

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

CITY OF WATERTOWN, TENNESSEE

**For the Year Ended
June 30, 2011**

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INTRODUCTORY SECTION

**CITY OF WATERTOWN, TENNESSEE
PRINCIPAL OFFICIALS
June 30, 2011**

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

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies made by management, as well as evaluating the overall presentation of the financial statements.

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

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, and each major fund and the aggregate remaining fund information of the City of Watertown, Tennessee as of June 30, 2011, and the respective changes in financial position and, where applicable, the cash flows thereof and the respective budgetary comparison for the General Fund and the major fund (Parks and Recreation Fund) for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters -Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information which includes the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge we obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters -Other Information

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water) have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water), is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Unaccounted for Water has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 31, 2013 on the consideration of the City of Watertown's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the 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.

John R Poole, CPA

December 31, 2013

City of Watertown

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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, 2011. 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 \$2,352,454. Of this amount, \$228,793 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.

At June 30, 2011, the City's governmental funds reported combined ending fund balance deficit of \$(124,761), a decrease of \$17,974 in comparison with the prior year balance. \$0 is available for spending at the government's discretion (unrestricted fund balance).

At June 30, 2011 unreserved fund balance deficit for the General Fund was \$(167,312) or (19.75%) of total general fund expenditures.

The City's total debt decreased by a net \$21,117 during the year ended June 30, 2011. Of this amount, general long-term debt decreased by a net \$33,094; water and sewer long-term debt increased by a net \$11,977.

The City's total net assets increased by \$12,849 during the year ended June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the city's financial condition and activities. Summary financial statement data, key financial and operational indicators, budget and other management tools were used for this analysis. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

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

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

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

The government-wide financial statements can be found on pages 16-17 of this report.

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

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

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

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

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

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

Proprietary funds: The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer activities.

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

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

Notes to the financial statements: The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the government-wide and fund financial statements. The notes present information about the City's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 29-44 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 \$2,352,454 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (90.20%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Watertown, Tennessee
Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 103,776	\$ 117,305	\$ 401,859	\$ 284,477	\$ 505,635	\$ 401,782
Capital assets - net	1,542,748	1,597,759	1,892,627	1,998,732	3,435,375	3,596,491
Total assets	\$ 1,646,524	\$ 1,715,064	\$ 2,294,486	\$ 2,283,209	\$ 3,941,010	\$ 3,998,273
Long-term liabilities	\$ 703,194	\$ 770,955	\$ 429,286	\$ 433,023	\$ 1,132,479	\$ 1,203,978
Other liabilities	326,569	285,164	129,506	169,526	456,076	454,690
Total liabilities	\$ 1,029,763	\$ 1,056,119	\$ 558,792	\$ 602,549	\$ 1,588,555	\$ 1,658,668
Net assets:						
Invested in capital assets, net of related debt	\$ 731,793	\$ 753,709	\$ 1,390,054	\$ 1,456,169	\$ 2,121,846	\$ 2,209,878
Restricted	1,815	1,068	-	-	1,815	1,068
Unrestricted	(116,847)	(95,833)	345,640	224,491	228,793	128,658
Total net assets	\$ 616,760	\$ 658,945	\$ 1,735,694	\$ 1,680,660	\$ 2,352,454	\$ 2,339,605

At year end 0.07% 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 (\$228,793) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2011, the City is able to report positive balances in all three categories of net assets, for the government as a whole.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the City's changes in net assets for the year ended June 30, 2011.

	Governmental activities		Business-type activities		Totals		Total Change
	FY2011	FY2010	FY2011	FY2010	FY2011	FY2010	
Revenues:							
Program Revenues:							
Charges for Services	\$ 47,975	\$ 37,751	\$ 545,574	\$ 530,698	\$ 593,548	\$ 568,449	\$ 25,099
Operating grants & contribution	84,143	83,094	-	-	84,143	83,094	1,049
Capital grants & contributions	79,492	96,027	-	-	79,492	96,027	(16,535)
General Revenues:							
Local taxes	158,144	160,877	-	-	158,144	160,877	(2,733)
Intergovernmental	266,858	254,940	-	-	266,858	254,940	11,918
Interest on investments	311	304	137	196	448	500	(52)
Other	27,071	31,070	-	-	27,071	31,070	(3,999)
Total revenues	<u>\$ 663,993</u>	<u>\$ 664,063</u>	<u>\$ 545,711</u>	<u>\$ 530,893</u>	<u>\$ 1,209,704</u>	<u>\$ 1,194,956</u>	<u>\$ 14,748</u>
Expenses:							
General government	\$ 183,354	\$ 190,900	\$ -	\$ -	\$ 183,354	\$ 190,900	\$ (7,546)
Public Safety	375,186	344,287	-	-	375,186	344,287	30,899
Highway and Streets	47,094	41,713	-	-	47,094	41,713	5,381
Parks and recreation	68,671	61,714	-	-	68,671	61,714	6,957
Interest on long-term debt	30,641	32,426	-	-	30,641	32,426	(1,785)
Industrial Development	-	-	-	-	-	-	-
Community Center	1,231	1,576	-	-	1,231	1,576	(345)
Water and sewer	-	-	490,677	461,329	490,677	461,329	29,348
Total expenses	<u>\$ 706,178</u>	<u>\$ 672,616</u>	<u>\$ 490,677</u>	<u>\$ 461,329</u>	<u>\$ 1,196,855</u>	<u>\$ 1,133,945</u>	<u>\$ 62,910</u>
Increase in net assets before transfers	\$ (42,185)	\$ (8,553)	\$ 55,033	\$ 69,564	\$ 12,849	\$ 61,011	\$ (48,163)
Operating Transfer In	-	-	-	-	-	-	-
Operating Transfer Out	-	-	-	-	-	-	-
Increase in Net Assets	\$ (42,185)	\$ (8,553)	\$ 55,033	\$ 69,564	\$ 12,849	\$ 61,011	\$ (48,163)
Net assets - July 1	<u>658,945</u>	<u>667,498</u>	<u>1,680,660</u>	<u>1,611,096</u>	<u>2,339,605</u>	<u>2,278,594</u>	<u>61,011</u>
Net assets - June 30	<u>\$ 616,760</u>	<u>\$ 658,945</u>	<u>\$ 1,735,694</u>	<u>\$ 1,680,660</u>	<u>\$ 2,352,454</u>	<u>\$ 2,339,605</u>	<u>\$ 12,849</u>

Governmental activities: Governmental activities decreased the City of Watertown's net assets by \$42,185, which accounts for -23.35% of the total growth in the net assets of the City of Watertown in FY 2011.

Business-type activities: Business-type activities increased the City's net assets by \$55,033 accounting for a 123.35% increase in the government's net assets. Key elements of the increase are as follows:

The service revenues for the Water and Sewer activities for the City were \$55,033 more than the expenses of those services for the fiscal year ended June 30, 2011.

Financial Analysis of the Government's Funds:

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

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance deficit of \$(124,761) a decrease of \$17,974 in comparison with the prior year balance. \$0 of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance deficit of the general fund was \$(167,312). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents -19.75% of total general fund expenditures, while total fund balance represents the same percentage.

The fund balance of the City's general fund decreased by \$48,546 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 \$345,640. The total increase in net assets for the Water and Sewer fund was \$55,033. 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 2011, the City had \$3,435,375 (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:

Air conditioner unit for the park concession stand
Pump

Additional information on the City's capital assets can be found in Note D on page 38 of this report.

The following tables summarize the City's capital assets for the year ended June 30, 2011. These changes are presented in detail in Note D to the financial statements.

	Governmental		Business-type		Total		Total Change
	Activities		Activities				
	2011	2010	2011	2010	2011	2010	
Land	\$ 106,130	\$ 106,130	\$ 12,507	\$ 12,507	\$ 118,637	\$ 118,637	\$ -
Construction in Progress	-	-	-	-	-	-	-
Buildings	1,520,319	1,520,319	-	-	1,520,319	1,520,319	(0)
Improvements, other than buildings	99,146	95,646	-	-	99,146	95,646	3,500
Main lines	-	-	3,899,335	3,892,452	3,899,335	3,892,452	6,883
Equipment	<u>301,293</u>	<u>301,293</u>	<u>169,771</u>	<u>169,771</u>	<u>471,064</u>	<u>471,064</u>	<u>0</u>
Less: Accumulated Depreciation	<u>(484,141)</u>	<u>(425,630)</u>	<u>(2,188,986)</u>	<u>(2,075,998)</u>	<u>(2,673,126)</u>	<u>(2,501,628)</u>	<u>(171,498)</u>
Total	<u>\$ 1,542,748</u>	<u>\$ 1,597,759</u>	<u>\$ 1,892,627</u>	<u>\$ 1,998,732</u>	<u>\$ 3,435,375</u>	<u>\$ 3,596,491</u>	<u>\$ (161,116)</u>

Long-term debt: At the end of the current fiscal year, the City had total debt outstanding of \$1,318,978. 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				
	2011	2010	2011	2010	2011	2010	
Revenue notes	\$ -	\$ -	\$ 508,023	\$ 496,046	\$ 508,023	\$ 496,046	\$ 11,977
Tax anticipation notes	40,000	-	-	-	40,000	-	40,000
Capital outlay notes	742,705	811,049	-	-	742,705	811,049	(68,344)
General obligation bonds	<u>28,250</u>	<u>33,000</u>	<u>-</u>	<u>-</u>	<u>28,250</u>	<u>33,000</u>	<u>(4,750)</u>
Total	<u>\$ 810,955</u>	<u>\$ 844,049</u>	<u>\$ 508,023</u>	<u>\$ 496,046</u>	<u>\$ 1,278,978</u>	<u>\$ 1,340,095</u>	<u>\$ (61,117)</u>

The City's total debt decreased by a net of \$21,117. During the current fiscal year, the City paid \$136,117 in principal payments. General obligation debt had a net decrease of \$33,094, while water and sewer bonded debt had a net increase of \$11,977.

Additional information on the City's long-term debt can be found in Note E, beginning on pages 39.

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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents - Note C	\$ 139,825.04	\$ 34,234.04	\$ 174,059.08
Property taxes receivable - net	198,277.41	-	198,277.41
Accounts receivable	7,762.66	63,974.25	71,736.91
Note receivable	4,242.39	-	4,242.39
Due from other governments	44,124.69	-	44,124.69
Internal balances	(298,200.95)	298,200.95	-
Deferred charges	-	5,449.30	5,449.30
Industrial Park land	7,744.82	-	7,744.82
Capital assets - Note E:			
Land and construction in progress	106,130.00	12,507.00	118,637.00
Buildings and equipment, net of depreciation	1,436,617.61	1,880,120.31	3,316,737.92
TOTAL ASSETS	\$ 1,646,523.67	\$ 2,294,485.85	\$ 3,941,009.52
LIABILITIES			
Accounts payable	\$ 31,131.42	\$ 5,685.60	\$ 36,817.02
Customer deposits and other liabilities	-	37,789.17	37,789.17
Deferred revenue - property taxes	185,935.65	-	185,935.65
Accrued expenses	1,741.51	7,294.23	9,035.74
Long-term liabilities - Note F			
Due within one year	107,760.75	78,737.29	186,498.04
Due in more than one year	703,193.99	429,285.71	1,132,479.70
TOTAL LIABILITIES	\$ 1,029,763.32	\$ 558,792.00	\$ 1,588,555.32
NET ASSETS			
Invested in capital assets, net of related debt	\$ 731,792.87	\$ 1,390,053.61	\$ 2,121,846.48
Restricted for:			
Drug fund	1,814.88	-	1,814.88
Unrestricted	(116,847.40)	345,640.24	228,792.84
TOTAL NET ASSETS	\$ 616,760.35	\$ 1,735,693.85	\$ 2,352,454.20
TOTAL LIABILITIES AND NET ASSETS	\$ 1,646,523.67	\$ 2,294,485.85	\$ 3,941,009.52

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
 GOVERNMENT WIDE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 183,354.33	\$ 37,358.78	\$ -	\$ -	\$ (145,995.55)	\$ -	\$ (145,995.55)
Public safety	375,186.08	1,179.00	-	-	(374,007.08)	-	(374,007.08)
Highways and streets	47,094.01	-	37,225.86	-	(9,868.15)	-	(9,868.15)
Parks and recreation	68,671.27	6,331.75	46,916.65	79,492.01	64,069.14	-	64,069.14
Community Center	1,230.83	3,105.00	-	-	1,874.17	-	1,874.17
Interest on long-term debt	30,641.39	-	-	-	(30,641.39)	-	(30,641.39)
Total governmental activities	\$ 706,177.91	\$ 47,974.53	\$ 84,142.51	\$ 79,492.01	\$ (494,568.86)	\$ -	\$ (494,568.86)
Business-type activities							
Water and sewer	490,677.26	545,573.51	-	-	-	\$ 54,896.25	\$ 54,896.25
Total primary government	\$ 1,196,855.17	\$ 593,548.04	\$ 84,142.51	\$ 79,492.01			
General revenues:							
Taxes:							
Property taxes, penalty & interest					\$ 142,627.98	\$ -	\$ 142,627.98
Payments in lieu of taxes					15,516.32	-	15,516.32
Local option sales tax					109,221.36	-	109,221.36
Wholesale beer tax					33,450.13	-	33,450.13
Business tax					14,735.46	-	14,735.46
Cable TV franchise tax					7,028.27	-	7,028.27
State shared revenue					102,423.22	-	102,423.22
Miscellaneous					27,070.78	-	27,070.78
Unrestricted interest earnings					310.76	137.18	447.94
Loss on sale of assets					-	-	-
Total general revenues					\$ 452,384.28	\$ 137.18	\$ 452,521.46
Change in net assets					\$ (42,184.58)	\$ 55,033.43	\$ 12,848.85
Net assets - beginning					658,944.93	1,680,660.42	2,339,605.35
Net assets - ending					\$ 616,760.35	\$ 1,735,693.85	\$ 2,352,454.20

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General	Parks & Recreation	Nonmajor Funds	Total Government Funds
<u>ASSETS</u>				
Cash and temporary investments - Note C	\$ 22,818.69	\$ 50,738.25	\$ 66,268.10	\$ 139,825.04
Property taxes receivable, less allowance for doubtful accounts (\$1,735.87) - Note B	198,277.41	-	-	198,277.41
Accounts receivable	7,762.66	-	-	7,762.66
Notes receivable	-	-	4,242.39	4,242.39
Due from other governments	44,124.69	-	-	44,124.69
Due from other funds	17,582.00	-	112,959.06	130,541.06
Industrial park land	-	-	7,744.82	7,744.82
	\$ 290,565.45	\$ 50,738.25	\$ 191,214.37	\$ 532,518.07
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 22,874.42	\$ 8,257.00	\$ -	\$ 31,131.42
Deferred revenue - property taxes	197,405.93	-	-	197,405.93
Due to other funds	237,596.72	166,680.53	24,464.76	428,742.01
	\$ 457,877.07	\$ 174,937.53	\$ 24,464.76	\$ 657,279.36
Fund equity:				
Reserved for drug fund	\$ -	\$ -	\$ 1,814.88	\$ 1,814.88
Reserved for highways and streets	-	-	-	-
Unreserved reported in:				
General fund	(167,311.62)	-	-	(167,311.62)
Parks and recreation	-	(124,199.28)	-	(124,199.28)
Community Center	-	-	(23,654.24)	(23,654.24)
Debt service	-	-	2,617.10	2,617.10
Industrial Park	-	-	185,970.87	185,970.87
THDA Home Project	-	-	1.00	1.00
	\$ (167,311.62)	\$ (124,199.28)	\$ 166,749.61	\$ (124,761.29)
	\$ 290,565.45	\$ 50,738.25	\$ 191,214.37	\$ 532,518.07

See the notes to financial statements.

**CITY OF WATERTOWN, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total fund balances for governmental funds	\$	(124,761.29)
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		1,542,747.61
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		11,470.28
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, 2011 are as follows:		
Bonds and notes payable	\$ (810,954.74)	
Accrued interest on bonds	(1,741.51)	(812,696.25)
	<u> </u>	<u> </u>
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>616,760.35</u>

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2011

	General	Parks & Recreation	Nonmajor Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 309,487.25	\$ -	\$ -	\$ 309,487.25
Intergovernmental revenues	155,165.40	39,843.02	-	195,008.42
Rental income	-	-	3,105.00	3,105.00
Licenses and permits	5,079.39	-	-	5,079.39
Services	4,650.00	6,331.75	-	10,981.75
Fines and penalties	27,629.39	-	1,179.00	28,808.39
Interest	213.84	64.05	32.87	310.76
Sponsor fees and concessions	-	46,916.65	-	46,916.65
Miscellaneous	3,524.35	23,546.43	-	27,070.78
	TOTAL REVENUES	\$ 505,749.62	\$ 116,701.90	\$ 4,316.87
		\$ 505,749.62	\$ 116,701.90	\$ 626,768.39
Expenditures:				
General government	\$ 176,798.56	\$ -	\$ -	\$ 176,798.56
Public safety	329,733.47	-	-	329,733.47
Highways and streets	47,094.01	-	-	47,094.01
Parks and recreation	-	65,668.76	-	65,668.76
Community Center	-	-	1,230.83	1,230.83
Debt service:				
Principal payments	16,133.67	52,210.66	4,750.00	73,094.33
Interest payments	21,735.77	7,385.19	1,649.98	30,770.94
	TOTAL EXPENDITURES	\$ 591,495.48	\$ 125,264.61	\$ 7,630.81
		\$ 591,495.48	\$ 125,264.61	\$ 724,390.90
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES				
	\$ (85,745.86)	\$ (8,562.71)	\$ (3,313.94)	\$ (97,622.51)
Other financing sources (uses):				
Operating transfers in	-	-	2,800.00	2,800.00
Loan Proceeds	40,000.00	-	-	40,000.00
Received from Wilson County	-	39,648.99	-	39,648.99
Operating transfers (out)	(2,800.00)	-	-	(2,800.00)
INCREASE (DECREASE) IN				
FUND BALANCE				
	\$ (48,545.86)	\$ 31,086.28	\$ (513.94)	\$ (17,973.52)
Fund balance at July 1, 2010	(118,765.76)	(155,285.56)	167,263.55	(106,787.77)
FUND BALANCE AT JUNE 30, 2011	\$ (167,311.62)	\$ (124,199.28)	\$ 166,749.61	\$ (124,761.29)

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

Net change in fund balance - total governmental funds \$ (17,973.52)

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 depreciation (\$58,510.89) exceeded capital
outlays (\$3,500.00) for the current period. (55,010.89)

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

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of
net assets. 73,094.33

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds (2,424.05)

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. 129.55

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (42,184.58)**

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents - Note B	\$	34,234.04
Accounts receivable		49,536.30
Miscellaneous receivables		14,437.95
Due from other funds		<u>375,191.55</u>

TOTAL CURRENT ASSETS \$ 473,399.84

CAPITAL ASSETS - Note E

Capital assets in service - at cost	\$	4,081,612.81
Less accumulated depreciation		<u>(2,188,985.50)</u>
		1,892,627.31

OTHER ASSETS

Unamortized bond expense		<u>5,449.30</u>
--------------------------	--	-----------------

\$ 2,371,476.45

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable - trade	\$	5,685.60
Due to other funds		76,990.60
Sales tax payable		1,951.00
Customer deposits		35,838.17
Accrued interest payable		7,294.23
Portion of revenue bonds due within one year		<u>78,737.29</u>

TOTAL CURRENT LIABILITIES \$ 206,496.89

LONG-TERM DEBT

Notes payable - Note F	\$	508,023.00
Less amount due within one year, shown as current liability		<u>(78,737.29)</u>
		<u>429,285.71</u>

TOTAL LIABILITIES \$ 635,782.60

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$	1,390,053.61
Unrestricted		<u>345,640.24</u>
		<u>1,735,693.85</u>

\$ 2,371,476.45

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year ended June 30, 2011

Operating revenues:

Water and sewer sales (less bad debts, \$11,099.82)	\$	511,123.18
Tap fees		3,000.00
Forfeited discounts		26,277.44
Reconnection Fees		4,350.00
Miscellaneous		571.17
		<u>571.17</u>

TOTAL OPERATING REVENUES \$ 545,321.79

Operating expenses:

Salaries	\$ 111,862.46	
Payroll taxes	8,557.70	
Employee insurance	19,019.94	
Utilities	40,866.48	
Materials and supplies	32,639.64	
Repairs and maintenance	10,968.19	
Insurance	63,845.42	
Contracted services	41,705.76	
Provision for depreciation - straight-line	112,987.48	
Office supplies and postage	2,097.01	
Gas and oil	3,374.18	
Amortization	1,333.33	
Professional fees	3,262.50	
State fees	4,870.00	
Miscellaneous	10,110.13	467,500.22
		<u>467,500.22</u>

OPERATING INCOME \$ 77,821.57

Non-operating revenues (expenses):

Interest income	\$	137.18	
Recovery of bad debts		251.72	
Interest expense		(23,177.04)	(22,788.14)
			<u>(22,788.14)</u>

INCREASE IN NET ASSETS \$ 55,033.43

Net assets at June 30, 2010 1,680,660.42

NET ASSETS AT JUNE 30, 2011 \$ 1,735,693.85

Interest incurred during the year totaled \$23,177.04,
all of which was charged to expense.

CITY OF WATERTOWN, TENNESSEE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year ended June 30, 2011

Cash flows from operating activities:		
Receipts from customers and users		\$ 538,055.93
Payments to suppliers		(217,788.30)
Payments to employees		<u>(150,297.88)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 169,969.75
Cash flows from capital and related financing activities:		
Increase in receivable from other funds	\$	(93,755.01)
Purchase of capital assets		(60,182.40)
Note proceeds		75,000.00
Principal paid on bonds		(63,023.00)
Interest paid on bonds		<u>(21,056.35)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(163,016.76)
Cash flows from investing activities :		
Interest from investments		<u>137.18</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		\$ 7,090.17
Cash and cash equivalents at July 1, 2010		<u>27,143.87</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2011		<u>\$ 34,234.04</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income		\$ 77,821.57
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for depreciation and amortization		114,320.81
Bad debts		11,099.82
Recovery of bad debts		251.72
Increase in accounts receivable		(28,969.45)
Decrease in accounts payable		(4,030.99)
Decrease in customer deposits		(505.73)
Decrease in other current liabilities		<u>(18.00)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 169,969.75</u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary Basis) (See Note A)	Final Budget - Positive (Negative)
Revenues:				
Taxes and tax equivalents	\$ 290,050	\$ 290,050	\$ 309,487	\$ 19,437
Licenses and permits	2,050	2,050	5,079	3,029
Intergovernmental	151,591	151,591	155,165	3,574
Fines and penalties	28,150	28,150	27,629	(521)
Interest, miscellaneous, and service	23,120	23,120	8,388	(14,732)
TOTAL REVENUES	<u>\$ 494,961</u>	<u>\$ 494,961</u>	<u>\$ 505,750</u>	<u>\$ 10,789</u>
Expenditures:				
Administrative salaries & related costs	\$ 35,081	\$ 35,081	\$ 36,445	\$ (1,364)
Utilities	38,000	38,000	42,813	(4,813)
Supplies	4,625	4,625	5,033	(408)
Insurance	10,000	10,000	34,666	(24,666)
Legal fees	1,800	1,800	1,800	-
Audit fees	-	-	4,000	(4,000)
Repairs and maintenance	1,000	1,000	1,648	(648)
Publishing expense	1,300	1,300	1,628	(328)
Other general government expense	39,711	39,711	38,933	778
Police Department	268,742	268,742	309,660	(40,918)
Fire Department	23,070	23,070	19,334	3,736
Codes Enforcement	1,665	1,665	740	925
Highways and streets	51,321	51,321	47,094	4,227
Joint economic & community development	6,130	6,130	9,833	(3,703)
Debt Service	78,662	78,662	37,869	40,793
TOTAL EXPENDITURES	<u>\$ 561,107</u>	<u>\$ 561,107</u>	<u>\$ 591,495</u>	<u>\$ (30,388)</u>
REVENUES OVER (UNDER) EXPENDITURES	(66,146)	(66,146)	(85,746)	(19,600)
Other financing sources (uses):				
Operating transfers in	32,000	32,000	-	(32,000)
Loan proceeds	40,000	40,000	40,000	-
Operating transfers out	(5,000)	(5,000)	(2,800)	2,200
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 854</u>	<u>\$ 854</u>	<u>\$ (48,546)</u>	<u>\$ (49,400)</u>
Fund balance at July 1, 2010	(118,766)	(118,766)	(118,766)	-
FUND BALANCE AT JUNE 30, 2011	<u><u>\$ (117,912)</u></u>	<u><u>\$ (117,912)</u></u>	<u><u>\$ (167,312)</u></u>	<u><u>\$ (49,400)</u></u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON STATEMENT - PARKS AND RECREATION FUND
Year ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenues	\$ 64,525	\$ 64,525	\$ 116,638	\$ 52,113
Interest	-	-	64	64
TOTAL REVENUES	\$ 64,525	\$ 64,525	\$ 116,702	\$ 52,177
Expenditures:				
Maintenance and repairs	\$ 5,600	\$ 5,600	\$ 11,012	\$ (5,412)
Utilities	3,000	3,000	3,314	(314)
Umpires and referees	5,000	5,000	5,849	(849)
Uniforms	17,500	17,500	19,471	(1,971)
Equipment	7,000	7,000	-	7,000
Concessions	2,500	2,500	18,491	(15,991)
Supplies	4,500	4,500	4,152	348
Miscellaneous	2,600	2,600	3,380	(780)
Debt Service	15,623	15,623	59,596	(43,973)
TOTAL EXPENDITURES	\$ 63,323	\$ 63,323	\$ 125,265	\$ (61,942)
REVENUES OVER (UNDER) EXPENDITURES	1,202	1,202	(8,563)	114,119
Other financing sources:				
Received from Wilson County	-	-	39,649	39,649
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,202	1,202	31,086	153,768
Fund balance at July 1, 2010	(155,286)	(155,286)	(155,286)	-
FUND BALANCE AT JUNE 30, 2011	\$ (154,084)	\$ (154,084)	\$ (124,199)	\$ 29,884

See the notes to financial statements.

Notes to the Financial Statements

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011.

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, 2011

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, 2011

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, 2011

Note A (Cont'd):

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note D for information describing restricted assets.

5. FUND TYPES AND MAJOR FUNDS

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

GOVERNMENTAL FUNDS

The City reports the following major governmental funds:

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

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

The other governmental funds of the City are:

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

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

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

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

Note A (Cont'd):

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

Debt Service Fund - The Debt Service fund is used to hold funds for repayment for debt.

THDA Fund - The THDA fund is used to account for the proceeds and disbursements from the Tennessee Housing Development Agency HOME Program when needed.

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.

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.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

Note A (Cont'd):

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

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

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

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

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.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

Note A (Cont'd):

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.

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.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

Note A (Cont'd):

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.

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.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

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, 2011

NOTE D - CHANGES IN CAPITAL ASSETS

	Balance at July 1	Additions	Reductions	Balance at June 30
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 106,130.00	\$ -	\$ -	\$ 106,130.00
Capital Assets Being Depreciated:				
Buildings	\$ 1,520,319.29	\$ -	\$ -	\$ 1,520,319.29
Improvements, other than buildings	95,646.00	3,500.00	-	99,146.00
Equipment	301,293.08	-	-	301,293.08
Total capital assets being depreciated	\$ 1,917,258.37	\$ 3,500.00	\$ -	\$ 1,920,758.37
Less Accumulated Depreciation for:				
Buildings	\$ (158,428.11)	\$ (38,726.14)	\$ -	\$ (197,154.25)
Improvements, other than buildings	(47,834.83)	(3,733.33)	-	(51,568.16)
Equipment	(219,366.93)	(16,051.42)	-	(235,418.35)
Total accumulated depreciation	\$ (425,629.87)	\$ (58,510.89)	\$ -	\$ (484,140.76)
Total capital assets being depreciated, net	1,491,628.50	(55,010.89)	-	1,436,617.61
Governmental activities : capital assets, net	\$ 1,597,758.50	\$ (55,010.89)	\$ -	\$ 1,542,747.61
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 12,507.00	\$ -	\$ -	\$ 12,507.00
Capital Assets Being Depreciated:				
Main lines	\$ 3,892,452.10	\$ 6,882.40	\$ -	\$ 3,899,334.50
Equipment	169,771.31	-	-	169,771.31
Total capital assets being depreciated	\$ 4,062,223.41	\$ 6,882.40	\$ -	\$ 4,069,105.81
Less Accumulated Depreciation for:				
Main lines	\$ (1,948,483.20)	\$ (106,514.45)	\$ -	\$ (2,054,997.65)
Equipment	(127,514.82)	(6,473.03)	-	(133,987.85)
Total accumulated depreciation	\$ (2,075,998.02)	\$ (112,987.48)	\$ -	\$ (2,188,985.50)
Total capital assets being depreciated, net	\$ 1,986,225.39	\$ (106,105.08)	\$ -	\$ 1,880,120.31
Business-type activities : capital assets, net	\$ 1,998,732.39	\$ (106,105.08)	\$ -	\$ 1,892,627.31
CAPITAL ASSETS, NET	\$ 3,596,490.89	\$ (161,115.97)	\$ -	\$ 3,435,374.92

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

Note D (Cont'd):

Depreciation Expense

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

<i>Governmental activities</i>		<i>Business-type activities</i>	
General government	6,556	Main lines	77,082
Public safety	45,453	Sewer plant	29,432
Parks and recreation	6,503	Equipment	6,473

NOTE E - LONG-TERM DEBT

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

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

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

	<u>Amount at</u> <u>July 1</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Retired</u>	<u>Amount at</u> <u>June 30</u>	<u>Current</u> <u>Portion</u>
Water & Sewer Revenue & Tax Refunding Capital Outlay Notes, Series 2006B	\$ 6,046.00	\$ -	\$ 3,023.00	\$ 3,023.00	\$ 3,023.00
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004	490,000.00	-	60,000.00	430,000.00	65,000.00
Capital Outlay Note, Series 2010	-	75,000.00	-	75,000.00	10,714.29
TOTAL	<u>\$ 496,046.00</u>	<u>\$ 75,000.00</u>	<u>\$ 63,023.00</u>	<u>\$ 508,023.00</u>	<u>\$ 78,737.29</u>

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

NOTE E (Cont'd):

	<u>Amount at</u> <u>July 1</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Retired</u>	<u>Amount at</u> <u>June 30</u>	<u>Current</u> <u>Portion</u>
Community Center Bonds, 1977	\$ 27,000.00	\$ -	\$ 4,000.00	\$ 23,000.00	\$ 4,000.00
Community Center Bonds, 1977	5,999.90	-	750.00	5,249.90	1,000.00
General Obligation Refunding Capital Outlay Notes, Series 2006A	11,184.00	-	5,592.00	5,592.00	5,592.00
Wilson County, Series 2008	628,988.49	-	11,012.67	617,975.82	11,365.08
Refunding Capital Outlay Notes, 2003	71,933.00	-	35,296.00	36,637.00	36,637.00
Capital outlay note, Series 2008	91,666.68	-	9,166.66	82,500.02	9,166.67
Capital outlay note, Series 2008	7,277.00	-	7,277.00	-	-
Tax anticipation notes	-	40,000.00	-	40,000.00	40,000.00
TOTAL	<u>\$ 844,049.07</u>	<u>\$ 40,000.00</u>	<u>\$ 73,094.33</u>	<u>\$ 810,954.74</u>	<u>\$ 107,760.75</u>

At June 30, 2011, 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	\$ 3,023.00	4.80%
Water and Sewer Revenue and Tax Capital Outlay Notes, Series 2004 (matures in 2017)	775,000.00	430,000.00	3.15% - 4.65%
Capital Outlay Note, Series 2010 (matures 2018)	75,000.00	75,000.00	4.60%
TOTAL	<u>\$ 508,023.00</u>		

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

NOTE E (Cont'd):

At June 30, 2011, 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	\$ 23,000.00	5.00%
Community Center Bonds, 1977 (matures in 2016)	20,000.00	5,249.90	5.00%
General Obligation Refunding Capital Outlay Notes, Series 2006A (matures 2012)	33,552.00	5,592.00	4.80%
Refunding Capital Outlay Note, 2003 (matures in 2012)	262,857.00	36,637.00	1.85% - 3.89%
Capital Outlay Note, 2008 (matures in 2020)	110,000.00	82,500.02	4.17%
Wilson County, 2008	650,000.00	617,975.82	3.20%
Tax Anticipation Note (matures 2011)	40,000.00	<u>40,000.00</u>	4.60%
	TOTAL	<u>\$ 810,954.74</u>	

A summary of the Watertown Water and Sewer Department debt service requirements for principal and interest at June 30, 2011, is as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2012	\$ 78,737.29	\$ 20,840.10	\$ 99,577.39
2013	75,714.29	17,667.14	93,381.43
2014	80,714.29	14,401.79	95,116.08
2015	85,714.29	10,791.43	96,505.72
2016	85,714.28	6,942.32	92,656.60
2017-2018	<u>101,428.56</u>	<u>3,338.57</u>	<u>104,767.13</u>
TOTAL	<u>\$ 508,023.00</u>	<u>\$ 73,981.35</u>	<u>\$ 582,004.35</u>

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

NOTE E (Cont'd):

A summary of the City of Watertown debt service requirements for principal and interest at June 30, 2011, is as follows:

<u>Year ending</u>			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 107,760.75	\$ 27,656.23	\$ 135,416.98
2013	25,895.44	23,507.04	49,402.48
2014	27,270.76	22,474.47	49,745.23
2015	27,658.09	21,404.89	49,062.98
2016	28,307.71	20,316.67	48,624.38
2017-2021	107,580.56	88,610.15	196,190.71
2022-2026	83,009.88	72,691.67	155,701.55
2027-2031	97,169.12	58,532.42	155,701.54
2032-2036	113,743.54	41,958.00	155,701.54
2037-2041	133,145.10	22,556.43	155,701.53
2042-2043	59,413.79	2,866.85	62,280.64
TOTAL	\$ 810,954.74	\$ 402,574.82	\$ 1,213,529.56

NOTE F - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Excess of expenditures over appropriations in individual fund:

	<u>Actual</u>	<u>Budgeted</u>
General fund	\$ 591,495	\$ 561,107
Parks and recreation	125,265	63,323

B. Funds with deficit fund balances:

General fund	(167,311.62)
Community center fund	(23,654.24)
Parks and recreation	(124,199.28)

NOTE G - LITIGATION

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

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

NOTE H – RISK FINANCING ACTIVITIES

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

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

NOTE I - SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

Due from:

	<u>General Fund</u>	<u>Water & Sewer Fund</u>	<u>Community Center Fund</u>	<u>Parks & Recreation Fund</u>	<u>Total</u>
<u>Due to:</u>					
General	\$ -	\$ -	\$ 17,582.00	\$ -	\$ 17,582.00
Water and Sewer	201,628.26	-	6,882.76	166,680.53	375,191.55
Industrial Park	35,968.46	76,990.60	-	-	112,959.06
TOTAL	<u>\$ 237,596.72</u>	<u>\$ 76,990.60</u>	<u>\$ 24,464.76</u>	<u>\$ 166,680.53</u>	<u>\$ 505,732.61</u>

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. The City is working with the Tennessee Comptroller of the Treasury to enter into a corrective action plan to repay the interfund loans.

CITY OF WATERTOWN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011

NOTE J – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011, were as follows:

Transfer from:

	<u>General</u>
<u>Transfer to:</u>	
Community Center	\$ 2,800.00

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 K – SUBSEQUENT EVENTS

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

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

SUPPLEMENTARY INFORMATION

CITY OF WATERTOWN, TENNESSEE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	<u>Community Center Fund</u>	<u>Industrial Park Fund</u>	<u>THDA Home Fund</u>	<u>Debt Service Fund</u>	<u>Drug Fund</u>	<u>Total Special Revenue</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 810.52	\$ 61,024.60	\$ 1.00	\$ 2,617.10	\$ 1,814.88	\$ 66,268.10
Due from other funds	-	112,959.06	-	-	-	112,959.06
Industrial Park land	-	7,744.82	-	-	-	7,744.82
Notes receivable	-	4,242.39	-	-	-	4,242.39
	<u>\$ 810.52</u>	<u>\$ 185,970.87</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>	<u>\$ 1,814.88</u>	<u>\$ 191,214.37</u>
Liabilities:						
Due to other funds	<u>\$ 24,464.76</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,464.76</u>
Fund balance	<u>(23,654.24)</u>	<u>185,970.87</u>	<u>1.00</u>	<u>2,617.10</u>	<u>1,814.88</u>	<u>166,749.61</u>
	<u>\$ 810.52</u>	<u>\$ 185,970.87</u>	<u>\$ 1.00</u>	<u>\$ 2,617.10</u>	<u>\$ 1,814.88</u>	<u>\$ 191,214.37</u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR FUNDS
Year ended June 30, 2011

	Community Center	Industrial Park	THDA HOME Program	Debt Service Fund	Drug Fund	Total
Revenues:						
Rental income	\$ 3,105.00	\$ -	\$ -	\$ -	\$ -	\$ 3,105.00
Fines	-	-	-	-	1,179.00	1,179.00
Interest income	-	32.87	-	-	-	32.87
TOTAL REVENUES	\$ 3,105.00	\$ 32.87	\$ -	\$ -	\$ 1,179.00	\$ 4,316.87
Expenditures:						
Community Center	\$ 1,230.83	\$ -	\$ -	\$ -	\$ -	\$ 1,230.83
Principal	5,350.00	-	-	-	-	5,350.00
Interest	1,049.98	-	-	-	-	1,049.98
TOTAL EXPENDITURES	\$ 7,630.81	\$ -	\$ -	\$ -	\$ -	\$ 7,630.81
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (4,525.81)	\$ 32.87	\$ -	\$ -	\$ 1,179.00	\$ (3,313.94)
Other financing sources:						
Transfer (to) from General Fund	2,800.00	-	-	-	-	2,800.00
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,725.81)	\$ 32.87	\$ -	\$ -	\$ 1,179.00	\$ (513.94)
Fund balance (deficit) at July 1, 2010	(21,928.43)	185,938.00	1.00	2,617.10	635.88	167,263.55
FUND BALANCE (DEFICIT) AT June 30, 2011	\$ (23,654.24)	\$ 185,970.87	\$ 1.00	\$ 2,617.10	\$ 1,814.88	\$ 166,749.61

CITY OF WATERTOWN, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - COMMUNITY CENTER FUND
Year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Revenues:				
Rent	\$ 3,500	\$ 3,500	\$ 3,105	\$ (395)
Expenditures:				
Maintenance and repairs	\$ 1,800	\$ 1,800	\$ 1,231	\$ 569
Miscellaneous	100	100	-	100
Debt service	6,282	6,282	6,400	(118)
TOTAL EXPENDITURES	<u>\$ 8,182</u>	<u>\$ 8,182</u>	<u>\$ 7,631</u>	<u>\$ 551</u>
REVENUES OVER (UNDER)				
EXPENDITURES	(4,682)	(4,682)	(4,526)	(946)
Other financing sources (uses):				
Operating transfers in	5,000	5,000	2,800	(2,200)
REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER				
FINANCING SOURCES (USES)	<u>\$ 318</u>	<u>\$ 318</u>	<u>\$ (1,726)</u>	<u>\$ (3,146)</u>
Fund balance at June 30, 2010	(21,928)	(21,928)	(21,928)	-
FUND BALANCE AT JUNE 30, 2011	<u><u>\$ (21,610)</u></u>	<u><u>\$ (21,610)</u></u>	<u><u>\$ (23,654)</u></u>	<u><u>\$ (2,044)</u></u>

See the notes to financial statements.

CITY OF WATERTOWN, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2011

Maturities During Year Ending June 30,	\$90,000 Rural Development		\$20,000 Rural Development		\$110,000 Wilson Bank & Trust		\$262,857 Wilson Bank & Trust		\$33,552 Wilson Bank & Trust		\$40,000 Wilson Bank & Trust		\$650,000 Wilson County		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 4,000.00	\$ 1,050.00	\$ 1,000.00	\$ 237.50	\$ 9,166.67	\$ 3,440.25	\$ 36,637.00	\$ 1,428.84	\$ 5,592.00	\$ 268.42	\$ 40,000.00	\$ 1,455.99	\$ 11,365.08	\$ 19,775.23	\$ 135,416.98
2013	4,000.00	850.00	1,000.00	187.50	9,166.67	3,058.00							11,728.77	19,411.54	49,402.48
2014	5,000.00	625.00	1,000.00	137.50	9,166.67	2,675.75							12,104.09	19,036.22	49,745.23
2015	5,000.00	375.00	1,000.00	87.50	9,166.67	2,293.50							12,491.42	18,648.89	49,062.98
2016	5,000.00	125.00	1,249.90	31.25	9,166.67	1,911.25							12,891.14	18,249.17	48,624.38
2017					9,166.67	1,529.00							13,303.66	17,836.65	41,835.98
2018					9,166.67	1,146.75							13,729.38	17,419.93	41,453.73
2019					9,166.67	764.50							14,168.72	16,971.59	41,071.48
2020					9,166.66	382.25							14,622.11	16,518.19	40,689.21
2021													15,090.02	16,050.29	31,140.31
2022													15,572.90	15,567.41	31,140.31
2023													16,071.24	15,069.07	31,140.31
2024													16,585.52	14,554.79	31,140.31
2025													17,116.25	14,024.06	31,140.31
2026													17,663.97	13,476.34	31,140.31
2027													18,229.22	12,911.09	31,140.31
2028													18,812.55	12,327.75	31,140.30
2029													19,414.56	11,725.75	31,140.31
2030													20,035.82	11,104.49	31,140.31
2031													20,676.97	10,463.34	31,140.31
2032													21,338.63	9,801.68	31,140.31
2033													22,021.47	9,118.84	31,140.31
2034													22,726.15	8,414.15	31,140.30
2035													23,453.39	7,686.92	31,140.31
2036													24,203.90	6,936.41	31,140.31
2037													24,978.42	6,161.88	31,140.30
2038													25,777.73	5,362.58	31,140.31
2039													26,602.62	4,537.69	31,140.31
2040													27,453.90	3,686.40	31,140.30
2041													28,332.43	2,807.88	31,140.31
2042													29,239.07	1,901.24	31,140.31
2043													30,174.72	965.61	31,140.33
	<u>\$ 23,000.00</u>	<u>\$ 3,025.00</u>	<u>\$ 5,249.90</u>	<u>\$ 681.25</u>	<u>\$ 82,500.02</u>	<u>\$ 17,201.25</u>	<u>\$ 36,637.00</u>	<u>\$ 1,428.84</u>	<u>\$ 5,592.00</u>	<u>\$ 268.42</u>	<u>\$ 40,000.00</u>	<u>\$ 1,455.99</u>	<u>\$ 17,975.82</u>	<u>\$ 378,514.07</u>	<u>\$ 1,213,529.56</u>

CITY OF WATERTOWN, TENNESSEE
BONDS PAYABLE AND DEBT SERVICE REQUIREMENTS
PROPRIETARY FUND
June 30, 2011

Maturities During Year Ending June 30,	\$665,000 Waterworks Revenue & Tax Capital Outlay, 2004		\$75,000 Wilson Bank & Trust Loan		\$15,115 Wilson Bank & Trust Loan		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 65,000.00	\$ 17,245.00	\$ 10,714.29	\$ 3,450.00	\$ 3,023.00	\$ 145.10	\$ 99,577.39
2013	65,000.00	14,710.00	10,714.29	2,957.14			93,381.43
2014	70,000.00	11,937.50	10,714.29	2,464.29			95,116.08
2015	75,000.00	8,820.00	10,714.29	1,971.43			96,505.72
2016	75,000.00	5,463.75	10,714.28	1,478.57			92,656.60
2017	80,000.00	1,860.00	10,714.28	985.71			93,559.99
2018	-	-	10,714.28	492.86			11,207.14
	<u>\$ 430,000.00</u>	<u>\$ 60,036.25</u>	<u>\$ 75,000.00</u>	<u>\$ 13,800.00</u>	<u>\$ 3,023.00</u>	<u>\$ 145.10</u>	<u>\$ 582,004.35</u>

CITY OF WATERTOWN, TENNESSEE
 SCHEDULE OF GRANT ACTIVITY
 Year ended June 30, 2011

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Awards</u>						
Department of Homeland Security:						
Disaster Grants - Public Assistance						
FEMA1909DRTN	97.036		\$ -	\$ 39,843.02	\$ 39,843.02	\$ -

**CITY OF WATERTOWN, TENNESSEE
PROPERTY TAXES
Year ended June 30, 2011**

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

<u>Year</u>	<u>Tax Rate</u>	<u>Tax Assessed</u>
2010	\$0.68	\$ 141,692
2009	\$0.68	141,852
2008	\$0.68	140,597
2007	\$0.75	138,837
2006	\$0.75	131,693
2005	\$0.75	127,165
2004	\$0.96	122,546
2003	\$0.96	118,965
2002	\$0.96	120,556
2001	\$0.96	116,397

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>
2010	\$ -	\$ 141,691.61	\$ 132,879.61	\$ -	\$ 8,812.00	\$ -
2009	8,712.00	-	7,285.00	-	1,427.00	-
2008	2,599.00	-	2,462.00	-	137.00	2,599.00
2007	582.00	-	389.00	-	193.00	582.00
2006	366.00	-	-	-	366.00	366.00
2005	374.00	-	-	-	374.00	374.00
2004	563.64	-	-	-	563.64	563.64
2003	768.40	-	-	-	768.40	768.40
2002	418.00	-	-	-	418.00	418.00
2001	84.24	-	-	-	84.24	84.24
2000	134.05	-	-	(134.05)	-	-
	<u>\$ 14,601.33</u>	<u>\$ 141,691.61</u>	<u>\$ 143,015.61</u>	<u>\$ (134.05)</u>	<u>\$ 13,143.28</u>	<u>\$ 5,755.28</u>

*Taxes filed with clerk and master.

2010 Taxes assessed	\$ 175,911.00
Estimated uncollectible taxes	<u>(1,735.87)</u>
DEFERRED PROPERTY TAX REVENUE	<u><u>\$ 174,175.13</u></u>

**WATERTOWN WATER & SEWER DEPARTMENT
STATISTICAL DATA
June 30, 2011**

WATER & SEWER RATES

Inside the City

Water Base Rate	\$15.39
Sewer Base Rate	15.39

Per 1000 Gallons

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

Outside the City

Water Base Rate	\$23.08
Sewer Base Rate	23.08

Per 1000 Gallons

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

There were approximately 631 customers billed for June 2011.

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS-42

[Back to Instructions](#)

[Click to access definition](#)

Water Audit Report for: **City of Watertown, Tennessee**

Reporting Year: **2011** / **7/2010 - 6/2011**

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

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

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="8"/>	<input type="text" value="403.244"/>	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="10"/>	<input type="text" value="0.001"/>	under-registered MG/Yr
Water imported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="text" value="7"/>	<input type="text" value="191.393"/>	MG/Yr
WATER SUPPLIED:		<input type="text" value="211.852"/>	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="9"/>	<input type="text" value="165.477"/>	MG/Yr
Billed unmetered:	<input type="text" value="10"/>	<input type="text" value="0.191"/>	MG/Yr
Unbilled metered:	<input type="text" value="5"/>	<input type="text" value="1.507"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="9"/>	<input type="text" value="13.706"/>	MG/Yr
AUTHORIZED CONSUMPTION:		<input type="text" value="180.881"/>	MG/Yr

Click here: for help using option buttons below

Percent: Value:

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

Apparent Losses

Unauthorized consumption:	<input type="text" value="5"/>	<input type="text" value="0.530"/>	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed			
Customer metering inaccuracies:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Systematic data handling errors:	<input type="text" value="10"/>	<input type="text" value="0.001"/>	MG/Yr
Apparent Losses:		<input type="text" value="0.531"/>	

Percent: Value:

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

Real Losses (Current Annual Real Losses or CARL)

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

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="text" value="10"/>	<input type="text" value="9.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="9"/>	<input type="text" value="698"/>	
Connection density:		<input type="text" value="78"/>	conn./mile main
Average length of customer service line:	<input type="text" value="10"/>	<input type="text" value="15.0"/>	ft. (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	<input type="text" value="9"/>	<input type="text" value="72.5"/>	psi

COST DATA

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$1,472,875"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="7"/>	<input type="text" value="\$7.81"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="7"/>	<input type="text" value="\$800.20"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input text"="" type="text" value="\$4,144"/>
Annual cost of Real Losses:	<input type="text" value="\$24,358"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="2.08"/>	gallons/connection/day
Real Losses per service connection per day*:	<input type="text" value="119.48"/>	gallons/connection/day
Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
Real Losses per service connection per day per psi pressure:	<input type="text" value="1.65"/>	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	<input type="text" value="Not Valid"/>	

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

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

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

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

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 81 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Volume from own sources
- 2: Unbilled metered
- 3: Water exported

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

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES
Year ended June 30, 2011

	General Fund	Special Revenue Funds
Taxes:		
Property taxes	\$ 142,484.20	\$ -
Interest and penalties on property taxes	2,567.83	-
Local option sales tax	109,221.36	-
Wholesale beer tax	33,450.13	-
Business tax	14,735.46	-
Cable TV franchise tax	7,028.27	-
TOTAL TAXES	\$ 309,487.25	\$ -
Licenses and permits:		
Beer licenses	\$ 1,274.99	\$ -
Building and related permits	3,804.40	-
TOTAL LICENSES OR PERMITS	\$ 5,079.39	\$ -
Intergovernmental revenue:		
TVA in lieu of taxes	\$ 15,316.47	\$ -
Housing Authority in lieu of taxes	199.85	-
State sales tax	90,891.11	-
State income tax	1,315.80	-
State beer tax	710.03	-
State gasoline inspection fee	2,930.52	-
State fuel tax	37,225.86	-
Corporate excise tax	4,087.31	-
Other state allocations	2,400.00	-
State telecom taxes	88.45	-
Federal Emergency Management Agency	-	39,843.02
TOTAL INTERGOVERNMENTAL REVENUE	\$ 155,165.40	\$ 39,843.02

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND REVENUES (CONTINUED)
Year ended June 30, 2011

	General Fund	Special Revenue Fund
Charges for services:		
Civic Center rental	\$ -	\$ 3,105.00
Parks and recreation	-	6,331.75
Sanitation	4,650.00	-
TOTAL CHARGES FOR SERVICES	\$ 4,650.00	\$ 9,436.75
Fines and penalties	\$ 27,629.39	\$ 1,179.00
Interest	213.84	96.92
Concessions and sponsorships	-	46,916.65
Miscellaneous	3,524.35	23,546.43
TOTAL REVENUE	\$ 505,749.62	\$ 121,018.77

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES
Year ended June 30, 2011

	General Fund	Special Revenue Fund
CITY RECORDER		
Salaries	\$ 27,847.69	\$ -
OASE employer	2,130.36	-
Health insurance	6,467.41	-
	<u>\$ 36,445.46</u>	<u>\$ -</u>
 CITY HALL BUILDINGS		
Utilities	\$ 33,690.37	\$ -
Repairs and maintenance	1,648.48	-
	<u>\$ 35,338.85</u>	<u>\$ -</u>
 ANIMAL CONTROL		
Wilson County Animal Control	\$ 500.00	\$ -
	<u>\$ 500.00</u>	<u>\$ -</u>
 DIRECT ASSISTANCE		
Library	\$ 24,511.00	\$ -
	<u>\$ 24,511.00</u>	<u>\$ -</u>
 ECONOMIC DEVELOPMENT		
Joint planning services	9,832.67	-
	<u>\$ 9,832.67</u>	<u>\$ -</u>

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2011

	General Fund	Special Revenue Fund
GENERAL GOVERNMENT		
Insurance	\$ 34,666.08	\$ -
Telephone	9,122.48	-
Business tax	2,832.58	-
Postage	540.97	-
Office supplies	4,491.55	-
Publication of documents	1,627.80	-
City judge	3,600.00	-
City attorney	1,800.00	-
Audit fee	4,000.00	-
Other	7,489.12	-
	\$ 70,170.58	\$ -
TOTAL GENERAL GOVERNMENT	\$ 176,798.56	
 POLICE		
Salaries	\$ 211,027.93	\$ -
Payroll taxes	16,144.54	-
Health insurance	40,094.74	-
Education and training	275.00	-
Gas, oil and diesel fuel	12,554.08	-
Repairs and maintenance	7,379.99	-
Office supplies	5,708.47	-
Other machinery and equipment	5,591.99	-
Public relations	1,560.00	-
Other	9,323.32	-
	\$ 309,660.06	\$ -

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2011

	General Fund	Special Revenue Fund
FIRE PROTECTION		
Repairs and maintenance	\$ 11,363.41	\$ -
Public relations	1,560.00	-
Gasoline, oil and diesel fuel	4,620.48	-
Machinery and equipment	1,529.87	-
Other	260.00	-
	\$ 19,333.76	\$ -
 PROTECTIVE INSPECTION		
Fees	\$ 739.65	\$ -
	\$ 329,733.47	
 HIGHWAYS AND STREETS		
Salaries	\$ 22,934.91	\$ -
Payroll taxes	1,754.56	-
Health insurance	2,667.81	-
Utilities	15,146.28	-
Repairs and maintenance	1,215.27	-
Gas, oil and diesel fuel	1,457.77	-
Supplies	1,917.41	-
	\$ 47,094.01	\$ -

CITY OF WATERTOWN, TENNESSEE
SCHEDULE OF GENERAL AND SPECIAL REVENUE FUND
EXPENDITURES (CONTINUED)
Year ended June 30, 2011

	General Fund	Special Revenue Fund
CIVIC CENTER		
Repairs and maintenance	\$ -	\$ 1,230.83
PARKS		
Referees/umpires	\$ -	\$ 5,849.00
Utilities	-	3,314.45
Uniforms	-	19,470.61
Concessions	-	18,490.86
Repairs and maintenance	-	11,012.13
Supplies	-	4,151.79
Other	-	3,379.92
	<u>\$ -</u>	<u>\$ 65,668.76</u>

**CITY OF WATERTOWN, TENNESSEE
INSURANCE IN FORCE
June 30, 2011**

	<u>Amounts of Insurance</u>	<u>Expiration Date</u>
General Liability:		
Workmen's' Compensation	Statutory	April 11, 2012
Employers Liability	\$ 250,000.00	March 5, 2012
Automobile Liability:		
Property Damage	Cash value or cost to repair	March 5, 2012
General Auto Liability	\$ 1,000,000.00	
Excess Liability	\$ 1,650,000.00	March 5, 2012
Surety Bond:		
City Recorder	\$ 2,000.00	March 5, 2012
City Treasurer	1,000.00	
Property:		
Building and Contents	\$ 8,484,325.00	March 5, 2012
Machinery	101,253.00	
EDP Equipment	14,223.00	
Errors and Omissions	\$1,000,000.00	March 5, 2012
Employee Dishonesty	\$ 100,000.00	March 5, 2012

**COMPLIANCE AND
INTERNAL CONTROL**

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

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

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

I have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund and the aggregate remaining fund balance as of and for the year ended June 30, 2011, and the related notes to the financial statements, which collectively comprise the City of Watertown's basic financial statements, and have issued a report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

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

My consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the Schedule of Findings and Recommendations, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 below (2010-02) 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 (2010-03 and 2010-06) in the Schedule of Findings and Recommendations to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Watertown's financial statements are free from 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described (2010-01, 2010-04 and 2010-05) in the Schedule of Findings and Recommendations.

I noted certain matters that I reported to management of the City of Watertown in a separate letter dated December 31, 2013.

Response to Findings

The City of Watertown's response to the finding identified in the audit is described above. The City of Watertown's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of This Report

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

John R Poole, CPA

December 31, 2013

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF WATERTOWN, TENNESSEE

JUNE 30, 2011

Prior Year Comments

2010-01: Spending in Excess of the Annual Budget (Compliance)

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

Recommendation: The City should not expend funds in excess of the City Council approved amounts. If the City has higher than expected/planned expenditures, steps should be taken to amend the budget on a timely basis.

Management's Response: With improvements to our financial reporting system we believe that we will be better able to monitor our annual budget.

Disposition: Condition continued in the current year.

2010-02: Segregation of Duties (Material Weakness)

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: With our limited resources we will continue to make improvements in our internal control, but we may not be able to properly segregation all duties.

2010-03: 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. Additionally, adjustments are not being properly approved by the City Council.

Recommendation: The accounts receivable should be reconciled on an at least monthly basis, with all adjustments presented to the Board on a monthly basis for proper approval.

Management's Response: We agree and will reconcile the accounts receivable on a monthly basis.

Current Year Comments

2011-04: Deficit Fund Balances (Compliance)

As of June 30, 2011 the City is reporting a deficit fund balance in the General Fund of (\$167,312), a deficit fund balance of (\$124,199) in the Parks and Recreation Fund, and a deficit fund balance of (\$23,654) in the Community Center Fund. State requirements and prudent financial planning prohibit the spending of funds that are not readily available. These amounts appear to be have been caused by overspending by certain departments.

Recommendation: The City should examine all aspects of its finances. The City should examine to see if the City has the resources available to provide the existing level of services, if not, it should seek additional resources or look to reduce existing service levels.

Management' Response: We will be reviewing all financial aspects of the City.

2011-05: Interfund Loans (Compliance)

The City has several interfund loans totaling several hundred thousand dollars. These interfund loans were not approved in advance by the State of Tennessee, Comptroller – Office of State and Local Finance, nor were these amounts approved by the City's Board. These amounts appear to be due to the City overspending in certain departments.

Recommendation: The City should examine all aspects of its finances. The City should examine to see if the City has the resources available to provide the existing level of services, if not, it should seek additional resources or look to reduce existing service levels. Additionally, the City should report these amounts to the State of Tennessee, Comptroller – Office of State and Local Finance and establish repayment schedules for each of these interfund loans.

Management's Response: We will be reviewing all financial aspects of the City, including reporting \ these interfund loans to the State of Tennessee, Comptroller – Office of State and Local Finance and establishing repayment schedule of these amounts.

2011-06: Lack of Current Financial Information (Significant Deficiency)

The City has not been able to present and report complete and current financial information. The lack of complete and current financial information has prevented the City from making appropriate financial decisions (See 2010-04 and 2010-05 above). It is the responsibility of the City to manage and safeguard the assets of the City and to comply will the State requirements, which the City was not able to do because it did not have complete and current financial information.

Recommendation: The City should be able to provide current financial information at all times. This information will provide the leaders of the City better information to make financial decisions.

Management's Response: We have hired outside accountants and are working to achieve the above.