

AUDITED FINANCIAL STATEMENTS

CITY OF WAUPACA, WISCONSIN

DECEMBER 31, 2012

CITY OF WAUPACA, WISCONSIN  
DECEMBER 31, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
Village of 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 ("City"), as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Waupaca, Wisconsin, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the City of Waupaca adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, for the year ended December 31, 2012. Our opinions are not modified with respect to this matter.

### ***Other-Matters***

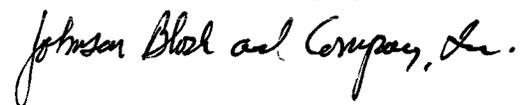
Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 the Management's Discussion and Analysis that governmental 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.

### ***Other Information***

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

Johnson Block and Company, Inc.



April 2, 2013  
Mineral Point, Wisconsin

BASIC FINANCIAL STATEMENTS

Exhibit A-1  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current assets:			
Cash and investments	\$ 3,358,370	\$ 664,598	\$ 4,022,968
Receivables:			
Taxes	5,932,908		5,932,908
Other Governments	82,239		82,239
Customer		438,583	438,583
Other	20,904	14,625	35,529
Internal balances	(6,769,642)	6,769,642	
Inventories	11,996	27,647	39,643
 Total Current Assets	 2,636,775	 7,915,095	 10,551,870
Noncurrent assets:			
Restricted assets:			
Cash and investments	318,074	2,474,042	2,792,116
Total restricted assets	318,074	2,474,042	2,792,116
Other assets:			
Long-term accounts receivable	698,457	16,673	715,130
Less: discount on long-term notes receivable	(113,115)		(113,115)
Special assessments receivable	388,580	128,486	517,066
Deferred debits		185,012	185,012
Total other assets	973,922	330,171	1,304,093
Capital assets:			
Property and plant	31,212,338	35,959,153	67,171,491
Less: accumulated provision for depreciation	7,568,730	14,211,744	21,780,474
Total capital assets	23,643,608	21,747,409	45,391,017
Total noncurrent assets	24,935,604	24,551,622	49,487,226
Deferred Outflows of Resources:			
Deferred charges on refunding	168,931		168,931
Total deferred outflows of resources	168,931		168,931
Total assets and deferred outflows of resources	\$ 27,741,310	\$ 32,466,717	\$ 60,208,027

Exhibit A-1 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 233,581	\$ 37,887	\$ 271,468
Due to other governments	36,572		36,572
Accrued liabilities	90,101	658	90,759
Accrued interest	222,971	44,130	267,101
Customer Deposits		1,418	1,418
Current portion of long-term debt	2,758,591	870,959	3,629,550
Current portion of capital lease	42,097	20,448	62,545
Total current liabilities	3,383,913	975,500	4,359,413
Current liabilities (payable from restricted assets):			
Accrued interest		14,240	14,240
Current portion of mortgage revenue bonds		157,455	157,455
Total current liabilities (payable from restricted assets)		171,695	171,695
Long-term liabilities			
Mortgage revenue bonds		9,284,896	9,284,896
Bonds and notes payable	20,615,000		20,615,000
Capital lease	85,780	41,655	127,435
Compensated absences	794,833	101,371	896,204
Less: current portion	(2,800,688)	(1,048,862)	(3,849,550)
Total long-term liabilities	18,694,925	8,379,060	27,073,985
Total liabilities	22,078,838	9,526,255	31,605,093
<u>Deferred Inflows of Resources</u>			
Deferred revenues	5,838,375		5,838,375
Total deferred inflows of resources	5,838,375		5,838,375
Total liabilities and deferred inflows of resources	27,917,213	9,526,255	37,443,468
<u>Net Position</u>			
Net Investment in Capital Assets	12,272,828	12,420,858	24,693,686
Restricted	2,552,157	2,459,802	5,011,959
Unrestricted	(15,000,888)	8,059,802	(6,941,086)
Total net position	(175,903)	22,940,462	22,764,559
Total liabilities, deferred inflows of resources and net position	\$ 27,741,310	\$ 32,466,717	\$ 60,208,027

Exhibit A-2  
City of Waupaca, Wisconsin  
Statement of Activities  
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		Totals 2012
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Business Type Activities	
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 654,891	\$ 106,998	\$	\$	\$ (547,893)	\$	\$ (547,893)
Public safety	1,771,184	225,667	79,946		(1,465,571)		(1,465,571)
Health and social services	262,556	17,915			(244,641)		(244,641)
Public works	2,062,463	84,055	861,225		(1,117,183)		(1,117,183)
Culture, recreation and education	1,489,942	217,952	477,462	52,510	(742,018)		(742,018)
Conservation and development	640,385	100,228			(540,157)		(540,157)
Interest and fiscal charges	896,358				(896,358)		(896,358)
Total governmental activities	<u>7,777,779</u>	<u>752,815</u>	<u>1,418,633</u>	<u>52,510</u>	<u>(5,553,821)</u>		<u>(5,553,821)</u>
<b>Business-type activities:</b>							
Water utility	1,026,757	1,486,814		5,948		466,005	466,005
Sewer utility	1,750,023	2,086,393		280,861		617,231	617,231
Telecommunication utility	166,990	141,736				(25,254)	(25,254)
Total business-type activities	<u>2,943,770</u>	<u>3,714,943</u>		<u>286,809</u>		<u>1,057,982</u>	<u>1,057,982</u>
Total primary government	<u>\$ 10,721,549</u>	<u>\$ 4,467,758</u>	<u>\$ 1,418,633</u>	<u>\$ 339,319</u>	<u>(5,553,821)</u>	<u>1,057,982</u>	<u>(4,495,839)</u>
<b>General Revenues and Transfers:</b>							
Property taxes							
General purposes					\$ 3,252,183	\$	\$ 3,252,183
Debt service					1,717,688		1,717,688
Other taxes					222,005		222,005
Federal and state aid not restricted for specific purposes					1,107,449		1,107,449
Interest and investment earnings					3,819	14,287	18,106
Gain on sale of fixed assets					34,710		34,710
Miscellaneous					115,255		115,255
Transfers					484,854	(484,854)	
Total general revenues					<u>6,937,963</u>	<u>(470,567)</u>	<u>6,467,396</u>
Change in net position					1,384,142	587,415	1,971,557
Net position - beginning of year					(1,459,658)	22,353,047	20,893,389
Prior period adjustment (See Note 19)					(100,387)		(100,387)
Net position - end of year					<u>\$ (175,903)</u>	<u>\$ 22,940,462</u>	<u>\$ 22,764,559</u>

Exhibit A-3  
City of Waupaca, Wisconsin  
Balance Sheet  
Governmental Funds  
December 31, 2012

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<u>Assets:</u>						
Cash and investments	\$ 1,957,217	\$ 401,856	\$	\$	\$ 999,297	\$ 3,358,370
Restricted cash					318,074	318,074
Receivables:						
Taxes	1,489,745	1,856,401	770,539	62,252	1,753,970	5,932,907
Accounts	20,904					20,904
Other governments					82,239	82,239
Special Assessments					388,580	388,580
Long-term notes receivable, net of discount of \$113,115	86,885				498,457	585,342
Inventory					11,996	11,996
Due from Other Funds	229,120		1,054,495			1,283,615
<b>Total Assets</b>	<b>\$ 3,783,871</b>	<b>\$ 2,258,257</b>	<b>\$ 1,825,034</b>	<b>\$ 62,252</b>	<b>\$ 4,052,613</b>	<b>\$11,982,027</b>
<u>Liabilities:</u>						
Accounts Payable	\$ 62,440	\$	\$	\$	\$ 171,141	\$ 233,581
Accrued Liabilities	90,101					90,101
Due to Other Governments	36,260				312	36,572
Due to other funds	32,298			832,683	510,388	1,375,369
Advances due to other funds				6,602,888	75,000	6,677,888
<b>Total Liabilities</b>	<b>221,099</b>			<b>7,435,571</b>	<b>756,841</b>	<b>8,413,511</b>
<u>Deferred Inflows of Resources:</u>						
Deferred Revenues	1,481,910	1,856,401	770,539	62,252	2,641,194	6,812,296
<b>Total Deferred Inflows of Resources</b>	<b>1,481,910</b>	<b>1,856,401</b>	<b>770,539</b>	<b>62,252</b>	<b>2,641,194</b>	<b>6,812,296</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>1,703,009</b>	<b>1,856,401</b>	<b>770,539</b>	<b>7,497,823</b>	<b>3,398,035</b>	<b>15,225,807</b>
<u>Fund Equity:</u>						
Fund Balance						
Nonspendable	86,885				11,996	98,881
Restricted		401,856	1,054,495		820,320	2,276,671
Assigned	95,290				190,926	286,216
Unassigned (Deficit)	1,898,687			(7,435,571)	(368,664)	(5,905,548)
<b>Total Fund Equity</b>	<b>2,080,862</b>	<b>401,856</b>	<b>1,054,495</b>	<b>(7,435,571)</b>	<b>654,578</b>	<b>(3,243,780)</b>
<b>Total Liabilities, deferred Inflows of Resources and Fund Equity</b>	<b>\$ 3,783,871</b>	<b>\$ 2,258,257</b>	<b>\$ 1,825,034</b>	<b>\$ 62,252</b>	<b>\$ 4,052,613</b>	<b>\$11,982,027</b>

Exhibit A-4  
City of Waupaca, Wisconsin  
Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Position  
December 31, 2012

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

Total Fund balances-governmental funds:		\$ (3,243,780)
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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 position:

Governmental capital asset	31,212,338	
Governmental accumulated depreciation	<u>(7,568,730)</u>	23,643,608

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

Special assessments		388,580
Long-term notes receivable		698,457
Discount on notes receivable		(113,115)

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 position.

Deferred charges on refunding		168,931
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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 position that are not reported in the funds balance sheet are:

Bonds and notes payable		(20,615,000)
Capital lease payable		(85,780)
Accrued interest on general obligation debt		(222,971)
Compensated absences		<u>(794,833)</u>

Net Position of Governmental Activities		<u>\$ (175,903)</u>
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Exhibit A-5  
City of Waupaca, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2012

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<u>Revenues:</u>						
Taxes	\$ 1,606,802	\$ 1,717,688	\$ 634,438	\$ 60,011	\$ 1,255,813	\$ 5,274,752
Special Assessments					39,693	39,693
Licenses and Permits	170,854					170,854
Fines, Forfeits and penalties	74,581					74,581
Intergovernmental	2,282,124		2,252	1,899	291,162	2,577,437
Public Charges for Services	234,017			12,600	198,317	444,934
Miscellaneous:						
Interest	2,747				314	3,061
Sale of Recycling Materials	1,674					1,674
Other	181,883		92,883	5,717	205,765	486,248
<b>Total Revenues</b>	<b>4,554,682</b>	<b>1,717,688</b>	<b>729,573</b>	<b>80,227</b>	<b>1,991,064</b>	<b>9,073,234</b>
<u>Expenditures:</u>						
General Government	662,694					662,694
Public Safety	1,707,403					1,707,403
Health and Social Services	174,455					174,455
Public Works	961,535				607,511	1,569,046
Culture, Recreation and Education	1,433,483				19,432	1,452,915
Conservation and Development			4,675	23,377	441,278	469,330
Capital Outlay						
Public Safety					25,001	25,001
Public Works					291,802	291,802
Culture, Recreation and Education					70,706	70,706
Conservation and Development	4,800		930	930	164,394	171,054
Debt Service						
Principal Retirement	40,576	750,000	502,054	85,000	947,947	2,325,577
Interest and Fiscal Charges	4,738	242,801	156,388	141,984	283,768	829,679
<b>Total Expenditures</b>	<b>4,989,684</b>	<b>992,801</b>	<b>664,047</b>	<b>251,291</b>	<b>2,851,839</b>	<b>9,749,662</b>
Excess of Revenues Over (Under) Expenditures	(435,002)	724,887	65,526	(171,064)	(860,775)	(676,428)
<u>Other Financing Sources (Uses):</u>						
Proceeds from sale of capital assets	50,150			17,600	45,990	113,740
Proceeds from refunding bonds					710,000	710,000
Transfers in	484,854			515,363	264,694	1,264,911
Transfers out		(714,531)	(65,526)			(780,057)
<b>Total Other Financing Sources</b>	<b>535,004</b>	<b>(714,531)</b>	<b>(65,526)</b>	<b>532,963</b>	<b>1,020,684</b>	<b>1,308,594</b>
<b>Net Change in Fund Balances</b>	<b>100,002</b>	<b>10,356</b>		<b>361,899</b>	<b>159,909</b>	<b>632,166</b>
Fund Balance - January 1	1,980,860	391,500	1,054,495	(7,797,470)	494,669	(3,875,946)
<b>Fund Balance - December 31</b>	<b>\$ 2,080,862</b>	<b>\$ 401,856</b>	<b>\$ 1,054,495</b>	<b>\$ (7,435,571)</b>	<b>\$ 654,578</b>	<b>\$ (3,243,780)</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, 2012

Net change in fund balances-total governmental funds	\$	632,166
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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 position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.</p>		
Capital outlay reported in governmental fund statements		379,561
Depreciation expenses reported in the statement of activities		<u>(641,652)</u>
Amount by which capital outlays and donations are greater (less) than depreciation in the current period.		(262,091)
<p>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 position differs from the change in fund balances by the undepreciated cost of the disposed assets.</p>		
		(79,030)
<p>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:</p>		
		(24,920)
<p>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 position and does not affect the statement of activities</p>		
The amount of long-term debt principal payments in the current year is:		2,325,576
<p>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</p>		
		(710,000)
<p>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.</p>		
		(60,628)

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, 2012

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:	(401,766)
Long-term notes receivable loans are reflected as expenditures in governmental funds, but are reported as additions to notes receivable in statement of net position and does not affect the statement of activities.	(31,643)
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.	2,531
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	820,459
The amount of interest accrued during the current period	<u>(826,512)</u>
Interest paid is greater (less) than interest expensed by	<u>(6,053)</u>
Change in net position-governmental activities	<u>\$ 1,384,142</u>

Exhibit A-7  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2012

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Investments	\$ 224,220	\$ 419,718	\$ 20,660	\$ 664,598
Receivables:				
Customer	170,246	243,575	24,762	438,583
Other	1,436	13,189		14,625
Due from Other Funds	304,223	42,068		346,291
Inventories	25,154	2,493		27,647
<b>Total Current Assets</b>	<b>725,279</b>	<b>721,043</b>	<b>45,422</b>	<b>1,491,744</b>
<u>Restricted Assets:</u>				
Mortgage Revenue & Interest Replacement Fund	1,075,183			1,075,183
		1,398,859		1,398,859
<b>Total Restricted Assets</b>	<b>1,075,183</b>	<b>1,398,859</b>		<b>2,474,042</b>
<u>Other Assets:</u>				
Long-Term Receivable	16,673			16,673
Special Assessments Receivable	77,380	51,106		128,486
Deferred Debits	185,012			185,012
Advance due from Other Funds	2,979,124	3,698,764		6,677,888
<b>Total Other Assets</b>	<b>3,258,189</b>	<b>3,749,870</b>		<b>7,008,059</b>
<u>Fixed Assets:</u>				
Property and Plant	11,431,032	24,263,922	264,199	35,959,153
Less: Accumulated Provision for Depreciation	4,160,612	9,862,231	188,901	14,211,744
<b>Total Fixed Assets</b>	<b>7,270,420</b>	<b>14,401,691</b>	<b>75,298</b>	<b>21,747,409</b>
<b>Total Assets</b>	<b>\$ 12,329,071</b>	<b>\$ 20,271,463</b>	<b>\$ 120,720</b>	<b>\$ 32,721,254</b>

Exhibit A-7 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2012

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Liabilities and Net Position</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$ 14,564	\$ 18,793	\$ 4,530	\$ 37,887
Due to Other Funds	50,386	202,685	1,466	254,537
Accrued Liabilities	609	49		658
Accrued Interest		44,130		44,130
Customer Deposits			1,418	1,418
Current Portion of Revenue Bonds	8,573	862,386		870,959
Current Portion of Capital Lease	6,816	13,632		20,448
<b>Total Current Liabilities</b>	<b>80,948</b>	<b>1,141,675</b>	<b>7,414</b>	<b>1,230,037</b>
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accrued Interest	14,240			14,240
Current Portion of Revenue Bonds	157,455			157,455
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>171,695</b>			<b>171,695</b>
<u>Long-term Liabilities:</u>				
Revenue Bonds	2,244,791	7,040,105		9,284,896
Capital Lease	13,895	27,760		41,655
Compensated Absences	47,500	53,871		101,371
Less: current portion	(172,844)	(876,018)		(1,048,862)
<b>Total Long-term Liabilities</b>	<b>2,133,342</b>	<b>6,245,718</b>		<b>8,379,060</b>
<b>Total Liabilities</b>	<b>2,385,985</b>	<b>7,387,393</b>	<b>7,414</b>	<b>9,780,792</b>
<u>Net Position:</u>				
Net Investment in Capital Assets	5,011,734	7,333,826	75,298	12,420,858
Restricted	1,060,943	1,398,859		2,459,802
Unrestricted	3,870,409	4,151,385	38,008	8,059,802
<b>Total Net Position</b>	<b>9,943,086</b>	<b>12,884,070</b>	<b>113,306</b>	<b>22,940,462</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 12,329,071</b>	<b>\$ 20,271,463</b>	<b>\$ 120,720</b>	<b>\$ 32,721,254</b>

Exhibit A-8  
City of Waupaca, Wisconsin  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2012

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Operating Revenues:</u>				
Sales of Water	\$ 1,486,814	\$	\$	\$ 1,486,814
Measured Sewer Service		2,086,393		2,086,393
Telecommunications Revenues			141,736	141,736
<b>Total Operating Revenues</b>	<b>1,486,814</b>	<b>2,086,393</b>	<b>141,736</b>	<b>3,714,943</b>
<u>Operating Expenses:</u>				
Operation and Maintenance	715,395	795,476	144,701	1,655,572
Depreciation	215,323	673,395	22,289	911,007
Taxes	8,770	4,456		13,226
<b>Total Operating Expenses</b>	<b>939,488</b>	<b>1,473,327</b>	<b>166,990</b>	<b>2,579,805</b>
<b>Operating Income (Loss)</b>	<b>547,326</b>	<b>613,066</b>	<b>(25,254)</b>	<b>1,135,138</b>
<u>Nonoperating Revenues (Expenses):</u>				
Investment Income	6,247	8,035	5	14,287
Interest Expense	(87,269)	(276,696)		(363,965)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(81,022)</b>	<b>(268,661)</b>	<b>5</b>	<b>(349,678)</b>
<b>Income Before Contributions and Transfers</b>	<b>466,304</b>	<b>344,405</b>	<b>(25,249)</b>	<b>785,460</b>
Capital Contributions	5,948	280,861		286,809
Transfer of Tax Equivalent	(234,854)	(250,000)		(484,854)
<b>Change in Net Position</b>	<b>237,398</b>	<b>375,266</b>	<b>(25,249)</b>	<b>587,415</b>
<b>Net Position - Beginning of Year</b>	<b>9,705,688</b>	<b>12,508,804</b>	<b>138,555</b>	<b>22,353,047</b>
<b>Net Position - End of Year</b>	<b>\$ 9,943,086</b>	<b>\$ 12,884,070</b>	<b>\$ 113,306</b>	<b>\$ 22,940,462</b>

Exhibit A-9  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2012

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 1,497,201	\$ 2,085,914	\$ 137,798	\$ 3,720,913
Payments to employees	(262,736)	(372,569)	(32,781)	(668,086)
Payments to suppliers	(641,808)	(463,445)	(116,097)	(1,221,350)
Net Cash Flows From (Used by) Operating Activities	592,657	1,249,900	(11,080)	1,831,477
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Paid to municipality for tax equivalent	(234,854)	(250,000)		(484,854)
Net Cash Flows (Used by) Noncapital Financing Activities	(234,854)	(250,000)		(484,854)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Payments for capital acquisitions	(254,917)	(136,646)		(391,563)
Receipts of advances from other funds	60,000			60,000
Repayments of advances from other funds		(60,000)		(60,000)
Proceeds from long term debt	194,758			194,758
Principal payments	(163,363)	(849,450)		(1,012,813)
Interest paid	(87,719)	(281,498)		(369,217)
Contributed capital	5,948	280,861		286,809
Proceeds from sale of fixed assets	13,005	4,455		17,460
Net Cash Flows (Used by) Capital and Related Financing Activities	(232,288)	(1,042,278)		(1,274,566)
<u>Cash Flows From (Used by) Investing Activities:</u>				
Purchase of investments	(226,638)	(1,091,304)		(1,317,942)
Redemption of investments	220,627	1,069,757		1,290,384
Receipts of interest	6,247	8,035	5	14,287
Net Cash Flows From (Used by) Investing Activities	236	(13,512)	5	(13,271)
Net change in Cash and Cash Equivalents	125,751	(55,890)	(11,075)	58,786
Cash and Cash Equivalents - Beginning of Year	947,014	783,163	31,735	1,761,912
Cash and Cash Equivalents - End of Year	\$ 1,072,765	\$ 727,273	\$ 20,660	\$ 1,820,698

Exhibit A-9 (Continued)  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2012

	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)	\$ 547,326	\$ 613,066	\$ (25,254)	\$ 1,135,138
Noncash items in operating income:				
Depreciation Expense	227,137	661,581	22,289	911,007
Amortization of major repair	(185,012)			(185,012)
Changes in assets and liabilities:				
Customer accounts receivable	(5,016)	(17,776)	(3,938)	(26,730)
Other accounts receivable	379	14,788		15,167
Due from other funds	5,026	54		5,080
Special assessments receivable	15,024	2,509		17,533
Inventories	(3,555)			(3,555)
Accounts payable	(41,896)	(30,947)	(4,665)	(77,508)
Due to other funds	32,049	(290)	488	32,247
Compensated absences	1,195	6,915		8,110
Net Cash Provided (Used) by Operating Activities	592,657	1,249,900	(11,080)	1,831,477
<u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Position Accounts</u>				
Cash and investments	224,220	419,718	20,660	664,598
Cash and investments (restricted assets)	1,075,183	1,398,859		2,474,042
Less: Investments	(226,638)	(1,091,304)		(1,317,942)
Total cash and cash equivalents	\$ 1,072,765	\$ 727,273	\$ 20,660	\$ 1,820,698

Exhibit A-10  
City of Waupaca, Wisconsin  
Statement of Net Position  
Fiduciary Funds  
December 31, 2012

	<u>Park Donations Fund</u>
<u>Assets:</u>	
Cash and investments	\$ 155,000
Total Assets	<u>\$ 155,000</u>
 <u>Liabilities:</u>	
Due to other organizations	\$ 155,000
Total Liabilities	<u>\$ 155,000</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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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 2012, there were no revenues or expenditures for the Community Development Authority.

B. Government-Wide Financial Statements

The statement of net position 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, 2012

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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, deferred outflows of resources, liabilities, deferred inflows of resources, net position/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, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2012

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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, 2012

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the City reports the following fund type:

Agency Fund - Accounts for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

-Park Donations

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

**Government-Wide Financial Statements**

The government-wide statement of net position 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 inflows of resources. 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 inflows of resources. 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 inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 inflows of resources.

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.

Deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports deferred inflows of resources on its governmental funds balance sheet. Deferred inflows of resources arise from taxes levied in the current year, which are for subsequent year's operations. For governmental fund financial statements, deferred inflows of resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows of resources 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 inflows of resources is removed from the balance sheet and revenue is recognized.

Deferred outflow of resources represents an consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 - 2012 tax roll:

Lien date and levy date	December 2012
Payment in full, or	January 31, 2013
First installment due	January 31, 2013
Second installment due	July 31, 2013
January settlement	January 15, 2013
February settlement	February 20, 2013
August settlement	August 20, 2013
Personal property taxes in full	January 31, 2013
Tax sale- 2012 delinquent real estate taxes	October 2015

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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Receivables (Continued)

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.

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.

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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

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.

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 fund financial statements, governmental fund and proprietary 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 \$517,784 and consists of two issues.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Bond Premiums, Discounts, and Issuance Costs (Continued)

Deferred amounts from refunding resulting in a debit are reported as a deferred outflows. Deferred amounts from refunding resulting in a credit are reported as deferred inflows.

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.

L. Equity Classifications

**Government-Wide Statements**

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

- a. Net investment in capital assets - 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 net investment in capital assets.
- b. Restricted net position - Consists of net position 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 position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

**Fund Statements**

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 the City Council, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action to remove or change the constraint.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications (Continued)

**Fund Statements (Continued)**

- 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.

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, 2012, the unassigned fund balance of the general fund was 37.2% 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 \$65,526.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Utility operates 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 and Telecommunications Utilities are 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 inflows of resources.

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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Accounting Change

The City implemented GASB 63 “Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position” and GASB Statement No. 65 “Items Previously Reports as Assets and Liabilities” as of January 1, 2012. The City has deferred inflow of resources which represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

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.
- b. Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording depreciation expense on those items as recorded in the statement of activities.
- c. Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability, interest expense is recorded as incurred, and principal payments are recorded as a reduction of liabilities.

NOTE 3                    CASH AND INVESTMENTS

At December 31, 2012, cash and investments included the following:

Petty Cash/Cash on Hand	\$ 1,250
Deposits with Financial Institutions	4,616,601
Certificate of Deposit	1,408,948
Money Market Funds	943,285
Total Cash and Investments	<u>\$ 6,970,084</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2012 are classified in the accompanying financial statements as follows:

Exhibit A-1:		
Cash and Investments	\$	4,022,968
Cash and Investments-Restricted		2,792,116
Exhibit A-10:		
Cash and Investments		155,000
Total Cash and Investments	\$	<u>6,970,084</u>

Investments Authorized by Wisconsin State Statutes

Investment of City funds is restricted by state statutes. Available investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company or savings and loan association maturing in three years or less.
- Bonds are securities of any county, city, drainage district, technical college district, district, town, or school district of the state.
- Bonds or securities issued or guaranteed by the federal government.
- The local government investment pool.
- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.
- Bonds issued by a local exposition district
- Bonds issued by a local professional baseball park district
- Bonds issued by the University of Wisconsin Hospital and Clinics Authority
- 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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

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
Certificates of Deposit	\$ 1,408,948	\$ 394,091	\$ 1,014,857

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, 2012, the City's investments were rated as follows:

	Amount	Rating
Money Market Funds	\$ 943,285	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.

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.

As of December 31, 2012, \$3,726,426 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. \$1,156,605 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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Removals	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,162,071	\$	\$ (2,447)	\$ 4,159,624
Total capital assets not being depreciated	4,162,071		(2,447)	4,159,624
 <i>Capital Assets, being depreciated:</i>				
Building	10,991,964			10,991,964
Infrastructure	13,171,512	151,255	(92,731)	13,230,036
Improvements other than buildings	566,006	59,406		625,412
Machinery and Equipment	1,027,762	23,765	(47,000)	1,004,527
Vehicles	1,183,340	145,135	(127,700)	1,200,775
Total Capital Assets, being depreciated	26,940,584	379,561	(267,431)	27,052,714
Total Capital Assets	31,102,655	379,561	(269,878)	31,212,338
 <i>Less Accumulated Depreciation:</i>				
Building	2,056,196	119,750		2,175,946
Infrastructure	3,535,284	391,615	(48,880)	3,878,019
Improvements other than buildings	230,505	19,845		250,350
Machinery and Equipment	733,253	41,198	(47,000)	727,451
Vehicles	562,688	69,244	(94,968)	536,964
Total Accumulated Depreciation	7,117,926	641,652	(190,848)	7,568,730
Total Net Capital Assets	\$ 23,984,729	\$ (262,091)	\$ (79,030)	\$ 23,643,608

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

Governmental activities	
General government	\$ 29,917
Public safety	55,275
Public works	464,359
Culture, recreation and education	4,000
Health and human services	88,101
Total governmental activities depreciation expense	\$ 641,652

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

NOTE 4

CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Salvage	Removals	Ending Balance
<i>Business-Type Activities:</i>					
<i>Capital assets not being depreciated:</i>					
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
 <i>Capital Assets, being depreciated:</i>					
Building	6,301,078				6,301,078
Infrastructure/systems/equipment	29,235,966	391,563		(155,656)	29,471,873
Total Capital Assets, being depreciated	35,537,044	391,563		(155,656)	35,772,951
Total Capital Assets	35,723,246	391,563		(155,656)	35,959,153
 <i>Less Accumulated Depreciation:</i>					
Building	3,119,130	271,193			3,390,323
Infrastructure/systems/equipment	10,319,803	639,814	17,460	(155,656)	10,821,421
Total Accumulated Depreciation	13,438,933	911,007	17,460	(155,656)	14,211,744
Total Net Capital Assets	\$ 22,284,313	\$ (519,444)	\$ (17,460)	\$	\$ 21,747,409

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

Business-Type activities	
Water	\$ 215,323
Wastewater	673,395
Telecommunications	22,289
Total depreciation expense per Exhibit A-8	\$ 911,007

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2012.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Governmental Activities</u></b>					
General obligation debt:					
Bonds payable	\$ 14,395,000	\$	\$ (1,365,000)	\$ 13,030,000	\$ 1,935,000
Notes payable	415,000	710,000	(75,000)	1,050,000	143,591
Total General obligation debt	14,810,000	710,000	(1,440,000)	14,080,000	2,078,591
CDA Revenue Bonds	7,380,000		(845,000)	6,535,000	680,000
Other long-term obligations:					
Capital lease	126,356		(40,576)	85,780	42,097
Compensated absences	769,913	24,920		794,833	
Total Governmental Activities Long-Term Liabilities	\$ 23,086,269	\$ 734,920	\$ (2,325,576)	\$ 21,495,613	\$ 2,800,688

Interest costs incurred during the year totaled \$826,512. Total interest paid during the year aggregated \$820,459.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Business-Type Activities</u></b>					
Mortgage Revenue Bonds	\$ 10,083,243	\$ 194,758	\$ (993,105)	\$ 9,284,896	\$ 1,028,414
Other long-term obligations:					
Capital Lease	61,363		(19,708)	41,655	20,448
Compensated absences	93,261	8,110		101,371	
Total Business-Type Activities Long-Term Liabilities	\$ 10,237,867	\$ 202,868	\$ (1,012,813)	\$ 9,427,922	\$ 1,048,862

Interest costs incurred during the year totaled \$363,965. Total interest paid during the year aggregated \$369,217.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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, 2012, is comprised of the following issues:

Description	Issue Dates	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/12
<u>Notes Payable</u>					
G.O. Promissory Note-Capital Project	04/01/06	04/01/16	4.25-4.5%	\$ 740,000	\$ 340,000
State Trust Fund Loan-Capital Project	01/09/12	03/15/21	3.75%	710,000	710,000
					<u>\$ 1,050,000</u>
<u>Refunding Bonds</u>					
G.O. Promissory Bonds-TIF #3	01/06/07	04/01/21	4.00%	\$ 2,640,000	\$ 2,355,000
G.O. Promissory Bonds-TIF #4	01/06/07	04/01/15	4.00%	975,000	675,000
G.O. Promissory Bonds-TIF #5	01/06/07	04/01/21	4.00%	275,000	230,000
G.O. Promissory Bonds-TIF #4	04/01/08	10/01/27	3.25%	575,000	495,000
G.O. Promissory Bonds-TIF #6	04/01/08	10/01/27	3.05%	95,000	80,000
G.O. Promissory Bonds-TIF #8	04/01/08	10/01/24	3.25%	1,580,000	1,290,000
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	5,480,000
G.O. Promissory Bonds-Refunding	04/05/11	10/01/20	2.5-4.0%	1,040,000	800,000
					<u>\$ 13,030,000</u>
Total Governmental Activities - General Obligation Debt					<u>\$ 14,080,000</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.

<u>Lease Revenue Bonds</u>					
TIF #4, TIF #5	7/13/2001	4/1/2018	4.8-5.125%	1,095,000	\$ 885,000
TIF #3, TIF #4, TIF #5	8/1/2002	4/1/2022	4.3-5.0%	1,605,000	1,115,000
TIF #3, TIF #4	10/6/2003	4/1/2023	4.1-5.0%	2,910,000	1,850,000
Hendrickson Center	10/1/2004	4/1/2019	4.15-4.7%	3,915,000	2,685,000
Total lease revenue bonds					<u>\$ 6,535,000</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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, 2012, is comprised of the following:

Description	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/12
<u>Revenue Bonds</u>					
Sewerage system revenue bond	04/18/95	05/01/14	3.65%	\$ 8,607,282	\$ 1,257,462
Sewerage system revenue bond	04/08/98	05/01/17	2.64%	717,567	224,479
Sewerage system revenue bond	07/24/02	05/01/22	2.84%	1,135,476	672,167
Sewerage system revenue bond	11/01/04	05/01/24	2.37%	454,008	331,670
Sewerage system revenue bond	01/01/05	05/01/25	2.37%	437,107	307,480
Sewerage system revenue bond	07/11/07	05/01/27	2.48%	502,814	421,846
Sewerage system revenue bond	04/01/08	11/01/24	4.40%	4,125,000	3,825,000
Water system revenue bond	11/01/99	05/01/18	1.58%	760,310	265,034
Water system revenue bond	04/01/08	11/01/24	3.40%	2,210,000	1,785,000
Water system revenue bond	06/13/12	05/01/32	1.32%	194,758	194,758
Total Business-Type Activities Revenue Debt					<u>\$ 9,284,896</u>

General Obligation Debt Limit Calculation

The 2012 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$392,503,900. The legal debt limit and margin of indebtedness as of December 31, 2012 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$392,503,900)	\$ 19,625,195
General Obligation Debt Outstanding	<u>(14,080,000)</u>
Margin of Indebtedness	<u>\$ 5,545,195</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2012, are:

Years	Governmental Fund Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2013	\$ 2,078,591	\$ 490,561	\$ 1,028,413	\$ 332,386
2014	1,615,790	430,442	1,061,180	296,144
2015	1,433,444	379,636	656,539	265,797
2016	1,266,147	332,778	682,028	241,417
2017	1,209,053	289,291	707,653	212,925
2018-2022	3,811,975	924,255	3,505,821	652,256
2023-2027	1,600,000	401,953	1,589,685	75,837
2028-2032	1,065,000	100,130	53,577	1,787
Totals	<u>\$ 14,080,000</u>	<u>\$ 3,349,046</u>	<u>\$ 9,284,896</u>	<u>\$ 2,078,549</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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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, 2012.

Equipment	<u>\$ 200,743</u>
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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, 2012.

<u>Year Ended December 31,</u>	
2013	\$ 45,314
2014	<u>45,321</u>
Total Payment	90,635
Less: Interest	<u>(4,855)</u>
Minimum Lease Payments	<u>\$ 85,780</u>

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, 2012.

Equipment	<u>\$ 97,494</u>
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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, 2012.

<u>Year Ended December 31,</u>	
2013	\$ 22,009
2014	<u>22,003</u>
Total Payment	44,012
Less: Interest	<u>(2,357)</u>
Minimum Lease Payments	<u>\$ 41,655</u>

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 benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, and expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Note: Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 7

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Covered employees in the General/Teacher/Educational Support Personnel category are required by statute to contribute one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executive and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates for 2012 are as follows:

	Employee	Employer
General (including Teachers)	5.9%	5.9%
Executive & Elected Officials	7.05%	7.05%
Protective with Social Security	5.9%	9.0%
Protective without Social Security	5.9%	11.3%

The payroll for City of Waupaca employees covered by the WRS for the year ended December 31, 2012 was \$2,728,461; the employer's total payroll was \$3,041,935. The total required contribution for the year ended December 31, 2012 was \$404,626, which consisted of \$287,617 or 10.5% of the covered payroll from the employer and \$118,073 or 4.3% of the covered payroll from the employee. Total contributions for the years ending December 31, 2011 and 2010 were \$1,578,219 and \$1,569,159 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. A final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment and submitting application 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 and prior to July 1, 2011 are immediately vested. Participants who initially become WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

The WRS also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are 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, P.O. Box 7931, Madison, WI 53707-7931.

The pension related debt for the City as of December 31, 2012 was \$188,200. 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. The City paid off this liability in January 2013.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

NOTE 8

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2012 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Government Funds:		
General	Water utility	\$ 26,248
General	Sewer utility	312
General	Telecommunications	1,466
General	Transit System	134,750
General	TIF #8	66,344
TIF #4	TIF #8	766,339
TIF #4	TIF #5	101,047
TIF #4	TIF #6	116,858
TIF #4	TIF #7	65,244
TIF #4	TIF #10	5,007
	Total	<u>\$ 1,283,615</u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise Funds:		
Water utility	General	\$ 18,822
Water utility	Sewer utility	202,373
Water utility	Capital projects	83,027
Sewer utility	Water utility	24,138
Sewer utility	Capital projects	4,455
Sewer utility	General	13,476
	Total	<u>\$ 346,291</u>

The following is a schedule of interfund advances at December 31, 2012:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
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	<u>\$ 6,677,888</u>

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, 2012

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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	\$ 234,854
General	Sewer utility	250,000
TIF #3	Debt service fund	221,700
TIF #5	Debt service fund	34,700
TIF #6	Debt service fund	8,294
TIF #8	Debt service fund	449,837
TIF #8	TIF #4	65,526
	Total	<u>\$ 1,264,911</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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 9

GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES

Governmental activities net position reported on the government wide statement of net position at December 31, 2012 includes the following:

**GOVERNMENTAL ACTIVITIES**

Net Investment in Capital Assets	
Land	\$ 4,159,624
Other capital assets, net of accumulated depreciation	19,483,983
Less: related long-term debt outstanding	<u>(11,370,779)</u>
Total Invested Capital Assets	<u>12,272,828</u>
Restricted:	
Capital Improvements	\$ 318,074
Debt Service	178,885
TIF #4	1,054,495
Inland Lakes	3,984
Hotel/Motel Tax	54,253
Revolving Loans	524,322
Adult Recreation Center	20,938
Airport	33,493
TIF #9	250,401
Perpetual Care	<u>113,312</u>
Total Restricted	<u>2,552,157</u>
Unrestricted	<u>(15,000,888)</u>
Total Governmental Activities Net Assets	<u>\$ (175,903)</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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

**GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2012 includes the following:

**General Fund:**

**Nonspendable:**

Long-term receivable	\$ 86,885
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**Assigned for:**

Historical	\$ 2,923
Judgments	13,941
Transit System	34,651
Achieve Grant	42,775
Youth Programs	1,000
Total	\$ 95,290

**Other Governmental Funds:**

**Nonspendable:**

**Airport Fund:**

Inventories	\$ 11,996
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**Restricted:**

**Inland Lakes Fund:**

Restricted for future expenditures	\$ 3,984
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**Hotel/Motel Tax Fund:**

Restricted for economic development	54,253
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**Revolving Loan Fund:**

Restricted for economic development	25,865
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**Adult Recreation Center:**

Restricted for future expenditures	20,938
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**Airport Fund:**

Restricted for future expenditures	33,493
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**Capital Improvements Fund:**

Restricted for unspent loan proceeds	318,074
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**TIF Districts Fund:**

Restricted for future TIF expenditures	
TIF #9	250,401

**Perpetual Care Fund:**

Restricted for future cemetery expenditures	113,312
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Total Restricted Non-major funds	\$ 820,320
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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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

**Other Governmental Funds (Continued):**

**Assigned:**

Capital Projects Fund:

Assigned for future capital projects	<u>\$ 190,926</u>
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The following non-major funds had deficit balances as of December 31, 2012:

**Unassigned fund balance (deficit)**

Transit System Fund	\$ (78,101)
TIF Districts Fund:	
TIF #3	(2,329)
TIF #5	(101,125)
TIF #6	(116,858)
TIF #7	(65,244)
TIF #10	(5,007)
	<u>\$ (368,664)</u>

NOTE 10      JOINT VENTURES

The Waupaca Area Fire District was established in 1991 for the purpose of furnishing fire fighting services to the territory included within the district. The municipalities participating in the fire district and their percentage shares are as follows: City of Waupaca – 37.88%; Town of Waupaca – 6.95%; Town of Dayton – 20.07%; Town of Farmington – 29.74%; and Town of Lind – 5.36%.

The percentage shares of each municipality is based on their 1999 share of equalized value within the district. The governing body consists of five voting members, those being the four town chairpersons and the chairperson of the Police and Fire Committee of the City of Waupaca. Budgets and expenditures must be approved by at least 80% of the shares. Fire district dues are based on the percentages above, and all shortfalls in revenue are allocated to each participating municipality in the same percentage. The Fire District does not have authority to borrow funds and participating municipalities do not have any equity interest in the assets of the district. The City accounts for its share of the operation in the general fund. The City believes that the district will continue to provide services in the future at similar rates.

Summary unaudited financial information of the Waupaca Area Fire District may be obtained at City Clerk's Office, 111 South Main Street, Waupaca, WI 54981.

The Waupaca Regional Recycling/Composting Center was established in July of 1990 for the purpose of joining together in the recycling of items in the waste stream that can be recycled. Additionally, the other purposes of the center are to protect the interests of the taxpayers and to insure that solid wastes generate within the district are properly recycled or disposed of in accordance with the applicable laws. The municipalities currently participating in the recycling district and their percentage shares are as follows: City of Waupaca – 37.28%; Town of Farmington – 28.68%; Town of Dayton – 16.37%; Town of Waupaca – 8.18%; and Town of Lind – 9.49%.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 10

JOINT VENTURES (CONTINUED)

The percentage shares of each municipality are based on the 2000 census of all municipalities of Waupaca County. The budgeted costs are paid by each municipality in proportion to their share of ownership. The governing body consists of two delegates appointed from each municipality included in the center. The chairman of the center will be elected from the two delegates of the municipality having the largest population. Budgets and expenditures must be approved by two-thirds of the members present. Shortfalls in revenues or deficits will be paid pro-rata by all participating municipalities. The Center does not have the authority to borrow funds and participating municipalities do not have any equity interest assets of the Center. The City accounts for its share of the operation in the general fund. The City believes that the Center will continue to provide services in the future at similar rates.

Summary unaudited financial information of the Waupaca Regional Recycling/Compositing Center may be obtained at the City Clerk's Office, 111 South Main Street, Waupaca, WI 54981.

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. \$691,068, including current year costs of \$2,894 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, 2012 are provided as supplemental financial information.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 13                    WASTEWATER REVENUE CONTRIBUTIONS- OTHER GOVERNMENTS

The Wastewater Utility provides treatment services to the Chain O'Lakes Sanitary District. During 2012, the following amounts were received:

Contributed capital-debt service principal	\$ 203,163
Interest component	23,778
Replacement component	<u>43,976</u>
Total	270,917
Customer charges:	
Flow component (net of overcharge)	<u>122,497</u>
Total	<u>\$ 393,414</u>

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                    ADVANCE REFUNDINGS

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, 2012, \$1,070,000 of bonds outstanding are considered defeased.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

NOTE 16

DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources 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, 2012 the various components of deferred inflows of resources were as follows:

Property tax receivable	\$	5,121,246
TIF Penalties		108,540
Special assessments		994,639
Long-term notes receivable – CDBG		498,457
Long-term notes receivable – Townhouse Land		86,885
Special Charges		1,724
Interest on Special Assessments		805
Total Deferred Inflows of Resources for Government Funds	\$	6,812,296

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, 2012 was \$113,115.

NOTE 17

CONCENTRATION OF RISK

Approximately 25% of the water utility operating revenues are provided by one customer.

NOTE 18

SUBSEQUENT EVENTS

On January 22, 2013, the City received \$188,200 of loan proceeds from the Board of Commissioners of Public Lands. The loan carries an interest rate of 2.5 % with final payment on March 15, 2017. Debt service requirements are as follows:

Years	Principal	Interest	Total
2014	\$ 44,827	\$ 5,375	\$ 50,202
2015	46,618	3,584	50,202
2016	47,777	2,426	50,203
2017	48,978	1,224	50,202
Totals	\$ 188,200	\$ 12,609	\$ 200,809

In February, 2013, the City transferred the \$155,000 of cash in the fiduciary fund to a nonprofit organization to manage for a Park Fundraising Project.

Subsequent to December 31, 2012, the City approved purchases of \$302,708 for various projects.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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NOTE 19

PRIOR PERIOD ADJUSTMENT

Beginning net assets for governmental activities on the Statement of Net Activities was adjusted by \$100,387 in accordance with GASB 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This adjustment was made to remove prior debt issuance costs that were previously being amortized over the life of bonds as of January 1, 2012.

NOTE 20

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 21

TAX LEVY LIMIT

Wisconsin Act 25 imposes a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. The Act limits the increase in the tax levy to the greater of the 3% growth applied to the allowable prior year levy, or net new construction applied to allowable prior year levy. The levy limit is applied to both operations and debt service. However, the Act allows the limit to be increased for debt service in certain situations.

**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, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<b>Revenues</b>					
Taxes	\$ 1,614,100	\$ 1,614,100	\$ 1,606,802	\$ (7,298)	\$ (7,298)
Licenses and permits	144,657	144,657	170,854	26,197	26,197
Fines, forfeits and penalties	81,100	81,100	74,581	(6,519)	(6,519)
Public charges for services	218,985	223,170	234,017	15,032	10,847
Intergovernmental	2,161,616	2,262,986	2,282,124	120,508	19,138
Interest	1,400	1,400	2,747	1,347	1,347
Miscellaneous	97,835	110,993	183,557	85,722	72,564
<b>Total Revenues</b>	<b>4,319,693</b>	<b>4,438,406</b>	<b>4,554,682</b>	<b>234,989</b>	<b>116,276</b>
<b>Expenditures</b>					
General government	690,861	704,361	662,694	28,167	41,667
Public safety	1,710,730	1,722,941	1,707,403	3,327	15,538
Health and social services	176,506	177,631	174,455	2,051	3,176
Public works	905,635	923,635	961,535	(55,900)	(37,900)
Culture, recreation and education	1,461,496	1,535,373	1,433,483	28,013	101,890
Capital outlay			4,800	(4,800)	(4,800)
Debt service	45,315	45,315	45,314	1	1
<b>Total Expenditures</b>	<b>4,990,543</b>	<b>5,109,256</b>	<b>4,989,684</b>	<b>859</b>	<b>119,572</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(670,850)</b>	<b>(670,850)</b>	<b>(435,002)</b>	<b>235,848</b>	<b>235,848</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	105,203	105,203	50,150	(55,053)	(55,053)
Proceeds from insurance claims	125,000	125,000		(125,000)	(125,000)
Transfer from Utilities	440,647	440,647	484,854	44,207	44,207
<b>Total Other Financing Sources (Uses)</b>	<b>670,850</b>	<b>670,850</b>	<b>535,004</b>	<b>(135,846)</b>	<b>(135,846)</b>
<b>Net Change in Fund Balance</b>			<b>100,002</b>	<b>100,002</b>	<b>100,002</b>
Fund Balance - Beginning of Year	1,980,860	1,980,860	1,980,860		
Fund Balance - End of Year	\$ 1,980,860	\$ 1,980,860	\$ 2,080,862	\$ 100,002	\$ 100,002

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2012

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**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, 2012, expenditures exceeded budgeted amounts for the following:

Public Works	\$ 37,900
Capital Outlay	4,800

Supplementary Information

Exhibit C-1  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2012

	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
<b>Assets:</b>										
Cash and investments	\$ 288,506	\$ 4,145	\$ 185,972	\$	\$ 25,865	\$ 21,312	\$ 37,113	\$ 323,072	\$ 113,312	\$ 999,297
Restricted cash	318,074									318,074
<b>Receivables:</b>										
Taxes	605,872						113,118	1,034,980		1,753,970
Loans					498,457					498,457
Other governments				82,239						82,239
Special assessments	388,580									388,580
Inventory							11,996			11,996
<b>Total Assets</b>	<b>\$ 1,601,032</b>	<b>\$ 4,145</b>	<b>\$ 185,972</b>	<b>\$ 82,239</b>	<b>\$ 524,322</b>	<b>\$ 21,312</b>	<b>\$ 162,227</b>	<b>\$ 1,358,052</b>	<b>\$ 113,312</b>	<b>\$ 4,052,613</b>
<b>Liabilities:</b>										
Accounts payable	\$ 9,879	\$ 161	\$ 131,719	\$ 25,590	\$	\$ 279	\$ 3,513	\$	\$	\$ 171,141
Due to other governments	32					95	107	78		312
Due to other funds	87,482			134,750				288,156		510,388
Advances due to other funds								75,000		75,000
<b>Total Liabilities</b>	<b>97,393</b>	<b>161</b>	<b>131,719</b>	<b>160,340</b>		<b>374</b>	<b>3,620</b>	<b>363,234</b>		<b>756,841</b>
<b>Deferred Inflows of Resources:</b>										
Deferred revenue	994,639				498,457		113,118	1,034,980		2,641,194
<b>Total Deferred Inflows of Resources</b>	<b>994,639</b>				<b>498,457</b>		<b>113,118</b>	<b>1,034,980</b>		<b>2,641,194</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>1,092,032</b>	<b>161</b>	<b>131,719</b>	<b>160,340</b>	<b>498,457</b>	<b>374</b>	<b>116,738</b>	<b>1,398,214</b>		<b>3,398,035</b>
<b>Fund Equity:</b>										
<b>Fund Balance</b>										
Nonspendable							11,996			11,996
Restricted	318,074	3,984	54,253		25,865	20,938	33,493	250,401	113,312	820,320
Assigned	190,926									190,926
Unassigned (Deficit)				(78,101)				(290,563)		(368,664)
<b>Total Fund Equity</b>	<b>509,000</b>	<b>3,984</b>	<b>54,253</b>	<b>(78,101)</b>	<b>25,865</b>	<b>20,938</b>	<b>45,489</b>	<b>(40,162)</b>	<b>113,312</b>	<b>654,578</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Equity</b>	<b>\$ 1,601,032</b>	<b>\$ 4,145</b>	<b>\$ 185,972</b>	<b>\$ 82,239</b>	<b>\$ 524,322</b>	<b>\$ 21,312</b>	<b>\$ 162,227</b>	<b>\$ 1,358,052</b>	<b>\$ 113,312</b>	<b>\$ 4,052,613</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, 2012

	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	\$	\$	\$ 221,432	\$	\$	\$	\$ 114,118	\$ 920,263	\$	\$ 1,255,813
Special Assessments	39,693									39,693
Intergovernmental				277,406				13,756		291,162
Public Charges for Services			10			28,315	169,992			198,317
Miscellaneous:										
Interest	24	15			275					314
Other	7,640			21,554	34,451		17,167	124,953		205,765
<b>Total Revenues</b>	<b>47,357</b>	<b>15</b>	<b>221,442</b>	<b>298,960</b>	<b>34,726</b>	<b>28,315</b>	<b>301,277</b>	<b>1,058,972</b>		<b>1,991,064</b>
Expenditures:										
Public Works				328,435			279,076			607,511
Culture, Recreation and Education						19,432				19,432
Conservation and Development		3,895	216,256		17,350			203,777		441,278
Capital Outlay										
Public Safety	25,001									25,001
Public Works	291,802									291,802
Culture, Recreation and Education	70,706									70,706
Conservation and Development								164,394		164,394
Debt Service										
Principal Retirement								947,947		947,947
Interest and Fiscal Charges								283,768		283,768
<b>Total Expenditures</b>	<b>387,509</b>	<b>3,895</b>	<b>216,256</b>	<b>328,435</b>	<b>17,350</b>	<b>19,432</b>	<b>279,076</b>	<b>1,599,886</b>		<b>2,851,839</b>
Excess of Revenues Over (Under) Expenditures	(340,152)	(3,880)	5,186	(29,475)	17,376	8,883	22,201	(540,914)		(860,775)
Other Financing Sources (Uses):										
Transfers in								264,694		264,694
Proceeds from sale of fixed assets	45,990									45,990
Proceeds from refunding bonds	710,000									710,000
<b>Total Other Financing Sources (Uses)</b>	<b>755,990</b>							<b>264,694</b>		<b>1,020,684</b>
<b>Net Change in Fund Balances</b>	<b>415,838</b>	<b>(3,880)</b>	<b>5,186</b>	<b>(29,475)</b>	<b>17,376</b>	<b>8,883</b>	<b>22,201</b>	<b>(276,220)</b>		<b>159,909</b>
<b>Fund Balances - January 1</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>Fund Balances - December 31</b>	<b>\$ 509,000</b>	<b>\$ 3,984</b>	<b>\$ 54,253</b>	<b>\$ (78,101)</b>	<b>\$ 25,865</b>	<b>\$ 20,938</b>	<b>\$ 45,489</b>	<b>\$ (40,162)</b>	<b>\$ 113,312</b>	<b>\$ 654,578</b>

Exhibit C-3  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
TIF Districts  
December 31, 2012

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>Assets:</b>							
Cash and investments	\$ 72,671	\$	\$	\$	\$ 250,401	\$	\$ 323,072
Taxes Receivable	309,596	23,147	577,718	40,104		84,415	1,034,980
<b>Total Assets</b>	<b>\$ 382,267</b>	<b>\$ 23,147</b>	<b>\$ 577,718</b>	<b>\$ 40,104</b>	<b>\$ 250,401</b>	<b>\$ 84,415</b>	<b>\$ 1,358,052</b>
<b>Liabilities:</b>							
Due to other governments	\$	\$ 78	\$	\$	\$	\$	\$ 78
Due to other funds		101,047	116,858	65,244		5,007	288,156
Advances due to other funds	75,000						75,000
<b>Total Liabilities</b>	<b>75,000</b>	<b>101,125</b>	<b>116,858</b>	<b>65,244</b>		<b>5,007</b>	<b>363,234</b>
<b>Deferred Inflows of Resources:</b>							
Deferred revenue	309,596	23,147	577,718	40,104		84,415	1,034,980
<b>Total Deferred Inflows of Resources</b>	<b>309,596</b>	<b>23,147</b>	<b>577,718</b>	<b>40,104</b>		<b>84,415</b>	<b>1,034,980</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>384,596</b>	<b>124,272</b>	<b>694,576</b>	<b>105,348</b>		<b>89,422</b>	<b>1,398,214</b>
<b>Fund Equity:</b>							
Restricted for TIF expenditures					250,401		250,401
Unassigned (deficit)	(2,329)	(101,125)	(116,858)	(65,244)		(5,007)	(290,563)
<b>Total Fund Equity</b>	<b>(2,329)</b>	<b>(101,125)</b>	<b>(116,858)</b>	<b>(65,244)</b>	<b>250,401</b>	<b>(5,007)</b>	<b>(40,162)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Equity</b>	<b>\$ 382,267</b>	<b>\$ 23,147</b>	<b>\$ 577,718</b>	<b>\$ 40,104</b>	<b>\$ 250,401</b>	<b>\$ 84,415</b>	<b>\$ 1,358,052</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, 2012

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
Revenues:							
Taxes	\$ 288,481	\$ 21,057	\$ 495,881	\$ 33,806	\$	\$ 81,038	\$ 920,263
Intergovernmental	2,260	13	857	1,175	9,451		13,756
Miscellaneous:							
Other	21,670	5,177	75,888			22,218	124,953
<b>Total Revenues</b>	<b>312,411</b>	<b>26,247</b>	<b>572,626</b>	<b>34,981</b>	<b>9,451</b>	<b>103,256</b>	<b>1,058,972</b>
Expenditures:							
Conservation and Development Capital Outlay	23,377	23,377	147,672	4,676		4,675	203,777
Conservation and Development Debt Service	95,419	930	6,723	59,462	930	930	164,394
Principal Retirement	260,000	57,947	565,000	20,000		45,000	947,947
Interest and Fiscal Charges	157,677	28,067	68,819	3,100		26,105	283,768
<b>Total Expenditures</b>	<b>536,473</b>	<b>110,321</b>	<b>788,214</b>	<b>87,238</b>	<b>930</b>	<b>76,710</b>	<b>1,599,886</b>
Other Financing Sources (Uses):							
Transfers in	221,700	34,700	8,294				264,694
<b>Total Other Financing Sources (Uses)</b>	<b>221,700</b>	<b>34,700</b>	<b>8,294</b>				<b>264,694</b>
<b>Net Change in Fund Balance</b>	<b>(2,362)</b>	<b>(49,374)</b>	<b>(207,294)</b>	<b>(52,257)</b>	<b>8,521</b>	<b>26,546</b>	<b>(276,220)</b>
Fund Balances - January 1	33	(51,751)	90,436	(12,987)	241,880	(31,553)	236,058
Fund Balances - December 31	\$ (2,329)	\$ (101,125)	\$ (116,858)	\$ (65,244)	\$ 250,401	\$ (5,007)	\$ (40,162)

**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, 2012

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<u>Sources of Funds</u>									
Taxes	\$ 1,872,662	\$ 5,013,834	\$ 177,118	\$ 4,430,560	\$ 228,453	\$ 402,066	\$ 57,655	\$ 423,316	\$ 12,605,664
Intergovernmental	225,880	47,507	3,142	12,325	10,782	510,571	214,520		1,024,727
Other Revenue	920,332	536,567	118,300	747,344	58,448	723,838	5,600	129,286	3,239,715
Sale of capital Assets	344,434					17,600			362,034
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	1,019,908		146,173	48,089		1,825,279		150,000	3,189,449
<b>Total Sources</b>	<b>11,343,216</b>	<b>13,497,908</b>	<b>1,514,733</b>	<b>15,153,318</b>	<b>987,683</b>	<b>24,184,354</b>	<b>277,775</b>	<b>2,597,602</b>	<b>69,556,589</b>
<u>Uses of Funds</u>									
Capital Expenditures	4,872,552	5,143,089	597,206	5,566,559	334,394	10,888,837	27,374	953,933	28,383,944
Debt Service									
Principal Retirement	1,190,000	1,592,740	187,263	5,794,793	244,578	3,440,190		1,187,489	13,637,053
Interest and Fiscal Charges	1,485,133	1,463,416	238,983	1,043,205	78,335	1,045,515		144,109	5,498,696
Transfers	3,797,860	4,244,168	592,406	2,865,619	395,620	16,695,220		317,078	28,907,971
<b>Total Uses</b>	<b>11,345,545</b>	<b>12,443,413</b>	<b>1,615,858</b>	<b>15,270,176</b>	<b>1,052,927</b>	<b>32,069,762</b>	<b>27,374</b>	<b>2,602,609</b>	<b>76,427,664</b>
<b>Fund Balance at December 31</b>	<b>\$ (2,329)</b>	<b>\$ 1,054,495</b>	<b>\$ (101,125)</b>	<b>\$ (116,858)</b>	<b>\$ (65,244)</b>	<b>\$ (7,885,408)</b>	<b>\$ 250,401</b>	<b>\$ (5,007)</b>	<b>\$ (6,871,075)</b>
Cash	\$ 72,671	\$ 1,120,021	\$ (101,047)	\$ (116,858)	\$ (65,244)	\$ (1,282,520)	\$ 250,401	\$ (5,007)	\$ (127,583)
Due to Other Governments			78						78
Debt Outstanding	3,565,000	3,460,128	579,870	2,590,000	120,000	3,285,000		4,090,000	17,689,998
Due to other funds	75,000					6,602,888			6,677,888
<b>Balance to be Collected (Surplus) at December 31</b>	<b>\$ 3,712,671</b>	<b>\$ 4,580,149</b>	<b>\$ 478,901</b>	<b>\$ 2,473,142</b>	<b>\$ 54,756</b>	<b>\$ 8,605,368</b>	<b>\$ 250,401</b>	<b>\$ 4,084,993</b>	<b>\$ 24,240,381</b>



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

Certified Public Accountants

2500 Business Park Road ▲ Mineral Point, Wisconsin 53565 ▲ TEL 608-987-2206 ▲ FAX 608-987-3391

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND 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, 2012, 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.

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 deficiencies in the City of Waupaca's internal control to be significant deficiencies.

#### Cash Accounts

A cash account set up at a local financial institution without the City Treasurer's approval. The City Treasurer discovered that the account had been established when reviewing bank statements. Activity was subsequently recorded as part of the audit adjustments. The City Treasurer should be the City official to establish new bank accounts. We understand that subsequent to December 31, 2012 this cash account was turned over to a non-profit organization in charge of fundraising for park improvements.

#### 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.

In addition, we noted other matters involving internal control and its operation that we have reported to management 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.

*Johnson Block and Company, Inc.*

April 2, 2013  
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.

### 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.

### Deposits of Cash Receipts

There was an instance where a cash receipt was not being deposited on a timely basis. As a result, not only is there a risk of loss from burglary, misplacement, or misappropriation, but the cash is not available for expenditures or investment. We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss.

## Sick Leave Policy

Currently, upon retirement, an employee can apply unused sick leave hours towards future health insurance premiums or an employee may take a cash payout depending on their years of employment of their accumulated sick leave up to a maximum of 90 days.

If an employee is offered the option to receive a taxable benefit (e.g., cash) or a nontaxable benefit (e.g., health plan coverage), the employee will generally be taxed as though he/she elected the taxable benefit regardless of the benefit he/she actually elects. This tax principle is referred to as the doctrine of "constructive receipt."

Eliminate the Employee's Ability to Elect Taxable or Nontaxable Benefits. An employee will not be in constructive receipt of a taxable benefit if he/she does not have the ability to choose between taxable and nontaxable benefits.

- a) Option Limited to Nontaxable Benefits. If an employee is only given the option to choose between two nontaxable benefits, the employee would not be subject to tax on his/her election. For example, if a terminating/retiring employee would be given the option to elect to have the value of unused sick leave applied to provide continued health plan coverage or to acquire long-term care insurance, there would not be a taxable event because group health coverage and long-term care insurance are both nontaxable benefits.
- b) No Election Made By Employee. Constructive receipt will not apply if the employee does not have the authority to elect between the benefits offered.
  - I. Election by Employer. Under an arrangement described in Private Letter Ruling 200302032, the employer would apply an amount equal to the retiree's unused sick leave to (a) purchase additional retiree health insurance coverage, or (b) make a contribution to a Code section 403(b) account in the employee's name. The employer would decide where the money would be applied based upon several factors, including the retiree's access to other health coverage, the value of the retiring employee's unused sick leave, and the willingness of the employer's health insurer to cover the retiree. Because the employer decided where contributions would be made, constructive receipt issues were avoided.
  - II. Automatic Triggers. Constructive receipt would be avoided if the determination of whether a terminating/retiring employee would receive the value of unused sick leave in cash or in the form of continued health plan coverage were made automatically based upon objective criteria. For example, there would be no constructive receipt issue if the arrangement provided that unused sick leave would automatically be applied to purchase continued health plan coverage if the value were \$1,000 and would be distributed to the employee in cash if the value were \$1,000 or less. If the value of a terminating employee's leave exceeded \$1,000, the employee should not be subject to tax on his/her continued health coverage. If other criteria were established, care would need to be taken to avoid potential discrimination concerns (e.g., the unavailability of a benefit based on age) and to avoid indirect employee control over the option selected.

## IRS Compliance

The IRS has established a compliance unit just for local governments. As such, municipalities are seeing an increase in payroll audits and 1099 inspections. The City should be aware of the requirements related to payroll and 1099 reporting and ensure that they are in compliance.



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

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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, 2012. 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. The significant accounting policies used by the City 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. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended December 31, 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 2012 depreciation in utility funds
- Record additional accounts receivable
- Record additional accounts payable
- Record utility fixed assets additions and removals
- Record amounts written off for TIF penalties for land taken over by County and Bank.
- Record cash balance and payable for upcoming park project.
- Record transfer of excess increment to distressed TIF.

### *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, 2013.

### *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, 2013  
Mineral Point, WI

*JOHNSON BLOCK AND COMPANY, INC.*

*Johnson Block and Company, Inc.*



## City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect
			Write off advance balance over 1 year old.			
PJE07	Potential	12/31/12				
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI	5,056.30		
		100-47311-000-000	Other Revenue- Crossing Guards		5,056.30	
						5,056.30
			Record additional accounts receivable at 12/31/12.			
PJE08	Potential	12/31/12				
		100-51211-101-000	ADMIN: SALARIES	1,172.38		
		100-21362-000-000	DEFERRED COMPENSATION		1,172.38	
						(1,172.38)
			Record additional deferred compensation at 12/31/12.			
PJE09	Potential	12/31/12				
		225-13911-000-000	ACCOUNTS RECEIVABLE: OTI	6,000.00		
		225-47961-000-000	OTHER REVENUES GENERAL		6,000.00	
						6,000.00
			Record additional accounts receivable at 12/31/12.			
PJE10	Potential	12/31/12				
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI	16,218.01		
		100-43211-000-000	LICENSES: TELEVISION FRAN		16,218.01	
						16,218.01
			Record additional accounts receivable at 12/31/12.			
PJE11	Potential	12/31/12				
		650-90410-299-000	UNCOLLECTIBLE ACCOUNTS	990.59		
		650-14800-000-000	CUSTOMER ACCT. RECEIVAB		990.59	
						(990.59)
			Record additional writeoffs in online fund.			

## City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect
PJE12	Potential	12/31/12				
		610-92000-108-000	ADM & GEN: VACATION PAY	5,034.97		
		610-29611-000-000	ACCRUED VACATION PAY		5,034.97	
		620-83310-108-000	FRINGE: VACATION PAY	5,710.35		
		620-29611-000-000	ACCRUED VACATION PAY		5,710.35	
		100-51411-108-000	CLERK: VACATION PAY	84,250.02		
		8-25000-000-000	Compensated Absences		84,250.02	
						(94,995.34)
			Record additional compensated absences at 12/31/12.			
PJE13	Potential	12/31/12				
		100-21343-000-000	LIFE INS	17,647.80		
		100-51411-122-000	CLERK: LIFE INS		17,647.80	
						17,647.80
			Record life insurance liability to actual.			
		TOTAL		213,148.37	213,148.37	(61,710.51)