

Honorable Mayor, Members of the City Council  
and Finance Committee  
City of Watertown  
Watertown, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watertown (the City) as of and for the year ended December 31, 2014, and have issued our report thereon dated June 2, 2015. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2014.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense on capital assets is based on the estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the estimated useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the value of investments is based on quoted market prices. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of compensated absences payable is based on accumulated hours at year end for the applicable employees subject to City policy for vesting and payout upon separation from the City. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

***Qualitative aspects of accounting practices (continued)***

***Financial statement disclosures***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***Corrected misstatements***

The following material misstatements detected as a result of audit procedures were corrected by management:

- Record a receivable related to the City's payment from FEMA received in 2015 and the related deferred inflows.
- Reclassification of interfund transfer activity recorded in error and the related expenses.
- Reclassification of revenue and expenditures in to the proper funds and/or accounts.
- Adjust certain balances for receivables and payable based on audit testing.
- Record conversion entries required to convert the City's information from modified accrual to full accrual for the government-wide financial statements.
- Adjustments to record depreciation expense in the City's proprietary funds.
- Record an allowance for proprietary fund receivables written-off after year-end.
- Adjust capital asset accounts as necessary based on audit procedures performed.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other audit findings or issues**

We have provided a separate letter to you dated June 2, 2015, communicating internal control related matters identified during the audit.

**Audits of group financial statements**

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

**Other information in documents containing audited financial statements**

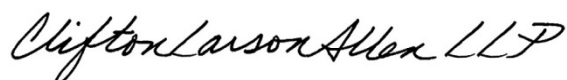
With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the combining and individual fund financial statements and schedules (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated June 2, 2015.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \* \* \*

This communication is intended solely for the information and use of the Finance Committee of the City of Watertown and management of the City of Watertown, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 2, 2015

**CITY OF WATERTOWN  
SCHEDULE OF WAIVED/UNCORRECTED ADJUSTMENTS  
DECEMBER 31, 2014**

Description	Account	Debit	Credit
<b>Passed Journal Entries JE # 1</b>			
To pass on depreciation that should've been recorded in the prior year that was missed on manual fixed asset schedule, which was found when the City converted to a capital asset software, which led to an overstatement of current year depreciation and understatement of beginning net position.			
	Net Position	\$ 60,545	\$ -
	Depreciation	-	60,545
<b>Total</b>		<b><u>\$ 60,545</u></b>	<b><u>\$ 60,545</u></b>
<b>Passed Journal Entries JE # 2</b>			
To pass on assets that were expensed in the prior year but included as a current year capital outlay which led to an overstatement of beginning net position and an understatement of other government wide expenses.			
	Government Wide Expenses	\$ 28,383	\$ -
	Net Position	-	28,383
<b>Total</b>		<b><u>\$ 28,383</u></b>	<b><u>\$ 28,383</u></b>
Cumulative Impact - Government Wide			
	Assets (Overstated) Understated	\$ -	
	Liabilities Overstated (Understated)	-	
	Net Position Overstated (Understated)	(32,162)	
	Support and Revenue Overstated (Understated)	-	
	Expenses (Overstated) Understated	(32,162)	
	Changes in Net Position Overstated (Understated)	<u>\$ (32,162)</u>	

**INDEPENDENT AUDITORS' 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**

Honorable Mayor, Members of the City Council and Management  
City of Watertown  
Watertown, Minnesota

We have audited, in accordance with the 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 (the City), as of and for the year ended December 31, 2014, 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 2, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2014-001, 2014-002 and 2014-003 to be material weaknesses.

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-004, 2014-005 and 2014-006 to be significant deficiencies.

**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*.

**City of Watertown's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 2, 2015

**CITY OF WATERTOWN  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2014**

**2014-001 Material Weakness - Oversight of the Financial Reporting Process**

**Condition:** As communicated in prior years, the City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requests CliftonLarsonAllen to prepare a draft of the financial statements, including the related footnote disclosures.

**Criteria:** Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

**Effect:** The lack of controls over the financial reporting process increases the possibility that material errors could exist in the City's financial statements that may not be detected and corrected by management.

**Cause:** The City relies on the audit firm to prepare the annual statements, related footnote disclosures, and to verify balances are correct at year-end. However, management does review and approve the annual financial statements and related footnote disclosures.

**Recommendation:** It is recommended that the City establish controls and enhanced involvement in the financial reporting process to be able to prepare the financial statements and related footnote disclosures. If the City does not deem this to be a reasonable use of resources, then we will recommend that the City continue to review and approve the annual financial statements and related disclosures and to enhance its year-end closing process.

**Management's Response:** Due to the small size of the City's staff and the additional costs necessary to ensure proper controls are in place, the City has decided that the costs of implementing the necessary controls for preparing the City's financial statements outweigh the benefits that would be derived. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the fair presentation of the financial statements without significant increases in the costs of implementing those controls.

**CITY OF WATERTOWN**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**DECEMBER 31, 2014**

**2014-002 Material Weakness - Adjusting Journal Entries**

**Condition:** During our audit, we detected certain material adjustments that may not have been detected otherwise and would have resulted in material errors in financial statement amounts and classifications.

**Criteria:** Financial statements are management's responsibility, and as such, the audit process should not be relied upon to detect misstatements.

**Effect:** Material adjustments detected during the current year's audit are summarized as follows:

- Record a receivable related to the City's payment from FEMA received in 2015 and the related deferred inflows.
- Reclassification of interfund transfer activity recorded in error and the related expenses
- Reclassification of revenue and expenditures in to the proper funds and/or accounts.
- Adjust certain balances for receivables and payable based on audit testing.
- Record conversion entries required to convert the City's information from modified accrual to full accrual for the government-wide financial statements.
- Adjustments to record depreciation expense in the City's proprietary funds.
- Record an allowance for proprietary fund receivables written-off after year-end.
- Adjust capital asset accounts as necessary based on audit procedures performed.

**Cause:** The City has not established adequate controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The City relies on the audit firm to prepare the annual financial statements and to verify balances are correct at year-end.

**Recommendation:** We recommend that management perform a thorough review of its general ledger support prior to the audit to ensure amounts are properly recorded and classified and that disclosures are properly supported.

**Management's Response:** With limited staffing and accounting personnel, the City believes its efforts are adequate, although we plan on reviewing the current year's adjusting journal entries to try and correct the records for next year before the audit. The controls over financial reporting can be improved upon, but it is uncertain to what effect they can be implemented to limit the amount of journal entries. Nevertheless, the City is continually reviewing the situation and establishes controls that the City believes will aid in the fair presentation of the financial statements without significant increases in the costs of implementing those controls.



**CITY OF WATERTOWN  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
DECEMBER 31, 2014**

**2014-003 Material Weakness - Daily Deposit Tracking and Review**

**Condition:** At present, funds are received at the City for deposit but are not tracked adequately to be able to be compared to the amount deposited into the City's bank account.

**Criteria:** The City should maintain adequate controls over receipts to prevent and detect if a receipt was handled in error or inappropriately.

**Effect:** Without a tracking mechanism for receipts, someone with access to the funds could mishandle them before deposit and it may go undetected. This would result in lost revenue and funds for the City. No particular misappropriation was brought to our attention or detected.

**Cause:** The City does not have formalized receipting procedures that describe the responsibilities of the various accounting personnel involved in the receipting process and not all controls are properly implemented.

**Recommendation:** To provide for proper control over cash receipts, we recommend that all mail be opened by someone outside the accounting department and that they keep a list of receipts before processing the receipts for deposit. The listing of receipts and any support that accompanied the receipt should then be forwarded on to the accounting personnel. The list prepared by the mail opener should be compared and agreed with the bank deposit subsequently made. To enhance controls over receipts, access to cash should be limited and an initial list of receipts should be prepared and then reviewed by someone who does not handle cash.

**Management's Response:** We will look into the receipting process and the available personnel to determine how we can mitigate this risk and improve internal controls over receipting. We will formalize these procedures when they are approved.

**CITY OF WATERTOWN**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**DECEMBER 31, 2014**

**2014-004 Significant Deficiency - Expense Reimbursement Approval**

**Condition:** The City has a policy in place where all expense reimbursement requests must be accompanied by the appropriate form and approved by the proper City official. During our testing of expense reimbursements, it was noted that four of the five reimbursements tested did not contain the proper approval on the reimbursement form.

**Criteria:** The City should ensure the expense reimbursement policy is followed without exception to ensure proper controls over employee expense reimbursements.

**Effect:** Without consistently following the City's policy there is the possibility for inappropriate reimbursements.

**Cause:** The City does not appear to be consistently enforcing their reimbursement policy, regarding approval of the reimbursement requests.

**Recommendation:** We recommend the City review its procedures to ensure all City policies, including the expense reimbursement policy, are consistently followed and enforced. This includes requiring the proper expense reimbursement form for all employee reimbursement requests and ensuring all reimbursement request forms are properly approved and the approval is documented.

**Management's Response:** The City will ensure the expense reimbursement policy is followed in 2015 and will require that the proper expense reimbursement forms accompanying all reimbursement requests be reviewed and approved.

**CITY OF WATERTOWN  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
DECEMBER 31, 2014**

**2014-005 Significant Deficiency - Documentation of Bank and Investment Reconciliation Reviews**

**Condition:** The City's bank and investment reconciliations are performed and reviewed by an individual of the reconciliation process, however it doesn't appear to have proper documentation of the review by that individual, due to them being kept on the City's shared network drive, in which all employees have access to.

**Criteria:** The City should ensure bank and investment reconciliations are properly reviewed by a person independent of the reconciliation process and that bank and investment activity is monitored in a timely manner.

**Effect:** Without timely reviews being performed and documented, there is the possibility that inappropriate activity may go undetected.

**Cause:** The City has not maintained documentation of the reconciliations being performed and of what version of the reconciliations.

**Recommendation:** We recommend the City develop a process to ensure the monthly cash and investment reconciliations are reviewed and properly documented. This may include, but not limited to: approving hard copies of the reconciliations, maintaining a summary sheet, tracking reviews on an independent log, or keeping email documentation. The documentation should contain enough detail to enable the City to determine the review was performed, what balances/activity was approved, and the date of the review.

**Management's Response:** The City will review its bank and investment reconciliation review process in 2015 and ensure it is documented properly and monitored to ensure it is being performed properly and in a timely manner.

**CITY OF WATERTOWN**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**DECEMBER 31, 2014**

**2014-006 Significant Deficiency - Review of Credit Card Charges**

**Condition:** The City incurs costs that are paid by credit card and requires cardholders to submit supporting documentation of the charges before the charges are paid by the City. However, we were not presented with documentation those charges were approved by someone independent of the person who initiated the purchase via credit card.

**Criteria:** The City should ensure all costs, including those paid via credit card, are made in accordance with City policies and procedures and include the proper approval process.

**Effect:** Without properly and consistently following the City's established policies and procedures there is a possibility for inappropriate charges to be incurred and it enables employees to circumvent the City's policies.

**Cause:** The City does not appear to have procedures in place to ensure credit card charges are being made in accordance with the City's purchasing policies.

**Recommendation:** We recommend the City review its procedures to ensure all credit card charges are approved by an individual which is independent of the process to initiate the purchase. Reviewers should also be ensuring charges are in compliance with the City's purchasing policies requiring pre-approval, quotes, etc.

**Management's Response:** The City will modify its credit card review process in 2015 to ensure there are proper approval steps and documentation for purchases made via credit card.

**CITY OF WATERTOWN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2014**

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## **INTRODUCTORY SECTION**



**CITY OF WATERTOWN, MINNESOTA  
OFFICIAL DIRECTORY  
DECEMBER 31, 2014**

**CITY COUNCIL:**

Charlotte Johnson	Mayor	12/31/2014
Steve Washburn	Council Member	12/31/2016
Adam Pawelk	Council Member	12/31/2016
Michael Walters	Council Member	12/31/2014
Lindsay Guetzkow	Council Member	12/31/2014

**CITY OFFICIALS:**

Shane Fineran	City Administrator
Jim Bart	City Clerk - Treasurer

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and the City Council  
City of Watertown, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watertown, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watertown as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

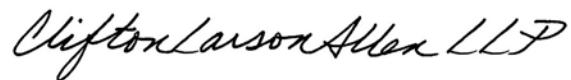
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Honorable Mayor and the City Council  
City of Watertown, Minnesota

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2015, on our consideration of the City of Watertown's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on 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 City of Watertown's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 2, 2015

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

As management of the City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014.

**Financial Highlights**

- The City's net position of its governmental activities increased by \$572,416 during the year to \$12,803,601 at year-end.
- The net position of the City's business-type activities increased by \$289,887 during the year to \$6,869,034.
- The fund balance of the General Fund decreased by \$51,127 during the year to \$1,493,847 at year-end.
- The Water, Sewer, and Storm Water Enterprise Funds reported operating income of \$220,053, \$125,273 and \$15,354, respectively.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-Wide Financial Statements**

The *government-wide financial 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, economic development, parks and recreation, and other. The business-type activities of the City include water, sewer, and storm water operations.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Economic Development Authority for which the City is financially accountable. Financial information for this *component unit* is reported as a blended presentation with the financial information presented for the primary government.

The government-wide financial statements can be found on pages 18-20 of this report.

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain 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 two categories: governmental funds and proprietary 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Capital Projects Fund and the Debt Service Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in these financial statements.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 21-24 of this report.



**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Proprietary Funds.** The *proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and storm water operations. The water, sewer and storm water funds are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

**Notes to 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. The notes to financial statements can be found on pages 28-49 of this report.

**Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 52-57 of this report.

**Government-Wide Financial Analysis**

The City's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*. Comparative information is included in these tables to highlight changes in financial position, shown in Exhibits 1A -1C.

The government-wide statements report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in the City's net position can be used as an indicator of the City's financial position.

The City's financial position is the product of many factors. For example, the determination of the City's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus a liberal approach to depreciation estimates, as well as capitalization policies, will produce a very significant difference in the calculated amounts. For these reasons, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to focus on the current balance.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**EXHIBIT 1A: CITY OF WATERTOWN'S NET POSITION- GOVERNMENTAL ACTIVITIES**

	Governmental Activities	
	2014	2013
Current and Other Assets	\$ 4,345,853	\$ 4,141,286
Capital Assets	14,283,128	14,428,039
Total Assets	<u>18,628,981</u>	<u>18,569,325</u>
Deferred Outflows of Resources	17,634	-
Total Assets and Deferred Outflows of Resources	<u>18,646,615</u>	<u>18,569,325</u>
Noncurrent Liabilities Outstanding	4,885,379	5,350,553
Other Liabilities	957,635	987,885
Total Liabilities	<u>5,843,014</u>	<u>6,338,438</u>
Net Position:		
Net Investment in Capital Assets	8,843,667	8,360,103
Restricted	1,445,732	1,617,784
Unrestricted	2,514,202	2,253,298
Total Net Position	<u>\$ 12,803,601</u>	<u>\$ 12,231,185</u>

**EXHIBIT 1B: CITY OF WATERTOWN'S NET POSITION- BUSINESS TYPE ACTIVITIES**

	Business-Type Activities	
	2014	2013
Current and Other Assets	\$ 964,515	\$ 479,950
Capital Assets	8,415,619	8,736,327
Total Assets	<u>9,380,134</u>	<u>9,216,277</u>
Deferred Outflows of Resources	-	-
Total Assets and Deferred Outflows of Resources	<u>9,380,134</u>	<u>9,216,277</u>
Noncurrent Liabilities Outstanding	1,600,261	1,925,257
Other Liabilities	910,839	711,873
Total Liabilities	<u>2,511,100</u>	<u>2,637,130</u>
Net Position:		
Net Investment in Capital Assets	6,471,353	6,174,983
Unrestricted	397,681	404,164
Total Net Position	<u>\$ 6,869,034</u>	<u>\$ 6,579,147</u>

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**EXHIBIT 1C: SUMMARY OF GOVERNMENTAL AND BUSINESS-TYPE NET POSITION**

	Total	
	2014	2013
Current and Other Assets	\$ 5,310,368	\$ 4,621,236
Capital Assets	22,698,747	23,164,366
Total Assets	<u>28,009,115</u>	<u>27,785,602</u>
Deferred Outflows of Resources	17,634	-
Total Assets and Deferred Outflows of Resources	<u>28,026,749</u>	<u>27,785,602</u>
Noncurrent Liabilities Outstanding	6,485,640	7,275,810
Other Liabilities	1,868,474	1,699,758
Total Liabilities	<u>8,354,114</u>	<u>8,975,568</u>
Net Position:		
Net Investment in Capital Assets	15,315,020	14,535,086
Restricted	1,445,732	1,617,784
Unrestricted	2,911,883	2,657,462
Total Net Position	<u>\$ 19,672,635</u>	<u>\$ 18,810,332</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,672,635 at the close of the most recent fiscal year. The largest portion of the City's net position (78%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are 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 City's debt is repaid primarily through special assessments, property tax levies for debt of governmental activities and user charges provide the financing for the debt of the business-type activities.

An additional portion of the City's net position (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (15%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Governmental Activities.** Governmental activities increased the City's net position by \$572,416. Key elements of this increase are as follows:

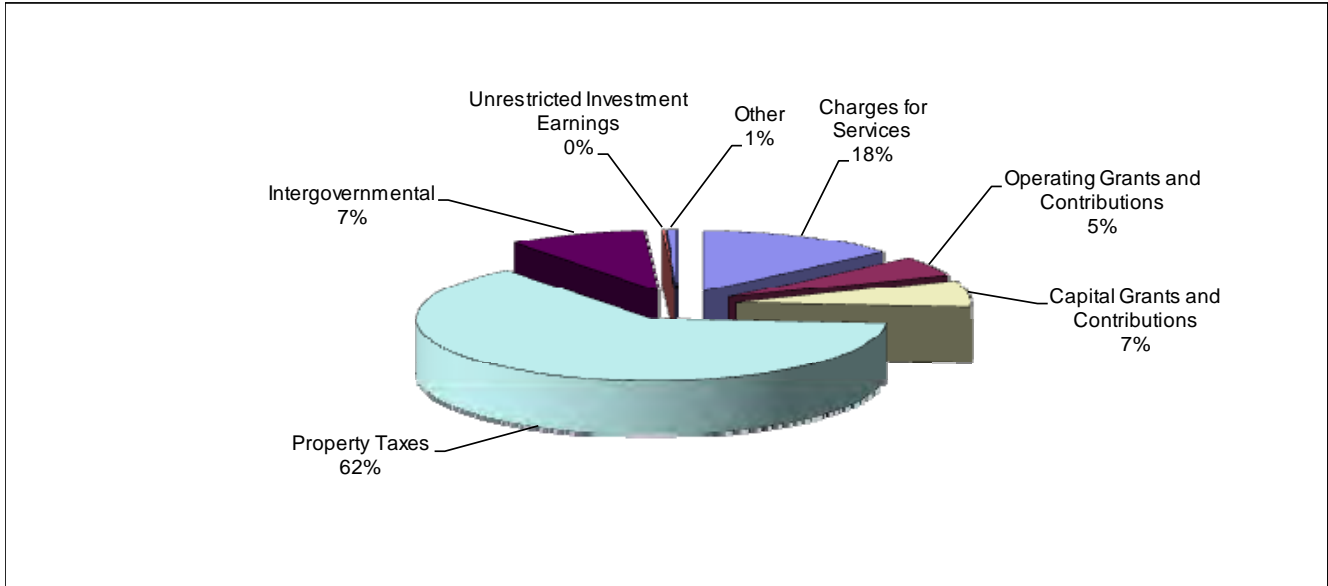
**EXHIBIT 2: CHANGES IN NET POSITION – GOVERNMENTAL ACTIVITIES**

	Governmental Activities			
	2014	2013	Annual Change	Percent Change
<b>REVENUES</b>				
Program Revenues:				
Charges for Services	\$ 434,748	\$ 495,158	\$ (60,410)	(12)%
Operating Grants and Contributions	162,137	123,875	38,262	31
Capital Grants and Contributions	221,285	101,350	119,935	118
General Revenues:				
Property Taxes	1,978,781	1,831,897	146,884	8
Intergovernmental	299,619	197,665	101,954	52
Unrestricted Investment Earnings	6,228	5,329	899	17
Other	23,250	91,030	(67,780)	(74)
Total Revenues	<u>3,126,048</u>	<u>2,846,304</u>	<u>279,744</u>	<u>10</u>
<b>EXPENSES</b>				
General Government	611,400	784,257	(172,857)	(22)
Public Safety	567,534	568,222	(688)	-
Public Works	1,138,344	823,761	314,583	38
Parks and Recreation	209,156	238,265	(29,109)	(12)
Interest on Long-Term Debt	150,940	174,959	(24,019)	(14)
Economic Development and Other	28,505	19,387	9,118	47
Total Expenses	<u>2,705,879</u>	<u>2,608,851</u>	<u>97,028</u>	<u>4</u>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	420,169	237,453	182,716	77
Transfers	<u>152,247</u>	<u>10,500</u>	<u>141,747</u>	N/A
<b>CHANGE IN NET POSITION</b>	572,416	247,953	324,463	131
Net Position - Beginning of Year	<u>12,231,185</u>	<u>11,983,232</u>	<u>247,953</u>	2
<b>NET POSITION - END OF YEAR</b>	<u>\$ 12,803,601</u>	<u>\$ 12,231,185</u>	<u>\$ 572,416</u>	5 %

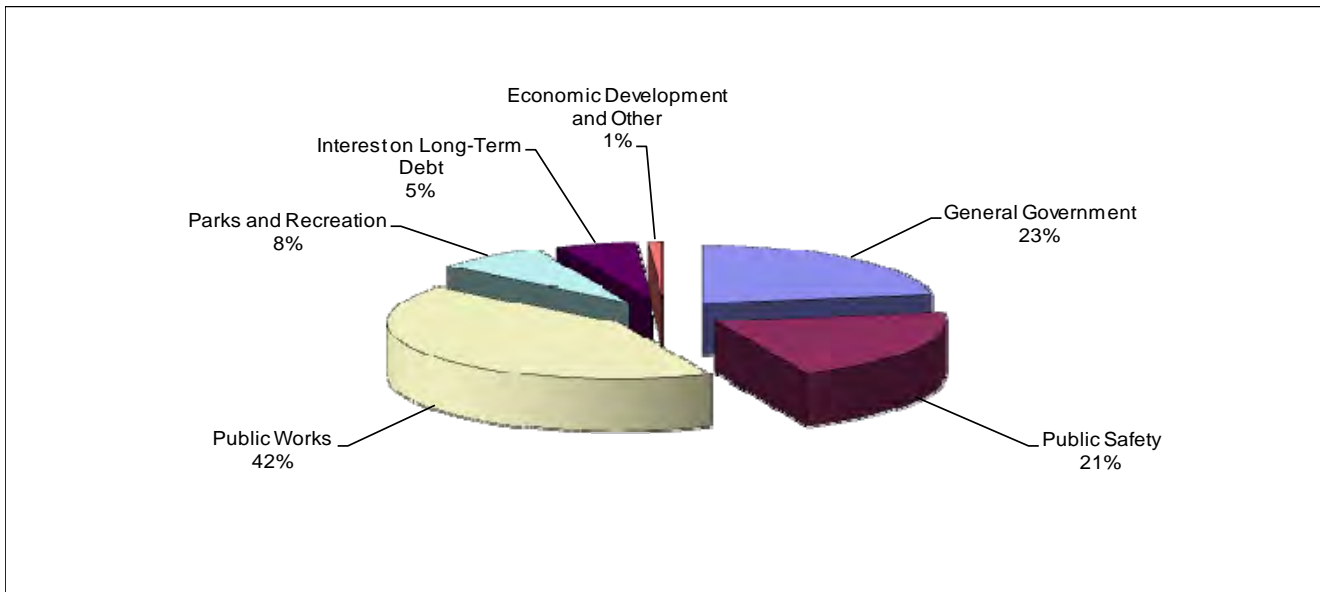
The increase in Intergovernmental revenue is due to the increase in local government aid received during 2014. Along with an increase in capital grants related to FEMA funds for a retaining wall project near the end of the year. The decrease in General Government Expenses is attributed to repair projects related to the City Hall in 2013 that were not incurred in 2014. The increase in Public Works expenses is due to increased depreciation, and repair projects during the year.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

The following is a graphical representation of the various sources of the City's governmental revenues of \$3,126,048:



The following is a graphical representation of the various sources of the City's governmental expenses of \$2,705,879:



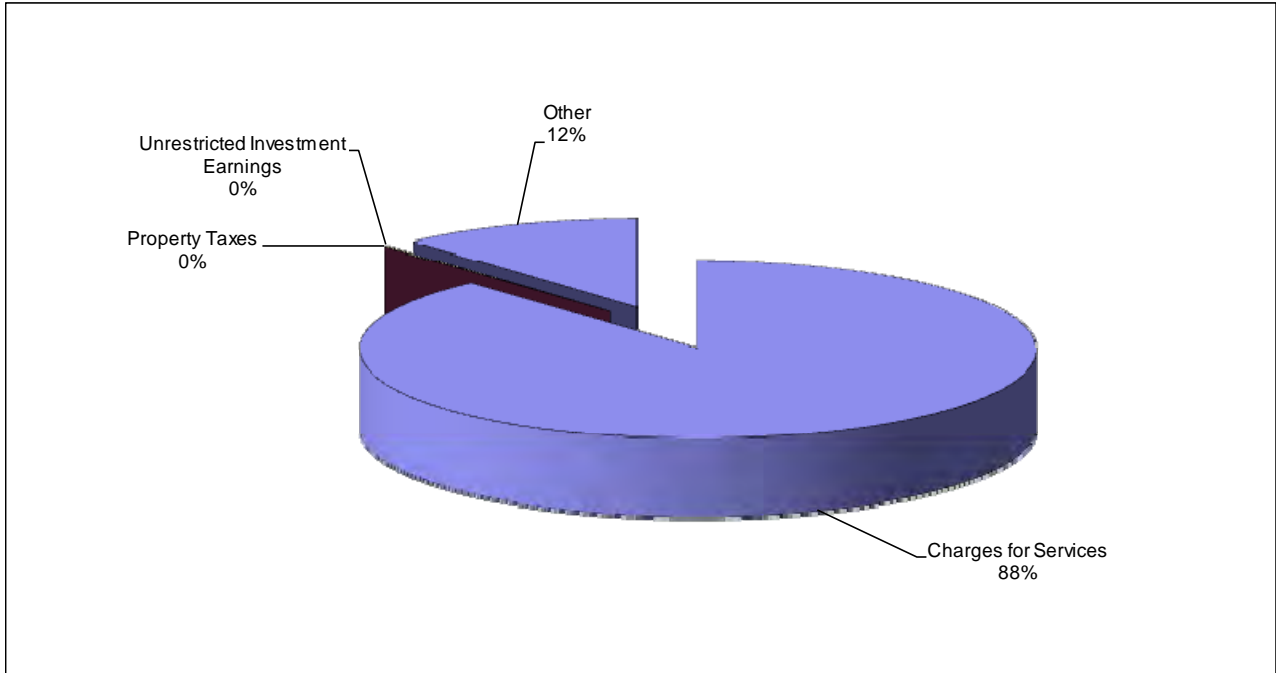
**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Business-Type Activities.** Business-type activities increased the City's net position by \$289,887. Factors of this increase are presented below.

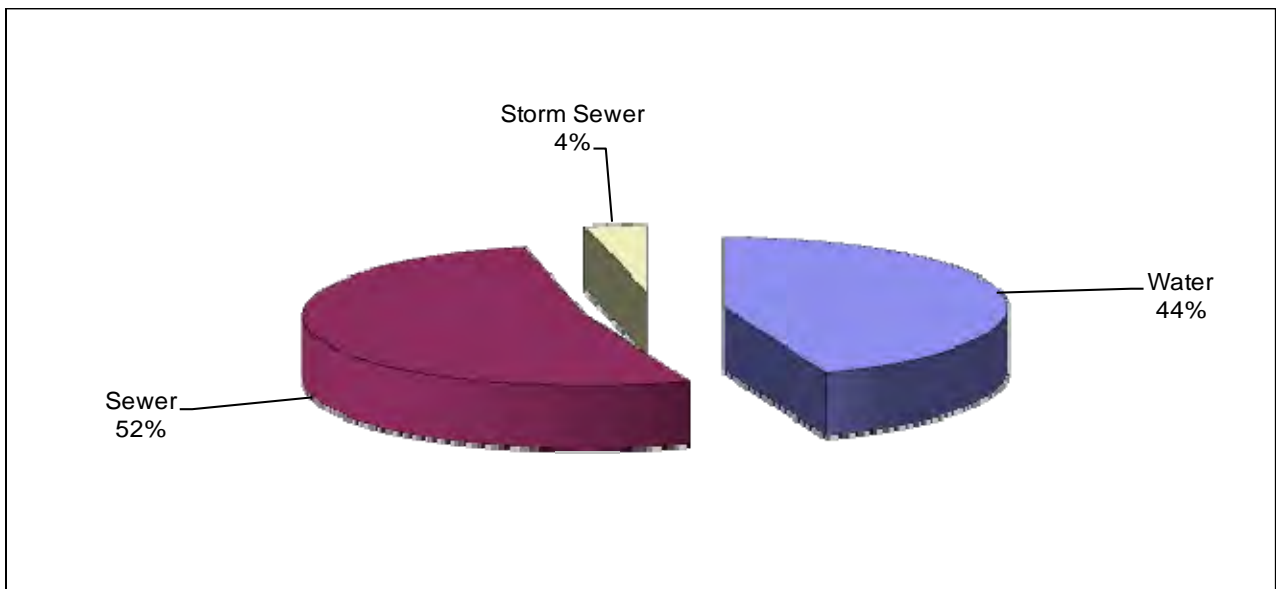
	Business-Type Activities			
	2014	2013	Annual Change	Percent Change
<b>REVENUES</b>				
Program Revenues:				
Charges for Services	\$ 1,435,475	\$ 1,493,906	\$ (58,431)	(4)%
General Revenues:				
Property Taxes	-	350	(350)	(100)
Unrestricted Investment Earnings	2,234	856	1,378	161
Other	187,597	131,158	56,439	43
Total Revenues	<u>1,625,306</u>	<u>1,626,270</u>	<u>(964)</u>	-
<b>EXPENSES</b>				
Water	521,958	499,680	22,278	4
Sewer	619,809	617,433	2,376	-
Storm Sewer	41,405	32,576	8,829	27
Total Expenses	<u>1,183,172</u>	<u>1,149,689</u>	<u>33,483</u>	3
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>				
	442,134	476,581	(34,447)	(7)
Transfers	<u>(152,247)</u>	<u>(10,500)</u>	<u>(141,747)</u>	N/A
<b>CHANGE IN NET POSITION</b>				
	289,887	466,081	(176,194)	(38)
Net Position - Beginning of Year	<u>6,579,147</u>	<u>6,113,066</u>	<u>466,081</u>	8
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 6,869,034</u></u>	<u><u>\$ 6,579,147</u></u>	<u><u>\$ 289,887</u></u>	4 %

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

The following is a graphical representation of the various sources of the City's business-type revenues of \$1,625,306:



The following is a graphical representation of the various sources of the City's business-type expenses of \$1,183,172:



**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Financial Analysis of the City's Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The 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 requirements. 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 the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,395,334, an increase of \$165,317 in comparison with the prior year. Approximately 41% of this total amount (\$1,401,750) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is considered *nonspendable* (\$61,321 for prepaid items and inventory), *restricted* to indicate that it is not available for new spending because it is subject to externally imposed restrictions (\$1,027,724 for Debt Service, Park Improvements and Wildflower Development), *committed* based on Council action taken to reflect specific intent (\$448,446 including City Building Maintenance and Economic Development) or *assigned* based on authority given to the City Administrator (\$456,093 for capital related activities and fire equipment).

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$1,419,658. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Unassigned fund balance represents 67% of total 2014 General Fund expenditures (after transfers in and transfers out).

The fund balance of the City's General Fund decreased by \$51,127 during the current fiscal year. Key factors in this change in fund balance are as follows:

- Actual expenditures totaled \$2,407,694 (including transfers to other funds) for 2014 compared to total budgeted expenditures and transfers out of \$2,063,045. The net unfavorable variance totaled \$344,649 and is attributed to additional transfers to other funds to cover expenditures and transfers to clean up some interfund activity from prior years. A comparison of variances by program areas is presented on page 50.
- Actual total revenue was \$181,968 more than budgeted, the majority of which related to intergovernmental revenues related to FEMA money the City received during 2014.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water, Sewer and Storm Water operations at the end of the year amounted to \$268,346, \$13,530 and \$115,805, respectively. In recent years, the City has raised the base and use rates. In addition to rate and fee increases, the positive fund performance is ascribed to a reorganization which was partially realized in 2012 and continued into 2013 and 2014.



**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**General Fund Budgetary Highlights**

The City Council has adopted a balanced budget annually for many years. Detail of the General Fund original budget, final budget and actual revenues and expenditures can be found on page 50 of this report. The net change in the fund balance of the General Fund was (\$51,127).

**Capital Asset and Debt Administration**

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities as of December 31, 2014 totals \$22,698,747 (net of accumulated depreciation). This investment in capital assets includes buildings and system, improvements, machinery and equipment, and park facilities.

Major capital asset events during the current fiscal year included the following:

- The Kings Highland retaining wall project was substantially completed
- The City purchased two pieces of property for projects
- Continued street projects

**CITY OF WATERTOWN'S CAPITAL ASSETS  
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 4,350,083	\$ 4,046,289	\$ 551,700	\$ 551,700	\$ 4,901,783	\$ 4,597,989
Construction in Progress	198,270	458,449	36,441	-	234,711	458,449
Buildings and Building Improvements	3,038,922	2,997,109	441,427	441,427	3,480,349	3,438,536
Streets and Infrastructure	12,990,986	12,427,206	11,070,678	11,070,678	24,061,664	23,497,884
Equipment and Furniture	3,650,040	3,547,845	1,000,810	997,894	4,650,850	4,545,739
Permanent Easements	210,133	210,133	13,930	30,107	224,063	240,240
Less: Accumulated Depreciation	(10,155,306)	(9,258,992)	(4,699,367)	(4,355,479)	(14,854,673)	(13,614,471)
Capital Assets	<u>\$ 14,283,128</u>	<u>\$ 14,428,039</u>	<u>\$ 8,415,619</u>	<u>\$ 8,736,327</u>	<u>\$ 22,698,747</u>	<u>\$ 23,164,366</u>

Additional information on capital assets is presented in Note 6 on pages 40-41 of this report.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Long-Term Debt** – At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,844,000. In 2014, the City issued \$1,205,000 of General Obligation Refunding Bonds. All debt is backed by the full faith and credit of the City.

**CITY OF WATERTOWN'S OUTSTANDING DEBT  
(General Obligation)**

	Governmental Activities	
	2014	2013
G.O. Bonds	\$ 5,407,000	\$ 6,043,000
	Business-Type Activities	
	2014	2013
G.O. Bonds	\$ 770,000	\$ 465,000
G.O. Water and Sewer Bonds	590,000	675,000
Notes Payable	1,077,000	1,432,509
Total Outstanding Debt	\$ 2,437,000	\$ 2,572,509
	Total	
	2014	2013
G.O. Bonds	\$ 6,177,000	\$ 6,508,000
G.O. Water and Sewer Bonds	590,000	675,000
Notes Payable	1,077,000	1,432,509
Total Outstanding Debt	\$ 7,844,000	\$ 8,615,509

Additional information on long-term debt is presented in Note 7 on pages 42-44 of this report.

**CITY OF WATERTOWN, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2014**

**Economic Factors and Next Year's Budgets and Rates**

- The City Council has prepared a balanced budget for the General Fund for 2015. The Staff will continually monitor the budget and recommend any revisions that are deemed necessary to the City Council. LGA in 2015 was budgeted to primarily fund capital improvements rather than operations.
- Staff will also maintain the reserve fund with the intention of maintaining those fund balances in order to provide short-term and emergency financing options for the City.
- Even though the City is continuing to experience slower growth, it is the view of the staff that the City will, over the next few years, experience growth from new development that will increase the tax base for the City. This growth will include residential development, commercial and light industrial development and redevelopment of a major portion of the downtown area.
- The City Council and staff will continue to be vigilant in regards to the fund balances and will continue to strive for conservative fiscal planning and policies that will increase the fiscal health of the City.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Watertown, P.O. Box 279, Watertown, Minnesota 55388.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF WATERTOWN, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Cash and Investments	\$ 3,331,044	\$ 705,860	\$ 4,036,904
Accounts and Notes Receivable, Net	266,689	297,367	564,056
Property Taxes Receivable	104,157	-	104,157
Special Assessments Receivable	419,946	91,296	511,242
Accrued Interest Receivable	628	22	650
Internal Balances	149,064	(149,064)	-
Due from Other Governments	13,003	1,527	14,530
Other Assets	61,322	17,507	78,829
Capital Assets:			
Non-Depreciable:			
Land and Land Improvements	4,350,083	551,700	4,901,783
Construction in Progress	198,270	36,441	234,711
Depreciable:			
Streets and Infrastructure	12,990,986	11,070,678	24,061,664
Buildings and Building Improvements	3,038,922	441,427	3,480,349
Equipment and Furniture	3,650,040	1,000,810	4,650,850
Intangible Assets	210,133	13,930	224,063
Total Capital Assets	<u>24,438,434</u>	<u>13,114,986</u>	<u>37,553,420</u>
Less: Accumulated Depreciation	<u>(10,155,306)</u>	<u>(4,699,367)</u>	<u>(14,854,673)</u>
Total Capital Assets, Net	<u>14,283,128</u>	<u>8,415,619</u>	<u>22,698,747</u>
Total Assets	<u>18,628,981</u>	<u>9,380,134</u>	<u>28,009,115</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss on Refunding	17,634	-	17,634
Total Assets and Deferred Outflows of Resources	<u>18,646,615</u>	<u>9,380,134</u>	<u>28,026,749</u>
<b>LIABILITIES</b>			
Accounts Payable	94,997	16,443	111,440
Contracts Payable	199,340	-	199,340
Accrued Interest Payable	38,716	16,733	55,449
Other Accrued Liabilities	29,801	368	30,169
Due to Other Governments	15,903	783	16,686
Long-Term Liabilities:			
Due Within One Year	578,878	876,512	1,455,390
Due in More Than One Year	4,885,379	1,600,261	6,485,640
Total Liabilities	<u>5,843,014</u>	<u>2,511,100</u>	<u>8,354,114</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,843,667	6,471,353	15,315,020
Restricted for:			
Debt Service	1,081,065	-	1,081,065
Park Improvements	281,784	-	281,784
Other Purposes	82,883	-	82,883
Unrestricted	2,514,202	397,681	2,911,883
Total Net Position	<u>\$ 12,803,601</u>	<u>\$ 6,869,034</u>	<u>\$ 19,672,635</u>

See accompanying Notes to Financial Statements.

**CITY OF WATERTOWN, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 611,400	\$ 270,602	\$ 85,292	\$ 1,867
Public Safety	567,534	142,098	68,365	-
Public Works	1,138,344	-	-	219,418
Parks and Recreation	209,156	18,654	7,725	-
Economic Development and Other	28,505	3,394	755	-
Interest and Fiscal Charges	150,940	-	-	-
Total Governmental Activities	<u>2,705,879</u>	<u>434,748</u>	<u>162,137</u>	<u>221,285</u>
Business-Type Activities:				
Water	521,958	698,186	-	-
Sewer	619,809	680,530	-	-
Storm Water	41,405	56,759	-	-
Total Business-Type Activities	<u>1,183,172</u>	<u>1,435,475</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 3,889,051</u>	<u>\$ 1,870,223</u>	<u>\$ 162,137</u>	<u>\$ 221,285</u>

General Revenues:

Property Taxes, Levied for General Purposes  
Intergovernmental Revenues  
Unrestricted Investment Earnings  
Other

Transfers

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - Ending

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (253,639)	\$ -	\$ (253,639)
(357,071)	-	(357,071)
(918,926)	-	(918,926)
(182,777)	-	(182,777)
(24,356)	-	(24,356)
(150,940)	-	(150,940)
<u>(1,887,709)</u>	<u>-</u>	<u>(1,887,709)</u>
-	176,228	176,228
-	60,721	60,721
-	15,354	15,354
-	<u>252,303</u>	<u>252,303</u>
<u>(1,887,709)</u>	<u>252,303</u>	<u>(1,635,406)</u>
1,978,781	-	1,978,781
299,619	-	299,619
6,228	2,234	8,462
23,250	187,597	210,847
152,247	(152,247)	-
<u>2,460,125</u>	<u>37,584</u>	<u>2,497,709</u>
572,416	289,887	862,303
<u>12,231,185</u>	<u>6,579,147</u>	<u>18,810,332</u>
<u>\$ 12,803,601</u>	<u>\$ 6,869,034</u>	<u>\$ 19,672,635</u>

**CITY OF WATERTOWN, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2014**

	General Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 1,422,385	\$ 393,788	\$ 659,243	\$ 855,628	\$ 3,331,044
Accounts and Notes Receivable	238,361	-	19,200	9,128	266,689
Property Taxes Receivable	69,553	-	25,514	9,090	104,157
Special Assessments Receivable	2,731	-	417,215	-	419,946
Due from Other Governments	9,183	-	3,558	262	13,003
Due from Other Funds	150,455	-	-	-	150,455
Accrued Interest Receivable	216	114	256	42	628
Other Assets	50,877	-	-	10,445	61,322
	<u>\$ 1,943,761</u>	<u>\$ 393,902</u>	<u>\$ 1,124,986</u>	<u>\$ 884,595</u>	<u>\$ 4,347,244</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>					
Liabilities:					
Accounts Payable	\$ 74,539	\$ 2,550	\$ -	\$ 17,908	\$ 94,997
Contracts Payable	199,340	-	-	-	199,340
Deposits and Other Liabilities	919	-	-	-	919
Due to Other Funds	-	1,391	-	-	1,391
Due to Other Governments	15,903	-	-	-	15,903
Deferred Charges Escrow	28,882	-	-	-	28,882
Total Liabilities	<u>319,583</u>	<u>3,941</u>	<u>-</u>	<u>17,908</u>	<u>341,432</u>
Deferred Inflows of Resources:					
Unavailable Revenue	130,331	-	461,929	18,218	610,478
Fund Balance:					
Nonspendable:					
Inventory	5,190	-	-	-	5,190
Prepaid Items	45,686	-	-	10,445	56,131
Restricted for:					
Debt Service	-	-	663,057	-	663,057
Park Improvements	-	281,784	-	-	281,784
Wildflower Development	-	82,883	-	-	82,883
Committed for:					
Commission on Aging	1,468	-	-	-	1,468
Splatter	1,656	-	-	-	1,656
City Building Maintenance	17,491	-	-	-	17,491
Criminal Case Rewards	2,698	-	-	-	2,698
Economic Development	-	-	-	425,133	425,133
Assigned for:					
Capital Related Activities	-	25,294	-	-	25,294
Fire Equipment	-	-	-	430,799	430,799
Unassigned	1,419,658	-	-	(17,908)	1,401,750
Total Fund Balance	<u>1,493,847</u>	<u>389,961</u>	<u>663,057</u>	<u>848,469</u>	<u>3,395,334</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,943,761</u>	<u>\$ 393,902</u>	<u>\$ 1,124,986</u>	<u>\$ 884,595</u>	<u>\$ 4,347,244</u>

See accompanying Notes to Financial Statements.



**CITY OF WATERTOWN, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

Total Fund Balances for Governmental Funds \$ 3,395,334

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$ 4,350,083	
Construction in Progress	198,270	
Streets and Other Infrastructure	12,990,986	
Buildings and Building Improvements	3,038,922	
Equipment and Furniture	3,650,040	
Intangible Asset	210,133	
Total Capital Assets	24,438,434	
Less: Accumulated Depreciation	(10,155,306)	14,283,128

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows in the governmental funds. 610,478

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position. (38,716)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Bonds Payable	(5,197,000)	
Loans Payable	(210,000)	
Unamortized Premiums	(32,461)	
Unamortized Deferred Loss on Refunding	17,634	
Compensated Absence Payable	(24,796)	(5,446,623)

Total Net Position of Governmental Activities \$ 12,803,601

**CITY OF WATERTOWN, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2014**

	General Fund	Capital Project Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
General Property Taxes	\$ 1,420,559	\$ -	\$ 506,064	\$ 40,752	\$ 1,967,375
Special Assessments	1,867	-	142,183	-	144,050
Licenses and Permits	74,864	-	-	-	74,864
Intergovernmental Revenues	504,413	70,000	-	1,830	576,243
Charges for Services	45,460	-	-	142,098	187,558
Fines and Forfeitures	7,506	-	-	-	7,506
Investment Income	2,540	866	535	2,287	6,228
Other	177,304	25,537	-	9,761	212,602
Total Revenues	<u>2,234,513</u>	<u>96,403</u>	<u>648,782</u>	<u>196,728</u>	<u>3,176,426</u>
<b>EXPENDITURES</b>					
General Government	539,391	772	-	-	540,163
Public Safety	259,958	-	-	199,765	459,723
Public Works	354,546	73,106	-	-	427,652
Recreation and Parks	165,347	25	-	-	165,372
Debt Service:					
Principal	20,000	70,000	866,000	-	956,000
Interest and Other	-	-	186,125	-	186,125
Capital Outlay:					
General Government	23,565	202,766	-	-	226,331
Public Safety	-	-	-	51,368	51,368
Public Works	204,208	115,305	-	-	319,513
Recreation and Parks	123,228	19,612	-	-	142,840
Economic Development and Other	969	-	-	19,552	20,521
Total Expenditures	<u>1,691,212</u>	<u>481,586</u>	<u>1,052,125</u>	<u>270,685</u>	<u>3,495,608</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	543,301	(385,183)	(403,343)	(73,957)	(319,182)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds	-	-	695,000	-	695,000
Proceeds on Contracts for Deeds	100,000	200,000	-	-	300,000
Bond Refunding Payments	-	-	(675,000)	-	(675,000)
Premium on Bonds	-	-	9,052	-	9,052
Proceeds from the Sale of Capital Assets	-	-	3,200	-	3,200
Transfers from Other Funds	22,054	430,168	634,852	379,565	1,466,639
Transfers to Other Funds	(716,482)	(399,787)	(22,054)	(176,069)	(1,314,392)
Total Other Financing Sources (Uses)	<u>(594,428)</u>	<u>230,381</u>	<u>645,050</u>	<u>203,496</u>	<u>484,499</u>
<b>NET CHANGE IN FUND BALANCE</b>	(51,127)	(154,802)	241,707	129,539	165,317
Fund Balance - Beginning of Year	<u>1,544,974</u>	<u>544,763</u>	<u>421,350</u>	<u>718,930</u>	<u>3,230,017</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,493,847</u>	<u>\$ 389,961</u>	<u>\$ 663,057</u>	<u>\$ 848,469</u>	<u>\$ 3,395,334</u>

See accompanying Notes to Financial Statements.

**CITY OF WATERTOWN, MINNESOTA  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ 165,317

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, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays - Improvement Costs	\$ 768,415	
Loss on Disposal of Capital Assets	(8,131)	
Depreciation Expense	<u>(905,195)</u>	(144,911)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

General Obligation Bond Proceeds	(695,000)	
Contract for Deeds Proceeds	(300,000)	
Deferred Loss on Refunding	20,153	
Premium on Bonds Payable	(9,052)	
Amortization of Bond Premium, Discount, and Deferred Loss	(993)	
Repayment of Bond Principal	1,541,000	
Repayments on Contract for Deeds	90,000	
Change in Accrued Interest Expense	<u>14,006</u>	660,114

Delinquent and deferred property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows in the governmental funds. The net difference is recognized.

Deferred Inflows - December 31, 2013	715,033	
Deferred inflows - December 31, 2014	<u>610,478</u>	(104,555)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During the year, compensated absence payable changed.

(3,549)

Change in Net Position of Governmental Activities \$ 572,416

**CITY OF WATERTOWN, MINNESOTA  
PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

<b>ASSETS</b>	Water Fund	Sewer Fund	Storm Water Fund	2014 Total
<b>Current Assets:</b>				
Cash and Investments	\$ 98,926	\$ 491,431	\$ 115,503	\$ 705,860
Accounts Receivable	144,423	150,678	2,266	297,367
Other Assets	9,999	9,035	22	19,056
Total Current Assets	<u>253,348</u>	<u>651,144</u>	<u>117,791</u>	<u>1,022,283</u>
<b>Noncurrent Assets:</b>				
Capital Assets - at Cost:				
Land and Land Improvements	122,572	233,602	195,526	551,700
Construction in Progress	-	-	36,441	36,441
Permanent Easements	-	-	13,930	13,930
Buildings and Building Improvements	281,370	160,057	-	441,427
Infrastructure	4,739,846	5,960,581	370,251	11,070,678
Furniture and Equipment	353,648	647,162	-	1,000,810
	<u>5,497,436</u>	<u>7,001,402</u>	<u>616,148</u>	<u>13,114,986</u>
Less: Accumulated Depreciation	(2,019,947)	(2,561,327)	(118,093)	(4,699,367)
Total Capital Assets	<u>3,477,489</u>	<u>4,440,075</u>	<u>498,055</u>	<u>8,415,619</u>
<b>Other Assets:</b>				
Special Assessments - Noncurrent	45,628	45,668	-	91,296
Total Assets	<u>3,776,465</u>	<u>5,136,887</u>	<u>615,846</u>	<u>9,529,198</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>Current Liabilities:</b>				
Accounts Payable	4,090	10,367	1,986	16,443
Accrued Interest	14,313	2,420	-	16,733
Salaries Payable	184	184	-	368
Compensated Absences Payable	6,756	6,756	-	13,512
Due to Other Governments	783	-	-	783
Due to Other Funds	-	149,064	-	149,064
Current Maturities of Long-Term Debt	208,000	655,000	-	863,000
Total Current Liabilities	<u>234,126</u>	<u>823,791</u>	<u>1,986</u>	<u>1,059,903</u>
<b>Long-Term Liabilities (Less Current Maturities):</b>				
Compensated Absences Payable	4,504	4,504	-	9,008
Bonds and Notes Payable	1,000,326	590,927	-	1,591,253
Total Long-Term Liabilities	<u>1,004,830</u>	<u>595,431</u>	<u>-</u>	<u>1,600,261</u>
Total Liabilities	<u>1,238,956</u>	<u>1,419,222</u>	<u>1,986</u>	<u>2,660,164</u>
<b>Net Position:</b>				
Net Investment in Capital Assets	2,269,163	3,704,135	498,055	6,471,353
Unrestricted	268,346	13,530	115,805	397,681
Total Net Position	<u>\$ 2,537,509</u>	<u>\$ 3,717,665</u>	<u>\$ 613,860</u>	<u>\$ 6,869,034</u>

See accompanying Notes to Financial Statements.

**CITY OF WATERTOWN, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 YEAR ENDED DECEMBER 31, 2014**

	Water Fund	Sewer Fund	Storm Water Fund	2014 Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 688,608	\$ 679,167	\$ 56,759	\$ 1,424,534
<b>OPERATING EXPENSES</b>				
Personnel Services	159,229	157,326	-	316,555
Supplies	18,187	29,873	330	48,390
Contracted Services and Other	106,360	152,424	9,544	268,328
Repairs and Maintenance	29,460	45,143	12,090	86,693
Depreciation	155,319	169,128	19,441	343,888
Total Operating Expenses	<u>468,555</u>	<u>553,894</u>	<u>41,405</u>	<u>1,063,854</u>
<b>OPERATING INCOME</b>	220,053	125,273	15,354	360,680
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment Income	875	1,002	357	2,234
Inspection Fees	1,283	1,363	-	2,646
Sale of Meters	8,295	-	-	8,295
Other Revenues	73,326	126,948	3,500	203,774
Interest Expense	(53,403)	(65,915)	-	(119,318)
Loss on Disposal	-	-	(16,177)	(16,177)
Nonoperating Revenues (Expenses)	<u>30,376</u>	<u>63,398</u>	<u>(12,320)</u>	<u>81,454</u>
<b>INCOME BEFORE TRANSFERS</b>	250,429	188,671	3,034	442,134
Transfers to Other Funds	<u>(87,061)</u>	<u>(65,186)</u>	<u>-</u>	<u>(152,247)</u>
<b>CHANGE IN NET POSITION</b>	163,368	123,485	3,034	289,887
Net Position - Beginning of Year	<u>2,374,141</u>	<u>3,594,180</u>	<u>610,826</u>	<u>6,579,147</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 2,537,509</u>	<u>\$ 3,717,665</u>	<u>\$ 613,860</u>	<u>\$ 6,869,034</u>

See accompanying Notes to Financial Statements.

**CITY OF WATERTOWN, MINNESOTA  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Sewer Fund	2014 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers and Users	\$ 712,084	\$ 655,598	\$ 87,066	\$ 1,454,748
Payment to Suppliers	(167,056)	(225,709)	(19,500)	(412,265)
Payment to Employees	(159,914)	(158,011)	-	(317,925)
Net Cash Provided by Operating Activities	<u>385,114</u>	<u>271,878</u>	<u>67,566</u>	<u>724,558</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES</b>				
Transfer to Other Funds	(251,622)	(65,186)	-	(316,808)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of Capital Assets	-	(2,916)	(36,441)	(39,357)
Bond Proceeds	-	514,620	-	514,620
Principal Paid on Capital Debt	(276,343)	(345,368)	-	(621,711)
Interest Paid on Capital Debt	(55,602)	(69,157)	-	(124,759)
Miscellaneous revenue	82,904	128,311	3,500	214,715
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(249,041)</u>	<u>225,490</u>	<u>(32,941)</u>	<u>(56,492)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income	875	1,002	357	2,234
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(114,674)</u>	<u>433,184</u>	<u>34,982</u>	<u>353,492</u>
Cash and Cash Equivalents - January 1	<u>213,600</u>	<u>58,247</u>	<u>80,521</u>	<u>352,368</u>
<b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>	<u><u>\$ 98,926</u></u>	<u><u>\$ 491,431</u></u>	<u><u>\$ 115,503</u></u>	<u><u>\$ 705,860</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income	\$ 220,053	\$ 125,273	\$ 15,354	\$ 360,680
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	155,319	169,128	19,441	343,888
Effect of Changes in Operating Assets and Liabilities:				
Receivables and Other Assets	24,816	10,774	30,802	66,392
Payables	(14,556)	(32,779)	1,969	(45,366)
Accrued Compensated Absences	(518)	(518)	-	(1,036)
Total Adjustments	<u>165,061</u>	<u>146,605</u>	<u>52,212</u>	<u>363,878</u>
Net Cash Provided by Operating Activities	<u><u>\$ 385,114</u></u>	<u><u>\$ 271,878</u></u>	<u><u>\$ 67,566</u></u>	<u><u>\$ 724,558</u></u>

See accompanying Notes to Financial Statements.

## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**City Structure**

The City of Watertown operates according to applicable Minnesota laws and statutes under the council-administrator plan (Statutory Plan A) as defined by state statutes. A Council composed of an elected mayor and four other elected members directs the government of the City. The Council exercises legislative authority and determines matters of policy. The Council appoints the City Administrator and other personnel who are responsible for the proper administration of all affairs relating to the City.

**Financial Reporting Entity**

The accounting and reporting policies of the City of Watertown (the City) relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements; GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant accounting policies.

The City's basic financial statements include the accounts of all City operations. For financial reporting purposes, the accompanying financial statements present those of the City (primary government) and component organizations over which the City exercises significant influence. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. Significant influence or accountability is based primarily on operational and financial relationships with the City. Component organizations are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component organization would render the financial statements of the City misleading.

Based on the application of the reporting entity criteria, the Economic Development Authority (EDA) of Watertown is considered a component unit of the City. The EDA was created by the City Council, operates in accordance with powers outlined in applicable Minnesota Statutes and administers economic development activity within the City. Transactions of the EDA are presented as blended with activities reported as a special revenue fund.

**Basic Financial Statements**

**Government-Wide Statements**

The government-wide financial statements, the statement of net position and the statement of activities (changes in net position) report information on all of the activities of the City as a whole. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity, within the governmental and business-type activity columns, has been removed from these statements.



**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements (Continued)**

**Government-Wide Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given program or function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program or function, and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenue items not properly included among program revenues are reported instead as general revenues.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's business-type activities and other programs or functions are not eliminated as this would distort the direct costs and program revenues reported in those functions. Depreciation expense that can be specifically identified by function is included in the direct expenses of each program or function. Interest on long-term debt is considered an indirect expense and is reported separately.

**Fund Financial Statements**

Separate fund financial statements are provided for Governmental and Proprietary funds. Major individual governmental and proprietary funds are reported in separate columns in the fund financial statements. Aggregated information for the remaining non-major governmental and proprietary funds is reported in a single column in the respective fund financial statements. A fund is classified as a major fund if it is the primary operating fund of the City (General Fund) or meets certain criteria related to its assets, liabilities, revenues, and expenditures/expenses.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City uses funds to report on its financial position and the results of its operations. The City segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Government resources are allocated to and accounted for in individual funds based upon the purposes for which resources are to be spent and the means by which spending activities are controlled.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements (Continued)**

**Fund Financial Statements (Continued)**

Governmental funds are those funds through which most governmental functions typically are financed. The City reports the following major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Capital Project Fund** – The Capital Project Fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities or the acquisition of equipment other than those financed by Proprietary Funds.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

The City reports the following major proprietary funds:

**Water Fund** – The Water Fund accounts for customer services charges that are used to finance the operations of the water system operated by the City.

**Sewer Fund** – The Sewer Fund accounts for the operations of the City-owned sewer utility system.

**Storm Water Fund** – The Storm Water Fund accounts for the operations of the City's storm water collection system.

Proprietary funds (enterprise funds) are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent 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 determination of net income (revenues less expenses) is appropriate or useful for financial management, capital maintenance, public policy or other purposes.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources (cost of service) measurement focus and the accrual basis of accounting. The economic measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decrease (expenses) in total net position.

Governmental fund financial statements are reported using current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual. Susceptible to accrual occurs when revenues become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, charges for services and investment income. Revenue sources not susceptible to accrual are recorded only when received because they are not measurable until collected. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures for principal and interest on general long-term debt, and expenditures related to compensated absences are recorded only when payment is made.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water, Sewer and Storm Water Funds are charges to customers for sales and services. Operating expenses for these 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.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgetary Control**

A plan of financial operation for the City is established in the budget adopted by the City Council. The budget outlines proposed expenditures and the means of financing them. Budgeted amounts shown in the accompanying financial statements are as originally adopted and subsequently amended. Budgeted expenditure appropriations lapse at year-end. Individual line items within the budget may be overspent but the total budget cannot be changed unless approved by the City Council.

Budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund.

**Cash and Investments**

Cash and investments include cash on hand, demand deposits, and investments.

Investments are stated at fair value based on quoted market prices.

**Receivables**

Accounts receivable are recorded for services provided by the City during the year. Included as receivables of the proprietary funds are the amounts for utility services provided but billed subsequent to year-end. No allowance for uncollected accounts is provided against the receivables.

**Property Taxes**

Property tax levies are set by the City Council in December of each year, and are certified to the County Auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the City at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year.

Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources in the governmental funds because it is not available to finance current expenditures. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Special Assessments**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with Minnesota Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent and long-term special assessments receivable in governmental funds are completely offset by deferred inflows of resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to Minnesota Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'Due from Other Funds' and 'Due to Other Funds' on the balance sheet.

**Bond Premiums, Discounts and Deferred Losses on Refunding**

For governmental funds, bond premiums, discounts, and any losses on refunding associated with debt issued are recognized in the current period. Bond premiums or discounts related to debt issued for proprietary funds are amortized over the life of the bond issue using the straight-line method. The government-wide financial statements recognize the items in the same manner as the proprietary funds.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

Capital assets, which include property, buildings and improvements, equipment, infrastructure assets, and intangible assets such as easements, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are capitalized at historical cost or estimated cost if actual cost not available. Assets with an initial and individual cost of \$2,500 or more with an estimated useful life in excess of one year are capitalized. Historical costs of infrastructure assets include street and related improvements and have been accumulated beginning with acquisitions in 1994, coinciding with the commencement of the City's street reconstruction program. Donated capital assets are valued at their estimated fair value on the date received.

Capital assets acquired or constructed by governmental funds are recorded as expenditures in these funds. These capital assets are not capitalized in individual governmental funds but rather are reported only in the government-wide financial statements. Capital assets of proprietary funds are recorded at cost in their respective funds. Depreciation of capital assets is recorded as an allocated expense in the statement of activities for government-wide financial statements, with capital assets reported net of accumulated depreciation.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives of such assets are:

Infrastructure and Infrastructure Improvements	25-35 Years
Buildings and Building Improvements	20-50 Years
Distribution and Collection System	30-50 Years
Furniture, Fixtures, and Equipment	3-10 Years

The cost of normal maintenance and repairs that do not add or increase the value of the assets or materially extend the asset lives are expensed and not capitalized.

**Compensated Absences**

The City's policy is to permit employees to accumulate unused vacation and compensatory time benefits. City employees are entitled to vacation pay based upon length of employment. In addition, the City has established a severance pay policy for nonunion employees. This policy provides for severance payments upon termination of employment based on accumulated personal leave accrued, subject to certain conditions and specified maximums.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences (Continued)**

Vested vacation and personal leave for all City employees is recorded as an expenditure as benefits accrue to employees in the government-wide financial statements. It is the City's policy to maintain a level of funding for a portion of the liability associated with governmental fund-types. The majority of governmental compensated absences are liquidated by the General Fund, which is the City's main operating fund, while the Water and Sewer funds liquidate their portions as well. The liability and corresponding expense associated with proprietary funds is recorded in the applicable proprietary fund.

**Deferred Inflows of Resources**

Deferred inflows of resources arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in governmental funds in the current period. Deferred inflows of resources also arise when the City receives resources before it has a legal claim to them or when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue criteria are met, or when the City has a legal claim to the resources, deferred inflows of resources is eliminated and revenue is recognized.

**Long-Term Debt**

Long-term debt of the City consists of various types of bonds payable and notes payable. Long-term debt is reported as a liability in the government-wide and proprietary fund financial statements.

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations. Long-term debt associated with governmental funds is not reported as liabilities in the fund financial statements. Proceeds from debt issued are reported as other financing sources and payment of the principal and interest is reported as expenditures. The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

**Net Position/Fund Balance**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position/Fund Balance (Continued)**

In the fund financial statements, governmental funds report fund balances in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – is the portion of fund balance that is not in a spendable form or legally or contractually to be maintained intact and relates to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc.).

Committed – funds are established and modified by a resolution approved by the City Council for a specific purpose, related to the Commission on Aging, Splatter, building maintenance, criminal case rewards, economic development, and the fire department.

Assigned – consists of internally imposed constraints approved by the City Finance Director or City Administrator.

Unassigned – is the residual classification for the General Fund and also reflects the negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

The City formally adopted a fund balance policy for the General Fund. The policy establishes a minimum unassigned fund balance of 30% of the fund's annual operating budget, although this need could fluctuate annually. The City Council may consider appropriating year-end fund balance in excess of the policy level.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.



**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interfund Transactions (Continued)**

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statements of net position and statements of activities.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

At December 31, 2014, the Fire Operating Fund had deficit fund balance of \$7,463. This deficit will be corrected with future revenues and collections.

**NOTE 3 CASH AND INVESTMENTS**

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Investment earnings on cash and pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. In addition, other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of state or local governments rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At December 31, 2014, all of the City's deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City's agents in the City's name.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories
- Repurchase or reverse purchase agreements and security lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- In an obligation of a school district with an original maturity not exceeding 13 months which is (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to Minn. Stat. §126C.55

As of December 31, 2014, the City had the following investments in its pool:

	Total Fair Value	Interest - Risk: Maturity in Years			Credit Risk	
		Less than 1	1-5	More than 5	Rating	Agency
US Agencies:						
GNMA II	\$ 28,819	\$ -	\$ -	\$ 28,819	AAA	Moody's/S&P
Money Market	598,001	598,001	-	-	NR	N/A
	<u>\$ 626,820</u>	<u>\$ 598,001</u>	<u>\$ -</u>	<u>\$ 28,819</u>		
N/R indicates "not rated"						
N/A indicates "not applicable"						
Investments per Above	\$ 626,820					
Cash Balances	3,410,084					
Total Cash and Investments	<u>\$ 4,036,904</u>					

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

**Interest Rate Risk** – This is the risk that arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City’s investment policy requires that the portfolio be structured so that securities mature concurrent with cash needs to meet anticipated demands.

**Credit Risk** – Minnesota Statutes restrict the types of investments that the City may invest in. The City has an investment policy that further limits its investment choices to commercial paper with a minimum credit quality of AAA and Revenue Obligation Bonds of any state or local government with taxing authority which is rated AA or better at date of purchase.

**Concentration of Credit Risk** – Investments in any one issuer, excluding Governmental National Mortgage Association investments which are explicitly guaranteed by the U.S. Government, that represent five percent or more of total investments as of December 31, 2014, were as follows:

Money Market - RBC Reserve Class	70.0%
Money Market - Northland Securities	30.0%

**Custodial Credit Risk – Investments** – For an investment, this is that risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that a minimum of 10% of the portfolio be invested in certificates of deposit or other financial instruments through local financial institutions. As of December 31, 2014, all of the City’s investments are insured and registered, and are held by the counterparty’s agent in the City’s name.

**NOTE 4 NOTES RECEIVABLE**

The City holds various notes receivable from local businesses. One note has a balance of \$19,200 at December 31, 2014. This is a non-interest bearing note receivable, payable in annual installments of \$3,200 for the next twelve years. These receivables are offset by unavailable revenue in the fund financial statements.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 5 INTERFUND RECEIVABLES AND PAYABLES**

The balance of the interfund receivables/payables at December 31, 2014 is as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds
General Fund	\$ 150,455	\$ -
Capital Project Fund	-	1,391
Enterprise Funds:		
Sewer	-	149,064
Total Due to/from	<u>\$ 150,455</u>	<u>\$ 150,455</u>

**NOTE 6 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Capital Assets, Not Being Depreciated:					
Land	\$ 4,046,289	\$ 303,794	\$ -	\$ -	\$ 4,350,083
Construction in Progress	458,449	198,270	-	(458,449)	198,270
Permanent Easements	210,133	-	-	-	210,133
Total Capital Assets, Not Being Depreciated	<u>4,714,871</u>	<u>502,064</u>	<u>-</u>	<u>(458,449)</u>	<u>4,758,486</u>
Capital Assets, Being Depreciated:					
Buildings and Building Improvements	2,997,109	41,813	-	-	3,038,922
Streets and Infrastructure	12,427,206	105,331	-	458,449	12,990,986
Equipment and Furniture	3,547,845	119,207	(17,012)	-	3,650,040
Total Capital Assets, Being Depreciated	<u>18,972,160</u>	<u>266,351</u>	<u>(17,012)</u>	<u>458,449</u>	<u>19,679,948</u>
Accumulated Depreciation for:					
Buildings and Building Improvements	(1,540,890)	(109,420)	-	-	(1,650,310)
Streets and Infrastructure	(5,469,194)	(666,666)	-	-	(6,135,860)
Equipment and Furniture	(2,248,908)	(129,109)	8,881	-	(2,369,136)
Total Accumulated Depreciation	<u>(9,258,992)</u>	<u>(905,195)</u>	<u>8,881</u>	<u>-</u>	<u>(10,155,306)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,713,168</u>	<u>(638,844)</u>	<u>(8,131)</u>	<u>458,449</u>	<u>9,524,642</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,428,039</u>	<u>\$ (136,780)</u>	<u>\$ (8,131)</u>	<u>\$ -</u>	<u>\$ 14,283,128</u>

The City has been involved in a plan of upgrading, reconstruction and improvement of its streets. The costs of these various street projects have been capitalized in the infrastructure portion of the capital assets of governmental activities.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 6 CAPITAL ASSETS (CONTINUED)**

Changes in capital assets used in business-type activities at December 31, 2014 were as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-Type Activities:</b>					
Capital Assets, Not Being Depreciated:					
Land	\$ 551,700	\$ -	\$ -	\$ -	\$ 551,700
Construction in Progress	-	36,441	-	-	36,441
Permanent Easements	30,107	-	(16,177)	-	13,930
Total Capital Assets, Not Being Depreciated	<u>581,807</u>	<u>36,441</u>	<u>(16,177)</u>	<u>-</u>	<u>602,071</u>
Capital Assets, Being Depreciated:					
Buildings and Building Improvements	441,427	-	-	-	441,427
Infrastructure	11,070,678	-	-	-	11,070,678
Furniture and Equipment	997,894	2,916	-	-	1,000,810
Total Capital Assets, Being Depreciated	<u>12,509,999</u>	<u>2,916</u>	<u>-</u>	<u>-</u>	<u>12,512,915</u>
Accumulated Depreciation for:					
Buildings and Building Improvements	(144,580)	(13,555)	-	-	(158,135)
Infrastructure	(3,719,422)	(289,176)	-	-	(4,008,598)
Furniture and Equipment	(491,477)	(41,157)	-	-	(532,634)
Total Accumulated Depreciation	<u>(4,355,479)</u>	<u>(343,888)</u>	<u>-</u>	<u>-</u>	<u>(4,699,367)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,154,520</u>	<u>(340,972)</u>	<u>-</u>	<u>-</u>	<u>7,813,548</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,736,327</u>	<u>\$ (304,531)</u>	<u>\$ (16,177)</u>	<u>\$ -</u>	<u>\$ 8,415,619</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities:</b>	
General Government	\$ 50,877
Public Works	682,456
Recreation and Parks	64,052
Fire Department	<u>107,810</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 905,195</u>
<b>Business-Type Activities:</b>	
Sewer	\$ 169,128
Storm Sewer	19,441
Water	<u>155,319</u>
Total Depreciation Expense, Business-Type Activities	<u>\$ 343,888</u>

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 7 LONG-TERM LIABILITIES**

A summary of long-term liability transactions for the year ended December 31, 2014 is as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
G.O. Debt:					
Improvement Bonds	\$ 5,896,000	\$ 695,000	\$ 1,541,000	\$ 5,050,000	\$ 452,000
Contract for Deeds	-	300,000	90,000	210,000	85,000
Equipment Certificates	147,000	-	-	147,000	27,000
Unamortized Bond Premium	27,498	9,052	4,089	32,461	-
Unamortized Bond Discount	(2,563)	-	(2,563)	-	-
Unamortized Deferred Loss on Refunding	-	(20,153)	(2,519)	(17,634)	-
Compensated Absences	21,545	27,036	23,785	24,796	14,878
Total Governmental Activities	<u>6,089,480</u>	<u>1,010,935</u>	<u>1,653,792</u>	<u>5,446,623</u>	<u>578,878</u>
<b>Business-Type Activities:</b>					
G.O. Revenue and Other	1,140,000	510,000	290,000	1,360,000	725,000
Notes Payable	1,432,509	-	355,509	1,077,000	138,000
Unamortized Bond Premium	-	28,670	3,584	25,086	-
Unamortized Bond Discount	(11,165)	-	(3,332)	(7,833)	-
Compensated Absences	23,556	22,842	23,878	22,520	13,512
Total Business-Type Activities	<u>2,584,900</u>	<u>561,512</u>	<u>669,639</u>	<u>2,476,773</u>	<u>876,512</u>
Total Debt	<u>\$ 8,674,380</u>	<u>\$ 1,572,447</u>	<u>\$ 2,323,431</u>	<u>\$ 7,923,396</u>	<u>\$ 1,455,390</u>

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

Long-term debt is comprised of the following issues:

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
<b>Governmental Activities:</b>				
G.O. Special Assessment Bonds:				
2004A G.O. Refunding Bonds	865,000	2015	1.25-3.85%	\$ 60,000
2010 G.O. Improvement Bonds	1,280,000	2025	2.00%	1,160,000
2011 G.O. Tax Increment Revenue Bonds	1,230,000	2030	1.375-4.25%	1,170,000
2012 G.O. Improvement Bonds	2,265,000	2023	0.5-2.00%	2,105,000
2014 G.O. Refunding Bonds	695,000	2020	2.00%	<u>555,000</u>
				5,050,000
Contract for Deeds				
2014 Land Purchase - Madison Green Property	100,000	2018	0.00%	80,000
2014 Land Purchase - Rosckes Property	200,000	2016	0.00%	<u>130,000</u>
				210,000
G.O. Equipment Certificates				
2013 Equipment Certificates	147,000	2019	0.0-2.5%	<u>147,000</u>
				5,407,000
Unamortized Bond Premium				
				32,461
Unamortized Deferred Loss on Refunding				
				<u>(17,634)</u>
				5,421,827
Compensated Absences				
				<u>24,796</u>
Total Governmental Activities				
				<u><u>\$ 5,446,623</u></u>
<b>Business-Type Activities:</b>				
G.O. Revenue Bonds:				
2006A G.O. Sewer Revenue Bonds	1,245,000	2020	3.4-4.1%	\$ 590,000
2006B Water & Sewer G.O. Loan	1,160,000	2016	3.60-4.0%	260,000
2014 G.O. Refunding Bonds	510,000	2020	2.00%	<u>510,000</u>
				1,360,000
Notes Payable:				
1993 G.O. Sewer Revenue Note	3,300,000	2014	3.49%	-
2001 G.O. Water Revenue Note	2,456,978	2021	3.57%	<u>1,077,000</u>
				-
Unamortized Bond Premium				
				25,086
Unamortized Bond Discount				
				<u>(7,833)</u>
				2,454,253
Compensated Absences				
				<u>22,520</u>
Total Business-Type Activities				
				<u><u>\$ 2,476,773</u></u>

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

On April 15, 2014, the City issued General Obligation Refunding Bonds, Series 2014A. The proceeds of these funds were used to refund the outstanding balance on the City's General Obligation Improvement Bonds, Series 2005A, and in 2015 will refund the City's General Obligation Sewer Revenue Bonds, Series 2006A. This refunding resulted in a savings of \$35,789 with a present value of \$32,291 over the remaining life of these bonds.

In 2014, the City purchased two pieces of land. One was purchased for \$200,000 in January 2014 and required three annual principal installment payments of \$65,000 in August 2014 through August 2016 and bears no interest. The second was purchased for \$100,000 in March 2014 and requires five annual principal payments of \$20,000 through March 2018 and bears no interest

Scheduled maturities of bonds and notes payable are as follows:

Years	Governmental Activities		Totals
	Long-Term Debt		
	Principal	Interest	
2015	\$ 537,000	\$ 151,600	\$ 688,600
2016	609,000	119,676	728,676
2017	545,000	111,125	656,125
2018	550,000	100,463	650,463
2019	536,000	88,163	624,163
2020-2024	2,015,000	258,660	2,273,660
2025-2029	520,000	68,150	588,150
2030	95,000	2,019	97,019
Totals	<u>\$ 5,407,000</u>	<u>\$ 899,856</u>	<u>\$ 6,209,837</u>

Years	Business-Type Activities		Totals
	Long-Term Debt		
	Principal	Interest	
2015	\$ 863,000	\$ 59,049	\$ 922,049
2016	363,000	48,722	411,722
2017	248,000	36,717	284,717
2018	253,000	29,434	282,434
2019	264,000	21,972	285,972
2020-2021	446,000	20,336	466,336
Totals	<u>\$ 2,437,000</u>	<u>\$ 216,230</u>	<u>\$ 2,653,230</u>



**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 8 FUND BALANCES**

Certain portions of fund balance are restricted to provide for funding on certain long-term liabilities or as required by other outside parties. Restricted, Committed and Assigned fund balances at December 31, 2014 are as follows:

- A. Restricted for Debt Service** – This represents amounts which are restricted for future debt payments.
- B. Restricted for Park Improvements** – Represents amounts which are received through park dedication fees and are restricted for parkland acquisitions and improvements.
- C. Restricted for Wildflower Development** – Represents amounts which are received from the Wildflower Development Agreement and through this agreement are restricted to improve 30<sup>th</sup> Street within the City.
- D. Committed for Commission on Aging** – Represents amounts received from appropriations and donations which are committed to provide education, wellness and lifestyle opportunities for seniors.
- E. Committed for Splatter** – Represents amounts received from appropriations and donations which are committed to provide education, wellness and lifestyle opportunities for youth.
- F. Committed for City Building Maintenance** – Represents amounts which are committed to pay for maintenance of the City Hall, Community Center and Library.
- G. Committed for Criminal Case Rewards** – Represents amounts which are committed to provide funding for rewards offered in criminal cases.
- H. Committed for Economic Development** – Represents amounts which are received from tax levies and proceeds from redevelopment grants which are committed for the promotion of economic development and redevelopment.
- I. Committed for Fire Department Activities** – Represents amounts which are received from charges for services and are committed for fire department related expenditures.
- J. Assigned for Capital Related Activities** – Represents amounts which are assigned by the City to finance future capital equipment purchases.
- K. Assigned for Fire Equipment** – Represents amounts which are assigned by the City to finance future fire equipment purchases.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 9 INTERFUND TRANSFERS**

Transfers between funds during the year were as follows:

From	To	Amount	Purpose
General Fund	Fire Department Fund	\$ 193,500	Budgeted Transfer
General Fund	Capital Projects Fund	430,168	Budgeted Transfer
General Fund	Debt Service Fund	92,814	Budgeted Transfer
Debt Service Fund	General Fund	22,054	Budgeted Transfer
Capital Projects Fund	Debt Service Fund	389,791	Budgeted Transfer
Capital Projects Fund	Fire Equipment Fund	9,996	Budgeted Transfer
Fire Department Fund	Fire Equipment Fund	176,069	Budgeted Transfers
Water Enterprise Fund	Debt Service Fund	87,061	Budgeted Transfer
Sewer Enterprise Fund	Debt Service Fund	65,186	Budgeted Transfer
		<u>\$ 1,466,639</u>	

**NOTE 10 RISK MANAGEMENT**

The City is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (the Trust), a public entity risk pool for its general property and casualty, workers' compensation and other insurance coverages. The Trust operates as a common risk management and insurance program for cities throughout Minnesota. The City pays an annual premium to the Trust for its insurance coverages. The Trust agreement provides that the Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss, including employee health insurance.

There has been no significant reduction in insurance coverages from the previous year. In addition, there has been no settlement of claims in excess of the City's insurance coverage in any of the prior three years.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 11 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**Plan Description**

All full-time and certain part-time employees of the City of Watertown are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employee Police and Fire Fund, (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service.

There are different types of annuities available to members upon retirement. A single-life annuity is a life-time annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees, who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 11 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Plan Description (Continued)**

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the web at [mnpera.org](http://mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. The City of Watertown is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the years ended December 31, 2014, 2013, and 2012 were \$33,376, \$33,267, and \$36,645, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

**NOTE 12 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION**

The Watertown Firefighters Relief Association (the Association) is the administrator of a single employer retirement system established to provide pension and other benefits to its membership in accordance with Minnesota Statutes. The Association maintains a separate Special Pension Trust Fund to accumulate assets to fund the retirement benefits earned by its membership. Funding of the Association is derived primarily from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980) and payments received from the City of Watertown.

The financial requirements of the Special Pension Trust Fund are determined in accordance with Section 69.772 of the Minnesota Statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. Benefits are payable after age 50 with 20 years of service and 10 years of membership, or upon death. Benefits are accumulated at \$2,100 per year of active service in the fire department. The accrued liability for these accumulated benefits is computed using increasing percentages based on years of service. At 20 years of service, the liability is equal to the number of years of service time's benefits per year. Association members are partially vested after 10 years.

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 12 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)**

The City's actual contributions for the years ended December 31, 2014, 2013, and 2012 were \$10,826, \$22,354, and \$19,900, respectively, which were the required contributions for the years as well. Historically, the City has fully funded the adjusted required contribution level.

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

As of December 31, 2014, the City had approximately \$199,430 committed to the League of Minnesota Cities for the loan they provided for repairs to the retaining wall in Kings Highland. This amount was accrued as Contracts Payable.

**NOTE 14 CONDUIT DEBT OBLIGATIONS**

The City has issued Public Facility Revenue Bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities which are deemed to be in the public interest. The bonds are secured by the properties financed and is payable solely from the payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issues. The City is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements.

As of December 31, 2014, there were two series of Public Facility Revenue Bonds outstanding, with a principal amount payable of \$1,846,648. The two series relate to the Adult Training and Habilitation facility and Christ Community Lutheran School.

**NOTE 15 SUBSEQUENT EVENTS**

In March 2015, the City issued General Obligation Street Reconstruction Bonds, Series 2015A. The bonds, in the amount of \$1,615,000, were issued to provide street and bridge improvements within the City. The bonds will have required payments through 2036 and will bear interest at rates between 1.35% and \$4.00%.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WATERTOWN, MINNESOTA  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>REVENUES</b>				
General Property Taxes	\$ 1,438,517	\$ 1,438,517	\$ 1,420,559	\$ (17,958)
Special Assessments	-	-	1,867	1,867
Licenses and Permits	68,450	68,450	74,864	6,414
Intergovernmental Revenues	352,500	352,500	504,413	151,913
Charges for Services	36,600	36,600	45,460	8,860
Fines and Forfeitures	6,000	6,000	7,506	1,506
Investment Income	-	-	2,540	2,540
Other	150,478	150,478	177,304	26,826
Total Revenues	<u>2,052,545</u>	<u>2,052,545</u>	<u>2,234,513</u>	<u>181,968</u>
<b>EXPENDITURES</b>				
General Government	574,727	574,727	539,391	35,336
Public Safety	257,326	257,326	259,958	(2,632)
Public Works	419,635	419,635	354,546	65,089
Recreation and Parks	181,577	181,577	165,347	16,230
Debt Service:				
Principal	63,240	63,240	20,000	43,240
Interest and Other	3,040	3,040	-	3,040
Improvement Costs	305,000	305,000	351,001	(46,001)
Economic Development and Other	-	-	969	(969)
Total Expenditures	<u>1,804,545</u>	<u>1,804,545</u>	<u>1,691,212</u>	<u>113,333</u>
<b>REVENUES OVER EXPENDITURES</b>	248,000	248,000	543,301	295,301
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	10,500	10,500	22,054	11,554
Transfers to Other Funds	(258,500)	(258,500)	(716,482)	(457,982)
Proceeds on Contract for Deed	-	-	100,000	100,000
Total Other Financing Sources (Uses)	<u>(248,000)</u>	<u>(248,000)</u>	<u>(594,428)</u>	<u>(346,428)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(51,127)	(51,127)
Fund Balance - Beginning of Year	<u>1,544,974</u>	<u>1,544,974</u>	<u>1,544,974</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,544,974</u>	<u>\$ 1,544,974</u>	<u>\$ 1,493,847</u>	<u>\$ (51,127)</u>

**CITY OF WATERTOWN, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2014**

**BUDGETARY INFORMATION**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Council chambers at City Hall to obtain taxpayer comments, and the final budget is adopted and the tax levy certified.
3. The City Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. The City has legally adopted budgets for the General Fund. Formal budgetary integration is not employed for the special revenue, enterprise, capital projects and debt service funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, capital outlay, etc.) within each program. All amounts over budget must be approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the Capital Projects, Debt Service funds, or Special Revenue funds.
5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.



**COMBINING AND INDIVIDUAL NONMAJOR  
FUND FINANCIAL STATEMENTS**

**CITY OF WATERTOWN, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2014**

<b>ASSETS</b>	Special Revenue Funds		Capital Projects Fund	<b>Total</b>
	Fire Operating Fund	Economic Development	Fire Equipment Fund	
Cash and Investments	\$ -	\$ 424,847	\$ 430,781	\$ 855,628
Accounts and Notes Receivable	-	9,128	-	9,128
Taxes Receivable	-	9,090	-	9,090
Due from Other Governments	-	262	-	262
Accrued Interest Receivable	-	24	18	42
Other Assets	10,445	-	-	10,445
 Total Assets	 \$ 10,445	 \$ 443,351	 \$ 430,799	 \$ 884,595
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>				
Liabilities:				
Accounts Payable	\$ 17,908	\$ -	\$ -	\$ 17,908
Deferred Inflows of Resources:				
Unavailable Revenue	-	18,218	-	18,218
Fund Balance:				
Nonspendable:				
Prepaid Items	10,445	-	-	10,445
Committed for:				
Economic Development	-	425,133	-	425,133
Assigned for:				
Fire Equipment	-	-	430,799	430,799
Unassigned	(17,908)	-	-	(17,908)
Total Fund Balance	(7,463)	425,133	430,799	848,469
 Total Liabilities, Deferred Inflows of Resources, and Fund Balance	 \$ 10,445	 \$ 443,351	 \$ 430,799	 \$ 884,595

**CITY OF WATERTOWN, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Funds		Capital Projects Fund	Total
	Fire Operating Fund	Economic Development	Fire Equipment Fund	
<b>REVENUES</b>				
General Property Taxes	\$ -	\$ 40,752	\$ -	\$ 40,752
Intergovernmental Revenues	1,830	-	-	1,830
Charges for Services	142,098	-	-	142,098
Investment Income	-	1,514	773	2,287
Other	1,545	2,316	5,900	9,761
Total Revenues	<u>145,473</u>	<u>44,582</u>	<u>6,673</u>	<u>196,728</u>
<b>EXPENDITURES</b>				
Public Safety:				
Personnel Services	79,854	-	-	79,854
Other Services and Charges	119,911	-	-	119,911
Capital Outlay:				
Public Safety	3,132	-	48,236	51,368
Economic Development and Other	-	19,552	-	19,552
Total Expenditures	<u>202,897</u>	<u>19,552</u>	<u>48,236</u>	<u>270,685</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(57,424)	25,030	(41,563)	(73,957)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	193,500	-	186,065	379,565
Transfers to Other Funds	(176,069)	-	-	(176,069)
Total Other Financing Sources	<u>17,431</u>	<u>-</u>	<u>186,065</u>	<u>203,496</u>
<b>NET CHANGE IN FUND BALANCE</b>	(39,993)	25,030	144,502	129,539
Fund Balance - Beginning of Year	<u>32,530</u>	<u>400,103</u>	<u>286,297</u>	<u>718,930</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ (7,463)</u>	<u>\$ 425,133</u>	<u>\$ 430,799</u>	<u>\$ 848,469</u>

**CITY OF WATERTOWN, MINNESOTA  
DEBT SERVICE FUND  
COMBINING BALANCE SHEET – BY BOND ISSUE  
YEAR ENDED DECEMBER 31, 2014**

	2004 Refunding Bond	2002 Street Bond	2003 Street Bond	2004 Street Bond	2005 Street Bond
<b>ASSETS</b>					
Cash and Investments	\$ 17,832	\$ -	\$ -	\$ 2	\$ -
Accounts and Notes Receivable	-	-	-	19,200	-
Taxes Receivable	2,413	78	229	2,557	4,761
Special Assessments Receivable	47,768	-	-	5,172	26,940
Due from Other Governments	333	1	2	306	663
Accrued Interest Receivable	42	40	36	73	55
Total Assets	<u>\$ 68,388</u>	<u>\$ 119</u>	<u>\$ 267</u>	<u>\$ 27,310</u>	<u>\$ 32,419</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>					
Deferred Inflows of Resources:					
Unavailable Revenue	\$ 50,181	\$ 78	\$ 229	\$ 26,929	\$ 31,701
Fund Balance:					
Restricted for Debt Service	18,207	41	-	381	718
Unassigned	-	-	38	-	-
Total Fund Balance	<u>18,207</u>	<u>41</u>	<u>38</u>	<u>381</u>	<u>718</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 68,388</u>	<u>\$ 119</u>	<u>\$ 267</u>	<u>\$ 27,310</u>	<u>\$ 32,419</u>

2007 Equipment Bond	2008 Refunding Bond	2010 Road Bond	2011 Downtown Bond	2012 Improvement Bond	2013 Equipment Bond	2014 Refunding Bond	Total Combining Debt Service By Bond
\$ -	\$ -	\$ 126,891	\$ 166,693	\$ 452,098	\$ (619)	\$ (103,654)	\$ 659,243
-	-	-	-	-	-	-	19,200
353	5,251	4,733	3,093	2,046	-	-	25,514
-	-	-	-	337,335	-	-	417,215
3	664	629	301	656	-	-	3,558
1	9	-	-	-	-	-	256
<u>\$ 357</u>	<u>\$ 5,924</u>	<u>\$ 132,253</u>	<u>\$ 170,087</u>	<u>\$ 792,135</u>	<u>\$ (619)</u>	<u>\$ (103,654)</u>	<u>\$ 1,124,986</u>
\$ 353	\$ 5,251	\$ 4,733	\$ 3,093	\$ 339,381	\$ -	\$ -	\$ 461,929
4	-	-	166,994	452,754	-	-	639,099
-	673	127,520	-	-	(619)	(103,654)	23,958
<u>4</u>	<u>673</u>	<u>127,520</u>	<u>166,994</u>	<u>452,754</u>	<u>(619)</u>	<u>(103,654)</u>	<u>663,057</u>
<u>\$ 357</u>	<u>\$ 5,924</u>	<u>\$ 132,253</u>	<u>\$ 170,087</u>	<u>\$ 792,135</u>	<u>\$ (619)</u>	<u>\$ (103,654)</u>	<u>\$ 1,124,986</u>

**CITY OF WATERTOWN, MINNESOTA  
DEBT SERVICE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BY BOND ISSUE  
YEAR ENDED DECEMBER 31, 2014**

	2004 Refunding Bond	2002 Street Bond	2003 Street Bond	2004 Street Bond	2005 Street Bond
<b>REVENUES</b>					
General Property Taxes	\$ 54,201	\$ 698	\$ 2,726	\$ 48,520	\$ 107,995
Special Assessments	1,181	336	1,556	37,030	24,810
Investment Income	-	17	-	218	-
Total Revenues	<u>55,382</u>	<u>1,051</u>	<u>4,282</u>	<u>85,768</u>	<u>132,805</u>
<b>EXPENDITURES</b>					
Debt Service:					
Principal	70,000	-	-	145,000	125,000
Interest and Other	3,645	-	-	6,057	44,347
Total Expenditures	<u>73,645</u>	<u>-</u>	<u>-</u>	<u>151,057</u>	<u>169,347</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(18,263)	1,051	4,282	(65,289)	(36,542)
<b>OTHER FINANCING SOURCES</b>					
Proceeds from the Sale of Fixed Assets	-	-	-	3,200	-
Transfers from Other Funds	24,780	6,700	15,702	-	-
Transfers to Other Funds	-	(19,733)	(8,883)	(13,489)	(45,072)
Bond Proceeds	-	-	-	-	695,000
Bond Refunding Payments	-	-	-	-	(675,000)
Premiums on Bonds Sold	-	-	-	-	9,052
Total Other Financing Sources	<u>24,780</u>	<u>(13,033)</u>	<u>6,819</u>	<u>(10,289)</u>	<u>(16,020)</u>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	6,517	(11,982)	11,101	(75,578)	(52,562)
Fund Balance - Beginning of Year	<u>11,690</u>	<u>12,023</u>	<u>(11,063)</u>	<u>75,959</u>	<u>53,280</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 18,207</u>	<u>\$ 41</u>	<u>\$ 38</u>	<u>\$ 381</u>	<u>\$ 718</u>

2007 Equipment Bond	2008 Refunding Bond	2010 Road Bond	2011 Downtown Bond	2012 Improvement Bond	2013 Equipment Bond	2014 Refunding Bond	Intrafund Eliminations	Total Combining Debt Service By Bond
\$ -	\$ 103,550	\$ 103,152	\$ 48,566	\$ 36,656	\$ -	\$ -	\$ -	\$ 506,064
-	-	-	-	77,270	-	-	-	142,183
1	39	45	21	194	-	-	-	535
<u>1</u>	<u>103,589</u>	<u>103,197</u>	<u>48,587</u>	<u>114,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>648,782</u>
-	106,000	60,000	60,000	160,000	-	140,000	-	866,000
214	3,180	38,930	41,405	35,868	3,753	8,726	-	186,125
<u>214</u>	<u>109,180</u>	<u>98,930</u>	<u>101,405</u>	<u>195,868</u>	<u>3,753</u>	<u>148,726</u>	<u>-</u>	<u>1,052,125</u>
(213)	(5,591)	4,267	(52,818)	(81,748)	(3,753)	(148,726)	-	(403,343)
-	-	-	-	-	-	-	-	3,200
11	108,547	124,343	145,233	322,661	3,308	45,072	(161,505)	634,852
(608)	(95,774)	-	-	-	-	-	161,505	(22,054)
-	-	-	-	-	-	-	-	695,000
-	-	-	-	-	-	-	-	(675,000)
-	-	-	-	-	-	-	-	9,052
<u>(597)</u>	<u>12,773</u>	<u>124,343</u>	<u>145,233</u>	<u>322,661</u>	<u>3,308</u>	<u>45,072</u>	<u>-</u>	<u>645,050</u>
(810)	7,182	128,610	92,415	240,913	(445)	(103,654)	-	241,707
814	(6,509)	(1,090)	74,579	211,841	(174)	-	-	421,350
<u>\$ 4</u>	<u>\$ 673</u>	<u>\$ 127,520</u>	<u>\$ 166,994</u>	<u>\$ 452,754</u>	<u>\$ (619)</u>	<u>\$ (103,654)</u>	<u>\$ -</u>	<u>\$ 663,057</u>

## **OTHER REPORTS SECTION**





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**INDEPENDENT AUDITORS' REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and  
Members of the City Council  
City of Watertown, Minnesota

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, Minnesota, as of and for the year ended December 31, 2014, 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 2, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, identifies seven categories of compliance to be tested in connection with the audit of a City's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Watertown failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 2, 2015