



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

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Certified Public Accountants

**CITY OF WAUPACA, WISCONSIN**

**AUDITED FINANCIAL STATEMENTS**

Including Independent Auditor's Report

As of and for the year ended December 31, 2014

Johnson Block & Company, Inc.  
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CITY OF WAUPACA, WISCONSIN

DECEMBER 31, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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, each major fund, and the aggregate remaining fund information of the City of Waupaca, Wisconsin, as of December 31, 2014, 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.

## **Other Matters**

### *Required Supplementary Information*

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**

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 basic 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 basic 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 basic financial statements or to the basic 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 & Company, Inc.*

JOHNSON BLOCK AND COMPANY, INC.

April 6, 2015  
Mineral Point, Wisconsin

## BASIC FINANCIAL STATEMENTS

Exhibit A-1  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 2,682,803	\$ 1,392,677	\$ 4,075,480
Receivables:			
Taxes	6,180,184		6,180,184
Other governments	87,357		87,357
Customer		415,007	415,007
Other	222,443	67,923	290,366
Internal balances	(6,686,694)	6,686,694	
Prepays	43,798		43,798
Inventories	37,551	67,603	105,154
 Total current assets	 2,567,442	 8,629,904	 11,197,346
Noncurrent assets:			
Restricted assets:			
Cash and investments	40,990	1,840,528	1,881,518
Other assets:			
Long-term accounts receivable	709,171		709,171
Less: discount on long-term notes receivable	(107,824)		(107,824)
Special assessments receivable	131,474	130,758	262,232
 Total other assets	 732,821	 130,758	 863,579
Capital assets:			
Property and plant	32,681,664	36,407,056	69,088,720
Less: accumulated provision for depreciation	(8,743,081)	(15,703,287)	(24,446,368)
 Total capital assets	 23,938,583	 20,703,769	 44,642,352
 Total noncurrent assets	 24,712,394	 22,675,055	 47,387,449
 Total assets	 27,279,836	 31,304,959	 58,584,795
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized major repairs		92,506	92,506
Deferred charges on refunding	84,734		84,734
 Total deferred outflows of resources	 84,734	 92,506	 177,240
 Total assets and deferred outflows of resources	 \$ 27,364,570	 \$ 31,397,465	 \$ 58,762,035

Exhibit A-1 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	327,980	\$ 135,641	\$ 463,621
Due to other governments	1,977		1,977
Accrued liabilities	170,801	1,034	171,835
Accrued interest	175,103	33,879	208,982
Customer deposits		1,218	1,218
Current portion of long-term debt	2,380,062	487,727	2,867,789
<b>Total current liabilities</b>	<b>3,055,923</b>	<b>659,499</b>	<b>3,715,422</b>
Current liabilities (payable from restricted assets):			
Accrued interest		12,409	12,409
Current portion of mortgage revenue bonds		168,810	168,810
<b>Total current liabilities (payable from restricted assets)</b>		<b>181,219</b>	<b>181,219</b>
Long-term liabilities:			
Mortgage revenue bonds		7,195,303	7,195,303
Bonds and notes payable	15,633,992		15,633,992
Compensated absences	846,569	94,673	941,242
Less: current portion	(2,380,062)	(656,537)	(3,036,599)
<b>Total long-term liabilities</b>	<b>14,100,499</b>	<b>6,633,439</b>	<b>20,733,938</b>
<b>Total liabilities</b>	<b>17,156,422</b>	<b>7,474,157</b>	<b>24,630,579</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenues	5,755,434		5,755,434
<b>Total liabilities and deferred inflows of resources</b>	<b>22,911,856</b>	<b>7,474,157</b>	<b>30,386,013</b>
<b>NET POSITION</b>			
Net investment in capital assets	15,229,590	13,508,466	28,738,056
Restricted	2,596,475	1,828,119	4,424,594
Unrestricted	(13,373,351)	8,586,723	(4,786,628)
<b>Total net position</b>	<b>4,452,714</b>	<b>23,923,308</b>	<b>28,376,022</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 27,364,570</b>	<b>\$ 31,397,465</b>	<b>\$ 58,762,035</b>

Exhibit A-2  
City of Waupaca, Wisconsin  
Statement of Activities  
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Business Type Activities
Primary Government:						
Governmental activities:						
General government	\$ 814,778	\$ 125,147	\$	\$	\$ (689,631)	\$ (689,631)
Public safety	1,663,047	197,574	17,307		(1,448,166)	(1,448,166)
Health and social services	177,854	29,959			(147,895)	(147,895)
Public works	2,130,958	243,262	732,512		(1,155,184)	(1,155,184)
Culture, recreation and education	1,727,307	197,648	666,839	268,398	(594,422)	(594,422)
Conservation and development	477,275	332,051			(145,224)	(145,224)
Interest and fiscal charges	710,072				(710,072)	(710,072)
Total governmental activities	<u>7,701,291</u>	<u>1,125,641</u>	<u>1,416,658</u>	<u>268,398</u>	<u>(4,890,594)</u>	<u>(4,890,594)</u>
Business-type activities:						
Water utility	991,705	1,349,534			357,829	357,829
Sewer utility	1,708,937	2,086,854		275,120	653,037	653,037
Telecommunication utility	<u>143,917</u>	<u>119,277</u>			<u>(24,640)</u>	<u>(24,640)</u>
Total business-type activities	<u>2,844,559</u>	<u>3,555,665</u>		<u>275,120</u>	<u>986,226</u>	<u>986,226</u>
Total primary government	<u>\$ 10,545,850</u>	<u>\$ 4,681,306</u>	<u>\$ 1,416,658</u>	<u>\$ 543,518</u>	<u>(4,890,594)</u>	<u>986,226</u>
<u>General Revenues and Transfers:</u>						
Property taxes						
General purposes					3,839,626	3,839,626
Debt service					1,399,067	1,399,067
Other taxes					222,608	222,608
Federal and state aid not restricted for specific purposes					1,100,005	1,100,005
Interest and investment earnings					4,730	17,022
Proceeds from insurance					11,538	11,538
Loss on sale of fixed assets					(42,221)	(42,221)
Miscellaneous					120,997	120,997
Transfers					495,299	(495,299)
Total general revenues					<u>7,151,649</u>	<u>(478,277)</u>
Change in net position					2,261,055	507,949
Net position - beginning					2,191,659	23,415,359
Net position - ending					<u>\$ 4,452,714</u>	<u>\$ 23,923,308</u>

Exhibit A-3  
City of Waupaca, Wisconsin  
Balance Sheet  
Governmental Funds  
December 31, 2014

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and investments	\$ 1,270,817	\$ 627,909	\$ 2,213	\$	\$ 781,864	\$ 2,682,803
Restricted cash					40,990	40,990
Receivables:						
Taxes	2,450,895	1,388,759	842,493	71,994	1,426,043	6,180,184
Accounts	41,881				180,562	222,443
Due from other governments					87,357	87,357
Special assessments					131,474	131,474
Due from other funds	159,151		1,052,282			1,211,433
Long-term notes receivable, net of discount of \$107,824	92,176				509,171	601,347
Inventory					37,551	37,551
Prepays	43,798					43,798
<b>Total assets</b>	<b>\$ 4,058,718</b>	<b>\$ 2,016,668</b>	<b>\$ 1,896,988</b>	<b>\$ 71,994</b>	<b>\$ 3,195,012</b>	<b>\$ 11,239,380</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 130,619	\$	\$	\$	\$ 197,361	\$ 327,980
Accrued liabilities	170,801					170,801
Due to other governments	1,229				748	1,977
Due to other funds				872,809	347,430	1,220,239
Advances due to other funds				6,602,888	75,000	6,677,888
<b>Total liabilities</b>	<b>302,649</b>			<b>7,475,697</b>	<b>620,539</b>	<b>8,398,885</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred revenues	2,117,805	1,388,759	842,493	71,994	2,067,204	6,488,255
<b>Total deferred inflows of resources</b>	<b>2,117,805</b>	<b>1,388,759</b>	<b>842,493</b>	<b>71,994</b>	<b>2,067,204</b>	<b>6,488,255</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>2,420,454</b>	<b>1,388,759</b>	<b>842,493</b>	<b>7,547,691</b>	<b>2,687,743</b>	<b>14,887,140</b>
<b>FUND BALANCES</b>						
Nonspendable	135,974				37,551	173,525
Restricted		627,909	1,054,495		580,003	2,262,407
Assigned	59,338				131,980	191,318
Unassigned (deficit)	1,442,952			(7,475,697)	(242,265)	(6,275,010)
<b>Total fund balances</b>	<b>1,638,264</b>	<b>627,909</b>	<b>1,054,495</b>	<b>(7,475,697)</b>	<b>507,269</b>	<b>(3,647,760)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,058,718</b>	<b>\$ 2,016,668</b>	<b>\$ 1,896,988</b>	<b>\$ 71,994</b>	<b>\$ 3,195,012</b>	<b>\$ 11,239,380</b>

Exhibit A-4  
City of Waupaca, Wisconsin  
Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Position  
December 31, 2014

Total fund balances-governmental funds: \$ (3,647,760)

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

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	32,681,664	
Governmental accumulated depreciation	<u>(8,743,081)</u>	23,938,583

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

Special assessments		131,474
Long-term notes receivable		709,171
Discount on notes receivable		(107,824)

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		84,734
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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		(15,633,992)
Accrued interest on general obligation debt		(175,103)
Compensated absences		<u>(846,569)</u>

Total net position of governmental activities		<u><u>\$ 4,452,714</u></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, 2014

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<b>REVENUES</b>						
Taxes	\$ 1,994,739	\$ 1,399,067	\$ 665,137	\$ 68,993	\$ 1,421,834	\$ 5,549,770
Special assessments			95,263		239,326	334,589
Licenses and permits	170,727					170,727
Fines, forfeits and penalties	63,072					63,072
Intergovernmental	2,046,837		1,271	1,633	448,076	2,497,817
Public charges for services	241,456				199,871	441,327
Miscellaneous:						
Interest	1,013				1,034	2,047
Sale of recycling materials	1,228					1,228
Other	149,480			28,362	570,257	748,099
<b>Total revenues</b>	<b>4,668,552</b>	<b>1,399,067</b>	<b>761,671</b>	<b>98,988</b>	<b>2,880,398</b>	<b>9,808,676</b>
<b>EXPENDITURES</b>						
General government	795,391					795,391
Public safety	1,665,276					1,665,276
Health and social services	174,908					174,908
Public works	980,828				592,599	1,573,427
Culture, recreation and education	1,563,743				16,164	1,579,907
Conservation and development			5,525	27,627	277,338	310,490
Capital outlay						
General government					11,971	11,971
Public works					179,695	179,695
Culture, recreation and education					650,499	650,499
Conservation and development			1,417	966	170,414	172,797
Debt service						
Principal retirement	43,683	750,617	552,054	90,000	1,017,947	2,454,301
Interest and fiscal charges	1,638	218,104	120,005	135,621	223,023	698,391
<b>Total expenditures</b>	<b>5,225,467</b>	<b>968,721</b>	<b>679,001</b>	<b>254,214</b>	<b>3,139,650</b>	<b>10,267,053</b>
Excess of revenues over (under) expenditures	(556,915)	430,346	82,670	(155,226)	(259,252)	(458,377)
<b>OTHER FINANCIAL SOURCES (USES)</b>						
Proceeds from sale of capital assets	9,917					9,917
Transfers in	495,299			115,100	584,147	1,194,546
Transfers out		(357,528)	(82,670)		(259,050)	(699,248)
<b>Total other financing sources (uses)</b>	<b>505,216</b>	<b>(357,528)</b>	<b>(82,670)</b>	<b>115,100</b>	<b>325,097</b>	<b>505,215</b>
<b>Net change in fund balances</b>	<b>(51,699)</b>	<b>72,818</b>		<b>(40,126)</b>	<b>65,845</b>	<b>46,838</b>
Fund balances - beginning	1,689,963	555,091	1,054,495	(7,435,571)	441,424	(3,694,598)
Fund balances - ending	<b>\$ 1,638,264</b>	<b>\$ 627,909</b>	<b>\$ 1,054,495</b>	<b>\$ (7,475,697)</b>	<b>\$ 507,269</b>	<b>\$ (3,647,760)</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, 2014

Net change in fund balances-total governmental funds \$ 46,838

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

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

Capital outlay reported in governmental fund statements	648,473	
Depreciation expenses reported in the statement of activities	<u>(640,691)</u>	
Amount by which capital outlays and donations are greater (less) than depreciation in the current period.		7,782

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. (52,138)

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: (26,990)

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

The amount of long-term debt principal payments in the current year is: 2,454,300

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. (35,681)

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, 2014

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: (161,641)

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.

Net amount of new loans versus loan repayments was: 1,901

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. 2,685

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	691,323	
The amount of interest accrued during the current period	(667,324)	
Interest paid is greater (less) than interest expensed by	<u>23,999</u>	<u>23,999</u>

Change in net position-governmental activities \$ 2,261,055

Exhibit A-7  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 961,621	\$ 370,882	\$ 60,174	\$ 1,392,677
Receivables:				
Customer	162,069	249,800	3,138	415,007
Other	21,591	46,332		67,923
Due from other funds	252,306			252,306
Inventories	65,110	2,493		67,603
<b>Total current assets</b>	<b>1,462,697</b>	<b>669,507</b>	<b>63,312</b>	<b>2,195,516</b>
Restricted assets:				
Debt reserves	595,904	996,495		1,592,399
Replacement fund		248,129		248,129
<b>Total restricted assets</b>	<b>595,904</b>	<b>1,244,624</b>		<b>1,840,528</b>
Other assets:				
Special assessments receivable	82,997	47,761		130,758
Advance due from other funds	2,979,124	3,698,764		6,677,888
<b>Total other assets</b>	<b>3,062,121</b>	<b>3,746,525</b>		<b>6,808,646</b>
Capital assets:				
Property and plant	11,632,811	24,510,046	264,199	36,407,056
Less: accumulated provision for depreciation	(4,598,133)	(10,873,364)	(231,790)	(15,703,287)
<b>Total capital assets</b>	<b>7,034,678</b>	<b>13,636,682</b>	<b>32,409</b>	<b>20,703,769</b>
<b>Total assets</b>	<b>12,155,400</b>	<b>19,297,338</b>	<b>95,721</b>	<b>31,548,459</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Unamortized major repairs	92,506			92,506
<b>Total assets and deferred outflows of resources</b>	<b>\$ 12,247,906</b>	<b>\$ 19,297,338</b>	<b>\$ 95,721</b>	<b>\$ 31,640,965</b>

Exhibit A-7 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 41,946	\$ 36,625	\$ 57,070	\$ 135,641
Due to other funds	42,417	190,127	10,956	243,500
Accrued liabilities	984	50		1,034
Accrued interest		33,879		33,879
Customer deposits			1,218	1,218
Current portion of revenue bonds	8,801	478,926		487,727
<b>Total current liabilities</b>	<b>94,148</b>	<b>739,607</b>	<b>69,244</b>	<b>902,999</b>
Current liabilities (payable from restricted assets):				
Accrued interest	12,409			12,409
Current portion of revenue bonds	168,810			168,810
<b>Total current liabilities (payable from restricted assets)</b>	<b>181,219</b>			<b>181,219</b>
Long-term liabilities:				
Revenue bonds	1,906,950	5,288,353		7,195,303
Compensated absences	46,748	47,925		94,673
Less: current portion	(177,611)	(478,926)		(656,537)
<b>Total long-term liabilities</b>	<b>1,776,087</b>	<b>4,857,352</b>		<b>6,633,439</b>
<b>Total liabilities</b>	<b>2,051,454</b>	<b>5,596,959</b>	<b>69,244</b>	<b>7,717,657</b>
<b>NET POSITION</b>				
Net investment in capital assets	5,127,728	8,348,329	32,409	13,508,466
Restricted	583,495	1,244,624		1,828,119
Unrestricted	4,485,229	4,107,426	(5,932)	8,586,723
<b>Total net position</b>	<b>10,196,452</b>	<b>13,700,379</b>	<b>26,477</b>	<b>23,923,308</b>
<b>Total liabilities and net position</b>	<b>\$ 12,247,906</b>	<b>\$ 19,297,338</b>	<b>\$ 95,721</b>	<b>\$ 31,640,965</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, 2014

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>OPERATING REVENUES</b>				
Sales of water	\$ 1,349,534			\$ 1,349,534
Measured sewer service		2,086,854		2,086,854
Telecommunications revenues			119,277	119,277
<b>Total operating revenues</b>	<b>1,349,534</b>	<b>2,086,854</b>	<b>119,277</b>	<b>3,555,665</b>
<b>OPERATING EXPENSES</b>				
Operation and maintenance	689,477	808,465	122,471	1,620,413
Depreciation	213,270	680,888	21,446	915,604
Taxes	11,870	4,870		16,740
<b>Total operating expenses</b>	<b>914,617</b>	<b>1,494,223</b>	<b>143,917</b>	<b>2,552,757</b>
<b>Operating income (loss)</b>	<b>434,917</b>	<b>592,631</b>	<b>(24,640)</b>	<b>1,002,908</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	5,688	11,329	5	17,022
Interest expense	(77,088)	(214,714)		(291,802)
<b>Total nonoperating revenues (expenses)</b>	<b>(71,400)</b>	<b>(203,385)</b>	<b>5</b>	<b>(274,780)</b>
<b>Income before contributions and transfers</b>	<b>363,517</b>	<b>389,246</b>	<b>(24,635)</b>	<b>728,128</b>
Capital contributions		275,120		275,120
Transfer of tax equivalent	(245,299)	(250,000)		(495,299)
<b>Change in net position</b>	<b>118,218</b>	<b>414,366</b>	<b>(24,635)</b>	<b>507,949</b>
<b>Net position - beginning</b>	<b>10,078,234</b>	<b>13,286,013</b>	<b>51,112</b>	<b>23,415,359</b>
<b>Net position - ending</b>	<b>\$ 10,196,452</b>	<b>\$ 13,700,379</b>	<b>\$ 26,477</b>	<b>\$ 23,923,308</b>

Exhibit A-9  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES</b>				
Received from customers	\$ 1,397,675	\$ 2,048,771	\$ 140,397	\$ 3,586,843
Payments to employees	(279,744)	(372,244)	(30,045)	(682,033)
Payments to suppliers	(368,664)	(483,931)	(84,287)	(936,882)
Net cash flows from operating activities	749,267	1,192,596	26,065	1,967,928
<b>CASH FLOWS (USED BY) NONCAPITAL FINANCING ACTIVITIES</b>				
Paid to municipality for tax equivalent	(245,299)	(250,000)		(495,299)
Net cash flows (used by) noncapital financing activities	(245,299)	(250,000)		(495,299)
<b>CASH FLOWS FROM (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments for capital acquisitions	(107,995)	(53,510)		(161,505)
Principal payments	(178,892)	(903,494)		(1,082,386)
Interest paid	(78,022)	(219,917)		(297,939)
Contributed capital		275,120		275,120
Net cash flows (used by) capital and related financing activities	(364,909)	(901,801)		(1,266,710)
<b>CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES</b>				
Purchase of investments	(232,467)	(481,726)		(714,193)
Redemption of investments	230,321	799,550		1,029,871
Receipts of interest	5,688	11,329	4	17,021
Net cash flows from investing activities	3,542	329,153	4	332,699
Net change in cash and cash equivalents	142,601	369,948	26,069	538,618
Cash and cash equivalents - beginning of year	1,182,457	763,832	34,105	1,980,394
Cash and cash equivalents - end of year	\$ 1,325,058	\$ 1,133,780	\$ 60,174	\$ 2,519,012
<b>Reconciliation of cash and cash equivalents to statement of net position accounts</b>				
Cash and investments	961,621	370,882	60,174	1,392,677
Cash and investments (restricted assets)	595,904	1,244,624		1,840,528
Less: investments	(232,467)	(481,726)		(714,193)
Cash and cash equivalents	\$ 1,325,058	\$ 1,133,780	\$ 60,174	\$ 2,519,012

Exhibit A-9 (Continued)  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 434,917	\$ 592,631	\$ (24,640)	\$ 1,002,908
Noncash items in operating income:				
Depreciation expense	225,979	668,180	21,446	915,605
Amortization of major repair	46,253			46,253
Changes in assets and liabilities:				
Customer accounts receivable	3,176	(7,151)	21,120	17,145
Other accounts receivable	(3,286)	(31,637)		(34,923)
Due from other funds	31,596	9,791		41,387
Special assessments receivable	48,251	705		48,956
Inventories	(43,920)			(43,920)
Accounts payable	17,005	19,349	3,160	39,514
Due to other governments	(2,903)	(10,109)	(768)	(13,780)
Due to other funds	(11,080)	(36,483)	5,747	(41,816)
Accrued liabilities	311			311
Compensated absences	2,968	(12,680)		(9,712)
Net cash provided by operating activities	749,267	1,192,596	26,065	1,967,928

NOTES TO THE BASIC FINANCIAL STATEMENTS

City of Waupaca, Wisconsin  
Index to Notes to Basic Financial Statements  
December 31, 2014

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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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 2014, 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, 2014

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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 and deferred outflows of resources, liabilities and 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, 2014

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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

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).

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

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, 2014

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Government-Wide Financial Statements**

The government-wide statement of net 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, 2014

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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 inflows 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 outflows of resources represents a 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.

The preparation of financial statements 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, 2014

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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 - 2014 tax roll:

Lien date and levy date	December 2014
Payment in full, or	January 31, 2015
First installment due	January 31, 2015
Second installment due	July 31, 2015
January settlement	January 15, 2015
February settlement	February 20, 2015
August settlement	August 20, 2015
Personal property taxes in full	January 31, 2015
Tax sale- 2014 delinquent real estate taxes	October 2017

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, 2014

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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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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, 2014

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 \$232,496 and consists of one issue.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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 does 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:

- Nonspendable – 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, 2014

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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, 2014, the unassigned fund balance of the general fund was 28% 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. 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 \$82,670. TIF District No. 9 is a donor to TIF District No. 6, 7, and 10. A transfer of \$7,215 was made from TIF District No. 9 to TIF District No. 7 for 2014.

N. 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.

O. Risk Management

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

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 1                    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Advances to Other Funds

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

Q. 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.

R. 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.

S. 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.

T. 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.

U. Debt Policy

The City's General Guidelines per Debt Policy:

- a. The City shall assess the fiscal impact of the debt prior to issuance.
- b. Tax supported general obligation debt of the City will not exceed 2.5 percent (2.5%) of the equalized valuation, including tax incremental value, of the taxable property of the City ("TID-In"). Total general obligation debt for the City shall not exceed 3.75 percent (3.75%) of TID-In equalized valuation.
- c. Total annual debt service payments on tax-supported debt, excluding tax increment finance debt, of the City will not exceed 25 percent (25%) of total general government operating revenue.
- d. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

The City is in compliance with these general guidelines of the debt policy.

V. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The water utility has one item that qualifies for reporting in this category. Costs of \$231,266 for the painting a water tower are being amortized by the Wisconsin Public Service Commission. The balance at December 31, 2014 was \$92,506.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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, 2014, cash and investments included the following:

Petty cash/cash on hand	\$ 1,250
Deposits with financial institutions	4,216,232
Certificate of deposit	805,198
Treasury obligations	934,318
Total cash and investments	<u>\$ 5,956,998</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2014 are classified in the accompanying financial statements as follows:

Exhibit A-1:

Cash and investments	\$ 4,075,480
Cash and investments-restricted	1,881,518
Total cash and investments	<u>\$ 5,956,998</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, 2014

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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	\$ 805,198	\$ 804,198	\$ 1,000

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, 2014, the City's investments were rated as follows:

	Amount	Rating
First America Treasury Obligation	\$ 934,318	AAA <sub>m</sub>

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.

*FDIC Insurance*

The insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. Separately, all demand deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. For the purpose of these rules, the term 'time and savings deposits' includes NOW accounts and money market deposit accounts but does not include interest bearing demand deposit accounts. The term 'demand deposits' means both interest-bearing and noninterest-bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal. The insurance coverage of accounts held by government depositors is different if the depository institution is located outside the State in which the public unit is located. In that case, all deposits, both time and savings deposits and demand deposits, owned by the public unit and held by the public unit's official custodian are added together and insured up to \$250,000. Time and savings deposits are not insured separately from demand deposits.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

*Collateralization of Public Unit Deposits*

Depending on applicable state or federal law, public unit deposits may be secured by collateral or assets of the bank. In the event of the failure of the bank, the FDIC will honor the collateralization agreement if the agreement is valid and enforceable under applicable law. The FDIC does not guarantee, however, that the collateral will be sufficient to cover the amount of the uninsured funds. As such, although it does not increase the insurance coverage of the public unit deposits, collateralization provides an avenue of recovery in the unlikely event of the failure of an insured bank.

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, 2014, \$559,000 of the City's deposits were insured by collateral at financial institutions, \$1,016,029 were insured by the FDIC and \$3,485,056 of the City's deposits with financial institutions in excess of federal depository insurance limits and pledged collateral were exposed to custodial credit risk. The State of Wisconsin Guarantee Fund would provide an additional \$1,184,494 of coverage, providing funds are available at the time of any potential loss.

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

Concentration of Credit Risk

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

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Removals	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,376,896	\$	\$	\$ 4,376,896
Construction work in progress	167,533		(167,533)	
Total capital assets not being depreciated	4,544,429		(167,533)	4,376,896
 <i>Capital assets, being depreciated:</i>				
Building	11,317,872	771,171	(66,169)	12,022,874
Infrastructure	13,374,697			13,374,697
Improvements other than buildings	621,919			621,919
Machinery and equipment	1,015,371			1,015,371
Vehicles	1,265,115	44,835	(40,043)	1,269,907
Total capital assets, being depreciated	27,594,974	816,006	(106,212)	28,304,768
Total capital assets	32,139,403	816,006	(273,745)	32,681,664
 <i>Less accumulated depreciation:</i>				
Building	2,296,543	121,009	(25,199)	2,392,353
Infrastructure	4,269,541	394,663		4,664,204
Improvements other than buildings	262,681	28,014		290,695
Machinery and equipment	741,615	25,574		767,189
Vehicles	586,084	71,431	(28,875)	628,640
Total accumulated depreciation	8,156,464	640,691	(54,074)	8,743,081
Total net capital assets	\$ 23,982,939	\$ 175,315	\$ (219,671)	\$ 23,938,583

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

Governmental activities	
General government	\$ 31,324
Public safety	54,049
Public works	463,524
Culture, recreation and education	88,848
Health and human services	2,946
Total governmental activities depreciation expense	\$ 640,691

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

NOTE 4

CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Salvage</u>	<u>Removals</u>	<u>Ending Balance</u>
Business-type Activities:					
<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	<u>186,202</u>				<u>186,202</u>
<i>Capital assets, being depreciated:</i>					
Building	6,305,340	46,010		(23,005)	6,328,345
Infrastructure/systems/equipment	29,782,646	115,495		(5,632)	29,892,509
Total capital assets, being depreciated	<u>36,087,986</u>	<u>161,505</u>		<u>(28,637)</u>	<u>36,220,854</u>
Total capital assets	<u>36,274,188</u>	<u>161,505</u>		<u>(28,637)</u>	<u>36,407,056</u>
Less accumulated depreciation:					
Building	3,651,332	271,633		(23,005)	3,899,960
Infrastructure/systems/equipment	11,164,988	643,971		(5,632)	11,803,327
Total accumulated depreciation	<u>14,816,320</u>	<u>915,604</u>		<u>(28,637)</u>	<u>15,703,287</u>
Total net capital assets	<u>\$ 21,457,868</u>	<u>\$ (754,099)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 20,703,769</u>

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

Business-type activities	
Water	\$ 213,270
Wastewater	680,888
Telecommunications	21,446
Total depreciation expense per exhibit A-8	<u>\$ 915,604</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2014.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Governmental Activities</u></b>					
General obligation debt:					
Bonds payable	\$ 11,095,000	\$	\$ (1,460,000)	\$ 9,635,000	\$ 1,275,000
Notes payable	1,094,609		(200,617)	893,992	205,062
Total general obligation debt	12,189,609		(1,660,617)	10,528,992	1,480,062
CDA revenue bonds	5,855,000		(750,000)	5,105,000	900,000
Other long-term obligations:					
Capital lease	43,683		(43,683)		
Compensated absences	819,579	62,342	(35,352)	846,569	
Total governmental activities					
Long-term liabilities	\$ 18,907,871	\$ 62,342	\$ (2,489,652)	\$ 16,480,561	\$ 2,380,062

Interest costs incurred during the year totaled \$667,324. Total interest paid during the year aggregated \$691,323.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Business-type Activities</u></b>					
Mortgage revenue bonds	\$ 8,256,482	\$	\$ (1,061,179)	\$ 7,195,303	\$ 656,537
Other long-term obligations:					
Capital lease	21,207		(21,207)		
Compensated absences	104,385	2,967	(12,679)	94,673	
Total business-type activities					
Long-term liabilities	\$ 8,382,074	\$ 2,967	\$ (1,095,065)	\$ 7,289,976	\$ 656,537

Interest costs incurred during the year totaled \$290,006. Total interest paid during the year aggregated \$296,143.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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, 2014, is comprised of the following issues:

Description	Issue Dates	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/14
<u>Notes payable</u>					
G.O. promissory note	04/01/06	04/01/16	4.50%	\$ 740,000	\$ 175,000
State trust fund loan-WRS payoff	01/22/13	03/15/17	2.50%	188,200	143,373
State trust fund loan	01/09/12	03/15/21	3.75%	710,000	575,619
					<u>\$ 893,992</u>
<u>Refunding bonds</u>					
G.O. promissory bonds-TIF #3	01/06/07	04/01/21	4.00%	\$ 2,640,000	\$ 1,900,000
G.O. promissory bonds-TIF #4	01/06/07	04/01/15	4.00%	975,000	220,000
G.O. promissory bonds-TIF #5	01/06/07	04/01/21	4.00%	275,000	190,000
G.O. promissory bonds-TIF #4	04/01/08	10/01/27	3.25%	575,000	445,000
G.O. promissory bonds-TIF #6	04/01/08	10/01/27	3.05%	95,000	70,000
G.O. promissory bonds-TIF #8	04/01/08	10/01/24	3.25%	1,580,000	1,115,000
G.O. promissory bonds	04/01/08	04/01/23	3.25%	1,790,000	1,400,000
G.O. promissory bonds	11/09/10	04/01/30	2.5-4.7%	6,670,000	3,820,000
G.O. promissory bonds	04/05/11	10/01/20	3.0-4.0%	1,040,000	475,000
					<u>\$ 9,635,000</u>
Total governmental activities - general obligation debt					<u>\$ 10,528,992</u>

**Community Development Authority Lease Revenue Bonds**

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

Lease revenue bonds

TIF #4, TIF #5	7/13/2001	4/1/2018	5.0-5.125%	1,095,000	\$ 610,000
TIF #3, TIF #4, TIF #5	8/1/2002	4/1/2022	4.5-5.0%	1,605,000	895,000
TIF #3, TIF #4	10/6/2003	4/1/2023	4.3-5.0%	2,910,000	1,600,000
Hendrickson Center	10/1/2004	4/1/2019	4.4-4.7%	3,915,000	2,000,000
Total lease revenue bonds					<u>\$ 5,105,000</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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, 2014, is comprised of the following:

Description	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/14
<u>Revenue bonds</u>					
Sewerage system revenue bond	04/08/98	05/01/17	2.64%	\$ 717,567	\$ 138,181
Sewerage system revenue bond	07/24/02	05/01/22	2.84%	1,135,476	552,361
Sewerage system revenue bond	11/01/04	05/01/24	2.37%	454,008	282,646
Sewerage system revenue bond	01/01/05	05/01/25	2.37%	437,107	266,038
Sewerage system revenue bond	07/11/07	05/01/27	2.48%	502,814	374,127
Sewerage system revenue bond	04/01/08	11/01/24	4.40%	4,125,000	3,675,000
Water system revenue bond	11/01/99	05/01/18	1.58%	760,310	179,451
Water system revenue bond	04/01/08	11/01/24	3.40%	2,210,000	1,550,000
Water system revenue bond	06/13/12	05/01/32	1.32%	194,758	177,499
Total business-type activities revenue debt					<u>\$ 7,195,303</u>

The sewerage system and water system revenue bonds require that the following requirements:

**Debt Service Fund Requirement:** The Bond covenants require the utility to establish and maintain a Debt Service Fund Account in an amount equal to one-sixth (1/6) of the next installment of interest coming due on the Prior Bonds, the Bonds and any Parity Bonds then outstanding and an amount equal to one-twelfth (1/12) of the installment of principal of the Prior Bonds, the Bonds and any Parity Bonds coming due during such Bond Year (after giving effect to available amounts in said Fund from accrued interest, any premium or any other source). This requirement was met for the year ended December 31, 2014. The debt service fund requirement for the sewer utility is \$56,850 and the Debt Service Fund Account had a balance of \$514,769 at December 31, 2014. The debt service fund requirement for the water utility is \$20,077 and the Debt Service Fund Account had a balance of \$363,458 at December 31, 2014.

**Bond Reserve Requirement:** The City covenants to establish and maintain a Reserve Account in an amount equal to the least of (a) 10% of the principal of the Bonds and the Parity Bonds; (b) maximum amount of principal and interest due on the outstanding Bonds and Parity Bonds in any Fiscal Year; or (c) 125% of average annual debt service on the outstanding Bonds and the Parity Bonds requirement will be deposited in the Reserve Account. This requirement was met for the year ended December 31, 2014. The reserve requirement for the sewer utility is \$367,500 and the Bond Reserve Account had a balance of \$481,726 at December 31, 2014. The reserve requirement for the water utility is \$155,000 and the Bond Reserve Account had a balance of \$232,447 at December 31, 2014.

**Annual Debt Service Requirement:** The City covenants to establish, charge and collect such lawfully established rates and charges for the services provided by the Sewerage and Water System so that net revenues (i.e. gross revenues less all costs of operation and maintenance, exclusive of debt service, depreciation, or local tax equivalents) will be at least 1.10 times the amount of principal and interest coming due on all outstanding bonds payable from the income and revenues of the Sewerage and Water System each year. This requirement was met for the year ended December 31, 2014. The net earnings for the sewer utility were \$1,284,848 or 1.159 times the annual principal and interest amount \$1,108,252. The net earnings for the water utility were \$653,875 or 3.411 times the annual principal and interest amount \$191,673.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Debt Limit Calculation

The 2014 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$395,516,900. The legal debt limit and margin of indebtedness as of December 31, 2014 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$395,516,900)	\$ 19,775,845
General obligation debt outstanding	<u>(10,528,992)</u>
Margin of indebtedness	<u><u>\$ 9,246,853</u></u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2014, are:

Years	Governmental Fund Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2015	\$ 1,480,062	\$ 383,220	\$ 656,537	\$ 265,797
2016	1,313,924	335,204	682,028	241,417
2017	1,258,032	290,516	707,652	212,925
2018	837,018	251,599	684,903	186,863
2019	875,094	218,247	662,877	160,512
2020-2024	2,624,862	662,487	3,593,143	373,990
2025-2029	1,770,000	276,615	175,796	7,866
2030-2032	370,000	17,390	32,367	649
Totals	<u>\$ 10,528,992</u>	<u>\$ 2,435,278</u>	<u>\$ 7,195,303</u>	<u>\$ 1,450,019</u>

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, 2014. This lease was paid off during 2014.

Equipment	<u>\$ 200,743</u>
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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, 2014. This lease was paid off during 2014.

Equipment	<u>\$ 97,494</u>
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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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.

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 2014 are as follows:

	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	7.0%	7.0%
Executive & Elected Officials	7.75%	7.75%
Protective with Social Security	7.0%	10.10%
Protective without Social Security	7.0%	13.70%

The payroll for City of Waupaca employees covered by the WRS for the year ended December 31, 2014 was \$2,935,377; the employer's total payroll was \$3,317,737. The total required contribution for the year ended December 31, 2014 was \$438,586, which consisted of \$274,261 or 9.3% of the covered payroll from the employer and \$163,411 or 5.6% of the covered payroll from the employee. Total contributions for the years ending December 31, 2013 and 2012 were \$427,469 and \$404,626 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 year's 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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

NOTE 8

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2014 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Government Funds:		
General	Water utility	\$ 42,417
General	Sewer utility	7,255
General	Telecommunications	10,956
General	Transit system	98,523
TIF #4	TIF #8	872,809
TIF #4	TIF #5	131,402
TIF #4	TIF #7	42,032
TIF #4	TIF #10	6,039
	Total	<u>\$ 1,211,433</u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise Funds:		
Water utility	Sewer utility	\$ 182,872
Water utility	Capital projects	69,434
	Total	<u>\$ 252,306</u>

The following is a schedule of interfund advances at December 31, 2014:

<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 TIF District's and no interest is being charged on the advance.

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, 2014

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	\$ 245,299
General	Sewer utility	250,000
TIF #3	Debt service fund	231,664
TIF #5	Debt service fund	70,042
TIF #6	Debt service fund	259,091
TIF #7	Debt service fund	3,376
TIF #7	TIF #9	7,215
TIF #8	Debt service fund	32,430
TIF #8	TIF #4	82,670
TIF #10	Debt service fund	12,759
	Total	<u>\$ 1,194,546</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.

Cumulative transfers from the Debt Service fund to the TIF Districts due to a shortfall of the increment versus the required debt payments are:

TIF #3	\$ 719,908
TIF #5	245,915
TIF #6	640,639
TIF #7	6,752
TIF #8	1,459,228
TIF #10	25,518
	<u>\$ 3,097,960</u>

Repayment by the TIF Districts was determined to be unlikely, and as such, a transfer has been recorded.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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, 2014 includes the following:

**GOVERNMENTAL ACTIVITIES**

Net investment in capital assets	
Land	\$ 4,376,896
Other capital assets, net of accumulated depreciation	19,561,687
Less: related long-term debt outstanding	<u>(8,708,993)</u>
Total net investment in capital assets	<u>15,229,590</u>
Restricted:	
Capital improvements	\$ 40,990
Debt service	452,806
TIF #4	1,054,495
Inland Lakes	10,869
Hotel/motel tax	80,513
Revolving loans	524,527
Adult Recreation Center	36,006
Airport	80,342
TIF #9	198,741
Perpetual care	<u>117,186</u>
Total restricted	<u>2,596,475</u>
Unrestricted	<u>(13,373,351)</u>
Total governmental activities net assets	<u>\$ 4,452,714</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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, 2014 includes the following:

**Major Funds**

**General Fund:**

**Nonspendable:**

Prepays	\$ 43,798
Long-term receivable	92,176
Total	\$ 135,974

**Assigned for:**

Historical	\$ 2,923
Judgments	13,942
Senior Center	14,117
Achieve Grant	27,356
Youth Programs	1,000
Total	\$ 59,338

<b>Unassigned:</b>	\$ 1,442,952
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**Debt Service Fund:**

**Restricted:**

Restricted for future debt payments	\$ 627,909
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**TIF District #4 Fund:**

**Restricted:**

Restricted for TIF purposes	\$ 1,054,495
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**TIF District #8 Fund:**

<b>Unassigned:</b>	\$ (7,475,697)
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**Other Non-major Governmental Funds:**

**Nonspendable:**

Airport fund:

Inventories	\$ 37,551
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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 9

GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES (CONTINUED)

**Restricted:**

Inland Lakes fund:	
Restricted for future expenditures	\$ 10,869
Hotel/motel tax fund:	
Restricted for economic development	80,513
Revolving loan fund:	
Restricted for economic development	15,356
Adult Recreation Center:	
Restricted for future expenditures	36,006
Airport fund:	
Restricted for future expenditures	80,342
Capital Improvements Fund:	
Restricted for specific capital projects	40,990
TIF Districts fund:	
Restricted for future TIF expenditures	
TIF #9	198,741
Perpetual care fund:	
Restricted for future cemetery expenditures	117,186
Total restricted non-major funds	<u>\$ 580,003</u>

**Assigned:**

Capital Improvements Fund:	
Assigned for future capital projects	<u>\$ 131,980</u>

The following non-major funds had deficit balances as of December 31, 2014:

<b>Unassigned fund balance (deficit)</b>	
Transit System Fund	\$ (60,385)
TIF Districts Fund:	
TIF #3	(2,329)
TIF #5	(131,480)
TIF #7	(42,032)
TIF #10	(6,039)
	<u>\$ (242,265)</u>

NOTE 10

JOINT VENTURES

The Waupaca Area Fire District was established in 1991 for the purpose of furnishing firefighting 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 – 34.637%; Town of Waupaca – 6.884%; Town of Dayton – 21.576%; Town of Farmington – 31.102%; and Town of Lind – 5.801%.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 10

JOINT VENTURES (CONTINUED)

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 – 38.86%; Town of Farmington – 25.64%; Town of Dayton – 17.73%; Town of Waupaca – 7.57%; and Town of Lind – 10.19%.

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. \$696,646, including current year costs of \$2,684 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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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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 Number 4 to be a Donor to TIF District Number 8 and TIF District Number 6 to be the donor to TIF Districts Number 3 and 5. 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, 2014 are provided as supplemental financial information.

NOTE 13

WASTEWATER REVENUE CONTRIBUTIONS- OTHER GOVERNMENTS

The Wastewater Utility provides treatment services to the Chain O'Lakes Sanitary District. During 2014, the following amounts were received:

Contributed capital-debt service principal	\$ 221,362
Interest component	5,196
Replacement component	48,562
Total	<u>275,120</u>
Customer charges:	
Flow component (net of overcharge)	130,534
Total	<u>\$ 405,654</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.

The City approved bid for the Augie Austin Gym Floor in an amount not to exceed \$108,100. The City also approved to purchase a hauling truck for \$108,100 and a skid steer for \$41,980. In addition, the City approved rail repair for \$20,850.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 15

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, 2014 the various components of deferred inflows of resources were as follows:

Property tax receivable	\$ 5,337,208
TIF penalties	164,414
Special assessments	385,286
Long-term notes receivable – CDBG	509,171
Long-term notes receivable – Townhouse Land	92,176
Total deferred inflows of resources for government funds	\$ 6,488,255

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, 2014 was \$107,824.

NOTE 16

CONCENTRATION OF RISK

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

NOTE 17

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT  
PERIOD FINANCIAL STATEMENTS

The Government Accounting Standards Board (GASB) has approved GASB Statement No. 68, Accounting and Financial reporting for Pensions- an amendment of GASB Statement No. 27; and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. Application of these standards may restate portions of these financial statements.

NOTE 18

TAX LEVY LIMIT

As part of Wisconsin’s Act 32 (2011), legislation was passed that limits the City’s future tax levies. Generally, the City is limited to its prior tax levy dollar amount, increased by the greater of the percentage change in the City’s equalized value due to new construction or zero percent for the 2011 levy collected in 2012 and thereafter. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions.

In addition, as part of Wisconsin’s Act 20 (2013), legislation was passed that further limits future tax levies. If the City adopts a new fee or a fee increase for covered services (which were partly or wholly funded by property tax levy), the City must reduce its levy limit in the current year by the amount of the new fee or fee increase, less any previous reductions. Covered services include garbage collection, fire protection, snow plowing, street sweeping and stormwater management.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2014

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NOTE 19

SUBSEQUENT EVENT

City agreed to a developer agreement amendment to forgive prior development penalties in exchange for additional homes to be built. Failure by the developer to comply with terms of the agreement will result in a reinstatement of the penalties. The total penalties to be written off are approximately \$245,000.

## 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, 2014

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<b>REVENUES</b>					
Taxes	2,057,746	2,057,746	\$ 1,994,739	\$ (63,007)	\$ (63,007)
Licenses and permits	147,277	147,277	170,727	23,450	23,450
Fines, forfeits and penalties	75,127	75,127	63,072	(12,055)	(12,055)
Public charges for services	234,240	242,240	241,456	7,216	(784)
Intergovernmental	2,069,250	2,069,250	2,046,837	(22,413)	(22,413)
Interest	2,000	2,000	1,013	(987)	(987)
Miscellaneous	123,058	141,122	150,708	27,650	9,586
<b>Total revenues</b>	<b>4,708,698</b>	<b>4,734,762</b>	<b>4,668,552</b>	<b>(40,146)</b>	<b>(66,210)</b>
<b>EXPENDITURES</b>					
General government	769,133	776,557	795,391	(26,258)	(18,834)
Public safety	1,679,646	1,688,192	1,665,276	14,370	22,916
Health and social services	173,607	181,810	174,908	(1,301)	6,902
Public works	983,608	980,924	980,828	2,780	96
Culture, recreation and education	1,637,389	1,651,054	1,563,743	73,646	87,311
Debt service	45,315	45,315	45,321	(6)	(6)
<b>Total expenditures</b>	<b>5,288,698</b>	<b>5,323,852</b>	<b>5,225,467</b>	<b>63,231</b>	<b>98,385</b>
Excess of revenues over (under) expenditures	(580,000)	(589,090)	(556,915)	23,085	32,175
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Proceeds from sale of capital assets	130,000	139,090	9,917	(120,083)	(129,173)
Transfer from utilities	450,000	450,000	495,299	45,299	45,299
<b>Total other financing sources (uses)</b>	<b>580,000</b>	<b>589,090</b>	<b>505,216</b>	<b>(74,784)</b>	<b>(83,874)</b>
<b>Net change in fund balance</b>			<b>(51,699)</b>	<b>(51,699)</b>	<b>(51,699)</b>
Fund balance - beginning	1,689,963	1,689,963	1,689,963		
Fund balance - ending	<u>\$ 1,689,963</u>	<u>\$ 1,689,963</u>	<u>\$ 1,638,264</u>	<u>\$ (51,699)</u>	<u>\$ (51,699)</u>

City of Waupaca, Wisconsin  
Notes to Required Supplementary Information  
December 31, 2014

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

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 to the financial statements.

The City budget is adopted in accordance with state law. 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.

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, 2014, expenditures exceeded budgeted amounts for the following:

General government	\$ 18,834
Debt service	6

## Supplementary Information

Exhibit C-1  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2014

	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	Capital Improvements	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
<b>ASSETS</b>										
Cash and investments	\$ 10,869	\$ 218,157	\$	\$ 15,390	\$ 36,446	\$ 84,168	\$ 28,236	\$ 271,412	\$ 117,186	\$ 781,864
Restricted cash							40,990			40,990
Receivables:										
Taxes			8,000			114,994	253,297	1,049,752		1,426,043
Accounts							180,562			180,562
Special assessments							131,474			131,474
Loans				509,171						509,171
Other governments			87,357							87,357
Inventory						37,551				37,551
<b>Total assets</b>	<b>\$ 10,869</b>	<b>\$ 218,157</b>	<b>\$ 95,357</b>	<b>\$ 524,561</b>	<b>\$ 36,446</b>	<b>\$ 236,713</b>	<b>\$ 634,559</b>	<b>\$ 1,321,164</b>	<b>\$ 117,186</b>	<b>\$ 3,195,012</b>
<b>LIABILITIES</b>										
Accounts payable	\$	\$ 137,644	\$ 49,219	\$ 34	\$ 316	\$ 3,756	\$ 6,392	\$	\$	\$ 197,361
Due to other governments					124	70	476	78		748
Due to other funds			98,523				69,434	179,473		347,430
Advances due to other funds								75,000		75,000
<b>Total liabilities</b>		<b>137,644</b>	<b>147,742</b>	<b>34</b>	<b>440</b>	<b>3,826</b>	<b>76,302</b>	<b>254,551</b>		<b>620,539</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Deferred revenue			8,000	509,171		114,994	385,287	1,049,752		2,067,204
<b>Total deferred inflows of resources</b>			<b>8,000</b>	<b>509,171</b>		<b>114,994</b>	<b>385,287</b>	<b>1,049,752</b>		<b>2,067,204</b>
<b>Total liabilities and deferred inflows of resources</b>		<b>137,644</b>	<b>155,742</b>	<b>509,205</b>	<b>440</b>	<b>118,820</b>	<b>461,589</b>	<b>1,304,303</b>		<b>2,687,743</b>
<b>FUND BALANCES</b>										
Nonspendable						37,551				37,551
Restricted	10,869	80,513		15,356	36,006	80,342	40,990	198,741	117,186	580,003
Assigned							131,980			131,980
Unassigned (deficit)			(60,385)					(181,880)		(242,265)
<b>Total fund balances</b>	<b>10,869</b>	<b>80,513</b>	<b>(60,385)</b>	<b>15,356</b>	<b>36,006</b>	<b>117,893</b>	<b>172,970</b>	<b>16,861</b>	<b>117,186</b>	<b>507,269</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 10,869</b>	<b>\$ 218,157</b>	<b>\$ 95,357</b>	<b>\$ 524,561</b>	<b>\$ 36,446</b>	<b>\$ 236,713</b>	<b>\$ 634,559</b>	<b>\$ 1,321,164</b>	<b>\$ 117,186</b>	<b>\$ 3,195,012</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, 2014

	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	Capital Improvements	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
<b>REVENUES</b>										
Taxes	\$	\$ 236,191	\$ 12,594	\$	\$	\$ 112,818		\$ 1,060,231	\$	\$ 1,421,834
Special assessments							239,326			239,326
Intergovernmental	10,115		255,017				169,574	13,370		448,076
Public charges for services		30			25,047	174,794				199,871
Miscellaneous:										
Interest	3			2			14		1,015	1,034
Other			29,133	4,112		18,011	332,330	186,671		570,257
<b>Total revenues</b>	<b>10,118</b>	<b>236,221</b>	<b>296,744</b>	<b>4,114</b>	<b>25,047</b>	<b>305,623</b>	<b>741,244</b>	<b>1,260,272</b>	<b>1,015</b>	<b>2,880,398</b>
<b>EXPENDITURES</b>										
Public works			308,879			283,720				592,599
Culture, recreation and education					16,164					16,164
Conservation and development	2,756	191,179		6,048				77,355		277,338
Capital outlay										
General government							11,971			11,971
Public works							179,695			179,695
Culture, recreation and education							650,499			650,499
Conservation and development								170,414		170,414
Debt service										
Principal retirement								1,017,947		1,017,947
Interest and fiscal charges								223,023		223,023
<b>Total expenditures</b>	<b>2,756</b>	<b>191,179</b>	<b>308,879</b>	<b>6,048</b>	<b>16,164</b>	<b>283,720</b>	<b>842,165</b>	<b>1,488,739</b>		<b>3,139,650</b>
Excess of revenues over (under) expenditures	7,362	45,042	(12,135)	(1,934)	8,883	21,903	(100,921)	(228,467)	1,015	(259,252)
<b>OTHER FINANCIAL SOURCES (USES)</b>										
Transfers in								584,147		584,147
Transfers out								(259,050)		(259,050)
<b>Total other financing sources (uses)</b>								<b>325,097</b>		<b>325,097</b>
Net change in fund balances	7,362	45,042	(12,135)	(1,934)	8,883	21,903	(100,921)	96,630	1,015	65,845
Fund balances - beginning	3,507	35,471	(48,250)	17,290	27,123	95,990	273,891	(79,769)	116,171	441,424
Fund balances - ending	\$ 10,869	\$ 80,513	\$ (60,385)	\$ 15,356	\$ 36,006	\$ 117,893	\$ 172,970	\$ 16,861	\$ 117,186	\$ 507,269

Exhibit C-3  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
TIF Districts  
December 31, 2014

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>ASSETS</b>							
Cash and investments	\$ 72,671	\$	\$	\$	\$ 198,741	\$	\$ 271,412
Taxes receivable	328,039	19,782	557,945	53,995		89,991	1,049,752
Total assets	\$ 400,710	\$ 19,782	\$ 557,945	\$ 53,995	\$ 198,741	\$ 89,991	\$ 1,321,164
<b>LIABILITIES</b>							
Due to other governments	\$	\$ 78	\$	\$	\$	\$	\$ 78
Due to other funds		131,402		42,032		6,039	179,473
Advances due to other funds	75,000						75,000
Total liabilities	75,000	131,480		42,032		6,039	254,551
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred revenue	328,039	19,782	557,945	53,995		89,991	1,049,752
Total deferred inflows of resources	328,039	19,782	557,945	53,995		89,991	1,049,752
Total liabilities and deferred inflows of resources	403,039	151,262	557,945	96,027		96,030	1,304,303
<b>FUND BALANCES</b>							
Restricted for TIF expenditures					198,741		198,741
Unassigned (deficit)	(2,329)	(131,480)		(42,032)		(6,039)	(181,880)
Total fund balances	(2,329)	(131,480)		(42,032)	198,741	(6,039)	16,861
Total liabilities, deferred inflows of resources and fund balances	\$ 400,710	\$ 19,782	\$ 557,945	\$ 53,995	\$ 198,741	\$ 89,991	\$ 1,321,164

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, 2014

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>REVENUES</b>							
Taxes	\$ 318,297	\$ 21,366	\$ 584,877	\$ 50,685	\$	\$ 85,006	\$ 1,060,231
Intergovernmental	1,525	3	2,554	1,143	8,145		13,370
Miscellaneous:							
Other	11,562	13,344	139,487			22,278	186,671
<b>Total revenues</b>	<b>331,384</b>	<b>34,713</b>	<b>726,918</b>	<b>51,828</b>	<b>8,145</b>	<b>107,284</b>	<b>1,260,272</b>
<b>EXPENDITURES</b>							
Conservation and development	27,627	27,627	11,051	5,525		5,525	77,355
Capital outlay							
Conservation and development	104,673	930	930	62,021	930	930	170,414
Debt service							
Principal retirement	295,000	52,947	560,000	20,000		90,000	1,017,947
Interest and fiscal charges	135,748	23,251	39,306	1,875		22,843	223,023
<b>Total expenditures</b>	<b>563,048</b>	<b>104,755</b>	<b>611,287</b>	<b>89,421</b>	<b>930</b>	<b>119,298</b>	<b>1,488,739</b>
<b>OTHER FINANCIAL SOURCES (USES)</b>							
Transfers in	231,664	70,042	259,091	10,591		12,759	584,147
Transfers out			(251,835)		(7,215)		(259,050)
<b>Total other financing sources (uses)</b>	<b>231,664</b>	<b>70,042</b>	<b>7,256</b>	<b>10,591</b>	<b>(7,215)</b>	<b>12,759</b>	<b>325,097</b>
<b>Net change in fund balance</b>			<b>122,887</b>	<b>(27,002)</b>		<b>745</b>	<b>96,630</b>
<b>Fund balances - beginning</b>	<b>(2,329)</b>	<b>(131,480)</b>	<b>(122,887)</b>	<b>(15,030)</b>	<b>198,741</b>	<b>(6,784)</b>	<b>(79,769)</b>
<b>Fund balances - ending</b>	<b>\$ (2,329)</b>	<b>\$ (131,480)</b>	<b>\$</b>	<b>\$ (42,032)</b>	<b>\$ 198,741</b>	<b>\$ (6,039)</b>	<b>\$ 16,861</b>

## Miscellaneous Financial Data

City of Waupaca, Wisconsin  
Historical Sources, Uses and Status of Funds - Tax Incremental Financing Districts  
From Dates of Creation Through December 31, 2014

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<b>SOURCES OF FUNDS</b>									
Taxes	\$ 2,500,555	\$ 6,344,281	\$ 219,857	\$ 5,591,618	\$ 319,242	\$ 533,311	\$ 57,655	\$ 592,737	\$16,159,256
Intergovernmental	229,449	50,378	3,154	18,826	12,755	513,838	226,795		1,055,195
Other revenue	950,683	787,140	137,709	903,459	58,448	784,032	5,600	173,823	3,800,894
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	1,451,628		266,086	640,639	68,827	2,546,832		175,518	5,149,530
<b>Total sources</b>	<b>12,436,749</b>	<b>15,081,799</b>	<b>1,696,806</b>	<b>17,069,542</b>	<b>1,149,272</b>	<b>25,100,613</b>	<b>290,050</b>	<b>2,837,078</b>	<b>75,661,909</b>
<b>USES OF FUNDS</b>									
Capital expenditures	5,133,035	5,165,453	654,320	7,665,128	408,396	10,945,987	29,234	966,843	30,968,396
Debt service									
Principal retirement	1,740,000	2,681,368	293,636	7,224,793	304,578	3,615,190		1,367,489	17,227,054
Interest and fiscal charges	1,768,183	1,726,860	287,924	1,288,879	82,710	1,319,913		191,707	6,666,176
Transfers	3,797,860	4,453,623	592,406	890,742	395,620	16,695,220	62,075	317,078	27,204,624
<b>Total uses</b>	<b>12,439,078</b>	<b>14,027,304</b>	<b>1,828,286</b>	<b>17,069,542</b>	<b>1,191,304</b>	<b>32,576,310</b>	<b>91,309</b>	<b>2,843,117</b>	<b>82,066,250</b>
Fund balance at December 31	\$ (2,329)	\$ 1,054,495	\$ (131,480)	\$	\$ (42,032)	\$ (7,475,697)	\$ 198,741	\$ (6,039)	\$ (6,404,341)
Cash	\$ 72,671	\$ 1,054,495	\$ (131,402)	\$	\$ (42,032)	\$ (872,809)	\$ 198,741	\$ (6,039)	\$ 273,625
Due to other governments			78						78
Debt outstanding	3,015,000	2,371,500	473,497	1,160,000	60,000	3,110,000		3,910,000	14,099,997
Due to other funds	75,000					6,602,888			6,677,888
Balance to be collected (surplus) at December 31	\$ 3,162,671	\$ 3,425,995	\$ 342,173	\$ 1,160,000	\$ 17,968	\$ 8,840,079	\$ 198,741	\$ 3,903,961	\$21,051,588



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, Wisconsin (“City”) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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’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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not 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 deficiency in internal control to be a material weakness:

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.

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

Preparation of Financial Statements

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

However, since the financials statement 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.

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 & Company, Inc.*  
JOHNSON BLOCK AND COMPANY, INC.

April 6, 2015  
Mineral Point, WI



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

Certified Public Accountants

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

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, Wisconsin ("City") for the year ended December 31, 2014. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2014. 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 additional accounts receivable
- Record utility fixed assets additions and removals
- Record depreciation
- Adjust ending inventory
- Record prior year deferred revenue on tax roll as revenue
- Record specials written off
- Record transfer of excess increment to distressed TIF.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 6, 2015.

### *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 statements 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

We applied certain limited procedures to the budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We were not engaged to report on miscellaneous financial data, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Attached are recommendations and informational points to management that are not material weaknesses or significant deficiencies.

Restriction on Use

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

Very truly yours,

*JOHNSON BLOCK AND COMPANY, INC.*

*Johnson Block & Company, Inc.*

April 6, 2015  
Mineral Point, WI

Client: **WAUPCITY - City of Waupaca**  
 Engagement: **2014 Audit**  
 Period Ending: **12/31/2014**  
 Trial Balance: **TB**  
 Workpaper: **PJE - Proposed JE Report**

Account	Description	W/P Ref	Debit	Credit
<b>Proposed JE # 6001</b>				
		<b>D-06</b>		
	To remove 4th qtr. 2013 franchise fee from revenue due to 5 qtr.'s recorded in 2014.			
100-43211-000-000	LICENSES: TELEVISION FRAN		16,975.82	
100-33000-000-000	UNRESERVED FUND EQUITY			16,975.82
<b>Total</b>			<b>16,975.82</b>	<b>16,975.82</b>
<b>Proposed JE # 6002</b>				
		<b>A-02</b>		
	To record accrued interest on CDs.			
610-11123-000-000	DEBT RESERVE 2008		994.83	
620-11123-000-000	DEBT RESERVE 2008		2,061.52	
610-47510-000-000	INTEREST ON INVESTMENTS			994.83
620-48111-000-000	INTEREST			2,061.52
<b>Total</b>			<b>3,056.35</b>	<b>3,056.35</b>

RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT  
THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

### 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.

At December 31, 2014, the customer accounts receivable general ledger control account was adjusted by \$5,306 and \$3,520 for the water and sewer utilities, respectively, to reconcile to the customer accounts receivable subsidiary 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.

## 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.