

AUDITED FINANCIAL STATEMENTS

CITY OF WAUPACA, WISCONSIN

DECEMBER 31, 2011

CITY OF WAUPACA, WISCONSIN  
DECEMBER 31, 2011

TABLE OF CONTENTS

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Independent Auditor’s Report.....	1
<u>Basic Financial Statements</u>	
<u>Exhibits</u>	
A-1 Statement of Net Assets .....	3
A-2 Statement of Activities.....	5
A-3 Balance Sheet – Governmental Funds.....	6
A-4 Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets .....	7
A-5 Statement of Revenues, Expenditures and Changes in Fund Balances -Governmental Funds .....	8
A-6 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	9
A-7 Statement of Net Assets – Proprietary Funds.....	11
A-8 Statement of Revenues, Expenses and Changes in Fund Net Assets- Proprietary Funds .....	13
A-9 Statement of Cash Flows – Proprietary Funds .....	14
Notes to the Financial Statements.....	16
<u>Required Supplementary Information:</u>	
B-1 Budgetary Comparison Schedule for the General Fund.....	44
Notes to Required Supplementary Information .....	45
<u>Supplementary Information:</u>	
C-1 Combining Balance Sheet – Nonmajor Governmental Funds .....	46
C-2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances -Nonmajor Governmental Funds .....	47
C-3 Combining Balance Sheet –TIF Districts .....	48
C-4 Combining Statement of Revenues, Expenditures and Changes in Fund Balance–TIF Districts ..	49
<u>Miscellaneous Financial Data</u>	
Historical Sources, Uses and Status of Funds – Tax Incremental Financing Districts.....	50



**Johnson & Block**  
AND COMPANY, INC.

Certified Public Accountants

*Quality service through our commitment to clients and staff*

Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Kryszinski ▲ Janice L. Froelich ▲ Jay H. Bennett

**INDEPENDENT AUDITOR'S REPORT**

The City Council  
City of Waupaca  
Waupaca, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waupaca, Wisconsin as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waupaca, Wisconsin, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, for the year ending December 31, 2011.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

Mineral Point, Wisconsin  
April 2, 2012

*JOHNSON BLOCK AND COMPANY, INC.*

*Johnson Block and Company, Inc.*

**BASIC FINANCIAL STATEMENTS**

Exhibit A-1  
City of Waupaca, Wisconsin  
Statement of Net Assets  
December 31, 2011

<u>Assets</u>	Governmental Activities	Business-Type Activities	Total
<b>Current assets:</b>			
Cash and investments	\$ 2,794,745	\$ 734,274	\$ 3,529,019
<b>Receivables:</b>			
Taxes	5,256,127		5,256,127
Other Governments	74,331		74,331
Customer		411,853	411,853
Other	229,869	46,465	276,334
Internal balances	(6,806,969)	6,806,969	
Inventories	14,523	24,092	38,615
<b>Total Current Assets</b>	<b>1,562,626</b>	<b>8,023,653</b>	<b>9,586,279</b>
<b>Noncurrent assets:</b>			
<b>Restricted assets:</b>			
Cash and investments		2,318,022	2,318,022
<b>Total restricted assets</b>		<b>2,318,022</b>	<b>2,318,022</b>
<b>Other assets:</b>			
Unamortized debt issuance costs	100,387		100,387
Long-term accounts receivable	730,100		730,100
Less: discount on long-term notes receivable	(115,646)		(115,646)
Special assessments receivable	790,346	146,019	936,365
<b>Total other assets</b>	<b>1,505,187</b>	<b>146,019</b>	<b>1,651,206</b>
<b>Capital assets:</b>			
Property and plant	31,102,655	35,723,246	66,825,901
Less: accumulated provision for depreciation	7,117,926	13,438,933	20,556,859
<b>Total capital assets</b>	<b>23,984,729</b>	<b>22,284,313</b>	<b>46,269,042</b>
<b>Total noncurrent assets</b>	<b>25,489,916</b>	<b>24,748,354</b>	<b>50,238,270</b>
<b>Total assets</b>	<b>\$ 27,052,542</b>	<b>\$ 32,772,007</b>	<b>\$ 59,824,549</b>

Exhibit A-1 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Assets  
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 266,886	\$ 114,899	\$ 381,785
Due to other governments	13,709		13,709
Accrued liabilities	80,552	554	81,106
Deferred revenues	5,077,425		5,077,425
Accrued interest	216,918	48,932	265,850
Customer Deposits		2,018	2,018
Current portion of long-term debt	2,285,000	836,314	3,121,314
Current portion of capital lease	40,576	19,708	60,284
	<hr/>		
Total current liabilities	7,981,066	1,022,425	9,003,491
<hr/>			
Current liabilities (payable from restricted assets):			
Accrued interest		14,690	14,690
Current portion of mortgage revenue bonds		156,793	156,793
	<hr/>		
Total current liabilities (payable from restricted assets)		171,483	171,483
<hr/>			
Long-term liabilities			
Mortgage revenue bonds		10,083,243	10,083,243
Bonds and notes payable	22,190,000		22,190,000
Less: deferred charges on refunding	(229,559)		(229,559)
Capital lease	126,356	61,363	187,719
Compensated absences	769,913	93,261	863,174
Less: current portion	(2,325,576)	(1,012,815)	(3,338,391)
	<hr/>		
Total long-term liabilities	20,531,134	9,225,052	29,756,186
	<hr/>		
Total liabilities	28,512,200	10,418,960	38,931,160
<hr/>			
<u>Net Assets</u>			
Investment in capital assets, net of related debt	12,063,373	12,139,707	24,203,080
Restricted	1,760,978	2,303,332	4,064,310
Unrestricted	(15,284,009)	7,910,008	(7,374,001)
	<hr/>		
Total net assets	(1,459,658)	22,353,047	20,893,389
	<hr/>		
Total liabilities and net assets	\$ 27,052,542	\$ 32,772,007	\$ 59,824,549
	<hr/>		

Exhibit A-2  
City of Waupaca, Wisconsin  
Statement of Activities  
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Business Type Activities	Totals 2011
<b>Primary Government:</b>							
<u>Governmental activities:</u>							
General government	\$ 703,091	\$ 109,408	\$	\$	\$ (593,683)	\$	\$ (593,683)
Public safety	1,689,686	195,705	42,116		(1,451,865)		(1,451,865)
Health and social services	188,753	34,256			(154,497)		(154,497)
Public works	2,068,863	213,901	948,612	99,859	(806,491)		(806,491)
Culture, recreation and education	1,559,786	206,892	449,234	32,726	(870,934)		(870,934)
Conservation and development	466,157	257,389		206,000	(2,768)		(2,768)
Interest and fiscal charges	1,004,355				(1,004,355)		(1,004,355)
Total governmental activities	7,680,691	1,017,551	1,439,962	338,585	(4,884,593)		(4,884,593)
<u>Business-type activities:</u>							
Water utility	965,378	1,374,877		24,573		434,072	434,072
Sewer utility	1,764,261	1,988,973		271,096		495,808	495,808
Telecommunication utility	243,194	174,028				(69,166)	(69,166)
Total business-type activities	2,972,833	3,537,878		295,669		860,714	860,714
Total primary government	\$ 10,653,524	\$ 4,555,429	\$ 1,439,962	\$ 634,254	(4,884,593)	860,714	(4,023,879)
<u>General Revenues:</u>							
Property taxes							
General purposes					\$ 3,297,499	\$	\$ 3,297,499
Debt service					1,562,136		1,562,136
Other taxes					224,168		224,168
Federal and state aid not restricted for specific purposes					1,180,414		1,180,414
Interest and investment earnings					6,066	37,265	43,331
Loss on sale of fixed assets					(317)		(317)
Proceeds from insurance claim					212,214		212,214
Miscellaneous					45,127		45,127
Transfers					466,919	(466,919)	
Total general revenues					6,994,226	(429,654)	6,564,572
Change in net assets					2,109,633	431,060	2,540,693
Net assets - beginning of year					(4,112,037)	21,921,987	17,809,950
Prior period adjustment (See Note 20)					542,746		542,746
Net assets - end of year					\$ (1,459,658)	\$ 22,353,047	\$ 20,893,389

Exhibit A-3  
City of Waupaca, Wisconsin  
Balance Sheet  
Governmental Funds  
December 31, 2011

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<b>Assets:</b>						
Cash and investments	\$ 1,471,537	\$ 391,500		\$	\$ 931,708	\$ 2,794,745
Receivables:						
Taxes	1,684,742	1,717,688	691,388	60,011	1,102,298	5,256,127
Accounts	229,869					229,869
Other governments					74,331	74,331
Special Assessments					790,346	790,346
Long-term notes receivable, net of discount of \$115,646	84,354				530,100	614,454
Inventory					14,523	14,523
Due from Other Funds	338,023		1,054,495			1,392,518
<b>Total Assets</b>	<b>\$ 3,808,525</b>	<b>\$ 2,109,188</b>	<b>\$ 1,745,883</b>	<b>\$ 60,011</b>	<b>\$ 3,443,306</b>	<b>\$11,166,913</b>
<b>Liabilities:</b>						
Accounts Payable	\$ 100,177	\$	\$	\$	\$ 166,709	\$ 266,886
Accrued Liabilities	80,552					80,552
Due to Other Governments	904				12,805	13,709
Deferred Revenues	1,591,419	1,717,688	691,388	60,011	2,421,719	6,482,225
Due to other funds	54,613			1,194,582	272,404	1,521,599
Advances due to other funds				6,602,888	75,000	6,677,888
<b>Total Liabilities</b>	<b>1,827,665</b>	<b>1,717,688</b>	<b>691,388</b>	<b>7,857,481</b>	<b>2,948,637</b>	<b>15,042,859</b>
<b>Fund Equity:</b>						
Fund Balance						
Nonspendable	84,354				14,523	98,877
Restricted		391,500	1,054,495		531,901	1,977,896
Assigned	69,491				93,162	162,653
Unassigned (Deficit)	1,827,015			(7,797,470)	(144,917)	(6,115,372)
<b>Total Fund Equity</b>	<b>1,980,860</b>	<b>391,500</b>	<b>1,054,495</b>	<b>(7,797,470)</b>	<b>494,669</b>	<b>(3,875,946)</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 3,808,525</b>	<b>\$ 2,109,188</b>	<b>\$ 1,745,883</b>	<b>\$ 60,011</b>	<b>\$ 3,443,306</b>	<b>\$11,166,913</b>

Exhibit A-4  
City of Waupaca, Wisconsin  
Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Assets  
December 31, 2011

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

Total Fund balances-governmental funds: \$ (3,875,946)

Capital assets used in governmental funds are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental capital asset	31,102,655	
Governmental accumulated depreciation	<u>(7,117,926)</u>	23,984,729

Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds.

Special assessments		790,346
Long-term notes receivable		730,100
Discount on notes receivable		(115,646)

Payments for bond issuance costs are reported in the funds statement when expended, but are amortized over the life of the bond in the statement of net assets.

100,387

Payments made to the refunding bond escrow are reported in the funds statement when expended, but are amortized over the life of the bond in the statement of net assets.

Deferred charges on refunding		229,559
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds statements. Long-term liabilities reported in the statement of net assets that are not reported in the funds balance sheet are:

Bonds and notes payable		(22,190,000)
Capital lease payable		(126,356)
Accrued interest on general obligation debt		(216,918)
Compensated absences		<u>(769,913)</u>

Net Assets of Governmental Activities \$ (1,459,658)

Exhibit A-5  
City of Waupaca, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2011

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<u>Revenues:</u>						
Taxes	\$ 1,679,642	\$ 1,562,136	\$ 622,673	\$ 60,739	\$ 1,235,153	\$ 5,160,343
Special Assessments					8,520	8,520
Licenses and Permits	155,138					155,138
Fines, Forfeits and penalties	67,227					67,227
Intergovernmental	2,601,967		2,850	18	321,400	2,926,235
Public Charges for Services	208,885				200,138	409,023
Miscellaneous:						
Interest	2,254				1,854	4,108
Sale of Recycling Materials	2,494					2,494
Other	133,345		64,133	5,286	168,265	371,029
<b>Total Revenues</b>	<b>4,850,952</b>	<b>1,562,136</b>	<b>689,656</b>	<b>66,043</b>	<b>1,935,330</b>	<b>9,104,117</b>
<u>Expenditures:</u>						
General Government	675,907					675,907
Public Safety	1,647,936					1,647,936
Health and Social Services	184,753					184,753
Public Works	997,845				579,966	1,577,811
Culture, Recreation and Education	1,408,330				40,600	1,448,930
Conservation and Development			4,675	23,377	268,567	296,619
Capital Outlay						
Public Safety					70,801	70,801
Public Works					91,450	91,450
Conservation and Development	201,200		3,930	4,430	33,491	243,051
Debt Service						
Principal Retirement	39,109	1,775,000	388,562	475,000	856,439	3,534,110
Interest and Fiscal Charges	6,205	285,182	184,865	149,366	296,680	922,298
<b>Total Expenditures</b>	<b>5,161,285</b>	<b>2,060,182</b>	<b>582,032</b>	<b>652,173</b>	<b>2,237,994</b>	<b>10,693,666</b>
Excess of Revenues Over (Under) Expenditures	(310,333)	(498,046)	107,624	(586,130)	(302,664)	(1,589,549)
<u>Other Financing Sources (Uses):</u>						
Proceeds from sale of capital assets	917				5,650	6,567
Proceeds from refunding bonds		1,040,000				1,040,000
Bond issuance costs		(19,190)				(19,190)
Premium on reoffering		17,084				17,084
Proceeds from insurance claim	212,214					212,214
Transfers to TIF districts		(1,596,605)	(107,624)			(1,704,229)
Transfer from debt service fund				947,129	649,476	1,596,605
Transfer from TIF district No. 4				107,624		107,624
Transfer from utilities	466,919					466,919
<b>Total Other Financing Sources</b>	<b>680,050</b>	<b>(558,711)</b>	<b>(107,624)</b>	<b>1,054,753</b>	<b>655,126</b>	<b>1,723,594</b>
<b>Net Change in Fund Balances</b>	<b>369,717</b>	<b>(1,056,757)</b>		<b>468,623</b>	<b>352,462</b>	<b>134,045</b>
Fund Balance - January 1, unadjusted	1,715,500	1,056,757	1,054,495	(8,266,093)	429,350	(4,009,991)
Equity adjustment (See Note 19)	(104,357)	391,500			(287,143)	
Fund Balance - January 1, adjusted	1,611,143	1,448,257	1,054,495	(8,266,093)	142,207	(4,009,991)
<b>Fund Balance - December 31</b>	<b>\$ 1,980,860</b>	<b>\$ 391,500</b>	<b>\$ 1,054,495</b>	<b>\$ (7,797,470)</b>	<b>\$ 494,669</b>	<b>\$(3,875,946)</b>

Exhibit A-6  
City of Waupaca, Wisconsin  
Reconciliation of Statement of Revenues, Expenditures and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011

Net change in fund balances-total governmental funds \$ 134,045

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

The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital outlay reported in governmental fund statements	137,584	
Donation of capital asset - playground equipment	19,500	
Depreciation expenses reported in the statement of activities	<u>(638,242)</u>	
Amount by which capital outlays and donations are greater (less) than depreciation in the current period.		(481,158)

The cost of capital assets disposed of during the current year is expensed in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the undepreciated cost of the disposed assets. (124,487)

Compensated absences are reported in the governmental funds when amounts are paid. The statement of activities reports the amount earned during the year. The difference between the amount paid and earned was: (11,933)

Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net assets and does not affect the statement of activities

The amount of long-term debt principal payments in the current year is: 3,534,110

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds but does not affect the statement of activities (1,040,000)

Deferred charges associated with long-term debt issued in a prior period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current period. (67,491)

Exhibit A-6 (continued)  
City of Waupaca, Wisconsin  
Reconciliation of Statement of Revenues, Expenditures and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011

The amortization of premiums and discounts on bonds issued, along with debt issuance costs, are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds.	(11,461)
In governmental funds, special assessment collections are reflected as revenue when received. In the statement of activities, revenue is recognized when assessed. Amount assessed is greater (less) than collected by:	(10,304)
Long-term notes receivable loans are reflected as expenditures in governmental funds, but are reported as additions to notes receivable in statement of net assets and does not affect the statement of activities.	200,000
Amounts of notes receivable that were written off as uncollectible are reported as a reduction of the receivable and deferred revenue in the government funds, but are reported as an expenditure in the statement of activities	(8,884)
Repayment of notes receivable are reflected as revenue in governmental funds, but are reported as a reduction of the receivable the statement of net assets and does not affect the statement of activities.	(3,762)
The amortization of a discount on notes receivable does not involve current financial resources and, therefore, is not reported as revenue in the governmental funds. In the statement of activities, the discount on notes receivable is being amortized as interest income over the life of the note.	1,957
In governmental funds, interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities, interest is reported as incurred.	
The amount of interest paid during the current period	910,640
The amount of interest accrued during the current period	(911,639)
Interest paid is greater (less) than interest expensed by	(999)
Change in net assets-governmental activities	\$ 2,109,633

Exhibit A-7  
City of Waupaca, Wisconsin  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Investments	\$ 228,096	\$ 474,443	\$ 31,735	\$ 734,274
Receivables:				
Customer	165,230	225,799	20,824	411,853
Other	18,488	27,977		46,465
Due from Other Funds	309,249	42,122		351,371
Inventories	21,599	2,493		24,092
<b>Total Current Assets</b>	<b>742,662</b>	<b>772,834</b>	<b>52,559</b>	<b>1,568,055</b>
<u>Restricted Assets:</u>				
Mortgage Revenue & Interest	939,545			939,545
Replacement Fund		1,378,477		1,378,477
<b>Total Restricted Assets</b>	<b>939,545</b>	<b>1,378,477</b>		<b>2,318,022</b>
<u>Other Assets:</u>				
Special Assessments Receivable	92,404	53,615		146,019
Advance due from Other Funds	3,039,124	3,698,764		6,737,888
<b>Total Other Assets</b>	<b>3,131,528</b>	<b>3,752,379</b>		<b>6,883,907</b>
<u>Fixed Assets:</u>				
Property and Plant	11,211,245	24,247,802	264,199	35,723,246
Less: Accumulated Provision for Depreciation	3,955,600	9,316,721	166,612	13,438,933
<b>Total Fixed Assets</b>	<b>7,255,645</b>	<b>14,931,081</b>	<b>97,587</b>	<b>22,284,313</b>
<b>Total Assets</b>	<b>\$ 12,069,380</b>	<b>\$ 20,834,771</b>	<b>\$ 150,146</b>	<b>\$ 33,054,297</b>

Exhibit A-7 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Liabilities and Net Assets</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$ 56,515	\$ 49,789	\$ 8,595	\$ 114,899
Due to Other Funds	18,337	202,975	978	222,290
Accrued Liabilities	554			554
Accrued Interest		48,932		48,932
Customer Deposits			2,018	2,018
Current Portion of Revenue Bonds		836,314		836,314
Current Portion of Capital Lease	6,569	13,139		19,708
<b>Total Current Liabilities</b>	<b>81,975</b>	<b>1,151,149</b>	<b>11,591</b>	<b>1,244,715</b>
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accrued Interest	14,690			14,690
Current Portion of Revenue Bonds	156,793			156,793
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>171,483</b>			<b>171,483</b>
<u>Long-term Liabilities:</u>				
Revenue Bonds	2,206,827	7,876,416		10,083,243
Capital Lease	20,464	40,899		61,363
Advance due to other funds		60,000		60,000
Compensated Absences	46,305	46,956		93,261
Less: current portion	(163,362)	(849,453)		(1,012,815)
<b>Total Long-term Liabilities</b>	<b>2,110,234</b>	<b>7,174,818</b>		<b>9,285,052</b>
<b>Total Liabilities</b>	<b>2,363,692</b>	<b>8,325,967</b>	<b>11,591</b>	<b>10,701,250</b>
<u>Net Assets:</u>				
Investment in Capital Assets, Net of Related Debt	5,028,354	7,013,766	97,587	12,139,707
Restricted	924,855	1,378,477		2,303,332
Unrestricted	3,752,479	4,116,561	40,968	7,910,008
<b>Total Net Assets</b>	<b>9,705,688</b>	<b>12,508,804</b>	<b>138,555</b>	<b>22,353,047</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,069,380</b>	<b>\$ 20,834,771</b>	<b>\$ 150,146</b>	<b>\$ 33,054,297</b>

Exhibit A-8  
City of Waupaca, Wisconsin  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2011

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Operating Revenues:</u>				
Sales of Water	\$ 1,374,877		\$	\$ 1,374,877
Measured Sewer Service		1,988,973		1,988,973
Telecommunications Revenues			174,028	174,028
<b>Total Operating Revenues</b>	<b>1,374,877</b>	<b>1,988,973</b>	<b>174,028</b>	<b>3,537,878</b>
<u>Operating Expenses:</u>				
Operation and Maintenance	651,413	783,896	218,891	1,654,200
Depreciation	214,086	670,152	24,303	908,541
Taxes	8,834	4,151		12,985
<b>Total Operating Expenses</b>	<b>874,333</b>	<b>1,458,199</b>	<b>243,194</b>	<b>2,575,726</b>
<b>Operating Income (Loss)</b>	<b>500,544</b>	<b>530,774</b>	<b>(69,166)</b>	<b>962,152</b>
<u>Nonoperating Revenues (Expenses):</u>				
Investment Income	10,043	27,028	194	37,265
Interest Expense	(91,045)	(306,062)		(397,107)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(81,002)</b>	<b>(279,034)</b>	<b>194</b>	<b>(359,842)</b>
<b>Income Before Contributions and Transfers</b>	<b>419,542</b>	<b>251,740</b>	<b>(68,972)</b>	<b>602,310</b>
Capital Contributions	24,573	271,096		295,669
Transfer of Tax Equivalent	(212,489)	(250,000)	(4,430)	(466,919)
<b>Change in Net Assets</b>	<b>231,626</b>	<b>272,836</b>	<b>(73,402)</b>	<b>431,060</b>
<b>Net Assets - Beginning of Year</b>	<b>9,474,062</b>	<b>12,235,968</b>	<b>211,957</b>	<b>21,921,987</b>
<b>Net Assets - End of Year</b>	<b>\$ 9,705,688</b>	<b>\$ 12,508,804</b>	<b>\$ 138,555</b>	<b>\$ 22,353,047</b>

Exhibit A-9  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 1,331,620	\$ 2,009,675	\$ 179,023	\$ 3,520,318
Payments to employees	(255,791)	(388,249)	(38,870)	(682,910)
Payments to suppliers	(622,477)	(477,115)	(184,298)	(1,283,890)
Net Cash Flows From (Used by) Operating Activities	453,352	1,144,311	(44,145)	1,553,518
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Paid to municipality for tax equivalent	(212,489)	(250,000)	(4,430)	(466,919)
Net Cash Flows (Used by) Noncapital Financing Activities	(212,489)	(250,000)	(4,430)	(466,919)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Payments for capital acquisitions	(313,887)	(47,967)		(361,854)
Receipts of advances from other funds	190,000			190,000
Repayments of advances from other funds		(190,000)		(190,000)
Principal payments	(152,473)	(823,783)		(976,256)
Interest paid	(91,748)	(310,905)		(402,653)
Contributed capital	24,573	271,096		295,669
Net Cash Flows (Used by) Capital and Related Financing Activities	(343,535)	(1,101,559)		(1,445,094)
<u>Cash Flows From (Used by) Investing Activities:</u>				
Purchase of investments	(220,627)	(1,069,757)		(1,290,384)
Redemption of investments	215,246	1,043,924	51,279	1,310,449
Receipts of interest	10,043	27,028	194	37,265
Net Cash Flows From Investing Activities	4,662	1,195	51,473	57,330
Net change in Cash and Cash Equivalents	(98,010)	(206,053)	2,898	(301,165)
Cash and Cash Equivalents - Beginning of Year	1,045,024	989,216	28,837	2,063,077
Cash and Cash Equivalents - End of Year	\$ 947,014	\$ 783,163	\$ 31,735	\$ 1,761,912

Exhibit A-9 (Continued)  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Reconciliation of operating income to net cash provided</u>				
<u>by operating activities:</u>				
Operating Income (Loss)	\$ 500,544	\$ 530,774	\$ (69,166)	\$ 962,152
Noncash items in operating income:				
Depreciation Expense	225,654	658,584	24,303	908,541
Amortization of major repair	17,825			17,825
Changes in assets and liabilities:				
Customer accounts receivable	(13,589)	42,662	3,456	32,529
Other accounts receivable	(17,227)	(27,962)	1,539	(43,650)
Due from other funds	(271,791)	(21,760)		(293,551)
Special assessments receivable	(12,441)	6,002		(6,439)
Inventories	(1,488)			(1,488)
Accounts payable	15,417	(6,424)	(5,255)	3,738
Due to other funds	5,432	(18,516)	978	(12,106)
Compensated absences	5,016	(19,049)		(14,033)
Net Cash Provided (Used) by Operating Activities	453,352	1,144,311	(44,145)	1,553,518
<u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Asset Accounts</u>				
Cash and investments	228,096	474,443	31,735	734,274
Cash and investments (restricted assets)	939,545	1,378,477		2,318,022
Less: Investments	(220,627)	(1,069,757)		(1,290,384)
Total cash and cash equivalents	\$ 947,014	\$ 783,163	\$ 31,735	\$ 1,761,912

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Waupaca conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The City of Waupaca, Wisconsin was incorporated under the provisions of Chapter 131, Laws of Wisconsin, 1981. The City operates under a Council-Mayor form of government and provides the following services as authorized by its charter; public safety (police and fire), highways and streets, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning, and general administrative services.

The basic criterion for including a legally separate organization as a Component Unit is the degree of financial accountability the City has with the organization. The following circumstances set forth the City's financial accountability for a legally separate organization:

- a. The City is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.
- b. The City may be financially accountable if an organization is fiscally dependent on the City regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The financial statements include the City of Waupaca Community Development Authority as a component unit. The Authority is organized as a legally separate organization under Section 66.431 of the State of Wisconsin Statutes for the purpose of carrying out blight elimination, slum clearance and urban renewal projects. The board of the Authority is appointed by the mayor of the City. Wisconsin statutes provide for circumstances whereby the City can impose its will on the Authority and also create a potential financial benefit to or burden the City. As a component unit, the activities of the Community Development Authority, when they occur, are blended into the City's general and capital projects funds. Separately issued financial statements of the Authority are not available.

For 2011, there were no revenues or expenditures for the Community Development Authority.

B. Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made to minimize the double-counting of internal activities of the City.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**B. Government-Wide Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

**Fund Financial Statements**

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major fund within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the city believes is particularly important to financial statement users may be reported as a major fund.

**Basis of Presentation:**

The City reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Continued)

Debt Service– Used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

TIF No. 4 and 8 Capital Projects Funds – Accounts for the activity of Tax Incremental District No.'s 4 and 8, including any payment of long-term debt principal, interest and related costs.

The City reports the following major proprietary funds:

Water– All activities necessary to provide water services to residents of the City and outlying areas. Fund activities include administration, billing and collection, operations, maintenance and financing.

Sewer – This fund accounts for the maintenance of the City's sewer system. Wisconsin State Statutes Section 66.076, permit municipalities to implement sewer fees to recover the costs of operation, maintenance, repair, and depreciation of sewer collection and transportation facilities. Sewer maintenance costs are recovered through a user fee rather than through the property tax.

Non-Major Funds:

The City reports the following non-major governmental funds:

Special Revenue Funds – Accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Inland Lakes  
Hotel/Motel Tax  
Transit System  
Revolving Loans  
Adult Recreation Center  
Airport

TIF No. 3, 5, 6, 7, 9 & 10 Capital Projects Fund – Accounts for the activity of Tax Incremental Districts, including any payment of long-term debt principal, interest and related costs.

Permanent Funds – Are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

-Cemetery Perpetual care

Capital Improvements – Used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The City reports the following non-major proprietary funds:

Telecommunications– This fund accounts for the activities of the City's communication utility. This utility offers broadband services to businesses and individuals. Expenditures are recovered through user fees.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Government-Wide Financial Statements**

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water and sewer utility and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the city is entitled to the resources and the amounts are available. Amounts owed to the City, which are not available, are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year, which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the city has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the city has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

The proprietary funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected to follow only the Financial Accounting Standards Board pronouncements issued before November 30, 1989. The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer utility are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues and expenditures arising from non-exchange transactions, such as property and sales taxes, fines, and grants are recorded according to the standards in Governmental Accounting Standards Board Statement 33 (GASB-33).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

The City has pooled the cash resources of its funds in order to maximize investment opportunities. Each fund's portion of total cash and investments is reported as cash and cash equivalents/investments by the City's individual major funds, and in the aggregate for non-major funds.

All deposits of the City are made in board designated official depositories and are secured as required by State Statute. The City may designate, as an official depository, any bank or savings association. Also the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents (Continued)

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost, which approximates fair value. Investments with a maturity of more than one year at acquisition and nonmoney market investments are carried at fair value as determined by quoted market prices.

For purposes of the statement of cash flows, all cash and highly liquid investments with an original maturity of three months or less (including restricted assets) are considered to be cash equivalents.

E. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units in the accompanying agency fund balance sheet.

Property tax calendar - 2011 tax roll:

Lien date and levy date	December 2011
Payment in full, or	January 31, 2012
First installment due	January 31, 2012
Second installment due	July 31, 2012
January settlement	January 15, 2012
February settlement	February 20, 2012
August settlement	August 20, 2012
Personal property taxes in full	January 31, 2012
Tax sale- 2011 delinquent real estate taxes	October 2014

No provision for uncollectible accounts receivable has been made for the City and the utilities because they have the right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds," Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

F. Inventories and Prepaid Items

Inventories of governmental fund types consist of fuel and expendable supplies held for consumption. Expendable supplies, which are not material, are considered expenditures when purchased and, accordingly, are not reflected on the Balance Sheet- Governmental Funds.

Inventories of proprietary fund types are valued at the lower-of-cost or market using the first-in, first-out method and are initially capitalized and then charged to expense when used.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Restricted Assets

Certain proceeds of the Utility revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "revenue bond special redemption" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond depreciation" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Other restricted assets include a "DNR Replacement Fund" which is required by the Wisconsin Department of Natural Resources for repairs and maintenance on the Wastewater Utility plant. "Customer Deposits" are deposits made by the customer which are due to the customers unless their bills are not paid.

H. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure, are reported at cost or estimated historical cost if actual cost is not available. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized. As allowed by GASB, the City has opted to report major infrastructure assets placed into service beginning in the year 2000.

Major capital outlays for capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Interest expenses incurred during construction are capitalized as part of the additions to capital assets.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Infrastructure	\$ 5,000	20-35
Land		N/A
Improvements	5,000	5-15
Buildings	5,000	50-100
Machinery and equipment	5,000	5-20

**Fund Financial Statements**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Compensated Absences

Vacation pay is earned based on length of service (5-30 days per year). Vacation days are not cumulative and are based on the calendar year.

Regular full time employees can accrue sick leave to a maximum of 150 days. For regular full time employees hired after 2011, sick leave shall be eligible for a maximum accrual of 90 days. Employees earn 12 sick days per year. Accumulated unused sick leave is placed in a bank for the employee. All full time employees leaving employment with the City in good standing will receive a lump sum payment of unused sick leave (paid at a pre-determined percentage based on years of service). An employee that is retiring also has the option to use unused sick leave as credit towards the City's health insurance plan. The City health insurance program is not available to retirees beyond COBRA requirements.

Compensated absence expenditures and liabilities are recorded and adjusted to December 31<sup>st</sup> salaries/wages at the close of each fiscal year.

J. Bond Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

The City has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is approximately \$728,027 and consists of four issues.

K. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications

**Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.
- b. Restricted net assets - Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Statements**

Beginning with the year ending December 31, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Government Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-Spendable – includes amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – includes amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.
- Committed – includes amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – includes amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Council may, from time to time, commit additional amounts of fund balance to a specific purpose. Such action shall be taken in open meeting and require the approval of a majority of the Council. Commitments of fund balance, once made, can be modified only by majority vote of the Council.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications (Continued)

The City has passed a fund balance policy to preserve working capital and to adequately prepare for unforeseen events which will require ready access to funds. The City requires that the unassigned fund balance be maintained between 20% and 25% of the General Fund budget. Amounts exceeding 30% shall be transferred to the Rainy-Day Fund. As of December 31, 2011, the unassigned fund balance of the general fund was 32.8% of the current year general fund budgeted expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

M. Budgets

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1(C).

The City budget is adopted in accordance with state law. The legally adopted budget and budgetary expenditure control is exercised at the two-digit subfunction level for all funds. Budget amounts in the financial statements include appropriations authorized in the original budget resolution, designated carryovers from prior years, and subsequent revisions authorized by the City Council. Such revisions are required by a statutory provision, which states that no expenditures can be made from an expired appropriation. The statutes also require publication of the budget revisions. Revisions require a majority vote of the Common Council. Appropriations for the general fund lapse at year end unless specifically carried forward by council action.

N. Transfers

Transfers include the payment in lieu of taxes from the water, sewer, and telecommunications utilities to the general fund. The debt service fund transferred property tax levies to the TIF funds for shortfalls between the tax increments and their debt payments. TIF District No. 4 is a donor to TIF District No. 8. A transfer of positive tax increment after satisfying current year debt service and project costs was made in the amount of \$107,624.

O. Encumbrances

Encumbrances outstanding represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders at year-end are fulfilled. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent liabilities or expenditures. Encumbrance accounting applies only to governmental fund types. The City does not use encumbrance accounting.

P. Risk Management

The City is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances.

R. Regulation of Municipal Utilities

The Waupaca Water and Telecommunications Utilities operate under service rules which are established by the Public Service Commission of Wisconsin. Rates charged are regulated by the Commission. The accounting records of the utility are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission. The Sewer Utility is not regulated.

S. State and Federal Aids

State general and categorical aids are recognized as revenue in the entitlement year. Federal aids and certain state aids for reimbursable programs are recognized as revenue in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenue.

T. Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expense in the reimbursing fund and as revenue in the fund that is reimbursed.

U. Discount on Long-Term Notes Receivable

A long-term receivable is discounted at a rate of 3%. The discount is recognized and being amortized to interest income in the statement of activities over the course of the loan using the effective interest method

NOTE 2                    EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS  
AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and government-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

**Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities**

Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories.

- a. Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.



City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Wisconsin State Statutes (Continued)

- Bonds issued by a local football stadium district
- Bonds issued by a local arts district
- Bonds issued by the Wisconsin Aerospace Authority.

Income Allocation – Interest income is generally allocated to the fund that owns the certificate of deposit, money market account, savings account, and investment.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Amount	12 Months or Less	13-24 Months	25-36 Months
Certificates of Deposit	\$ 1,381,390	\$ 1,019,471	\$ 51,000	\$ 310,919

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. At December 31, 2011, the City's investments were rated as follows:

	Amount	Rating
Wisconsin Local Government Investment Pool	\$ 147	Not Rated
Money Market Funds	\$ 1,367,359	AAA

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City would not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, the City would not be able to recover the value of its investment of collateral securities that are in possession of another party.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and \$250,000 for non interest bearing accounts. In addition, the banks used by the City participate in the Dodd-Frank Act. Under this program, the FDIC provides unlimited protection to all noninterest-bearing accounts through December 31, 2012. Bank accounts and the local government investment pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may be significant to individual organizations.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board (SWIB). The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2011, the fair value of the City's share of the LGIP's assets was substantially equal to the amount reported. Information on derivatives was not available to the City.

SWIB may invest in obligations of the U.S. Treasury and its agencies, Commercial Paper, Bank Time Deposits/Certificates of Deposit, Bankers' Acceptances, Asset Backed Securities and Repurchase Agreements secured by the U.S. Government or its agencies and other instruments authorized under State Investment Fund Investment guidelines.

Investment allocation in the local government investment pool as of December 31, 2011 was: 84% in U.S. Government Securities, 15% in cash and 1% in Bankers' Acceptances. The Wisconsin State Treasurer updates the investment allocations on a monthly basis.

As of December 31, 2011, \$1,157,033 of the City's deposits with financial institutions in excess of federal depository insurance limits and collateral pledged by financial institutions and were exposed to custodial risk. \$552,390 of this amount would be insured by the State of Wisconsin Guaranty Fund, providing funds are available at the time of any potential loss.

Fluctuating cash flows during the year due to tax collections, receipt of state aids and/or proceeds from borrowing may have resulted in temporary balances during the year significantly exceeding uninsured amounts at the balance sheet date.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 4,162,071	\$	\$	\$ 4,162,071
Total capital assets not being depreciated	4,162,071			4,162,071
Capital Assets, being depreciated				
Building	10,991,964			10,991,964
Infrastructure	13,093,105	78,407		13,171,512
Improvements other than buildings	531,107	34,899		566,006
Machinery and equipment	1,027,762			1,027,762
Vehicles	1,169,843	43,778	(30,281)	1,183,340
Total Capital Assets being depreciated	26,813,781	157,084	(30,281)	26,940,584
Less Accumulated Depreciation for:				
Building	1,936,446	119,750		2,056,196
Infrastructure	3,146,964	388,320		3,535,284
Improvements other than buildings	211,341	19,164		230,505
Machinery and equipment	691,787	41,466		733,253
Vehicles	516,543	69,542	(23,397)	562,688
Total Accumulated Depreciation	6,503,081	638,242	(23,397)	7,117,926
Total Capital Assets being depreciated, Net	20,310,700	(481,158)	(6,884)	19,822,658
Governmental Activities Capital Assets, Net	\$ 24,472,771	\$ (481,158)	\$ (6,884)	\$ 23,984,729

Depreciation expense for governmental activities was charged to functions as follows:

**Governmental Activities**

General Government	\$ 29,611
Public Safety	55,475
Public Works	460,889
Culture, recreation and education	4,000
Health and Human Services	88,267
Total Governmental Activities Depreciation Expense	\$ 638,242

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 4

CAPITAL ASSETS (CONTINUED)

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
<b><u>Business-Type Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 72,639	\$	\$	\$ 72,639
Non-utility property	13,563			13,563
Property held for future use	100,000			100,000
Total capital assets not being depreciated	186,202			186,202
Capital assets being depreciated:				
Building	6,301,078			6,301,078
Infrastructure/systems/equipment	28,741,037	545,987	(51,058)	29,235,966
Total Capital Assets Being Depreciated	35,042,115	545,987	(51,058)	35,537,044
Less accumulated depreciation				
Building	2,847,946	271,184		3,119,130
Infrastructure/systems/equipment	9,733,504	637,357	(51,058)	10,319,803
Total accumulated depreciation	12,581,450	908,541	(51,058)	13,438,933
Total capital assets being depreciated, Net	22,460,665	(362,554)		22,098,111
Business-Type Activity Assets, Net	\$ 22,646,867	\$ (362,554)	\$	\$ 22,284,313

Depreciation expense for business-type activities was charged to functions as follows:

**Business-Type Activities:**

Water	\$ 214,086
Wastewater	670,152
Telecommunications	24,303
Total Depreciation Expense	\$ 908,541

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2011.

	Beginning 1/1/2011	Additions	Payments	Balance 12/31/2011	Amounts Due within One Year
<b><u>Governmental Activities</u></b>					
General obligation debt:					
Bonds payable	\$ 14,820,000	\$ 1,040,000	\$(1,465,000)	\$ 14,395,000	\$ 1,365,000
Notes payable	1,095,000		(680,000)	415,000	75,000
Total General obligation debt	15,915,000	1,040,000	(2,145,000)	14,810,000	1,440,000
CDA Revenue Bonds	8,730,000		(1,350,000)	7,380,000	845,000
Other long-term obligations:					
Capital lease	165,466		(39,110)	126,356	40,576
Compensated absences	757,980	11,933		769,913	
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 25,568,446</u>	<u>\$ 1,051,933</u>	<u>\$(3,534,110)</u>	<u>\$ 23,086,269</u>	<u>\$ 2,325,576</u>

Interest costs incurred during the year totaled \$911,640. Total interest paid during the year aggregated \$910,639.

	Beginning 1/1/2011	Additions	Payments	Balance 12/31/2011	Amounts Due within One Year
<b><u>Business-Type Activities</u></b>					
Mortgage Revenue Bonds	\$ 11,040,503	\$	\$ (957,260)	\$ 10,083,243	\$ 993,107
Other long-term obligations:					
Capital Lease	80,359		(18,996)	61,363	19,708
Compensated absences	107,294		(14,033)	93,261	
Total Business-Type Activities					
Long-Term Liabilities	<u>\$ 11,228,156</u>	<u>\$</u>	<u>\$(990,289)</u>	<u>\$ 10,237,867</u>	<u>\$ 1,012,815</u>

Interest costs incurred during the year totaled \$393,095. Total interest paid during the year aggregated \$398,641.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

**General Obligation Debt**

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the City. The general obligation debt is expected to be repaid with general property taxes, special assessments, and tax increments. General obligation debt at December 31, 2011, is comprised of the following issues:

<u>DESCRIPTION</u>	<u>Issue Dates</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/11</u>
<b>Notes Payable</b>					
G.O. Promissory note-Capital Project	04-01-06	04-01-16	4.25-4.5%	740,000	\$ 415,000
<b>Refunding Bonds</b>					
G.O. Promissory bonds-TIF #3	01-06-07	04-01-21	4.0%	2,640,000	\$ 2,480,000
G.O. Promissory bonds-TIF #4	01-06-07	04-01-15	4.0%	975,000	910,000
G.O. Promissory bonds-TIF #5	01-06-07	04-01-21	4.0%	275,000	255,000
G.O. Promissory bonds-TIF #4	04-01-08	10-01-27	3.25%	575,000	520,000
G.O. Promissory bonds-TIF #6	04-01-08	10-01-27	3.05%	95,000	85,000
G.O. Promissory bonds-TIF #8	04-01-08	10-01-24	3.25%	1,580,000	1,375,000
G.O. Promissory bonds-Debt Service	04-01-08	04-01-23	3.25%	1,790,000	1,625,000
G.O. Promissory bonds-Refunding	11-09-10	04-01-30	2.0-4.7%	6,670,000	6,105,000
G.O. Promissory bonds-Refunding	04-05-11	10-01-20	2.0-4.0%	1,040,000	1,040,000
					<u>\$14,395,000</u>
Total Government Activities – General Obligation Debt					<u>\$14,810,000</u>

**Community Development Authority Lease Revenue Bonds**

Community development authority bonds are not deemed a debt or obligation of the City, nor a charge against its general credit. It is solely an obligation of the Community Development Authority. Repayment is provided by annual charges to the general and capital projects funds paid from property taxes.

Lease Revenue Bonds

City Hall/Library	11-01-98	10-01-12	6.2%	\$ 955,000	\$ 115,000
TIF #4, TIF #5	07-13-01	04-01-18	4.7-5.125%	1,095,000	1,020,000
TIF #3, TIF #4, TIF #5	08-01-02	04-01-22	4.2-5.0%	1,605,000	1,215,000
TIF #3, TIF #4	10-06-03	04-01-23	4.0-5.0%	2,910,000	2,025,000
Hendrickson Center	10-01-04	04-01-19	4.0-4.7%	3,915,000	3,005,000
Total lease revenue bonds					<u>\$ 7,380,000</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

Enterprise Fund debt is expected to be repaid with Enterprise Fund revenue. The mortgage revenue bonds are expected to be repaid with water and wastewater revenue. Enterprise Fund debt at December 31, 2011, is comprised of the following:

<u>DESCRIPTION</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance 12/31/2011</u>
<u>Revenue Bonds</u>					
Sewerage system revenue bond	04-18-95	05-01-14	3.65%	\$ 8,607,282	\$ 1,853,179
Sewerage system revenue bond	04-08-98	05-01-17	2.64%	717,567	265,972
Sewerage system revenue bond	07-24-02	05-01-22	2.84%	1,135,476	729,600
Sewerage system revenue bond	11-01-04	05-01-24	2.365%	454,008	355,336
Sewerage system revenue bond	01-01-05	05-01-25	2.365%	437,107	327,485
Sewerage system revenue bond	07-11-07	05-01-27	2.475%	502,814	444,845
Sewerage system revenue bond	04-01-08	11-01-24	4.40%	4,125,000	3,900,000
Water system revenue bond	11-01-99	05-01-18	1.58%	760,310	306,826
Water system revenue bond	04-01-08	11-01-24	3.40%	2,210,000	1,900,000
Total Business-Type Activities Revenue Debt					<u>\$10,083,243</u>

General Obligation Debt Limit Calculation

The 2011 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$396,063,400. The legal debt limit and margin of indebtedness as of December 31, 2011 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$396,063,400)	\$ 19,803,170
General Obligation Debt Outstanding	(14,810,000)
Margin of Indebtedness	<u>\$ 4,993,170</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2011, are:

Years	<u>Governmental Fund Debt</u>		<u>Enterprise Fund Debt</u>	
	Principal	Interest	Principal	Interest
2012	\$ 2,285,000	\$ 829,069	\$ 993,107	\$ 364,964
2013	2,695,000	745,672	1,019,841	329,872
2014	2,295,000	661,709	1,052,494	293,744
2015	2,280,000	576,890	647,738	263,512
2016	2,145,000	488,099	673,111	239,249
2017-2021	7,075,000	1,370,498	3,421,905	776,965
2022-2026	1,970,000	471,318	2,241,862	147,969
2027-2030	1,445,000	164,585	33,185	411
Totals	<u>\$22,190,000</u>	<u>\$ 5,307,840</u>	<u>\$10,083,243</u>	<u>\$ 2,416,686</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 6

CAPITAL LEASES, AS LESSEE

Governmental Activities

The following is an analysis of the original cost of leased property under capital leases by major classes as of December 31, 2011.

Equipment	\$ 200,743
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The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011.

<u>Year Ended December 31,</u>	
2012	\$ 45,314
2013	45,314
2014	45,321
Total Payment	135,949
Less: Interest	(9,593)
Minimum Lease Payments	\$ 126,356

Business-Type Activities

The following is an analysis of the original cost of leased property under capital leases by major classes as of December 31, 2011.

Equipment	\$ 97,494
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The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011.

<u>Year Ended December 31,</u>	
2012	\$ 22,010
2013	22,009
2014	22,003
Total Payment	66,022
Less: Interest	(4,659)
Minimum Lease Payments	\$ 61,363

NOTE 7

DEFINED BENEFIT PENSION PLAN

All eligible City of Waupaca employees participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined public employee retirement system. All permanent employees hired previous to July 1, 2011 are required to work at least 600 hours a year (440 hours for teachers) to be eligible to participate in the WRS. Covered employees in the General/Teacher category are required by statute to contribute 6.5% of their salary (3.9% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 4.8% for Protective Occupations without Social Security) to the plan. Effective July 1, 2011, covered employees are required by statute to contribute 5.8% of their salary to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 7

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Employees hired after July 1, 2011 are required to work at least 1200 hours for non-teachers and non-school district educational support personnel or 880 hours for teachers and school district educational support personnel and the employee is expected to be employed for at least one year (365 consecutive days, 366 in leap year) from the employees date of hire. Once the employer sets the expectation that the employee will work the applicable required amount of hours or more, the employee is enrolled in the WRS and is not required to work the minimum amount of hours every year to remain eligible.

The payroll for City of Waupaca employees covered by the WRS for the year ended December 31, 2011 was \$2,635,439; the employer's total payroll was \$2,893,169. The total required contribution for the year ended December 31, 2011 was \$385,617, which consisted of \$349,632 or 13.3 percent of the covered payroll from the employer and \$35,985 or 5.8 percent of payroll from employees (earned after July 1, 2011). The City pays the required employee portion for employees covered under existing employee contracts in place prior to June 29, 2011 with provisions contrary to the new statute. Total contributions for the years ending December 31, 2010 and 2009, were \$373,415 and \$376,889 respectively; equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees hired after June 30, 2011 fully vest after five years.

The WRS also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, Post Office Box 7931, Madison, Wisconsin 53707-7931.

The pension related debt for the City as of December 31, 2011 was \$227,070. This liability was determined in accordance with provisions of GASB Statement 27 regarding pension-related debt. Depending on actuarial assumptions, this estimate can vary significantly. This liability is considered an actuarial liability and is not reported on the Statement of Net Assets.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 8

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2011 were as follows:

Receivable Fund	Payable Fund	Amount
<b>Government Funds:</b>		
General	Water utility	\$ 2,961
General	Telecommunications	978
General	Transit System	97,784
General	TIF #8	236,300
TIF #4	TIF #8	958,282
TIF #4	TIF #5	51,673
TIF #4	TIF #7	12,987
TIF #4	TIF #10	31,553
	Total	\$ 1,392,518
Receivable Fund	Payable Fund	Amount
<b>Enterprise Funds:</b>		
Water utility	General	\$ 27,867
Water utility	Sewer utility	202,975
Water utility	Capital projects	78,407
Sewer utility	Water utility	15,376
Sewer utility	General	26,746
	Total	\$ 351,371

The following is a schedule of interfund advances at December 31, 2011:

Receivable Fund	Payable Fund	Amount
Water	Sewer	\$ 60,000
Water utility	TIF #8	2,942,888
Water utility	TIF #3	36,236
Sewer utility	TIF #8	3,660,000
Sewer utility	TIF #3	38,764
	Total	\$ 6,737,888

No repayment schedule has been prepared for the advance to the sewer utility. The water utility is not charging interest on the advance to the sewer utility.

For the statement of net assets, interfund balances which are owned within the government activities or business-type activities are netted and eliminated.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

The following is a schedule of interfund transfers:

<u>Fund Transfer To</u>	<u>Fund Transferred From</u>	<u>Amount</u>
Government Funds:		
General	Water utility-tax equivalent	\$ 212,489
General	Sewer utility	250,000
General	Telecommunications utility-Tax Equivalent	4,430
TIF #8	Debt service	947,129
TIF #3	Debt service	498,208
TIF #5	Debt service	111,473
TIF #6	Debt service	39,795
TIF #8	TIF #4	107,624
	Total	<u>\$ 2,171,148</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires collection from to the fund that statute or budget required to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES

Governmental activities net assets reported on the government wide statement of net assets at December 31, 2011 includes the following:

**GOVERNMENTAL ACTIVITIES**

Invested in capital assets, net of related debt	
Land	\$ 4,162,071
Other capital assets, net of accumulated depreciation	19,822,658
Less: related long-term debt outstanding	<u>(11,951,356)</u>
Total Invested Capital Assets	<u>12,063,373</u>
Restricted:	
Debt Service	\$ 174,582
TIF #4	1,054,495
Inland Lakes	7,864
Hotel/Motel Tax	49,067
Revolving Loans	8,489
Adult Recreation Center	12,055
Airport	8,765
TIF #3	33
TIF #6	90,436
TIF #9	241,880
Perpetual Care	<u>113,312</u>
Total Restricted	<u>1,760,978</u>
Unrestricted	<u>(15,284,009)</u>
Total Governmental Activities Net Assets	<u>\$ (1,459,658)</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 9      GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES (CONTINUED)

**GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2011 includes the following:

General Fund:	
Nonspendable:	
Long-term receivable	<u>\$        84,354</u>
Assigned for:	
Historical	\$        2,923
Judgments	13,942
Police Task Force	4,817
Transit System	34,651
Senior Center	1,425
Rural Senior Grant	7,948
Youth Programs	3,785
Total	<u>\$        69,491</u>
Other Governmental Funds:	
Nonspendable:	
Airport Fund:	
Inventories	<u>\$        14,523</u>
Restricted:	
Inland Lakes Fund:	
Restricted for future expenditures	\$        7,864
Hotel/Motel Tax Fund:	
Restricted for economic development	49,067
Revolving Loan Fund:	
Restricted for economic development	8,489
Adult Recreation Center:	
Restricted for future expenditures	12,055
Airport Fund:	
Restricted for future expenditures	8,765
TIF Districts Fund:	
Restricted for future TIF expenditures	
TIF #3	33
TIF #6	90,436
TIF #9	241,880
Perpetual Care Fund:	
Restricted for future cemetery expenditures	<u>113,312</u>
Total Restricted Non-major funds	<u>\$        531,901</u>



City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 11

LANDFILL POST CLOSURE CARE COST

The City of Waupaca has an old landfill that is no longer accepting waste and is being monitored. State and federal laws and regulations require the City to monitor, document and report the condition of the City's closed landfill site in perpetuity. City officials are unable to estimate the total cost of closing the landfill and post closure monitoring at this time. \$688,174, including current year costs of \$2,945 have been incurred to date in closing and monitoring the landfill. The City has received a grant from the Wisconsin Department of Natural Resources, which will finance approximately 50% of the original costs of the landfill over a period of years beginning in 1992. The City received \$27,559 for DNR in 2000. Actual post closure care costs will be paid as incurred. No escrow accounts are required as a part of the current closure agreement and annual costs are paid from property tax revenues.

NOTE 12

TAX INCREMENTAL FINANCE DISTRICTS

Tax increment financing, as authorized by Section 66.46 of the Wisconsin Statutes, is a method by which the City can recover its development and public improvement costs in Tax Incremental Finance District (TIF) designated areas. These costs are recovered from the increased valuation in the designated area. The City has financed development and public improvement costs in its TIF primary through the issuance of long-term debt. Project costs have been reported primarily as Capital Projects Funds expenditures. Tax increments will be used to meet maturing debt obligations incurred to provide financing for development and public improvement costs within the tax incremental district. The District is allowed to collect tax increments until its termination date. Any over collections are returned to the various taxing entities of the District. The City becomes liable for any cost not recovered by the termination date.

During 2010, the City declared TIF District Numbers 3, 5 and 8 to be distressed Districts and TIF District Numbers 4 and 6 to be the donor Districts. As such, the donor Districts can use cumulative excess revenues over expenditures to aid in paying the costs of the distressed Districts. This could potentially add ten years to the life of the distressed Districts.

The City has eight active Tax Incremental Financing Districts. Project summaries of the activity and status of the districts through December 31, 2011 are provided as supplemental financial information.

NOTE 13

WASTEWATER REVENUE CONTRIBUTIONS- OTHER GOVERNMENTS

The Wastewater Utility provides treatment services to the Chain O'Lakes Sanitary District. During 2011, the following amounts were received:

Contributed capital-debt service principal	\$ 194,632
Interest component	32,488
Replacement component	43,976
Total	271,096
Customer charges:	
Flow component (net of overcharge)	127,872
Total	\$ 398,968

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 14

CONTINGENCIES AND COMMITMENTS

From time to time, the City is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and the City's counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grants. Management believes such disallowances, if any, would be immaterial.

NOTE 15

CURRENT AND ADVANCE REFUNDINGS

Current refunding

On April 5, 2011, the City issued \$1,040,000 in General Obligation Bonds with interest rates between 2% and 4% to currently refund \$690,000 of General Obligation Bonds with interest rates between 5.15% and 5.55% and \$355,000 of General Obligation Notes with interest rates between 4% and 4.15%. The City completed the current refunding to reduce its total debt service payments and to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$67,707.

Prior-year Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On December 31, 2011, \$2,335,000 of bonds outstanding are considered defeased.

NOTE 16

DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2011 the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Property tax receivable	\$ 4,946,151
TIF Penalties	117,690
Special assessments	796,497
Long-term notes receivable – CDBG	530,100
Long-term notes receivable – Townhouse Land	84,354
Special Charges	2,898
Interest on Special Assessments	4,535
Total Deferred Revenue for Government Funds	\$ 6,482,225

Postponed special assessments are generally collectible in annual installments over five years while the CDBG notes receivable have been deferred until the property is sold or homeowner becomes deceased.

The long-term notes receivable for the townhouse land is for a principal sum of \$200,000, payable in one installment on March 15, 2041. The note carries an interest rate of 0%. The note has been discounted at a rate of 3% in these financial statements. The discount as of December 31, 2011 was \$115,646.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 17 CONCENTRATION OF RISK

Approximately 27% of the water utility operating revenues are provided by one customer.

NOTE 18 SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the City approved the sale of the telecommunications utility fixed assets for \$225,000. The book value of these assets was \$97,587 as of December 31, 2011. The closing date for this sale is tentatively set for April 30, 2012.

Subsequent to December 31, 2011, the City approved various streets and utility projects estimated to cost \$710,000. The City plans to finance the project through a state trust fund loan. As of the date of this report, no loan proceeds have been received.

NOTE 19 EQUITY ADJUSTMENT – ACCOUNTING CHANGE

The City adopted the provisions of GASB Statement No. 54 Fund Balance Reporting and Government Fund Type Definitions, for the year ended December 31, 2011. As a result, two funds were identified as no longer meeting the definitions necessary to be presented as a separate fund in the audited financial statements. The January 1, 2011 equity amounts of these two funds are included in the general fund and debt service fund balances. As of January 1, 2011, the general fund beginning fund balance was decreased by \$104,357 and the debt service beginning fund balance was increased by \$391,500 on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

NOTE 20 PRIOR PERIOD ADJUSTMENT

Beginning net assets for governmental activities on the Statement of Net Activities was increased by \$542,746. This adjustment was made to include community development block grant loans as restricted fund balance as of January 1, 2011. This was previously reflected as deferred revenue.

NOTE 21 EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT  
PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) approved GASB Statement No. 61. The Financial Reporting Entity: Omnibus. The City has not determined the impact of this standard on the financial statements. Application of this standard may restate portions of these financial statements.

NOTE 22 TAX LEVY LIMIT

Wisconsin Act 32, imposes a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. Under 2011 Wisconsin Act 32, in 2011 and all future years, a municipality is allowed to increase its levy over the amount it levied in the prior year by the percentage increase in equalized value from net new construction or zero percent. All of the exceptions and modifications to levy limits that existed under previous law continue to apply.

**Required Supplementary Information**

Exhibit B-1  
 Required Supplementary Information  
 City of Waupaca, Wisconsin  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<u>Revenues</u>					
Taxes	\$ 1,682,349	\$ 1,682,349	\$ 1,679,642	\$ (2,707)	\$ (2,707)
Licenses and permits	140,447	140,447	155,138	14,691	14,691
Fines, forfeits and penalties	73,000	73,000	67,227	(5,773)	(5,773)
Public charges for services	181,085	195,085	208,885	27,800	13,800
Intergovernmental	2,430,116	2,430,116	2,601,967	171,851	171,851
Interest	800	800	2,254	1,454	1,454
Miscellaneous	111,157	111,157	135,839	24,682	24,682
<b>Total Revenues</b>	<b>4,618,954</b>	<b>4,632,954</b>	<b>4,850,952</b>	<b>231,998</b>	<b>217,998</b>
<u>Expenditures</u>					
General government	780,913	789,282	675,907	105,006	113,375
Public safety	1,660,775	1,675,948	1,647,936	12,839	28,012
Health and social services	178,806	188,402	184,753	(5,947)	3,649
Public works	988,671	1,009,503	997,845	(9,174)	11,658
Culture, recreation and education	1,542,800	1,559,907	1,408,330	134,470	151,577
Capital outlay			201,200	(201,200)	(201,200)
Debt service			45,314	(45,314)	(45,314)
<b>Total Expenditures</b>	<b>5,151,965</b>	<b>5,223,042</b>	<b>5,161,285</b>	<b>(9,320)</b>	<b>61,757</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(533,011)</b>	<b>(590,088)</b>	<b>(310,333)</b>	<b>222,678</b>	<b>279,755</b>
<u>Other Financing Sources (Uses)</u>					
Proceeds from sale of capital assets	100,000	100,000	917	(99,083)	(99,083)
Proceeds from insurance claim			212,214	212,214	212,214
Transfer from Utilities	440,647	440,647	466,919	26,272	26,272
<b>Total Other Financing Sources (Uses)</b>	<b>540,647</b>	<b>540,647</b>	<b>680,050</b>	<b>139,403</b>	<b>139,403</b>
<b>Net Change in Fund Balance</b>	<b>7,636</b>	<b>(49,441)</b>	<b>369,717</b>	<b>362,081</b>	<b>419,158</b>
Fund Balance - Beginning of Year	1,611,143	1,611,143	1,611,143		
<b>Fund Balance - End of Year</b>	<b>\$ 1,618,779</b>	<b>\$ 1,561,702</b>	<b>\$ 1,980,860</b>	<b>\$ 362,081</b>	<b>\$ 419,158</b>

City of Waupaca  
Notes to Required Supplementary Information  
On Budgetary Accounting and Control  
December 31, 2011

**General Policies** – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Annual budgets, as required by state statutes, are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds.

A budget has been adopted for the general, certain special revenue, debt service and certain capital projects funds and comparisons of budget to actual are presented in the financial statements. Budgets have not been formally adopted for certain special revenue and capital projects funds, since effective control is achieved through alternative means.

The budgeted amounts presented include both the original and amended budgets. The City council may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds council action. There were no supplemental appropriations during the year. Appropriations lapse at year-end unless assigned. Budgets are adopted at the broad functional category level of expenditures in the general fund and total expenditures level for other funds.

Although there are adopted budgets for the enterprise funds, budget to actual data is not shown since there is no requirement under U.S. generally accepted accounting principles to present budget to actual comparisons for enterprise funds as part of the financial statements, even if annual budgets are legally adopted for these funds.

**Encumbrances** – Encumbrance accounting is not used.

**Excess of Expenditures Over Appropriations** – For the year ended December 31, 2011, expenditures exceeded budgeted amounts for the following:

Capital Outlay	\$	201,200
Debt Service		45,314

## Supplementary Information

Exhibit C-1  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2011

	Capital Improvements	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
<u>Assets:</u>										
Cash and investments	\$ 183,107	\$ 13,800	\$ 167,749	\$	\$ 8,489	\$ 12,290	\$ 25,612	\$ 407,349	\$ 113,312	\$ 931,708
Receivables:										
Taxes	7,176						114,118	981,004		1,102,298
Loans					530,100					530,100
Other governments				74,331						74,331
Special assessments	790,346									790,346
Inventory							14,523			14,523
<b>Total Assets</b>	<b>\$ 980,629</b>	<b>\$ 13,800</b>	<b>\$ 167,749</b>	<b>\$ 74,331</b>	<b>\$ 538,589</b>	<b>\$ 12,290</b>	<b>\$ 154,253</b>	<b>\$ 1,388,353</b>	<b>\$ 113,312</b>	<b>\$ 3,443,306</b>
<u>Liabilities:</u>										
Accounts payable	\$	\$ 5,936	\$ 118,682	\$ 25,173	\$	\$ 167	\$ 16,751	\$	\$	\$ 166,709
Due to other governments	12,563					68	96	78		12,805
Deferred revenue	796,497				530,100		114,118	981,004		2,421,719
Due to other funds	78,407			97,784				96,213		272,404
Advances due to other funds								75,000		75,000
<b>Total Liabilities</b>	<b>\$ 887,467</b>	<b>5,936</b>	<b>118,682</b>	<b>122,957</b>	<b>530,100</b>	<b>235</b>	<b>130,965</b>	<b>1,152,295</b>		<b>2,948,637</b>
<u>Fund Equity:</u>										
Fund Balance										
Nonspendable							14,523			14,523
Restricted		7,864	49,067		8,489	12,055	8,765	332,349	113,312	531,901
Assigned	93,162									93,162
Unassigned (Deficit)				(48,626)				(96,291)		(144,917)
<b>Total Fund Equity</b>	<b>93,162</b>	<b>7,864</b>	<b>49,067</b>	<b>(48,626)</b>	<b>8,489</b>	<b>12,055</b>	<b>23,288</b>	<b>236,058</b>	<b>113,312</b>	<b>494,669</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 980,629</b>	<b>\$ 13,800</b>	<b>\$ 167,749</b>	<b>\$ 74,331</b>	<b>\$ 538,589</b>	<b>\$ 12,290</b>	<b>\$ 154,253</b>	<b>\$ 1,388,353</b>	<b>\$ 113,312</b>	<b>\$ 3,443,306</b>

Exhibit C-2  
City of Waupaca, Wisconsin  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended December 31, 2011

	Capital Improvements	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
Revenues:										
Taxes	\$ 49,000	\$	\$ 200,079	\$	\$	\$	\$ 116,661	\$ 869,413	\$	\$ 1,235,153
Special Assessments	8,520									8,520
Intergovernmental		2,429		302,654				16,317		321,400
Public Charges for Services			10			52,655	147,473			200,138
Miscellaneous:										
Interest	1,049	32			773					1,854
Other	6,444	915		21,684	3,762		15,262	120,198		168,265
<b>Total Revenues</b>	<b>65,013</b>	<b>3,376</b>	<b>200,089</b>	<b>324,338</b>	<b>4,535</b>	<b>52,655</b>	<b>279,396</b>	<b>1,005,928</b>		<b>1,935,330</b>
Expenditures:										
Public Works				333,255			246,711			579,966
Culture, Recreation and Education						40,600				40,600
Conservation and Development		9,223	193,889					65,455		268,567
Capital Outlay										
Public Safety	70,801									70,801
Public works	91,450									91,450
Conservation and Development								33,491		33,491
Debt Service										
Principal Retirement								856,439		856,439
Interest and Fiscal Charges								296,680		296,680
<b>Total Expenditures</b>	<b>162,251</b>	<b>9,223</b>	<b>193,889</b>	<b>333,255</b>		<b>40,600</b>	<b>246,711</b>	<b>1,252,065</b>		<b>2,237,994</b>
Excess of Revenues Over (Under) Expenditures	(97,238)	(5,847)	6,200	(8,917)	4,535	12,055	32,685	(246,137)		(302,664)
Other Financing Sources (Uses):										
Proceeds from sale of fixed assets	5,650									5,650
Transfer from debt service fund								649,476		649,476
<b>Total Other Financing Sources (Uses)</b>	<b>5,650</b>							<b>649,476</b>		<b>655,126</b>
Net Change in Fund Balances	(91,588)	(5,847)	6,200	(8,917)	4,535	12,055	32,685	403,339		352,462
Fund Balances - January 1	184,750	13,711	42,867	(39,709)	3,954		(9,397)	(167,281)	113,312	142,207
Fund Balances - December 31	\$ 93,162	\$ 7,864	\$ 49,067	\$ (48,626)	\$ 8,489	\$ 12,055	\$ 23,288	\$ 236,058	\$ 113,312	\$ 494,669

Exhibit C-3  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
TIF Districts  
December 31, 2011

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>Assets:</b>							
Cash and investments	\$ 75,033	\$	\$ 90,436	\$	\$ 241,880	\$	\$ 407,349
Taxes Receivable	288,481	21,978	555,701	33,806		81,038	981,004
<b>Total Assets</b>	<b>\$ 363,514</b>	<b>\$ 21,978</b>	<b>\$ 646,137</b>	<b>\$ 33,806</b>	<b>\$ 241,880</b>	<b>\$ 81,038</b>	<b>\$ 1,388,353</b>
<b>Liabilities:</b>							
Due to other governments	\$	\$ 78	\$	\$	\$	\$	\$ 78
Deferred revenue	288,481	21,978	555,701	33,806		81,038	981,004
Due to other funds		51,673		12,987		31,553	96,213
Advances due to other funds	75,000						75,000
<b>Total Liabilities</b>	<b>363,481</b>	<b>73,729</b>	<b>555,701</b>	<b>46,793</b>		<b>112,591</b>	<b>1,152,295</b>
<b>Fund Equity:</b>							
Restricted for TIF expenditures	33		90,436		241,880		332,349
Unassigned (deficit)		(51,751)		(12,987)		(31,553)	(96,291)
<b>Total Fund Equity</b>	<b>33</b>	<b>(51,751)</b>	<b>90,436</b>	<b>(12,987)</b>	<b>241,880</b>	<b>(31,553)</b>	<b>236,058</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 363,514</b>	<b>\$ 21,978</b>	<b>\$ 646,137</b>	<b>\$ 33,806</b>	<b>\$ 241,880</b>	<b>\$ 81,038</b>	<b>\$ 1,388,353</b>

Exhibit C-4  
City of Waupaca, Wisconsin  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
TIF Districts  
For the Year Ended December 31, 2011

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>Revenues:</b>							
Taxes	\$ 240,896	\$ 20,852	\$ 493,848	\$ 34,530	\$	\$ 79,287	\$ 869,413
Intergovernmental	531	8	627	3,696	11,455		16,317
Miscellaneous:							
Other	30,451	6,106	61,691			21,950	120,198
<b>Total Revenues</b>	<b>271,878</b>	<b>26,966</b>	<b>556,166</b>	<b>38,226</b>	<b>11,455</b>	<b>101,237</b>	<b>1,005,928</b>
<b>Expenditures:</b>							
Conservation and Development	23,377	23,377	9,351	4,675		4,675	65,455
Capital Outlay							
Conservation and Development	22,341	4,430	3,930	930	930	930	33,491
Debt Service							
Principal Retirement	240,000	46,439	505,000	20,000		45,000	856,439
Interest and Fiscal Charges	168,072	30,359	71,033	3,109		24,107	296,680
<b>Total Expenditures</b>	<b>453,790</b>	<b>104,605</b>	<b>589,314</b>	<b>28,714</b>	<b>930</b>	<b>74,712</b>	<b>1,252,065</b>
<b>Other Financing Sources (Uses):</b>							
Transfer from debt service fund	498,208	111,473	39,795				649,476
<b>Total Other Financing Sources (Uses)</b>	<b>498,208</b>	<b>111,473</b>	<b>39,795</b>				<b>649,476</b>
<b>Net Change in Fund Balance</b>	<b>316,296</b>	<b>33,834</b>	<b>6,647</b>	<b>9,512</b>	<b>10,525</b>	<b>26,525</b>	<b>403,339</b>
<b>Fund Balances - January 1</b>	<b>(316,263)</b>	<b>(85,585)</b>	<b>83,789</b>	<b>(22,499)</b>	<b>231,355</b>	<b>(58,078)</b>	<b>(167,281)</b>
<b>Fund Balances - December 31</b>	<b>\$ 33</b>	<b>\$ (51,751)</b>	<b>\$ 90,436</b>	<b>\$ (12,987)</b>	<b>\$ 241,880</b>	<b>\$ (31,553)</b>	<b>\$ 236,058</b>

Miscellaneous Financial Data

City of Waupaca, Wisconsin  
 Historical Sources, Uses and Status of Funds - Tax Incremental Financing Districts  
 From Dates of Creation Through December 31, 2011

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<u>Sources of Funds</u>									
Taxes	\$ 1,584,181	\$ 4,379,396	\$ 156,061	\$ 3,934,679	\$ 194,647	\$ 342,055	\$ 57,655	\$ 342,278	\$ 10,990,952
Intergovernmental	223,620	45,255	3,129	11,468	9,607	508,672	205,069		1,006,820
Other Revenue	898,662	443,684	113,123	671,456	58,448	705,521	5,600	107,068	3,003,562
Sale of capital Assets	344,434								344,434
Proceeds of long-term debt	6,960,000	7,900,000	1,070,000	9,915,000	690,000	20,705,000		1,895,000	49,135,000
Transfers	798,208		111,473	39,795		1,759,753		150,000	2,859,229
<b>Total Sources</b>	<b>10,809,105</b>	<b>12,768,335</b>	<b>1,453,786</b>	<b>14,572,398</b>	<b>952,702</b>	<b>24,021,001</b>	<b>268,324</b>	<b>2,494,346</b>	<b>67,339,997</b>
<u>Uses of Funds</u>									
Capital Expenditures	4,753,756	5,137,484	572,899	5,412,164	270,256	10,864,530	26,444	948,328	27,985,861
Debt Service									
Principal Retirement	930,000	1,090,686	129,316	5,229,793	224,578	3,355,190		1,142,489	12,102,052
Interest and Fiscal Charges	1,327,456	1,307,028	210,916	974,386	75,235	903,531		118,004	4,916,556
Transfers	3,797,860	4,178,642	592,406	2,865,619	395,620	16,695,220		317,078	28,842,445
<b>Total Uses</b>	<b>10,809,072</b>	<b>11,713,840</b>	<b>1,505,537</b>	<b>14,481,962</b>	<b>965,689</b>	<b>31,818,471</b>	<b>26,444</b>	<b>2,525,899</b>	<b>73,846,914</b>
<b>Fund Balance at December 31</b>	<b>\$ 33</b>	<b>\$ 1,054,495</b>	<b>\$ (51,751)</b>	<b>\$ 90,436</b>	<b>\$ (12,987)</b>	<b>\$ (7,797,470)</b>	<b>\$ 241,880</b>	<b>\$ (31,553)</b>	<b>\$ (6,506,917)</b>
Cash	\$ (75,033)	\$(1,054,495)	\$	\$ (90,436)	\$	\$	\$ (241,880)	\$	\$(1,461,844)
Due to Other Governments			78						78
Debt Outstanding	3,825,000	3,962,182	637,817	3,155,000	140,000	3,370,000		4,135,000	19,224,999
Due to other funds	75,000		51,673		12,987	7,797,470		31,553	7,968,683
<b>Balance to be Collected (Surplus) at December 31</b>	<b>\$ 3,824,967</b>	<b>\$ 2,907,687</b>	<b>\$ 689,568</b>	<b>\$ 3,064,564</b>	<b>\$ 152,987</b>	<b>\$ 11,167,470</b>	<b>\$ (241,880)</b>	<b>\$ 4,166,553</b>	<b>\$ 25,731,916</b>



# Johnson & Block

AND COMPANY, INC.

Certified Public Accountants

*Quality service through our commitment to clients and staff*

Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krynski ▲ Janice L. Froelich ▲ Jay H. Bennett

## COMMUNICATION OF MATERIAL WEAKNESSES

To the City Council  
City of Waupaca, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Waupaca's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Waupaca's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the following deficiencies in the City of Waupaca's internal control to be material weaknesses:

### Segregation of Duties

The size of the office staff precludes a proper segregation of functions to assure adequate internal control. This is not unusual in organizations of your size, but management should continue to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge and monitoring of matters relating to the City's operations.

### CDBG Grant Checking

A checking account for a CDBG grant was not reflected on the City's books for 2011. All checking account or cash activity should be recorded on the general ledger so review of transactions can be readily reviewed by Management.

### Bond Cash Accounts

Some cash accounts and related debt activity were not recorded on the City's books. We recommend that the activity and cash accounts be recorded and reconciled monthly.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City of Waupaca's internal control to be a significant deficiency.

### Preparation of Financial Statements

An additional consequence of the size of the office staff, combined with the specific expertise of your accounting and financial reporting department, is that management has elected to rely on the knowledge of its auditors to prepare its annual financial statements and related disclosures. Your City, like many others, has made the determination that because of the ever changing and numerous reporting requirements associated with preparing financial statements that are in conformity with accounting principles generally accepted in the United States of America, it is more cost advantageous to rely on the expertise of its outside auditors to assist in the preparation of its financial statements.

However, since the financial statements are the responsibility of the City's management, the control over the financial statements being prepared in conformity with accounting principles generally accepted in the United States of America, lies with management. Currently, the City has elected not to dedicate its resources to providing sufficient internal control over the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America, resulting in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Other observations are summarized on the attached page.

This communication is intended solely for the information and use of management, the City Council, and others within the administration, and is not intended to be and should not be used by anyone other than these specified parties.

*JOHNSON BLOCK AND COMPANY, INC.*



April 2, 2012  
Mineral Point-, WI

### Utility Billings and Receipts

Utility billings and receipts are recorded with a manual journal entry each month. Since both are Civic System programs, we recommend integrating the utility billings and receipts into the City's general ledger program. This would also assist with the monthly reconciliation of the subsidiary ledger to the general ledger.

### Cash and Investments

There were instances when the average daily bank balance exceeded the coverage provided by federal depository insurance. In addition, the balance of the State Deposit Guaranty Fund (state depository insurance) is limited. As such, a material amount of losses by individual municipalities may exhaust the fund so that recovery by individual municipalities would not be significant. We recommend the City consider the following to reduce this risk:

- a) Determine whether its present depositories can obtain additional insurance coverage. We have noted several banks, which have now obtained a bank deposit guaranty bond to insure public entity deposits.
- b) Develop a system to analyze the financial stability of potential depositories. This would include receiving rating reports from credit rating bureaus such as Standard and Poor's, Moody's, etc. Town policy could then be to not use any depository with a rating below a certain level.
- c) Depending on interest rates, consider investing more funds in U.S. securities versus certificates of deposits.
- d) Investigating the use of repurchase agreements to invest excess daily funds. This would also result in increased interest earnings for the City.

### Wisconsin Retirement System

The City's Wisconsin Retirement System (WRS) unfunded prior service liability at December 31, 2011 was \$227,070. Of the monthly contribution rate that the City pays, a portion is applied to this balance. This portion of the monthly contribution rate for 2011 for the general and protective categories of covered wages was 1.4% and 1.5%, respectively. The WRS then adds interest of 7.2% each year.

We recommend that the City consider reviewing whether there would be a savings from paying this liability off and reducing their monthly contribution rate by the amount being applied to the unfunded prior service liability. The financing could come from a bond issue, local banks, or the State Trust Fund which has a loan program for this purpose. These would all be taxable debt issues. We have reviewed this for other municipalities and it has proved to be a savings for them.

### Debt Service Levy

We noted that the debt service fund tax levy included amounts for certain TIF districts due to shortfalls between the tax increments and the TIF districts' debt payments. The following considerations should be given to the debt service levy in the future:

- 1) The 2011 debt service levy included amounts for TIF District Numbers 3, 4, 5, 6, and 8. No debt service tax levy for TIF District No. 4 was necessary as this district's increment was sufficient to cover its current year expenditures.
- 2) TIF District No. 4 and TIF District No. 6 have been identified as donor districts to distressed TIF Districts Numbers 3, 5, and 8. Excess increments in the donor districts would reduce the needs for the distressed TIF districts within the debt service levy.



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COMMUNICATION WITH AUDIT COMMITTEES

The City Council  
City of Waupaca, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information previously to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriations of accounting policies and their application. The significant accounting policies used by City of Waupaca are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance reporting and Government Fund Type Definitions for the year ended December 31, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

Management's estimate of the interest rate used to discount long-term notes receivable is based on knowledge of the current interest rates available to similar notes receivable. We evaluated the key factors and assumptions used to develop the interest rate estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

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

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

- Record 2011 depreciation in utility funds
- Record additional accounts receivable
- Record additional accounts payable
- Record utility fixed assets additions and removals
- Record activity in community development block grant cash account
- Record long-term loan receivable and related deferred revenue
- Record debt payment made by US Bank account
- Record interfund receivables for Pleasant street project invoices paid by the water utility that related to the sewer and capital projects funds
- Close the industrial park and recreation center building funds into the general and debt service funds due to implementation of GASB Statement No. 54
- Records transfers to TIF districts for debt payments levied in the debt service fund

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 2, 2012.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

#### *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City of Waupaca and is not intended to be and should not be used by anyone other than these specific parties.

April 2, 2012

JOHNSON BLOCK AND COMPANY, INC.

*Johnson Block and Company, Inc.*

# City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Misstatement
PJE01	Potential	12/31/11					
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTH	15,255.25			
		100-43211-000-000	LICENSES: TELEVISION FRAN		15,255.25		
			Record 2011 4th quarter franchise fee as a receivable at 12/31/11.			15,255.25	
PJE02	Potential	12/31/11					
		100-59163-000-000	Interest on long term debt-City	1,777.00			
		100-21211-000-000	VOUCHERS PAYABLE		1,777.00		
			Government wide entry only - Record accrued interest liability on capital lease.			(1,777.00)	
PJE03	Potential	12/31/11					
		100-51411-121-000	CLERK: GRP HLTH INS	12,305.03			
		100-21341-000-000	GRP HLTH INS		12,305.03		
			Adjust prepaid health insurance to actual at 12/31/11.			(12,305.03)	
PJE04	Potential	12/31/11					
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTH		5,708.45		
		100-47963-000-000	OTHER REVENUE PUBLIC WO	5,708.45			
			Writeoff accounts receivable balances over 1 year old.			(5,708.45)	
PJE05	Potential	12/31/11					
		610-14311-000-000	MISC ACCTS RECEI		879.13		
		610-47410-000-000	OTHER WATER REVENUES	879.13			
			Writeoff accounts receivable balances over 1 year old.			(879.13)	
PJE06	Potential	12/31/11					
		620-13111-000-000	MISC ACCTS RECEI	13,300.00			
		620-63404-000-000	CHAIN REPLACEMENT		13,300.00		
			Record additional accounts receivable for Chain of Lakes December payment -			13,300.00	

# City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Misstater
			12 months already recorded.				
PJE07	Potential	12/31/11					
		100-51211-119-000	ADMIN: RETIREMENT (R)	4,218.57			
		100-21321-000-000	RETIREMENT DEDUCTIONS		4,218.57		
						(4,218.57)	
			Adjust retirement liability to actual at 12/31/11.				
PJE08	Potential	12/31/11					
		100-51211-118-000	ADMIN: SOCIAL SECURITY	1,089.56			
		100-21331-000-000	SOCIAL SECURITY DEDUCTIO		1,089.56		
						(1,089.56)	
			Adjust federal tax liability to actual at 12/31/11.				
PJE09	Potential	12/31/11					
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTF	2,000.00			
		100-59163-000-000	Interest on long term debt-City		2,000.00		
						2,000.00	
			Government wide entry only - Capitalize debt issue costs.				
PJE10	Potential	12/31/11					
		610-33000-000-000	UNRESERVED FUND EQUITY	1,335.38			
		610-92000-108-000	ADM & GEN: VACATION PAY	1,348.06			
		610-29611-000-000	ACCRUED VACATION PAY		2,683.44		
						(1,348.06)	
			Record accrued comp time at 12/31/11.				
PJE11	Potential	12/31/11					
		620-33000-000-000	UNRESERVED FUND EQUITY	2,498.45			
		620-83310-108-000	FRINGE: VACATION PAY	382.90			
		620-29611-000-000	ACCRUED VACATION PAY		2,881.35		
						(382.90)	
			Record accrued comp time at 12/31/11.				
PJE12	Potential	12/31/11					
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTF	26,099.54			
		100-41241-000-000	LOCAL ROOM TAX		26,099.54		
						26,099.54	
			Record room tax receivable for general				

# City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Misstater
			fund which is due from the hotel/motel fund.				
PJE13	Potential	12/31/11					
		620-63301-000-000	MISC CUSTOMER RE	8,440.00			
		620-33000-000-000	UNRESERVED FUND EQUITY		8,440.00		
						(8,440.00)	
			Remove 2010 landfill leachate billing from 2011 revenue.				
		TOTAL		<u>96,637.32</u>	<u>96,637.32</u>	<u>20,506.09</u>	