

Management Communication

City of Watertown

Watertown, Minnesota

For the Year Ended
December 31, 2019



**People
+ Process.**
Going
Beyond the
Numbers

Management, Honorable Mayor and City Council
City of 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 the City of Watertown, Minnesota (the City), for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 9, 2019. Professional standards also require that we provide to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting (internal control) of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the City's 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 on the following pages, we identified certain deficiencies in internal control that we consider to be 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies on the following page as items 2019-001 through 2019-003 to be significant deficiencies.

Preparation of Financial Statements

- Condition:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
- Criteria:* Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
- Cause:* From a practical standpoint, we both prepare your statements and determine the fairness of the presentation in connection with our audit. This is not unusual for us to do with organizations of your size.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
- Recommendation:* Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information from Banyon to the amounts reported in the financial statements.

Management Response:

For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements. The City is also seeking accounting assistance and training to address this finding.

2019-002

Claims Approval

Condition: Minnesota statute § 412.271, subd. 4 states: "When payment of a claim based on contract cannot be deferred until the next City Council meeting without loss to the City through forfeiture of discount privileges or otherwise, it may be made immediately if the itemized claim is endorsed for payment by at least a majority of all the members of the City Council. The claim shall be acted upon formally at the next Council meeting in the same manner as if it had not been paid, and the earlier payment shall not affect the right of the City or any taxpayer to challenge the validity of the claim."

Criteria: The City is legally required to pay all claims within 35 days or the agreed contract time period. Some claims may be required to be paid prior to the approval of the next City Council meeting to avoid this legal compliance issue.

Cause: The City Clerk/Treasurer was required to pay bills prior to approval by City Council. The claims were not included on the disbursement listing approved City Council at the following meeting.

Effect: It is your responsibility to assure all claims paid for with public funds are approved by the City's highest level of authority (the City Council).

Recommendation: The City Council should approve a total amount of all disbursements since the prior City Council meeting and reconcile that against the claims list so as to assure all checks are included.

Management Response:

All prepaid disbursements will be listed for City Council approval and check order will be verified by the City Administrator.

2019-003

Material Audit Adjustment

Condition: During our audit, a material adjustment was needed to correct the year-end account for transfers.

Criteria: The financial statements are the responsibility of the City's management; therefore, the City must be able to prevent or detect a material misstatement in the financial statements including footnote disclosures.

Cause: The City had double booked amounts to fund the debt payments being made out of the TIF district fund by booking an interfund loan amount of \$93,709 as well as a transfer of \$93,709. The transfer should not have been recorded.

Effect: This indicates that misstatements may occur and not be detected by the City's system of internal control.

Recommendation: We recommend management review the related journal entries, obtain an understanding of why the entries were necessary and modify current procedure to ensure that future corrections are not needed.

Management Response:

The City Clerk/Treasurer will review each journal entry in an effort to better understand the reason the modification as necessary in an effort to limit future corrections.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. The results of our tests disclosed one instance of noncompliance required to be reported under *Government Auditing Standards* or Minnesota statutes, which is described above as item 2019-002.

Summary of Prior Year Findings

2018-002 **Prior Period Adjustment**

Condition: During our audit, a prior period adjustment was needed to correct the a debt payment during 2017. The payment was made from the Debt Service fund instead of the Water fund and Sewer fund.

Criteria: The financial statements are the responsibility of the City's management; therefore, the City must be able to prevent or detect a material misstatement in the financial statements including footnote disclosures.

Current Year Status:

The finding was eliminated as a result of the City improving processes and making necessary adjustments.

2018-003 **Control of Check Signing Stamp**

Condition: During our audit, we reviewed procedures over check signing and staff indicated that the Mayor's stamp is controlled and used by a staff person who has custody, record keeping and reconciliation duties.

Criteria: If a signing stamp is to be used the control of the stamp needs to be controlled by someone who independent of record keeping and reconciliation duties.

Current Year Status:

The finding was eliminated as a result of the City improving and reviewing processes of control over the check signing stamp.

2018-004 **Collateral Coverage**

Condition: Auditing of legal compliance requires a review of the City's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: In accordance with Minnesota Statute, section 118A.03, the City is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.

Current Year Status:

The finding was eliminated as a result of the City following up with the bank and communicating the importance of sufficient collateral coverage.

Qualitative Aspects of Accounting Practices

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. The City changed accounting policies during 2019 related to accounting and financial reporting for fiduciary activities (GASB 84). 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 except those noted in Note 9. Our opinion is not modified with respect to this matter.

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 depreciation on capital assets, allocation of payroll and compensated absences, allocation of project costs, evaluating a liability for other post-employment benefits, and the liability for the City's pensions.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Allocations of gross wages and payroll benefits are approved by City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective functions of the City. These allocations are also used in allocating accrued compensated absences payable.
- Management's allocation of construction costs is based on amounts identified by the project engineer. These allocations are used to allocate other project costs, including engineering, to each fund.
- The City's liability for other post-employment benefits was estimated to be zero primarily based on the assumption that employees, whom participate in the health insurance plan, are receiving no implicit benefit since premiums are scaled based on age.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.
 - The allocation of the pension liability related to Minnesota Public Employee Retirement Association (PERA) is based on the City's proportionate share of employer contributions to the PERA cost-sharing multiple employer Coordinated and Police and Fire pension plans.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

We also assisted in preparing a number of year-end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances. We recommend that the City continue to establish more detailed processes and procedures to reduce the total number of entries in each category. The City will receive better more timely information if the preparation of year-end entries is completed internally.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representations letter dated March 18, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedules of Employer's Contributions), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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, 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 were not engaged to report on the introductory section, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention 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 retention.

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements: ⁽¹⁾

GASB Statement No. 87 - Leases

Summary

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

GASB Statement No. 91 - Conduit Debt Obligations

Summary

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

Future Accounting Standard Changes (Continued)

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

⁽¹⁾ Note. From GASB Pronouncements Summaries. Copyright 2019 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

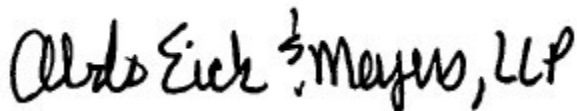
* * * * *

Restriction on Use

This communication is intended solely for the information and use of the City Council, management and the Minnesota Office of the State Auditor and is not intended and should not be used by anyone other than those specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 18, 2020

Annual Financial Report

City of Watertown

Watertown, Minnesota

For the Year Ended
December 31, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota
 Annual Financial Report
 Table of Contents
 For the Year Ended December 31, 2019

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	39
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	41
Proprietary Funds	
Statement of Net Position	42
Statement of Revenues, Expenses and Changes in Net Position	45
Statement of Cash Flows	46
Notes to the Financial Statements	49
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	76
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	76
Notes to the Required Supplementary Information - General Employees Retirement Fund	77
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	78
Notes to the Required Supplementary Information - Fire Relief Association	78
Schedule of Employer's Fire Relief Association Contributions	79
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	83
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	84
Capital Projects Funds	
Combining Balance Sheet	88
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	89
Debt Service Funds	
Combining Balance Sheet	90
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	92
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	94

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota
Annual Financial Report
Table of Contents (Continued)
For the Year Ended December 31, 2019

	<u>Page No.</u>
Other Required Reports	
Independent Auditor's Report on Minnesota Legal Compliance	97
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 <i>Government Auditing Standards</i>	98
Schedule of Findings and Responses	100

THIS PAGE IS LEFT
BLANK INTENTIONALLY

INTRODUCTORY SECTION
CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2019

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Washburn	Mayor	12/31/20
Deborah Everson	Council Member	12/31/20
Lindsay Guetzkow	Council Member	12/31/22
Adam Pawelk	Council Member	12/31/20
Michael Walters	Council Member	12/31/22

APPOINTED

Shane Fineran	City Administrator
---------------	--------------------

THIS PAGE IS LEFT
BLANK INTENTIONALLY

FINANCIAL SECTION
CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and 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, Minnesota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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 as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset), the related note disclosures, Related Ratios, and the Schedules of Employer's Contributions starting on page 76 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

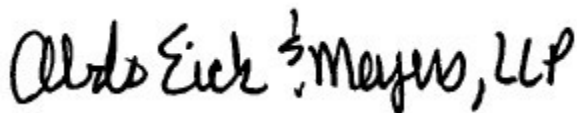
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and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

The combining and individual fund financial statements and schedules are the responsibility of management and were 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 fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020, on our consideration of the City'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 18, 2020

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Management's Discussion and Analysis

As management of the City of Watertown, Minnesota (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, 2019.

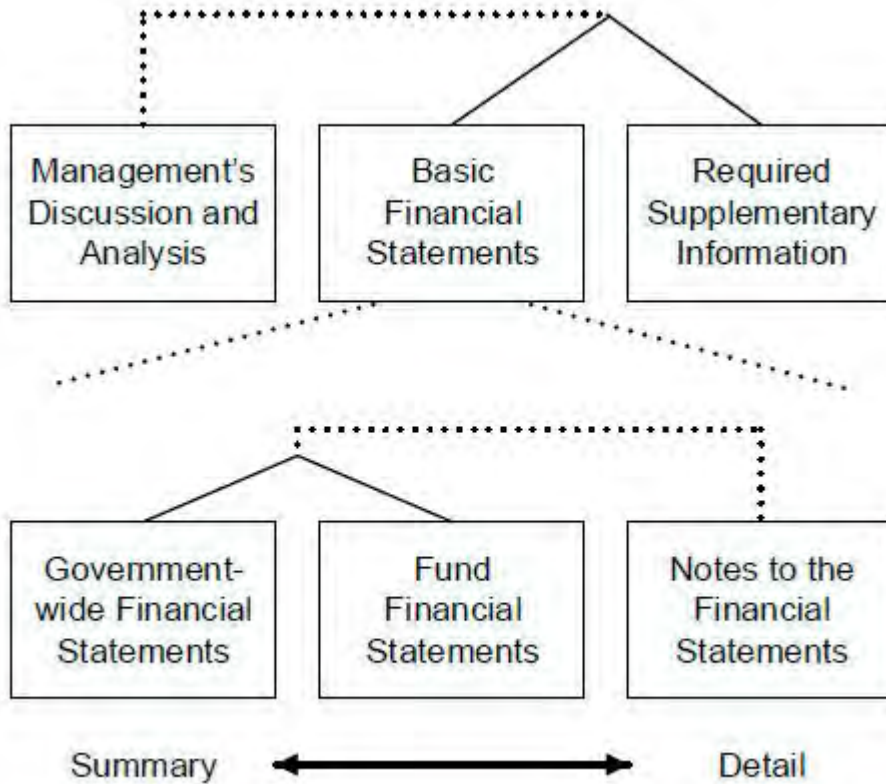
Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,578,536 (net position). Of this amount, \$7,818,768 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$1,078,317. This increase is due to property taxes and other general revenue in excess of net expenses and program revenue.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,215,314, an increase of \$1,151,421 in comparison with the prior year.
- At the end of the current fiscal year, total unassigned fund balance for the General fund was \$1,590,113, or 64.2 percent of next year's General fund budgeted expenditures and transfers out.
- The City's total long-term debt decreased \$882,502 during the current fiscal year due to regular payments on principal and interest.

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 supplemental information in addition to the basic financial statements themselves. The following chart shows how the required parts of this annual report are arranged and relate to one another.

Organization of the City's Annual Financial Report



The following chart summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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 revenue (*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, culture and recreation, economic development, and interest on long-term debt. The business-type activities of the City include water, sewer, and storm water.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements start on page 31 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 City'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 by 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, seven of which are combined Debt Service funds and four of which are combined Capital Projects fund. 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, Debt Service, Fire Equipment, and Capital Projects fund, all of which are considered to be major funds. Data from the three 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 or schedules* elsewhere in this report.

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 start on page 36 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise 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 water, sewer, storm sewer and recycling.

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 enterprise funds, which are considered to be major funds of the City except for the Storm Water fund.

The basic proprietary fund financial statements start on page 42 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 49 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Watertown's share of net pension liabilities (assets) for defined benefit plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 76 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 82 of this report.

Government-wide Financial Analysis

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 \$26,578,536 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (69.4 percent) 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.

City of Watertown's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2019	Restated 2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Assets						
Current and other assets	\$ 6,870,081	\$ 5,844,866	\$ 1,025,215	\$ 2,050,422	\$ 2,220,565	\$ (170,143)
Capital assets (net of depreciation)	15,865,116	16,361,009	(495,893)	7,132,416	7,465,137	(332,721)
Total Assets	22,735,197	22,205,875	529,322	9,182,838	9,685,702	(502,864)
Deferred Outflows of Resources	189,423	107,103	82,320	32,075	58,894	(26,819)
Liabilities						
Noncurrent liabilities outstanding	4,387,145	5,015,382	(628,237)	696,785	973,408	(276,623)
Other liabilities	296,184	394,587	(98,403)	33,910	23,820	10,090
Total Liabilities	4,683,329	5,409,969	(726,640)	730,695	997,228	(266,533)
Deferred Inflows of Resources	92,297	88,492	3,805	54,676	61,666	(6,990)
Net Position						
Net investment in capital assets	11,775,866	11,660,437	115,429	6,682,410	6,746,915	(64,505)
Restricted	301,492	428,504	(127,012)	-	-	
Unrestricted	6,071,636	4,725,576	1,346,060	1,747,132	1,938,787	(191,655)
Total Net Position	\$ 18,148,994	\$ 16,814,517	\$ 1,334,477	\$ 8,429,542	\$ 8,685,702	\$ (256,160)

An additional portion of the City's net position (1.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$7,818,768) 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.

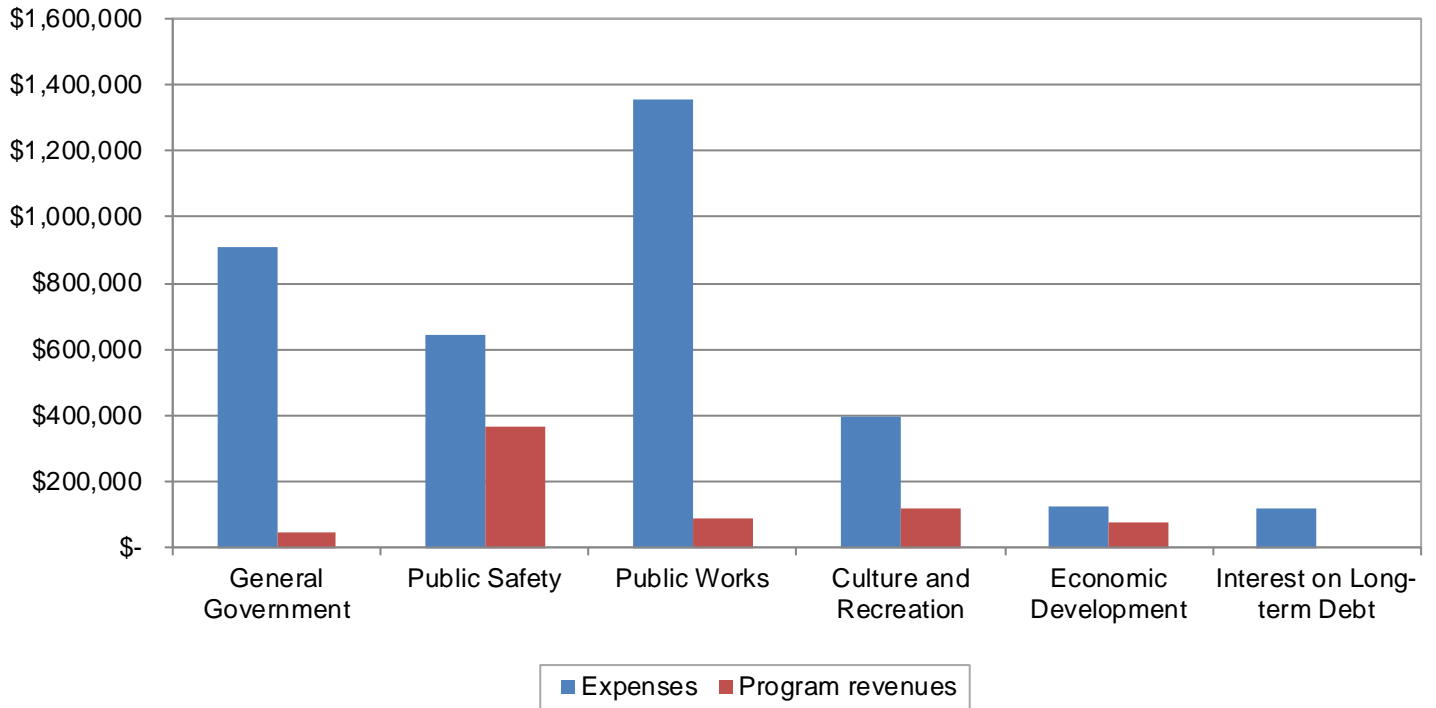
Governmental Activities. Governmental activities increased the City's net position \$1,334,477. Significant changes from the prior year are noted below:

City of Watertown's Changes in Net Position

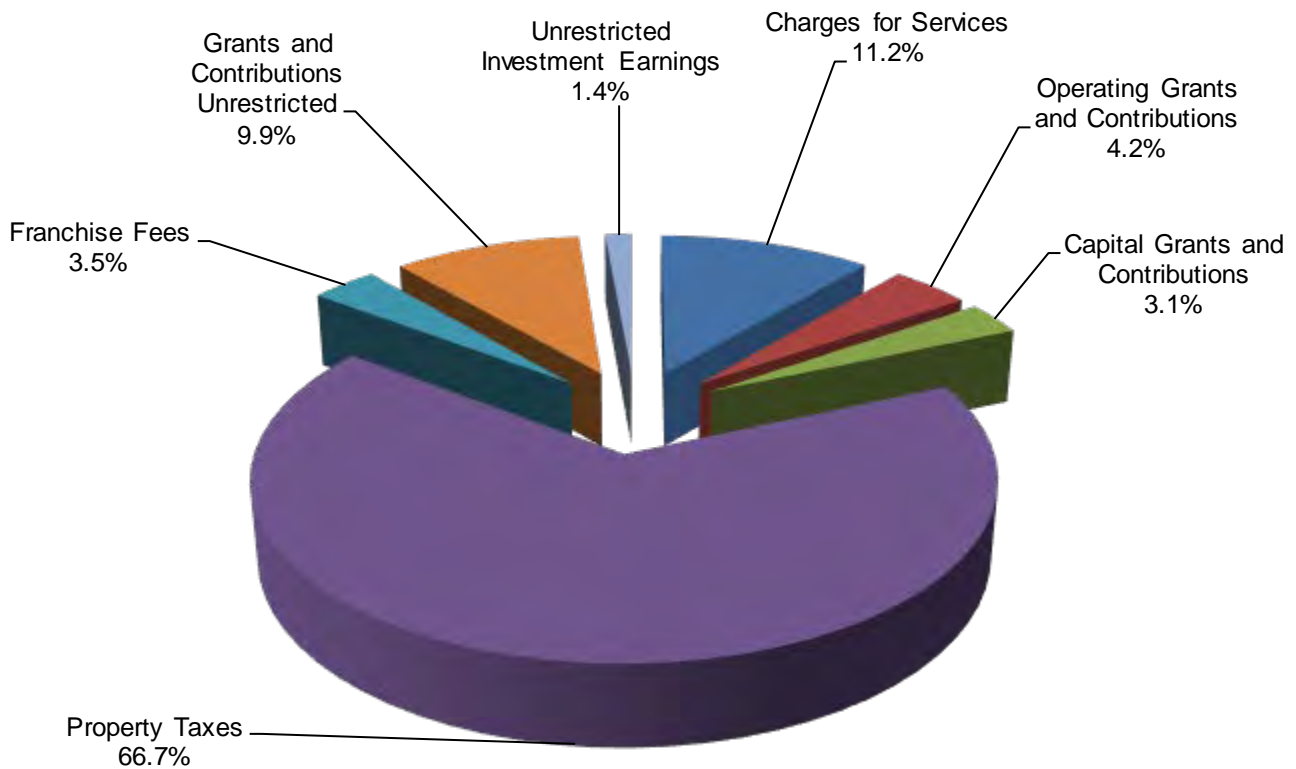
	Governmental Activities			Business-type Activities		
	2019	Restated 2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 420,454	\$ 373,391	\$ 47,063	\$ 1,870,856	\$ 1,836,421	\$ 34,435
Operating grants and contributions	156,654	247,346	(90,692)	515	1,754	(1,239)
Capital grants and contributions	117,295	61,757	55,538	294,567	400,095	(105,528)
General Revenues						
Taxes						
Property taxes	2,511,046	2,264,023	247,023	-	-	-
Franchise Fee	132,497	121,601	10,896	-	-	-
Grants and contributions not restricted to specific programs	371,850	450,016	(78,166)	-	-	-
Unrestricted investment earnings	52,321	50,921	1,400	18,958	20,643	(1,685)
Gain on sale of capital assets	1,587	25,854	(24,267)	-	982	(982)
Total Revenues	3,763,704	3,594,909	168,795	2,184,896	2,259,895	(74,999)
Expenses						
General government	910,011	690,719	219,292	-	-	-
Public safety	644,433	866,317	(221,884)	-	-	-
Public works	1,356,158	1,184,362	171,796	-	-	-
Culture and recreation	397,529	365,663	31,866	-	-	-
Economic development	125,905	209,835	(83,930)	-	-	-
Interest on long-term debt	118,257	134,356	(16,099)	-	-	-
Water	-	-	-	570,784	487,065	83,719
Sewer	-	-	-	657,154	609,302	47,852
Storm Water	-	-	-	90,052	61,488	28,564
Total Expenses	3,552,293	3,451,252	101,041	1,317,990	1,157,855	160,135
Change in Net Position before Transfers	211,411	143,657	67,754	866,906	1,102,040	(235,134)
Transfers of Capital Assets	-	(7,198)	7,198	-	7,198	(7,198)
Transfers	1,123,066	1,039,817	83,249	(1,123,066)	(1,039,817)	(83,249)
Change in Net Position	1,334,477	1,176,276	158,201	(256,160)	69,421	(325,581)
Net Position, January 1	16,814,517	15,583,645	1,230,872	8,685,702	8,670,877	14,825
Prior Period Adjustment	-	54,596	(54,596)	-	(54,596)	54,596
Net Position, December 31	\$ 18,148,994	\$ 16,814,517	\$ 1,334,477	\$ 8,429,542	\$ 8,685,702	\$ (256,160)

The following graph depicts various governmental activities and shows program revenues and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



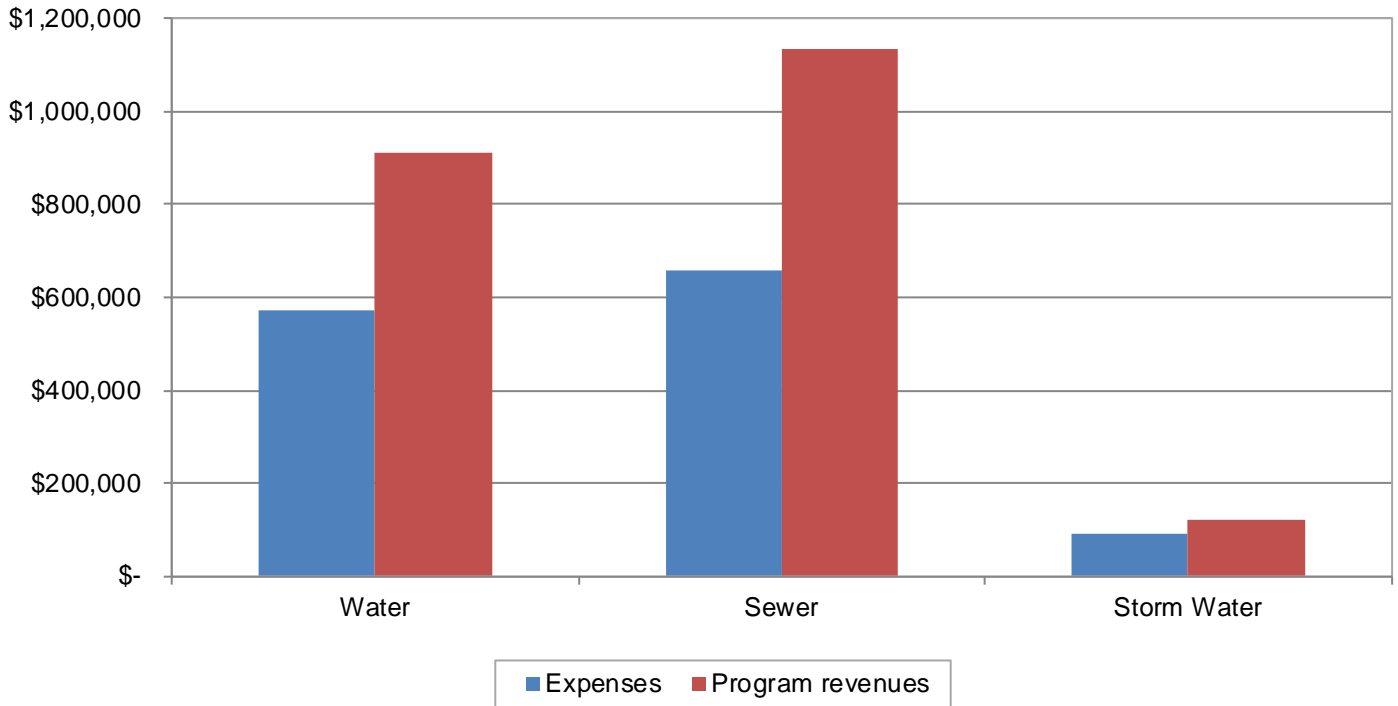
Revenues by Source - Governmental Activities



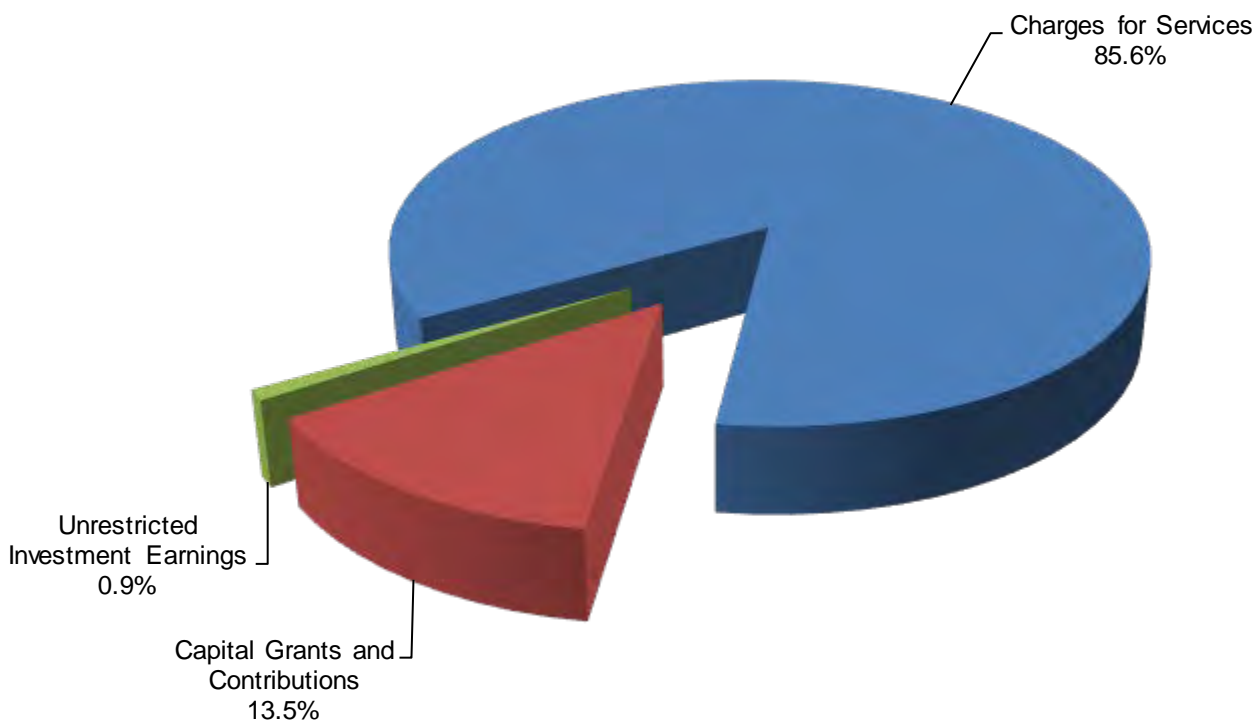
Business-type Activities. Business-type activities decreased the City's net position by \$256,160. Key elements of this decrease are as follows:

- Expenses for the business-type activities were \$1,319,577. The net revenue of the business-type activities was \$2,184,896. This essentially points out that utility charges are sufficient to cover expenses incurred during the operations of the utilities.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

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

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 City'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 \$6,215,314, an increase of \$1,151,421 in comparison with the prior year. Approximately 25.1 percent of this total amount, \$1,562,846, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remaining fund balance is not available for new spending because it is either 1) nonspendable (\$326,842), 2) restricted (\$218,074), 3) committed (\$712,421), or 4) assigned (\$3,395,131). For further classification, refer to note 3F on page 65 of this report.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2019	2018	
General	\$ 1,911,870	\$ 1,887,866	\$ 24,004
The General fund is the chief operating fund of the City. As a measure of the General fund's liquidity, it may be useful to compare fund balance to total fund expenditures and transfers out. Total fund balance represents 73.5 percent of budgeted 2020 expenditures and transfers out. Of the fund balance, \$1,590,113 is unassigned and will be used for cash flow for general operations and will be used to support operations until funds are received in June from the first tax settlement.			
Debt Service	\$ 313,820	\$ 493,361	\$ (179,541)
The Debt Service funds had a decrease in fund balance due to regular payments on principal and interest.			
Fire Equipment	\$ 773,627	\$ 704,174	\$ 69,453
The Fire Equipment fund had transfers in of \$264,000 along with expenditures of \$201,903 that increased fund balance \$69,453.			
Capital Projects	\$ 2,721,959	\$ 1,494,188	\$ 1,227,771
The increase in fund balance was a result of budgeted transfers into capital funds.			

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 enterprise funds at the end of the year amounted to \$1,747,132. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The budget for the City planned for a \$22,527 decrease in fund balance. Some of the line items with significant variances with final budget are highlighted below:

- Total revenues for the General fund were over budget by \$232,957. License and permits revenues were over budget by \$108,655 primarily due to under budgeted building permit revenue.
- Expenditures were \$21,058 under budget. Significant variances include the public safety being under budget by \$24,969, primarily due police contracted services. General government was over budget by \$45,277, primarily relating to other services and charges.

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, 2019, amounts to \$22,997,532 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. Major capital asset events during the current fiscal year included the following:

- Completion of the 30th Street Trail Project
- SCADA Path Study
- Purchase of the R12 Rescue Truck
- Purchase of a four inch trailered pump
- Purchase of the Community Center Partition wall
- Purchase of the generator for the Reo Road lift station.

City of Watertown's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Land	\$ 4,663,587	\$ 4,663,587	\$ -	\$ 551,700	\$ 551,700	\$ -
Construction in Progress	61,052	380,316	(319,264)	-	-	-
Permanent Easements	210,133	210,133	-	13,930	13,930	-
Buildings and Building Improvements	1,051,818	1,112,242	(60,424)	268,125	281,680	(13,555)
Infrastructure	2,276,930	2,408,622	(131,692)	6,135,150	6,317,818	(182,668)
Machinery and Equipment	7,601,596	7,586,109	15,487	163,511	300,009	(136,498)
Total	\$ 15,865,116	\$ 16,361,009	\$ (495,893)	\$ 7,132,416	\$ 7,465,137	\$ (332,721)

Additional information on the City's capital assets can be found in Note 3D starting on page 60 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$4,530,000. They are all backed by the full faith and credit of the City.

City of Watertown's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
G.O. Improvement Bonds	\$ 3,180,000	\$ 3,685,000	\$ (505,000)	\$ -	\$ -	\$ -
G.O. Tax Increment Bonds	904,000	978,000	(74,000)	-	-	-
G.O. Revenue Bonds	-	-	-	446,000	710,000	(264,000)
Premium on Bonds	11,028	15,314	(4,286)	4,006	8,222	(4,216)
Contract for Deeds	-	-	-	-	-	-
Equipment Certificates	-	31,000	(31,000)	-	-	-
Total	\$ 4,095,028	\$ 4,709,314	\$ (614,286)	\$ 450,006	\$ 718,222	\$ (268,216)

Minnesota statutes limit the amount of net general obligation debt a City may issue to three percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The City's debt is significantly lower than this limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 62 of this report.

Economic Factors and Next Year's Budgets and Rates

- The city continues to see strong growth in new residential development. The city has taken a conservative stance on forecasting growth and revenue related to growth. We have exceeded the forecasted numbers for construction of new homes for the third year in a row and any excess revenues are re-invested for future capital needs of the community.
- As the city's available lot inventory diminishes, it is important that the city continues to market its raw land to developers and have demonstrated its commitment to supporting growth through promotion of the community as well as participatory policies related to infrastructure needs spurred by new development. The Economic Development Authority has many incentives and programs available to both residential and commercial owners to invest and re-invest in existing properties and to support new development.
- In August of 2019, the city experienced a major hail storm which generated an increase in roofing and siding permits. These permits generated additional revenue for the city that was unanticipated. We expect this activity to carry into 2020 as a number of permits remain outstanding and the number of properties yet to be repaired is substantial.
- Capital Improvements continue to be funded by LGA distributions and the city continues to see incremental increases in the amounts certified under state formulas.
- With the addition of a mixed-use zoning district along the commercial and industrial corridor along State Highway 25 as well as impending state improvements to the roadway, the city is hoping to attract a variety of businesses, high density residential, and light industrial uses in a planned and orderly manner.

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, 309 Lewis Avenue, PO Box 279, Watertown, MN 55388.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota

Statement of Net Position

December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 6,325,933	\$ 1,804,912	\$ 8,130,845
Receivables			
Taxes	19,284	-	19,284
Accounts	21,062	131,383	152,445
Loans	39,709	-	39,709
Special assessments	121,641	86,776	208,417
Due from other governments	10,911	-	10,911
Inventory	5,664	5,527	11,191
Prepaid items	55,989	21,824	77,813
Net pension asset	269,888	-	269,888
Capital assets			
Land and construction in progress	4,934,772	565,630	5,500,402
Depreciable assets (net of accumulated depreciation)	10,930,344	6,566,786	17,497,130
Total Assets	<u>22,735,197</u>	<u>9,182,838</u>	<u>31,918,035</u>
Deferred Outflows of Resources			
Deferred loss on refunding	5,778	-	5,778
Deferred pension resources	183,645	32,075	215,720
Total Deferred Outflows of Resources	<u>189,423</u>	<u>32,075</u>	<u>221,498</u>
Liabilities			
Accrued salaries payable	2,669	2,244	4,913
Accounts payable	135,359	26,739	162,098
Escrows payable	29,974	-	29,974
Accrued interest payable	37,938	4,181	42,119
Due to other governments	70,174	746	70,920
Unearned revenue	20,070	-	20,070
Noncurrent liabilities			
Due within one year	604,028	290,763	894,791
Due in more than one year	3,522,713	185,422	3,708,135
Net pension liability	260,404	220,600	481,004
Total Liabilities	<u>4,683,329</u>	<u>730,695</u>	<u>5,414,024</u>
Deferred Inflows of Resources			
Deferred pension resources	92,297	54,676	146,973
Net Position			
Net investment in capital assets	11,775,866	6,682,410	18,458,276
Restricted for			
Debt service	255,932	-	255,932
Capital improvements	45,560	-	45,560
Unrestricted	6,071,636	1,747,132	7,818,768
Total Net Position	<u>\$ 18,148,994</u>	<u>\$ 8,429,542</u>	<u>\$ 26,578,536</u>

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

City of Watertown, Minnesota
Statement of Activities
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 910,011	\$ 23,182	\$ 23,479	\$ 689
Public safety	644,433	323,569	39,444	-
Public works	1,356,158	68,131	11,561	9,889
Culture and recreation	397,529	2,730	10,815	106,717
Economic development	125,905	2,842	71,355	-
Interest on long-term debt	118,257	-	-	-
Total Governmental Activities	<u>3,552,293</u>	<u>420,454</u>	<u>156,654</u>	<u>117,295</u>
Business-type Activities				
Water	570,784	799,742	238	109,451
Sewer	657,154	1,007,565	238	125,698
Storm Water	90,052	63,549	39	59,418
Total Business-type Activities	<u>1,317,990</u>	<u>1,870,856</u>	<u>515</u>	<u>294,567</u>
Total	<u>\$ 4,870,283</u>	<u>\$ 2,291,310</u>	<u>\$ 157,169</u>	<u>\$ 411,862</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise fees

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (862,661)	\$ -	\$ (862,661)
(281,420)	-	(281,420)
(1,266,577)	-	(1,266,577)
(277,267)	-	(277,267)
(51,708)	-	(51,708)
(118,257)	-	(118,257)
<u>(2,857,890)</u>	<u>-</u>	<u>(2,857,890)</u>
-	338,647	338,647
-	476,347	476,347
-	32,954	32,954
<u>-</u>	<u>847,948</u>	<u>847,948</u>
<u>(2,857,890)</u>	<u>847,948</u>	<u>(2,009,942)</u>
2,056,136	-	2,056,136
454,910	-	454,910
132,497	-	132,497
371,850	-	371,850
52,321	18,958	71,279
1,587	-	1,587
1,123,066	(1,123,066)	-
<u>4,192,367</u>	<u>(1,104,108)</u>	<u>3,088,259</u>
1,334,477	(256,160)	1,078,317
<u>16,814,517</u>	<u>8,685,702</u>	<u>25,500,219</u>
<u>\$ 18,148,994</u>	<u>\$ 8,429,542</u>	<u>\$ 26,578,536</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

FUND FINANCIAL STATEMENTS

CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Watertown, Minnesota
Balance Sheet
Governmental Funds
December 31, 2019

	101		404		Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Fire Equipment	Capital Projects		
Assets						
Cash and temporary investments	\$ 1,676,357	\$ 579,009	\$ 820,795	\$ 2,765,903	\$ 483,869	\$ 6,325,933
Receivables						
Taxes	18,859	-	-	-	425	19,284
Accounts	20,812	-	-	-	250	21,062
Loans	-	-	-	-	39,709	39,709
Special assessments	285	121,356	-	-	-	121,641
Due from other governments	10,911	-	-	-	-	10,911
Due from other funds	265,189	-	-	-	-	265,189
Inventory	5,664	-	-	-	-	5,664
Prepaid items	44,519	-	-	-	11,470	55,989
Total Assets	\$ 2,042,596	\$ 700,365	\$ 820,795	\$ 2,765,903	\$ 535,723	\$ 6,865,382
Liabilities						
Accrued salaries payable	\$ 2,669	\$ -	\$ -	\$ -	\$ -	\$ 2,669
Accounts payable	32,646	-	47,168	43,944	11,601	135,359
Escrows payable	-	-	-	-	29,974	29,974
Due to other funds	-	265,189	-	-	-	265,189
Due to other governments	70,174	-	-	-	-	70,174
Unearned revenue	20,070	-	-	-	-	20,070
Total Liabilities	125,559	265,189	47,168	43,944	41,575	523,435
Deferred Inflows of Resources						
Unavailable revenue - delinquent taxes	4,882	-	-	-	110	4,992
Unavailable revenue - special assessments	285	121,356	-	-	-	121,641
Total Deferred Inflows of Resources	5,167	121,356	-	-	110	126,633
Fund Balances						
Nonspendable	315,372	-	-	-	11,470	326,842
Restricted	-	172,514	-	-	45,560	218,074
Committed	6,385	141,306	-	100,455	464,275	712,421
Assigned	-	-	773,627	2,621,504	-	3,395,131
Unassigned	1,590,113	-	-	-	(27,267)	1,562,846
Total Fund Balances	1,911,870	313,820	773,627	2,721,959	494,038	6,215,314
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,042,596	\$ 700,365	\$ 820,795	\$ 2,765,903	\$ 535,723	\$ 6,865,382

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

City of Watertown, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2019

Amounts reported for governmental activities in the statement of net position are different because

Total Fund Balances - Governmental Funds	\$ 6,215,314
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	29,630,988
Less: accumulated depreciation	(13,765,872)
Long-term assets from pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	
Net pension asset	269,888
Some refunding bonds result in a loss that is deferred and amortized over the life of the bonds and therefore is not reported as a deferred charge in the funds.	
Deferred charge on refunding	5,778
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Noncurrent liabilities at year end consist of	
Bond principal payable	(4,084,000)
Less premium on bonds issued	(11,028)
Compensated absences payable	(31,713)
Net pension liability	(260,404)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	4,992
Special assessments receivable	121,641
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	183,645
Deferred inflows of pension resources	(92,297)
Governmental funds do not report a liability for accrued interest until due and payable.	(37,938)
Total Net Position - Governmental Activities	\$ 18,148,994

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

City of Watertown, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

	101	404			Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Fire Equipment	Capital Projects		
Revenues						
Taxes	\$ 2,136,013	\$ 454,910	\$ -	\$ -	\$ 55,592	\$ 2,646,515
Licenses and permits	177,715	-	-	-	-	177,715
Intergovernmental	403,280	-	-	-	74,355	477,635
Charges for services	77,065	-	-	99,217	152,418	328,700
Fines and forfeitures	8,414	-	-	-	-	8,414
Special assessments	689	43,171	-	-	-	43,860
Investment earnings	12,436	4,050	7,106	22,460	6,269	52,321
Miscellaneous	58,604	-	250	7,000	18,028	83,882
Total Revenues	<u>2,874,216</u>	<u>502,131</u>	<u>7,356</u>	<u>128,677</u>	<u>306,662</u>	<u>3,819,042</u>
Expenditures						
Current						
General government	732,900	-	-	-	-	732,900
Public safety	286,997	-	-	-	217,016	504,013
Public works	467,082	-	-	-	-	467,082
Culture and recreation	187,312	-	-	-	-	187,312
Economic development	-	-	-	-	120,905	120,905
Capital outlay						
General government	6,339	-	-	155,068	-	161,407
Public safety	-	-	201,903	-	10,644	212,547
Public works	-	-	-	565,530	-	565,530
Culture and recreation	16,351	-	-	86,296	-	102,647
Economic development	-	-	-	-	5,000	5,000
Debt service						
Principal	-	610,000	-	-	-	610,000
Interest and other	-	122,931	-	-	-	122,931
Total Expenditures	<u>1,696,981</u>	<u>732,931</u>	<u>201,903</u>	<u>806,894</u>	<u>353,565</u>	<u>3,792,274</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,177,235</u>	<u>(230,800)</u>	<u>(194,547)</u>	<u>(678,217)</u>	<u>(46,903)</u>	<u>26,768</u>
Other Financing Sources (Uses)						
Transfers in	10,000	51,259	264,000	1,904,401	330,637	2,560,297
Sale of capital assets	-	-	-	1,587	-	1,587
Transfers out	(1,163,231)	-	-	-	(274,000)	(1,437,231)
Total Other Financing Sources (Uses)	<u>(1,153,231)</u>	<u>51,259</u>	<u>264,000</u>	<u>1,905,988</u>	<u>56,637</u>	<u>1,124,653</u>
Net Change in Fund Balances	24,004	(179,541)	69,453	1,227,771	9,734	1,151,421
Fund Balances, January 1	1,887,866	493,361	704,174	1,494,188	484,304	5,063,893
Fund Balances, December 31	<u>\$ 1,911,870</u>	<u>\$ 313,820</u>	<u>\$ 773,627</u>	<u>\$ 2,721,959</u>	<u>\$ 494,038</u>	<u>\$ 6,215,314</u>

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

City of Watertown, Minnesota
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 For the Year Ended December 31, 2019

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

Total Net Change in Fund Balances - Governmental Funds	\$ 1,151,421
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlay	400,370
Depreciation expense	(896,263)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.</p>	
Bond principal repayments	610,000
Deferred charge on refunding	(2,964)
Amortization of bond premium	4,286
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	3,352
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(54,561)
Property taxes	(2,972)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>	
Compensated absences	(6,613)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension revenue	608
Pension expense	127,813
Change in Net Position - Governmental Activities	\$ 1,334,477

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 2,073,210	\$ 2,073,210	\$ 2,136,013	\$ 62,803
Licenses and permits	69,060	69,060	177,715	108,655
Intergovernmental	392,469	392,469	403,280	10,811
Charges for services	39,750	39,750	77,065	37,315
Fines and forfeitures	6,500	6,500	8,414	1,914
Special assessments	1,500	1,500	689	(811)
Investment earnings	5,000	5,000	12,436	7,436
Miscellaneous	53,770	53,770	58,604	4,834
Total Revenues	<u>2,641,259</u>	<u>2,641,259</u>	<u>2,874,216</u>	<u>232,957</u>
Expenditures				
Current				
General government	687,623	687,623	732,900	(45,277)
Public safety	311,966	311,966	286,997	24,969
Public works	491,018	491,018	467,082	23,936
Culture and recreation	204,432	204,432	187,312	17,120
Capital outlay	23,000	23,000	22,690	310
Total Expenditures	<u>1,718,039</u>	<u>1,718,039</u>	<u>1,696,981</u>	<u>21,058</u>
Excess of Revenues Over Expenditures	<u>923,220</u>	<u>923,220</u>	<u>1,177,235</u>	<u>254,015</u>
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Transfers out	(955,747)	(955,747)	(1,163,231)	(207,484)
Total Other Financing Sources (Uses)	<u>(945,747)</u>	<u>(945,747)</u>	<u>(1,153,231)</u>	<u>(207,484)</u>
Net Change in Fund Balances	(22,527)	(22,527)	24,004	46,531
Fund Balances, January 1	<u>1,887,866</u>	<u>1,887,866</u>	<u>1,887,866</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,865,339</u>	<u>\$ 1,865,339</u>	<u>\$ 1,911,870</u>	<u>\$ 46,531</u>

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

City of Watertown, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-type Activities - Enterprise Funds			
	601	602	Nonmajor 606	Total
	Water	Sewer	Storm Water	
Assets				
Current Assets				
Cash and temporary investments	\$ 613,624	\$ 852,856	\$ 338,432	\$ 1,804,912
Receivables				
Accounts	56,470	70,093	4,820	131,383
Special assessments	539	539	-	1,078
Inventory	5,527	-	-	5,527
Prepaid items	8,046	13,439	339	21,824
Total Current Assets	684,206	936,927	343,591	1,964,724
Noncurrent Assets				
Special assessments receivable	42,849	42,849	-	85,698
Capital assets				
Nondepreciable	122,572	233,602	209,456	565,630
Depreciable	5,389,726	7,341,483	407,380	13,138,589
Less accumulated depreciation	(2,702,532)	(3,663,828)	(205,443)	(6,571,803)
Total Capital Assets (Net of Accumulated Depreciation)	2,809,766	3,911,257	411,393	7,132,416
Total Noncurrent Assets	2,852,615	3,954,106	411,393	7,218,114
Total Assets	3,536,821	4,891,033	754,984	9,182,838
Deferred Outflows of Resources				
Deferred pension resources	14,840	14,838	2,397	32,075
Liabilities				
Current Liabilities				
Accrued salaries payable	1,037	1,037	170	2,244
Accounts payable	10,673	15,434	632	26,739
Accrued interest payable	3,998	183	-	4,181
Due to other governments	746	-	-	746
Current portion of compensated absences payable	7,062	7,062	2,639	16,763
Current portion of bonds payable	164,000	110,000	-	274,000
Total Current Liabilities	187,516	133,716	3,441	324,673

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

City of Watertown, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2019

Business-type Activities - Enterprise Funds

	<u>Nonmajor</u>			Total
	601	602	606	
	Water	Sewer	Storm Water	
Noncurrent Liabilities				
Compensated absences payable	\$ 4,708	\$ 4,708	\$ -	\$ 9,416
Net pension liability	102,062	102,052	16,486	220,600
Bonds payable	172,000	4,006	-	176,006
Total Noncurrent Liabilities	<u>278,770</u>	<u>110,766</u>	<u>16,486</u>	<u>406,022</u>
 Total Liabilities	 <u>466,286</u>	 <u>244,482</u>	 <u>19,927</u>	 <u>730,695</u>
Deferred Inflows of Resources				
Deferred pension resources	<u>25,296</u>	<u>25,294</u>	<u>4,086</u>	<u>54,676</u>
Net Position				
Net investment in capital assets	2,473,766	3,797,251	411,393	6,682,410
Unrestricted	<u>586,313</u>	<u>838,844</u>	<u>321,975</u>	<u>1,747,132</u>
 Total Net Position	 <u>\$ 3,060,079</u>	 <u>\$ 4,636,095</u>	 <u>\$ 733,368</u>	 <u>\$ 8,429,542</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of Watertown, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds			
	601	602	Nonmajor 606	Total
	Water	Sewer	Storm Water	
Operating Revenues				
Charges for services	\$ 783,777	\$ 1,000,585	\$ 63,543	\$ 1,847,905
Operating Expenses				
Personnel services	190,860	191,729	46,548	429,137
Supplies	30,021	29,278	1,785	61,084
Professional services	122,245	178,754	17,311	318,310
Repairs and maintenance	87,308	64,902	8,830	161,040
Depreciation	124,561	192,582	15,578	332,721
Total Operating Expenses	<u>554,995</u>	<u>657,245</u>	<u>90,052</u>	<u>1,302,292</u>
Operating Income (loss)	<u>228,782</u>	<u>343,340</u>	<u>(26,509)</u>	<u>545,613</u>
Nonoperating Revenues (Expenses)				
Investment earnings	6,789	8,750	3,419	18,958
Inspection fees	1,785	1,785	-	3,570
Sale of meters	14,180	-	-	14,180
Other revenue	238	5,433	45	5,716
Bond premium amortization	-	4,216	-	4,216
Interest expense	(15,789)	(4,125)	-	(19,914)
Total Nonoperating Revenues (Expenses)	<u>7,203</u>	<u>16,059</u>	<u>3,464</u>	<u>26,726</u>
Income Before Contributions and Transfers	235,985	359,399	(23,045)	572,339
Capital Contributions	109,451	125,698	59,418	294,567
Transfers Out	<u>(476,042)</u>	<u>(597,024)</u>	<u>(50,000)</u>	<u>(1,123,066)</u>
Change in Net Position	(130,606)	(111,927)	(13,627)	(256,160)
Net Position, January 1	<u>3,190,685</u>	<u>4,748,022</u>	<u>746,995</u>	<u>8,685,702</u>
Net Position, December 31	<u>\$ 3,060,079</u>	<u>\$ 4,636,095</u>	<u>\$ 733,368</u>	<u>\$ 8,429,542</u>

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

City of Watertown, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds			
	601	602	Nonmajor 606	Total
	Water	Sewer	Storm Water	
Cash Flows from Operating Activities				
Receipts from users	\$ 788,486	\$ 1,003,953	\$ 63,263	\$ 1,855,702
Other income related to operating activities	16,203	7,218	45	23,466
Payments to suppliers	(238,318)	(268,933)	(31,007)	(538,258)
Payments to employees	(194,514)	(195,393)	(23,167)	(413,074)
Net Cash Provided (Used) by Operating Activities	<u>371,857</u>	<u>546,845</u>	<u>9,134</u>	<u>927,836</u>
Cash Flows from Noncapital Financing Activities				
Transfers out	<u>(476,042)</u>	<u>(597,024)</u>	<u>(50,000)</u>	<u>(1,123,066)</u>
Cash Flows from Capital and Related Financing Activities				
Connection charges collected	107,045	123,292	59,418	289,755
Principal paid on long-term debt	(159,000)	(105,000)	-	(264,000)
Interest paid on long-term debt	(17,682)	(4,300)	-	(21,982)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(69,637)</u>	<u>13,992</u>	<u>59,418</u>	<u>3,773</u>
Cash Flows from Investing Activities				
Interest received on investments	<u>6,789</u>	<u>8,750</u>	<u>3,419</u>	<u>18,958</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(167,033)	(27,437)	21,971	(172,499)
Cash and Cash Equivalents, January 1	<u>780,657</u>	<u>880,293</u>	<u>316,461</u>	<u>1,977,411</u>
Cash and Cash Equivalents, December 31	<u>\$ 613,624</u>	<u>\$ 852,856</u>	<u>\$ 338,432</u>	<u>\$ 1,804,912</u>

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

City of Watertown, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds			
	601	602	Nonmajor 606	Total
	Water	Sewer	Storm Water	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 228,782	\$ 343,340	\$ (26,509)	\$ 545,613
Adjustments to reconcile operating income to net cash provided by operating activities				
Other income related to operations	16,203	7,218	45	23,466
Depreciation	124,561	192,582	15,578	332,721
(Increase) decrease in assets/deferred outflows of resources				
Accounts receivable	(130)	(1,471)	(280)	(1,881)
Special assessments receivable	4,839	4,839	-	9,678
Inventory	(494)	-	-	(494)
Prepaid items	547	(520)	(80)	(53)
Deferred pension resources	14,607	14,609	(2,397)	26,819
Increase (decrease) in liabilities/deferred inflows of resources				
Accounts payable	1,143	5,420	(604)	5,959
Accrued salaries payable	1,037	1,037	170	2,244
Due to other governments	60	(899)	-	(839)
Compensated absences payable	(1,118)	(1,118)	2,639	403
Net pension liability	(12,643)	(12,653)	16,486	(8,810)
Deferred pension resources	(5,537)	(5,539)	4,086	(6,990)
Net Cash Provided (Used) by Operating Activities	<u>\$ 371,857</u>	<u>\$ 546,845</u>	<u>\$ 9,134</u>	<u>\$ 927,836</u>
Noncash Capital and Related Financing Activities				
Amortization of bond premium	<u>\$ -</u>	<u>\$ 4,216</u>	<u>\$ -</u>	<u>\$ 4,216</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Watertown, Minnesota (the City), operates under "Optional Plan A" as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The blended component unit has a December 31 year end.

Blended Component Unit: The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. The EDA is comprised of five members, two of which are City Council members. Also, the City has operational responsibility of the EDA. It is this criterion that results in the EDA being reported as a blended component unit. The EDA activities are blended and reported in a separate special revenue fund. Separate financial statements are not issued for this component unit.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Fire Equipment fund* accounts for the financial resources to be used for the acquisition of equipment for the City's Fire Department.

The *Capital Projects fund* accounts 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.

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

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

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

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and investments. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statements of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Investments are carried at fair value. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

The City may invest idle funds as authorized by Minnesota statutes and City policy, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities 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.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County and tax settlements are made to the City during January, July and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the fund financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. To the extent considered necessary, the City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivable upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Interfund Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriations and are not expendable available financial resources.

Inventory and Prepaid Items

All inventories are stated at lower of cost or market on the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at acquisition value at the date of donation. As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the acquisition value of the item at the date of its donation.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. A deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred pension resources are also reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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

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.

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.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by the Watertown Fire Department Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP, and Watertown Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		
	GERP	Fire Relief Association	Total Pension Expense
Pension Expense	\$ 63,715	\$ (84,978)	\$ (21,263)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item, which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy, which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 50 percent 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.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

A plan of financial operation for the City is established in the budget adopted by the City Council. The budget outline proposed expenditures and the means of financing them. Before September 30, a preliminary budget is presented to the City Council for review. The final budget is adopted each year in December. Budgeted amounts shown in the accompanying financial statements are as originally adopted and subsequently amended. The budget was not amended during the year. Individual line items within the budget may be overspent but the total budget cannot be changed unless approved by the City Council.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$7,673,073 and the bank balance was \$7,834,768. Of the bank balance, \$691,114 was covered by federal depository insurance. The amount of \$7,143,654, was covered by an irrevocable letter of credit or collateral pledged in the City's name.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2019, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Investment Type	Credit Quality/ Rating (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
Broker Money Markets	N/A	less than 1 year	<u>\$ 457,522</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

Note: The City has no level 1, 2 or level 3 investments.

Investment Policy

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- **Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list above.
- **Custodial Credit Risk.** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- **Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City limits investments in any one institution, other than the U.S. Government or its agencies, to not more than 50 percent of the total portfolio. The City has no concentrations greater than their own requirements in any one issuer.
- **Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City requires no more than 20 percent of the portfolio should have maturities exceeding 5 years, and no investment with a maturity exceeding 10 year will be purchased.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Cash Summary

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Carrying Amount of Deposits	\$ 7,673,073
Investments	457,522
Cash on Hand	<u>250</u>
 Total Cash and Temporary Investments	 <u><u>\$ 8,130,845</u></u>
 Government-wide Cash and temporary investments	 <u><u>\$ 8,130,845</u></u>

B. Loans Receivable

The City issued various loans receivable to local businesses during 2017. The initial loans were for \$50,000 at 4 percent interest. At December 31, 2019, the City has two loans outstanding with a total balance of \$39,709.

C. Interfund Receivables, Payables and Transfers

Interfund Balances

The composition of interfund balances at December 31, 2019 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General	Debt Service	To assist with debt payments	<u>\$ 265,189</u>

Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2019 is as follows:

Fund	Transfer in					Total
	General	Debt Service	404 Fire Equipment	Capital Projects	Nonmajor Governmental	
Transfer Out						
General	\$ -	\$ 1,193	\$ -	\$ 831,401	\$ 330,637	\$ 1,163,231
Nonmajor governmental	10,000	-	264,000	-	-	274,000
Water	-	22,042	-	454,000	-	476,042
Sewer	-	28,024	-	569,000	-	597,024
Storm Water	-	-	-	50,000	-	50,000
Total Transfers In	<u>\$ 10,000</u>	<u>\$ 51,259</u>	<u>\$ 264,000</u>	<u>\$ 1,904,401</u>	<u>\$ 330,637</u>	<u>\$ 2,560,297</u>

The City annually budgets for transfers between funds. These annual budgeted transfers are made for certain funds portions of debt service payments, to cover administrative fees, to close funds, and to fund certain capital improvement projects. Unbudgeted transfers were approved by City Council resolution. A one-time transfer was made from the General fund to the Capital Projects fund for \$300,000 to maintain a General fund balance target of 50% of operating expenditures and allocate excess funds to fund capital projects.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

One-time transfers were made from the Water fund and the Sewer fund to the Capital Projects fund for \$254,000 and \$369,000, respectively, to relieve tax payers of additional impacts by making proper financial adjustments with excess funds to allocate towards capital projects.

A one-time transfer was made from nonmajor governmental funds to the Fire Equipment fund in the amount of \$19,000 to relieve tax payers of additional impacts by making proper financial adjustments with excess funds to allocate towards capital projects.

D. Capital Assets

Capital asset activity for the City for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 4,663,587	\$ -	\$ -	\$ 4,663,587
Construction in progress	380,316	61,052	(380,316)	61,052
Permanent easements	210,133	-	-	210,133
Total Capital Assets not being Depreciated	<u>5,254,036</u>	<u>61,052</u>	<u>(380,316)</u>	<u>4,934,772</u>
Capital Assets being Depreciated				
Buildings and building improvements	3,155,254	44,614	-	3,199,868
Infrastructure	16,033,476	541,647	-	16,575,123
Equipment and furniture	4,787,852	133,373	-	4,921,225
Total Capital Assets being Depreciated	<u>23,976,582</u>	<u>719,634</u>	<u>-</u>	<u>24,696,216</u>
Less Accumulated Depreciation for				
Buildings and building improvements	(2,043,012)	(105,038)	-	(2,148,050)
Infrastructure	(8,447,367)	(526,160)	-	(8,973,527)
Equipment and furniture	(2,379,230)	(265,065)	-	(2,644,295)
Total Accumulated Depreciation	<u>(12,869,609)</u>	<u>(896,263)</u>	<u>-</u>	<u>(13,765,872)</u>
Total Capital Assets being Depreciated, Net	<u>11,106,973</u>	<u>(176,629)</u>	<u>-</u>	<u>10,930,344</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,361,009</u>	<u>\$ (115,577)</u>	<u>\$ (380,316)</u>	<u>\$ 15,865,116</u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities

General government	\$ 56,761
Public safety	118,750
Public works	614,998
Culture and recreation	<u>105,754</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 896,263</u></u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 551,700	\$ -	\$ -	\$ 551,700
Permanent easements	<u>13,930</u>	<u>-</u>	<u>-</u>	<u>13,930</u>
Total Capital Assets not being Depreciated	<u>565,630</u>	<u>-</u>	<u>-</u>	<u>565,630</u>
Capital Assets being Depreciated				
Buildings and building improvements	494,036	-	-	494,036
Infrastructure	11,735,850	-	-	11,735,850
Furniture and equipment	<u>908,703</u>	<u>-</u>	<u>-</u>	<u>908,703</u>
Total Capital Assets being Depreciated	<u>13,138,589</u>	<u>-</u>	<u>-</u>	<u>13,138,589</u>
Less Accumulated Depreciation for				
Buildings and building improvements	(212,356)	(13,555)	-	(225,911)
Infrastructure	(5,418,032)	(182,668)	-	(5,600,700)
Furniture and equipment	<u>(608,694)</u>	<u>(136,498)</u>	<u>-</u>	<u>(745,192)</u>
Total Accumulated Depreciation	<u>(6,239,082)</u>	<u>(332,721)</u>	<u>-</u>	<u>(6,571,803)</u>
Total Capital Assets being Depreciated, Net	<u>6,899,507</u>	<u>(332,721)</u>	<u>-</u>	<u>6,566,786</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 7,465,137</u></u>	<u><u>\$ (332,721)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,132,416</u></u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities

Water	\$ 124,561
Sewer	192,582
Storm Water	<u>15,578</u>
 Total Depreciation Expense - Business-type Activities	 <u><u>\$ 332,721</u></u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

E. Long-term Debt

G.O. Improvement (Special Assessment) Bonds

The following bonds were issued to finance various capital improvements and will be repaid from special assessments certified on the properties benefiting from the improvements. Some issues, however, are partially financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments. In addition, G.O. improvement bonds have been issued to refund related G.O. improvement bonds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2010	\$ 1,280,000	2.00 - 3.60 %	07/12/10	12/01/25	\$ 680,000
G.O. Improvement Bonds of 2012	2,265,000	0.50 - 2.00	09/12/12	02/01/23	1,000,000
G.O. Refunding Bonds of 2014	695,000	2.00	04/15/14	02/01/21	85,000
G.O. Improvement Bonds of 2015	1,615,000	1.35 - 4.00	02/01/15	02/01/36	<u>1,415,000</u>
 Total G.O. Improvement Bonds					 <u><u>\$ 3,180,000</u></u>

Annual debt service requirements to maturity for the G.O. improvement bonds are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 510,000	\$ 90,140	\$ 600,140
2021	425,000	77,460	502,460
2022	440,000	67,365	507,365
2023	455,000	56,525	511,525
2024	175,000	47,745	222,745
2025 - 2029	495,000	171,250	666,250
2030 - 2034	465,000	89,863	554,863
2035 - 2036	215,000	8,700	223,700
 Total	 <u><u>\$ 3,180,000</u></u>	 <u><u>\$ 609,048</u></u>	 <u><u>\$ 3,789,048</u></u>

G.O. Tax Increment Bonds

The following bonds were issued for development projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire the related debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Increment Revenue Refunding Bonds of 2016	\$ 978,000	1.60 - 2.50 %	05/17/16	02/01/30	<u>\$ 904,000</u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Annual debt service requirements to maturity for G.O. tax increment bonds are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 75,000	\$ 18,517	\$ 93,517
2021	76,000	17,309	93,309
2022	77,000	16,085	93,085
2023	79,000	14,837	93,837
2024	80,000	13,565	93,565
2025 - 2029	425,000	38,563	463,563
2030	92,000	1,150	93,150
Total	<u>\$ 904,000</u>	<u>\$ 120,026</u>	<u>\$ 1,024,026</u>

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future revenues pledged from the Water and Sewer enterprise funds and are backed by the taxing power of the City. Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer
Revenues	\$ 783,777	\$ 1,000,585
Principal and Interest	176,682	109,300
Percentage of Revenues	23 %	11 %

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Notes, Series 2002	\$ 2,456,978	3.57 %	02/06/02	08/20/21	\$ 336,000
G.O. Refunding Bonds of 2014	510,000	2.00	04/15/14	02/01/21	110,000
Total G.O. Revenue Bonds					<u>\$ 446,000</u>

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

Year Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 274,000	\$ 13,095	\$ 287,095
2021	172,000	6,140	178,140
Total	<u>\$ 446,000</u>	<u>\$ 19,235</u>	<u>\$ 465,235</u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
G.O. improvement bonds	\$ 3,685,000	\$ -	\$ (505,000)	\$ 3,180,000	\$ 510,000
G.O. tax increment bonds	978,000	-	(74,000)	904,000	75,000
Premium on bonds	15,314	-	(4,286)	11,028	-
Total Bonds Payable	<u>4,678,314</u>	<u>-</u>	<u>(583,286)</u>	<u>4,095,028</u>	<u>585,000</u>
Equipment Certificates	31,000	-	(31,000)	-	-
Compensated Absences Payable	<u>25,100</u>	<u>28,094</u>	<u>(21,481)</u>	<u>31,713</u>	<u>19,028</u>
Governmental Activity Long-term Liabilities	<u>\$ 4,734,414</u>	<u>\$ 28,094</u>	<u>\$ (635,767)</u>	<u>\$ 4,126,741</u>	<u>\$ 604,028</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds Payable					
G.O. revenue bonds	\$ 710,000	\$ -	\$ (264,000)	\$ 446,000	\$ 274,000
Premium on bonds	8,222	-	(4,216)	4,006	-
Total Bonds Payable	<u>718,222</u>	<u>-</u>	<u>(268,216)</u>	<u>450,006</u>	<u>274,000</u>
Compensated Absences Payable	<u>25,776</u>	<u>24,291</u>	<u>(23,888)</u>	<u>26,179</u>	<u>16,763</u>
Business-type Activity Long-term Liabilities	<u>\$ 743,998</u>	<u>\$ 24,291</u>	<u>\$ (292,104)</u>	<u>\$ 476,185</u>	<u>\$ 290,763</u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

F. Components of Fund Balance

At December 31, 2019, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Fire Equipment	Capital Project	Other Governmental Funds	Total Governmental Funds
Nonspendable						
Due from other funds	\$ 265,189	\$ -	\$ -	\$ -	\$ -	\$ 265,189
Inventory	5,664	-	-	-	-	5,664
Prepaid items	44,519	-	-	-	11,470	55,989
Total Nonspendable	<u>\$ 315,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,470</u>	<u>\$ 326,842</u>
Restricted for						
Debt service	\$ -	\$ 172,514	\$ -	\$ -	\$ -	\$ 172,514
Capital improvements	-	-	-	-	45,560	45,560
Total Restricted	<u>\$ -</u>	<u>\$ 172,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,560</u>	<u>\$ 218,074</u>
Committed to						
Debt service	\$ -	\$ 141,306	\$ -	\$ -	\$ -	\$ 141,306
Commission and aging	3,687	-	-	-	-	3,687
City building maintenance	-	-	-	100,455	-	100,455
Criminal case rewards	2,698	-	-	-	-	2,698
Economic development	-	-	-	-	464,275	464,275
Total Committed	<u>\$ 6,385</u>	<u>\$ 141,306</u>	<u>\$ -</u>	<u>\$ 100,455</u>	<u>\$ 464,275</u>	<u>\$ 712,421</u>
Assigned to						
Capital improvements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,627</u>	<u>\$ 2,621,504</u>	<u>\$ -</u>	<u>\$ 3,395,131</u>

Note 4: Defined Benefit Pension Plan - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (GERP)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Plan (GERP). GERP members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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.

GERP Benefits

GERP 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 Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2019, 2018 and 2017 were \$47,731, \$45,229 and \$46,749, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$481,004 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$14,999. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0087 percent which was a decrease of 0.0005 percent from its proportion measured as of June 30, 2018.

City's Proportionate Share of the Net Pension Liability	\$ 481,004
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>14,999</u>
Total	<u><u>\$ 496,003</u></u>

For the year ended December 31, 2019, the City recognized pension expense of \$62,592 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$1,123 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 17,957	\$ 1,891
Changes in Actuarial Assumptions	3,138	41,297
Net Difference Between Projected and Actual Earnings on Plan Investments	-	52,699
Changes in Proportion	24,904	23,336
Contributions paid to PERA Subsequent to the Measurement Date	<u>23,944</u>	<u>-</u>
Total	<u><u>\$ 69,943</u></u>	<u><u>\$ 119,223</u></u>

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

The \$23,944 reported as deferred outflows of resources related to pensions resulting from the City's contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2020	
2021	\$ (14,113)
2022	(41,214)
2023	(18,671)
2024	774

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	35.5 %	5.10 %
International Equity	17.5	5.90
Fixed Income	20.0	0.75
Private Markets	25.0	5.90
Cash Equivalents	2.0	-
Total	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
General Employees Fund	\$ 790,744	\$ 481,004	\$ 225,251

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 5: Defined Benefit Pension Plans - Fire Relief Association

A. Plan Description

All members of the Watertown Fire Department (the Department) are covered by a defined benefit plan administered by the Watertown Fire Department Relief Association (the Association). As of December 31, 2018, the plan covered 25 active firefighters and 9 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived 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). Funds are also derived from investment income.

B. Benefits Provided

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$46,162 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2019, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City did not have a statutorily-required contribution to the plan for the year ended December 31, 2019. The City's voluntary contribution to the plan was \$15,000 for the year ended December 31, 2019.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

D. Pension Costs

At December 31, 2019, the City reported a net pension asset of \$269,888 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2018. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA, applying an actuarial formula to specific census data certified by the Department.

For the year ended December 31, 2019, the City recognized pension revenue of \$131,140.

At December 31, 2019, the City reported deferred outflows of resources and its contributions subsequent to the measurement date related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ -	\$ 27,750
Net Difference Between Projected and Actual Earnings on Plan Investments	99,615	-
Contributions to Plan Subsequent to the Measurement Date	46,162	-
Total	\$ 145,777	\$ 27,750

Deferred outflows of resources totaling \$46,162 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2019	\$ 17,966
2020	17,966
2021	17,966
2022	17,967

E. Actuarial Assumptions

The total pension asset at December 31, 2019 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Salary Increases	2.50% per year
Cost of Living Increases	4.00% per year
Investment Rate of Return	5.25%
20 Year Municipal Bond Yield	3.50%

There were no changes in actuarial assumptions in 2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	37.00 %	2.25 %
Fixed Income	8.00	3.75
Equities	54.00	7.50
Other	<u>1.00</u>	6.00
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (5%)</u>	<u>Current (6%)</u>	<u>1 Percent Increase (7%)</u>
Defined Benefit Plan	\$ (249,750)	\$ (269,888)	\$ (289,262)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. The report may be obtained by writing to the Watertown Fire Department Relief Association, P.O. Box 911 Watertown, MN 55388. The Fire Relief Association approved joining the State of Minnesota's Statewide Volunteer Firefighter fund and have transferred their pension assets to that plan.

City of Watertown, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 6: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. 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, 2019, there were two series of Public Facility Revenue Bonds outstanding, with a principal amount payable of \$1,376,051. The two series relate to the Adult Training and Habilitation facility and Christ Community Lutheran School.

C. Legal Debt Margin

The City's statutory debt limit is computed as 3 percent of the taxable market value of property within the City. Long-term debt issued and financed partially or entirely by special assessments or the net revenues of enterprise fund operations is excluded from the debt limit computation. As of December 31, 2019, the City is under the legal debt margin.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Watertown, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2019

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0087 %	\$ 481,004	\$ 14,999	\$ 496,003	\$ 619,000	77.7 %	80.2 %
06/30/18	0.0092	510,378	16,738	527,116	616,471	82.8	79.5
06/30/17	0.0089	568,171	7,146	575,317	592,155	95.9	75.9
06/30/16	0.0079	641,442	8,374	649,816	492,201	130.3	68.9
06/30/15	0.0086	445,697	-	445,697	506,993	87.9	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/19	\$ 47,731	\$ 47,731	\$ -	\$ 636,413	7.5 %
12/31/18	45,229	45,229	-	603,053	7.5
12/31/17	46,749	46,749	-	623,320	7.5
12/31/16	40,227	40,227	-	536,360	7.5
12/31/15	37,244	37,244	-	496,587	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Watertown, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Watertown, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
Total Pension Liability					
Service cost	\$ 24,906	\$ 29,023	\$ 30,287	\$ 31,247	\$ 30,485
Interest	58,225	51,048	51,662	46,963	47,258
Differences between expected and actual experience	(34,688)	-	(17,288)	-	-
Changes of assumptions	(52,176)	-	10,478	-	-
Benefit payments, including refunds of employee contributions	(51,407)	-	-	(53,550)	(15,784)
Net Change in Total Pension Liability	<u>(55,140)</u>	<u>80,071</u>	<u>75,139</u>	<u>24,660</u>	<u>61,959</u>
Total Pension Liability - January 1	<u>1,023,397</u>	<u>943,326</u>	<u>868,187</u>	<u>843,527</u>	<u>781,568</u>
Total Pension Liability - December 31 (a)	<u>\$ 968,257</u>	<u>\$ 1,023,397</u>	<u>\$ 943,326</u>	<u>\$ 868,187</u>	<u>\$ 843,527</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 17,700	\$ 15,000	\$ 59,549	\$ 14,222	\$ 11,407
Contributions - State	44,514	77,172	4,400	47,160	44,549
Net investment income	76,542	59,160	56,313	55,761	53,265
Gain or loss	(124,519)	35,153	-	-	-
Benefit payments, including refunds of employee contributions	(51,407)	-	-	(53,550)	(15,784)
Administrative expense	(1,082)	(717)	-	-	-
Other	9,490	-	13,492	(82,052)	(33,854)
Net Change in Plan Fiduciary Net Position	<u>(28,762)</u>	<u>185,768</u>	<u>133,754</u>	<u>(18,459)</u>	<u>59,583</u>
Plan Fiduciary Net Position - January 1	<u>1,266,907</u>	<u>1,081,139</u>	<u>947,385</u>	<u>965,844</u>	<u>906,261</u>
Plan Fiduciary Net Position - December 31 (b)	<u>\$ 1,238,145</u>	<u>\$ 1,266,907</u>	<u>\$ 1,081,139</u>	<u>\$ 947,385</u>	<u>\$ 965,844</u>
Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	<u>\$ (269,888)</u>	<u>\$ (243,510)</u>	<u>\$ (137,813)</u>	<u>\$ (79,198)</u>	<u>\$ (122,317)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	127.87%	123.79%	114.61%	109.12%	114.50%
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

Notes to the Required Supplementary Information - Fire Relief Association

Benefit Changes. No changes from 2018

Changes of Assumptions. No changes from 2018

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Watertown, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2019

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/19	\$ 44,514	\$ 62,214	\$ (17,700)
12/31/18	77,172	92,172	(15,000)
12/31/17	47,760	63,949	(59,549)
12/31/16	48,949	63,949	(15,000)
12/31/15	46,382	61,382	(15,000)
12/31/14	41,972	55,956	(13,984)

THIS PAGE IS LEFT
BLANK INTENTIONALLY

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Watertown, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2019

	Special Revenue Funds		Capital Projects Funds	Total Nonmajor Governmental Funds
	603 Fire Operating	228 Economic Development	801 Escrow Deposits	
Assets				
Cash and temporary investments	\$ 29,644	\$ 424,251	\$ 29,974	\$ 483,869
Receivables				
Taxes	-	425	-	425
Accounts	250	-	-	250
Loans	-	39,709	-	39,709
Prepaid items	11,220	250	-	11,470
Total Assets	<u>\$ 41,114</u>	<u>\$ 464,635</u>	<u>\$ 29,974</u>	<u>\$ 535,723</u>
Liabilities				
Accounts payable	\$ 11,601	\$ -	\$ -	\$ 11,601
Escrows payable	-	-	29,974	29,974
Total Liabilities	<u>11,601</u>	<u>-</u>	<u>29,974</u>	<u>41,575</u>
Deferred Inflows of Resources				
Unavailable revenue - delinquent taxes	-	110	-	110
Fund Balances				
Nonspendable - prepaid items	11,220	250	-	11,470
Restricted	45,560	-	-	45,560
Committed for economic development	-	464,275	-	464,275
Unassigned	(27,267)	-	-	(27,267)
Total Fund Balances	<u>29,513</u>	<u>464,525</u>	<u>-</u>	<u>494,038</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 41,114</u>	<u>\$ 464,635</u>	<u>\$ 29,974</u>	<u>\$ 535,723</u>

City of Watertown, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2019

	Special Revenue Funds		Capital Projects Funds	Total Nonmajor Governmental Funds
	603 Fire Operating	228 Economic Development	801 Escrow Deposits	
Revenues				
Property taxes	\$ -	\$ 55,592	\$ -	\$ 55,592
Intergovernmental	3,000	71,355	-	74,355
Charges for services	152,418	-	-	152,418
Investment earnings	92	6,177	-	6,269
Miscellaneous	15,186	2,842	-	18,028
Total Revenues	<u>170,696</u>	<u>135,966</u>	<u>-</u>	<u>306,662</u>
Expenditures				
Current				
Public safety	217,016	-	-	217,016
Economic development	-	120,905	-	120,905
Capital outlay				
Public safety	10,644	-	-	10,644
Economic development	-	5,000	-	5,000
Total Expenditures	<u>227,660</u>	<u>125,905</u>	<u>-</u>	<u>353,565</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(56,964)</u>	<u>10,061</u>	<u>-</u>	<u>(46,903)</u>
Other Financing Sources (Uses)				
Transfers in	330,637	-	-	330,637
Transfers out	(264,000)	(10,000)	-	(274,000)
Total Other Financing Sources (Uses)	<u>66,637</u>	<u>(10,000)</u>	<u>-</u>	<u>56,637</u>
Net Change in Fund Balances	9,673	61	-	9,734
Fund Balances, January 1	<u>19,840</u>	<u>464,464</u>	<u>-</u>	<u>484,304</u>
Fund Balances, December 31	<u>\$ 29,513</u>	<u>\$ 464,525</u>	<u>\$ -</u>	<u>\$ 494,038</u>

City of Watertown, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued on the Following Pages)
 For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 1,963,210	\$ 1,963,210	\$ 2,003,516	\$ 40,306
Cable franchise fees	110,000	110,000	132,497	22,497
Total taxes	<u>2,073,210</u>	<u>2,073,210</u>	<u>2,136,013</u>	<u>62,803</u>
Licenses and permits				
Business	20,760	20,760	24,260	3,500
Nonbusiness	48,300	48,300	153,455	105,155
Total licenses and permits	<u>69,060</u>	<u>69,060</u>	<u>177,715</u>	<u>108,655</u>
State				
Local government aid	360,969	360,969	360,969	-
PERA aid	-	-	2,242	2,242
Other	19,000	19,000	21,258	2,258
County grants	12,500	12,500	18,811	6,311
Total intergovernmental	<u>392,469</u>	<u>392,469</u>	<u>403,280</u>	<u>10,811</u>
Charges for services				
General government	28,750	28,750	62,840	34,090
Recycling	9,000	9,000	11,495	2,495
Culture and recreation	2,000	2,000	2,730	730
Total charges for services	<u>39,750</u>	<u>39,750</u>	<u>77,065</u>	<u>37,315</u>
Fines and forfeitures	6,500	6,500	8,414	1,914
Special assessments	1,500	1,500	689	(811)
Investment earnings	5,000	5,000	12,436	7,436
Miscellaneous				
Contributions and donations	5,200	5,200	5,815	615
Refunds and reimbursements	23,570	23,570	23,479	(91)
Other	25,000	25,000	29,310	4,310
Total miscellaneous	<u>53,770</u>	<u>53,770</u>	<u>58,604</u>	<u>4,834</u>
Total Revenues	<u>2,641,259</u>	<u>2,641,259</u>	<u>2,874,216</u>	<u>232,957</u>

City of Watertown, Minnesota
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual (Continued)
 For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current				
General government				
Mayor and City Council				
Personnel services	\$ 36,362	\$ 36,362	\$ 32,470	\$ 3,892
Supplies	963	963	240	723
Other services and charges	825	825	30	795
Total Mayor and City Council	<u>38,150</u>	<u>38,150</u>	<u>32,740</u>	<u>5,410</u>
City administration				
Personnel services	171,746	171,746	170,674	1,072
Supplies	4,925	4,925	5,033	(108)
Other services and charges	4,960	4,960	4,853	107
Total city administration	<u>181,631</u>	<u>181,631</u>	<u>180,560</u>	<u>1,071</u>
City clerk				
Personnel services	61,735	61,735	62,795	(1,060)
Supplies	2,500	2,500	1,560	940
Other services and charges	2,135	2,135	2,535	(400)
Total city clerk	<u>66,370</u>	<u>66,370</u>	<u>66,890</u>	<u>(520)</u>
Election				
Personnel services	-	-	615	(615)
Supplies	-	-	8,208	(8,208)
Other services and charges	550	550	1,670	(1,120)
Total election	<u>550</u>	<u>550</u>	<u>10,493</u>	<u>(9,943)</u>
Legal and accounting services				
Other services and charges	<u>52,000</u>	<u>52,000</u>	<u>47,523</u>	<u>4,477</u>
General government buildings				
Supplies	4,500	4,500	1,632	2,868
Other services and charges	51,373	51,373	51,708	(335)
Total general government buildings	<u>55,873</u>	<u>55,873</u>	<u>53,340</u>	<u>2,533</u>
Miscellaneous				
Personnel services	1,024	1,024	1,165	(141)
Supplies	3,750	3,750	4,465	(715)
Other services and charges	288,275	288,275	335,724	(47,449)
Total miscellaneous	<u>293,049</u>	<u>293,049</u>	<u>341,354</u>	<u>(48,305)</u>
Total general government	<u>687,623</u>	<u>687,623</u>	<u>732,900</u>	<u>(45,277)</u>

City of Watertown, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Current (continued)				
Public safety				
Police				
Contracted services	\$ 286,966	\$ 286,966	\$ 268,531	\$ 18,435
Fire protection services				
Personnel services	15,000	15,000	15,000	-
Civil defense				
Other services and charges	3,000	3,000	1,739	1,261
Animal control				
Other services and charges	2,000	2,000	1,727	273
Flood control				
Other services and charges	5,000	5,000	-	5,000
Total public safety	<u>311,966</u>	<u>311,966</u>	<u>286,997</u>	<u>24,969</u>
Public works				
General				
Personnel services	141,668	141,668	124,830	16,838
Supplies	18,450	18,450	12,839	5,611
Other services and charges	29,204	29,204	21,470	7,734
Total general	<u>189,322</u>	<u>189,322</u>	<u>159,139</u>	<u>30,183</u>
Streets and roadways				
Personnel services	69,822	69,822	70,950	(1,128)
Supplies	53,000	53,000	51,903	1,097
Other services and charges	4,710	4,710	3,447	1,263
Total streets and roadways	<u>127,532</u>	<u>127,532</u>	<u>126,300</u>	<u>1,232</u>
Ice and snow removal				
Supplies	25,500	25,500	24,980	520
Other services and charges	4,000	4,000	4,140	(140)
Total ice and snow removal	<u>29,500</u>	<u>29,500</u>	<u>29,120</u>	<u>380</u>

City of Watertown, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Current (continued)				
Public works (continued)				
Motor vehicles				
Supplies	\$ 58,000	\$ 58,000	\$ 51,262	\$ 6,738
Other services and charges	31,664	31,664	55,500	(23,836)
Total motor vehicles	<u>89,664</u>	<u>89,664</u>	<u>106,762</u>	<u>(17,098)</u>
Street lighting				
Other services and charges	<u>55,000</u>	<u>55,000</u>	<u>45,761</u>	<u>9,239</u>
Total public works	<u>491,018</u>	<u>491,018</u>	<u>467,082</u>	<u>23,936</u>
Culture and recreation				
Parks				
Personnel services	74,618	74,618	74,767	(149)
Supplies	47,500	47,500	37,044	10,456
Other services and charges	82,314	82,314	75,501	6,813
Total culture and recreation	<u>204,432</u>	<u>204,432</u>	<u>187,312</u>	<u>17,120</u>
Total current	<u>1,695,039</u>	<u>1,695,039</u>	<u>1,674,291</u>	<u>20,748</u>
Capital outlay				
General government	8,000	8,000	6,339	1,661
Culture and recreation	15,000	15,000	16,351	(1,351)
Total capital outlay	<u>23,000</u>	<u>23,000</u>	<u>22,690</u>	<u>310</u>
Total Expenditures	<u>1,718,039</u>	<u>1,718,039</u>	<u>1,696,981</u>	<u>21,058</u>
Excess of Revenues				
Over Expenditures	<u>923,220</u>	<u>923,220</u>	<u>1,177,235</u>	<u>254,015</u>
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Transfers out	<u>(955,747)</u>	<u>(955,747)</u>	<u>(1,163,231)</u>	<u>(207,484)</u>
Total Other Financing Sources (Uses)	<u>(945,747)</u>	<u>(945,747)</u>	<u>(1,153,231)</u>	<u>(207,484)</u>
Net Change in Fund Balances	(22,527)	(22,527)	24,004	46,531
Fund Balances, January 1	<u>1,887,866</u>	<u>1,887,866</u>	<u>1,887,866</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,865,339</u>	<u>\$ 1,865,339</u>	<u>\$ 1,911,870</u>	<u>\$ 46,531</u>

City of Watertown, Minnesota
 Capital Project Fund
 Combining Balance Sheet
 December 31, 2019

	401	402	405	
	<u>Capital Project</u>	<u>Utility Project</u>	<u>Park Capital</u>	<u>Total</u>
Assets				
Cash and temporary investments	<u>\$ 683,900</u>	<u>\$ 1,773,804</u>	<u>\$ 308,199</u>	<u>\$ 2,765,903</u>
Liabilities				
Accounts payable	<u>\$ 19,653</u>	<u>\$ 23,187</u>	<u>\$ 1,104</u>	<u>\$ 43,944</u>
Fund Balances				
Committed for				
City building maintenance	100,455	-	-	100,455
Assigned to				
Capital improvements	563,792	1,750,617	-	2,314,409
Park improvements	-	-	307,095	307,095
Total Fund Balances	<u>664,247</u>	<u>1,750,617</u>	<u>307,095</u>	<u>2,721,959</u>
Total Liabilities and Fund Balances	<u>\$ 683,900</u>	<u>\$ 1,773,804</u>	<u>\$ 308,199</u>	<u>\$ 2,765,903</u>

City of Watertown, Minnesota
 Capital Project Fund
 Combining Schedule of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2019

	401	402	405	
	Capital Project	Utility Project	Park Capital	Total
Revenues				
Charges for services	\$ -	\$ -	\$ 99,217	\$ 99,217
Investment earnings	5,049	14,504	2,907	22,460
Miscellaneous	2,000	-	5,000	7,000
Total Revenues	<u>7,049</u>	<u>14,504</u>	<u>107,124</u>	<u>128,677</u>
Expenditures				
Capital outlay				
General government	123,894	31,174	-	155,068
Public works	284,891	280,639	-	565,530
Culture and recreation	26,439	-	59,857	86,296
Total Expenditures	<u>435,224</u>	<u>311,813</u>	<u>59,857</u>	<u>806,894</u>
Deficiency of Revenues Under Expenditures	<u>(428,175)</u>	<u>(297,309)</u>	<u>47,267</u>	<u>(678,217)</u>
Other Financing Sources				
Transfers in	766,401	1,073,000	65,000	1,904,401
Sale of capital assets	1,587	-	-	1,587
Total Other Financing Sources	<u>767,988</u>	<u>1,073,000</u>	<u>65,000</u>	<u>1,905,988</u>
Net Change in Fund Balances	339,813	775,691	112,267	1,227,771
Fund Balances, January 1	<u>324,434</u>	<u>974,926</u>	<u>194,828</u>	<u>1,494,188</u>
Fund Balances, December 31	<u><u>\$ 664,247</u></u>	<u><u>\$ 1,750,617</u></u>	<u><u>\$ 307,095</u></u>	<u><u>\$ 2,721,959</u></u>

City of Watertown, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2019

	320 2010 Road Bond	321 2011 Downtown Bond	322 2012 Improvement Bond	323 2013 Equipment Bond
Assets				
Cash and temporary investments	\$ 67,523	\$ -	\$ 154,275	\$ -
Special assessments receivable	-	-	121,356	-
Total Assets	<u>\$ 67,523</u>	<u>\$ -</u>	<u>\$ 275,631</u>	<u>\$ -</u>
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Deferred Inflows of Resources				
Unavailable revenue - special assessments	-	-	121,356	-
Fund Balances				
Restricted for debt service	67,523	-	-	-
Committed for debt service	-	-	154,275	-
Unassigned	-	-	-	-
Total Fund Balances	<u>67,523</u>	<u>-</u>	<u>154,275</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 67,523</u>	<u>\$ -</u>	<u>\$ 275,631</u>	<u>\$ -</u>

324 2014 Refunding Bond	325 2015 Bridge Bond	326 2016 Refunding Bond	Eliminations	Total
\$ 84,899	\$ 104,991	\$ 167,321	\$ -	\$ 579,009
-	-	-	-	121,356
<u>\$ 84,899</u>	<u>\$ 104,991</u>	<u>\$ 167,321</u>	<u>\$ -</u>	<u>\$ 700,365</u>
\$ -	\$ -	\$ 265,189	\$ -	\$ 265,189
-	-	-	-	121,356
-	104,991	-	-	172,514
84,899	-	-	(97,868)	141,306
-	-	(97,868)	97,868	-
<u>84,899</u>	<u>104,991</u>	<u>(97,868)</u>	<u>-</u>	<u>313,820</u>
<u>\$ 84,899</u>	<u>\$ 104,991</u>	<u>\$ 167,321</u>	<u>\$ -</u>	<u>\$ 700,365</u>

City of Watertown, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended December 31, 2019

	320 2010 Road Bond	321 2011 Downtown Bond	322 2012 Improvement Bond	323 2013 Equipment Bond
Revenues				
Property taxes	\$ 120,000	\$ -	\$ 145,000	\$ 22,449
Special assessments	-	-	43,171	-
Investment earnings	872	48	412	-
Total Revenues	<u>120,872</u>	<u>48</u>	<u>188,583</u>	<u>22,449</u>
Expenditures				
Debt service				
Principal	110,000	-	240,000	31,000
Interest and other	27,491	-	22,944	369
Total Expenditures	<u>137,491</u>	<u>-</u>	<u>262,944</u>	<u>31,369</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(16,619)</u>	<u>48</u>	<u>(74,361)</u>	<u>(8,920)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	50,066	1,193
Transfers out	-	(5,878)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(5,878)</u>	<u>50,066</u>	<u>1,193</u>
Net Change in Fund Balances	(16,619)	(5,830)	(24,295)	(7,727)
Fund Balances, January 1	<u>84,142</u>	<u>5,830</u>	<u>178,570</u>	<u>7,727</u>
Fund Balances, December 31	<u>\$ 67,523</u>	<u>\$ -</u>	<u>\$ 154,275</u>	<u>\$ -</u>

324 2014 Refunding Bond	325 2015 Bridge Bond	326 2016 Refunding Bond	Eliminations	Total
\$ 52,461	\$ 115,000	\$ -	\$ -	\$ 454,910
-	-	-	-	43,171
1,245	369	1,104	-	4,050
<u>53,706</u>	<u>115,369</u>	<u>1,104</u>	<u>-</u>	<u>502,131</u>
90,000	65,000	74,000	-	610,000
4,028	47,869	20,230	-	122,931
<u>94,028</u>	<u>112,869</u>	<u>94,230</u>	<u>-</u>	<u>732,931</u>
<u>(40,322)</u>	<u>2,500</u>	<u>(93,126)</u>	<u>-</u>	<u>(230,800)</u>
-	-	5,878	(5,878)	51,259
-	-	-	5,878	-
-	-	5,878	-	51,259
(40,322)	2,500	(87,248)	-	(179,541)
<u>125,221</u>	<u>102,491</u>	<u>(10,620)</u>	<u>-</u>	<u>493,361</u>
<u>\$ 84,899</u>	<u>\$ 104,991</u>	<u>\$ (97,868)</u>	<u>\$ -</u>	<u>\$ 313,820</u>

City of Watertown, Minnesota
 Summary Financial Report
 Revenues and Expenditures For General Operations
 Governmental Funds
 For the Years Ended December 31, 2019 and 2018

	Total		Percent Increase (Decrease)
	2019	2018	
Revenues			
Taxes	\$ 2,646,515	\$ 2,399,373	10.30 %
Licenses and permits	177,715	135,715	30.95
Intergovernmental	477,635	577,780	(17.33)
Charges for services	328,700	250,507	31.21
Fines and forfeitures	8,414	6,552	28.42
Special assessments	43,860	47,640	(7.93)
Investment earnings	52,321	50,921	2.75
Miscellaneous	83,882	109,439	(23.35)
Total Revenues	\$ 3,819,042	\$ 3,577,927	6.74 %
Per Capita	\$ 821	\$ 804	2.08 %
Expenditures			
Current			
General government	\$ 732,900	\$ 687,759	6.56 %
Public safety	504,013	508,873	(0.96)
Public works	467,082	553,131	(15.56)
Culture and recreation	187,312	215,641	(13.14)
Economic development	120,905	209,835	(42.38)
Capital outlay			
General government	161,407	16,417	883.17
Public safety	212,547	205,282	3.54
Public works	565,530	1,115,900	(49.32)
Culture and recreation	102,647	294,119	(65.10)
Economic development	5,000	-	N/A
Debt service			
Principal	610,000	1,545,000	(60.52)
Interest and other	122,931	154,021	(20.19)
Total Expenditures	\$ 3,792,274	\$ 5,505,978	(31.12) %
Per Capita	\$ 815	\$ 1,237	(34.13) %
Total Long-term Indebtedness	\$ 4,084,000	\$ 4,694,000	(13.00) %
Per Capita	878	1,055	(16.78)
General Fund Balance - December 31	\$ 1,911,870	\$ 1,887,866	1.27 %
Per Capita	411	424	(3.07)

The purpose of this report is to provide a summary of financial information concerning the City of Watertown to interested citizens. The complete financial statements may be examined at City Hall, 309 Lewis Ave S, Watertown, Minnesota 55388. Questions about this report should be directed to Shane Fineran, City Administrator at (952) 955-2681.

OTHER REQUIRED REPORTS

CITY OF WATERTOWN
WATERTOWN, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and 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 (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2020.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: 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 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Responses as item 2019-002. 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 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.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 18, 2020

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

Honorable Mayor and City Council
City of 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, Minnesota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 18, 2020.

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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001 through 2019-003 to be significant deficiencies.

Compliance and Other Matters

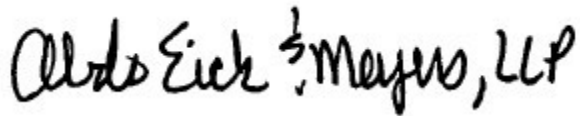
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-002.

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 18, 2020

City of Watertown, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
2019-001	Preparation of Financial Statements
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
<i>Cause:</i>	From a practical standpoint, we both prepare your statements and determine the fairness of the presentation in connection with our audit. This is not unusual for us to do with organizations of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information from Banyon to the amounts reported in the financial statements.
<i>Management Response:</i>	For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements. The City is also seeking accounting assistance and training to address this finding.

City of Watertown, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
2019-002	Claims Approval
<i>Condition:</i>	Minnesota statute § 412.271, subd. 4 states: "When payment of a claim based on contract cannot be deferred until the next City Council meeting without loss to the City through forfeiture of discount privileges or otherwise, it may be made immediately if the itemized claim is endorsed for payment by at least a majority of all the members of the City Council. The claim shall be acted upon formally at the next Council meeting in the same manner as if it had not been paid, and the earlier payment shall not affect the right of the City or any taxpayer to challenge the validity of the claim."
<i>Criteria:</i>	The City is legally required to pay all claims within 35 days or the agreed contract time period. Some claims may be required to be paid prior to the approval of the next City Council meeting to avoid this legal compliance issue.
<i>Cause:</i>	The City Clerk/Treasurer was required to pay bills prior to approval by City Council. The claims were not included on the disbursement listing approved City Council at the following meeting.
<i>Effect:</i>	It is your responsibility to assure all claims paid for with public funds are approved by the City's highest level of authority (the City Council).
<i>Recommendation:</i>	The City Council should approve a total amount of all disbursements since the prior City Council meeting and reconcile that against the claims list so as to assure all checks are included.
<i>Management Response:</i>	
	All prepaid disbursements will be listed for City Council approval and check order will be verified by the City Administrator.
2019-003	Material Audit Adjustment
<i>Condition:</i>	During our audit, a material adjustment was needed to correct the year-end account for transfers.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management; therefore, the City must be able to prevent or detect a material misstatement in the financial statements including footnote disclosures.
<i>Cause:</i>	The City had double booked amounts to fund the debt payments being made out of the TIF district fund by booking an interfund loan amount of \$93,709 as well as a transfer of \$93,709. The transfer should not have been recorded.
<i>Effect:</i>	This indicates that misstatements may occur and not be detected by the City's system of internal control.
<i>Recommendation:</i>	We recommend management review the related journal entries, obtain an understanding of why the entries were necessary and modify current procedure to ensure that future corrections are not needed.
<i>Management Response:</i>	
	The City Clerk/Treasurer will review each journal entry in an effort to better understand the reason the modification as necessary in an effort to limit future corrections.