

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

CITY OF WATERTOWN, TENNESSEE

**For the Year Ended
June 30, 2010**

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INTRODUCTORY SECTION

**CITY OF WATERTOWN, TENNESSEE
PRINCIPAL OFFICIALS
June 30, 2010**

Mayor

Mike Jennings

Board of Aldermen

Jim Amero
Paulette Dorris
Tom Nix
Ken Rich
Brandon Howard
Robin Vance-Kent

City Recorder

April Lamberson

City Attorney

Tim Davis

FINANCIAL SECTION

ALBERT R. DICUS

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INDEPENDENT AUDITOR'S REPORT

Mayor and Board of Aldermen
City of Watertown, Tennessee
Watertown, Tennessee

I 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, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watertown, Tennessee's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

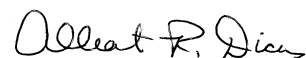
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the General fund and each major fund of the City of Watertown, Tennessee as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 4, 2013, on my consideration of the City of Watertown, Tennessee's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Watertown, Tennessee's basic financial statements. The information presented as "Other Financial Information" in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Watertown, Tennessee's basic financial statements. The information presented as the "Introductory Section" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented as the "Introductory Section" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.



Certified Public Accountant

Sparta, Tennessee
June 4, 2013

City of Watertown

8630 Sparta Pike
Watertown, Tennessee 37184
Phone 615/ 237-3326
Fax 615/ 237-3320

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Watertown, Tennessee we offer readers of the City of Watertown, Tennessee's financial statements this narrative overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the basic financial statements and the accompanying notes to those financial statements. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the City of Watertown's financial condition is adequate. The City follows the financial policies and guidelines set by the Board and management. The following are key financial highlights.

The assets of the City of Watertown exceeded liabilities at the close of the most recent fiscal year by \$2,339,605. Of this amount, \$128,658 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.

At June 30, 2010, the City's governmental funds reported combined ending fund balance deficit of \$(106,788), a decrease of \$132,331 in comparison with the prior year balance. \$0 is available for spending at the government's discretion (unrestricted fund balance).

At June 30, 2010 unreserved fund balance deficit for the General Fund was \$(119,198) or (19.54%) of total general fund expenditures.

The City's total debt decreased by a net \$134,566 during the year ended June 30, 2010. Of this amount, general long-term debt decreased by a net \$71,543; water and sewer long-term debt decreased by \$63,023.

The City's total net assets increased by \$61,011 during the year ended June 30, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the city's financial condition and activities. Summary financial statement data, key financial and operational indicators, budget and other management tools were used for this analysis. 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.

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 Assets* presents the financial position of the City on a full accrual, historical cost basis. The statement of net assets provides information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, drug enforcement, parks and recreation, economic development and sanitation services. The business-type activities of the City include the operations of the water and sewer facilities.

The government-wide financial statements can be found on pages 16-17 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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains eight individual governmental funds. Five of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund, as well as nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriations budget for its general fund and all nonmajor funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds: The City maintains one 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 an enterprise fund to account for its Water and Sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer activities of the City, which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 22-25 of this report.

Notes to the financial statements: The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the government-wide and fund financial statements. The notes present information about the City’s accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 30-45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Watertown, assets exceeded liabilities by \$2,339,605 at the close of the most recent fiscal year.

By far the largest portion of the City’s net assets (94.46%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Watertown, Tennessee
Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 117,305	\$ 301,272	\$ 284,477	\$ 184,599	\$ 401,783	\$ 485,871
Capital assets - net	1,597,759	1,553,830	1,998,732	2,035,739	3,596,491	3,589,569
Total assets	\$ 1,715,064	\$ 1,855,102	\$ 2,283,209	\$ 2,220,338	\$ 3,998,274	\$ 4,075,440
Long-term liabilities	\$ 770,955	\$ 844,049	\$ 433,023	\$ 496,046	\$ 1,203,977	\$ 1,340,095
Other liabilities	285,164	343,555	169,526	113,196	454,690	456,751
Total liabilities	\$ 1,056,119	\$ 1,187,604	\$ 602,549	\$ 609,242	\$ 1,658,668	\$ 1,796,846
Net assets:						
Invested in capital assets, net of related debt	\$ 753,709	\$ 638,239	\$ 1,456,169	\$ 1,484,786	\$ 2,209,878	\$ 2,123,025
Restricted	1,068	6,633	-	-	1,068	6,633
Unrestricted	(95,833)	22,627	224,491	126,310	128,658	148,937
Total net assets	\$ 658,945	\$ 667,498	\$ 1,680,660	\$ 1,611,096	\$ 2,339,605	\$ 2,278,594

At year end 0.05% of the City’s net assets represented resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$128,658) may be used to meet the government’s ongoing obligations to citizens and creditors.

At June 30, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the City’s changes in net assets for the year ended June 30, 2010.

	Governmental activities		Business-type activities		Totals		Total
	FY2010	FY2009	FY2010	FY2009	FY2010	FY2009	Change
Revenues:							
Program Revenues:							
Charges for Services	\$ 37,751	\$ 33,759	\$ 530,698	\$ 482,579	\$ 568,448	\$ 516,338	\$ 52,111
Operating grants & contribution	83,094	71,922	-	-	83,094	71,922	11,173
Capital grants & contributions	96,027	615,059	-	-	96,027	615,059	(519,032)
General Revenues:							
Local taxes	160,877	154,679	-	-	160,877	154,679	6,198
Intergovernmental	254,940	237,881	-	-	254,940	237,881	17,059
Interest on investments	304	14,189	196	380	500	14,569	(14,069)
Other	31,070	4,742	-	-	31,070	4,742	26,328
Total revenues	\$ 664,063	\$ 1,132,230	\$ 530,893	\$ 482,959	\$ 1,194,957	\$ 1,615,189	\$ (420,233)
Expenses:							
General government	\$ 190,900	\$ 197,686	\$ -	\$ -	\$ 190,900	\$ 197,686	\$ (6,786)
Public Safety	344,287	331,785	-	-	344,287	331,785	12,502
Highway and Streets	41,713	54,756	-	-	41,713	54,756	(13,043)
Parks and recreation	61,714	60,275	-	-	61,714	60,275	1,439
Interest on long-term debt	32,426	34,019	-	-	32,426	34,019	(1,593)
Industrial Development	-	9,947	-	-	-	9,947	(9,947)
Community Center	1,576	2,290	-	-	1,576	2,290	(714)
Water and sewer	-	-	461,329	449,042	461,329	449,042	12,287
Total expenses	\$ 672,616	\$ 690,758	\$ 461,329	\$ 449,042	\$ 1,133,946	\$ 1,139,800	\$ (5,854)
Increase in net assets before transfers	\$ (8,553)	\$ 441,472	\$ 69,564	\$ 33,917	\$ 61,011	\$ 475,389	\$ (414,378)
Operating Transfer In	-	24,324	-	-	-	24,324	24,324
Operating Transfer Out	-	-	-	(24,324)	-	(24,324)	(24,324)
Increase in Net Assets	\$ (8,553)	\$ 465,796	\$ 69,564	\$ 9,593	\$ 61,011	\$ 475,389	\$ (414,378)
Net assets - July 1	667,498	201,702	1,611,096	1,601,503	2,278,594	1,803,205	475,389
Net assets - June 30	\$ 658,945	\$ 667,498	\$ 1,680,660	\$ 1,611,096	\$ 2,339,605	\$ 2,278,594	\$ 61,011

Governmental activities: Governmental activities decreased the City of Watertown's net assets by \$8,553, which accounts for -14.02% of the total growth in the net assets of the City of Watertown in FY 2010.

Business-type activities: Business-type activities increased the City's net assets by \$69,564 accounting for a 114.02% increase in the government's net assets. Key elements of the increase are as follows:

The program revenues for the Water and Sewer activities for the City were \$69,564 more than the expenses of those services for the fiscal year ended June 30, 2010.

Financial Analysis of the Government's Funds:

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

Water and sewer utilities are intended to be self-supporting with user charges and other revenues designed to recover costs.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance deficit of \$(106,788) a decrease of \$132,331 in comparison with the prior year balance. \$0 of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance deficit of the general fund was \$(119,198). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents -19.54% of total general fund expenditures, while total fund balance represents the same percentage.

The fund balance of the City's general fund decreased by \$68,826 as a result of the current fiscal year operations.

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

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$224,491. The total increase in net assets for the Water and Sewer fund was \$69,564. Other factors concerning the finances have been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

At the end of fiscal year 2010, the City had \$3,596,491 (net of accumulated depreciation) invested in a broad range of capital assets. This investment includes land and land improvements, buildings, utility system, equipment and infrastructure.

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

- EMS phone system
- 2005 and 2006 Chevy Impala
- Edna Grooms Pump Station
- Sewer jetter

Additional information on the City's capital assets can be found in Note D on page 39 of this report.

The following tables summarize the City's capital assets for the year ended June 30, 2010. These changes are presented in detail in Note D to the financial statements.

	Governmental		Business-type		Total		Total Change
	Activities		Activities				
	2010	2009	2010	2009	2010	2009	
Land	\$ 106,130	\$ 106,130	\$ 12,507	\$ 12,507	\$ 118,637	\$ 118,637	\$ -
Construction in Progress	-	-	-	-	-	-	-
Buildings	1,520,319	1,424,293	-	-	1,520,319	1,424,293	96,027
Improvements, other than buildings	95,646	95,646	-	-	95,646	95,646	-
Main lines	-	-	3,892,452	3,834,652	3,892,452	3,834,652	57,800
Equipment	301,293	291,987	169,771	155,790	471,064	447,777	23,287
Less: Accumulated Depreciation	(425,630)	(364,225)	(2,075,998)	(1,967,210)	(2,501,628)	(2,331,435)	(170,193)
Total	\$ 1,597,759	\$ 1,553,830	\$ 1,998,732	\$ 2,035,739	\$ 3,596,491	\$ 3,589,570	\$ 6,921

Long-term debt: At the end of the current fiscal year, the City had total debt outstanding of \$1,340,095. All debt is backed by the full faith and credit of the government.

City of Watertown, Tennessee's Outstanding Debt General Obligation and Revenue Bonds

	Governmental		Business-type		Total		Total Change
	Activities		Activities				
	2010	2009	2010	2009	2010	2009	
Revenue notes	\$ -	\$ -	\$ 496,046	\$ 559,069	\$ 496,046	\$ 559,069	\$ (63,023)
Capital outlay notes	811,049	877,842	-	-	811,049	877,842	(66,793)
General obligation bonds	33,000	37,750	-	-	33,000	37,750	(4,750)
Total	\$ 844,049	\$ 915,592	\$ 496,046	\$ 559,069	\$ 1,340,095	\$ 1,474,661	\$ (134,566)

The City's total debt decreased by a net of \$134,566. During the current fiscal year, the City paid \$134,566 in principal payments. General obligation debt had a net decrease \$71,543, while water and sewer bonded debt had a net decrease of \$63,023.

Additional information on the City's long-term debt can be found in Note E, beginning on pages 40.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for any additional information should be directed to the City of Watertown, 8630 Sparta Pike, Watertown, Tennessee 37184.

Basic Financial Statements

CITY OF WATERTOWN, TENNESSEE
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents - Note C	\$ 108,366.55	\$ 27,143.87	\$ 135,510.42
Property receivable - net	155,357.37	-	155,357.37
Accounts receivable	3,720.19	46,104.62	49,824.81
Note receivable	4,242.39	-	4,242.39
Due from other governments	42,320.11	-	42,320.11
Internal balances	(204,445.94)	204,445.94	-
Deferred charges	-	6,782.63	6,782.63
Industrial Park land	7,744.82	-	7,744.82
Capital assets - Note E:			
Land and construction in progress	106,130.00	12,507.00	118,637.00
Buildings and equipment, net of depreciation	1,491,628.50	1,986,225.39	3,477,853.89
TOTAL ASSETS	\$ 1,715,063.99	\$ 2,283,209.45	\$ 3,998,273.44
LIABILITIES			
Accounts payable	\$ 29,566.79	\$ 63,016.59	\$ 92,583.38
Customer deposits and other liabilities	-	36,343.90	36,343.90
Deferred revenue - property taxes	140,983.15	-	140,983.15
Deferred revenue - other	39,648.99	-	39,648.99
Accrued expenses	1,871.06	7,142.54	9,013.60
Long-term liabilities - Note F			
Due within one year	73,094.35	63,023.00	136,117.35
Due in more than one year	770,954.72	433,023.00	1,203,977.72
TOTAL LIABILITIES	\$ 1,056,119.06	\$ 602,549.03	\$ 1,658,668.09
NET ASSETS			
Invested in capital assets, net of related debt	\$ 753,709.43	\$ 1,456,169.02	\$ 2,209,878.45
Restricted for:			
Drug fund	635.88	-	635.88
Highways and Streets	432.58	-	432.58
Unrestricted	(95,832.96)	224,491.40	128,658.44
TOTAL NET ASSETS	\$ 658,944.93	\$ 1,680,660.42	\$ 2,339,605.35
TOTAL LIABILITIES AND NET ASSETS	\$ 1,715,063.99	\$ 2,283,209.45	\$ 3,998,273.44

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 190,900.24	\$ 30,643.61	\$ -	\$ 96,026.79	\$ (64,229.84)	\$ -	\$ (64,229.84)
Public safety	344,287.02	-	-	-	(344,287.02)	-	(344,287.02)
Highways and streets	41,713.18	-	36,148.88	-	(5,564.30)	-	(5,564.30)
Parks and recreation	61,713.72	3,281.96	46,945.57	-	(11,486.19)	-	(11,486.19)
Community Center	1,575.92	3,825.00	-	-	2,249.08	-	2,249.08
Interest on long-term debt	32,426.37	-	-	-	(32,426.37)	-	(32,426.37)
Total governmental activities	\$ 672,616.45	\$ 37,750.57	\$ 83,094.45	\$ 96,026.79	\$ (455,744.64)	\$ -	\$ (455,744.64)
Business-type activities							
Water and sewer	461,329.18	530,697.87	-	-	-	\$ 69,368.69	\$ 69,368.69
Total primary government	\$ 1,133,945.63	\$ 568,448.44	\$ 83,094.45	\$ 96,026.79			
General revenues:							
Taxes:							
Property taxes, penalty & interest					\$ 145,904.97	\$ -	\$ 145,904.97
Payments in lieu of taxes					14,971.70	-	14,971.70
Local option sales tax					103,711.46	-	103,711.46
Wholesale beer tax					37,909.81	-	37,909.81
Business tax					9,357.62	-	9,357.62
Cable TV franchise tax					6,581.38	-	6,581.38
State shared revenue					97,380.11	-	97,380.11
Miscellaneous					31,370.12	-	31,370.12
Unrestricted interest earnings					304.17	195.56	499.73
Loss on sale of assets					(300.00)	-	(300.00)
Total general revenues					\$ 447,191.34	\$ 195.56	\$ 447,386.90
Change in net assets					\$ (8,553.30)	\$ 69,564.25	\$ 61,010.95
Net assets - beginning					667,498.23	1,611,096.17	2,278,594.40
Net assets - ending					\$ 658,944.93	\$ 1,680,660.42	\$ 2,339,605.35

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General	Parks & Recreation	Nonmajor Funds	Total Government Funds
<u>ASSETS</u>				
Cash and temporary investments - Note C	\$ 24,726.79	\$ 16,857.72	\$ 66,782.04	\$ 108,366.55
Property taxes receivable, less allowance for doubtful accounts (\$935.57) - Note B	155,357.37	-	-	155,357.37
Accounts receivable	3,720.19	-	-	3,720.19
Notes receivable	-	-	4,242.39	4,242.39
Due from other governments	42,320.11	-	-	42,320.11
Due from other funds	14,381.63	-	112,959.06	127,340.69
Industrial park land	-	-	7,744.82	7,744.82
	\$ 240,506.09	\$ 16,857.72	\$ 191,728.31	\$ 449,092.12
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 19,498.02	\$ 10,068.77	\$ -	\$ 29,566.79
Deferred revenue - property taxes	154,877.48	-	-	154,877.48
Deferred revenue - other	-	39,648.99	-	39,648.99
Due to other funds	184,896.35	122,425.52	24,464.76	331,786.63
	\$ 359,271.85	\$ 172,143.28	\$ 24,464.76	\$ 555,879.89
Fund equity:				
Reserved for drug fund	\$ -	\$ -	\$ 635.88	\$ 635.88
Reserved for highways and streets	432.58	-	-	432.58
Unreserved reported in:				
General fund	(119,198.34)	-	-	(119,198.34)
Parks and recreation	-	(155,285.56)	-	(155,285.56)
Community Center	-	-	(21,928.43)	(21,928.43)
Debt service	-	-	2,617.10	2,617.10
Industrial Park	-	-	185,938.00	185,938.00
THDA Home Project	-	-	1.00	1.00
	\$ (118,765.76)	\$ (155,285.56)	\$ 167,263.55	\$ (106,787.77)
	\$ 240,506.09	\$ 16,857.72	\$ 191,728.31	\$ 449,092.12

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total fund balances for governmental funds \$ (106,787.77)

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 1,597,758.50

Some of the City's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue 13,894.33

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances at June 30, 2010 are as follows:

Bonds and notes payable	\$ (844,049.07)	
Accrued interest on bonds	(1,871.06)	(845,920.13)

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 658,944.93**

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2010

	<u>General</u>	<u>Parks & Recreation</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 295,546.91	\$ -	\$ -	\$ 295,546.91
Intergovernmental revenues	148,500.69	-	-	148,500.69
Rental income	-	-	3,825.00	3,825.00
Licenses and permits	6,146.62	-	-	6,146.62
Services	4,748.70	3,281.96	-	8,030.66
Fines and penalties	19,748.29	-	-	19,748.29
Interest	120.74	108.49	74.94	304.17
Sponsor fees and concessions	-	46,945.57	-	46,945.57
Miscellaneous	25,820.62	6,549.50	-	32,370.12
	TOTAL REVENUES	\$ 500,632.57	\$ 56,885.52	\$ 3,899.94
		\$ 561,418.03		
Expenditures:				
General government	\$ 183,783.98	\$ -	\$ -	\$ 183,783.98
Public safety	307,048.70	-	-	307,048.70
Highways and streets	41,713.18	-	-	41,713.18
Parks and recreation	-	55,269.54	-	55,269.54
Community Center	-	-	1,575.92	1,575.92
Debt service:				
Principal payments	55,792.20	51,000.66	4,750.00	111,542.86
Interest payments	21,617.16	9,310.29	1,887.48	32,814.93
	TOTAL EXPENDITURES	\$ 609,955.22	\$ 115,580.49	\$ 8,213.40
		\$ 733,749.11		
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	\$ (109,322.65)	\$ (58,694.97)	\$ (4,313.46)	\$ (172,331.08)
Other financing sources (uses):				
Operating transfers in	5,996.88	-	5,500.00	11,496.88
Loan Proceeds	40,000.00	-	-	40,000.00
Operating transfers (out)	(5,500.00)	-	(5,996.88)	(11,496.88)
	INCREASE (DECREASE) IN	FUND BALANCE	\$ (68,825.77)	\$ (58,694.97)
		\$ (4,810.34)	\$ (132,331.08)	
Fund balance at July 1, 2009	(49,939.99)	(96,590.59)	172,073.89	25,543.31
FUND BALANCE AT JUNE 30, 2010	<u><u>\$ (118,765.76)</u></u>	<u><u>\$ (155,285.56)</u></u>	<u><u>\$ 167,263.55</u></u>	<u><u>\$ (106,787.77)</u></u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

Net change in fund balance - total governmental funds \$ (132,331.08)

The change in net assets reported for governmental activities
in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays (\$12,306.44) and contributed capital
assets (\$96,026.79) exceeded depreciation (\$63,105.20) for the current period. 45,228.03

The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the principal
of long-term debt consumes the current financial resources of governmental
funds. Neither transaction, however, has any effect on net assets. Also,
governmental funds report the effect of issuance costs, premiums, discounts,
and similar items when debt is first issued, whereas these amounts are
deferred and amortized in the statement of activities. This amount is the net
effect of these differences in the treatment of long-term debt and
related items. (40,000.00)

The book value of capital assets that were sold is a reduction of revenue in the
statement of activities, but has no impact on the governmental funds. (1,300.00)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of
net assets. 111,542.86

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds 7,918.33

Under the modified accrual basis of accounting used in the governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual basis,
expenses and liabilities are reported regardless of when financial resources
are available. In addition, interest on long-term debt is not recognized
under the modified accrual basis of accounting until due, rather than as
it accrues. This adjustment is the decrease in accrued interest payable. 388.56

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (8,553.30)**

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents - Note B	\$	27,143.87
Accounts receivable		42,524.45
Miscellaneous receivables		3,580.17
Due from other funds		<u>281,436.54</u>

TOTAL CURRENT ASSETS \$ 354,685.03

CAPITAL ASSETS - Note E

Capital assets in service - at cost	\$	4,074,730.41
Less accumulated depreciation		<u>(2,075,998.02)</u>
		1,998,732.39

OTHER ASSETS

Unamortized bond expense		<u>6,782.63</u>
--------------------------	--	-----------------

\$ 2,360,200.05

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable - trade	\$	9,716.59
Accounts payable - construction		53,300.00
Due to other funds		76,990.60
Sales tax payable		1,969.00
Customer deposits		36,343.90
Accrued interest payable		5,173.54
Portion of revenue bonds due within one year		63,023.00

TOTAL CURRENT LIABILITIES \$ 246,516.63

LONG-TERM DEBT

Notes payable - Note F	\$ 496,046.00	
Less amount due within one year, shown as current liability	(63,023.00)	433,023.00

TOTAL LIABILITIES \$ 679,539.63

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,456,169.02	
Unrestricted	224,491.40	1,680,660.42

\$ 2,360,200.05

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year ended June 30, 2010

Operating revenues:

Water and sewer sales (less bad debts, \$21,269.15)	\$	482,797.10
Tap fees		6,000.00
Forfeited discounts		25,544.48
Reconnection Fees		6,050.00
Miscellaneous		<u>10,306.29</u>

TOTAL OPERATING REVENUES \$ 530,697.87

Operating expenses:

Salaries	\$ 105,980.06	
Payroll taxes	7,120.15	
Employee insurance	19,524.52	
Utilities	36,783.44	
Materials and supplies	21,331.52	
Repairs and maintenance	22,015.49	
Insurance	42,863.85	
Contracted services	38,541.36	
Provision for depreciation - straight-line	108,787.56	
Office supplies and postage	4,614.27	
Gas and oil	2,659.13	
Amortization	1,333.33	
Professional fees	2,178.75	
State fees	2,141.80	
Miscellaneous	<u>22,555.80</u>	<u>438,431.03</u>

OPERATING INCOME \$ 92,266.84

Non-operating revenues (expenses):

Interest income	\$ 195.56	
Interest expense	<u>(22,898.15)</u>	<u>(22,702.59)</u>

INCREASE IN NET ASSETS \$ 69,564.25

Net assets at June 30, 2009 1,611,096.17

NET ASSETS AT JUNE 30, 2010 \$ 1,680,660.42

Interest incurred during the year totaled \$22,898.31,
all of which was charged to expense.

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year ended June 30, 2010

Cash flows from operating activities:

Receipts from customers and users	\$ 540,192.04
Payments to suppliers	(193,969.41)
Payments to employees	<u>(136,204.90)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 210,017.73

Cash flows from capital and related financing activities:

Increase in receivable from other funds	\$ (123,696.72)
Purchase of capital assets	(18,481.00)
Principal paid on bonds	(63,023.00)
Interest paid on bonds	<u>(23,450.52)</u>

**NET CASH USED IN CAPITAL AND
RELATED FINANCING ACTIVITIES** (228,651.24)

Cash flows from investing activities :

Interest from investments	<u>195.56</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS \$ (18,437.95)

Cash and cash equivalents at July 1, 2009	<u>45,581.82</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2010 \$ 27,143.87

**Reconciliation of operating income (loss) to net cash provided
by operating activities:**

Operating income	\$ 92,266.84
Adjustments to reconcile net income to net cash provided from operating activities:	
Provision for depreciation and amortization	110,120.89
Bad debts	21,269.15
Increase in accounts receivable	(17,221.85)
Increase in accounts payable	1,499.00
Increase in customer deposits	1,866.70
Increase in other current liabilities	<u>217.00</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 210,017.73

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY ASSETS
For the Year Ended June 30, 2010

	<u>Watertown Station</u>
Deductions:	
Capital asset construction	<u>\$ 8,836.94</u>
DECREASE IN NET ASSETS	\$ 8,836.94
Net assets at July 1, 2009	<u>\$ 8,836.94</u>
NET ASSETS AT JUNE 30, 2010	<u><u>\$ -</u></u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary Basis) (See Note A)	Final Budget - Positive (Negative)
Revenues:				
Taxes and tax equivalents	\$ 302,728	\$ 302,728	\$ 295,547	\$ (7,181)
Licenses and permits	1,050	1,050	6,147	5,097
Intergovernmental	132,426	132,426	148,501	16,075
Fines and penalties	37,100	37,100	19,748	(17,352)
Interest, miscellaneous, and service	26,655	26,655	30,690	4,035
TOTAL REVENUES	\$ 499,959	\$ 499,959	\$ 500,633	\$ 674
Expenditures:				
Administrative salaries & related costs	\$ 33,745	\$ 33,745	\$ 32,600	\$ 1,145
Utilities	39,450	39,450	49,853	(10,403)
Supplies	4,725	4,725	5,086	(361)
Insurance	8,000	8,000	29,152	(21,152)
Legal fees	1,800	1,800	1,800	-
Audit fees	4,000	4,000	-	4,000
Repairs and maintenance	3,600	3,600	20,613	(17,013)
Publishing expense	2,025	2,025	1,252	773
Other general government expense	42,220	42,220	33,465	8,755
Police Department	260,398	260,398	279,660	(19,262)
Fire Department	23,070	23,070	25,717	(2,647)
Codes Enforcement	1,790	1,790	1,672	118
Highways and streets	52,328	52,328	41,713	10,615
Joint economic & community development	6,130	6,130	9,963	(3,833)
Debt Service	57,692	57,692	77,409	(19,717)
TOTAL EXPENDITURES	\$ 540,973	\$ 540,973	\$ 609,955	\$ (68,982)
REVENUES OVER (UNDER)				
EXPENDITURES	(41,014)	(41,014)	(109,323)	(68,309)
Other financing sources (uses):				
Operating transfers in	27,000	27,000	5,997	(21,003)
Loan proceeds	20,000	20,000	40,000	20,000
Operating transfers out	(5,000)	(5,000)	(5,500)	(500)
REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER				
FINANCING SOURCES (USES)	\$ 986	\$ 986	\$ (68,826)	\$ (69,812)
Fund balance at July 1, 2009	(49,940)	(49,940)	(49,940)	0
FUND BALANCE AT JUNE 30, 2010	\$ (48,954)	\$ (48,954)	\$ (118,766)	\$ (69,812)

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON STATEMENT - PARKS AND RECREATION FUND
Year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Revenues:				
Revenues	\$ 55,455	\$ 55,455	\$ 56,777	\$ 1,322
Interest	-	-	108	108
TOTAL REVENUES	\$ 55,455	\$ 55,455	\$ 56,886	\$ 1,431
Expenditures:				
Maintenance and repairs	\$ 900	\$ 900	\$ 554	\$ 346
Utilities	2,250	2,250	2,957	(707)
Umpires and referees	4,700	4,700	6,066	(1,366)
Uniforms	15,300	15,300	22,872	(7,572)
Equipment	6,750	6,750	-	6,750
Concessions	2,700	2,700	14,050	(11,350)
Supplies	1,080	1,080	5,675	(4,595)
Miscellaneous	1,725	1,725	3,096	(1,371)
Debt Service	16,246	16,246	60,311	(44,065)
TOTAL EXPENDITURES	\$ 51,651	\$ 51,651	\$ 115,580	\$ (63,929)
REVENUES OVER (UNDER)				
EXPENDITURES	3,804	3,804	(58,695)	65,360
Fund balance at July 1, 2009	(96,591)	(96,591)	(96,591)	-
FUND BALANCE AT JUNE 30, 2010	\$ (92,787)	\$ (92,787)	\$ (155,286)	\$ (62,499)

See the notes to financial statements.

Notes to the Financial Statements

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Watertown, Tennessee (City), are disclosed in subsequent sections of this note. The notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2010.

2. REPORTING ENTITY

The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. While financial accountability is central to the identification of component units, even if it does not exist, an entity will be considered a component unit if that entity's relationship with the primary government is such that its exclusion would create misleading or incomplete financial statements.

Based upon this concept, the reporting entity is the City of Watertown, including the water and sewer system. Any other potential units are excluded.

3. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statement with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

**3. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONT'D.)**

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program users. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

**4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND
FINANCIAL STATEMENT PRESENTATION**

The financial statements of the City of Watertown, Tennessee are prepared in accordance with generally accepted accounting principles (GAAP). The government-wide and proprietary fund financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements issued after November 30, 1989.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONT'D.)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services which are billed monthly. Revenues are not accrued for usage from the last meter reading date to June 30. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONT'D.)

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 needed. See Note D for information describing restricted assets.

5. FUND TYPES AND MAJOR FUNDS

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate.

GOVERNMENTAL FUNDS

The City reports the following major governmental funds:

General Fund - The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. During the year ended June 30, 2010, the City combined its street fund into its General Fund.

Parks and Recreation Fund – The Parks and Recreation fund is used to account for the specific revenues sources that are restricted to expenditures for the City's parks and recreation activities.

The other governmental funds of the City are:

Industrial Park Fund – The Industrial Park fund is used to account for the land in the industrial park that is available for sale, and the proceeds from the sale of the land.

Drug Fund - The Drug fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Community Center Fund - The Community Center fund is used to account for the proceeds of rental of the Community Center.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

5. FUND TYPES AND MAJOR FUNDS (Cont'd.)

PROPRIETARY FUND

The City reports only one major enterprise fund:

Water and Sewer System – accounts for the operating activities of the City's water supply system and of its sewage treatment plant, pumping stations, and collection system.

FIDUCIARY FUNDS

The City reports the following expendable trust funds:

Watertown Station – serves as fiduciary for private funds for the Watertown Station.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

6. CAPITAL ASSETS AND DEPRECIATION

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are carried at historical cost or estimated historical cost if actual historical cost is not available. Capital assets are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Cost consists of all direct costs related to the construction or acquisition of the assets. In addition, the City capitalizes interest costs related to qualified expenditures for projects under development. Donated capital assets are valued at their estimated fair value on the date donated. In addition, the City capitalizes interest costs related to qualified expenditures for projects under construction.

Maintenance and repairs, which do not significantly extend the value or life of the property, plant, and equipment, are expensed as incurred.

Capital policy for the City is items purchased or betterment, not repairs, in excess of \$500.00 and having a useful life of one year or more will be capitalized.

General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements.

Capital assets are depreciated using the straight-line method over the following estimated lives:

	<u>Years</u>
Buildings	39
Improvements, other than buildings	10-20
Equipment	5-10

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

6. CAPITAL ASSETS AND DEPRECIATION (Cont'd.)

Depreciation of all exhaustible capital assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	15-40 years
Improvements other than buildings	10-40 years
Equipment	3-10 years

7. BUDGETS AND BUDGETARY ACCOUNTING

Prior to July 1, the budget is legally enacted through passage of a resolution. The General and Special Revenue Fund budgets are prepared on the basis where current available funds must be sufficient to meet current expenditures. Expenditures may not legally exceed appropriations authorized by the resolution.

Appropriations lapse at the end of each year.

The City's budgetary basis of accounting is consistent with generally accepted accounting principles.

8. CASH EQUIVALENTS

For purposes of the statement of cash flows, all highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents.

9. ENCUMBRANCES

Encumbrance accounting is not used since it is not legally required.

10. CREDIT RISK

The City of Watertown provides water, and sewer and governmental type services for residential, commercial and industrial customers and citizens in the City of Watertown, Tennessee.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note A (Cont'd):

11. USES OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may vary from those estimates.

12. CONTRIBUTIONS

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

13. NET ASSETS

Net assets contain the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified as invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt is all capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of the assets; debt related to unspent proceeds or other restricted cash and investments is not included in this determination. Restricted for capital activity and debt service includes net assets restricted by external parties such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Unrestricted are the net assets that do not meet the definition of capital assets, net of related debt or restricted for capital activity and debt service.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE B - PROPERTY TAXES

Property taxes are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are reported on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30; that is, amounts not received within 60 days of the year end.

NOTE C - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's deposit policy for custodial risk is as follows:

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool.

The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the district.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE D - CHANGES IN CAPITAL ASSETS

	<u>Balance at July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 106,130.00	\$ -	\$ -	\$ 106,130.00
Capital Assets Being Depreciated:				
Buildings	\$ 1,424,292.50	\$ 96,026.79	\$ -	\$ 1,520,319.29
Improvements, other than buildings	95,646.00	-	-	95,646.00
Equipment	291,986.64	12,306.44	3,000.00	301,293.08
Total capital assets being depreciated	\$ 1,811,925.14	\$ 108,333.23	\$ 3,000.00	\$ 1,917,258.37
Less Accumulated Depreciation for:				
Buildings	\$ (121,548.64)	\$ (36,879.47)	\$ -	\$ (158,428.11)
Improvements, other than buildings	(44,052.67)	(3,782.16)	-	(47,834.83)
Equipment	(198,623.36)	(22,443.57)	(1,700.00)	(219,366.93)
Total accumulated depreciation	\$ (364,224.67)	\$ (63,105.20)	\$ (1,700.00)	\$ (425,629.87)
Total capital assets being depreciated, net	1,447,700.47	45,228.03	1,300.00	1,491,628.50
Governmental activities : capital assets, net	\$ 1,553,830.47	\$ 45,228.03	\$ 1,300.00	\$ 1,597,758.50
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 12,507.00	\$ -	\$ -	\$ 12,507.00
Capital Assets Being Depreciated:				
Main lines	\$ 3,834,652.10	\$ 57,800.00	\$ -	\$ 3,892,452.10
Equipment	155,790.31	13,981.00	-	169,771.31
Total capital assets being depreciated	\$ 3,990,442.41	\$ 71,781.00	\$ -	\$ 4,062,223.41
Less Accumulated Depreciation for:				
Main lines	\$ (1,845,374.93)	\$ (103,108.27)	\$ -	\$ (1,948,483.20)
Equipment	(121,835.53)	(5,679.29)	-	(127,514.82)
Total accumulated depreciation	\$ (1,967,210.46)	\$ (108,787.56)	\$ -	\$ (2,075,998.02)
Total capital assets being depreciated, net	\$ 2,023,231.95	\$ (37,006.56)	\$ -	\$ 1,986,225.39
Business-type activities : capital assets, net	\$ 2,035,738.95	\$ (37,006.56)	\$ -	\$ 1,998,732.39
CAPITAL ASSETS, NET	\$ 3,589,569.42	\$ 8,221.47	\$ 1,300.00	\$ 3,596,490.89

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

Note D (Cont'd):

Depreciation Expense

Depreciation expense was charged to functions of the City as follows:

<i>Governmental activities</i>		<i>Business-type activities</i>	
General government	7,116	Main lines	73,676
Public safety	49,545	Sewer plant	29,432
Parks and recreation	6,444	Equipment	5,679

NOTE E - LONG-TERM DEBT

Long-term debt is issued to provide funds for the acquisition and construction of capital assets.

On May 23, 2006, the City issued \$18,138 of Water & Sewer Revenue & Tax Refunding Capital Outlay Notes, Series 2006B and \$33,552 of General Obligation Refunding Capital Outlay Notes, Series 2006A, for the purpose of paying principal payments currently due on previously issued capital outlay notes.

Changes in long-term indebtedness of the Watertown Water and Sewer Department consists of:

	<u>Amount at</u> <u>July 1</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Retired</u>	<u>Amount at</u> <u>June 30</u>	<u>Current</u> <u>Portion</u>
Water & Sewer Revenue & Tax Refunding Capital Outlay Notes, Series 2006B	\$ 9,069.00	\$ -	\$ 3,023.00	\$ 6,046.00	\$ 3,023.00
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004	550,000.00	-	60,000.00	490,000.00	60,000.00
TOTAL	<u>\$ 559,069.00</u>	<u>\$ -</u>	<u>\$ 63,023.00</u>	<u>\$ 496,046.00</u>	<u>\$ 63,023.00</u>

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE E (Cont'd):

	<u>Amount at</u> <u>July 1</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Retired</u>	<u>Amount at</u> <u>June 30</u>	<u>Current</u> <u>Portion</u>
Community Center Bonds, 1977	\$ 31,000.00	\$ -	\$ 4,000.00	\$ 27,000.00	\$ 4,000.00
Community Center Bonds, 1977	6,749.90	-	750.00	5,999.90	750.00
General Obligation Refunding Capital Outlay Notes, Series 2006A	16,776.00	-	5,592.00	11,184.00	5,592.00
Wilson County, Series 2008	639,659.69	-	10,671.20	628,988.49	11,012.68
Refunding Capital Outlay Notes, 2003	106,019.00	-	34,086.00	71,933.00	35,296.00
Capital outlay note, Series 2008	100,833.34	-	9,166.66	91,666.68	9,166.67
Capital outlay note, Series 2008	14,554.00	-	7,277.00	7,277.00	7,277.00
Tax anticipation notes	-	40,000.00	40,000.00	-	-
TOTAL	<u>\$ 915,591.93</u>	<u>\$ 40,000.00</u>	<u>\$ 111,542.86</u>	<u>\$ 844,049.07</u>	<u>\$ 73,094.35</u>

At June 30, 2010, long-term indebtedness of Watertown Water and Sewer Department consists of:

	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>	<u>Interest</u> <u>Rate</u>
Water & Sewer Revenue & Tax Refunding Capital Outlay Notes, Series 2006B (matures in 2012)	\$ 18,138.00	\$ 6,046.00	4.80%
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004 (matures in 2017)	775,000.00	490,000.00	3.15% - 4.65%
TOTAL	<u>\$ 496,046.00</u>		

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE E (Cont'd):

At June 30, 2010, long-term indebtedness of City of Watertown consists of:

	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>
Community Center Bonds, 1977 (matures in 2016)	\$ 90,000.00	\$ 27,000.00	5.00%
Community Center Bonds, 1977 (matures in 2016)	20,000.00	5,999.90	5.00%
General Obligation Refunding Capital Outlay Notes, Series 2006A (matures 2012)	33,552.00	11,184.00	4.80%
Refunding Capital Outlay Note, 2003 (matures in 2012)	262,857.00	71,933.00	1.85% - 3.89%
Capital Outlay Note, 2008 (matures in 2020)	110,000.00	91,666.68	4.17%
Wilson County, 2008	650,000.00	628,988.49	3.20%
Capital Outlay Note, 2008 (matures in 2011)	21,831.00	<u>7,277.00</u>	4.17%
	TOTAL	<u>\$ 844,049.07</u>	

A summary of the Watertown Water and Sewer Department debt service requirements for principal and interest at June 30, 2010, is as follows:

<u>Year ending</u>				
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2011	\$ 63,023.00	\$ 19,927.71	\$ 82,950.71	
2012	68,023.00	17,390.10	85,413.10	
2013	65,000.00	14,710.00	79,710.00	
2014	70,000.00	11,937.50	81,937.50	
2015	75,000.00	8,820.00	83,820.00	
2016-2017	<u>155,000.00</u>	<u>7,323.75</u>	<u>162,323.75</u>	
TOTAL	<u>\$ 496,046.00</u>	<u>\$ 80,109.06</u>	<u>\$ 576,155.06</u>	

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE E (Cont'd):

A summary of the City of Watertown debt service requirements for principal and interest at June 30, 2010, is as follows:

<u>Year ending</u>				
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2011	\$ 73,094.35	\$ 29,091.75	\$ 102,186.10	
2012	67,760.75	26,200.24	93,960.99	
2013	25,895.44	23,507.04	49,402.48	
2014	27,270.76	22,474.47	49,745.23	
2015	27,658.09	21,404.89	49,062.98	
2016-2020	120,798.24	92,876.53	213,674.77	
2021-2025	80,435.93	75,265.62	155,701.55	
2026-2030	94,156.12	61,545.42	155,701.54	
2031-2035	110,216.61	45,484.93	155,701.54	
2036-2040	129,016.57	26,684.96	155,701.53	
2041-2043	87,746.21	5,674.73	93,420.94	
TOTAL	\$ 844,049.07	\$ 430,210.58	\$ 1,274,259.65	

NOTE F - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Excess of expenditures over appropriations in individual fund:

	<u>Actual</u>	<u>Budgeted</u>
General fund	\$ 609,955	\$ 540,973
Parks and recreation	115,580	51,651

B. Funds with deficit fund balances:

General fund	(118,765.76)
Community center fund	(21,928.43)
Parks and recreation	(155,285.56)

NOTE G - LITIGATION

There were no lawsuits pending in which the City is involved, which could result in any liability to the City.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010

NOTE H – RISK FINANCING ACTIVITIES

The City’s risks of loss relating to general liability, property and casualty and workers’ compensation are covered by participation in a public entity risk pool. The City joined the Tennessee Municipal League Risk Management Pool, which is a public entity risk pool established by the Tennessee Municipal League, an association of member municipalities. The City pays an annual premium to the TML Pool for its insurance coverage. The creation of the TML Pool provides for it to be self-sustaining through member premiums.

The City continues to carry commercial insurance for surety bond coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I - SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

Due from:

	General Fund	Water & Sewer Fund	Community Center Fund	Parks & Recreation Fund	Total
<u>Due to:</u>					
General	\$ -	\$ -	\$ 17,582.00	\$ -	\$ 17,582.00
Water and Sewer	152,128.26	-	6,882.76	122,425.52	281,436.54
Industrial Park	35,968.46	76,990.60	-	-	112,959.06
TOTAL	\$ 188,096.72	\$ 76,990.60	\$ 24,464.76	\$ 122,425.52	\$ 411,977.60

Interfund receivables and payables are the result of transactions, including the receipt of grant money, purchase or construction of capital assets, collection of customer payments, and payment of trade accounts payable, which are paid for or received in one fund on behalf of a different fund.

**CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2010**

NOTE J – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010, were as follows:

Transfer from:

	General		State Street Aid
<u>Transfer to:</u>			
Community Center	\$ 5,500.00	\$	-
General	-		5,996.88

Transfers between funds are made to move unrestricted general fund revenues to finance programs that the City accounts for in other funds, such as equipment purchases. The transfer from the State Street Aid fund to the General fund is to close the State Street Aid fund.

NOTE K – SUBSEQUENT EVENTS

In July 2011, the City defaulted on tax anticipation notes due June 30, 2011 by not informing the State of Tennessee, Division of Local Finance, within ten days of the city’s fiscal year of its intention to renew the notes. The effect of this default cannot be determined prior to issuance of these financial statements.

Subsequent to the audit period, the State of Tennessee began a review of the City of Watertown’s records. Any impact this review has on the City’s financial statements for the year ended June 30, 2010, has not been determined.

SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN, TENNESSEE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Community Center Fund	Industrial Park Fund	THDA Home Fund	Debt Service Fund	Drug Fund	Total Special Revenue
<u>ASSETS</u>						
Cash and cash equivalents	\$ 2,536.33	\$ 60,991.73	\$ 1.00	\$ 2,617.10	\$ 635.88	\$ 66,782.04
Due from other funds	-	112,959.06	-	-	-	112,959.06
Industrial Park land	-	7,744.82	-	-	-	7,744.82
Notes receivable	-	4,242.39	-	-	-	4,242.39
	<u>\$ 2,536.33</u>	<u>\$ 185,938.00</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>	<u>\$ 635.88</u>	<u>\$ 191,728.31</u>
Liabilities:						
Due to other funds	\$ 24,464.76	\$ -	\$ -	\$ -	\$ -	\$ 24,464.76
Fund balance	<u>(21,928.43)</u>	<u>185,938.00</u>	<u>1.00</u>	<u>2,617.10</u>	<u>635.88</u>	<u>167,263.55</u>
	<u>\$ 2,536.33</u>	<u>\$ 185,938.00</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>	<u>\$ 635.88</u>	<u>\$ 191,728.31</u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR FUNDS
Year ended June 30, 2010

	<u>State Street Aid</u>	<u>Community Center</u>	<u>Industrial Park</u>	<u>THDA HOME Program</u>	<u>Debt Service Fund</u>	<u>Drug Fund</u>	<u>Total</u>
Revenues:							
Rental income	\$ -	\$ 3,825.00	\$ -	\$ -	\$ -	\$ -	\$ 3,825.00
Interest income	-	-	74.94	-	-	-	74.94
TOTAL REVENUES	\$ -	\$ 3,825.00	\$ 74.94	\$ -	\$ -	\$ -	\$ 3,899.94
Expenditures:							
Community Center	\$ -	\$ 1,575.92	\$ -	\$ -	\$ -	\$ -	\$ 1,575.92
Principal	-	4,775.00	-	-	-	-	4,775.00
Interest	-	1,862.48	-	-	-	-	1,862.48
TOTAL EXPENDITURES	\$ -	\$ 8,213.40	\$ -	\$ -	\$ -	\$ -	\$ 8,213.40
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ (4,388.40)	\$ 74.94	\$ -	\$ -	\$ -	\$ (4,313.46)
Other financing sources:							
Transfer (to) from General Fund	(5,996.88)	5,500.00	-	-	-	-	(496.88)
INCREASE (DECREASE) IN FUND BALANCE	\$ (5,996.88)	\$ 1,111.60	\$ 74.94	\$ -	\$ -	\$ -	\$ (4,810.34)
Fund balance (deficit) at July 1, 2009	5,996.88	(23,040.03)	185,863.06	1.00	2,617.10	635.88	172,073.89
FUND BALANCE (DEFICIT) AT June 30, 2010	\$ -	\$ (21,928.43)	\$ 185,938.00	\$ 1.00	\$ 2,617.10	\$ 635.88	\$ 167,263.55

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - COMMUNITY CENTER FUND
Year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
			<u>(See Note A)</u>	<u>Positive (Negative)</u>
Revenues:				
Rent	\$ 5,460	\$ 5,460	\$ 3,495	\$ (1,965)
Expenditures:				
Maintenance and repairs	\$ 900	\$ 900	\$ 1,211	\$ (311)
Miscellaneous	990	990	35	955
Debt service	8,250	8,250	6,637	1,613
TOTAL EXPENDITURES	<u>\$ 10,140</u>	<u>\$ 10,140</u>	<u>\$ 7,883</u>	<u>\$ 2,257</u>
REVENUES OVER (UNDER) EXPENDITURES	(4,680)	(4,680)	(4,388)	(4,222)
Other financing sources (uses):				
Operating transfers in	5,000	5,000	5,500	500
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 320</u>	<u>\$ 320</u>	<u>\$ 1,112</u>	<u>\$ (3,722)</u>
Fund balance at June 30, 2009	(23,040)	(23,040)	(23,040)	-
FUND BALANCE AT JUNE 30, 2010	<u><u>\$ (22,720)</u></u>	<u><u>\$ (22,720)</u></u>	<u><u>\$ (21,928)</u></u>	<u><u>\$ 792</u></u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2010

Maturities During Year Ending June 30,	\$90,000 Rural Development		\$20,000 Rural Development		\$110,000 Wilson Bank & Trust		\$262,857 Wilson Bank & Trust		\$33,552 Wilson Bank & Trust		\$21,831 Wilson Bank & Trust		\$650,000 Wilson County		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 4,000.00	\$ 1,250.00	\$ 750.00	\$ 281.25	\$ 9,166.67	\$ 3,822.50	\$ 35,296.00	\$ 2,770.09	\$ 5,592.00	\$ 536.83	\$ 7,277.00	\$ 303.45	\$ 11,012.68	\$ 20,127.63	\$ 102,186.10
2012	4,000.00	1,050.00	1,000.00	237.50	9,166.67	3,440.25	36,637.00	1,428.84	5,592.00	268.42			11,365.08	19,775.23	93,960.99
2013	4,000.00	850.00	1,000.00	187.50	9,166.67	3,058.00							11,728.77	19,411.54	49,402.48
2014	5,000.00	625.00	1,000.00	137.50	9,166.67	2,675.75							12,104.09	19,036.22	49,745.23
2015	5,000.00	375.00	1,000.00	87.50	9,166.67	2,293.50							12,491.42	18,648.89	49,062.98
2016	5,000.00	125.00	1,249.90	31.25	9,166.67	1,911.25							12,891.14	18,249.17	48,624.38
2017					9,166.67	1,529.00							13,303.66	17,836.65	41,835.98
2018					9,166.67	1,146.75							13,729.38	17,410.93	41,453.73
2019					9,166.67	764.50							14,168.72	16,971.59	41,071.48
2020					9,166.65	382.25							14,622.11	16,518.19	40,689.20
2021													15,090.02	16,050.29	31,140.31
2022													15,572.90	15,567.41	31,140.31
2023													16,071.24	15,069.07	31,140.31
2024													16,585.52	14,554.79	31,140.31
2025													17,116.25	14,024.06	31,140.31
2026													17,663.97	13,476.34	31,140.31
2027													18,229.22	12,911.09	31,140.31
2028													18,812.55	12,327.75	31,140.30
2029													19,414.56	11,725.75	31,140.31
2030													20,035.82	11,104.49	31,140.31
2031													20,676.97	10,463.34	31,140.31
2032													21,338.63	9,801.68	31,140.31
2033													22,021.47	9,118.84	31,140.31
2034													22,726.15	8,414.15	31,140.30
2035													23,453.39	7,686.92	31,140.31
2036													24,203.90	6,936.41	31,140.31
2037													24,978.42	6,161.88	31,140.30
2038													25,777.73	5,362.58	31,140.31
2039													26,602.62	4,537.69	31,140.31
2040													27,453.90	3,686.40	31,140.30
2041													28,332.43	2,807.88	31,140.31
2042													29,239.07	1,901.24	31,140.31
2043													30,174.71	965.61	31,140.32
	<u>\$ 27,000.00</u>	<u>\$ 4,275.00</u>	<u>\$ 5,999.90</u>	<u>\$ 962.50</u>	<u>\$ 91,666.68</u>	<u>\$ 21,023.75</u>	<u>\$ 71,933.00</u>	<u>\$ 4,198.93</u>	<u>\$ 11,184.00</u>	<u>\$ 805.25</u>	<u>\$ 7,277.00</u>	<u>\$ 303.45</u>	<u>\$ 628,988.49</u>	<u>\$ 398,641.70</u>	<u>\$ 1,274,259.65</u>

**CITY OF WATERTOWN, TENNESSEE
 BONDS PAYABLE AND DEBT SERVICE REQUIREMENTS
 PROPRIETARY FUND
 June 30, 2010**

Maturities During Year Ending June 30,	\$665,000 Waterworks Revenue & Tax Capital Outlay, 2004		\$15,115 Wilson Bank & Trust Loan		Total Payments
	Principal	Interest	Principal	Interest	
2011	\$ 60,000.00	\$ 19,637.50	\$ 3,023.00	\$ 290.21	\$ 82,950.71
2012	65,000.00	17,245.00	3,023.00	145.10	85,413.10
2013	65,000.00	14,710.00			79,710.00
2014	70,000.00	11,937.50			81,937.50
2015	75,000.00	8,820.00			83,820.00
2016	75,000.00	5,463.75			80,463.75
2017	80,000.00	1,860.00			81,860.00
	<u>\$ 490,000.00</u>	<u>\$ 79,673.75</u>	<u>\$ 6,046.00</u>	<u>\$ 435.31</u>	<u>\$ 576,155.06</u>

**CITY OF WATERTOWN, TENNESSEE
PROPERTY TAXES
Year ended June 30, 2010**

Tax rates and taxes assessed for the ten most current years were:

<u>Year</u>	<u>Tax Rate</u>	<u>Tax Assessed</u>
2009	\$0.68	\$ 141,852
2008	\$0.68	140,597
2007	\$0.75	138,837
2006	\$0.75	131,693
2005	\$0.75	127,165
2004	\$0.96	122,546
2003	\$0.96	118,965
2002	\$0.96	120,556
2001	\$0.96	116,397
2000	\$0.96	112,106

A summary of changes in property taxes receivable during the year follows:

	<u>Balance at July 1</u>	<u>Assessment</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance at June 30</u>	<u>Delinquent Taxes Filed*</u>
2009	\$ -	\$ 141,852.49	\$ 133,028.49	\$ (112.00)	\$ 8,712.00	\$ -
2008	4,271.00	3,250.00	4,922.00	-	2,599.00	-
2007	1,017.00	-	435.00	-	582.00	1,017.00
2006	366.00	-	-	-	366.00	366.00
2005	374.00	-	-	-	374.00	374.00
2004	563.64	-	-	-	563.64	563.64
2003	768.40	-	-	-	768.40	768.40
2002	418.00	-	-	-	418.00	418.00
2001	84.24	-	-	-	84.24	84.24
2000	134.05	-	-	-	134.05	134.05
1999	208.16	-	-	(208.16)	-	-
	<u>\$ 8,204.49</u>	<u>\$ 145,102.49</u>	<u>\$ 138,385.49</u>	<u>\$ (320.16)</u>	<u>\$ 14,601.33</u>	<u>\$ 3,725.33</u>

*Taxes filed with clerk and master.

2010 Taxes assessed	\$ 141,691.61
Estimated uncollectible taxes	<u>(708.46)</u>
DEFERRED PROPERTY TAX REVENUE	<u><u>\$ 140,983.15</u></u>

**WATERTOWN WATER & SEWER DEPARTMENT
STATISTICAL DATA
June 30, 2010**

WATER & SEWER RATES

Inside the City

Water Base Rate	\$15.39
Sewer Base Rate	15.39

Per 1000 Gallons

First 2,000 @	\$4.12
Next 8,000 @	5.64
Over 10,000 @	6.57

Outside the City

Water Base Rate	\$23.08
Sewer Base Rate	23.08

Per 1000 Gallons

First 2,000 @	\$6.16
Next 8,000 @	8.46
Over 10,000 @	9.86

There were approximately 631 customers billed for June 2010.

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

[Back to Instructions](#)

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Water Audit Report for: **City of Watertown**
 Reporting Year: **2010** / 7/2009 - 6/2010

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="9"/>	<input type="text" value="71.400"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="7"/>	<input type="text" value="0.010"/>	under-registered MG/Yr
Water imported:	<input type="text" value="9"/>	<input type="text" value="0.015"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
WATER SUPPLIED:		71.425	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="10"/>	<input type="text" value="29.200"/>	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="text" value="9"/>	<input type="text" value="3.000"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="9"/>	<input type="text" value="0.893"/>	MG/Yr
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed			
AUTHORIZED CONSUMPTION:		33.093	MG/Yr

Click here: for help using option buttons below

Pcnt: Value:

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

Apparent Losses

Unauthorized consumption:	<input type="text" value="9"/>	<input type="text" value="0.179"/>	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed			
Customer metering inaccuracies:	<input type="text" value="9"/>	<input type="text" value="0.000"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="7"/>	<input type="text" value="1.100"/>	MG/Yr
Apparent Losses:	<input type="text" value="9"/>	<input type="text" value="1.279"/>	

Pcnt: Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: MG/Yr

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="text" value="7"/>	<input type="text" value="9.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="7"/>	<input type="text" value="698"/>	
Connection density:		<input type="text" value="78"/>	conn./mile main
Average length of customer service line:	<input type="text" value="10"/>	<input type="text" value="15.0"/>	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="8"/>	<input type="text" value="60.0"/>	psi

COST DATA

Total annual cost of operating water system:	<input type="text" value="9"/>	<input type="text" value="\$393,758"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="7"/>	<input type="text" value="\$24.38"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="9"/>	<input type="text" value="\$0.03"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="59.1%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="7.9%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$31,171"/>
Annual cost of Real Losses:	<input type="text" value="\$1"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="5.02"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="145.44"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
Real Losses per service connection per day per psi pressure:	<input type="text" value="2.42"/>	gallons/connection/day/psi
<input type="text" value="9"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="Not Valid"/>	

*** UARL cannot be calculated as either average pressure, number of connections or length of mains is too small: SEE UARL DEFINITION ***

From Above, Real Losses = Current Annual Real Losses (CARL):

Infrastructure Leakage Index (ILI) [CARL/UARL]:

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 84 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Master meter error adjustment
- 2: Volume from own sources
- 3: Unauthorized consumption

[For more information, click here to see the Grading Matrix worksheet](#)

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES
Year ended June 30, 2010

	General Fund	Special Revenue Funds
Taxes:		
Property taxes	\$ 136,821.49	\$ -
Interest and penalties on property taxes	1,165.15	-
Local option sales tax	103,711.46	-
Wholesale beer tax	37,909.81	-
Business tax	9,357.62	-
Cable TV franchise tax	6,581.38	-
TOTAL TAXES	\$ 295,546.91	\$ -
Licenses and permits:		
Beer licenses	\$ 658.33	\$ -
Building and related permits	5,488.29	-
TOTAL LICENSES OR PERMITS	\$ 6,146.62	\$ -
Intergovernmental revenue:		
TVA in lieu of taxes	\$ 14,971.70	\$ -
State sales tax	87,071.39	-
State income tax	1,634.49	-
State beer tax	674.46	-
State gasoline inspection fee	2,922.24	-
State fuel tax	36,148.88	-
Corporate excise tax	3,759.44	-
Other state allocations	1,200.00	-
State telecom taxes	118.09	-
TOTAL INTERGOVERNMENTAL REVENUE	\$ 148,500.69	\$ -

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES (CONTINUED)
Year ended June 30, 2010

	General Fund	Special Revenue Fund
Charges for services:		
Civic Center rental	\$ -	\$ 3,825.00
Parks and recreation	-	3,281.96
Accident reports	318.70	-
Sanitation	4,430.00	-
	TOTAL CHARGES FOR SERVICES	\$ 7,106.96
	\$ 4,748.70	\$ -
Fines and penalties	\$ 19,748.29	\$ -
Interest	120.74	183.43
Concessions and sponsorships	-	46,945.57
Miscellaneous	25,820.62	6,549.50
	TOTAL REVENUE	\$ 60,785.46
	\$ 500,632.57	\$ 60,785.46

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES
Year ended June 30, 2010

	General Fund	Special Revenue Fund
CITY RECORDER		
Salaries	\$ 25,604.57	\$ -
OASE employer	1,838.93	-
Health insurance	5,156.36	-
	<u>\$ 32,599.86</u>	<u>\$ -</u>
 CITY HALL BUILDINGS		
Utilities	\$ 41,769.64	\$ -
Repairs and maintenance	20,613.09	-
	<u>\$ 62,382.73</u>	<u>\$ -</u>
 ANIMAL CONTROL		
Wilson County Animal Control	\$ 500.00	\$ -
	<u>\$ 500.00</u>	<u>\$ -</u>
 DIRECT ASSISTANCE		
Library	\$ 18,383.25	\$ -
	<u>\$ 18,383.25</u>	<u>\$ -</u>
 ECONOMIC DEVELOPMENT		
Joint planning services	9,963.35	-
	<u>\$ 9,963.35</u>	<u>\$ -</u>

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2010

	General Fund	Special Revenue Fund
GENERAL GOVERNMENT		
Insurance	\$ 29,151.85	\$ -
Telephone	8,083.17	-
Business tax	3,945.78	-
Postage	609.83	-
Office supplies	4,475.70	-
Publication of documents	1,252.47	-
City judge	3,600.00	-
City attorney	1,800.00	-
Other	7,035.99	-
	<u>\$ 59,954.79</u>	<u>\$ -</u>
TOTAL GENERAL GOVERNMENT	<u><u>\$ 183,783.98</u></u>	
POLICE		
Salaries	\$ 187,141.07	\$ -
Payroll taxes	13,742.25	-
Health insurance	30,443.67	-
Education and training	760.00	-
Gas, oil and diesel fuel	10,266.55	-
Repairs and maintenance	3,264.93	-
Office supplies	5,178.59	-
Other machinery and equipment	14,595.12	-
Public relations	1,430.00	-
Other	12,837.45	-
	<u>\$ 279,659.63</u>	<u>\$ -</u>

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2010

	General Fund	Special Revenue Fund
FIRE PROTECTION		
Repairs and maintenance	\$ 12,845.52	\$ -
Public relations	1,430.00	-
Gasoline, oil and diesel fuel	3,398.67	-
Machinery and equipment	6,838.23	-
Other	1,205.00	-
	\$ 25,717.42	\$ -
 PROTECTIVE INSPECTION		
Fees	\$ 1,671.65	\$ -
TOTAL PUBLIC SAFETY	\$ 307,048.70	
 HIGHWAYS AND STREETS		
Salaries	\$ 24,327.16	\$ -
Payroll taxes	1,729.80	-
Health insurance	2,607.85	-
Utilities	6,255.07	-
Repairs and maintenance	1,125.99	-
Gas, oil and diesel fuel	553.48	-
Supplies	5,113.83	-
	\$ 41,713.18	\$ -

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2010

	General Fund	Special Revenue Fund
CIVIC CENTER		
Repairs and maintenance	\$ -	\$ 1,211.00
Other	-	364.92
	<u>\$ -</u>	<u>\$ 1,575.92</u>
PARKS		
Referees/umpires	\$ -	\$ 6,066.00
Utilities	-	2,957.41
Uniforms	-	22,871.67
Concessions	-	14,049.63
Repairs and maintenance	-	1,577.23
Supplies	-	4,651.95
Other	-	3,095.65
	<u>\$ -</u>	<u>\$ 55,269.54</u>

**CITY OF WATERTOWN, TENNESSEE
INSURANCE IN FORCE
June 30, 2010**

	<u>Amounts of Insurance</u>	<u>Expiration Date</u>
General Liability:		
Workmen's' Compensation	Statutory	April 11, 2011
Employers Liability	\$ 250,000.00	March 5, 2011
Automobile Liability:		
Property Damage	Cash value or cost to repair	March 5, 2011
General Auto Liability	\$ 1,000,000.00	
Excess Liability	\$ 1,650,000.00	March 5, 2011
Surety Bond:		
City Recorder	\$ 2,000.00	March 5, 2011
City Treasurer	1,000.00	
Property:		
Building and Contents	\$ 8,076,162.00	March 5, 2011
Machinery	101,352.00	
EDP Equipment	14,223.00	
Errors and Omissions	\$1,000,000.00	March 5, 2011
Employee Dishonesty	\$ 100,000.00	March 5, 2011

ALBERT R. DICUS

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Sparta, Tennessee 38583

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*

Mayor and Board of Aldermen
City of Watertown, Tennessee
Watertown, Tennessee

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Watertown, Tennessee, as of and for the year ended June 30, 2010, and have issued my report thereon dated June 4, 2013. I conducted my 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.

Internal Control Over Financial Reporting

Management of the City of Watertown, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Watertown's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown, Tennessee's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Watertown, Tennessee's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control that I consider to be a material weakness and other deficiencies that I 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. I consider the deficiency described in the accompanying schedule of findings and recommendations as item 10-4 to be a material weakness.

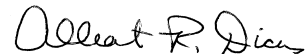
A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and recommendations as items 10-2 and 10-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Watertown, Tennessee's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 10-1.

The City of Watertown's responses to the findings identified in my audit are described in the accompanying schedule of findings and recommendations. I did not audit the City of Watertown's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of the management and the Board of Commissioners of the City of Watertown, Tennessee; the Tennessee Comptroller's Office, Division of Municipal Audit; and any federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Sparta, Tennessee
June 4, 2013

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2010

A: SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Watertown, Tennessee.
2. Three significant deficiencies disclosed during the audit of the financial statements. Item 10-4 is considered to be a material weakness.
3. One instance of noncompliance that is required to be reported under *Government Auditing Standards* was disclosed during the audit.

B: FINDINGS

Item 10-1: Spending in Excess of the Budget (Compliance)

The City is not in compliance with its Budget Resolution by spending in excess of the appropriated amounts in the General fund and the Parks and recreation fund.

Recommendation: The City Council should authorize all expenditures either in the original budget, in an amendment, or in a supplemental appropriation.

Management's Response: We will monitor our budgeting process more closely in the future.

Item 10-2: Segregation of duties (Significant Deficiency)

The City does not have a sufficient number of employees to provide the proper segregation of duties for an effective internal control system.

Recommendation: The City needs to evaluate and review the separation of duties for its accounting personnel.

Management's response: We concur with the auditors' finding and recommendation. We require two signatures on all checks, which provide some control over the bank account.

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (Continued)
June 30, 2010

Item 10-3: Water and Sewer Accounts Receivable Reconciliation (Significant Deficiency)

The detail accounts receivable are not reconciled monthly to any type of route control or the general ledger.

Recommendation: The accounts receivable should be reconciled monthly to a route control and the general ledger. Unpaid balances from the previous month should be brought forward on the monthly billing report and the balances should be added to the current month's bill. Adjustments should be reflected in the reconciliation and bad debts written off should be approved by the Board.

Management's Response: We concur, and we will reconcile the accounts receivable as recommended.

Item 10-4: Financial statement preparation (Material Weakness)

The financial statements and note disclosures are prepared by the auditor and presented to management for their approval. Management's ability to prepare the financial statements and note disclosures without material misstatements is questionable.

Recommendation: Management should consider hiring an individual with the proper training and qualifications to apply generally accepted accounting principles in the preparation of financial statements.

Management's response: We concur with the auditor's finding that preparation of the financial statements and note disclosures may be beyond our expertise. It is not practical nor would it be financially feasible for the City to hire qualified employees to oversee financial statement preparation. However, we believe that our knowledge and experience enables us to review the report and to understand it fully.

Items 10-1, 10-2, 10-3, and 10-4 were mentioned in the prior year's report as items 09-1, 09-2, 09-3, and 09-4.