Fund property tax revenues will increase by approximately \$112,700, or about 3.6%. In addition, the special property tax levy used to repay the Event Center GO Bonds will generate \$492,000 in property tax revenues for the Debt Service Fund.

Requests for Information

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

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2015

Statement of Net Position

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission
ASSETS				
Pooled Cash and Investments	\$ 43,804,399	\$ 19,551,241	\$ 63,355,640	\$ -
Non-Pooled Cash and Investments	-	-	-	563,685
Receivables, net	4,106,496	5,923,255	10,029,751	64
Due from Other Sources	11,624	-	11,624	-
Due from Other Governments	152,870	93,839	246,709	-
Inventories	164,257	1,373,360	1,537,617	-
Deposits	330,054	-	330,054	-
Prepaid Expenses	700	236,502	237,202	15,575
Internal Balances	(923,342)	923,342	-	-
Deposit for Flexible Spending	-	11,648	11,648	-
Net Pension Asset	2,336,144	1,395,326	3,731,470	35,020
Restricted Pooled Cash and Investments	6,469,001	4,494,275	10,963,276	-
Capital Assets:				
Land and Construction in Progress	26,284,695	6,106,619	32,391,314	152,450
Other Capital Assets, Net of Depreciation	99,138,590	154,554,732	253,693,322	599,866
Total assets	<u>181,875,488</u>	<u>194,664,139</u>	<u>376,539,627</u>	<u>1,366,660</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	4,080,486	2,476,254	6,556,740	62,840
Total Deferred Outflows of Resources	<u>4,080,486</u>	<u>2,476,254</u>	<u>6,556,740</u>	<u>62,840</u>
LIABILITIES				
Accounts Payable	1,900,331	5,141,157	7,041,488	10,294
Salaries Payable	-	127,129	127,129	-
Retainage Payable	742,257	72,072	814,329	-
Accrued Interest Payable	110,252	221,980	332,232	-
Other Accrued Expenses	-	-	-	23,803
Customer Deposits	-	781,435	781,435	15,220
Revenues Collected in Advance	-	1,132,114	1,132,114	-
Unearned Revenue	507,718	-	507,718	-
Long-term Liabilities:				
Due within one year	2,838,524	2,288,181	5,126,705	-
Due in more than one year	42,477,844	27,910,290	70,388,134	-
Total liabilities	<u>48,576,926</u>	<u>37,674,358</u>	<u>86,251,284</u>	<u>49,317</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	3,447,025	2,069,613	5,516,638	51,673
Total Deferred Inflows of Resources	<u>3,447,025</u>	<u>2,069,613</u>	<u>5,516,638</u>	<u>51,673</u>
NET POSITION				
Net Investment in Capital Assets	103,295,621	132,695,267	235,990,888	752,316
Restricted for Cemetery Perpetual Care:				
Expendable	6,024	-	6,024	-
Nonexpendable	50,000	-	50,000	-
Restricted for Conservation & Development	362,454	-	362,454	-
Restricted for Culture & Recreation	1,192,835	-	1,192,835	-
Restricted for Debt Service	5,607,477	1,290,926	6,898,403	-
Restricted for Capital Projects	20,690,953	-	20,690,953	-
Restricted for Public Safety	33,514	-	33,514	-
Restricted for Operation & Maintenance	-	216,887	216,887	-
Restricted for Replacement & Depreciation	-	1,647,560	1,647,560	-
Restricted for Cumulative Reserve Fund	330,054	-	330,054	-
Restricted for SDRS Pension Purposes	2,969,605	1,801,967	4,771,572	46,187
Restricted for Housing Assistance Payments	-	-	-	27,644
Unrestricted	(606,514)	19,743,815	19,137,301	502,363
Total net position	<u>\$ 133,932,023</u>	<u>\$ 157,396,422</u>	<u>\$ 291,328,445</u>	<u>\$ 1,328,510</u>

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Statement of Activities

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General Government	\$ 2,766,293	\$ 128,119	\$ 35,096	\$ -
Public Safety	8,620,538	1,758,183	318,182	77,704
Public Works	3,675,342	189,974	23,942	4,524,241
Health and Welfare	157,151	1,525	1,477	7,635
Culture and Recreation	6,333,389	2,347,198	287,702	769,099
Conservation and Development	1,046,133	137,084	65,689	57,805
Interest on Long-Term Debt	1,637,019	-	-	-
Total governmental activities	24,235,865	4,562,083	732,088	5,436,484
Business-Type Activities:				
Sewer	3,682,300	3,502,229	30,329	2,487,432
Solid Waste	2,542,404	2,833,794	20,058	-
Airport	1,235,154	154,587	11,103	836,374
Electric	25,547,889	27,954,042	70,156	47,304
Water	4,351,502	5,452,851	29,710	-
Gas	7,864,515	9,942,975	40,619	5,273
Total business-type activities	45,223,764	49,840,478	201,975	3,376,383
Total primary government	69,459,629	54,402,561	934,063	8,812,867
Component units:				
Watertown Housing and Redev.	1,211,938	329,769	963,959	-
Total Component Units	\$ 1,211,938	\$ 329,769	\$ 963,959	\$ -

General revenues:

- Taxes
 - Property Taxes
 - Sales and Use Taxes
 - Other Taxes
- State Shared Revenues
- Interest Earned
- Other Miscellaneous
- Sale of Capital Assets

Transfers

Total general revenues & transfers
 Change in net position

Net position - beginning
 Adjustment for implementation of GASB 68
 Net position - beginning after restatement
 Net position - ending

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Statement of Activities (continued)

Net(Expense) Revenue and Changes in Net Position				
Primary Government				Component Unit Housing and Redevelopment Commission
Governmental Activities	Business-Type Activities	Total		
\$ (2,603,078)	\$ -	\$ (2,603,078)		\$ -
(6,466,469)	-	(6,466,469)		-
1,062,815	-	1,062,815		-
(146,514)	-	(146,514)		-
(2,929,390)	-	(2,929,390)		-
(785,555)	-	(785,555)		-
(1,637,019)	-	(1,637,019)		-
<u>(13,505,210)</u>	<u>-</u>	<u>(13,505,210)</u>		<u>-</u>
-	2,337,690	2,337,690		-
-	311,448	311,448		-
-	(233,090)	(233,090)		-
-	2,523,613	2,523,613		-
-	1,131,059	1,131,059		-
-	2,124,352	2,124,352		-
-	8,195,072	8,195,072		-
<u>(13,505,210)</u>	<u>8,195,072</u>	<u>(5,310,138)</u>		<u>-</u>
-	-	-		81,790
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 81,790</u>
4,144,883	-	4,144,883		-
15,205,209	-	15,205,209		-
367,452	19,799	387,251		-
1,023,327	-	1,023,327		-
591,828	170,953	762,781		1,332
351,668	-	351,668		15,743
174,346	37,769	212,115		-
<u>1,025,325</u>	<u>(1,025,325)</u>	<u>-</u>		<u>-</u>
<u>22,884,038</u>	<u>(796,804)</u>	<u>22,087,234</u>		<u>17,075</u>
9,378,828	7,398,268	16,777,096		98,865
121,936,520	148,400,036	270,336,556		1,188,108
2,616,675	1,598,118	4,214,793		41,537
<u>124,553,195</u>	<u>149,998,154</u>	<u>274,551,349</u>		<u>1,229,645</u>
<u>\$ 133,932,023</u>	<u>\$ 157,396,422</u>	<u>\$ 291,328,445</u>		<u>\$ 1,328,510</u>

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

City of Watertown
 Comprehensive Annual Financial Report
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Balance Sheet - Governmental Funds

	General Fund	Capital Improvement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled Cash and Investments	\$ 8,742,944	\$ 11,381,638	\$ 22,530,384	\$ 2,169,268	\$ 44,824,234
Property Taxes Receivable	50,670	-	-	7,677	58,347
Sales Tax Receivable	933,182	932,375	-	86,710	1,952,267
Accounts Receivable	230,608	-	-	80,649	311,257
Special Assessments Receivable	418,855	237,939	-	865	657,659
Interest Receivable	9,476	19,213	21,317	2,506	52,512
Loans Receivable	-	1,041,375	-	33,079	1,074,454
Due From Other Funds	223,276	-	-	2,000	225,276
Due From Other Governments	134,549	-	-	18,321	152,870
Due From Other Sources	11,624	-	-	-	11,624
Inventory	129,622	-	-	34,635	164,257
Prepaid Items	-	-	-	700	700
Deposits	330,054	-	-	-	330,054
Advance To Other Fund	-	5,205,802	-	-	5,205,802
Restricted Assets:					
Pooled Cash and Investments	70,517	5,281,794	-	96,855	5,449,166
Total assets	<u>11,285,377</u>	<u>24,100,136</u>	<u>22,551,701</u>	<u>2,533,265</u>	<u>60,470,479</u>
LIABILITIES					
Accounts Payable	325,176	295,386	1,097,174	182,595	1,900,331
Due to Other Funds	2,000	-	-	5,605	7,605
Retainage Payable	-	-	742,257	-	742,257
Advance From Other Fund	-	-	-	6,346,815	6,346,815
Total liabilities	<u>327,176</u>	<u>295,386</u>	<u>1,839,431</u>	<u>6,535,015</u>	<u>8,997,008</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	1,146,063	944,030	21,317	115,030	2,226,440
Total Deferred Inflows of Resources	<u>1,146,063</u>	<u>944,030</u>	<u>21,317</u>	<u>115,030</u>	<u>2,226,440</u>
FUND BALANCES					
Nonspendable for:					
Inventory	129,622	-	-	34,635	164,257
Cemetery Perpetual Care	50,000	-	-	-	50,000
Restricted for:					
Debt Service	-	5,281,794	-	325,683	5,607,477
Capital Projects	-	-	20,690,953	-	20,690,953
BBB Sales Tax	-	-	-	265,743	265,743
Event Center	-	-	-	1,171	1,171
Big Sioux River Project	-	-	-	170,970	170,970
E-911 Services	-	-	-	33,514	33,514
Library	-	-	-	279,105	279,105
Urban Renewal Loans	-	-	-	95,684	95,684
Cable TV Security	14,493	-	-	-	14,493
Cemetery Perpetual Care	6,024	-	-	-	6,024
Casualty Reserve	-	-	-	28,583	28,583
Assigned for:					
Capital Outlay	1,056,191	6,162,852	-	204,942	7,423,985
Land	-	868,500	-	-	868,500
Cumulative Reserve Fund	330,054	-	-	-	330,054
Group Health Premium	151,335	-	-	-	151,335
Park Development	-	-	-	101,513	101,513
Golf Course	-	-	-	47,426	47,426
Zoo Improvements	-	-	-	7,997	7,997
Advances	-	5,205,802	-	-	5,205,802
Other Purposes	-	5,341,772	-	613,017	5,954,789
Unassigned:	8,074,419	-	-	(6,326,763)	1,747,656
Total fund balances	<u>9,812,138</u>	<u>22,860,720</u>	<u>20,690,953</u>	<u>(4,116,780)</u>	<u>49,247,031</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,285,377</u>	<u>\$ 24,100,136</u>	<u>\$ 22,551,701</u>	<u>\$ 2,533,265</u>	<u>\$ 60,470,479</u>

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

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

Fund balances of governmental funds		\$ 49,247,031
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital Assets	157,537,456	
Accumulated Depreciation	<u>(32,114,171)</u>	125,423,285
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. The costs associated with issuance of long-term debt are reported as assets in the government-wide financial statements for future interest payments and amortized as an adjustment to interest expense in the statement of activities over the life of the debt.		
GO Bonds	(3,120,000)	
2012 Revenue Bonds	(2,765,000)	
2014 Revenue Bonds	(9,650,000)	
2015 Revenue Bonds - Refunding	(3,100,000)	
2015 Revenue Bonds - 2015B	(9,745,000)	
2015 Revenue Bonds - 2015C	(10,865,000)	
SRF Loan #6 - CW	(840,358)	
SRF Loan #6 - NPS	(78,432)	
SRF Loan #8 - CW	(373,445)	
SRF Loan #8 - NPS	(41,785)	
SRF Loan #10 - CW	(2,213,167)	
SRF Loan #11 - CW	(166,371)	
Fire Truck Lease Payable	(152,537)	
Accrued Interest Payable	(110,252)	
Other Post Employment Benefits	(363,026)	
Compensated Absences	<u>(1,842,247)</u>	(45,426,620)
Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		2,336,144
Pension related deferred outflows are components of pension asset and therefore not reported in the funds.		4,080,486
Pension related deferred inflows are components of pension asset and therefore not reported in the funds.		(3,447,025)
Assets such as interest receivable, sales tax and special assessments receivables are not available to pay for current expenditures and therefore are deferred in the funds.		
Interest Receivable	52,512	
Special Assessments	149,076	
Franchise Fees	30,374	
E-911 Surcharges	51,478	
General Sales and Use Tax	<u>1,435,282</u>	1,718,722
Net Position of governmental activities		<u>\$ 133,932,023</u>

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	General Fund	Capital Improvement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Tax Revenue					
Property	\$ 3,172,754	\$ -	\$ -	\$ 972,128	\$ 4,144,882
Sales	7,215,762	7,208,929	-	782,783	15,207,474
Other Taxes	368,337	-	-	-	368,337
Licenses and Permits	234,333	-	-	-	234,333
Intergovernmental	1,179,753	384,887	-	56,673	1,621,313
Charges for Goods and Services	1,333,725	-	-	2,709,620	4,043,345
Fines and Forfeits	33,944	-	-	16,600	50,544
Interest Revenue	32,037	474,146	52,694	10,022	568,899
Rentals	-	-	-	155,956	155,956
Special Assessments	40,642	55,321	-	-	95,963
Donations/Contributions	49,415	354,713	1,200	275,905	681,233
Miscellaneous	267,989	24,007	-	59,672	351,668
Total revenues	<u>13,928,691</u>	<u>8,502,003</u>	<u>53,894</u>	<u>5,039,359</u>	<u>27,523,947</u>
EXPENDITURES					
Current:					
General Government	2,103,449	-	-	716,938	2,820,387
Public Safety	6,797,869	437,157	-	794,254	8,029,280
Public Works	2,226,891	2,952,668	-	-	5,179,559
Health and Welfare	144,736	-	-	-	144,736
Culture and Recreation	1,117,686	1,065,610	8,542,759	4,313,395	15,039,450
Conservation and Development	288,510	302,000	-	297,559	888,069
Debt Service	-	2,236,648	333,536	896,930	3,467,114
Total expenditures	<u>12,679,141</u>	<u>6,994,083</u>	<u>8,876,295</u>	<u>7,019,076</u>	<u>35,568,595</u>
Excess (deficiency) of revenues over expenditures	<u>1,249,550</u>	<u>1,507,920</u>	<u>(8,822,401)</u>	<u>(1,979,717)</u>	<u>(8,044,648)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Municipal Property	51,086	208,069	-	12,624	271,779
Long-Term Debt Issued	-	-	20,865,000	-	20,865,000
Refunding Bond Issuance	-	3,375,000	-	-	3,375,000
Premium on Bonds Issued	-	157,712	102,161	-	259,873
Payment to Refunded Bond Escrow Agent	-	(3,507,670)	-	-	(3,507,670)
Transfers Out	(2,060,000)	(886,025)	(750,781)	(50,000)	(3,746,806)
Transfers In	1,661,350	750,781	-	2,360,000	4,772,131
Total other financing sources (uses)	<u>(347,564)</u>	<u>97,867</u>	<u>20,216,380</u>	<u>2,322,624</u>	<u>22,289,307</u>
Net Change in Fund Balances	901,986	1,605,787	11,393,979	342,907	14,244,659
Fund balances -- beginning	8,910,152	21,254,933	9,296,974	(4,459,687)	35,002,372
Fund balances -- ending	<u>\$ 9,812,138</u>	<u>\$ 22,860,720</u>	<u>\$ 20,690,953</u>	<u>\$ (4,116,780)</u>	<u>\$ 49,247,031</u>

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

Net change in fund balances --total governmental funds \$ 14,244,659

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

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

Expenditure for Capital Assets	12,017,445	
Less Current Depreciation	<u>(2,397,595)</u>	9,619,850

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

(97,432)

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

Donated capital assets	4,525,969	
Gain on transfer of capital assets	26,571	
Changes in deferred revenue:		
Interest	22,929	
Special Assesments	(15,955)	
Sales Taxes	(2,265)	
Franchise Fees	(885)	
E-911 Surcharges	(2,103)	
Grants	<u>(7,129)</u>	4,547,132

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

Issuance of Bonds	(24,240,000)	
Repayment of Bond Principal	<u>5,149,269</u>	(19,090,731)

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

(67,435)

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

(58,768)

Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.

352,930

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

Change in Accrued Interest Payable		(71,377)
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Change in net position of governmental activities		<u>\$ 9,378,828</u>
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The notes to the financial statements are an integral part of this statement.

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2015

Statement of Net Position - Proprietary Funds

	Sewer Fund	Electric Fund	Water Fund
ASSETS			
Current assets:			
Pooled Cash and Investments	\$ 1,633,450	\$ 9,324,660	\$ 154,164
Accounts Receivable	305,917	2,283,069	486,082
Unbilled Accounts Receivable	-	649,842	146,929
Other Receivable	-	-	24,165
Interest Receivable	4,725	9,022	-
Due From Other Funds	-	3,422	-
Due From Other Governments	-	-	-
Advance To Other Fund	1,141,013	-	-
Inventory	160,877	602,042	358,660
Deposit for Flexible Spending	-	11,648	-
Prepaid Expense	-	122,829	53,330
Net Pension Asset	188,973	479,172	241,697
Restricted Pooled Cash and Investments	2,144,318	781,435	1,011,055
Total Current assets:	<u>5,579,273</u>	<u>14,267,141</u>	<u>2,476,082</u>
Noncurrent assets:			
Land	1,737,749	372,752	510,669
Buildings and Structures	36,575,498	5,617,759	21,962,667
Furniture Equipment Machinery	1,316,382	1,727,274	483,921
Improvements Other Than Buildings	52,348,429	40,868,638	29,596,591
Intangible Property	-	-	-
Construction in Progress	64,979	2,117,759	863,494
Accumulated Depreciation	(25,709,933)	(28,971,777)	(16,396,563)
Accumulated Amortization	-	(52,938)	(25,405)
Total Noncurrent assets:	<u>66,333,104</u>	<u>21,679,467</u>	<u>36,995,374</u>
Total assets	<u>71,912,377</u>	<u>35,946,608</u>	<u>39,471,456</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	328,447	838,609	440,465
Total Deferred Outflows of Resources	<u>328,447</u>	<u>838,609</u>	<u>440,465</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	187,009	3,465,458	381,209
Salaries Payable	-	60,845	28,231
Retainage Payable	-	31,297	40,775
Revenues Collected in Advance	-	463,556	35,534
Due to Other Funds	-	-	5,500,000
Loans Payable	803,196	-	1,107,171
Accrued Interest Payable	81,762	-	140,218
Accrued Vacation and Sick Leave	50,585	123,483	80,954
Customer Deposits	-	781,435	-
Total Current liabilities:	<u>1,122,552</u>	<u>4,926,074</u>	<u>7,314,092</u>
Noncurrent liabilities:			
Accrued Vacation and Sick Leave	151,756	370,448	242,861
Other Post Employment Benefits	29,258	47,645	22,672
Closure/Post Closure Liability	-	-	-
Loans Payable	9,905,287	-	16,150,429
Total Noncurrent liabilities:	<u>10,086,301</u>	<u>418,093</u>	<u>16,415,962</u>
Total liabilities	<u>11,208,853</u>	<u>5,344,167</u>	<u>23,730,054</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	284,202	707,027	356,628
Total Deferred Inflows of Resources	<u>284,202</u>	<u>707,027</u>	<u>356,628</u>
NET POSITION			
Net Investment in Capital Assets	55,624,621	21,679,467	19,737,774
Restricted for SDRS Pension Purposes	233,218	610,754	325,533
Restricted for SRF O&M	216,887	-	-
Restricted for SRF R&D	1,647,560	-	-
Restricted for Debt Service	279,871	-	1,011,055
Unrestricted	2,745,612	8,443,802	(5,249,123)
Total net position	<u>\$ 60,747,769</u>	<u>\$ 30,734,023</u>	<u>\$ 15,825,239</u>

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

City of Watertown
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Statement of Net Position - Proprietary Funds (continued)

Gas Fund		Airport Fund		Other Proprietary Funds		Total Proprietary Funds	
\$	6,741,490	\$	-	\$	1,697,477	\$	19,551,241
	1,283,303		4,440		277,843		4,640,654
	421,401		-		-		1,218,172
	12,803		-		-		36,968
	11,026		-		2,688		27,461
	5,500,000		-		-		5,503,422
	-		93,839		-		93,839
	-		-		-		1,141,013
	185,162		32,352		34,267		1,373,360
	-		-		-		11,648
	60,343		-		-		236,502
	282,383		37,068		166,033		1,395,326
	-		-		557,467		4,494,275
	<u>14,497,911</u>		<u>167,699</u>		<u>2,735,775</u>		<u>39,723,881</u>
	43,861		248,400		38,174		2,951,605
	1,023,118		2,070,515		993,472		68,243,029
	759,489		3,469,258		4,930,632		12,686,956
	16,348,446		23,920,534		4,233,611		167,316,249
	470,654		-		-		470,654
	30,371		-		78,411		3,155,014
	(10,657,774)		(8,841,592)		(3,243,758)		(93,821,397)
	(262,416)		-		-		(340,759)
	<u>7,755,749</u>		<u>20,867,115</u>		<u>7,030,542</u>		<u>160,661,351</u>
	<u>22,253,660</u>		<u>21,034,814</u>		<u>9,766,317</u>		<u>200,385,232</u>
	498,937		64,554		305,242		2,476,254
	<u>498,937</u>		<u>64,554</u>		<u>305,242</u>		<u>2,476,254</u>
	912,188		61,277		134,016		5,141,157
	38,053		-		-		127,129
	-		-		-		72,072
	633,024		-		-		1,132,114
	-		217,671		3,422		5,721,093
	-		-		-		1,910,367
	-		-		-		221,980
	85,983		2,828		33,981		377,814
	-		-		-		781,435
	<u>1,669,248</u>		<u>281,776</u>		<u>171,419</u>		<u>15,485,161</u>
	257,949		8,483		101,943		1,133,440
	24,316		5,905		33,871		163,667
	-		-		557,467		557,467
	-		-		-		26,055,716
	<u>282,265</u>		<u>14,388</u>		<u>693,281</u>		<u>27,910,290</u>
	<u>1,951,513</u>		<u>296,164</u>		<u>864,700</u>		<u>43,395,451</u>
	416,662		60,109		244,985		2,069,613
	<u>416,662</u>		<u>60,109</u>		<u>244,985</u>		<u>2,069,613</u>
	7,755,748		20,867,115		7,030,542		132,695,267
	364,659		41,513		226,290		1,801,967
	-		-		-		216,887
	-		-		-		1,647,560
	-		-		-		1,290,926
	<u>12,264,015</u>		<u>(165,533)</u>		<u>1,705,042</u>		<u>19,743,815</u>
\$	<u>20,384,422</u>	\$	<u>20,743,095</u>	\$	<u>8,961,874</u>	\$	<u>157,396,422</u>

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Water Fund</u>
OPERATING REVENUES			
Charges for Goods and Services	\$ 2,019,272	\$ 27,695,609	\$ 2,847,064
Miscellaneous	48,090	205,521	220,782
Rentals	-	52,912	199,518
Pension Revenue	29,747	70,156	29,710
Revenue Dedicated to Servicing Debt	1,434,867	-	2,185,487
Total operating revenues	<u>3,531,976</u>	<u>28,024,198</u>	<u>5,482,561</u>
OPERATING EXPENSES			
Personal Services	1,038,759	-	-
Supplies	148,977	-	-
Utilities	263,262	-	-
Other Charges	338,095	-	-
Production	-	19,319,668	1,435,041
Distribution	-	1,925,475	719,763
Transmission	-	1,745,427	-
Accounts and Commercial	-	607,607	116,264
Administrative and General	-	589,069	174,073
Other Miscellaneous Expense	-	37,792	33,411
Depreciation	1,469,203	1,308,237	1,287,832
Amortization	-	14,614	7,064
Total operating expenses	<u>3,258,296</u>	<u>25,547,889</u>	<u>3,773,448</u>
Operating Income (Loss)	<u>273,680</u>	<u>2,476,309</u>	<u>1,709,113</u>
NONOPERATING REVENUES (EXPENSES)			
Tax Revenue	-	-	-
Intergovernmental	582	-	-
Interest Revenue	92,401	30,917	-
Interest Expense	(337,580)	-	(578,054)
Contributions	(60,000)	-	-
Gain(Loss) on Disposition of Capital Assets	(26,424)	22,750	-
Total nonoperating revenues (expenses)	<u>(331,021)</u>	<u>53,667</u>	<u>(578,054)</u>
Income (loss) before contributions and transfers	(57,341)	2,529,976	1,131,059
Transfers In	-	-	-
Transfers Out	(275,750)	(719,040)	-
Capital Contributions	2,487,432	47,304	-
Change in net position	<u>2,154,341</u>	<u>1,858,240</u>	<u>1,131,059</u>
Total net position -- beginning	58,389,805	28,338,225	14,394,819
Prior Period Adjustment GASB 68	203,623	537,558	299,361
Total net position -- ending	<u>\$ 60,747,769</u>	<u>\$ 30,734,023</u>	<u>\$ 15,825,239</u>

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

Gas Fund	Airport Fund	Other Proprietary Funds	Total Proprietary Funds
\$ 9,872,257	\$ 10,605	\$ 2,823,052	\$ 45,267,859
58,904	5,259	10,742	549,298
11,814	138,723	-	402,967
40,619	7,103	20,058	197,393
-	-	-	3,620,354
<u>9,983,594</u>	<u>161,690</u>	<u>2,853,852</u>	<u>50,037,871</u>
-	236,338	1,064,230	2,339,327
-	32,697	200,441	382,115
-	39,034	25,748	328,044
-	323,721	622,936	1,284,752
5,363,235	-	-	26,117,944
1,184,457	-	-	3,829,695
-	-	-	1,745,427
431,337	-	-	1,155,208
348,387	-	-	1,111,529
28,426	-	-	99,629
488,069	603,364	511,609	5,668,314
20,604	-	-	42,282
<u>7,864,515</u>	<u>1,235,154</u>	<u>2,424,964</u>	<u>44,104,266</u>
<u>2,119,079</u>	<u>(1,073,464)</u>	<u>428,888</u>	<u>5,933,605</u>
-	19,799	-	19,799
-	4,000	-	4,582
38,302	-	9,333	170,953
-	-	-	(915,634)
-	-	(40,000)	(100,000)
775	14,244	(77,440)	(66,095)
<u>39,077</u>	<u>38,043</u>	<u>(108,107)</u>	<u>(886,395)</u>
2,158,156	(1,035,421)	320,781	5,047,210
-	636,025	-	636,025
(479,360)	-	(187,200)	(1,661,350)
5,273	836,374	-	3,376,383
<u>1,684,069</u>	<u>436,978</u>	<u>133,581</u>	<u>7,398,268</u>
18,382,329	20,272,028	8,622,830	148,400,036
318,024	34,089	205,463	1,598,118
<u>\$ 20,384,422</u>	<u>\$ 20,743,095</u>	<u>\$ 8,961,874</u>	<u>\$ 157,396,422</u>

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

City of Watertown
Comprehensive Annual Financial Report
Year Ended December 31, 2015

Statement of Cash Flows - Proprietary Funds

	<u>Sewer Fund</u>	<u>Electric Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customer Including Deposits	\$ 3,423,169	\$ 28,109,190
Cash Receipts for Interfund Services Provided	19,661	1,325,154
Payments to Suppliers	(474,527)	(20,061,438)
Payments to Employees	(1,043,067)	(2,713,795)
Payments for Interfund Services Used	(259,113)	(39,567)
Other Operating Cash Receipts	77,837	-
Other Payments	-	(1,493,599)
Net cash provided (used) by operating activities	<u>1,743,960</u>	<u>5,125,945</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Interfund Loans	-	-
Repayments of Interfund Loans	-	-
Tax Revenue	-	-
Contribution	(60,000)	-
Transfers Out	(275,750)	(719,040)
Transfers In	-	-
Net cash provided (used) by noncapital financing activities	<u>(335,750)</u>	<u>(719,040)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,089,873)	(3,789,977)
Interest payments on SRF Loan	(344,497)	-
Principal payments on SRF Loan	(774,896)	-
Capital Grant	-	47,304
Retirement Work in Progress	-	-
Proceeds from sales of capital assets	149	22,750
Net cash provided (used) by capital and related financing activities	<u>(2,209,117)</u>	<u>(3,719,923)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	17,034	30,449
Net cash provided by investing activities	<u>17,034</u>	<u>30,449</u>
Net increase (decrease) in cash and cash equivalents	(783,873)	717,431
Pooled Cash and Investments - beginning of year	4,561,641	9,388,664
Pooled Cash and Investments - end of year	3,777,768	10,106,095
Less Restricted Pooled Cash and Investments	(2,144,318)	(781,435)
Pooled Cash and Investments Per Balance Sheet	<u>\$ 1,633,450</u>	<u>\$ 9,324,660</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 273,680	\$ 2,476,309
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,469,203	1,322,851
Changes in assets and Liabilities:		
Accounts Payable - Other	5,200	(23,373)
Accounts Payable	-	1,188,510
Customer Receivables	(11,308)	84,493
Restricted Net Pension Asset	120,067	344,871
Deferred Outflows Related to Pensions	(75,945)	(170,714)
Inventory	11,494	87,921
Other Operating Receivables	-	64,648
Other Post Employment Benefits	4,581	3,617
Deferred Inflows Related to Pensions	(73,717)	(247,353)
Closure/Post closure costs	-	-
Salaries & Benefits Payable	20,705	(5,835)
Net Cash provided (used) by operating activities	<u>\$ 1,743,960</u>	<u>\$ 5,125,945</u>
Noncash Investing, Capital, and Financing Activities:		
Loss on Disposal of Capital Assets Not Affecting Operating Income	\$ 26,572	\$ -
Contributions of Capital Assets	\$ 2,487,432	\$ 47,304

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

City of Watertown
 Comprehensive Annual Financial Report
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Statement of Cash Flows - Proprietary Funds (continued)

Water Fund		Gas Fund		Airport Fund		Other Proprietary Funds		Total Proprietary Funds	
\$	5,269,289	\$	10,539,415	\$	150,485	\$	2,809,096	\$	50,300,644
	516,302		326,819		-		-		2,187,936
	(1,180,350)		(5,835,315)		(357,404)		(765,786)		(28,674,820)
	(1,135,664)		(1,646,774)		(238,203)		(1,077,565)		(7,855,068)
	(484,246)		(17,720)		-		-		(800,646)
	-		-		12,362		30,800		120,999
	(1,211)		(526,832)		-		-		(2,021,642)
	<u>2,984,120</u>		<u>2,839,593</u>		<u>(432,760)</u>		<u>996,545</u>		<u>13,257,403</u>
	5,500,000		(5,500,000)		217,671		3,422		221,093
	(5,000,000)		5,000,000		(39,218)		-		(39,218)
	-		-		19,799		-		19,799
	-		-		-		(40,000)		(100,000)
	-		(479,360)		-		(187,200)		(1,661,350)
	-		-		636,025		-		636,025
	<u>500,000</u>		<u>(979,360)</u>		<u>834,277</u>		<u>(223,778)</u>		<u>(923,651)</u>
	(1,365,237)		(560,379)		(1,198,182)		(1,328,098)		(9,331,746)
	(590,760)		-		-		-		(935,257)
	(1,563,880)		-		-		-		(2,338,776)
	-		5,274		782,368		-		834,946
	(525)		(2,061)		-		-		(2,586)
	-		775		14,297		959		38,930
	<u>(3,520,402)</u>		<u>(556,391)</u>		<u>(401,517)</u>		<u>(1,327,139)</u>		<u>(11,734,489)</u>
	-		36,542		-		10,005		94,030
	-		<u>36,542</u>		-		<u>10,005</u>		<u>94,030</u>
	(36,282)		1,340,384		-		(544,367)		693,293
	<u>1,201,501</u>		<u>5,401,106</u>		-		<u>2,799,311</u>		<u>23,352,223</u>
	1,165,219		6,741,490		-		2,254,944		24,045,516
	(1,011,055)		-		-		(557,467)		(4,494,275)
\$	<u>154,164</u>	\$	<u>6,741,490</u>	\$	<u>-</u>	\$	<u>1,697,477</u>	\$	<u>19,551,241</u>
\$	1,709,113	\$	2,119,079	\$	(1,073,464)	\$	428,888	\$	5,933,605
	1,294,896		508,673		603,364		511,609		5,710,596
	-		-		(38)		(132)		(18,343)
	212,020		(368,873)		33,537		27,687		1,092,881
	(95,690)		338,568		1,156		(13,994)		303,225
	217,468		208,790		13,834		152,081		1,057,111
	(68,478)		(103,225)		(22,414)		(49,463)		(490,239)
	(50,020)		(396)		4,551		(1,167)		52,383
	(92,052)		244,647		-		38		217,281
	658		2,302		948		56,952		69,058
	(175,162)		(152,199)		1,156		(123,445)		(770,720)
	-		-		-		5,213		5,213
	31,367		42,227		4,610		2,278		95,352
\$	<u>2,984,120</u>	\$	<u>2,839,593</u>	\$	<u>(432,760)</u>	\$	<u>996,545</u>	\$	<u>13,257,403</u>
\$	-	\$	-	\$	53	\$	-	\$	26,625
\$	-	\$	5,274	\$	-	\$	-	\$	2,540,010

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

City of Watertown
Comprehensive Annual Financial Report
December 31, 2015

Statement of Net Position - Fiduciary Funds

	Agency Funds
	<hr/>
ASSETS	
Pooled Cash and Investments	\$ 77,718
Interest Receivable	35
Total Assets	<hr/> 77,753 <hr/>
LIABILITIES	
Due to Others	77,753
Total Liabilities	<hr/> \$ 77,753 <hr/>

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

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

With the implementation of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, an Amendment to GASB Statement No. 27 and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68 the City has changed accounting policies. These statement provide guidance for proper accounting and financial reporting for pensions.

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate

Notes to the Financial Statements

organizations that meet certain criteria, as described in Note 1.A., above, and may be classified as either governmental or business-type activities.

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

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City (General Fund) or it meets the following criteria:

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

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

Governmental Funds:

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

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

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

Capital Projects Fund – capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Proprietary Funds:

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

Notes to the Financial Statements

Fiduciary Funds:

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

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

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

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

The City reports the following major governmental funds:

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

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

The *Capital Projects Fund* accounts for the financial resources to be used for the constructions of the Community Recreation Facility, 5-plex Softball Complex, and new Ice Arena.

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting:

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

Notes to the Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

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

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

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension asset are recognized on an accrual basis of accounting.

D. Interfund Eliminations and Reclassifications:

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

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

Notes to the Financial Statements

Fund Financial Statements: Noncurrent portions of long-term interfund receivables (reported in “Advance to” asset accounts) are equally offset by a nonspendable fund balance account which indicates that they do not constitute “available spendable resources” since they are not a component of net current position. Current portions of interfund receivables (reported in “Due from” asset accounts) are considered “available spendable resources.”

E. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. roads, alleys, sewer lines and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost ranging from \$5,000 to \$50,000, depending on the type of asset and an estimated useful life of one year or longer.

All land and land rights are considered capital assets regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States of America. For capital assets used in business-type activities/proprietary fund’s operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States of America. There was no interest capitalized in the proprietary funds for 2015.

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

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

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

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

F. Program Revenues:

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

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

Notes to the Financial Statements

G. Proprietary Funds Revenue and Expense Classifications:

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

H. Assets, Liabilities, and Net Position or Equity

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

The City pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Also, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows. A pooled cash & investments account is maintained for all City funds. Interest earnings are allocated to those funds that have an average positive balance in their cash account pursuant to the City's formal investment policy.

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

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

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

Inventories and Prepaid Items: Inventories of supplies for all funds, except the Electric, Water, and Gas, are recorded at cost using the first-in, first-out (FIFO) method. Inventories of supplies for the Electric, Water, and Gas are recorded at cost using the average cost method. The cost of inventory is recognized as an expense in the governmental fund financial statements as well as in the business-type fund and government-wide financial statements when used (consumption method). The inventories reported in the governmental fund financial statements are off-set by a nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of current assets. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

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

Notes to the Financial Statements

Long-Term Obligations: In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

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

Equity Classifications:

Government-wide Statements: Equity is classified as net position and is displayed in three components.

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

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

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

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

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

Accounting Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the

Notes to the Financial Statements

financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. Stewardship, Compliance, and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Net Position/Fund Balance Deficits

As of December 31, 2015, the following funds have deficit fund balances in the amount shown:

Tax Increment Financing 1 Fund	\$ (1,753,298)
Tax Increment Financing 2 Fund	\$ (1,247,621)
Tax Increment Financing 3 Fund	\$ (98,687)
Tax Increment Financing 5 Fund	\$ (2,523,825)
Tax Increment Financing 6 Fund	\$ (703,332)

NOTE 3. Detailed Notes on All Funds

A. Deposits and Investments

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

Deposits – The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also,

SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City has an adopted investment policy, conforming to all applicable laws of the State of South Dakota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash portfolio. This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, maturity constraints, internal controls, and performance measures. The foremost objective of the City's investment program as set forth by the

Notes to the Financial Statements

investment policy is safety of principal. Investment decisions are made under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Credit Risk: State law limits eligible investments for the City as discussed above. The City's investment policy follows State Law and does not further limit investment choices. As of December 31, 2015, the City did not have any investments.

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

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

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

Component Unit

The Housing and Redevelopment Commission falls under the same requirements of South Dakota Statutes as the City's governmental and business-type funds in regards to permitted deposits and investments. The Commission has no further investment policy as to interest, credit, or concentration risk. As of December, 31, 2015, the deposits of the Authority were fully insured or collateralized as required by SDCL 4-6A, and the non-pooled cash and investments consist of checking, savings and certificates of deposits.

B. Property Tax

Real property tax levies are established on or before October 1 of each year. Taxes are recorded as receivable, levied, and attached as an enforceable lien on property as of January 1 of each year. Taxes are payable in two installments on or before April 30 and October 31 of that year. The County bills and collects the City taxes and remits collections to the City. No accrual for the property tax levy becoming due in January of 2016 is included in the accompanying financial statements, since such taxes become due and payable on January 1, 2016, and are levied to finance expenditures budgeted for the subsequent period.

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

The combined tax rate to finance municipal services including principal and interest on long-term debt for the year ended December 31, 2015 was \$2.68 per \$1,000 of taxable valuation.

Notes to the Financial Statements

C. Receivables

Receivables for the City's individual major funds, aggregate nonmajor funds, and fiduciary funds including the applicable allowances for uncollectible accounts are as follows at December 31, 2015:

	Interest	Other	Taxes	Accounts	Special Assessments	Loans	Unbilled Accounts	Total
General Fund	\$ 9,476	\$ -	\$ 983,852	\$ 230,608	\$ 418,855	\$ -	\$ -	\$ 1,642,791
Capital Improvement	19,213	-	932,375	-	237,939	1,041,375	-	2,230,902
Capital Projects Fund	21,317	-	-	-	-	-	-	21,317
Sewer	4,725	-	-	305,917	-	-	-	310,642
Electric	9,022	-	-	2,283,069	-	-	649,842	2,941,933
Water	-	-	-	510,247	-	-	146,929	657,176
Gas	11,026	12,803	-	1,283,303	-	-	421,401	1,728,533
Airport	-	-	-	4,440	-	-	-	4,440
Nonmajor and Other	5,194	-	94,387	358,492	865	33,079	-	492,017
	<u>\$ 79,973</u>	<u>\$ 12,803</u>	<u>\$ 2,010,614</u>	<u>\$ 4,976,076</u>	<u>\$ 657,659</u>	<u>\$ 1,074,454</u>	<u>\$ 1,218,172</u>	<u>\$ 10,029,751</u>

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

Uncollectibles related to electric sales	\$ 17,793
Uncollectibles related to water sales	4,102
Uncollectibles related to gas sales	<u>6,516</u>
Total uncollectibles of the current fiscal year	\$ 28,411

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

Interest receivable (general fund)	\$ 9,476
Interest receivable (capital projects fund)	21,317
Interest receivable (special revenue funds)	21,206
Interest receivable (debt service fund)	513
Sales tax receivable (general fund)	687,358
Sales tax receivable (special revenue funds)	747,924
Special assessments not yet due (general fund)	418,855
Special assessments not yet due (special revenue funds)	237,939
Accounts receivable - Franchise Fees (general fund)	30,374
Accounts receivable - E-911 surcharges (special revenue funds)	<u>51,478</u>
Total	\$ 2,226,440

Notes to the Financial Statements

D. Due From Other Governments

Amounts due from other governments include the following at December 31, 2015:

	Due from Federal	Due from State	Total
Primary Government:			
Governmental Activities			
General Fund	\$ 4,584	\$ 129,965	\$ 134,549
E-911 Fund	-	14,151	14,151
Sioux River Watershed Fund	4,170	-	4,170
Total Governmental Activities	8,754	144,116	152,870
Business-Type Activities			
Enterprise Funds			
Airport	88,900	4,939	93,839
Total Business-Type Activities	88,900	4,939	93,839
Total	\$ 97,654	\$ 149,055	\$ 246,709

E. Interfund Receivables and Payables

Interfund receivables and payables result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. Interfund receivables and payables do not include advances which are discussed below. The composition of interfund balances as of December 31, 2015, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Airport Fund	\$ 217,671
General Fund	E-911 Fund	5,605
Recreation Center Fund	General Fund	2,000
Gas Fund	Water Fund	5,500,000
Electric Fund	Solid Waste Fund	3,422

F. Interfund Transfers

Transfers are budgeted to subsidize the operations of the fund receiving the transfer. Interfund transfers for the year ended December 31, 2015 were as follows:

	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Airport Fund	Total
Transfers Out					
General Fund	\$ -	\$ -	\$ 1,860,000	\$ 200,000	\$ 2,060,000
Capital Improvement Fund	-	-	450,000	436,025	886,025
Capital Projects Fund	-	750,781	-	-	750,781
Sewer Fund	275,750	-	-	-	275,750
Electric Fund	719,040	-	-	-	719,040
Gas Fund	479,360	-	-	-	479,360
Nonmajor Governmental Funds	-	-	50,000	-	50,000
Nonmajor Business-Type Funds	187,200	-	-	-	187,200
	\$ 1,661,350	\$ 750,781	\$ 2,360,000	\$ 636,025	\$ 5,408,156

Notes to the Financial Statements

G. Advances

The City made an inter-fund loan in 2004 from the Capital Improvement Fund to the TIF 1 Fund in the amount of \$2,400,000. As authorized in Resolution No. 04-56, the City used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 1 district. The loan terms state the loan will be paid back as property taxes are collected by the TIF 1 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

The City made another inter-fund loan in 2004 from the Capital Improvement Fund to the TIF 2 Fund in the amount of \$1,020,000. As authorized in Resolution No. 04-71, the City used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 2 district. The loan terms state that the loan will be paid back as property taxes are collected by the TIF 2 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

The City made another inter-fund loan in 2005 from the Capital Improvement Fund to the TIF 3 Fund in the amount of \$450,000. As authorized in Resolution No. 05-65, the City used available funds from the Capital Improvement Fund to finance the project costs for the public improvements made in the TIF 3 district. The loan terms state that the loan will be paid back as property taxes are collected by the TIF 3 Fund over a period not to exceed twenty years at an interest rate of 7.00%.

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

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

Notes to the Financial Statements

H. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 16,153,326	\$ 687,543	\$ (97,432)	\$ 16,743,437
Construction in Progress	1,417,052	8,902,594	(778,388)	9,541,258
Depreciable Assets:				
Buildings & Structures	36,368,282	670,275	-	37,038,557
Improvements other than Buildings	76,061,314	7,389,764	(760,757)	82,690,321
Equipment & Automotive	11,158,751	674,935	(309,803)	11,523,883
Totals	141,158,725	18,325,111	(1,946,380)	157,537,456
Less Accumulated Depreciation:				
Buildings & Structures	(8,106,366)	(1,066,859)	-	(9,173,225)
Improvements other than Buildings	(14,174,290)	(488,002)	90,482	(14,571,810)
Equipment & Automotive	(7,529,743)	(1,107,331)	267,938	(8,369,136)
Total Accumulated Depreciation	(29,810,399)	(2,662,192)	358,420	(32,114,171)
Governmental Activities Capital Assets, net	\$ 111,348,326	\$ 15,662,919	\$ (1,587,960)	\$ 125,423,285
Business-Type Activities				
Non-Depreciable Assets				
Land	\$ 2,978,232	\$ -	\$ (26,627)	\$ 2,951,605
Construction in Progress	2,083,794	2,716,251	(1,645,031)	3,155,014
Depreciable Assets:				
Intangible Property	470,654	-	-	470,654
Buildings & Structures	67,615,714	1,037,970	(410,655)	68,243,029
Improvements Other than Buildings	159,612,780	8,198,985	(495,516)	167,316,249
Equipment & Automotive	11,656,218	2,078,187	(1,047,449)	12,686,956
Totals at Historical Cost	244,417,392	14,031,393	(3,625,278)	254,823,507
Less Accumulated Depreciation:				
Amortization of Intangible Property	(298,477)	(42,282)	-	(340,759)
Buildings & Structures	(20,744,890)	(1,291,844)	46,259	(21,990,475)
Improvements Other than Buildings	(61,734,703)	(3,412,683)	455,314	(64,692,072)
Equipment & Automotive	(6,984,113)	(951,847)	797,110	(7,138,850)
Total Accumulated Depreciation	(89,762,183)	(5,698,656)	1,298,683	(94,162,156)
Business-Type Activities Capital Assets, net	\$ 154,655,209	\$ 8,332,737	\$ (2,326,595)	\$ 160,661,351

* The depreciation expense for governmental activities of \$2,397,595 includes accumulated depreciation additions of \$2,662,192 less \$264,597 of accumulated depreciation on assets transferred in from business-type activities. The depreciation expense for business-type activities of \$5,710,596 includes accumulated depreciation additions of \$5,698,656 plus \$11,940 of accumulated depreciation on assets traded.

Notes to the Financial Statements

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

Governmental Activities:	Depreciation Expense
General Government	\$ 82,725
Public Safety	988,007
Public Works	272,851
Culture & Recreation	902,536
Conservation & Development	151,476
Total Depreciation Expense - Governmental Activities	\$ 2,397,595
Business-Type Activities:	
Sewer	\$ 1,469,203
Solid Waste	511,609
Airport	603,364
Electric	1,322,851
Water	1,294,896
Gas	508,673
Total Depreciation Expense - Business-Type Activities	\$ 5,710,596

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

Project	Contracted Amount	Expended to 12/31/15	Committed
Governmental Funds:			
Community Recreation Facility	\$ 20,858,159	\$ 7,849,923	\$ 13,008,236
5-Plex Softball Complex	5,518,900	1,426,646	4,092,254
South Broadway Bridge Project	-	68,739	-
8 th Ave SE – East Park Development	-	195,950	-
	<u>26,377,059</u>	<u>9,541,258</u>	<u>17,100,490</u>
Enterprise Funds:			
Ultraviolet Disinfection System	277,180	45,954	231,226
19 th St. E Storm Sewer	-	19,025	-
Landfill Cell #6 Design & Construction	1,142,458	78,411	1,064,047
Gas System Force Account Projects	-	30,371	-
Electric System Force Account Projects	-	2,117,759	-
Water System Force Account Projects	-	863,494	-
	<u>1,419,638</u>	<u>3,155,014</u>	<u>1,295,273</u>
Total Primary Government	\$ 27,796,697	\$ 12,696,272	\$ 18,395,763

Notes to the Financial Statements

I. Long-Term Debt

Long-term debt consists of bonded indebtedness, installment purchase contracts, capital leases, compensated absences, and other post employment benefits. A summary of long-term debt issued and retired during 2015 and outstanding balances as of December 31, 2015 follows:

	Balance Outstanding 12/31/2014	Additions During 2015	Deletions During 2015	Balance Outstanding 12/31/2015	Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Loans Payable					
State Revolving Fund-Loan #3; Original Issue \$2,583,734; 5.25% Interest, Due in 2016	\$ 396,950	\$ -	\$ 193,300	\$ 203,650	\$ 203,650
State Revolving Fund-Loan #5: Original Issue \$2,055,000; 3.5% Interest, Due in 2025	1,299,714	-	107,360	1,192,354	111,168
State Revolving Fund-Loan #7 CW; Original Issue \$847,170; 2.25% interest; Due in 2029	612,561	-	36,893	575,668	37,730
State Revolving Fund-Loan #7 NPS; Original Issue \$81,205; 2.25% interest; Due in 2029	61,460	-	3,702	57,758	3,786
State Revolving Fund-Loan #9 CW; Original Issue \$16,446,000; 3.0% interest; due in 2031	9,113,276	-	434,223	8,679,053	446,862
State Revolving Fund-Loan Drinking Water; Original Issue \$23,760,000; 3.25% interest; Due in 2028	18,821,481	-	1,563,881	17,257,600	1,107,171
Total Loans Payable				<u>27,966,083</u>	<u>1,910,367</u>
Compensated Absences Payable	1,434,384	653,660	576,790	1,511,254	377,814
Other Post Employment Benefits (OPEB)	146,346	83,204	65,883	163,667	-
Closure/Post Closure Costs	500,515	56,952	-	557,467	-
TOTAL BUSINESS-TYPE ACTIVITIES				<u>30,198,471</u>	<u>2,288,181</u>
GOVERNMENTAL ACTIVITIES					
Bonds Issued					
2010 GO Refunding Bond – Event Center; General Obligation Bonds; Original Issue \$4,415,000; 1-3.35% interest; due in 2023	3,470,000	-	350,000	3,120,000	375,000
Total GO Bonds				<u>3,120,000</u>	<u>375,000</u>
2006 Sales Tax Revenue Bond – Library Expansion Project; Original Issue \$4,985,000; 3.35-4.55% interest; due in 2026	3,365,000	-	3,365,000	-	-
2012 Sales Tax Revenue - Refunding Bond – CIP Sewer Project & Family Aquatic Center \$4,165,000; 0.4-2.7% interest; due in 2024	3,045,000	-	280,000	2,765,000	280,000
2014 Sales Tax Revenue Bond – Community Recreation Facility/Community Improv. \$10,000,000; 0.5-3.6% interest; due in 2035	10,000,000	-	350,000	9,650,000	380,000
2015 Sales Tax Revenue - Refunding Bond – Library Expansion Project \$3,375,000; 0.30-3.25% interest; due in 2026	-	3,375,000	275,000	3,100,000	255,000
2015 Sales Tax Revenue – Series 2015B Bond – Community Recreation Facility/Community Improv. \$10,000,000; 2.0-3.75% interest; due in 2035	-	10,000,000	255,000	9,745,000	380,000
2015 Sales Tax Revenue – Series 2015C Bond – Community Recreation Facility/Community Improv. \$10,000,000; 2.0-3.75% interest; due in 2035	-	10,865,000	-	10,865,000	425,000
Total Sales Tax Revenue Bonds				<u>36,125,000</u>	<u>1,720,000</u>
Loans Payable					
State Revolving Fund Loan #6-CW; Original Issue \$1,189,145; 2.25% interest; due in 2029	893,061	-	52,703	840,358	53,899
State Revolving Fund Loan #6-NPS; Original Issue \$113,985; 2.25% interest; due in 2028	83,686	-	5,254	78,432	5,374
State Revolving Fund-Loan #8-CW; Original Issue \$612,877; 2.25% interest; due in 2029	397,377	-	23,932	373,445	24,476
State Revolving Fund-Loan #8-NPS; Original Issue \$58,747; 2.25% interest; due in 2029	44,463	-	2,678	41,785	2,739

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Notes to the Financial Statements

	Balance Outstanding 12/31/2014	Additions During 2015	Deletions During 2015	Balance Outstanding 12/31/2015	Due Within One Year
LONG-TERM DEBT (continued)					
State Revolving Fund-Loan #10-CW; Original Issue \$3,330,000; 3.0% interest; due in 2031	2,323,762	-	110,595	2,213,167	113,950
State Revolving Fund-Loan #11-CW; Original Issue \$815,000; 3.0% interest; due in 2032	174,056	-	7,685	166,371	7,918
Total Loans Payable				<u>3,713,558</u>	<u>208,356</u>
Long-Term Capital Leases					
Fire Truck Lease – Leasing 2 Inc. Original Issue \$645,458; 4.46% interest	223,959	-	71,422	152,537	74,606
Total Long-Term Capital Leases				<u>152,537</u>	<u>74,606</u>
Compensated Absences Payable					
General Fund	1,342,773	653,673	576,636	1,419,810	354,953
Special Revenue Funds	432,039	169,628	179,230	422,437	105,609
Other Post Employment Benefits (OPEB)					
General Fund	230,514	90,186	45,478	275,222	-
Special Revenue Funds	73,743	28,363	14,302	87,804	-
				<u>2,205,273</u>	<u>460,562</u>
TOTAL GOVERNMENTAL ACTIVITIES				<u>45,316,368</u>	<u>2,838,524</u>
TOTAL OF BONDS, INSTALLMENT CONTRACTS & CAPITAL LEASES				<u>\$ 75,514,839</u>	<u>\$ 5,126,705</u>

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

General Obligation Bonds Payable

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

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

Year	GO Refunding Bonds		
	Principal	Interest	Total
2016	\$ 375,000	\$ 93,657	\$ 468,657
2017	395,000	84,845	479,845
2018	410,000	74,575	484,575
2019	440,000	62,275	502,275
2020	470,000	49,075	519,075
2021-25	1,030,000	52,260	1,082,260
Totals	<u>\$ 3,120,000</u>	<u>\$ 416,687</u>	<u>\$ 3,536,687</u>

Revenue Bonds Payable

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

Notes to the Financial Statements

In 2015, the City issued \$3,375,000 in Sales Tax Revenue Refunding Bonds, Series 2015 with an interest rate ranging from 0.3-3.25%, to pay off 2006 Sales Tax Revenue Bonds of which \$3,365,000 will be paid with refunding bond proceeds. The proceeds of the refunding issue in the amount of \$3,507,670 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements of the City. The City refunded the debt to reduce its total debt service payments over the next 12 years by \$354,011 and to obtain an economic gain of \$308,159.

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

2012 Sales Tax Revenue Bonds - Refunding			
Year	Principal	Interest	Total
2016	\$ 280,000	\$ 56,648	\$ 336,648
2017	285,000	53,147	338,147
2018	285,000	49,158	334,158
2019	295,000	44,597	339,597
2020	300,000	39,140	339,140
2021-25	1,320,000	87,705	1,407,705
Totals	<u>\$2,765,000</u>	<u>\$ 330,395</u>	<u>\$ 3,095,395</u>

2014 Sales Tax Revenue Bonds			
Year	Principal	Interest	Total
2016	\$ 380,000	\$ 277,485	\$ 657,485
2017	385,000	269,885	654,885
2018	395,000	262,185	657,185
2019	405,000	254,285	659,285
2020	410,000	246,185	656,185
2021-25	2,195,000	1,091,735	3,286,735
2026-30	2,520,000	767,102	3,287,102
2031-35	2,960,000	321,070	3,281,070
Totals	<u>\$9,650,000</u>	<u>\$3,489,932</u>	<u>\$ 13,139,932</u>

2015 Sales Tax Revenue Bonds - Refunding			
Year	Principal	Interest	Total
2016	\$ 255,000	\$ 84,068	\$ 339,068
2017	255,000	82,537	337,537
2018	260,000	79,988	339,988
2019	265,000	72,187	337,187
2020	275,000	64,238	339,238
2021-25	1,495,000	191,725	1,686,725
2026-30	295,000	9,587	304,587
Totals	<u>\$3,100,000</u>	<u>\$584,330</u>	<u>\$ 3,684,330</u>

2015 Sales Tax Revenue Bonds – Series 2015B			
Year	Principal	Interest	Total
2016	\$ 380,000	\$ 288,315	\$ 668,315
2017	390,000	280,715	670,715
2018	395,000	272,915	667,915
2019	405,000	265,015	670,015
2020	415,000	256,915	671,915
2021-25	2,205,000	1,140,740	3,345,740
2026-30	2,545,000	806,712	3,351,712
2031-35	3,010,000	340,498	3,350,498
Totals	<u>\$9,745,000</u>	<u>\$3,651,825</u>	<u>\$ 13,396,825</u>

2015 Sales Tax Revenue Bonds – Series 2015C			
Year	Principal	Interest	Total
2016	\$ 425,000	\$ 323,619	\$ 748,619
2017	435,000	315,119	750,119
2018	440,000	306,419	746,419
2019	450,000	297,618	747,618
2020	460,000	288,619	748,619
2021-25	2,460,000	1,282,881	3,742,881
2026-30	2,840,000	897,321	3,737,321
2031-35	3,355,000	379,540	3,734,540
Totals	<u>\$10,865,000</u>	<u>\$4,091,136</u>	<u>\$ 14,956,136</u>

Notes to the Financial Statements

Loans – Business-Type Activities

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

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

SRF Loan #3			
Year	Principal	Interest	Total
2016	\$ 203,650	\$ 6,726	\$ 210,376
Totals	\$ 203,650	\$ 6,726	\$ 210,376

SRF Loan #5			
Year	Principal	Interest	Total
2016	\$ 111,168	\$ 40,284	\$ 151,452
2017	115,110	36,342	151,452
2018	119,192	32,260	151,452
2019	123,418	28,033	151,451
2020	127,795	23,656	151,451
2021-25	595,671	47,998	643,669
Totals	\$1,192,354	\$ 208,573	\$1,400,927

SRF Loan #7			
Year	Principal	Interest	Total
2016	\$ 37,730	\$ 12,636	\$ 50,366
2017	38,586	11,780	50,366
2018	39,461	10,904	50,365
2019	40,357	10,009	50,366
2020	41,272	9,093	50,365
2021-25	220,842	30,985	251,827
2026-30	157,420	6,268	163,688
Totals	\$ 575,668	\$ 91,675	\$ 667,343

SRF Loan #7-NPS			
Year	Principal	Interest	Total
2016	\$ 3,786	\$ 1,268	\$ 5,054
2017	3,871	1,182	5,053
2018	3,959	1,094	5,053
2019	4,049	1,004	5,053
2020	4,141	912	5,053
2021-25	22,158	3,109	25,267
2026-30	15,794	629	16,423
Totals	\$ 57,758	\$ 9,198	\$ 66,956

SRF Loan #9			
Year	Principal	Interest	Total
2016	\$ 446,862	\$ 255,376	\$ 702,238
2017	460,420	241,818	702,238
2018	474,388	227,850	702,238
2019	488,781	213,457	702,238
2020	503,610	198,628	702,238
2021-25	2,756,722	754,467	3,511,189
2026-30	3,201,062	310,127	3,511,189
2031-35	347,208	3,911	351,119
Totals	\$8,679,053	\$2,205,634	\$10,884,687

Water System Revenue Bonds Series 2008			
Year	Principal	Interest	Total
2016	\$ 1,107,171	\$ 547,469	\$ 1,654,640
2017	1,143,595	511,045	1,654,640
2018	1,181,218	473,423	1,654,641
2019	1,220,078	434,563	1,654,641
2020	1,260,216	394,425	1,654,641
2021-25	6,950,924	1,322,280	8,273,204
2026-30	4,394,398	220,184	4,614,582
Totals	\$17,257,600	\$ 3,903,389	\$21,160,989

Notes to the Financial Statements

State Revolving Fund (SRF) Loan Covenants

SRF Loan documents require that various "funds" and sub-accounts be used within the Sewer Fund for the purpose of application and proper allocation of revenue of the sewer and to secure the payment of principal and interest on the SRF Loans. In the past, sewer rates were increased in anticipation of the debt service payments on the SRF Loans No. 3, 5, 7, 7 NPS and 9 and other costs related to the sewer system improvements. Under the SRF loan documents, the additional revenues resulting from these rate increases are identified as special charges or surcharges and are used within the Sewer Fund to finance costs in the following priority:

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

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

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

Loans – Governmental Activities

SRF Loans No. 6 and 8 consist of two portions: Clean Water (CW) and Non Point Source (NPS). The CW portions of the loans were used for storm sewer improvement projects. The NPS portions of the loans were used for watershed improvements. The draw downs for the CW and NPS portion of both loans are complete and annual debt service requirements to maturity for these projects have been established. SRF Loan No. 10 was used for two storm sewer improvement projects. SRF Loan No. 11 was used to complete the Watertown Police Departments "Green" Parking Lot. Payments are made from the Capital Improvement Sales Tax Fund with annual debt service requirements to maturity for the SRF loans as follows:

SRF Loan #6 CW				SRF Loan #6 NPS			
Year	Principal	Interest	Total	Year	Principal	Interest	Total
2016	\$ 53,899	\$ 18,455	\$ 72,354	2016	\$ 5,374	\$ 1,720	\$ 7,094
2017	55,122	17,232	72,354	2017	5,496	1,598	7,094
2018	56,372	15,982	72,354	2018	5,620	1,473	7,093
2019	57,652	14,702	72,354	2019	5,748	1,345	7,093
2020	58,960	13,394	72,354	2020	5,878	1,215	7,093
2021-25	315,484	46,287	361,771	2021-25	31,453	4,013	35,466
2026-30	242,869	10,371	253,240	2026-30	18,863	643	19,506
Totals	\$ 840,358	\$ 136,423	\$ 976,781	Totals	\$ 78,432	\$ 12,007	\$ 90,439

Notes to the Financial Statements

SRF Loan #8 CW			
Year	Principal	Interest	Total
2016	\$ 24,476	\$ 8,197	\$ 32,673
2017	25,031	7,642	32,673
2018	25,599	7,074	32,673
2019	26,180	6,493	32,673
2020	26,774	5,899	32,673
2021-25	143,264	20,100	163,364
2026-30	102,121	4,066	106,187
Total	\$ 373,445	\$ 59,471	\$ 432,916

SRF Loan #8 NPS			
Year	Principal	Interest	Total
2016	\$ 2,739	\$ 917	\$ 3,656
2017	2,801	855	3,656
2018	2,864	791	3,655
2019	2,929	726	3,655
2020	2,996	660	3,656
2021-25	16,030	2,249	18,279
2026-30	11,426	455	11,881
Total	\$ 41,785	\$ 6,653	\$ 48,438

SRF Loan #10			
Year	Principal	Interest	Total
2016	\$ 113,950	\$ 65,121	\$ 179,071
2017	117,407	61,664	179,071
2018	120,970	58,102	179,072
2019	124,640	54,432	179,072
2020	128,421	50,650	179,071
2021-25	702,967	192,390	895,357
2026-30	816,274	79,083	895,357
2031-35	88,538	997	89,535
Totals	\$ 2,213,167	\$ 562,439	\$ 2,775,606

SRF Loan #11			
Year	Principal	Interest	Total
2016	\$ 7,918	\$ 4,903	\$ 12,821
2017	8,158	4,662	12,820
2018	8,406	4,415	12,821
2019	8,661	4,160	12,821
2020	8,924	3,897	12,821
2021-25	48,847	15,256	64,103
2026-30	56,721	7,383	64,104
2031-35	18,736	495	19,231
Totals	\$ 166,371	\$ 45,171	\$ 211,542

Long-Term Capital Lease

The City entered into a contract with Leasing 2, Inc. in 2007 for the purpose of acquiring a ladder fire truck. The asset acquired through the capital lease is valued at \$731,875 and the principal balance remaining on this capital lease as of December 31, 2015, is \$152,538. The asset is included in the capital asset account, equipment and automotive, and is being depreciated. The fire truck was financed under an annual appropriation equipment lease agreement between the City and Sun Trust Equipment Finance & Leasing Corporation who has a security interest in the fire truck. Lease payments are made from the Capital Improvement Fund with annual debt service requirements to maturity for the capital lease is as follows:

Capital Lease – Fire Truck			
Year	Principal	Interest	Total
2016	\$ 74,606	\$ 6,801	\$ 81,407
2017	77,931	3,475	81,406
Totals	\$ 152,537	\$ 10,276	\$ 162,813

Notes to the Financial Statements

Legal Debt Limit

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

	"No-Limit" Debt	Debt Capacity at 5% (Unrestricted)	Additional 10% Debt Capacity (Water/Sewer)
2015 Assessed Value	<u>\$ 1,520,357,438</u>		
Maximum Debt Capacity:		\$76,017,872	\$152,035,744
Existing Bonds:			
GO Refinancing Bonds (Event Center; 1-3.35% interest)	-	3,120,000	-
SRF Loan No. 3 (Wastewater Revenue Surcharge)	203,650	-	-
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,192,354	-	-
SRF Loan No. 7-CW (Wastewater Revenue Surcharge)	575,668	-	-
SRF Loan No. 7-NPS (Wastewater Revenue Surcharge)	57,758	-	-
SRF Loan No. 9-CW (Wastewater Revenue Surcharge)	8,679,053	-	-
SRF Loan Drinking Water (Water Revenue Surcharge)	17,257,600	-	-
SRF Loan No. 6-CW (Sales Tax)	-	840,358	-
SRF Loan No. 6-NPS (Sales Tax)	-	78,432	-
SRF Loan No. 8-CW (Sales Tax)	-	373,445	-
SRF Loan No. 8-NPS (Sales Tax)	-	41,785	-
SRF Loan No. 10-CW (Sales Tax)	-	2,213,167	-
SRF Loan No. 11-CW (Sales Tax)	-	166,371	-
2012 Sales Tax Revenue Bonds (0.4%-2.7%)	-	2,765,000	-
2014 Sales Tax Revenue Bonds (0.5%-3.6%)	-	9,650,000	-
2015 Sales Tax Revenue Bonds (0.3%-3.25%) Refunding	-	3,100,000	-
2015 Sales Tax Revenue Bonds (2.0%-3.75%) 2015B	-	9,475,000	-
2015 Sales Tax Revenue Bonds (2.0%-3.75%) 2015C	-	10,865,000	-
Total Bonded Debt	<u>27,966,083</u>	<u>42,688,558</u>	-
Other Debt:			
Capital Lease – Fire Truck	152,537	-	-
Total Other Debt	<u>152,537</u>	-	-
Total Debt	28,118,620	42,688,558	-
Available Debt Capacity	N/A	<u>\$33,329,314</u>	<u>\$152,035,744</u>

The State Constitution sets two legal debt limits on municipalities. The City has an unrestricted (i.e. for any legally authorized purpose) legal debt limit equal to 5% of the total assessed value of taxable property. In addition, the Constitution permits the City to issue debt for water or sewer improvements in an amount up to 10% of the total assessed value of taxable property. Water or sewer debt that applies against the 10% limit does not apply against the 5% limit. However, certain requirements, including a public vote, must be met in order for water or sewer debt to apply against the 10% limit. Also, revenue bonded indebtedness that is secured by a surcharge on utility charges as well as annual appropriation leases have been determined not to be debt in determining municipal debt capacity and is referred to above as "no-limit" debt. The table above summarizes the legal debt limit and available debt capacity for the City as of December 31, 2015.

Notes to the Financial Statements

Compensated Absences

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

Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as a liability in the accompanying financial statements. As of December 31, 2015, there were three series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$3,115,191.

J. Operating Leases

The City has entered into an agreement to lease equipment. The following schedule is a summary of future minimum rental payments by years required under operating leases with lease terms in excess of one year as of December 31, 2015.

Operating Lease – Golf Carts	
Year	Total
2016	\$ 24,477
2017	24,478
2018	24,477
2019	24,478
Totals	<u>\$ 97,910</u>

K. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the City to place a final cover on the landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2009, a new survey of the landfill was done and changes in estimates were made. The information presented in the financial statements use these new estimates. The \$557,467 reported as a liability for landfill closure and postclosure care costs at December 31, 2015, represents the cumulative amount reported to date based on the use of 27% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,508,661 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015. The City expects to close the landfill in the year 2051. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City is required by state and federal laws and regulations to set aside funds to finance closure and postclosure care. The City is in compliance with these requirements, and at December 31, 2015, investments of \$557,467 are held for these purposes. These are reported as restricted assets on the balance sheet. However, if these funds are inadequate or additional care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Notes to the Financial Statements

	2015	2014	2013
Closure/Postclosure Liability	\$557,467	\$500,515	\$481,436

L. Retirement Plan

The Municipality implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset, deferred outflows of resources and deferred inflows of resources as of January 1, 2015 as follows:

Net Position January 1, 2015, as previously reported	\$ 270,336,556
Restatement for pension accounting:	
Net Pension Asset	6,455,314
Pension Related Deferred Outflows of Resources	5,235,821
Pension Related Deferred Inflows of Resources	<u>(7,476,342)</u>
Net Position January 1, 2015, as restated	<u>\$ 274,551,349</u>

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee’s final 3-year average compensation times the employee’s years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee’s final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member’s Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Notes to the Financial Statements

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$ 976,596, \$951,692, and \$920,295, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 94,811,630
Less proportionate share of total pension liability	<u>(91,080,160)</u>
Proportionate share of net pension liability (asset)	<u>\$ 3,731,470</u>

At December 31, 2015, the Municipality reported an asset of \$3,731,470 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was .8797971%, which is a decrease of .016203% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Municipality recognized pension expense of \$407,254. At December 31, 2015 the Municipality 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
Difference between expected and actual experience.	\$ 764,036	\$ 5,505,857
Changes in assumption.	2,958,822	-
Net Difference between projected and actual earnings on pension plan investments.	2,279,492	-
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	63,167	10,781
Municipality contributions subsequent to the measurement date.	491,223	-
TOTAL	<u>\$ 6,556,740</u>	<u>\$ 5,516,638</u>

\$491,223 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:	
2016	\$ 176,814
2017	176,814
2018	(475,677)
2019	<u>618,543</u>
Total	<u>\$ 496,494</u>

Notes to the Financial Statements

Actuarial Assumptions

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.25%
- Salary Increases 5.83% at entry to 3.87% after 30 years of service
- Investment Rate of Return 7.25% through 2016 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	100%	

Discount Rate

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments 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 asset.

Sensitivity of liability (asset) to changes in the discount rate

The following presents the Municipality’s proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality’s proportionate share of the net pension liability (asset)	\$ 9,392,070	\$ (3,731,471)	\$ (14,432,589)

Notes to the Financial Statements

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

M. Other Postemployment Benefits

During fiscal 2008, the City adopted the provisions of GASB 45 “Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions”. The major change under GASB 45 is to attribute the cost of post-employment benefits to the time during which the employee is working for the employer. Accordingly, a prospective liability is recorded on December 31, 2015 for a Post-Employment Benefit Obligation as determined by an actuarial calculation.

Plan Description. The City of Watertown operates a single-employer retiree benefit plan that offers medical insurance benefits to eligible employees and their spouses. The authority for providing other post-employment benefits is found in South Dakota Codified Law 6-1-16 and 9-14-35. Benefits and eligibility for non-exempt employees are established and amended through collective bargaining with the recognized bargaining agent for each group. Benefits and eligibility for exempt and certain non-exempt employees are established and amended by the governing body. There are 273 active and 20 retired members in the plan.

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

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

Annual required contribution	\$ 209,787
Interest on net OPEB obligation	18,024
Adjustment to annual required contribution	<u>(26,058)</u>
Annual OPEB cost (expense)	201,753
Contributions made	<u>(125,663)</u>
Increase in net OPEB obligation	76,090
Net OPEB obligation – beginning of year	450,603
Net OPEB obligation – end of year	<u>\$ 526,693</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending December 31, 2015, 2014 and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$201,753	62.3%	\$526,693
2014	\$200,445	64.4%	\$450,603
2013	\$174,175	66.6%	\$379,303

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2015 was as follows:

Actuarial accrued liability (AAL)	\$ 2,182,785
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ 2,182,785
Funded ratio (actuarial value of plan assets/ AAL)	0%
Covered payroll (active plan members)	\$ 13,876,825
UAAL as a percentage of covered payroll	16%

Notes to the Financial Statements

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% interest discount rate and an annual medical healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5% in 8 years. Both rates include a 3.0% inflation assumption. The unfunded actuarial accrued liability (UAAL) is amortized as a level dollar amount over 30 years. Differences between the expected and actual UAAL in future years will be amortized over 30 years using an open amortization period.

N. Segment Information for Enterprise Funds

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

NOTE 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the City managed its risks as follows:

A. Unemployment

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

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

During the year ended December 31, 2015, two claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$2,117. The City does not anticipate any changes in employment practices or elimination of any positions currently held. The history of unemployment payments indicates that most benefits were paid on temporary personnel.

B. Employee Health Insurance

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

Notes to the Financial Statements

C. Liability Insurance

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

Coverage	Limit	Deductible	Premium
South Dakota Public Assurance Alliance			
General Liability	\$ 5,000,000	None	\$ 115,160
Automobile Coverage	\$ 2,000,000	\$ 1,000	\$ 107,199
Public Officials Liability	\$ 2,000,000	\$ 2,500	\$ 26,107
Law Enforcement Liability	\$ 2,000,000	\$ 3,000	\$ 19,799
Buildings, Contents, Boiler & Machinery	Replacement Cost	\$ 10,000	\$ 189,709
Commercial Insurance Carriers			
Airport Liability	\$ 10,000,000	None	\$ 7,124
Official & Employee Bond	\$ 250,000	\$ 1,000	\$ 1,587

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund. As of December 31, 2012 the City had reached its sixth full year and was eligible 100% refund if needed. As of December 31, 2015, the City of Watertown has a vested balance in the cumulative reserve fund of \$330,054. No additional money will be added to the cumulative reserve fund. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

D. Workmen’s Compensation

The City is a member of South Dakota Municipal League Worker’s Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer on behalf of the member organizations a program of worker’s compensation coverage to obtain lower costs for coverage and to develop a comprehensive loss control program. The City’s responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to And cooperate with the Fund to resolve any worker’s compensation claims. The City pays an annual premium to provide coverage for its employees under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. Coverage limits are set by state statute.

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

Notes to the Financial Statements

NOTE 5. Subsequent Events

On February 16, 2016, the City Council passed Resolution No. 16-09, authorizing the issuance of general obligation refunding bonds in the approximate principal amount of \$3,185,000 for the repayment of the 2010 general obligation bonds. The City issued \$3,205,000 of general obligation refunding bonds in 2016.

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Tax Revenue				
Property	\$ 3,173,275	\$ 3,173,275	\$ 3,172,754	\$ (521)
Sales	6,529,500	6,529,500	7,215,762	686,262
Other Taxes	372,000	372,000	368,337	(3,663)
Licenses & Permits	250,400	250,400	234,333	(16,067)
Intergovernmental	1,030,980	1,030,980	1,179,753	148,773
Charges for Goods and Services	1,176,210	1,176,210	1,333,725	157,515
Fines and Forfeits	46,000	46,000	33,944	(12,056)
Interest Revenue	18,000	18,000	32,037	14,037
Special Assessments	32,000	32,000	40,642	8,642
Donations/Contributions	19,500	19,500	49,415	29,915
Miscellaneous	184,330	184,330	267,989	83,659
Total Revenues	<u>12,832,195</u>	<u>12,832,195</u>	<u>13,928,691</u>	<u>1,096,496</u>
EXPENDITURES				
General Government				
Legislative	619,720	620,520	332,439	288,081
Financial Administration	858,360	867,520	788,296	79,224
Other	1,073,270	1,120,470	982,714	137,756
Public Safety				
Police	3,475,000	3,517,555	3,415,511	102,044
Fire Fighting & Prevention	1,069,940	1,151,655	1,065,693	85,962
Ambulance Service	2,343,950	2,343,950	2,316,665	27,285
Public Works				
Highways, Streets and Roadways	1,721,070	1,891,680	1,343,319	548,361
Snow Removal	430,970	430,970	180,230	250,740
Street Lighting	486,000	487,000	486,488	512
Storm Sewer/Flood/Control	64,580	64,580	41,471	23,109
Cemetery	179,330	179,330	175,383	3,947
Health and Welfare				
Mosquito Control	95,150	95,150	81,429	13,721
Animal Control	65,250	65,250	63,307	1,943
Culture and Recreation				
Forestry	201,450	201,450	183,169	18,281
Library	1,010,265	1,010,265	934,517	75,748
Conservation and Development				
Building Services	307,040	310,040	288,510	21,530
Total Expenditures	<u>14,001,345</u>	<u>14,357,385</u>	<u>12,679,141</u>	<u>1,678,244</u>
Excess (deficiency) of revenues over expenditures	<u>(1,169,150)</u>	<u>(1,525,190)</u>	<u>1,249,550</u>	<u>2,774,740</u>
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	51,086	51,086
Transfers In	1,611,350	1,611,350	1,661,350	50,000
Transfers (Out)	(2,060,000)	(2,060,000)	(2,060,000)	-
Total other financing sources (uses)	<u>(448,650)</u>	<u>(448,650)</u>	<u>(347,564)</u>	<u>101,086</u>
Net Change in fund balances	(1,617,800)	(1,973,840)	901,986	2,875,826
Fund Balances - beginning	8,910,152	8,910,152	8,910,152	-
Fund Balances - ending	<u>\$ 7,292,352</u>	<u>\$ 6,936,312</u>	<u>\$ 9,812,138</u>	<u>\$ 2,875,826</u>

City of Watertown
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 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 6,529,500	\$ 6,529,500	\$ 7,208,929	\$ 679,429
Intergovernmental	2,443,000	2,443,000	384,887	(2,058,113)
Interest Revenue	450,000	450,000	474,146	24,146
Special Assessments	-	-	55,321	55,321
Donations/Contributions	4,375,000	4,375,000	354,713	(4,020,287)
Miscellaneous	14,750	14,750	24,007	9,257
Total Revenues	<u>13,812,250</u>	<u>13,812,250</u>	<u>8,502,003</u>	<u>(5,310,247)</u>
EXPENDITURES				
Public Safety				
Public Safety Improvements	293,000	443,000	437,157	5,843
Public Works				
Street System Improvements	4,691,000	6,019,590	2,657,123	3,362,467
Storm Sewer/Flood Projects	720,000	982,135	295,545	686,590
Culture and Recreation				
Recreational Facility Improvements	12,593,000	13,462,145	1,065,610	12,396,535
Conservation and Development				
Industrial Park & Other Infrastructure	24,194,500	24,400,010	302,000	24,098,010
Debt Service	<u>1,095,000</u>	<u>5,967,500</u>	<u>2,236,648</u>	<u>3,730,852</u>
Total Expenditures	<u>43,586,500</u>	<u>51,274,380</u>	<u>6,994,083</u>	<u>44,280,297</u>
Excess (deficiency) of revenues over expenditures	<u>(29,774,250)</u>	<u>(37,462,130)</u>	<u>1,507,920</u>	<u>38,970,050</u>
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	208,069	208,069
Long-term Debt Issued	30,000,000	30,000,000	3,375,000	(26,625,000)
Premium on Bonds Issued	-	-	157,712	157,712
Payment to Refunded Bond Escrow Agent	-	-	(3,507,670)	(3,507,670)
Transfers In	-	-	750,781	750,781
Transfers Out	<u>(605,000)</u>	<u>(886,025)</u>	<u>(886,025)</u>	<u>-</u>
Total other financing sources (uses)	<u>29,395,000</u>	<u>29,113,975</u>	<u>97,867</u>	<u>(29,016,108)</u>
Net Change in fund balances	<u>(379,250)</u>	<u>(8,348,155)</u>	<u>1,605,787</u>	<u>9,953,942</u>
Fund Balances - beginning	<u>21,254,933</u>	<u>21,254,933</u>	<u>21,254,933</u>	<u>-</u>
Fund Balances - ending	<u>\$ 20,875,683</u>	<u>\$ 12,906,778</u>	<u>\$ 22,860,720</u>	<u>\$ 9,953,942</u>

Required Supplementary Information
Notes to Required Supplementary Information – Budgetary Reporting

The Schedule

The Budgetary Comparison Schedules provide comparisons of the original and legally amended budget with actual amounts on a sub-function level for the General Fund and Capital Improvement Fund. In addition to the required general fund presentation, the special revenue fund presented has a legally adopted annual budget and is reported as a major fund in the financial statements.

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

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

Required Supplementary Information
Notes to Required Supplementary Information – Budgetary Reporting

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

Budget Compliance

There were no material violations of the annual appropriated budget for the fiscal year ending December 31, 2015.

GAAP/Budgetary Accounting Basis Differences

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

City of Watertown
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 Year Ended December 31, 2015

Required Supplementary Information - Schedule of Funding Progress

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Required Supplementary Information - Schedule of Net Pension Asset

	2014	2015
Municipality's proportion of the net pension asset	0.896001%	0.879797%
Municipality's proportionate share of net pension asset	\$ 6,455,314	\$ 3,731,471
Municipality's covered-employee payroll	\$ 13,613,085	\$ 14,384,501
Municipality's proportionate share of the net pension asset as a percentage of its covered-employee payroll	47.42%	25.94%
Plan fiduciary net position as a percentage of the total pension asset	107.3%	104.1%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is 6/30.

City of Watertown
Comprehensive Annual Financial Report
Year Ended December 31, 2015

Required Supplementary Information - Schedule of Contributions

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 976,596	\$ 951,692
Contributions in relation to the contractually required contribution	<u>\$ 976,596</u>	<u>\$ 951,692</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Municipality's covered-employee payroll	\$ 14,591,025	\$ 14,962,393
Contributions as a percentage of covered-employee payroll	6.69%	6.36%

City of Watertown
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 December 31, 2015

Combining Balance Sheet - Nonmajor Governmental Funds

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
ASSETS			
Pooled Cash and Investments	\$ 1,851,262	\$ 318,006	\$ 2,169,268
Property Taxes Receivable	-	7,677	7,677
Sales Tax Receivable	86,710	-	86,710
Accounts Receivable	80,649	-	80,649
Special Assessments Receivable	865	-	865
Interest Receivable	1,993	513	2,506
Loans Receivable	33,079	-	33,079
Due From Other Funds	2,000	-	2,000
Due From Other Governments	18,321	-	18,321
Inventory	34,635	-	34,635
Prepaid Items	700	-	700
Restricted Assets:			
Pooled Cash and Investments	96,855	-	96,855
Total assets	<u>2,207,069</u>	<u>326,196</u>	<u>2,533,265</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	182,595	-	182,595
Due to Other Funds	5,605	-	5,605
Advance From Other Fund	6,346,815	-	6,346,815
Total liabilities	<u>6,535,015</u>	<u>-</u>	<u>6,535,015</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	114,517	513	115,030
Total Deferred Inflows of Resources	<u>114,517</u>	<u>513</u>	<u>115,030</u>
FUND BALANCES			
Nonspendable for:			
Inventory	34,635	-	34,635
Restricted for:			
Debt Service	-	325,683	325,683
BBB Sales Tax	265,743	-	265,743
Event Center	1,171	-	1,171
Big Sioux River Project	170,970	-	170,970
E-911 Services	33,514	-	33,514
Library	279,105	-	279,105
Urban Renewal Loans	95,684	-	95,684
Casualty Reserve	28,583	-	28,583
Assigned for:			
Capital Outlay	204,942	-	204,942
Park Development	101,513	-	101,513
Golf Course	47,426	-	47,426
Zoo Improvements	7,997	-	7,997
Other Purposes	613,017	-	613,017
Unassigned:	(6,326,763)	-	(6,326,763)
Total fund balances	<u>(4,442,463)</u>	<u>325,683</u>	<u>(4,116,780)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,207,069</u>	<u>\$ 326,196</u>	<u>\$ 2,533,265</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Special Revenue Funds	Debt Service Fund	Total Governmental Funds
REVENUES			
Tax Revenue			
Property	\$ 497,841	\$ 474,287	\$ 972,128
Sales	782,783	-	782,783
Intergovernmental	56,673	-	56,673
Charges for Goods and Services	2,709,620	-	2,709,620
Fines and Forfeits	16,600	-	16,600
Interest Revenue	8,272	1,750	10,022
Rentals	155,956	-	155,956
Donations/Contributions	275,905	-	275,905
Miscellaneous	59,672	-	59,672
Total revenues	<u>4,563,322</u>	<u>476,037</u>	<u>5,039,359</u>
EXPENDITURES			
Current:			
General Government	716,938	-	716,938
Public Safety	794,254	-	794,254
Culture and Recreation	4,313,395	-	4,313,395
Conservation and Development	297,559	-	297,559
Debt Service	445,423	451,507	896,930
Total expenditures	<u>6,567,569</u>	<u>451,507</u>	<u>7,019,076</u>
Excess (deficiency) of revenues over expenditures	<u>(2,004,247)</u>	<u>24,530</u>	<u>(1,979,717)</u>
OTHER FINANCING SOURCES (USES)			
Sale of Municipal Property	12,624	-	12,624
Transfers In	2,360,000	-	2,360,000
Transfers Out	(50,000)	-	(50,000)
Total other financing sources (uses)	<u>2,322,624</u>	<u>-</u>	<u>2,322,624</u>
Net Change in Fund Balances	318,377	24,530	342,907
Fund balances -- beginning	(4,760,840)	301,153	(4,459,687)
Fund balances -- ending	<u>\$ (4,442,463)</u>	<u>\$ 325,683</u>	<u>\$ (4,116,780)</u>

Combining Statements

Nonmajor Special Revenue Funds

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

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

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

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

E-911 Emergency Fund – to account for the \$1.25 per phone line surcharge assessed to customers of private phone companies operating within Codrington County. These funds are used to defray the costs incurred by the City in providing emergency dispatch services.

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

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

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

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

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

Tax Increment Financing 3 Fund – to account for the revenues and expenditures of the Tax Increment District (TID) #3. This TID was created to capture the incremental tax revenue generated by development of the Pheasant Ridge Business Park and to pay for infrastructure improvements in the park.

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

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

City of Watertown
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Combining Balance Sheet - Nonmajor Special Revenue Funds

	Park & Recreation Fund	BBB Sales Tax Fund	Recreation Center Fund	Casualty Reserve Fund	E-911 Emergency Fund	Library Fines Fund
ASSETS						
Current assets:						
Pooled Cash and Investments	\$ 899,628	\$ 294,769	\$ 73,736	\$ 28,583	\$ -	\$ 283,587
Sales Tax Receivable	-	86,710	-	-	-	-
Accounts Receivable	-	-	-	-	80,649	-
Special Assessments Receivable	-	-	-	-	-	-
Interest Receivable	995	278	99	41	-	322
Loans Receivable	-	-	-	-	-	-
Due From Other Governments	-	-	-	-	14,151	-
Due From Other Funds	-	-	2,000	-	-	-
Inventory	34,635	-	-	-	-	-
Prepaid Items	-	-	700	-	-	-
Restricted Cash	-	1,171	-	-	-	-
Total assets	935,258	382,928	76,535	28,624	94,800	283,909
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	67,407	54,690	29,562	-	4,203	4,482
Due to Other Funds	-	-	-	-	5,605	-
Advance From Other Fund	-	-	-	-	-	-
Total liabilities	67,407	54,690	29,562	-	9,808	4,482
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	995	61,324	99	41	51,478	322
Total Deferred Inflows of Resources	995	61,324	99	41	51,478	322
FUND BALANCES						
Nonspendable for:						
Inventory	34,635	-	-	-	-	-
Restricted for:						
BBB Sales Tax	-	265,743	-	-	-	-
Event Center	-	1,171	-	-	-	-
Big Sioux River Project	-	-	-	-	-	-
E-911 Services	-	-	-	-	33,514	-
Library	-	-	-	-	-	279,105
Urban Renewal Loans	-	-	-	-	-	-
Casualty Reserve	-	-	-	28,583	-	-
Assigned for:						
Capital Outlay	204,942	-	-	-	-	-
Park Development	101,513	-	-	-	-	-
Golf Course	47,426	-	-	-	-	-
Zoo Improvements	7,997	-	-	-	-	-
Other Purposes	470,343	-	46,874	-	-	-
Unassigned:	-	-	-	-	-	-
Total fund balances	866,856	266,914	46,874	28,583	33,514	279,105
Total liabilities, deferred inflows of resources and fund balance	\$ 935,258	\$ 382,928	\$ 76,535	\$ 28,624	\$ 94,800	\$ 283,909

City of Watertown
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Combining Balance Sheet - Nonmajor Special Revenue Funds (continued)

Urban Renewal Fund	Big Sioux River Project Fund	Tax Increment Financing 1 Fund	Tax Increment Financing 2 Fund	Tax Increment Financing 3 Fund	Tax Increment Financing 5 Fund	Tax Increment Financing 6 Fund	Total
\$ 63,706	\$ 187,201	\$ 3,223	\$ 4,202	\$ 2,305	\$ 6,686	\$ 3,636	\$ 1,851,262
-	-	-	-	-	-	-	86,710
-	-	-	-	-	-	-	80,649
865	-	-	-	-	-	-	865
191	-	28	9	11	5	14	1,993
33,079	-	-	-	-	-	-	33,079
-	4,170	-	-	-	-	-	18,321
-	-	-	-	-	-	-	2,000
-	-	-	-	-	-	-	34,635
-	-	-	-	-	-	-	700
95,684	-	-	-	-	-	-	96,855
<u>193,525</u>	<u>191,371</u>	<u>3,251</u>	<u>4,211</u>	<u>2,316</u>	<u>6,691</u>	<u>3,650</u>	<u>2,207,069</u>
1,850	20,401	-	-	-	-	-	182,595
-	-	-	-	-	-	-	5,605
-	-	1,756,521	1,251,823	100,992	2,530,511	706,968	6,346,815
<u>1,850</u>	<u>20,401</u>	<u>1,756,521</u>	<u>1,251,823</u>	<u>100,992</u>	<u>2,530,511</u>	<u>706,968</u>	<u>6,535,015</u>
191	-	28	9	11	5	14	114,517
<u>191</u>	<u>-</u>	<u>28</u>	<u>9</u>	<u>11</u>	<u>5</u>	<u>14</u>	<u>114,517</u>
-	-	-	-	-	-	-	34,635
-	-	-	-	-	-	-	265,743
-	-	-	-	-	-	-	1,171
-	170,970	-	-	-	-	-	170,970
-	-	-	-	-	-	-	33,514
-	-	-	-	-	-	-	279,105
95,684	-	-	-	-	-	-	95,684
-	-	-	-	-	-	-	28,583
-	-	-	-	-	-	-	204,942
-	-	-	-	-	-	-	101,513
-	-	-	-	-	-	-	47,426
-	-	-	-	-	-	-	7,997
95,800	-	-	-	-	-	-	613,017
-	-	(1,753,298)	(1,247,621)	(98,687)	(2,523,825)	(703,332)	(6,326,763)
<u>191,484</u>	<u>170,970</u>	<u>(1,753,298)</u>	<u>(1,247,621)</u>	<u>(98,687)</u>	<u>(2,523,825)</u>	<u>(703,332)</u>	<u>(4,442,463)</u>
\$ 193,525	\$ 191,371	\$ 3,251	\$ 4,211	\$ 2,316	\$ 6,691	\$ 3,650	\$ 2,207,069

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

	Park & Recreation Fund	BBB Sales Tax Fund	Recreation Center Fund	Casualty Reserve Fund	E-911 Emergency Fund	Library Fines Fund
REVENUES						
Tax Revenue						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales	-	782,783	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for Goods and Services	1,254,279	-	867,417	-	587,924	-
Fines and Forfeits	-	-	-	-	-	16,600
Interest Revenue	3,233	873	333	152	16	1,173
Rentals	148,545	-	5,011	-	-	-
Donations/ Contributions	207,283	-	4,460	-	-	6,356
Miscellaneous	28,202	531	8,676	418	3,648	18,147
Total revenues	1,641,542	784,187	885,897	570	591,588	42,276
EXPENDITURES						
Current:						
General Government	-	704,126	-	12,812	-	-
Public Safety	-	-	-	-	794,254	-
Culture and Recreation	3,353,732	-	930,109	-	-	29,554
Conservation and Development	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Total expenditures	3,353,732	704,126	930,109	12,812	794,254	29,554
Excess (deficiency) of revenues over expenditures	(1,712,190)	80,061	(44,212)	(12,242)	(202,666)	12,722
OTHER FINANCING SOURCES (USES)						
Sale of Municipal Property	12,525	-	99	-	-	-
Transfers In	2,000,000	75,000	35,000	-	200,000	-
Transfers Out	-	(50,000)	-	-	-	-
Total other financing sources (uses)	2,012,525	25,000	35,099	-	200,000	-
Net change in fund balances	300,335	105,061	(9,113)	(12,242)	(2,666)	12,722
Fund balances -- beginning	566,521	161,853	55,987	40,825	36,180	266,383
Fund balances -- ending	\$ 866,856	\$ 266,914	\$ 46,874	\$ 28,583	\$ 33,514	\$ 279,105

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

Urban Renewal Fund	Big Sioux River Project Fund	Tax Increment Financing 1 Fund	Tax Increment Financing 2 Fund	Tax Increment Financing 3 Fund	Tax Increment Financing 5 Fund	Tax Increment Financing 6 Fund	Total
\$ -	\$ -	\$ 242,330	\$ 57,828	\$ 71,165	\$ 12,100	\$ 114,418	\$ 497,841
-	-	-	-	-	-	-	782,783
-	56,673	-	-	-	-	-	56,673
-	-	-	-	-	-	-	2,709,620
-	-	-	-	-	-	-	16,600
2,237	-	114	33	40	14	54	8,272
2,400	-	-	-	-	-	-	155,956
1,200	56,606	-	-	-	-	-	275,905
-	50	-	-	-	-	-	59,672
5,837	113,329	242,444	57,861	71,205	12,114	114,472	4,563,322
-	-	-	-	-	-	-	716,938
-	-	-	-	-	-	-	794,254
-	-	-	-	-	-	-	4,313,395
55,922	241,637	-	-	-	-	-	297,559
-	-	128,962	86,035	9,197	168,553	52,676	445,423
55,922	241,637	128,962	86,035	9,197	168,553	52,676	6,567,569
(50,085)	(128,308)	113,482	(28,174)	62,008	(156,439)	61,796	(2,004,247)
-	-	-	-	-	-	-	12,624
-	50,000	-	-	-	-	-	2,360,000
-	-	-	-	-	-	-	(50,000)
-	50,000	-	-	-	-	-	2,322,624
(50,085)	(78,308)	113,482	(28,174)	62,008	(156,439)	61,796	318,377
241,569	249,278	(1,866,780)	(1,219,447)	(160,695)	(2,367,386)	(765,128)	(4,760,840)
\$ 191,484	\$ 170,970	\$ (1,753,298)	\$ (1,247,621)	\$ (98,687)	\$ (2,523,825)	\$ (703,332)	\$ (4,442,463)

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Park and Recreation Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Goods and Services	\$ 1,152,475	\$ 1,152,475	\$ 1,254,279	\$ 101,804
Interest Revenue	1,500	1,500	3,233	1,733
Rentals	116,225	116,225	148,545	32,320
Donations/Contributions	213,500	213,500	207,283	(6,217)
Miscellaneous	19,160	19,160	28,202	9,042
Total revenues	1,502,860	1,502,860	1,641,542	138,682
EXPENDITURES				
Culture and Recreation	3,676,390	3,744,530	3,353,732	390,798
Total expenditures	3,676,390	3,744,530	3,353,732	390,798
Excess (deficiency) of revenues over expenditures	(2,173,530)	(2,241,670)	(1,712,190)	529,480
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	12,525	12,525
Lease Proceeds	185,000	185,000	-	(185,000)
Transfers In	2,000,000	2,000,000	2,000,000	-
Total other financing sources (uses)	2,185,000	2,185,000	2,012,525	(172,475)
Net change in fund balances	11,470	(56,670)	300,335	357,005
Fund balances -- beginning	566,521	566,521	566,521	-
Fund balances -- ending	\$ 577,991	\$ 509,851	\$ 866,856	\$ 357,005

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue				
Sales	\$ 695,250	\$ 695,250	\$ 782,783	\$ 87,533
Interest Revenue	500	500	873	373
Miscellaneous	1,000	1,000	531	(469)
Total revenues	<u>696,750</u>	<u>696,750</u>	<u>784,187</u>	<u>87,437</u>
EXPENDITURES				
General Government	734,430	734,430	704,126	30,304
Total expenditures	<u>734,430</u>	<u>734,430</u>	<u>704,126</u>	<u>30,304</u>
Excess (deficiency) of revenues over expenditures	<u>(37,680)</u>	<u>(37,680)</u>	<u>80,061</u>	<u>117,741</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	75,000	75,000	75,000	-
Transfers Out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	<u>(12,680)</u>	<u>(12,680)</u>	<u>105,061</u>	<u>117,741</u>
Fund balances -- beginning	161,853	161,853	161,853	-
Fund balances -- ending	<u>\$ 149,173</u>	<u>\$ 149,173</u>	<u>\$ 266,914</u>	<u>\$ 117,741</u>

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Goods and Services	\$ 870,500	\$ 870,500	\$ 867,417	\$ (3,083)
Interest Revenue	500	500	333	(167)
Rentals	6,000	6,000	5,011	(989)
Donations/Contributions	4,000	4,000	4,460	460
Miscellaneous	3,000	3,000	8,676	5,676
Total revenues	884,000	884,000	885,897	1,897
EXPENDITURES				
Culture and Recreation	916,400	941,400	930,109	11,291
Total expenditures	916,400	941,400	930,109	11,291
Excess (deficiency) of revenues over expenditures	(32,400)	(57,400)	(44,212)	13,188
OTHER FINANCING SOURCES (USES)				
Sale of Municipal Property	-	-	99	99
Transfers In	35,000	35,000	35,000	-
Total other financing sources (uses)	35,000	35,000	35,099	99
Net change in fund balances	2,600	(22,400)	(9,113)	13,287
Fund balances -- beginning	55,987	55,987	55,987	-
Fund balances -- ending	\$ 58,587	\$ 33,587	\$ 46,874	\$ 13,287

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest Revenue	\$ 200	\$ 200	\$ 152	\$ (48)
Other Miscellaneous	20,000	20,000	418	(19,582)
Total revenues	20,200	20,200	570	(19,630)
EXPENDITURES				
General Government	30,000	30,000	12,812	17,188
Total expenditures	30,000	30,000	12,812	17,188
Excess (deficiency) of revenues over expenditures	(9,800)	(9,800)	(12,242)	(2,442)
Net change in fund balances	(9,800)	(9,800)	(12,242)	(2,442)
Fund balances -- beginning	40,825	40,825	40,825	-
Fund balances -- ending	\$ 31,025	\$ 31,025	\$ 28,583	\$ (2,442)

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - E-911 Emergency Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Goods and Services	\$ 553,000	\$ 553,000	\$ 587,924	\$ 34,924
Interest Revenue	2,000	2,000	16	(1,984)
Miscellaneous	4,295	4,295	3,648	(647)
Total revenues	559,295	559,295	591,588	32,293
EXPENDITURES				
Public Safety	822,590	822,590	794,254	28,336
Total expenditures	822,590	822,590	794,254	28,336
Excess (deficiency) of revenues over expenditures	(263,295)	(263,295)	(202,666)	60,629
OTHER FINANCING SOURCES (USES)				
Transfers In	200,000	200,000	200,000	-
Total other financing sources (uses)	200,000	200,000	200,000	-
Net change in fund balances	(63,295)	(63,295)	(2,666)	60,629
Fund balances -- beginning	36,180	36,180	36,180	-
Fund balances -- ending	\$ (27,115)	\$ (27,115)	\$ 33,514	\$ 60,629

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Library Fines Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and Forfeits	\$ 18,500	\$ 18,500	\$ 16,600	(1,900)
Interest Revenue	1,000	1,000	1,173	173
Donations/Contributions	5,000	5,000	6,356	1,356
Miscellaneous	16,500	16,500	18,147	1,647
Total revenues	41,000	41,000	42,276	1,276
EXPENDITURES				
Culture and Recreation	40,210	40,210	29,554	10,656
Total expenditures	40,210	40,210	29,554	10,656
Excess (deficiency) of revenues over expenditures	790	790	12,722	11,932
Net change in fund balances	790	790	12,722	11,932
Fund balances -- beginning	266,383	266,383	266,383	-
Fund balances -- ending	\$ 267,173	\$ 267,173	\$ 279,105	\$ 11,932

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Urban Renewal Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest Revenue	\$ 500	\$ 500	\$ 2,237	\$ 1,737
Rentals	2,400	2,400	2,400	-
Donations/Contributions	-	-	1,200	1,200
Miscellaneous	2,500	2,500	-	(2,500)
Total revenues	<u>5,400</u>	<u>5,400</u>	<u>5,837</u>	<u>437</u>
EXPENDITURES				
Conservation and Development	53,710	57,410	55,922	1,488
Total expenditures	<u>53,710</u>	<u>57,410</u>	<u>55,922</u>	<u>1,488</u>
Excess (deficiency) of revenues over expenditures	<u>(48,310)</u>	<u>(52,010)</u>	<u>(50,085)</u>	<u>1,925</u>
Net change in fund balances	(48,310)	(52,010)	(50,085)	1,925
Fund balances -- beginning	241,569	241,569	241,569	-
Fund balances -- ending	<u>\$ 193,259</u>	<u>\$ 189,559</u>	<u>\$ 191,484</u>	<u>\$ 1,925</u>

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Big Sioux River Project Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 263,050	\$ 263,050	\$ 56,673	\$ (206,377)
Donations/Contributions	33,330	33,330	56,606	23,276
Miscellaneous	-	-	50	50
Total revenues	296,380	296,380	113,329	(183,051)
EXPENDITURES				
Conservation and Development	637,867	637,867	241,637	396,230
Total expenditures	637,867	637,867	241,637	396,230
Excess (deficiency) of revenues over expenditures	(341,487)	(341,487)	(128,308)	213,179
OTHER FINANCING SOURCES (USES)				
Transfer In	140,000	140,000	50,000	(90,000)
Total other financing sources (uses)	140,000	140,000	50,000	(90,000)
Net change in fund balances	(201,487)	(201,487)	(78,308)	123,179
Fund balances -- beginning	249,278	249,278	249,278	-
Fund balances -- ending	\$ 47,791	\$ 47,791	\$ 170,970	\$ 123,179

City of Watertown
 Comprehensive Annual Financial Report
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Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual - Tax Increment Financing 1 Fund

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 269,000	\$ 269,000	\$ 242,330	\$ (26,670)
Interest Revenue	100	100	114	14
Total Revenues	<u>269,100</u>	<u>269,100</u>	<u>242,444</u>	<u>(26,656)</u>
EXPENDITURES				
Debt Service	<u>128,450</u>	<u>128,975</u>	<u>128,962</u>	<u>13</u>
Total Expenditures	<u>128,450</u>	<u>128,975</u>	<u>128,962</u>	<u>13</u>
Excess (deficiency) of revenues over expenditures	<u>140,650</u>	<u>140,125</u>	<u>113,482</u>	<u>(26,643)</u>
Net Change in fund balances	140,650	140,125	113,482	(26,643)
Fund Balances -- beginning	(1,866,780)	(1,866,780)	(1,866,780)	-
Fund Balances -- ending	<u>\$ (1,726,130)</u>	<u>\$ (1,726,655)</u>	<u>\$ (1,753,298)</u>	<u>\$ (26,643)</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 54,000	\$ 54,000	\$ 57,828	\$ 3,828
Interest Revenue	30	30	33	3
Total Revenues	54,030	54,030	57,861	3,831
EXPENDITURES				
Debt Service	86,250	86,250	86,035	215
Total Expenditures	86,250	86,250	86,035	215
Excess (deficiency) of revenues over expenditures	(32,220)	(32,220)	(28,174)	4,046
Net Change in fund balances	(32,220)	(32,220)	(28,174)	4,046
Fund Balances -- beginning	(1,219,447)	(1,219,447)	(1,219,447)	-
Fund Balances -- ending	\$ (1,251,667)	\$ (1,251,667)	\$ (1,247,621)	\$ 4,046

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Revenue	\$ 73,000	\$ 73,000	\$ 71,165	\$ (1,835)
Interest Revenue	50	50	40	(10)
Total revenues	<u>73,050</u>	<u>73,050</u>	<u>71,205</u>	<u>(1,845)</u>
EXPENDITURES				
Debt Service	9,400	9,400	9,197	203
Total expenditures	<u>9,400</u>	<u>9,400</u>	<u>9,197</u>	<u>203</u>
Excess (deficiency) of revenues over expenditures	<u>63,650</u>	<u>63,650</u>	<u>62,008</u>	<u>(1,642)</u>
Net change in fund balances	63,650	63,650	62,008	(1,642)
Fund balances -- beginning	(160,695)	(160,695)	(160,695)	-
Fund balances -- ending	<u>\$ (97,045)</u>	<u>\$ (97,045)</u>	<u>\$ (98,687)</u>	<u>\$ (1,642)</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 7,500	\$ 7,500	\$ 12,100	\$ 4,600
Interest Revenue	25	25	14	(11)
Total revenues	7,525	7,525	12,114	4,589
EXPENDITURES				
Debt Service	168,700	168,700	168,553	147
Total expenditures	168,700	168,700	168,553	147
Excess (deficiency) of revenues over expenditures	(161,175)	(161,175)	(156,439)	4,736
Net change in fund balances	(161,175)	(161,175)	(156,439)	4,736
Fund balances -- beginning	(2,367,386)	(2,367,386)	(2,367,386)	-
Fund balances -- ending	\$ (2,528,561)	\$ (2,528,561)	\$ (2,523,825)	\$ 4,736

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue	\$ 106,000	\$ 106,000	\$ 114,418	\$ 8,418
Interest Revenue	50	50	54	4
Total revenues	106,050	106,050	114,472	8,422
EXPENDITURES				
Debt Service	53,250	53,250	52,676	574
Total expenditures	53,250	53,250	52,676	574
Excess (deficiency) of revenues over expenditures	52,800	52,800	61,796	8,996
Net change in fund balances	52,800	52,800	61,796	8,996
Fund balances -- beginning	(765,128)	(765,128)	(765,128)	-
Fund balances -- ending	\$ (712,328)	\$ (712,328)	\$ (703,332)	\$ 8,996

Combining Statements

Nonmajor Debt Service Funds

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

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2015

Combining Balance Sheet - Nonmajor Debt Service Fund

	<u>GO Bonds</u>
ASSETS	
Current assets:	
Pooled Cash and Investments	\$ 318,006
Property Taxes Receivable	7,677
Interest Receivable	513
Total assets	<u>326,196</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	513
Total Deferred Inflows of Resources	<u>513</u>
FUND BALANCES	
Restricted for:	
Debt Service	325,683
Total fund balances	<u>325,683</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 326,196</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	<u>GO Bonds</u>
REVENUES	
Tax Revenue	
Property	\$ 474,287
Interest Revenue	1,750
Total revenues	<u>476,037</u>
EXPENDITURES	
Debt Service	<u>451,507</u>
Total expenditures	<u>451,507</u>
Excess (deficiency) of revenues over expenditures	24,530
Fund balances -- beginning	<u>301,153</u>
Fund balances -- ending	<u>\$ 325,683</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Tax Revenue				
Property	\$ 473,750	\$ 473,750	\$ 474,287	\$ 537
Interest Revenue	1,000	1,000	1,750	750
Total revenues	<u>474,750</u>	<u>474,750</u>	<u>476,037</u>	<u>1,287</u>
EXPENDITURES				
Debt Service	451,500	451,500	451,507	(7)
Total expenditures	<u>451,500</u>	<u>451,500</u>	<u>451,507</u>	<u>(7)</u>
Excess (deficiency) of revenues over expenditures	<u>23,250</u>	<u>23,250</u>	<u>24,530</u>	<u>1,280</u>
Net change in fund balances	23,250	23,250	24,530	1,280
Fund balances -- beginning	301,153	301,153	301,153	-
Fund balances -- ending	<u>\$ 324,403</u>	<u>\$ 324,403</u>	<u>\$ 325,683</u>	<u>\$ 1,280</u>

Combining Statements

Major Capital Projects Fund

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest Revenue	\$ -	\$ -	\$ 52,694	\$ 52,694
Donations/Contributions	-	-	1,200	1,200
Total Revenues	-	-	53,894	53,894
EXPENDITURES				
Culture and Recreation	-	9,500,000	8,542,759	957,241
Debt Service	-	334,000	333,536	464
Total Expenditures	-	9,834,000	8,876,295	957,705
Excess (deficiency) of revenues over expenditures	-	(9,834,000)	(8,822,401)	1,011,599
OTHER FINANCING SOURCES (USES)				
Transfers (Out)	-	(750,780)	(750,781)	(1)
Long-Term Debt Issued	-	-	20,865,000	20,865,000
Premiums on Bonds Issued	-	-	102,161	102,161
Total other financing sources (uses)	-	(750,780)	20,216,380	20,967,160
Net Change in fund balances	-	(10,584,780)	11,393,979	21,978,759
Fund Balances - beginning	9,296,974	9,296,974	9,296,974	-
Fund Balances - ending	\$ 9,296,974	\$ (1,287,806)	\$ 20,690,953	\$ 21,978,759

Combining Statements

Nonmajor Enterprise Funds

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

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2015

Combining Statement of Net Position - Nonmajor Business-Type Funds

	<u>Enterprise Funds</u>	
	<u>Solid Waste Fund</u>	<u>Total</u>
ASSETS		
Current assets:		
Pooled Cash and Investments	\$ 1,697,477	\$ 1,697,477
Accounts Receivable	277,843	277,843
Interest Receivable	2,688	2,688
Inventory	34,267	34,267
Net Pension Asset	166,033	166,033
Restricted Cash	557,467	557,467
Total Current assets:	<u>2,735,775</u>	<u>2,735,775</u>
Noncurrent assets:		
Land	38,174	38,174
Buildings and Structures	993,472	993,472
Furniture Equipment Machinery	4,930,632	4,930,632
Improvements Other Than Buildings	4,233,611	4,233,611
Construction in Progress	78,411	78,411
Accumulated Depreciation	(3,243,758)	(3,243,758)
Total Noncurrent assets:	<u>7,030,542</u>	<u>7,030,542</u>
Total assets	<u>9,766,317</u>	<u>9,766,317</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	305,242	305,242
Total Deferred Outflows of Resources	<u>305,242</u>	<u>305,242</u>
LIABILITIES		
Current liabilities:		
Accounts Payable	134,016	134,016
Due to Other Funds	3,422	3,422
Accrued Vacation and Sick Leave	33,981	33,981
Total Current liabilities:	<u>171,419</u>	<u>171,419</u>
Noncurrent liabilities:		
Accrued Vacation and Sick Leave	101,943	101,943
Other Post Employment Benefits	33,871	33,871
Closure/Post Closure Liability	557,467	557,467
Total Noncurrent liabilities:	<u>693,281</u>	<u>693,281</u>
Total liabilities	<u>864,700</u>	<u>864,700</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	244,985	244,985
Total Deferred Inflows of Resources	<u>244,985</u>	<u>244,985</u>
NET POSITION		
Net Investment in Capital Assets	7,030,542	7,030,542
Restricted for SDRS Pension Purposes	226,290	226,290
Unrestricted	1,705,042	1,705,042
Total net position	<u>\$ 8,961,874</u>	<u>\$ 8,961,874</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

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

	<u>Enterprise Funds</u>	
	<u>Solid Waste Fund</u>	<u>Total</u>
OPERATING REVENUES		
Charges for Goods and Services	\$ 2,823,052	\$ 2,823,052
Miscellaneous	10,742	10,742
Pension Revenue	20,058	20,058
Total Operating revenues	<u>2,853,852</u>	<u>2,853,852</u>
OPERATING EXPENSES		
Personal Services	1,064,230	1,064,230
Supplies	200,441	200,441
Utilities	25,748	25,748
Other Charges	622,936	622,936
Depreciation	511,609	511,609
Total operating expenses	<u>2,424,964</u>	<u>2,424,964</u>
Operating Income (Loss)	<u>428,888</u>	<u>428,888</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Revenue	9,333	9,333
Contributions	(40,000)	(40,000)
Gain(Loss) on Disposition of Capital Assets	(77,440)	(77,440)
Total nonoperating revenues (expenses)	<u>(108,107)</u>	<u>(108,107)</u>
Income (loss) before contributions and transfers	320,781	320,781
Transfers Out	(187,200)	(187,200)
Change in net position	133,581	133,581
Total net position -- beginning	8,622,830	8,622,830
Prior Period Adjustment GASB 68	205,463	205,463
Total net position -- ending	<u>\$ 8,961,874</u>	<u>\$ 8,961,874</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Combining Statement of Cash Flows - Nonmajor Business-Type Funds

	<u>Enterprise Funds</u>	
	<u>Solid Waste Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customer including deposits	\$ 2,809,096	\$ 2,809,096
Payments to suppliers	(765,786)	(765,786)
Payments to employees	(1,077,565)	(1,077,565)
Other Operating Cash Receipts	30,800	30,800
Net cash provided (used) by operating activities	<u>996,545</u>	<u>996,545</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Interfund Loans	3,422	3,422
Contribution	(40,000)	(40,000)
Transfers Out	(187,200)	(187,200)
Net cash provided (used) by noncapital financing activities	<u>(223,778)</u>	<u>(223,778)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,328,098)	(1,328,098)
Proceeds from sales of capital assets	959	959
Net cash provided (used) by capital and related financing activities	<u>(1,327,139)</u>	<u>(1,327,139)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	10,005	10,005
Net cash provided by investing activities	<u>10,005</u>	<u>10,005</u>
Net increase (decrease) in cash and cash equivalents	(544,367)	(544,367)
Pooled Cash and Investments - beginning of year	2,799,311	2,799,311
Pooled Cash and Investments - end of year	2,254,944	2,254,944
Less Restricted Pooled Cash and Investments	(557,467)	(557,467)
Pooled Cash and Investment Per Balance Sheet	<u>\$ 1,697,477</u>	<u>\$ 1,697,477</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 428,888	\$ 428,888
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	511,609	511,609
Changes in Assets and Liabilities:		
Accounts Payable - Other	(132)	(132)
Accounts Payable - Supplier	27,687	27,687
Customer Receivables	(13,994)	(13,994)
Restricted Net Pension Asset	152,081	152,081
Deferred Outflows Related to Pensions	(49,463)	(49,463)
Inventory	(1,167)	(1,167)
Other operating receivables	38	38
Closure/Post closure costs	56,952	56,952
Other Post Employment Benefits	5,213	5,213
Deferred Inflows Related to Pensions	(123,445)	(123,445)
Salaries & Benefits Payable	2,278	2,278
Net Cash provided (used) by operating activities	<u>\$ 996,545</u>	<u>\$ 996,545</u>

Combining Statements

Fiduciary Funds

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

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

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

City of Watertown
 Comprehensive Annual Financial Report
 December 31, 2015

Combining Statement of Net Position - Fiduciary Funds

	Agency Funds			Total
	125 Escrow Agency Fund	Redemption Agency Fund	Security Deposit Agency Fund	
ASSETS				
Pooled Cash and Investments	\$ 13,597	\$ 500	\$ 63,621	\$ 77,718
Interest Receivable	-	-	35	35
Total Assets	<u>13,597</u>	<u>500</u>	<u>63,656</u>	<u>77,753</u>
LIABILITIES				
Due to Others	13,597	500	63,656	77,753
Total Liabilities	<u>\$ 13,597</u>	<u>\$ 500</u>	<u>\$ 63,656</u>	<u>\$ 77,753</u>

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Combining Statement of Changes in Assets and Liabilities
 All Agency Funds

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
125 Escrow Fund				
Assets:				
Pooled Cash and Investments	\$ 20,548	\$ 79,333	\$ 86,284	\$ 13,597
Liabilities:				
Due to Flex Claims	\$ 20,548	\$ 79,333	\$ 86,284	\$ 13,597
Redemption Fund				
Assets:				
Pooled Cash and Investments	\$ 500	\$ -	\$ -	\$ 500
Liabilities:				
Due to Certificate Holders	\$ 500	\$ -	\$ -	\$ 500
Security Deposit Fund				
Assets:				
Pooled Cash and Investments	\$ 63,498	\$ 123	\$ -	\$ 63,621
Interest Receivable	35	-	-	35
Total Assets	<u>\$ 63,533</u>	<u>\$ 123</u>	<u>\$ -</u>	<u>\$ 63,656</u>
Liabilities:				
Bidder's Deposits	\$ 63,533	\$ 123	\$ -	\$ 63,656
Total Liabilities	<u>\$ 63,533</u>	<u>\$ 123</u>	<u>\$ -</u>	<u>\$ 63,656</u>
Total All Agency Funds				
Assets:				
Pooled Cash and Investments	\$ 84,546	\$ 79,456	\$ 86,284	\$ 77,718
Interest Receivable	35	-	-	35
Total Assets	<u>\$ 84,581</u>	<u>\$ 79,456</u>	<u>\$ 86,284</u>	<u>\$ 77,753</u>
Liabilities:				
Due to Flex Claims	\$ 20,548	\$ 79,333	\$ 86,284	\$ 13,597
Due to Certificate Holders	500	-	-	500
Due to Bidders	63,533	123	-	63,656
Total Liabilities	<u>\$ 84,581</u>	<u>\$ 79,456</u>	<u>\$ 86,284</u>	<u>\$ 77,753</u>

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Statistical Section

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

Contents Page

Financial Trends 110

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

Revenue Capacity 120

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

Debt Capacity 122

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

Demographic and Economic Information 128

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

Operating Information 131

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

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Statistics (Unaudited)

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

	2006	2007	2008	2009
Governmental Activities				
Net Investment in Capital Assets	\$ 42,910,080	\$ 47,791,276	\$ 51,029,214	\$ 55,524,697
Restricted	5,384,568	4,744,766	4,688,698	4,248,755
Unrestricted	18,515,631	20,525,046	23,032,412	20,768,250
Total Governmental Activities Net Position	66,810,279	73,061,088	78,750,324	80,541,702
Business-Type Activities				
Net Investment in Capital Assets	80,830,075	93,713,787	97,151,295	101,568,572
Restricted	2,332,710	2,250,823	2,321,033	4,144,904
Unrestricted	7,970,219	5,883,775	6,105,604	7,861,507
Total Business-Type Activities Net Position	91,133,004	101,848,385	105,577,932	113,574,983
Primary Government				
Net Investment in Capital Assets	123,740,155	141,505,063	148,180,509	157,093,269
Restricted	7,717,278	6,995,589	7,009,731	8,393,659
Unrestricted	26,485,850	26,408,821	29,138,016	28,629,757
Total Primary Government Net Position	\$ 157,943,283	\$ 174,909,473	\$ 184,328,256	\$ 194,116,685

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Statistics (Unaudited)

	2010	2011	2012	2013	2014	2015
\$	60,575,273	\$ 67,767,554	\$ 85,000,053	\$ 90,859,225	\$ 87,327,962	\$ 103,295,621
	4,270,785	4,056,531	3,739,347	3,729,910	14,701,445	31,242,916
	17,365,658	17,916,695	20,507,155	21,011,647	19,907,113	(606,514)
	82,211,716	89,740,780	109,246,555	115,600,782	121,936,520	133,932,023
	104,804,892	108,084,421	117,465,744	120,161,321	124,349,767	132,695,267
	4,968,431	4,971,973	4,920,074	5,123,610	3,784,553	4,957,340
	10,473,916	12,194,936	14,200,509	18,435,648	20,265,716	19,743,815
	120,247,239	125,251,330	136,586,327	143,720,579	148,400,036	157,396,422
	165,380,165	175,851,975	202,465,797	211,020,546	211,677,729	235,990,888
	9,239,216	9,028,504	8,659,421	8,853,520	18,485,998	36,200,256
	27,839,574	30,111,631	34,707,664	39,447,295	40,172,829	19,137,301
\$	202,458,955	\$ 214,992,110	\$ 245,832,882	\$ 259,321,361	\$ 270,336,556	\$ 291,328,445

City of Watertown
 Comprehensive Annual Financial Report
 Year Ended December 31, 2015

Statistics (Unaudited)

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

	2006	2007	2008	2009
Expenses				
Governmental Activities				
General Government	\$ 2,263,546	\$ 2,081,938	\$ 2,013,451	\$ 2,239,381
Public Safety	5,162,524	6,027,544	6,027,524	6,995,236
Public Works	2,923,705	5,210,444	3,924,863	5,567,390
Health and Welfare	128,194	152,548	112,178	143,252
Culture and Recreation	4,663,705	5,398,262	4,663,565	4,447,026
Conservation and Development	1,351,546	1,127,959	2,367,988	2,185,846
Interest on Long-Term Debt	943,562	969,371	980,531	989,693
Total Governmental Activities	17,436,782	20,968,066	20,090,100	22,567,824
Business-Type Activities				
Sewer	2,462,574	2,614,782	2,654,696	2,795,065
Solid Waste	1,635,773	1,801,588	1,912,915	1,883,078
Airport	427,644	517,809	652,775	684,003
Electric	14,854,667	16,732,001	19,057,099	21,067,051
Water	2,648,436	2,836,951	3,189,027	3,018,896
Gas	22,540,265	22,960,556	36,286,483	22,675,100
Water Bond	361,564	415,885	-	-
Total Business-Type Activities Expenses	44,930,923	47,879,572	63,752,995	52,123,193
Total Primary Government Expenses	62,367,705	68,847,638	83,843,095	74,691,017
Program Revenues				
Governmental Activities				
Charges for Services				
General Government	88,937	110,331	94,191	95,725
Public Safety	810,005	761,711	883,982	848,182
Public Works	193,486	120,870	233,702	136,082
Health and Welfare	2,950	1,795	2,805	2,120
Culture and Recreation	1,633,329	1,712,916	1,791,085	1,844,853
Conservation and Development	194,497	210,867	190,285	149,469
Operating Grants and Contributions	696,445	461,103	592,547	1,500,508
Capital Grants and Contributions	1,752,712	3,333,292	2,204,146	1,039,834
Total Governmental Activities Program Revenues	5,372,361	6,712,885	5,992,743	5,616,773
Business-Type Activities				
Charges for Services				
Sewer	2,718,978	2,740,310	2,723,042	2,662,905
Solid Waste	2,023,769	2,073,322	2,126,587	2,158,445
Airport	112,719	181,990	135,333	122,541
Electric	16,112,853	18,213,206	20,873,566	22,586,756
Water	2,138,417	2,467,522	3,232,484	4,154,367
Gas	23,669,760	23,258,513	36,333,029	25,617,261
Water Bond	633,029	472,666	-	-
Operating Grants and Contributions	-	-	-	137,144
Capital Grants and Contributions	845,719	9,481,462	2,960,700	3,181,150
Total Business-Type Activities Program Revenues	48,255,244	58,888,991	68,384,741	60,620,569
Total Primary Government Program Revenues	53,627,605	65,601,876	74,377,484	66,237,342
Net (Expenses) Revenues				
Governmental Activities	(12,064,421)	(14,255,181)	(14,097,357)	(16,951,051)
Business-Type Activities	3,324,321	11,009,419	4,631,746	8,497,376
Total Primary Government Net Expense	\$ (8,740,100)	\$ (3,245,762)	\$ (9,465,611)	\$ (8,453,675)

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Statistics (Unaudited)

	2010	2011	2012	2013	2014	2015
\$	2,310,431	\$ 2,121,098	\$ 2,179,248	\$ 2,278,875	\$ 2,626,947	\$ 2,766,293
	6,690,164	7,792,889	7,607,436	8,014,490	8,577,724	8,620,538
	6,572,449	3,872,691	3,045,042	3,127,223	4,478,011	3,675,342
	155,521	106,977	51,181	68,610	76,368	157,151
	5,082,426	5,571,198	5,717,719	5,666,008	5,710,860	6,333,389
	4,077,887	824,564	937,887	1,511,981	1,812,665	1,046,133
	1,000,750	1,193,734	1,264,972	923,567	1,091,127	1,637,019
	25,889,628	21,483,151	20,803,485	21,590,754	24,373,702	24,235,865
	2,827,414	3,685,485	3,553,717	3,589,083	3,654,114	3,682,300
	2,231,953	2,225,436	2,247,821	2,295,305	2,389,520	2,542,404
	731,815	766,861	835,405	1,042,696	1,046,734	1,235,154
	22,278,923	23,085,560	23,075,668	23,842,210	24,422,931	25,547,889
	3,328,414	3,642,761	5,169,923	4,707,937	4,829,106	4,351,502
	18,590,439	10,182,905	8,013,641	8,461,181	10,340,336	7,864,515
	-	-	-	-	-	-
	49,988,958	43,589,008	42,896,175	43,938,412	46,682,741	45,223,764
	75,878,586	65,072,159	63,699,660	65,529,166	71,056,443	69,459,629
	102,738	109,666	110,237	118,522	125,562	128,119
	804,582	847,295	1,267,262	1,594,057	1,577,811	1,758,183
	209,369	177,996	347,757	257,342	314,157	189,974
	2,460	1,440	-	-	-	1,525
	1,946,663	1,998,369	2,155,501	2,176,508	2,199,184	2,347,198
	182,063	172,426	223,529	210,276	265,133	137,084
	1,187,355	747,499	659,139	694,993	556,333	732,088
	3,501,985	4,490,263	13,877,663	1,057,552	2,373,711	5,436,484
	7,937,215	8,544,954	18,641,088	6,109,250	7,411,891	10,730,655
	2,749,380	3,268,702	3,369,238	3,413,812	3,450,537	3,502,229
	2,143,671	2,228,029	2,322,098	2,411,245	2,446,657	2,833,794
	115,443	114,843	119,981	143,536	154,058	154,587
	23,392,522	25,063,172	24,941,694	26,671,481	27,317,371	27,954,042
	4,145,187	4,288,038	5,514,814	5,323,126	5,265,645	5,452,851
	20,139,602	12,290,057	10,182,312	12,499,373	12,062,546	9,942,975
	-	-	-	-	-	-
	61,087	1,067,742	179,884	63,628	14,189	201,975
	4,856,309	1,280,359	9,274,509	1,801,569	1,729,098	3,376,383
	57,603,201	49,600,942	55,904,530	52,327,770	52,440,101	53,418,836
	65,540,416	58,145,896	74,545,618	58,437,020	59,851,992	64,149,491
	(17,952,413)	(12,938,197)	(2,162,397)	(15,481,504)	(16,961,811)	(13,505,210)
	7,614,243	6,011,934	13,008,355	8,389,358	5,757,360	8,195,072
\$	(10,338,170)	\$ (6,926,263)	\$ 10,845,958	\$ (7,092,146)	\$ (11,204,451)	\$ (5,310,138)

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Statistics (Unaudited)

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

	2006	2007	2008	2009
Governmental Activities				
Taxes				
Property Taxes	\$ 2,714,384	\$ 2,860,183	\$ 3,077,979	\$ 3,217,832
Sales and Use Taxes	11,121,297	12,188,673	12,391,871	12,078,171
Other Taxes	569,358	535,745	575,150	580,539
State Shared Revenues	553,627	779,009	824,082	677,265
Investment Earnings	1,548,508	1,586,553	1,255,522	931,412
Miscellaneous	275,762	323,635	297,984	519,310
Sales of Capital Assets	19,084	-	-	-
Premiums from Bonds	12,466	-	-	-
Transfers	1,041,020	766,300	1,364,005	737,900
Total Governmental Activities	<u>17,855,506</u>	<u>19,040,098</u>	<u>19,786,593</u>	<u>18,742,429</u>
Business-Type Activities				
Taxes				
Other Taxes	10,190	10,346	9,794	7,764
Investment Earnings	493,476	461,917	342,516	205,653
Sales of Capital Assets	16	-	-	-
Miscellaneous	-	-	109,496	24,158
Transfers	(1,041,020)	(766,300)	(1,364,005)	(737,900)
Total Business-Type Activities	<u>(537,338)</u>	<u>(294,037)</u>	<u>(902,199)</u>	<u>(500,325)</u>
Total Primary Government General Revenues	<u>17,318,168</u>	<u>18,746,061</u>	<u>18,884,394</u>	<u>18,242,104</u>
Change in Net Position				
Governmental Activities	5,791,085	4,784,917	5,689,236	1,791,378
Business-Type Activities	2,786,983	10,715,382	3,729,547	7,997,051
Total Primary Government	<u>\$ 8,578,068</u>	<u>\$ 15,500,299</u>	<u>\$ 9,418,783</u>	<u>\$ 9,788,429</u>

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Statistics (Unaudited)

	2010	2011	2012	2013	2014	2015
\$	3,409,712	\$ 3,527,126	\$ 3,662,785	\$ 3,839,601	\$ 4,023,023	\$ 4,144,883
	12,722,695	13,417,259	14,201,502	14,435,880	15,218,434	15,205,209
	604,185	644,792	558,608	374,254	365,741	367,452
	737,314	780,300	844,462	934,849	1,003,738	1,023,327
	657,381	566,533	522,308	495,797	511,979	591,828
	223,836	290,407	103,667	297,966	917,971	351,668
	-	-	19,295	4,984	2,825	174,346
	-	-	-	-	46,603	-
	1,267,304	1,240,844	1,807,975	1,452,400	1,207,235	1,025,325
	19,622,427	20,467,261	21,720,602	21,835,731	23,297,549	22,884,038
	9,398	8,261	4,865	6,032	9,576	19,799
	158,880	-	124,287	132,601	154,702	170,953
	-	80,110	5,465	58,661	(34,946)	37,769
	157,039	144,630	-	-	-	-
	(1,267,304)	(1,240,844)	(1,807,975)	(1,452,400)	(1,207,235)	(1,025,325)
	(941,987)	(1,007,843)	(1,673,358)	(1,255,106)	(1,077,903)	(796,804)
	18,680,440	19,459,418	20,047,244	20,580,625	22,219,646	22,087,234
	1,670,014	7,529,064	19,558,205	6,354,227	6,335,738	9,378,828
	6,672,256	5,004,091	11,334,997	7,134,252	4,679,457	7,398,268
\$	8,342,270	\$ 12,533,155	\$ 30,893,202	\$ 13,488,479	\$ 11,015,195	\$ 16,777,096

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Statistics (Unaudited)

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

	2006	2007	2008	2009
General Fund				
Reserved	\$ 111,140	\$ 464,377	\$ 460,519	\$ 485,273
Unreserved	5,668,844	5,673,028	6,086,492	5,123,231
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total General Fund	<u>5,779,984</u>	<u>6,137,405</u>	<u>6,547,011</u>	<u>5,608,504</u>
All Other Governmental Funds				
Reserved	2,004,425	5,817,730	6,046,771	5,676,516
Unreserved, Reported in				
Special Revenue Funds	15,798,469	11,778,008	14,581,378	13,004,547
Debt Service Funds	95,835	124,812	153,462	181,979
Capital Projects Funds	805,250	788,989	-	-
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total All Other Governmental Funds	<u>\$ 18,703,979</u>	<u>\$ 18,509,539</u>	<u>\$ 20,781,611</u>	<u>\$ 18,863,042</u>

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

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Statistics (Unaudited)

	2010	2011	2012	2013	2014	2015
\$	471,288	\$ -	\$ -	\$ -	\$ -	\$ -
	5,179,949	-	-	-	-	-
	-	191,384	149,495	143,545	167,034	179,622
	-	20,307	20,371	20,415	20,461	20,517
	-	1,834,287	330,054	1,174,896	1,588,547	1,537,580
	-	3,744,725	6,739,020	6,597,341	7,134,110	8,074,419
	5,651,237	5,790,703	7,238,940	7,936,197	8,910,152	9,812,138
	7,430,002	-	-	-	-	-
	7,973,744	-	-	-	-	-
	208,507	-	-	-	-	-
	-	-	-	-	-	-
	-	5,590,064	5,545,826	5,510,296	5,366,976	34,635
	-	2,932,836	2,768,332	2,872,687	12,983,774	27,173,200
	-	13,819,224	15,277,075	15,233,749	14,120,906	18,553,821
	-	(6,394,499)	(6,355,596)	(6,428,538)	(6,379,436)	(6,326,763)
\$	15,612,253	\$ 15,947,625	\$ 17,235,637	\$ 17,188,194	\$ 26,092,220	\$ 39,434,893

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Statistics (Unaudited)

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

	2006	2007	2008	2009	2010
Revenues					
Taxes	\$ 14,319,732	\$ 15,485,565	\$ 16,035,282	\$ 15,897,362	\$ 16,655,844
Licenses and Permits	230,185	299,872	228,960	191,135	227,893
Intergovernmental	1,145,538	2,302,724	2,067,182	2,199,694	2,588,137
Charges for Goods and Services	2,403,288	2,415,740	2,598,905	2,640,488	2,742,393
Fines and Forfeitures	79,904	90,756	87,082	85,449	81,556
Interest	1,330,062	1,562,728	1,375,784	1,033,825	742,083
Miscellaneous Revenue	1,258,173	1,250,948	862,324	1,081,741	3,038,795
Total Revenues	20,766,882	23,408,333	23,255,519	23,129,694	26,076,701
Expenditures					
General Government	1,953,217	1,824,808	2,003,829	2,466,700	2,252,324
Public Safety	4,978,559	6,857,734	5,925,253	7,642,490	11,570,206
Public Work	2,094,081	7,039,201	5,589,803	6,697,461	7,448,552
Health and Welfare	127,180	151,971	112,208	142,427	155,327
Culture and Recreation	4,348,380	6,863,660	5,352,446	6,188,672	6,357,466
Conservation and Development	725,469	1,161,056	1,731,205	1,999,344	3,876,901
Contributions to Other Gov't	355,000	282,500	-	-	-
Capital Outlay	6,764,013	62,109	4,753	-	-
Debt Service					
Principal	705,616	797,537	846,333	904,123	1,005,962
Interest	925,437	970,676	979,795	989,794	1,001,326
Administrative Charges	2,300	2,000	2,000	2,000	2,000
Bond Issuance Costs	-	-	-	-	58,785
Total Expenditures	22,979,252	26,013,252	22,547,625	27,033,011	33,728,849
Revenues Over (Under) Expenditures	(2,212,370)	(2,604,919)	707,894	(3,903,317)	(7,652,148)
Other Financing Sources (Uses)					
Sales of Municipal Property	13,836	29,759	20,521	44,461	6,305
Long-Term Debt Issuance	4,997,466	1,641,787	589,258	263,880	7,526,374
Premium on Bonds Issued	-	-	-	-	3,022
Pmt To Refunded Bond Escrow Agent	-	-	-	-	(4,358,913)
Transfer In	3,620,740	2,646,300	4,193,233	3,160,400	3,148,666
Transfer Out	(2,629,639)	(1,880,000)	(2,829,228)	(2,422,500)	(1,881,362)
Total Other Financing Sources (Uses)	6,002,403	2,437,846	1,973,784	1,046,241	4,444,092
Net Change in Fund Balances	\$ 3,790,033	\$ (167,073)	\$ 2,681,678	\$ (2,857,076)	\$ (3,208,056)
Debt service as a % of noncapital expenditures	10.2%	11.5%	7.4%	8.8%	8.3%

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	2011	2012	2013	2014	2015
\$	17,400,555	\$ 18,529,315	\$ 18,595,966	\$ 19,535,361	\$ 19,720,693
	217,234	270,639	259,051	310,437	234,333
	4,090,514	2,079,525	1,761,169	1,495,512	1,621,313
	2,788,625	3,361,454	3,673,367	3,784,132	4,043,345
	71,284	62,469	54,866	46,598	50,544
	617,191	547,730	499,811	500,831	568,899
	1,110,025	1,085,281	1,169,723	1,012,386	1,284,820
	26,295,428	25,936,413	26,013,953	26,685,257	27,523,947
	2,214,463	2,165,287	2,308,602	2,735,864	2,820,387
	12,263,026	8,516,828	8,597,330	7,756,401	8,029,280
	4,422,104	5,375,413	4,358,255	5,861,418	5,179,559
	123,925	51,181	68,610	76,110	144,736
	5,653,602	5,491,966	8,100,662	8,534,335	15,039,450
	596,354	767,142	1,484,772	1,636,633	888,069
	-	-	-	-	-
	-	-	-	-	-
	1,102,395	1,289,742	1,111,990	1,176,242	1,641,259
	1,188,733	927,973	922,912	899,249	1,420,320
	2,750	3,550	1,500	1,500	3,516
	-	54,453	-	169,263	402,019
	27,567,352	24,643,535	26,954,633	28,847,015	35,568,595
	(1,271,924)	1,292,878	(940,680)	(2,161,758)	(8,044,648)
	1,815	159,114	138,094	785,901	271,779
	530,997	4,165,000	-	10,000,000	24,240,000
	-	-	-	46,603	259,873
	-	(4,258,943)	-	-	(3,507,670)
	2,996,750	3,432,200	3,815,400	3,996,550	4,772,131
	(1,782,800)	(2,054,000)	(2,363,000)	(2,789,315)	(3,746,806)
	1,746,762	1,443,371	1,590,494	12,039,739	22,289,307
\$	474,838	\$ 2,736,249	\$ 649,814	\$ 9,877,981	\$ 14,244,659
	11.3%	12.1%	10.5%	11.0%	14.7%

City of Watertown
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Statistics (Unaudited)

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

Fiscal Year	Residential Property	Commercial Property	Total Assessed Value	Total Direct Tax Rate	Estimated Actual Value	Assessed Value as a % of Actual Value
2006	707,991,200	313,375,833	1,021,367,033	2.67	1,201,608,274	85%
2007	862,037,766	320,139,830	1,182,177,596	2.50	1,383,147,787	85%
2008	863,073,456	340,213,014	1,203,286,470	2.58	1,415,631,141	85%
2009	921,168,488	366,738,271	1,287,906,759	2.65	1,515,184,422	85%
2010	927,815,856	381,159,855	1,308,975,711	2.59	1,539,971,425	85%
2011	932,257,198	381,637,650	1,313,894,848	2.68	1,545,758,645	85%
2012	944,992,929	389,987,956	1,334,980,885	2.74	1,570,565,747	85%
2013	982,112,861	404,026,919	1,386,139,780	2.73	1,630,752,682	85%
2014	1,033,567,191	424,412,750	1,457,979,941	2.68	1,715,270,519	85%
2015	1,076,688,951	443,668,487	1,520,357,438	2.68	1,788,655,809	85%

Source: Codington County Board of Equalization.

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

Fiscal Year	City of Waterown			Overlapping Rates							Total Direct & Overlapping Rates
	Operating Millage	Debt Service Millage	Total City Millage	County			Watertown School District				
				Operating Millage	Debt Service Millage	Total County Millage	Operating Millage	Debt Service Millage	Total School Millage	Special Districts	
2006	2.25	0.42	2.67	3.88	0.00	3.88	14.92	0.00	14.92	0.72	22.19
2007	2.11	0.39	2.50	3.67	0.00	3.67	13.84	0.00	13.84	1.24	21.25
2008	2.19	0.39	2.58	3.73	0.00	3.73	13.51	0.00	13.51	1.15	20.97
2009	2.26	0.39	2.65	3.73	0.00	3.73	13.40	0.00	13.40	1.14	20.92
2010	2.20	0.39	2.59	3.66	0.00	3.66	13.22	0.00	13.22	1.05	20.52
2011	2.32	0.36	2.68	3.71	0.00	3.71	13.22	0.00	13.22	1.02	20.63
2012	2.38	0.36	2.74	3.63	0.00	3.63	13.39	0.00	13.39	0.97	20.73
2013	2.37	0.36	2.73	3.58	0.00	3.58	14.08	0.00	14.08	0.97	21.36
2014	2.33	0.35	2.68	3.44	0.00	3.44	13.92	0.00	13.92	0.93	20.97
2015	2.33	0.35	2.68	3.31	0.00	3.31	13.47	0.00	13.47	0.90	20.36

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Table 7
Principal Taxpayers
Current Year and Ten Years Ago

Taxpayer	2015			2006		
	Assessed Value	Rank	Percentage of Total Assessed Value	Assessed Value	Rank	Percentage of Total Assessed Value
Glacial Lakes Energy	10,582,914	1	0.70%	4,779,919	7	0.47%
Wal-Mart Real Estate Business Trust	10,279,090	2	0.68%	6,524,473	3	0.64%
Watertown Co-op Elevator	9,222,231	3	0.61%	-	-	-
Menards	8,533,101	4	0.56%	5,458,475	5	0.53%
Watertown Lodging Associates LLC	6,784,552	5	0.45%	-	-	-
Watertown Plaza LLC	5,855,917	6	0.39%	-	-	-
DBI Holdings LLC	5,055,303	7	0.33%	6,121,754	4	0.60%
Watertown Development Co.	4,684,752	8	0.31%	-	-	-
Les McElhany & David McElhany	4,502,825	9	0.30%	-	-	-
McFleeg Inc	4,381,593	10	0.29%	-	-	-
Western Minnesota Municipal Power	-	-	-	6,867,323	2	0.67%
Premier Bankcard	-	-	-	3,601,747	10	0.35%
US West Communications	-	-	-	5,446,849	6	0.53%
Univest Covington (Runnings)	-	-	-	3,955,707	9	0.39%
Developers Diversified	-	-	-	11,186,719	1	1.10%
Dayton Hudson Corp.	-	-	-	4,147,110	8	0.41%
Totals	69,882,278		4.60%	58,090,076		5.69%

Entire City Assessed Valuation for 2015: \$ 1,520,357,438

Data Source: Office of the Director of Equalization

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

Table 8
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended Dec. 31,	Taxes Levied	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collection to Date	
	for the Fiscal Year	Amount	Percentage of Levy		Amount	Percentage of Levy
2006	2,853,893	2,832,111	99.24	21,737	2,853,848	100.00
2007	3,086,308	3,051,987	98.89	34,321	3,086,308	100.00
2008	3,210,432	3,179,206	99.03	31,226	3,210,432	100.00
2009	3,400,681	3,374,430	99.23	26,241	3,400,671	100.00
2010	3,520,622	3,496,951	99.33	23,245	3,520,196	99.99
2011	3,657,796	3,636,544	99.42	21,063	3,657,607	99.99
2012	3,832,251	3,814,038	99.52	16,026	3,830,064	99.94
2013	4,013,830	3,993,802	99.50	12,769	4,006,571	99.82
2014	4,138,450	4,110,910	99.33	-	4,110,910	99.33
2015	4,290,185	(see note below)				

Note: (1) The year shown on this table indicates the year of the levy for collection in the next year, the 2015 tax levy will be collected in the year 2016, so such information is not available at the time of preparing this table.

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

Year	General Sales Tax	Capital Improvement Sales Tax	Pledged Revenues (1)
2006	5,551,722	4,997,364	2,776,313
2007	5,748,587	5,691,884	2,845,942
2008	5,875,447	5,865,987	5,865,987
2009	5,750,139	5,748,865	5,748,865
2010	6,012,216	6,006,708	6,006,708
2011	6,291,800	6,289,668	6,289,668
2012	6,802,708	6,800,967	6,800,967
2013	6,842,601	6,835,289	6,835,289
2014	7,214,979	7,203,788	7,203,788
2015	7,215,762	7,208,929	7,208,929

(1) Pledged revenues for 2012, 2014 and 2015 Sales Tax Bonds are that portion of the proceeds of the Sales Tax in excess of the proceeds produced by the first one percent (1%) of the Sales Tax. All of the Capital Improvement Sales Tax revenues are pledged for the repayment of SRF Loans No. 6, 8, 10 and 11.

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

Fiscal Year	Governmental Activities					Business Type Activities			Percentage of Personal Income	Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Sales Tax Revenue Bonds	SRF Loans #6, #8, #10, & #11	Installment Contracts	Water Bonds	Loan Payables	Total Primary Government			
2006	5,160,000	82,960	10,955,000	-	273,500	900,000	3,636,238	21,007,698	5.30%	396,179,749	1,038
2007	5,010,000	662,501	10,420,000	-	226,880	-	3,960,755	20,280,136	5.12%	396,179,749	1,002
2008	4,840,000	592,830	9,865,000	1,584,455	176,530	-	6,170,351	23,229,166	5.86%	396,179,749	1,148
2009	4,655,000	537,856	9,295,000	1,808,563	122,152	-	6,588,809	23,007,380	5.81%	396,179,749	1,137
2010	4,640,000	621,126	8,700,000	4,689,433	63,424	-	25,977,890	44,691,873	8.62%	518,446,588	2,080
2011	4,415,000	543,504	8,090,000	4,490,100	-	-	36,685,650	54,224,254	10.46%	518,446,588	2,524
2012	4,115,000	462,428	7,425,000	4,306,168	-	-	35,063,893	51,372,489	9.91%	518,446,588	2,391
2013	3,800,000	377,712	6,905,000	4,113,894	-	-	33,522,038	48,718,644	9.40%	518,446,588	2,268
2014	3,470,000	223,958	16,410,000	3,916,405	-	-	30,305,442	54,325,805	10.48%	518,446,588	2,529
2015	3,120,000	152,537	36,125,000	3,713,558	-	-	27,966,083	71,077,178	13.71%	518,446,588	3,309

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

Statistics (Unaudited)

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Actual Value of Property	Percentage of Personal Income	Per Capita
2006	5,160,000	95,835	5,064,165	0.51%	1.28%	250
2007	5,010,000	124,812	4,885,188	0.48%	1.23%	241
2008	4,840,000	153,462	4,686,538	0.40%	1.18%	232
2009	4,655,000	181,979	4,473,021	0.37%	1.13%	221
2010	4,640,000	208,507	4,431,493	0.34%	1.12%	206
2011	4,415,000	233,245	4,181,755	0.32%	0.81%	195
2012	4,115,000	255,383	3,859,617	0.29%	0.74%	180
2013	3,800,000	277,791	3,522,209	0.25%	0.68%	164
2014	3,470,000	301,153	3,168,847	0.22%	0.61%	148
2015	3,120,000	325,683	2,794,317	0.18%	0.54%	130

Table 12
Direct and Overlapping Governmental Activities Debt
As of December 31, 2015

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
School District	\$ 18,816,550	75%	\$ 14,131,229
Subtotal, overlapping debt			14,131,229
City of Watertown direct debt			<u>3,120,000</u>
Total direct and overlapping debt			<u>\$ 17,251,229</u>

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

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

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

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Table 13
Legal Debt Margin Information
Last Ten Fiscal Years

	2006	2007	2008	2009	2010	2011
Debt Limit (5% limit)	51,068,352	59,108,880	60,164,324	64,385,338	65,448,786	65,694,742
Total net debt applicable to limit	16,646,334	16,740,869	17,965,985	15,880,715	18,092,857	16,995,100
Legal debt margin	34,422,018	42,368,011	42,198,339	48,504,623	47,355,929	48,699,642
Total net debt applicable to the limit as a percentage of debt limit	32.60%	28.32%	29.86%	24.67%	27.64%	25.87%

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

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	2012	2013	2014	2015
Debt Limit (5% limit)	66,749,044	69,306,989	72,898,997	76,017,872
Total net debt applicable to limit	15,846,168	14,818,894	23,796,405	42,688,558
Legal debt margin	50,902,876	54,488,095	49,102,592	33,329,314
Total net debt applicable to the limit as a percentage of debt limit	23.74%	21.38%	32.64%	56.16%

Legal Debt Margin Calculation for Fiscal Year 2015

	"No-Limit" Debt	Debt Capacity at 5% (Unrestricted)	Additional 10% Debt Capacity (Water/Sewer)
2015 Assessed Value			
		<u>\$1,520,357,438</u>	
Maximum Debt Capacity:	-	76,017,872	152,035,744
Existing Bonds:			
GO Refinancing Bonds (Event Center; 1.0-3.35% interest)	-	3,120,000	-
SRF Loan No. 3 (Wastewater Revenue Surcharge)	203,650	-	-
SRF Loan No. 5 (Wastewater Revenue Surcharge)	1,192,354	-	-
SRF Loan No. 6-CW (Sales Tax)	-	840,358	-
SRF Loan No. 6-NPS (Sales Tax)	-	78,432	-
SRF Loan No. 7-CW (Wastewater Revenue Surcharge)	575,668	-	-
SRF Loan No. 7-NPS (Wastewater Revenue Surcharge)	57,758	-	-
SRF Loan No. 8-CW (Sales Tax)	-	373,445	-
SRF Loan No. 8-NPS (Sales Tax)	-	41,785	-
SRF Loan No. 9-CW (Wastewater Revenue Surcharge)	8,679,053	-	-
SRF Loan No. 10-CW (Sales Tax)	-	2,213,167	-
SRF Loan No. 11-CW (Sales Tax)	-	166,371	-
SRF Loan Drinking Water (Water Revenue Surcharge)	17,257,600	-	-
2012 Sales Tax Revenue Bonds (0.4-2.7%)	-	2,765,000	-
2014 Sales Tax Revenue Bonds (0.5%-3.6%)	-	9,650,000	-
2015 Sales Tax Revenue Bonds (0.3%-3.25%)-Refunding	-	3,100,000	-
2015 Sales Tax Revenue Bonds (2.0%-3.75%) - 2015B	-	9,475,000	-
2015 Sales Tax Revenue Bonds (2.0%-3.75%) - 2015B	-	10,865,000	-
Total Bonded Debt	<u>27,966,083</u>	<u>42,688,558</u>	-
Other Debt:			
Capital Lease - Fire Truck	152,537	-	-
Total Other Debt	<u>152,537</u>	-	-
Total Debt	28,118,620	42,688,558	-
Available Debt Capacity	N/A	<u>33,329,314</u>	<u>152,035,744</u>

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Statistics (Unaudited)

Table 14
Pledged-Revenue Coverage
Last Ten Fiscal Year

Fiscal Year	1993 Water Revenue Bonds						State Revolving Fund Loans		
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service			Utility Service Charges	Less: Operating Expenses	Net Available Revenue
				Principal	Interest	Coverage			
2006	633,028	124,002	509,026	275,000	57,212	1.53	2,711,597	1,299,419	1,412,178
2007	472,666	115,578	357,088	900,000	90,537	0.36	2,574,196	1,469,253	1,104,943
2008	-	-	-	-	-	-	2,689,856	1,469,475	1,220,381
2009	-	-	-	-	-	-	2,650,728	1,531,910	1,118,818
2010	-	-	-	-	-	-	2,738,892	1,502,013	1,236,879
2011	-	-	-	-	-	-	3,253,856	1,669,074	1,584,782
2012	-	-	-	-	-	-	8,520,446	4,340,018	4,180,428
2013	-	-	-	-	-	-	8,326,760	4,322,245	4,004,515
2014	-	-	-	-	-	-	8,291,596	4,576,654	3,714,942
2015	-	-	-	-	-	-	8,486,690	4,267,645	4,219,045

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

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

The SRF Loans are backed by 100% of all sales tax collected in the Capital Improvement Fund.

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

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State Revolving Fund Loans (cont)			Sales Tax Revenue Bonds			
Debt Service			Net Available	Debt Service		
Principal	Interest	Coverage	Revenue	Principal	Interest	Coverage
643,235	177,985	1.72	2,776,313	465,000	377,296	3.30
671,977	142,117	1.36	2,845,942	535,000	433,257	2.94
633,505	157,523	1.54	5,865,987	555,000	417,415	6.03
343,481	148,618	2.27	5,748,865	570,000	399,890	5.93
342,063	285,891	1.97	6,006,708	595,000	381,230	6.15
287,401	129,845	3.80	6,289,668	610,000	360,545	6.48
1,573,390	1,150,312	1.53	6,800,967	1,160,000	337,893	4.54
1,657,670	1,091,552	1.46	6,835,289	520,000	225,745	9.17
3,230,329	1,013,610	0.88	7,203,788	495,000	215,490	10.14
2,338,776	915,634	1.30	7,208,929	1,160,000	471,685	4.42

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Statistics (Unaudited)

Table 15
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (1)	Median Age (1)	Education in Years of Formal Schooling (1)	School Enrollment (2)	Unemployment Rate (3)
2006	20,237	19,577	35.3	12.9	3,816	3.3%
2007	20,237	19,577	35.3	12.9	3,734	3.0%
2008	20,237	19,577	35.3	12.9	3,777	4.1%
2009	20,237	19,577	35.3	12.9	3,708	5.5%
2010	21,482	24,134	36.6	13.0	3,687	4.7%
2011	21,482	24,134	36.6	13.0	3,743	4.4%
2012	21,482	24,134	36.6	13.0	3,876	4.0%
2013	21,482	24,134	36.6	13.0	3,795	3.5%
2014	21,482	24,134	36.6	13.0	3,918	3.5%
2015	21,482	24,134	36.6	13.0	3,912	3.4%

DATA SOURCE:

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

2000 Census detail data presented as follows:

25 years and over-years of school completed:

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

2010 Census detail data presented as follows:

25 years and over-years of school completed:

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

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

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

Statistics (Unaudited)

Table 16
Principal Employers
Current Year and Ten Years Ago

Employer	2016			2006		
	Employees	Rank	Percentage of Total City Employed	Employees	Rank	Percentage of Total City Employed
Watertown School District	910	1	4.24%	835	1	4.13%
Terex Utilities	594	2	2.77%	465	4	2.30%
Prairie Lakes Healthcare System	547	3	2.55%	512	3	2.53%
HyVee	485	4	2.26%	251	10	1.24%
Premier Bankcard	380	5	1.77%	545	2	2.69%
City of Watertown	336	6	1.56%	350	6	1.73%
Worthington Industries	320	7	1.49%	398	5	1.97%
Jenkins Living Center	270	8	1.26%	-	-	-
OEM Worldwide/Sparton	260	9	1.21%	-	-	-
Dakota Bodies	247	10	1.15%	-	-	-
Dakota Sioux Casino	-	-	-	302	8	1.49%
Human Service Agency	-	-	-	265	9	1.31%
Walmart Supercenter	-	-	-	320	7	1.58%
Total	4,349		20.24%	4,243		20.97%

Source: Focus Watertown

Statistics (Unaudited)

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

Function/Program	Full-Time Equivalent Employees as of December 31									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government										
Mayor/City Council	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50
Attorney	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Finance	7.50	7.50	7.58	7.69	7.53	7.58	7.00	7.10	7.10	7.04
Information Technology	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	3.00
Engineering	4.60	5.60	5.60	5.34	5.63	7.36	7.41	7.36	7.47	7.00
Public Safety										
Police	35.06	40.06	40.06	41.06	41.25	41.56	42.01	42.57	42.35	42.12
E-911	8.50	9.00	9.40	10.00	9.80	12.80	12.80	12.80	12.80	12.35
Fire/Ambulance	29.00	32.00	32.00	34.00	37.00	34.00	37.00	37.00	37.43	37.03
Public Works										
Public Works Director	2.06	2.06	2.06	2.06	2.06	-	-	-	-	-
Streets	14.03	14.08	14.12	13.96	13.92	14.26	12.77	14.02	12.95	13.62
Cemetery	2.90	2.92	3.11	3.13	3.08	3.08	3.13	3.15	3.11	3.10
Building Services	-	-	-	-	5.48	4.48	4.47	4.46	4.47	4.47
Health and Welfare										
Animal Control	1.23	1.30	1.22	1.40	1.40	1.40	-	-	-	-
Culture and Recreation										
Park and Recreation	47.06	55.52	53.77	55.50	54.64	54.09	50.97	51.15	54.00	55.04
Community Recreation Center	14.72	14.37	13.48	14.98	14.59	14.63	14.38	14.81	15.02	15.06
Forestry	3.08	3.08	2.93	2.93	2.93	2.93	2.84	2.46	3.03	3.43
Library	12.94	12.94	12.94	12.94	12.94	12.94	11.49	11.44	11.14	11.54
Conservation & Development										
Sioux River Watershed Project	2.75	2.75	3.75	2.70	2.72	2.65	1.62	1.64	1.63	1.77
Terry Redlin Freshwater Institute	1.00	1.00	-	-	-	-	-	-	-	-
Planning and Zoning	4.86	5.65	5.62	5.52	-	-	-	-	-	-
Urban Renewal	0.68	0.75	0.48	0.37	0.40	0.40	0.20	0.06	0.11	0.01
Wastewater										
Wastewater	14.62	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Refuse Collection										
Refuse Collection	16.50	16.50	16.50	16.69	16.69	16.64	16.62	16.74	16.64	16.69
Airport										
Airport	2.67	2.34	3.06	3.00	3.75	4.08	4.04	3.02	4.07	4.49
Electric										
Electric	31.00	31.00	33.00	33.00	32.00	30.00	31.00	30.00	30.00	30.00
Gas										
Gas	15.00	15.00	14.00	14.00	14.00	14.00	15.00	14.00	15.00	15.00
Water										
Water	13.00	14.00	17.00	16.00	17.00	18.00	16.00	18.00	17.00	17.00

Source: City Departments

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

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Physical Arrests	2,108	2,189	2,049	1,864	1,913	2,205	2,148	2,461	2,020	2,420
Accidents	904	939	775	855	875	860	793	794	763	738
Traffic Violations	2,260	2,783	2,052	1,925	1,435	1,305	1,411	1,359	1,366	1,344
Fire										
Emergency Responses	1,725	1,626	1,706	1,804	1,839	1,857	2,185	2,211	2,114	2,298
Fire Calls	387	483	691	597	392	385	485	460	375	445
Inspections	286	174	297	607	617	285	342	314	411	493
Solid Waste										
Refuse Deposited (tons per day)	102	104	106	111	121	123	137	141	149	159
Recyclables collected (tons per day)	2	2	2	2	2	2	2	3	3	3
Other Public Works										
Crack Sealed Streets (blocks)	123	40	38	-	-	-	-	-	41	98
Seal Coat Streets (blocks)	165	138	154	148	130	128	145	134	149	139
Street Resurfacing (blocks)	50	51	54	36	51	58	44	35	48	49
Parks and Recreation										
Community Center Memberships	4,274	4,337	4,485	4,597	4,573	4,614	4,971	4,842	4,820	5,192
Participants in Youth Programs	5,922	4,961	5,568	4,477	4,547	4,740	5,305	5,266	5,147	5,974
Library										
Items in Collection	87,582	89,578	98,154	100,012	101,430	110,209	110,923	135,690	140,130	144,826
Total Items Loaned	195,524	196,798	234,366	271,589	261,058	263,643	228,680	221,072	218,621	235,897
Wastewater										
Avg sewage treatment (mill gal per day)	2.36	3.17	3.00	3.27	3.60	3.99	2.42	2.90	3.00	2.46
Airport										
Boardings per year	5,920	5,131	4,804	4,609	7,576	8,924	5,679	4,447	1,968	2,820

Source: City Departments

Statistics (Unaudited)

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

<u>Function/Program</u>	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	12	13	14	14	14	15	14	14	14	14
Fire Stations	1	1	1	1	1	2	2	2	2	2
Refuse collection										
Collection Trucks	9	9	9	9	9	8	7	7	7	7
Other public works										
Streets (miles)	151	154	157	157	158	158	163	170	170	174
Streetlights	2420	2546	2616	2684	2691	2676	2688	2640	2646	2676
Traffic signals	26	26	26	37	39	39	39	31	31	31
Parks and Recreation										
Acreage	486	486	486	486	486	631	631	631	631	712
Derby Downs clubhouse & arena (acres)	80	80	80	80	80	80	80	80	80	80
Playgrounds	19	19	19	21	21	21	21	21	21	21
Baseball/softball fields	25	25	25	25	25	18	18	18	18	18
Soccer/football fields	12	12	12	12	12	16	16	16	16	16
Recreation Centers	1	1	1	1	1	1	1	1	1	1
Airport										
Runways	2	2	2	2	2	2	2	2	2	2

Source: City Departments



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

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

To the City Council
City of Watertown, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watertown, South Dakota (City) as of December 31, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2016. Our report includes a reference to other auditors who audited the financial statements of The Housing and Redevelopment Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

William Neale & Co., P.C.

Watertown, South Dakota
June 22, 2016



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Watertown, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Watertown, South Dakota's (City) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

The City's basic financial statements include the operations of The Housing and Redevelopment Commission, which received \$963,959 in federal awards which is not included in the schedule during the year ended December 31, 2015. Our audit, described below, did not include the operations of The Housing and Redevelopment Commission because The Housing and Redevelopment Commission engaged other auditors to perform an audit required by the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Watertown, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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



Watertown, South Dakota
June 22, 2016

**CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2015</u>
Department of Justice:			
Indirect Federal Funding:			
SD Office of Attorney General, Recovery Act – Internet Crimes Against Children Task Force Program (ICAC)	16.800	--	\$ <u>1,644</u>
Direct Federal Funding:			
Bureau of Justice Assistance, Bulletproof Vest Partnership Program	16.607	--	<u>1,302</u>
Total Department of Justice			<u>2,946</u>
Department of Transportation:			
Indirect Federal Funding:			
SD Department of Public Safety, Office of Highway Safety, State & Community Highway Safety	20.600	NHTSA 2015-27-47	13,614
SD Office of Emergency Management, Interagency Hazardous Materials Public Sector Training & Planning Grants	20.703	--	<u>37,968</u>
			<u>51,582</u>
Direct Federal Funding:			
Airport Improvement Program – Major Program	20.106	3-46-0058-27-13	29,414
	20.106	3-46-0058-28-14	540,384
	20.106	3-46-0058-29-15	<u>222,556</u>
			<u>792,354</u>
Total Department of Transportation			<u>843,936</u>
General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency, Donation of Federal Surplus Personal Property - Note 4	39.003	--	<u>182</u>
Environmental Protection Agency:			
Indirect Federal Funding:			
SD Department of Environment and Natural Resources, Nonpoint Source Implementation Grant	66.460	C9-99818512-0	<u>56,673</u>
Homeland Security:			
Indirect Federal Funding:			
SD Department of Public Safety, Office of Emergency Management, Hazard Mitigation Grant	97.039	DR-4155-16-F	33,987

CITY OF WATERTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015
(Continued)

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2015</u>
SD Department of Public Safety, Office of Homeland Security, Homeland Security Grant Program	97.067	--	45,776 <u>79,763</u>
Direct Federal Funding: Transportation Security Administration, Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0213HSLR762	<u>11,370</u>
Total Homeland Security			<u>91,133</u>
GRAND TOTAL - Note 5			<u>\$ 994,870</u>

Note 1: The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Watertown, South Dakota under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Watertown, South Dakota, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Watertown, South Dakota.

Note 2: Expenditures reported on the Schedule are reported on the modified accrual/accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: The City of Watertown, South Dakota has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City of Watertown, South Dakota.

Note 5: The amount only includes the federal expenditures of the City of Watertown, the primary government, and does not include the federal expenditures of the Watertown Housing and Redevelopment Commission, a component unit of the City of Watertown.

**CITY OF WATERTOWN
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2015**

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS

The prior audit report disclosed no written audit findings.

PRIOR OTHER AUDIT FINDINGS

The prior audit report disclosed no written audit findings.

CITY OF WATERTOWN
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Watertown, South Dakota were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Watertown, South Dakota, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the City of Watertown, South Dakota expresses an unmodified opinion on all major federal programs.
6. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the Airport Improvement Program (20.106).
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. The City of Watertown did not qualify as a low-risk entity.

B. CURRENT FEDERAL COMPLIANCE AUDIT FINDINGS

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

C. CURRENT OTHER AUDIT FINDINGS

There are no written current other audit findings to report.