

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**CITY OF WATERTOWN, TENNESSEE**

**For the Year Ended  
June 30, 2009**

**CONTENTS**

**Introductory Section:**

Directory of Principal Officials..... Page 5

**Financial Section:**

Independent Auditor’s Report..... 7

Management’s Discussion and Analysis..... 9

**Basic Financial Statements:**

Government-wide Financial Statements

Statement of Net Assets ..... 16

Statement of Activities ..... 17

Fund Financial Statements

Balance Sheet – Governmental Funds ..... 19

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets..... 21

Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds..... 22

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds to  
the Statement of Activities ..... 24

Statement of Net Assets – Proprietary Funds..... 25

Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Proprietary Funds ..... 27

Statement of Cash Flows – Proprietary Funds ..... 28

Statement of Fiduciary Assets – Fiduciary Fund ..... 29

Statement of Changes in Fiduciary Assets – Fiduciary Fund .. 30

Budgetary Comparison Statement – General Fund..... 31

Budgetary Comparison Statement – Other Major Funds ..... 32

**Notes to the Financial Statements**..... 33

**Supplementary Information:**

Combining Balance Sheet – Nonmajor Governmental Funds . 52

Combining Statement of Revenues, Expenditures, and  
Changes in Net Assets – Nonmajor Governmental Funds .. 54

Budgetary Comparison Schedule – State Street Aid Fund ..... 56

Budgetary Comparison – Community Center Fund..... 57

Budgetary Comparison – Industrial Park Fund..... 58

Long-Term Debt Principal and Interest Requirements ..... 59

Long-Term Debt Principal and Interest Requirements –  
Water and Sewer..... 61

**CONTENTS (CONTINUED)**

Property Taxes.....	62
Statistical Data.....	63
Schedule of Unaccounted For Water .....	64
Schedule of General and Special Revenue Fund Revenues .....	65
Schedule of General and Special Revenue Fund Expenditures .....	67
Insurance in Force .....	71
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	72
Schedule of Findings and Recommendations .....	74

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## **INTRODUCTORY SECTION**

**CITY OF WATERTOWN, TENNESSEE  
PRINCIPAL OFFICIALS  
June 30, 2009**

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**

*Certified Public Accountant*

*Member: AICPA; TSCPA*

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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, 2009, 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 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 10 through 18, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 11, 2012, 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watertown, Tennessee's basic financial statements. The information presented as "Introductory Section" and "Supplementary Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Information presented as "Supplementary Information" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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 express no opinion on it.



Certified Public Accountant

Sparta, Tennessee  
May 11, 2012

# 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, 2009. 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 \$2,278,594. Of this amount, \$148,937 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.

At June 30, 2009, the City's governmental funds reported combined ending fund balances of \$25,543, a decrease of \$158,168 in comparison with the prior year. \$18,911 is available for spending at the government's discretion (unrestricted fund balance).

At June 30, 2009 unreserved fund balance for the General Fund was \$(49,940) or (2.82%) of total general fund expenditures.

The City's total debt increased by a net \$516,838 during the year ended June 30, 2009. Of this amount, general long-term debt increased by a net \$579,861; water and sewer long-term debt decreased by \$63,023.

The City's total net assets increased by \$477,473 during the year ended June 30, 2009.

### 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 16-18 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 nine individual governmental funds. Six 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 19-24 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 25-28 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 33-50 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 \$2,278,594 at the close of the most recent fiscal year.

By far the largest portion of the City’s net assets (93.17%) 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.

**Summary of Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>		<b>Total Change Increase (Decrease)</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	
Current and other assets	\$ 301,272	\$ 1,008,524	\$ 184,599	\$ 131,178	\$ 485,871	\$ 1,139,702	\$ (653,831)
Capital assets	1,553,830	350,809	2,035,739	2,144,194	3,589,569	2,495,003	1,094,567
Total assets	<u>\$ 1,855,102</u>	<u>\$ 1,359,333</u>	<u>\$ 2,220,338</u>	<u>\$ 2,275,371</u>	<u>\$ 4,075,440</u>	<u>\$ 3,634,704</u>	<u>\$ 440,736</u>
Long-term liabilities outstanding	\$ 844,049	\$ 275,932	\$ 496,046	\$ 559,069	\$ 1,340,095	\$ 835,001	\$ 505,094
Other liabilities	343,555	881,699	113,196	114,799	456,751	996,498	(539,748)
Total liabilities	<u>\$ 1,187,604</u>	<u>\$ 1,157,631</u>	<u>\$ 609,242</u>	<u>\$ 673,868</u>	<u>\$ 1,796,846</u>	<u>\$ 1,831,500</u>	<u>\$ (34,654)</u>
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	638,239	15,078	1,484,786	1,531,551	2,123,024	1,546,629	576,395
Restricted	6,633	8,583	-	-	6,633	8,583	(1,950)
Unrestricted	22,627	178,041	126,310	69,952	148,937	247,992	(99,055)
Total net assets	<u>\$ 667,498</u>	<u>\$ 201,702</u>	<u>\$ 1,611,096</u>	<u>\$ 1,601,503</u>	<u>\$ 2,278,594</u>	<u>\$ 1,803,205</u>	<u>\$ 475,390</u>

At year end 0.30% 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 (\$148,937) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

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, 2009.

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Totals</b>		<b>Total</b>
	<b>FY2009</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2008</b>	<b>Change</b>
<b>Revenues:</b>							
<b>Program Revenues:</b>							
Charges for Services	\$ 33,759	\$ 44,545	\$ 482,579	\$ 495,176	\$ 516,337	\$ 539,720	\$ (23,383)
Operating grants & contribution	71,922	90,609	-	-	71,922	90,609	(18,687)
Capital grants & contributions	615,059	95,222	-	-	615,059	95,222	519,837
<b>General Revenues:</b>							
Local taxes	154,679	154,129	-	-	154,679	154,129	550
Intergovernmental	237,881	256,687	-	-	237,881	256,687	(18,806)
Interest on investments	14,189	18,442	380	262	14,569	18,704	(4,135)
Other	4,742	20,379	-	-	4,742	20,379	(15,637)
Total revenues	<u>\$ 1,132,230</u>	<u>\$ 680,012</u>	<u>\$ 482,959</u>	<u>\$ 495,438</u>	<u>\$ 1,615,189</u>	<u>\$ 1,175,450</u>	<u>\$ 439,739</u>
<b>Expenses:</b>							
General government	\$ 197,686	\$ 169,210	\$ -	\$ -	\$ 197,686	\$ 169,210	\$ 28,477
Public Safety	331,785	285,804	-	-	331,785	285,804	45,981
Highway and Streets	54,756	50,029	-	-	54,756	50,029	4,727
Parks and recreation	60,275	75,838	-	-	60,275	75,838	(15,563)
Interest on long-term debt	34,019	10,907	-	-	34,019	10,907	23,112
Industrial Development	9,947	9,378	-	-	9,947	9,378	568
Community Center	2,290	2,039	-	-	2,290	2,039	251
Water and sewer	-	-	449,042	452,518	449,042	452,518	(3,476)
Total expenses	<u>\$ 690,758</u>	<u>\$ 603,205</u>	<u>\$ 449,042</u>	<u>\$ 452,518</u>	<u>\$ 1,139,800</u>	<u>\$ 1,055,723</u>	<u>\$ 84,077</u>
Increase in net assets before transfers	\$ 441,473	\$ 76,807	\$ 33,917	\$ 42,920	\$ 475,390	\$ 119,727	\$ 355,662
Operating Transfer In	24,324	-	-	-	24,324	-	24,324
Operating Transfer Out	-	-	(24,324)	-	(24,324)	-	(24,324)
Increase in Net Assets	\$ 465,796	\$ 76,807	\$ 9,593	\$ 42,920	\$ 475,390	\$ 119,727	\$ 355,662
Net assets - July 1	<u>201,702</u>	<u>124,895</u>	<u>1,601,503</u>	<u>1,558,582</u>	<u>1,803,205</u>	<u>1,683,477</u>	<u>119,727</u>
Net assets - June 30	<u>\$ 667,498</u>	<u>\$ 201,702</u>	<u>\$ 1,611,096</u>	<u>\$ 1,601,503</u>	<u>\$ 2,278,594</u>	<u>\$ 1,803,205</u>	<u>\$ 475,390</u>

**Governmental activities:** Governmental activities increased the City of Watertown's net assets by \$465,796, which accounts for 97.98% of the total growth in the net assets of the City of Watertown in FY 2009.

**Business-type activities:** Business-type activities increased the City's net assets by \$9,593 accounting for a 2.02% 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 \$9,593 more than the expenses of those services for the fiscal year ended June 30, 2009.

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 balances of \$25,543 a decrease of \$158,168 in comparison with the prior year. \$18,911 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, unreserved fund balance of the general fund was (\$49,940). 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 2.82% of total general fund expenditures, while total fund balance represents the same percentage.

The fund balance of the City's general fund decreased by \$83,623 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 \$126,310. The total increase in net assets for the Water and Sewer fund was \$9,593. 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 2009, the City had \$3, 589,569 (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:

- Digital video mirror kit
- EMS Building
- Ball field lights
- ATV

Additional information on the City's capital assets can be found in Note E on page 44 of this report.

The following tables summarize the City's capital assets for the year ended June 30, 2009. These changes are presented in detail in Note E to the financial statements.

	Governmental		Business-type		Total		Total Change
	Activities		Activities				
	2009	2008	2009	2008	2009	2008	
Land	\$ 106,130	\$ 106,130	\$ 12,507	\$ 12,507	\$ 118,637	\$ 118,637	\$ -
Construction in Progress	-	64,439	-	-	-	64,439	(64,439)
Buildings	1,424,293	124,798	-	-	1,424,293	124,798	1,299,495
Improvements, other than buildings	95,646	84,099	-	-	95,646	84,099	11,547
Main lines	-	-	3,834,652	3,834,652	3,834,652	3,834,652	-
Equipment	291,987	288,162	155,790	155,790	447,777	443,952	3,825
Less: Accumulated Depreciation	(364,225)	(316,819)	(1,967,210)	(1,858,756)	(2,331,435)	(2,175,575)	(155,860)
Total	\$ 1,553,830	\$ 350,809	\$ 2,035,739	\$ 2,144,194	\$ 3,589,569	\$ 2,495,003	\$ 1,094,567

**Long-term debt:** At the end of the current fiscal year, the City had total debt outstanding of \$1,474,661. 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				
	2009	2008	2009	2008	2009	2008	
Revenue notes	\$ -	\$ -	\$ 559,069	\$ 622,092	\$ 559,069	\$ 622,092	\$ (63,023)
Capital outlay notes	877,842	293,231	-	-	877,842	293,231	584,611
General obligation bonds	37,750	42,500	-	-	37,750	42,500	(4,750)
Total	\$ 915,592	\$ 335,731	\$ 559,069	\$ 622,092	\$ 1,474,661	\$ 957,823	\$ 516,838

The City's total debt increased by a net of \$516,838. During the current fiscal year, the City paid \$133,162 in principal payments. General obligation debt decreased by \$63,023, while water and sewer bonded debt had a net increase of \$579,861.

Additional information on the City's long-term debt can be found in Note F, beginning on pages 45.

**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, 2009**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents - Note C	\$ 186,546.28	\$ 45,581.82	\$ 232,128.10
Property receivable - net	149,621.71	-	149,621.71
Accounts receivable	4,748.04	50,151.92	54,899.96
Note receivable	4,242.39	-	4,242.39
Due from other governments	29,117.60	-	29,117.60
Internal balances	(80,749.22)	80,749.22	-
Deferred charges	-	8,115.96	8,115.96
Industrial Park land	7,744.82	-	7,744.82
Capital assets - Note E:			
Land	106,130.00	-	106,130.00
Buildings and equipment, net of depreciator	1,447,700.47	2,035,738.95	3,483,439.42
<b>TOTAL ASSETS</b>	<b>\$ 1,855,102.09</b>	<b>\$ 2,220,337.87</b>	<b>\$ 4,075,439.96</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 88,250.83	\$ 8,217.59	\$ 96,468.42
Customer deposits and other liabilities:	-	34,477.20	34,477.20
Deferred revenue - property taxes	141,852.49	-	141,852.49
Deferred revenue - other	39,648.99	-	39,648.99
Accrued expenses	2,259.62	7,477.91	9,737.53
Long-term liabilities - Note F			
Due within one year	71,542.87	63,023.00	134,565.87
Due in more than one year	844,049.06	496,046.00	1,340,095.06
<b>TOTAL LIABILITIES</b>	<b>\$ 1,187,603.86</b>	<b>\$ 609,241.70</b>	<b>\$ 1,796,845.56</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 638,238.54	\$ 1,484,785.91	\$ 2,123,024.45
Restricted for:			
Drug fund	635.88	-	635.88
Highways and Streets	5,996.88	-	5,996.88
Unrestricted	22,626.93	126,310.26	148,937.19
<b>TOTAL NET ASSETS</b>	<b>\$ 667,498.23</b>	<b>\$ 1,611,096.17</b>	<b>\$ 2,278,594.40</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,855,102.09</b>	<b>\$ 2,220,337.87</b>	<b>\$ 4,075,439.96</b>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 197,686.43	\$ 23,471.87	\$ 228.00	\$ -
Public safety	331,784.97	267.00	-	603,274.97
Highways and streets	54,755.76	-	35,881.31	-
Parks and recreation	60,275.31	6,854.99	35,812.25	11,784.00
Industrial developmen	9,946.68	-	-	-
Community Center	2,289.58	3,165.00	-	-
Interest on long-term deb	34,019.22	-	-	-
<b>Total governmental activities:</b>	<b>\$ 690,757.95</b>	<b>\$ 33,758.86</b>	<b>\$ 71,921.56</b>	<b>\$ 615,058.97</b>
Business-type activities:				
Water and sewer	449,041.62	482,578.58	-	-
<b>Total primary government:</b>	<b>\$ 1,139,799.57</b>	<b>\$ 516,337.44</b>	<b>\$ 71,921.56</b>	<b>\$ 615,058.97</b>
 General revenues				
Taxes:				
Property taxes, penalty & interest				
Payments in lieu of taxes				
Local option sales tax				
Wholesale beer tax				
Business tax				
Cable TV franchise tax				
State shared revenue				
Miscellaneous				
Unrestricted interest earnings				
Loss on sale of assets				
Transfers				
<b>Total general revenues</b>				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See the notes to financial statements

**CITY OF WATERTOWN, TENNESSEE**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES (CONT'D)**  
**For the Year Ended June 30, 2009**

<b>Net (Expense) Revenue and Changes in Net Asset</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (173,986.56)	\$ -	\$ (173,986.56)
271,757.00	-	271,757.00
(18,874.45)	-	(18,874.45)
(5,824.07)	-	(5,824.07)
(9,946.68)	-	(9,946.68)
875.42	-	875.42
(34,019.22)	-	(34,019.22)
\$ 29,981.44	\$ -	\$ 29,981.44
	\$ 33,536.96	\$ 33,536.96
\$ 140,592.48	\$ -	\$ 140,592.48
14,086.85	-	14,086.85
80,779.06	-	80,779.06
41,172.57	-	41,172.57
10,618.08	-	10,618.08
7,728.84	-	7,728.84
97,582.66	-	97,582.66
4,798.95	-	4,798.95
14,188.76	380.31	14,569.07
(57.16)	-	(57.16)
24,323.91	(24,323.91)	-
\$ 435,815.00	\$ (23,943.60)	\$ 411,871.40
\$ 465,796.44	\$ 9,593.36	\$ 475,389.80
201,701.79	1,601,502.81	1,803,204.60
\$ 667,498.23	\$ 1,611,096.17	\$ 2,278,594.40

**CITY OF WATERTOWN, TENNESSEE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2009**

	<b>General</b>	<b>Parks &amp; Recreation</b>
	<b><u>ASSETS</u></b>	
Cash and temporary investments - Note C	\$ 84,881.31	\$ 21,554.50
Property taxes receivable, less allowance for doubtful accounts (\$435.27) - Note B	149,621.71	-
Accounts receivable	4,748.04	-
Notes receivable	-	-
Due from other governments	22,606.00	-
Due from other funds	17,582.00	-
Industrial park land	-	-
	<b>\$ 279,439.06</b>	<b>\$ 21,554.50</b>
	<b><u>LIABILITIES AND FUND EQUITY</u></b>	
<b>Liabilities:</b>		
Accounts payable	\$ 66,654.41	\$ 9,767.10
Deferred revenue - property taxes	147,828.49	-
Deferred revenue - other	-	39,648.99
Due to other funds	114,896.15	68,729.00
	<b>\$ 329,379.05</b>	<b>\$ 118,145.09</b>
<b>Fund equity:</b>		
Reserved for drug fund	\$ -	\$ -
Reserved for highways and streets	-	-
Unreserved reported in:		
General fund	(49,939.99)	-
Parks and recreation	-	(96,590.59)
Community Center	-	-
Debt service	-	-
Industrial Park	-	-
THDA Home Project	-	-
	<b>\$ (49,939.99)</b>	<b>\$ (96,590.59)</b>
	<b>\$ 279,439.06</b>	<b>\$ 21,554.50</b>

See the notes to financial statements

**CITY OF WATERTOWN, TENNESSEE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS (CONT'D)**  
**June 30, 2009**

<u>Governmental Fund Types</u>	
Nonmajor Funds	Total Government Funds
\$ 80,110.47	\$ 186,546.28
-	149,621.71
-	4,748.04
4,242.39	4,242.39
6,511.60	29,117.60
112,959.06	130,541.06
7,744.82	7,744.82
<u>\$ 211,568.34</u>	<u>\$ 512,561.90</u>
\$ 11,829.32	\$ 88,250.83
-	147,828.49
-	39,648.99
27,665.13	211,290.28
\$ 39,494.45	\$ 487,018.59
\$ 635.88	\$ 635.88
5,996.88	5,996.88
-	(49,939.99)
-	(96,590.59)
(23,040.03)	(23,040.03)
2,617.10	2,617.10
185,863.06	185,863.06
1.00	1.00
<u>\$ 172,073.89</u>	<u>\$ 25,543.31</u>
<u>\$ 211,568.34</u>	<u>\$ 512,561.90</u>

**CITY OF WATERTOWN, TENNESSEE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2009**

Total fund balances for governmental funds	\$	25,543.31
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		1,553,830.47
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		5,976.00
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, 2009 are as follows:		
Bonds and notes payable	\$ (915,591.93)	
Accrued interest on bonds	(2,259.62)	(917,851.55)
<b>TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>667,498.23</u></b>

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2009**

	<b>General</b>	<b>Parks &amp; Recreation</b>	<b>Nonmajor Funds</b>
<b>Revenues:</b>			
Taxes	\$ 280,779.03	\$ -	\$ -
Intergovernmental revenue:	111,897.51	-	35,881.31
Rental income	-	-	3,165.00
Licenses and permits	1,034.50	-	-
Services	1,692.00	4,661.00	-
Fines and penalties	21,012.37	-	-
Interest	13,651.71	163.93	373.12
Sale of capital assets	-	400.00	-
Sponsor fees and concessions:	-	38,006.24	-
Miscellaneous	3,763.36	845.00	190.59
	<b>TOTAL REVENUES</b>	<b>\$ 44,076.17</b>	<b>\$ 39,610.02</b>
<b>Expenditures:</b>			
General government	\$ 200,752.91	\$ -	\$ -
Public safety	1,535,087.79	-	-
Highways and streets	-	-	54,755.76
Parks and recreation	-	67,331.30	-
Community Center	-	-	2,289.58
Debt service:			
Principal payments	15,461.31	49,927.66	4,750.00
Interest payments	21,449.99	11,136.28	2,124.98
	<b>TOTAL EXPENDITURES</b>	<b>\$ 128,395.24</b>	<b>\$ 63,920.32</b>
	<b>EXCESS (DEFICIENCY) OF</b>		
	<b>REVENUES OVER EXPENDITURES</b>		
	\$ (1,338,921.52)	\$ (84,319.07)	\$ (24,310.30)
<b>Other financing sources (uses):</b>			
Operating transfers in	27,300.00	-	23,800.00
Received from Wilson Co	603,274.97	-	-
Loan Proceeds	650,000.00	11,784.00	-
Operating transfers (out)	(25,276.09)	-	(1,500.00)
	<b>DECREASE IN</b>		
	<b>FUND BALANCE</b>		
	\$ (83,622.64)	\$ (72,535.07)	\$ (2,010.30)
Fund balance at July 1, 2008	33,682.65	(24,055.52)	174,084.19
	<b>FUND BALANCE AT JUNE 30, 2009</b>	<b>\$ (96,590.59)</b>	<b>\$ 172,073.89</b>

See the notes to financial statements

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS (CONT'D)  
Year ended June 30, 2009**

<b>Total Governmental Funds</b>	
\$	280,779.03
	147,778.82
	3,165.00
	1,034.50
	6,353.00
	21,012.37
	14,188.76
	400.00
	38,006.24
	4,798.95
\$	517,516.67
\$	200,752.91
	1,535,087.79
	54,755.76
	67,331.30
	2,289.58
	70,138.97
	34,711.25
\$	1,965,067.56
\$	(1,447,550.89)
	51,100.00
	603,274.97
	661,784.00
	(26,776.09)
\$	(158,168.01)
	183,711.32
\$	25,543.31

**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, 2009**

Net change in fund balance - total governmental funds \$ (158,168.01)

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 (\$1,253,627.20) exceeded depreciation  
(\$50,148.59) for the current period. 1,203,478.61

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. (650,000.00)

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. (457.16)

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of  
net assets. 70,138.97

Revenues in the statement of activities that do not provide current  
financial resources are not reported as revenues in the funds 112.00

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. 692.03

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 465,796.44**

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2009**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents - Note B	\$	45,581.82
Accounts receivable		50,151.92
Due from other funds		<u>157,739.82</u>

**TOTAL CURRENT ASSETS**      \$    253,473.56

**CAPITAL ASSETS** - Note E

Capital assets in service - at cost	\$	4,002,949.41
Less accumulated depreciation		<u>(1,967,210.46)</u>
		2,035,738.95

**OTHER ASSETS**

Unamortized bond expense		<u>8,115.96</u>
--------------------------	--	-----------------

\$ 2,297,328.47

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF NET ASSETS - PROPRIETARY FUND (CONT'D)  
JUNE 30, 2009**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable - trade	\$	8,217.59
Due to other funds		76,990.60
Other current liabilities		1,752.00
Customer deposits		34,477.20
Accrued interest payable		5,725.91
Portion of revenue bonds due within one year		63,023.00
		63,023.00

**TOTAL CURRENT LIABILITIES**      \$      190,186.30

**LONG-TERM DEBT**

Notes payable - Note F	\$	559,069.00
Less amount due within one year, shown as current liability		(63,023.00)
		496,046.00

**TOTAL LIABILITIES**      \$      686,232.30

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	\$	1,484,785.91
Unrestricted		126,310.26
		1,611,096.17

**\$      2,297,328.47**

**CITY OF WATERTOWN, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUND**  
**Year ended June 30, 2009**

<b>Operating revenues:</b>		
Water and sewer sales	\$	447,944.57
Tap fees		4,500.00
Forfeited discounts		20,534.03
Other operating income		9,350.00
Miscellaneous		249.98
		<u>                    </u>
<b>TOTAL OPERATING REVENUES</b>		<b>\$ 482,578.58</b>
<b>Operating expenses:</b>		
Salaries	\$	110,282.84
Payroll taxes		8,425.68
Employee insurance		16,035.97
Utilities		37,326.98
Materials and supplies		35,124.16
Repairs and maintenance		22,428.28
Insurance		23,426.97
Contracted services		34,563.36
Provision for depreciation - straight-line		108,454.68
Office supplies and postage		4,114.40
Gas and oil		1,932.59
Amortization		1,333.34
Professional fees		3,500.00
State fees		3,069.00
Miscellaneous		13,895.06
		<u>                    </u>
<b>OPERATING INCOME</b>		<b>\$ 58,665.27</b>
<b>Non-operating revenues (expenses):</b>		
Interest income	\$	380.31
Interest expense		(25,128.31)
		<u>                    </u>
<b>NET INCOME BEFORE TRANSFERS</b>		<b>\$ 33,917.27</b>
Operating transfers out		<u>                    </u>
		(24,323.91)
<b>INCREASE IN NET ASSETS</b>		<b>\$ 9,593.36</b>
Net assets at June 30, 2008		<u>                    </u>
		1,601,502.81
<b>NET ASSETS AT JUNE 30, 2009</b>		<b>\$ <u>1,611,096.17</u></b>

Interest incurred during the year totaled \$25,128.31,  
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, 2009**

**Cash flows from operating activities:**

Receipts from customers and users	\$	473,101.77
Payments to suppliers		(182,080.51)
Payments to employees		(134,744.49)
		(134,744.49)

**NET CASH PROVIDED BY OPERATING ACTIVITIES**    \$    156,276.77

**Cash flows from noncapital financing activities:**

Operating Transfers		(24,323.91)
---------------------	--	-------------

**Cash flows from capital and related financing activities:**

Increase in receivable from other funds	\$	(56,728.96)
Principal paid on bonds		(63,023.00)
Interest paid on bonds		(25,128.31)
		(25,128.31)

**NET CASH USED IN CAPITAL AND  
RELATED FINANCING ACTIVITIES**    (144,880.27)

**Cash flows from investing activities :**

Interest from investments		380.31
		380.31

**NET INCREASE IN CASH AND CASH EQUIVALENTS**    \$    (12,547.10)

Cash and cash equivalents at July 1, 2008		58,128.92
		58,128.92

**CASH AND CASH EQUIVALENTS AT JUNE 30, 2009**    \$    45,581.82

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

Operating income	\$	58,665.27
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for depreciation and amortization		109,788.02
Increase in accounts receivable		(10,572.88)
Increase in accounts payable		(2,157.65)
Increase in accrued interest payable		(543.06)
Increase in customer deposits		1,096.07
Increase in other current liabilities		1.00
		1.00

**NET CASH PROVIDED BY OPERATING ACTIVITIES**    \$    156,276.77

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF FIDUCIARY ASSETS  
June 30, 2009**

	<u>Watertown Station</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	<u>\$ 8,836.94</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 8,836.94</u></u></b>
<b><u>NET ASSETS</u></b>	
<b>Net Assets:</b>	
Restricted for Watertown Station	<u>\$ 8,836.94</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 8,836.94</u></u></b>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE  
STATEMENT OF CHANGES IN FIDUCIARY ASSETS  
For the Year Ended June 30, 2009**

	<u>Watertown Station</u>
<b>Additions:</b>	
Contributions	<u>\$ -</u>
<b>INCREASE IN NET ASSETS</b>	<b>\$ -</b>
Net assets at July 1, 2008	<u>\$ 8,836.94</u>
<b>NET ASSETS AT JUNE 30, 2009</b>	<u><u>\$ 8,836.94</u></u>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**BUDGETARY COMPARISON STATEMENT - GENERAL FUND**  
**For the Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary Basis) (See Note A)	Final Budget - Positive (Negative)
<b>Revenues:</b>				
Taxes and tax equivalents	\$ 451,958	\$ 451,958	\$ 282,862	\$ (169,096)
Licenses and permits	7,450	7,450	1,035	(6,416)
Intergovernmental	6,640	6,640	111,898	105,258
Fines and penalties	50,950	50,950	21,012	(29,938)
Interest, miscellaneous, and service	33,795	33,795	19,107	(14,688)
<b>TOTAL REVENUES</b>	<b>\$ 550,793</b>	<b>\$ 550,793</b>	<b>\$ 435,913</b>	<b>\$ (114,880)</b>
<b>Expenditures:</b>				
Administrative salaries & related costs	\$ 39,187	\$ 39,187	\$ 38,240	\$ 947
Utilities	23,700	23,700	27,202	(3,502)
Supplies	4,250	4,250	5,219	(969)
Insurance	30,000	30,000	57,319	(27,319)
Legal fees	5,500	5,500	36	5,464
Audit fees	3,500	3,500	3,500	-
Repairs and maintenance	4,875	4,875	4,179	696
Publishing expense	2,400	2,400	1,996	404
Other general government expense	62,561	62,561	53,152	9,409
Police Department	275,759	275,759	266,493	9,266
Fire Department	32,300	32,300	1,268,559	(1,236,259)
Civil Defense	350	350	-	350
Tourism	750	750	-	750
Joint economic & community development	3,400	3,400	9,947	(6,547)
Debt Service	-	-	36,911	(36,911)
<b>TOTAL EXPENDITURES</b>	<b>\$ 488,532</b>	<b>\$ 488,532</b>	<b>\$ 1,772,752</b>	<b>\$ (1,284,220)</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	62,261	62,261	(1,336,839)	(1,399,100)
Other financing sources (uses):				
Operating transfers in	-	-	27,300	27,300
Loan proceeds	-	-	650,000	650,000
Received from Wilson County	-	-	603,275	603,275
Operating transfers out	60,431	60,431	(25,276)	(85,707)
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES AND OTHER</b>				
<b>FINANCING SOURCES (USES)</b>	<b>\$ 122,692</b>	<b>\$ 122,692</b>	<b>\$ (81,540)</b>	<b>\$ (204,232)</b>
Fund balance at July 1, 2008	33,683	33,683	33,683	-
<b>FUND BALANCE AT JUNE 30, 2009</b>	<b>\$ 156,375</b>	<b>\$ 156,375</b>	<b>\$ (47,857)</b>	<b>\$ (204,232)</b>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**BUDGETARY COMPARISON STATEMENT - PARKS AND RECREATION FUND**  
Year ended June 30, 2009

	<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>
<b>Revenues:</b>				
Revenues	\$ 53,475	\$ 53,475	\$ 43,912	\$ (9,563)
Interest	-	-	164	164
<b>TOTAL REVENUES</b>	<b>\$ 53,475</b>	<b>\$ 53,475</b>	<b>\$ 44,076</b>	<b>\$ (9,399)</b>
<b>Expenditures:</b>				
Maintenance and repairs	\$ 11,000	\$ 11,000	\$ 8,215	\$ 2,785
Salaries	-	-	-	-
Utilities	3,000	3,000	3,920	(920)
Umpires and referees	3,700	3,700	5,700	(2,000)
Interest on notes	7,087	7,087	11,136	(4,049)
Principal on notes	25,453	25,453	49,928	(24,475)
Uniforms	8,200	8,200	9,159	(959)
Equipment	-	-	4,426	(4,426)
Concessions	14,500	14,500	9,700	4,800
Supplies	-	-	17,579	(17,579)
Miscellaneous	4,600	4,600	8,633	(4,033)
<b>TOTAL EXPENDITURES</b>	<b>\$ 77,540</b>	<b>\$ 77,540</b>	<b>\$ 128,395</b>	<b>\$ (50,855)</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(24,065)	(24,065)	(84,319)	41,456
Other financing sources (uses):				
Received from Wilson County	-	-	11,784	11,784
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES AND OTHER</b>				
<b>FINANCING SOURCES (USES)</b>	<b>\$ (24,065)</b>	<b>\$ (24,065)</b>	<b>\$ (72,535)</b>	<b>\$ 53,240</b>
Fund balance at July 1, 2008	(24,056)	(24,056)	(24,056)	-
<b>FUND BALANCE AT JUNE 30, 2009</b>	<b>\$ (48,121)</b>	<b>\$ (48,121)</b>	<b>\$ (96,591)</b>	<b>\$ (48,470)</b>

See the notes to financial statements.

## **Notes to the Financial Statements**

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**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, 2009.

**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, 2009**

**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, 2009**

**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, 2009**

**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.

**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, 2009**

**Note A (Cont'd):**

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

**Street Aid Fund** - The State Street Aid fund is used to account for the proceeds of state gasoline taxes that are legally restricted to expenditures for street purposes.

**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, 2009**

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

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**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, 2009**

**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, 2009**

**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, 2009**

**NOTE D – RESTRICTED ASSETS**

Certain proprietary fund assets are restricted for construction funded through long-term debt and federal grant revenues. Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on bonds. Governmental funds report restricted assets for cash deposited in bank accounts legally restricted for specified uses such as the payment of debt service on long-term debt.

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**NOTE E - CHANGES IN CAPITAL ASSETS**

	<u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 106,130.00	\$ -	\$ -	\$ 106,130.00
Construction in progress	64,439.30	-	64,439.30	-
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 170,569.30</b>	<b>\$ -</b>	<b>\$ 64,439.30</b>	<b>\$ 106,130.00</b>
Capital Assets Being Depreciated:				
Buildings	\$ 124,798.00	\$ 1,299,494.50	\$ -	\$ 1,424,292.50
Improvements, other than buildings	84,099.00	11,547.00	-	95,646.00
Equipment	288,161.64	7,025.00	3,200.00	291,986.64
<b>Total capital assets being depreciated</b>	<b>\$ 497,058.64</b>	<b>\$ 1,318,066.50</b>	<b>\$ 3,200.00</b>	<b>\$ 1,811,925.14</b>
Less Accumulated Depreciation for:				
Buildings	\$ (99,061.06)	\$ (22,487.58)	\$ -	\$ (121,548.64)
Improvements, other than buildings	(38,956.10)	(5,096.57)	-	(44,052.67)
Equipment	(178,801.76)	(22,564.44)	(2,742.84)	(198,623.36)
<b>Total accumulated depreciation</b>	<b>\$ (316,818.92)</b>	<b>\$ (50,148.59)</b>	<b>\$ (2,742.84)</b>	<b>\$ (364,224.67)</b>
<b>Total capital assets being depreciated, net</b>	<b>180,239.72</b>	<b>1,267,917.91</b>	<b>457.16</b>	<b>1,447,700.47</b>
<b>Governmental activities : capital assets, net</b>	<b>\$ 350,809.02</b>	<b>\$ 1,267,917.91</b>	<b>\$ 64,896.46</b>	<b>\$ 1,553,830.47</b>
<b>Business-type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 12,507.00	\$ -	\$ -	\$ 12,507.00
Capital Assets Being Depreciated:				
Main lines	\$ 3,834,652.10	\$ -	\$ -	\$ 3,834,652.10
Equipment	155,790.31	-	-	155,790.31
<b>Total capital assets being depreciated</b>	<b>\$ 3,990,442.41</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,990,442.41</b>
Less Accumulated Depreciation for:				
Main lines	\$ (1,742,266.66)	\$ (103,108.27)	\$ -	\$ (1,845,374.93)
Equipment	(116,489.12)	(5,346.41)	-	(121,835.53)
<b>Total accumulated depreciation</b>	<b>\$ (1,858,755.78)</b>	<b>\$ (108,454.68)</b>	<b>\$ -</b>	<b>\$ (1,967,210.46)</b>
<b>Total capital assets being depreciated, net</b>	<b>\$ 2,131,686.63</b>	<b>\$ (108,454.68)</b>	<b>\$ -</b>	<b>\$ 2,023,231.95</b>
<b>Business-type activities : capital assets, net</b>	<b>\$ 2,144,193.63</b>	<b>\$ (108,454.68)</b>	<b>\$ -</b>	<b>\$ 2,035,738.95</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 2,495,002.65</b>	<b>\$ 1,159,463.23</b>	<b>\$ 64,896.46</b>	<b>\$ 3,589,569.42</b>

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**Note E (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	6,880	Main lines	73,676
Public safety	35,777	Sewer plant	29,432
Parks and recreation	7,491	Equipment	5,346

**NOTE F - 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	\$ 12,092.00	\$ -	\$ 3,023.00	\$ 9,069.00	\$ 3,023.00
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004	610,000.00	-	60,000.00	550,000.00	60,000.00
<b>TOTAL</b>	<u>\$ 622,092.00</u>	<u>\$ -</u>	<u>\$ 63,023.00</u>	<u>\$ 559,069.00</u>	<u>\$ 63,023.00</u>

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**NOTE F (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	\$ 35,000.00	\$ -	\$ 4,000.00	\$ 31,000.00	\$ 4,000.00
Community Center Bonds, 1977	7,499.90	-	750.00	6,749.90	750.00
General Obligation Refunding Capital Outlay Notes, Series 2006A	22,368.00	-	5,592.00	16,776.00	5,592.00
Wilson County, Series 2008	-	650,000.00	10,340.31	639,659.69	10,671.20
Refunding Capital Outlay Notes, 2003	139,032.00	-	33,013.00	106,019.00	34,086.00
Capital outlay note, Series 2008	110,000.00	-	9,166.66	100,833.34	9,166.67
Capital outlay note, Series 2008	21,831.00	-	7,277.00	14,554.00	7,277.00
<b>TOTAL</b>	<u>\$ 335,730.90</u>	<u>\$ 650,000.00</u>	<u>\$ 70,138.97</u>	<u>\$ 915,591.93</u>	<u>\$ 71,542.87</u>

At June 30, 2009, 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	\$ 9,069.00	4.80%
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004 (matures in 2017)	775,000.00	550,000.00	3.15% - 4.65%
<b>TOTAL</b>	<u>\$ 559,069.00</u>		

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**NOTE F (Cont'd):**

At June 30, 2008, 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	\$ 31,000.00	5.00%
Community Center Bonds, 1977 (matures in 2016)	20,000.00	6,749.90	5.00%
General Obligation Refunding Capital Outlay Notes, Series 2006A (matures 2012)	33,552.00	16,776.00	4.80%
Refunding Capital Outlay Note, 2003 (matures in 2012)	262,857.00	106,019.00	1.85% - 3.89%
Capital Outlay Note, 2008 (matures in 2020)	110,000.00	100,833.34	4.17%
Wilson County, 2008	650,000.00	639,659.69	3.20%
Capital Outlay Note, 2008 (matures in 2011)	21,831.00	<u>14,554.00</u>	4.17%
	<b>TOTAL</b>	<b><u>\$ 915,591.93</u></b>	

A summary of the Watertown Water and Sewer Department debt service requirements for principal and interest at June 30, 2009, is as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2010	\$ 63,023.00	\$ 22,322.81	\$ 85,345.81
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
2015-2017	<u>230,000.00</u>	<u>16,143.75</u>	<u>246,143.75</u>
<b>TOTAL</b>	<b><u>\$ 559,069.00</u></b>	<b><u>\$ 102,431.87</u></b>	<b><u>\$ 661,500.87</u></b>

**CITY OF WATERTOWN, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**June 30, 2009**

**NOTE F (Cont'd):**

A summary of the City of Watertown debt service requirements for principal and interest at June 30, 2009, is as follows:

<u>Year ending</u>				
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2010	\$ 71,542.87	\$ 31,835.40	\$ 103,378.27	
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	
2015-2019	124,667.57	97,380.98	222,048.55	
2020-2024	87,108.43	78,142.00	165,250.43	
2025-2029	91,236.55	64,464.99	155,701.54	
2030-2034	106,799.04	48,902.50	155,701.54	
2035-2039	125,016.06	30,685.48	155,701.54	
2040-2043	115,200.11	9,361.13	124,561.24	
<b>TOTAL</b>	<u>\$ 915,591.93</u>	<u>\$ 462,045.98</u>	<u>\$ 1,377,637.91</u>	

**NOTE H - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

A. Excess of expenditures over appropriations in individual fund:

	<u>Actual</u>	<u>Budgeted</u>
General fund	\$ 1,772,752	\$ 488,532
Parks and recreation	128,395	77,540
State street aid	54,756	52,267

B. Funds with deficit fund balances:

General fund	(49,939.99)
Community center fund	(23,040.03)
Parks and recreation	(96,590.59)

**NOTE I - 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, 2009**

**NOTE J – 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 K - SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES**

**Due from:**

	<b>General Fund</b>	<b>Street Aid Fund</b>	<b>Water &amp; Sewer Fund</b>	<b>Community Center Fund</b>	<b>Parks &amp; Recreation Fund</b>	<b>Total</b>
<b><u>Due to:</u></b>						
General	\$ -	\$ -	\$ -	\$ 17,582.00	\$ -	\$ 17,582.00
Water and Sewer	78,927.69	3,200.37	-	6,882.76	68,729.00	157,739.82
Industrial Park	35,968.46	-	76,990.60	-	-	112,959.06
<b>TOTAL</b>	<b>\$ 114,896.15</b>	<b>\$ 3,200.37</b>	<b>\$ 76,990.60</b>	<b>\$ 24,464.76</b>	<b>\$ 68,729.00</b>	<b>\$ 288,280.88</b>

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, 2009**

**NOTE L – INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2009, were as follows:

**Transfer from:**

	<b>General</b>	<b>State Street Aid</b>	<b>Water &amp; Sewer</b>
<b><u>Transfer to:</u></b>			
State Street Aid	\$ 18,000.00	\$ -	\$ -
Water & Sewer	1,476.09	-	-
General	-	1,500.00	25,800.00
Community Center	5,800.00	-	-
<b>TOTAL</b>	<b>\$ 25,276.09</b>	<b>\$ 1,500.00</b>	<b>\$ 25,800.00</b>

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.

**NOTE M – 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.

**SUPPLEMENTARY INFORMATION**

**CITY OF WATERTOWN, TENNESSEE**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2009**

	<b>State Street Aid Fund</b>	<b>Community Center Fund</b>	<b>Industrial Park Fund</b>	<b>THDA Home Fund</b>	<b>Debt Service Fund</b>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 14,514.97	\$ 1,424.73	\$ 60,916.79	\$ 1.00	\$ 2,617.10
Due from other governments	6,511.60	-	-	-	-
Due from other funds	-	-	112,959.06	-	-
Industrial Park land	-	-	7,744.82	-	-
Notes receivable	-	-	4,242.39	-	-
	<u>\$ 21,026.57</u>	<u>\$ 1,424.73</u>	<u>\$ 185,863.06</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>
Liabilities:					
Accounts payable	\$ 11,829.32	\$ -	\$ -	\$ -	\$ -
Due to other funds	3,200.37	24,464.76	-	-	-
TOTAL LIABILITIES	\$ 15,029.69	\$ 24,464.76	\$ -	\$ -	\$ -
Fund balance	<u>5,996.88</u>	<u>(23,040.03)</u>	<u>185,863.06</u>	<u>1.00</u>	<u>2,617.10</u>
	<u>\$ 21,026.57</u>	<u>\$ 1,424.73</u>	<u>\$ 185,863.06</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (CONT'D)**  
**June 30, 2009**

<u>Drug Fund</u>	<u>Total Special Revenue</u>
\$ 635.88	\$ 80,110.47
-	6,511.60
-	112,959.06
-	7,744.82
-	4,242.39
<u>\$ 635.88</u>	<u>\$ 211,568.34</u>
\$ -	\$ 11,829.32
-	27,665.13
<u>\$ -</u>	<u>\$ 39,494.45</u>
<u>635.88</u>	<u>172,073.89</u>
<u>\$ 635.88</u>	<u>\$ 211,568.34</u>

**CITY OF WATERTOWN, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR FUNDS**  
**Year ended June 30, 2009**

	<b>State Street Aid</b>	<b>Community Center</b>	<b>Industrial Park</b>	<b>THDA HOME Program</b>
<b>Revenues:</b>				
Intergovernmental	\$ 35,881.31	\$ -	\$ -	\$ -
Rental income	-	3,165.00	-	-
Miscellaneous	-	-	-	-
Interest income	233.45	-	139.67	-
<b>TOTAL REVENUES</b>	<b>\$ 36,114.76</b>	<b>\$ 3,165.00</b>	<b>\$ 139.67</b>	<b>\$ -</b>
<b>Expenditures:</b>				
Highways and Streets	\$ 54,755.76	\$ -	\$ -	\$ -
Community Center	-	2,289.58	-	-
Principal	-	4,750.00	-	-
Interest	-	2,124.98	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 54,755.76</b>	<b>\$ 9,164.56</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (18,641.00)</b>	<b>\$ (5,999.56)</b>	<b>\$ 139.67</b>	<b>\$ -</b>
<b>Other financing sources:</b>				
Transfer (to) from General Fund	18,000.00	5,800.00	-	-
Transfer to Water & Sewer	(1,500.00)	-	-	-
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ (641.00)</b>	<b>\$ (199.56)</b>	<b>\$ 139.67</b>	<b>\$ -</b>
Fund balance (deficit) at July 1, 2008	8,137.88	(22,840.47)	185,723.39	1.00
<b>FUND BALANCE (DEFICIT) AT June 30, 2009</b>	<b>\$ 7,496.88</b>	<b>\$ (23,040.03)</b>	<b>\$ 185,863.06</b>	<b>\$ 1.00</b>

**CITY OF WATERTOWN, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - NONMAJOR FUNDS (CONT'D)**  
**Year ended June 30, 2009**

<b>Debt Service Fund</b>	<b>Drug Fund</b>	<b>Total</b>
\$ -	\$ -	\$ 35,881.31
-	-	3,165.00
-	190.59	190.59
-	-	373.12
<u>\$ -</u>	<u>\$ 190.59</u>	<u>\$ 39,610.02</u>
\$ -	\$ -	\$ 54,755.76
-	-	2,289.58
-	-	4,750.00
-	-	2,124.98
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,920.32</u>
\$ -	\$ 190.59	\$ (24,310.30)
-	-	23,800.00
-	-	(1,500.00)
<u>\$ -</u>	<u>\$ 190.59</u>	<u>\$ (510.30)</u>
<u>2,617.10</u>	<u>445.29</u>	<u>174,084.19</u>
<u><u>\$ 2,617.10</u></u>	<u><u>\$ 635.88</u></u>	<u><u>\$ 173,573.89</u></u>

**CITY OF WATERTOWN, TENNESSEE**  
**BUDGETARY COMPARISON SCHEDULE - STREET AID FUND**  
Year ended June 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental revenues	\$ 37,931	\$ 37,931	\$ 35,881	\$ (2,050)
Interest	-	-	233	233
<b>TOTAL REVENUES</b>	<b>\$ 37,931</b>	<b>\$ 37,931</b>	<b>\$ 36,115</b>	<b>\$ (1,816)</b>
<b>Expenditures:</b>				
Wages and related expenses	\$ 28,167	\$ 28,167	\$ 28,849	\$ (682)
Maintenance and repairs	4,000	4,000	5,661	(1,661)
Utilities	20,000	20,000	20,245	(245)
Miscellaneous	100	100	-	100
<b>TOTAL EXPENDITURES</b>	<b>\$ 52,267</b>	<b>\$ 52,267</b>	<b>\$ 54,756</b>	<b>\$ (2,489)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(14,336)</b>	<b>(14,336)</b>	<b>(18,641)</b>	<b>673</b>
Other financing sources (uses):				
Operating transfers in:	14,500	14,500	18,000	3,500
Operating transfers out:	-	-	(1,500)	(1,500)
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ 164</b>	<b>\$ 164</b>	<b>\$ (2,141)</b>	<b>\$ 2,673</b>
Fund balance at July 1, 2008	8,138	8,138	8,138	(0)
<b>FUND BALANCE AT JUNE 30, 2009</b>	<b>\$ 8,302</b>	<b>\$ 8,302</b>	<b>\$ 5,997</b>	<b>\$ (2,305)</b>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**BUDGETARY COMPARISON SCHEDULE - COMMUNITY CENTER FUND**  
**Year ended June 30, 2009**

	<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>
<b>Revenues:</b>				
Rent	\$ 3,500	\$ 3,500	\$ 3,165	\$ (335)
Miscellaneous	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 3,500</b>	<b>\$ 3,500</b>	<b>\$ 3,165</b>	<b>\$ (335)</b>
<b>Expenditures:</b>				
Maintenance and repairs	\$ 1,325	\$ 1,325	\$ 1,332	\$ (7)
Miscellaneous	2,700	2,700	958	1,742
Debt service	6,843	6,843	6,875	(32)
<b>TOTAL EXPENDITURES</b>	<b>\$ 10,868</b>	<b>\$ 10,868</b>	<b>\$ 9,165</b>	<b>\$ 1,703</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(7,368)	(7,368)	(6,000)	(2,038)
Other financing sources (uses):				
Operating transfers in	8,000	8,000	5,800	(2,200)
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES AND OTHER</b>				
<b>FINANCING SOURCES (USES)</b>	\$ 632	\$ 632	\$ (200)	\$ (4,238)
Fund balance at July 1, 2008	(22,840)	(22,840)	(22,840)	-
<b>FUND BALANCE AT JUNE 30, 2009</b>	<b>\$ (22,208)</b>	<b>\$ (22,208)</b>	<b>\$ (23,040)</b>	<b>\$ (832)</b>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**BUDGETARY COMPARISON SCHEDULE - INDUSTRIAL PARK FUND**  
**Year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Interest	\$ -	\$ -	\$ 140	\$ 140
<b>Expenditures:</b>				
Expenses	-	-	-	-
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	-	-	140	140
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	\$ -	\$ -	\$ 140	\$ 140
Fund balance at July 1, 2008	185,723	185,723	185,723	(0)
<b>FUND BALANCE AT JUNE 30, 2009</b>	<u>\$ 185,723</u>	<u>\$ 185,723</u>	<u>\$ 185,863</u>	<u>\$ 140</u>

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE**  
**LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS**  
**June 30, 2009**

Maturities During Year Ending June 30,	\$90,000 Rural Development		\$20,000 Rural Development		\$110,000 Wilson Bank & Trust	
	Principal	Interest	Principal	Interest	Principal	Interest
	2010	\$ 4,000.00	\$ 1,450.00	\$ 750.00	\$ 318.75	\$ 9,166.67
2011	4,000.00	1,250.00	750.00	281.25	9,166.67	3,822.50
2012	4,000.00	1,050.00	1,000.00	237.50	9,166.67	3,440.25
2013	4,000.00	850.00	1,000.00	187.50	9,166.67	3,058.00
2014	5,000.00	625.00	1,000.00	137.50	9,166.67	2,675.75
2015	5,000.00	375.00	1,000.00	87.50	9,166.67	2,293.50
2016	5,000.00	125.00	1,249.90	31.25	9,166.67	1,911.25
2017					9,166.67	1,529.00
2018					9,166.67	1,146.75
2019					9,166.67	764.50
2020					9,166.64	382.25
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
2041						
2042						
2043						
	<u>\$ 31,000.00</u>	<u>\$ 5,725.00</u>	<u>\$ 6,749.90</u>	<u>\$ 1,281.25</u>	<u>\$ 100,833.34</u>	<u>\$ 25,228.50</u>

**CITY OF WATERTOWN, TENNESSEE**  
**LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS (CONT'D)**  
**June 30, 2009**

\$262,857 Wilson Bank & Trust		\$33,552 Wilson Bank & Trust		\$21,831 Wilson Bank & Trust		\$650,000 Wilson County		Total
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Payments
\$ 34,086.00	\$ 3,980.64	\$ 5,592.00	\$ 805.25	\$ 7,277.00	\$ 606.90	\$ 10,671.20	\$ 20,469.11	\$ 103,378.27
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
36,637.00	1,428.84	5,592.00	268.42			11,365.08	19,775.23	93,960.99
						11,728.77	19,411.54	49,402.48
						12,104.09	19,036.22	49,745.23
						12,491.42	18,648.89	49,062.98
						12,891.14	18,249.17	48,624.38
						13,303.66	17,836.65	41,835.98
						13,729.38	17,410.93	41,453.73
						14,168.72	16,971.59	41,071.48
						14,622.11	16,518.19	40,689.19
						15,090.02	16,050.29	31,140.31
						15,572.90	15,567.41	31,140.31
						16,071.24	15,069.07	31,140.31
						16,585.52	14,554.79	31,140.31
						17,116.25	14,024.06	31,140.31
						17,663.97	13,476.34	31,140.31
						18,229.22	12,911.09	31,140.31
						18,812.55	12,327.75	31,140.30
						19,414.56	11,725.75	31,140.31
						20,035.82	11,104.49	31,140.31
						20,676.97	10,463.34	31,140.31
						21,338.63	9,801.68	31,140.31
						22,021.47	9,118.84	31,140.31
						22,726.15	8,414.15	31,140.30
						23,453.39	7,686.92	31,140.31
						24,203.90	6,936.41	31,140.31
						24,978.42	6,161.88	31,140.30
						25,777.73	5,362.58	31,140.31
						26,602.62	4,537.69	31,140.31
						27,453.90	3,686.40	31,140.30
						28,332.43	2,807.88	31,140.31
						29,239.07	1,901.24	31,140.31
						30,174.71	965.61	31,140.32
<u>\$ 106,019.00</u>	<u>\$ 8,179.57</u>	<u>\$ 16,776.00</u>	<u>\$ 1,610.50</u>	<u>\$ 14,554.00</u>	<u>\$ 910.35</u>	<u>\$ 639,659.69</u>	<u>\$ 419,110.81</u>	<u>\$ 1,377,637.91</u>

**CITY OF WATERTOWN, TENNESSEE  
 BONDS PAYABLE AND DEBT SERVICE REQUIREMENTS  
 PROPRIETARY FUND  
 June 30, 2009**

<b>Maturities During Year Ending June 30,</b>	<b>\$665,000 Waterworks Revenue &amp; Tax Capital Outlay, 2004</b>		<b>\$15,115 Wilson Bank &amp; Trust Loan</b>		<b>Total Payments</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2010	\$ 60,000.00	\$ 21,887.50	\$ 3,023.00	\$ 435.31	\$ 85,345.81
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>\$ 550,000.00</u>	<u>\$ 101,561.25</u>	<u>\$ 9,069.00</u>	<u>\$ 870.62</u>	<u>\$ 661,500.87</u>

**CITY OF WATERTOWN, TENNESSEE  
PROPERTY TAXES  
Year ended June 30, 2009**

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

<u>Year</u>	<u>Tax Rate</u>	<u>Tax Assessed</u>
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
1999	\$0.96	111,547

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>
2008	\$ -	\$ 140,597.22	\$ 135,131.22	\$ (1,195.00)	\$ 4,271.00	\$ -
2007	7,321.52		6,304.52	-	1,017.00	-
2006	1,546.00	-	1,180.00	-	366.00	1,546.00
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	208.16
	<u>\$ 11,418.01</u>	<u>\$ 140,597.22</u>	<u>\$ 142,615.74</u>	<u>\$ (1,195.00)</u>	<u>\$ 8,204.49</u>	<u>\$ 4,096.49</u>

\*Taxes filed with clerk and master.

2009 Taxes assessed	\$ 141,852.49
2008 taxes collected beyond 60 days of year end	<u>5,976.00</u>
<b>DEFERRED PROPERTY TAX REVENUE</b>	<u><u>\$ 147,828.49</u></u>

**WATERTOWN WATER & SEWER DEPARTMENT  
STATISTICAL DATA  
June 30, 2009**

**WATER & SEWER RATES**

**Inside the City**

Water Base Rate	\$13.38
Sewer Base Rate	13.38

**Per 1000 Gallons**

First 2,000 @	\$3.58
Next 8,000 @	4.90
Over 10,000 @	5.71

**Outside the City**

Water Base Rate	\$20.07
Sewer Base Rate	20.07

**Per 1000 Gallons**

First 2,000 @	\$5.36
Next 8,000 @	7.36
Over 10,000 @	8.57

There were approximately 627 customers billed for June 2009.

**CITY OF WATERTOWN  
SCHEDULE OF UNACCOUNTED FOR WATER  
For the Year Ended June 30, 2009**

*(All amounts in gallons)*

<b>A Water treated and purchased:</b>		
<b>B</b>	Water pumped (potable)	61,622,000
<b>C</b>	Water purchased	0
		<hr/>
<b>D</b>	<b>Total water treated and purchased</b>	61,622,000
	<b>(Sum Lines B and C)</b>	
<b>E Accounted for water:</b>		
<b>F</b>	Water sold	0
<b>G</b>	Metered for consumption (in house usage)	28,730,913
<b>H</b>	Fire department(s) usage	195,000
<b>I</b>	Flushing	2,694,790
<b>J</b>	Tank Cleaning/ filling	0
<b>K</b>	Street cleaning	0
<b>L</b>	Bulk sales	0
<b>M</b>	Water bill adjustments/plus or (minus)	0
		<hr/>
<b>N</b>	<b>Total accounted for water</b>	31,620,703
	<b>(Sum Lines F thru M)</b>	<hr/>
<b>O</b>	<b>Unaccounted for water</b>	30,001,297
	<b>(Line D minus Line N)</b>	
<b>P</b>	<b>Percent unaccounted for water</b>	48.69%
	<b>(Line O divided by Line D times 100)</b>	
<b>Q</b>	<b>Other (explain)</b>	See Below
	Explain other:	None 0

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Funds
Taxes:		
Property taxes	\$ 138,974.06	\$ -
Interest and penalties on property taxes	1,506.42	-
Local option sales tax	80,779.06	-
Wholesale beer tax	41,172.57	-
Business tax	10,618.08	-
Cable TV franchise tax	7,728.84	-
<b>TOTAL TAXES</b>	<b>\$ 280,779.03</b>	<b>\$ -</b>
Licenses and permits:		
Beer licenses	\$ 400.00	\$ -
Building and related permits	634.50	-
<b>TOTAL LICENSES OR PERMITS</b>	<b>\$ 1,034.50</b>	<b>\$ -</b>
Intergovernmental revenue:		
TVA in lieu of taxes	\$ 13,051.51	\$ -
State sales tax	89,102.46	-
State income tax	(231.92)	-
State beer tax	709.90	-
State gasoline inspection fee	2,924.01	35,881.31
Housing Authority in lieu of taxes	1,035.34	-
Corporate excise tax	3,119.46	-
State and federal grants	228.00	-
Other state allocations	1,800.00	-
State telecom taxes	158.75	-
<b>TOTAL INTERGOVERNMENTAL REVENUE</b>	<b>\$ 111,897.51</b>	<b>\$ 35,881.31</b>

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES (CONTINUED)**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Fund
Charges for services:		
Civic Center rental	\$ -	\$ 3,165.00
Parks and recreation	-	6,854.99
Accident reports	267.00	-
Sanitation	1,400.00	-
Other	25.00	-
<b>TOTAL CHARGES FOR SERVICES</b>	<b>\$ 1,692.00</b>	<b>\$ 10,019.99</b>
Fines and penalties	\$ 21,012.37	\$ -
Interest	13,651.71	537.05
Concessions and sponsorships	-	35,812.25
Miscellaneous	3,763.36	1,035.59
<b>TOTAL REVENUE</b>	<b>\$ 433,830.48</b>	<b>\$ 83,286.19</b>

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND**  
**EXPENDITURES**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Fund
<b>CITY RECORDER</b>		
Salaries	\$ 26,510.50	\$ -
OASE employer	2,028.09	-
Insurance	4,301.15	-
	<u>\$ 32,839.74</u>	<u>\$ -</u>
 <b>CITY HALL BUILDINGS</b>		
Utilities	\$ 18,254.71	\$ -
Repairs and maintenance	4,178.50	-
	<u>\$ 22,433.21</u>	<u>\$ -</u>
 <b>ANIMAL CONTROL</b>		
Wilson County Animal Control	\$ 500.00	\$ -
	<u>\$ 500.00</u>	<u>\$ -</u>
 <b>DIRECT ASSISTANCE</b>		
Library	\$ 24,411.00	\$ -
	<u>\$ 24,411.00</u>	<u>\$ -</u>
 <b>ECONOMIC DEVELOPMENT</b>		
Joint planning services	9,946.68	-
	<u>\$ 9,946.68</u>	<u>\$ -</u>

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND**  
**EXPENDITURES (CONTINUED)**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Fund
<b>GENERAL GOVERNMENT</b>		
Insurance	\$ 57,318.63	\$ -
Telephone	8,947.45	-
Auditing	3,500.00	-
Equipment	80.00	-
Business tax	11,008.41	-
Postage	232.83	-
Office supplies	4,986.65	-
Publication of documents	1,995.80	-
City judge	3,600.00	-
City attorney	1,800.00	-
Other	17,152.51	-
	<u>\$ 110,622.28</u>	<u>\$ -</u>
<b>TOTAL GENERAL GOVERNMENT</b>	<u><u>\$ 200,752.91</u></u>	
 <b>POLICE</b>		
Salaries	\$ 186,867.84	\$ -
Payroll taxes	14,295.77	-
Health insurance	26,682.31	-
Education and training	240.00	-
Gas, oil and diesel fuel	7,627.07	-
Utilities	1,811.03	-
Repairs and maintenance	3,055.94	-
Office supplies	7,059.23	-
Other machinery and equipment	6,639.38	-
Public relations	1,560.00	-
Other	10,654.63	-
	<u><u>\$ 266,493.20</u></u>	<u><u>\$ -</u></u>

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND**  
**EXPENDITURES (CONTINUED)**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Fund
<b>FIRE PROTECTION</b>		
Utilities	\$ 5,069.40	\$ -
Repairs and maintenance	9,305.06	-
Public relations	1,560.00	-
Supplies	587.00	-
Gasoline, oil and diesel fuel	4,637.11	-
Machinery and equipment	1,246,433.02	-
Other	967.00	-
	\$ 1,268,558.59	\$ -
 <b>PROTECTIVE INSPECTION</b>		
Fees	\$ 36.00	\$ -
	\$ 1,535,087.79	
 <b>HIGHWAYS AND STREETS</b>		
Salaries	\$ -	\$ 24,040.17
Payroll taxes	-	1,839.01
Health insurance	-	2,970.25
Utilities	-	20,245.31
Repairs and maintenance	-	1,617.81
Gas, oil and diesel fuel	-	141.88
Supplies	-	3,901.33
	\$ -	\$ 54,755.76

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND**  
**EXPENDITURES (CONTINUED)**  
**Year ended June 30, 2009**

	General Fund	Special Revenue Fund
<b>CIVIC CENTER</b>		
Repairs and maintenance	\$ -	\$ 1,328.48
Supplies	-	3.38
Other	-	957.72
	\$ -	\$ 2,289.58
<b>PARKS</b>		
Referees/umpires	\$ -	\$ 5,700.00
Salaries	-	-
Utilities	-	3,919.88
Uniforms	-	9,158.95
Concessions	-	9,700.26
Equipment	-	4,425.86
Repairs and maintenance	-	8,214.79
Supplies	-	17,578.53
Other	-	8,633.03
	\$ -	\$ 67,331.30

**CITY OF WATERTOWN, TENNESSEE  
INSURANCE IN FORCE  
June 30, 2009**

	<u>Amounts of Insurance</u>	<u>Expiration Date</u>
<b>General Liability:</b>		
Workmen's' Compensation	Statutory	April 11, 2010
Employers Liability	\$ 250,000.00	March 5, 2010
<b>Automobile Liability:</b>		
Property Damage	Cash value or cost to repair	March 5, 2010
General Auto Liability	\$ 1,000,000.00	
<b>Excess Liability</b>	\$ 1,650,000.00	April 1, 2010
<b>Surety Bond:</b>		
City Recorder	\$ 2,000.00	November 27, 2009
City Treasurer	1,000.00	
<b>Property:</b>		
Building and Contents	\$ 1,178,660.00	July 1, 2009
Machinery	45,502.00	
EDP Equipment	7,823.00	
<b>Public Officials Personal Liability</b>	\$1,000,000.00	March 5, 2010
<b>Employee Dishonesty</b>	\$ 100,000.00	July 1, 2009

# **ALBERT R. DICUS**

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## **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, 2009, and have issued my report thereon dated May 11, 2012. 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 09-4 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 09-2 and 09-3 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 09-1.

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  
May 11, 2012

**CITY OF WATERTOWN, TENNESSEE**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**June 30, 2009**

**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 09-4 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 09-1: 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, the Parks and recreation fund, and the state street aid 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 09-2: 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, 2009**

**Item 09-3: 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 09-4: 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 09-1, 09-2, 09-3, and 09-4 were mentioned in the prior year's report as items 08-1, 08-2, 08-3, and 08-4.