

**CITY OF WAUPACA, WISCONSIN**  
**AUDITED FINANCIAL STATEMENTS**  
Including Independent Auditor's Report  
As of and for the year ended December 31, 2015

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

DECEMBER 31, 2015

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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, effective January 1, 2015, the City of Waupaca adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 52-53 and the Wisconsin Retirement System schedules on page 54 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 accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The miscellaneous financial data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Johnson Block and Company, Inc.

*Johnson Block & Company, Inc.*

June 14, 2016  
Mineral Point, WI

## BASIC FINANCIAL STATEMENTS

Exhibit A-1  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 2,890,643	\$ 2,202,982	\$ 5,093,625
Receivables:			
Taxes	5,921,942		5,921,942
Due from other governments	142,246		142,246
Customer		406,595	406,595
Other	181,381	87,637	269,018
Internal balances	(6,749,023)	6,749,023	
Prepays	50,714		50,714
Inventories	30,402	66,344	96,746
	<hr/>		
Total current assets	2,468,305	9,512,581	11,980,886
Noncurrent assets:			
Restricted assets:			
Cash and investments		1,323,670	1,323,670
Net pension asset	513,314	69,138	582,452
Other assets:			
Long-term notes receivable	608,047		608,047
Less: discount on long-term notes receivable	(107,824)		(107,824)
Special assessments receivable	131,251	117,641	248,892
Capital assets:			
Property and plant	33,661,407	36,566,536	70,227,943
Less: accumulated provision for depreciation	(9,315,877)	(16,602,690)	(25,918,567)
	<hr/>		
Total noncurrent assets	25,490,318	21,474,295	46,964,613
	<hr/>		
Total assets	27,958,623	30,986,876	58,945,499
<hr/>			
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension outflows	560,856	75,540	636,396
Unamortized major repairs		46,253	46,253
Deferred charges on refunding	56,729		56,729
	<hr/>		
Total deferred outflows of resources	617,585	121,793	739,378
	<hr/>		
Total assets and deferred outflows of resources	\$ 28,576,208	\$ 31,108,669	\$ 59,684,877
	<hr/> <hr/>		

Exhibit A-1 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 212,078	\$ 125,146	\$ 337,224
Due to other governments	40,142	3,140	43,282
Accrued liabilities	93,472	6,777	100,249
Accrued interest	164,044	30,900	194,944
Customer deposits		1,053	1,053
Current portion of long-term debt	2,458,229	507,523	2,965,752
Total current liabilities	2,967,965	674,539	3,642,504
Current liabilities (payable from restricted assets):			
Accrued interest		11,410	11,410
Current portion of mortgage revenue bonds		174,505	174,505
Total current liabilities (payable from restricted assets)		185,915	185,915
Long-term liabilities:			
Mortgage revenue bonds		6,538,766	6,538,766
Bonds and notes payable	14,095,130		14,095,130
Compensated absences	724,932	104,918	829,850
Less: current portion	(2,458,229)	(682,028)	(3,140,257)
Total long-term liabilities	12,361,833	5,961,656	18,323,489
Total liabilities	15,329,798	6,822,110	22,151,908
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows	9,033	1,216	10,249
Deferred revenues	5,672,602		5,672,602
Total deferred inflows of resources	5,681,635	1,216	5,682,851
<b>NET POSITION</b>			
Net investment in capital assets	16,170,400	13,425,080	29,595,480
Restricted	3,200,587	1,380,182	4,580,769
Unrestricted	(11,806,212)	9,480,081	(2,326,131)
Total net position	7,564,775	24,285,343	31,850,118
Total liabilities, deferred inflows of resources and net position	\$ 28,576,208	\$ 31,108,669	\$ 59,684,877

Exhibit A-2  
City of Waupaca, Wisconsin  
Statement of Activities  
For the Year Ended December 31, 2015

<u>Functions/Programs</u>	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	Total
Primary Government:							
Governmental activities:							
General government	\$ 748,771	\$ 126,982	\$	\$	\$ (621,789)		\$ (621,789)
Public safety	1,807,250	196,962	16,502		(1,593,786)		(1,593,786)
Health and social services	189,992	46,610	1,500		(141,882)		(141,882)
Public works	1,991,530	207,410	698,476	18,472	(1,067,172)		(1,067,172)
Culture, recreation and education	1,756,698	156,946	524,742	50,000	(1,025,010)		(1,025,010)
Conservation and development	787,247	301,149			(486,098)		(486,098)
Interest and fiscal charges	644,384				(644,384)		(644,384)
Total governmental activities	7,925,872	1,036,059	1,241,220	68,472	(5,580,121)		(5,580,121)
Business-type activities:							
Water utility	1,032,153	1,356,025				323,872	323,872
Sewer utility	1,827,283	2,099,963		76,395		349,075	349,075
Telecommunication utility	135,565	157,379				21,814	21,814
Total business-type activities	2,995,001	3,613,367		76,395		694,761	694,761
Total primary government	\$ 10,920,873	\$ 4,649,426	\$ 1,241,220	\$ 144,867	(5,580,121)	694,761	(4,885,360)
<u>General Revenues and Transfers:</u>							
Property taxes							
General purposes					3,959,574		3,959,574
Debt service					1,388,759		1,388,759
Other taxes					338,678		338,678
Federal and state aid not restricted for specific purposes					1,199,167		1,199,167
Interest and investment earnings					4,007	23,088	27,095
Proceeds from insurance					7,476		7,476
Gain on sale of fixed assets					73,096	30	73,126
Miscellaneous					69,797		69,797
Transfers					497,916	(497,916)	
Total general revenues					7,538,470	(474,798)	7,063,672
Change in net position					1,958,349	219,963	2,178,312
Net position - beginning , as previously reported							
Prior period adjustment - implementation of GASB Statement No. 68 and GASB Statement No. 71					4,452,714	23,923,308	28,376,022
Prior period adjustment - to correct room tax liability					1,054,831	142,072	1,196,903
Net position - beginning, as restated					98,881		98,881
Net position - beginning, as restated					5,606,426	24,065,380	29,671,806
Net position - ending	\$ 7,564,775	\$ 24,285,343	\$	\$ 31,850,118			

Exhibit A-3  
City of Waupaca, Wisconsin  
Balance Sheet  
Governmental Funds  
December 31, 2015

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and investments	\$ 1,084,075	\$ 765,681	\$	\$	\$ 1,040,887	\$ 2,890,643
Receivables:						
Taxes	2,018,730	1,313,759	797,241	100,514	1,691,698	5,921,942
Due from other governments					142,246	142,246
Special assessments					131,251	131,251
Due from other funds	412,584		935,698		50,000	1,398,282
Other	122,659				58,722	181,381
Long-term notes receivable, net of discount of \$107,824	94,942				448,457	543,399
Inventory					30,402	30,402
Prepays	50,714					50,714
<b>Total assets</b>	<b>\$ 3,783,704</b>	<b>\$ 2,079,440</b>	<b>\$ 1,732,939</b>	<b>\$ 100,514</b>	<b>\$ 3,593,663</b>	<b>\$11,290,260</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 114,443	\$	\$	\$	\$ 97,635	\$ 212,078
Accrued liabilities	93,472					93,472
Due to other governments	36,634				3,508	40,142
Due to other funds	217,309	67,916		851,719	332,473	1,469,417
Advances due from other funds				6,602,888	75,000	6,677,888
<b>Total liabilities</b>	<b>461,858</b>	<b>67,916</b>		<b>7,454,607</b>	<b>508,616</b>	<b>8,492,997</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred revenues	1,857,267	1,313,759	797,241	100,514	2,281,015	6,349,796
<b>Total deferred inflows of resources</b>	<b>1,857,267</b>	<b>1,313,759</b>	<b>797,241</b>	<b>100,514</b>	<b>2,281,015</b>	<b>6,349,796</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>2,319,125</b>	<b>1,381,675</b>	<b>797,241</b>	<b>7,555,121</b>	<b>2,789,631</b>	<b>14,842,793</b>
<b>FUND BALANCES</b>						
Nonspendable	145,656				30,402	176,058
Restricted		697,765	935,698		748,028	2,381,491
Assigned	59,338				243,726	303,064
Unassigned (deficit)	1,259,585			(7,454,607)	(218,124)	(6,413,146)
<b>Total fund balances</b>	<b>1,464,579</b>	<b>697,765</b>	<b>935,698</b>	<b>(7,454,607)</b>	<b>804,032</b>	<b>(3,552,533)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,783,704</b>	<b>\$ 2,079,440</b>	<b>\$ 1,732,939</b>	<b>\$ 100,514</b>	<b>\$ 3,593,663</b>	<b>\$11,290,260</b>

Exhibit A-4  
City of Waupaca, Wisconsin  
Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Position  
December 31, 2015

Total fund balances-governmental funds: \$ (3,552,533)

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	33,661,407	
Governmental accumulated depreciation	<u>(9,315,877)</u>	24,345,530

The net pension asset is not a current financial resource and is, therefore, not reported in the fund statements 513,314

Pension deferred outflows of resources and deferred inflows of resources are actuarially determined by the defined benefit pension plan.

These items are reflected in the Statement of Net Position and are being amortized with pension expense in the Statement of Activities.

The deferred outflows of resources and deferred inflows of resources are not financial resources or uses and therefore are not reported in the fund statements.

Deferred outflows of resources		560,856
Deferred inflows of resources		(9,033)

Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred inflows on the fund statements.

Special assessments		133,795
Long-term notes receivable		608,047
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		56,729
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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		(14,095,130)
Accrued interest on general obligation debt		(164,044)
Compensated absences		<u>(724,932)</u>

Total net position of governmental activities \$ 7,564,775

Exhibit A-5  
City of Waupaca, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2015

	General	Debt Service	TIF #4	TIF #8	Other Governmental Funds	Total
<b>REVENUES</b>						
Taxes	\$ 2,117,173	\$ 1,388,759	\$ 683,934	\$ 71,994	\$ 1,425,159	\$ 5,687,019
Special assessments			187,283		16,151	203,434
Licenses and permits	168,296					168,296
Fines, forfeits and penalties	67,599					67,599
Intergovernmental	2,034,987		1,511	1,505	371,112	2,409,115
Public charges for services	239,983				142,368	382,351
Miscellaneous:						
Interest	446				795	1,241
Sale of recycling materials	218					218
Other	128,361			19,044	268,992	416,397
Total revenues	4,757,063	1,388,759	872,728	92,543	2,224,577	9,335,670
<b>EXPENDITURES</b>						
General government	764,295					764,295
Public safety	1,786,823					1,786,823
Health and social services	185,916				1,130	187,046
Public works	1,019,892				624,229	1,644,121
Culture, recreation and education	1,678,687				11,947	1,690,634
Conservation and development			7,109	35,545	333,690	376,344
Capital outlay:						
General government					11,971	11,971
Public works					302,743	302,743
Culture, recreation and education					650,499	650,499
Conservation and development			218,555	2,093	116,328	336,976
Debt service:						
Principal retirement		770,062	671,574	90,000	848,426	2,380,062
Interest and fiscal charges		205,841	94,287	132,133	195,177	627,438
Total expenditures	5,435,613	975,903	991,525	259,771	3,096,140	10,758,952
Excess of revenues over (under) expenditures	(678,550)	412,856	(118,797)	(167,228)	(871,563)	(1,423,282)
<b>OTHER FINANCIAL SOURCES (USES)</b>						
Proceeds from sale of capital assets	6,949				73,563	80,512
Transfers in	497,916			188,318	336,136	1,022,370
Transfers out		(343,000)			(181,454)	(524,454)
Debt proceeds					841,200	841,200
Total other financing sources (uses)	504,865	(343,000)		188,318	1,069,445	1,419,628
Net change in fund balances	(173,685)	69,856	(118,797)	21,090	197,882	(3,654)
Fund balances - beginning, as previously reported	1,638,264	627,909	1,054,495	(7,475,697)	507,269	(3,647,760)
Prior period adjustment					98,881	98,881
Fund balances - beginning, as restated	1,638,264	627,909	1,054,495	(7,475,697)	606,150	(3,548,879)
Fund balances - ending	\$ 1,464,579	\$ 697,765	\$ 935,698	\$ (7,454,607)	\$ 804,032	\$ (3,552,533)

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, 2015

Net change in fund balances-total governmental funds \$ (3,654)

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	1,092,857	
Depreciation expenses reported in the statement of activities	(680,910)	
Amount by which capital outlays and donations are greater (less) than depreciation in the current period.		411,947

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. (5,000)

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: 121,637

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: 2,380,062

The issuance of long-term debt (e.g. bonds, notes) provides current financial  
resources to governmental funds but does not affect the statement of activities (841,200)

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. (28,005)

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, 2015

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:	2,322	
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:	(103,889)	
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.		2,765
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	605,007	
The amount of interest accrued during the current period	<u>(593,949)</u>	
Interest paid is greater (less) than interest expensed by		11,058
Pension expense reported in the governmental funds represents current year required contributions into the defined benefit pension plan. Pension expense in the Statement of Activities is actuarially determined by the defined pension plan as the difference between the net pension asset from the prior year to the current year, with some adjustments.		
Difference between the required contributions into the defined benefit plan and the actuarially determined change in net pension asset between years, with adjustments.		<u>10,306</u>
Change in net position-governmental activities		<u><u>\$ 1,958,349</u></u>

Exhibit A-7  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2015

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,558,587	\$ 621,699	\$ 22,696	\$ 2,202,982
Receivables:				
Customer	156,631	233,703	16,261	406,595
Other	18,267	67,770	1,600	87,637
Due from other funds	268,032	167,309		435,341
Inventories	63,851	2,493		66,344
<b>Total current assets</b>	<b>2,065,368</b>	<b>1,092,974</b>	<b>40,557</b>	<b>3,198,899</b>
Restricted assets:				
Debt reserves	273,463	700,804		974,267
Net pension asset	27,958	40,772	408	69,138
Replacement fund		349,403		349,403
<b>Total restricted assets</b>	<b>301,421</b>	<b>1,090,979</b>	<b>408</b>	<b>1,392,808</b>
Other assets:				
Special assessments receivable	74,849	42,792		117,641
Advance due from other funds	2,979,124	3,698,764		6,677,888
<b>Total other assets</b>	<b>3,053,973</b>	<b>3,741,556</b>		<b>6,795,529</b>
Capital assets:				
Property and plant	11,673,547	24,628,790	264,199	36,566,536
Less: accumulated provision for depreciation	(4,808,444)	(11,543,537)	(250,709)	(16,602,690)
<b>Total capital assets</b>	<b>6,865,103</b>	<b>13,085,253</b>	<b>13,490</b>	<b>19,963,846</b>
<b>Total assets</b>	<b>12,285,865</b>	<b>19,010,762</b>	<b>54,455</b>	<b>31,351,082</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension outflows	30,547	44,548	445	75,540
Unamortized major repairs	46,253			46,253
<b>Total deferred outflows of resources</b>	<b>76,800</b>	<b>44,548</b>	<b>445</b>	<b>121,793</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 12,362,665</b>	<b>\$ 19,055,310</b>	<b>\$ 54,900</b>	<b>\$ 31,472,875</b>

Exhibit A-7 (Continued)  
City of Waupaca, Wisconsin  
Statement of Net Position  
Proprietary Funds  
December 31, 2015

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 57,853	\$ 63,443	\$ 3,850	\$ 125,146
Due to other governments	1,742	574	824	3,140
Due to other funds	164,090	200,116		364,206
Accrued liabilities	4,147	2,630		6,777
Accrued interest		30,900		30,900
Customer deposits			1,053	1,053
Current portion of revenue bonds	8,917	498,606		507,523
<b>Total current liabilities</b>	<b>236,749</b>	<b>796,269</b>	<b>5,727</b>	<b>1,038,745</b>
Current liabilities (payable from restricted assets):				
Accrued interest	11,410			11,410
Current portion of revenue bonds	174,505			174,505
<b>Total current liabilities (payable from restricted assets)</b>	<b>185,915</b>			<b>185,915</b>
Long-term liabilities:				
Revenue bonds	1,729,339	4,809,427		6,538,766
Compensated absences	49,150	55,768		104,918
Less: current portion	(183,422)	(498,606)		(682,028)
<b>Total long-term liabilities</b>	<b>1,595,067</b>	<b>4,366,589</b>		<b>5,961,656</b>
<b>Total liabilities</b>	<b>2,017,731</b>	<b>5,162,858</b>	<b>5,727</b>	<b>7,186,316</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension inflows	492	717	7	1,216
<b>NET POSITION</b>				
Net investment in capital assets	5,135,764	8,275,826	13,490	13,425,080
Restricted	289,519	1,090,262	401	1,380,182
Unrestricted	4,919,159	4,525,647	35,275	9,480,081
<b>Total net position</b>	<b>10,344,442</b>	<b>13,891,735</b>	<b>49,166</b>	<b>24,285,343</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 12,362,665</b>	<b>\$ 19,055,310</b>	<b>\$ 54,900</b>	<b>\$ 31,472,875</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, 2015

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>OPERATING REVENUES</b>				
Sales of water	\$ 1,356,025		\$	\$ 1,356,025
Measured sewer service		2,099,963		2,099,963
Telecommunications revenues			157,379	157,379
<b>Total operating revenues</b>	<b>1,356,025</b>	<b>2,099,963</b>	<b>157,379</b>	<b>3,613,367</b>
<b>OPERATING EXPENSES</b>				
Operation and maintenance	735,065	939,867	116,645	1,791,577
Depreciation	214,483	683,449	18,920	916,852
Taxes	11,645	5,140		16,785
<b>Total operating expenses</b>	<b>961,193</b>	<b>1,628,456</b>	<b>135,565</b>	<b>2,725,214</b>
<b>Operating income</b>	<b>394,832</b>	<b>471,507</b>	<b>21,814</b>	<b>888,153</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	14,583	8,498	7	23,088
Proceeds from sale of capital assets			30	30
Interest expense	(70,960)	(198,827)		(269,787)
<b>Total nonoperating revenues (expenses)</b>	<b>(56,377)</b>	<b>(190,329)</b>	<b>37</b>	<b>(246,669)</b>
<b>Income before contributions and transfers</b>	<b>338,455</b>	<b>281,178</b>	<b>21,851</b>	<b>641,484</b>
Capital contributions		76,395		76,395
Transfer of tax equivalent	(247,916)	(250,000)		(497,916)
<b>Change in net position</b>	<b>90,539</b>	<b>107,573</b>	<b>21,851</b>	<b>219,963</b>
Net position - beginning , as previously reported	10,196,452	13,700,379	26,477	23,923,308
Prior period adjustment - implementation of GASB Statement No. 68 and GASB Statement No. 71	57,451	83,783	838	142,072
Net position - beginning, as restated	10,253,903	13,784,162	27,315	24,065,380
Net position - ending	\$ 10,344,442	\$ 13,891,735	\$ 49,166	\$ 24,285,343

Exhibit A-9  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2015

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES</b>				
Received from customers	\$ 1,372,934	\$ 2,099,591	\$ 142,656	\$ 3,615,181
Payments to employees	(276,983)	(413,839)	(32,735)	(723,557)
Payments to suppliers	(280,339)	(664,769)	(147,436)	(1,092,544)
Net cash flows from (used by) operating activities	815,612	1,020,983	(37,515)	1,799,080
<b>CASH FLOWS (USED BY) NONCAPITAL FINANCING ACTIVITIES</b>				
Paid to municipality for tax equivalent	(247,916)	(250,000)		(497,916)
Net cash flows (used by) noncapital financing activities	(247,916)	(250,000)		(497,916)
<b>CASH FLOWS FROM (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments for capital acquisitions	(58,256)	(118,744)		(177,000)
Proceeds from the sale of fixed assets	72		30	102
Principal payments	(177,611)	(478,926)		(656,537)
Interest paid	(71,959)	(201,806)		(273,765)
Contributed capital		76,395		76,395
Net cash flows from (used by) capital and related financing activities	(307,754)	(723,081)	30	(1,030,805)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Redemption of investments	232,467	481,726		714,193
Receipts of interest	14,583	8,498	7	23,088
Net cash flows from investing activities	247,050	490,224	7	737,281
Net change in cash and cash equivalents	506,992	538,126	(37,478)	1,007,640
Cash and cash equivalents - beginning of year	1,325,058	1,133,780	60,174	2,519,012
Cash and cash equivalents - end of year	\$ 1,832,050	\$ 1,671,906	\$ 22,696	\$ 3,526,652
<b>Reconciliation of cash and cash equivalents to statement of net position accounts</b>				
Cash and investments	\$ 1,558,587	\$ 621,699	\$ 22,696	\$ 2,202,982
Cash and investments (restricted assets)	273,463	1,050,207		1,323,670
Cash and cash equivalents	\$ 1,832,050	\$ 1,671,906	\$ 22,696	\$ 3,526,652

Exhibit A-9 (Continued)  
City of Waupaca, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2015

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 394,832	\$ 471,507	\$ 21,814	\$ 888,153
Noncash items in operating income:				
Depreciation expense	227,759	670,173	18,919	916,851
Pension expense	(562)	(820)	(8)	(1,390)
Amortization of major repair	46,253			46,253
Changes in assets and liabilities:				
Customer accounts receivable	5,438	16,097	(13,123)	8,412
Other accounts receivable	3,324	(21,438)	(1,600)	(19,714)
Due from other funds	(15,726)	(167,309)		(183,035)
Special assessments receivable	8,148	4,969		13,117
Inventories	1,259			1,259
Accounts payable	15,907	26,818	(53,220)	(10,495)
Due to other governments	1,742	574	824	3,140
Due to other funds	121,673	9,989	(10,956)	120,706
Accrued liabilities	3,163	2,580		5,743
Customer deposits			(165)	(165)
Compensated absences	2,402	7,843		10,245
Net cash provided by operating activities	<u>\$ 815,612</u>	<u>\$ 1,020,983</u>	<u>\$ (37,515)</u>	<u>\$ 1,799,080</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

City of Waupaca, Wisconsin  
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December 31, 2015

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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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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 2015, 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, 2015

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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, 2015

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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
- Donations and grants

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, 2015

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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, 2015

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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, 2015

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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 - 2015 tax roll:

Lien date and levy date	December 2015
Payment in full, or	January 31, 2016
First installment due	January 31, 2016
Second installment due	July 31, 2016
January settlement	January 15, 2016
February settlement	February 20, 2016
August settlement	August 20, 2016
Personal property taxes in full	January 31, 2016
Tax sale- 2015 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, 2015

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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 and the net pension asset related to the Wisconsin Retirement System. “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, 2015

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

Capitalization thresholds and the estimated useful lives are as follows:

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

**Fund Financial Statements**

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

I. Compensated Absences

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

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

Compensated absence expenditures and liabilities are recorded and adjusted to December 31 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 \$171,210 and consists of one issue.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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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, 2015

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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 residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those purposes.

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, 2015, the unassigned fund balance of the general fund was 24% 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. TIF District No. 6 is a donor to TIF District No. 3 and 5. A transfer of positive tax increment after satisfying current year debt service and project costs was made to TIF District No. 3 and 5 in the amount of \$161,805 and \$14,088, respectively. A transfer of \$5,561 was made from TIF District No. 9 to TIF District No. 7 for 2015.

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, 2015

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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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported for WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

W. Change in Accounting Principle/Prior Period Adjustment

Effective January 1, 2015, the City adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Implementation of GASB Statement No. 68 and 71 required net position in the governmental activities and business-type activities to be increased. The increase in net position was to reflect the January 1, 2014 beginning net pension asset and beginning deferred outflows of resources for City contributions to the WRS after the December 31, 2013 measurement date through December 31, 2014.

A prior period adjustment has been recorded effective January 1, 2015 as follows:

	Governmental Activities	Business-Type Activities
Net position – beginning, as previously reported	\$ 4,452,714	\$ 23,923,308
Implementation of GASB Statement No. 68		
Net pension asset as of January 1, 2015	813,125	109,518
Deferred outflows as of January 1, 2015	241,706	32,554
Prior period adjustment – to correct room tax liability	98,881	
Net position – beginning, as restated	\$ 5,606,426	\$ 24,065,380

X. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future periods and will not be recognized as an outflow of resources (expenditure) until then. The City has two items that qualifies for reporting in this category. The deferred outflows of resources were derived from the WRS pension system and Wisconsin Public Service Commission. The deferred outflows of resources for the WRS pension system are discussed in Note 6. Costs of \$231,266 for the painting a water tower are being amortized by the Wisconsin Public Service Commission. The balance at December 31, 2015 was \$46,253.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position which applies to future periods and so will not be recognized as an inflow of resource (revenue) until then. The City has two items that qualifies for reporting in the category. Deferred inflows of resources related to the WRS pension system are discussed in Note 6 and the remaining deferred inflows of resources are discussed in Note 14.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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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, 2015, cash and investments included the following:

Petty cash/cash on hand	\$	603
Deposits with financial institutions		5,402,488
Certificate of deposit		91,006
Treasury obligations		934,318
Total cash and investments	\$	6,428,415

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2015 are classified in the accompanying financial statements as follows:

Exhibit A-1:

Cash and investments	\$ 5,762,082
Cash and investments-restricted	666,333
Total cash and investments	<u>\$ 6,428,415</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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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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
Certificates of deposit	\$ 91,006	\$ 91,006

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's investment policy limits investments to those authorized by State Statutes. At December 31, 2015, the City's investments were rated as follows:

	Amount	Rating
First America Treasury Obligation	\$ 934,318	AAA

Custodial Credit Risk

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

*Federal Deposit Insurance Corporation (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, 2015

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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.

The City's investment policy requires all certificates of deposits and other time deposits be collateralized in an amount equal to 102% of the investment less the amount insured by the State of Wisconsin and the FDIC.

As of December 31, 2015, \$4,154,753 of the City's deposits were insured by collateral at financial institutions, \$983,704 were insured by the FDIC and \$318,286 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 \$318,286 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, 2015

NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 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
 <i>Capital assets, being depreciated:</i>				
Building	12,022,874			12,022,874
Infrastructure	13,374,697	362,880		13,737,577
Improvements other than buildings	621,919	249,909		871,828
Machinery and equipment	1,015,371	258,087	(76,000)	1,197,458
Vehicles	1,269,907	221,981	(37,114)	1,454,774
Total capital assets, being depreciated	28,304,768	1,092,857	(113,114)	29,284,511
Total capital assets	32,681,664	1,092,857	(113,114)	33,661,407
 <i>Less accumulated depreciation:</i>				
Building	2,392,353	120,347		2,512,700
Infrastructure	4,664,204	400,711		5,064,915
Improvements other than buildings	290,695	35,977		326,672
Machinery and equipment	767,189	34,456	(76,000)	725,645
Vehicles	628,640	89,419	(32,114)	685,945
Total accumulated depreciation	8,743,081	680,910	(108,114)	9,315,877
Total net capital assets	\$ 23,938,583	\$ 411,947	\$ (5,000)	\$ 24,345,530

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

Governmental activities	
General government	\$ 33,389
Public safety	64,956
Public works	486,931
Culture, recreation and education	92,687
Health and human services	2,947
Total governmental activities depreciation expense	\$ 680,910

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

NOTE 4

CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Salvage	Removals	Ending Balance
<i>Business-type Activities:</i>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 72,639	\$	\$	\$	\$ 72,639
Non-utility property	13,563				13,563
Property held for future use	100,000				100,000
Total capital assets not being depreciated	186,202				186,202
 <i>Capital assets, being depreciated:</i>					
Building	6,328,345	118,744			6,447,089
Infrastructure/systems/equipment	29,892,509	58,258		(17,522)	29,933,245
Total capital assets, being depreciated	36,220,854	177,002		(17,522)	36,380,334
Total capital assets	36,407,056	177,002		(17,522)	36,566,536
 <i>Less accumulated depreciation:</i>					
Building	3,899,960	273,575			4,173,535
Infrastructure/systems/equipment	11,803,327	643,277	73	(17,522)	12,429,155
Total accumulated depreciation	15,703,287	916,852	73	(17,522)	16,602,690
Total net capital assets	\$ 20,703,769	\$ (739,850)	\$ (73)	\$	\$ 19,963,846

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

Business-type activities	
Water	\$ 214,483
Wastewater	683,449
Telecommunications	18,920
Total depreciation expense per exhibit A-8	\$ 916,852

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2015.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Governmental Activities</u></b>					
General obligation debt:					
Bonds payable	\$ 9,635,000	\$	\$ (1,275,000)	\$ 8,360,000	\$ 1,100,000
Notes payable	893,992	841,200	(205,062)	1,530,130	293,229
Total general obligation debt	10,528,992	841,200	(1,480,062)	9,890,130	1,393,229
 CDA revenue bonds	 5,105,000		 (900,000)	 4,205,000	 1,065,000
Other long-term obligations:					
Compensated absences	846,569	10,090	(131,727)	724,932	
 Total governmental activities					
Long-term liabilities	\$ 16,480,561	\$ 851,290	\$ (2,511,789)	\$ 14,820,062	\$ 2,458,229

Interest costs incurred during the year totaled \$593,949. Total interest paid during the year aggregated \$605,008.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b><u>Business-type Activities</u></b>					
Mortgage revenue bonds	\$ 7,195,303	\$	\$ (656,537)	\$ 6,538,766	\$ 682,028
Other long-term obligations:					
Compensated absences	94,673	10,318	(73)	104,918	
Total business-type activities					
Long-term liabilities	\$ 7,289,976	\$ 10,318	\$ (656,610)	\$ 6,643,684	\$ 682,028

Interest costs incurred during the year totaled \$268,787. Total interest paid during the year aggregated \$272,765.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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, 2015, is comprised of the following issues:

Description	Issue Dates	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/15
<u>Notes payable</u>					
G.O. promissory note	04/01/06	04/01/16	4.50%	\$ 740,000	\$ 90,000
State trust fund loan	05/27/15	03/15/25	3.25%	841,200	841,200
State trust fund loan-WRS payoff	01/22/13	03/15/17	2.50%	188,200	96,755
State trust fund loan	01/09/12	03/15/21	3.75%	710,000	502,175
					<u>\$ 1,530,130</u>
<u>Refunding bonds</u>					
G.O. promissory bonds-TIF #3	01/06/07	04/01/21	4.00%	\$ 2,640,000	\$ 1,660,000
G.O. promissory bonds-TIF #5	01/06/07	04/01/21	4.00%	275,000	165,000
G.O. promissory bonds-TIF #4	04/01/08	10/01/27	3.25%	575,000	420,000
G.O. promissory bonds-TIF #6	04/01/08	10/01/27	3.05%	95,000	65,000
G.O. promissory bonds-TIF #8	04/01/08	10/01/24	3.25%	1,580,000	1,025,000
G.O. promissory bonds	04/01/08	04/01/23	3.25%	1,790,000	1,270,000
G.O. promissory bonds	11/09/10	04/01/30	2.75-4.7%	6,670,000	3,350,000
G.O. promissory bonds	04/05/11	10/01/20	3.0-4.0%	1,040,000	405,000
					<u>\$ 8,360,000</u>
Total governmental activities - general obligation debt					<u>\$ 9,890,130</u>

**Community Development Authority Lease Revenue Bonds**

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

<u>Lease revenue bonds</u>					
TIF #4, TIF #5	7/13/2001	4/1/2018	5.05-5.125%	1,095,000	\$ 470,000
TIF #3, TIF #4, TIF #5	8/1/2002	4/1/2022	4.6-5.0%	1,605,000	660,000
TIF #3, TIF #4	10/6/2003	4/1/2023	4.4-5.0%	2,910,000	1,440,000
Hendrickson Center	10/1/2004	4/1/2019	4.5-4.7%	3,915,000	1,635,000
Total lease revenue bonds					<u>\$ 4,205,000</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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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, 2015, is comprised of the following:

Description	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/15
<u>Revenue bonds</u>					
Sewerage system revenue bond	04/08/98	05/01/17	2.64%	\$ 717,567	\$ 93,315
Sewerage system revenue bond	07/24/02	05/01/22	2.84%	1,135,476	489,893
Sewerage system revenue bond	11/01/04	05/01/24	2.37%	454,008	257,260
Sewerage system revenue bond	01/01/05	05/01/25	2.37%	437,107	244,579
Sewerage system revenue bond	07/11/07	05/01/27	2.48%	502,814	349,379
Sewerage system revenue bond	04/01/08	11/01/24	4.40%	4,125,000	3,375,000
Water system revenue bond	11/01/99	05/01/18	1.58%	760,310	135,640
Water system revenue bond	04/01/08	11/01/24	3.40%	2,210,000	1,425,000
Water system revenue bond	06/13/12	05/01/32	1.32%	194,758	168,700
Total business-type activities revenue debt					<u>\$ 6,538,766</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, deposits to be made monthly 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 not met for the sewer utility, but was met for the water utility for the year ended December 31, 2015. The debt service fund requirement for the sewer utility is \$363,304 and the Debt Service Fund Account had a balance of \$363,304 at December 31, 2015. The debt service fund requirement for the water utility is \$127,376 and the Debt Service Fund Account had a balance of \$127,376 at December 31, 2015.

**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 not met for the year ended December 31, 2015. The reserve requirement for the sewer utility is \$337,500 and the Bond Reserve Account had a balance of \$337,500 at December 31, 2015. The reserve requirement for the water utility is \$142,500 and the Bond Reserve Account had a balance of \$146,087 at December 31, 2015.

**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, 2015. The net earnings for the sewer utility were \$1,163,454 or 2.55 times the annual principal and interest amount of \$456,570. The net earnings for the water utility were \$623,897 or 3.26 times the annual principal and interest amount of \$191,388.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Debt Limit Calculation

The 2015 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, 2015 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$402,769,700)	\$	20,138,485
General obligation debt outstanding		(9,890,130)
Margin of indebtedness		<u>\$ 10,248,355</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2015, are:

Years	Governmental Fund Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2016	\$ 2,458,229	\$ 529,107	\$ 682,028	\$ 241,417
2017	2,442,275	430,502	707,652	212,925
2018	1,598,674	363,765	684,903	186,863
2019	1,524,241	294,122	662,877	160,512
2020	1,134,939	228,790	691,876	133,406
2021-2025	3,136,772	666,289	2,970,014	243,961
2026-2030	1,800,000	206,105	117,764	4,849
2031-2032			21,652	289
Totals	<u>\$ 14,095,130</u>	<u>\$ 2,718,680</u>	<u>\$ 6,538,766</u>	<u>\$ 1,184,222</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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NOTE 6

DEFINED BENEFIT PENSION PLAN

**Plan description.** The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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.

**Vesting.** 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 became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**Benefits provided.** Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**Post-Retirement Adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7%
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Contributions.* Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and executives and elected officials. Required contributions for protective employees 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.

During the reporting period, the WRS recognized \$231,356 in contributions from the employer.

Contribution rates as of December 31, 2015 are:

	2015	
	Employee	Employer
General (including teachers)	6.80%	6.80%
Executive & elected officials	7.70%	7.70%
Protective with social security	6.80%	9.50%
Protective without social security	6.80%	13.10%

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2015, the City reported an asset of \$582,452 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension asset was based on the Village's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the City's proportion was 0.02371278%, which was an increase of 0.00031074% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the City recognized pension expense of 226,229.

Pension amounts have been allocated to the proprietary funds and business-type activities. Allocations were based on the proportionate share of current year contributions to the pension plan made by the proprietary funds and business-type activities relative to the total contributions made by the Village.

At December 31, 2015, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 84,437	\$
Net differences between projected and actual earnings on pension plan investments	282,051	
Changes in proportion and differences between employer contributions and proportionate share of contributions		10,249
Employer contributions subsequent to the measurement date	269,908	
Total	\$ 636,396	\$ 10,249

\$269,908 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
2016	\$ 72,087	\$ 1,903
2017	72,087	1,903
2018	72,087	1,903
2019	72,087	1,903
2020	72,087	1,903
Thereafter	6,053	734
Total	\$ 366,488	\$ 10,249

**Actuarial assumptions.** The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset)	December 31, 2014
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

*Long-term expected Return on Plan Assets.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equities	5.3%	21%
International Equities	5.7	23%
Fixed Income	1.7	36%
Inflation Sensitive Assets	2.3	20%
Real Estate	4.2	7%
Private Equity/Debt	6.9	7%
Multi-Asset	3.9	6%
Cash	0.9%	-20%

*Single Discount rate.* A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the City of Waupaca’s proportionate share of the net pension liability (asset) to changes in the discount rate.* The following presents the Village’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the Village’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

	<b>1% Decrease to Discount Rate (6.20%)</b>	<b>Current Discount Rate (7.20%)</b>	<b>1% Increase To Discount Rate (8.20%)</b>
City's proportionate share of the net pension liability (asset)	\$1,643,194	\$(582,451)	\$(2,340,175)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

NOTE 7

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2015 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Government Funds:</b>		
General	Water utility	\$ 164,090
General	Transit system	185,841
General	TIF #8	62,653
Capital projects	General	50,000
TIF #4	TIF #8	789,066
TIF #4	TIF #5	131,267
TIF #4	TIF #7	9,326
TIF #4	TIF #10	6,039
	Total	<u>\$ 1,398,282</u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Enterprise Funds:</b>		
Water utility	Sewer utility	\$ 200,116
Water utility	Debt service	67,916
Sewer utility	General	167,309
	Total	<u>\$ 435,341</u>

The following is a schedule of interfund advances at December 31, 2015:

<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.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 7                    INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

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

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	\$ 247,916
General	Sewer utility	250,000
TIF #3	Debt service fund	64,852
TIF #5	Debt service fund	79,285
TIF #7	TIF #9	5,561
TIF #3	TIF #6	161,805
TIF #5	TIF #6	14,088
TIF #8	Debt service fund	188,318
TIF #10	Debt service fund	10,545
	Total	<u>\$ 1,022,370</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	\$ 784,760
TIF #5	325,200
TIF #6	640,639
TIF #7	6,752
TIF #8	1,647,546
TIF #10	36,063
	<u>\$ 3,440,960</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  
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NOTE 8

GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES

Governmental activities net position reported on the government wide statement of net position at December 31, 2015 includes the following:

**GOVERNMENTAL ACTIVITIES**

Net investment in capital assets

Land	\$ 4,376,896
Other capital assets, net of accumulated depreciation	19,968,634
Less: related long-term debt outstanding	<u>(8,175,130)</u>
Total net investment in capital assets	<u>16,170,400</u>

Restricted:

Debt service	533,721
TIF #4	935,698
Inland Lakes	9,897
Hotel/motel tax	212,200
Revolving loans	486,047
Adult Recreation Center	45,182
Airport	156,001
TIF #9	198,741
Donation and Grants	1,470
Perpetual care-expendable	117,349
Employee pension plan	<u>504,281</u>
Total restricted	<u>3,200,587</u>

Unrestricted

	<u>(11,806,212)</u>
Total governmental activities net assets	<u>\$ 7,564,775</u>

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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NOTE 8            GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES (CONTINUED)

**GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2015 includes the following:

**Major Funds**

**General Fund:**

**Nonspendable:**

Prepays	\$	50,714
Long-term receivable		94,942
Total		\$ 145,656

**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>	\$	1,259,585
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**Debt Service Fund:**

**Restricted:**

Restricted for future debt payments	\$	697,765
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**TIF District #4 Fund:**

**Restricted:**

Restricted for TIF purposes	\$	935,698
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**Other Non-major Governmental Funds:**

**Nonspendable:**

Airport fund:

Inventories	\$	30,402
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City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 8                    GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES (CONTINUED)

**Restricted:**

Inland Lakes fund:	
Restricted for future expenditures	\$            9,897
Hotel/motel tax fund:	
Restricted for economic development	212,200
Revolving loan fund:	
Restricted for economic development	37,590
Adult Recreation Center:	
Restricted for future expenditures	45,182
Airport fund:	
Restricted for future expenditures	125,599
Donations and Grants fund:	
Restricted for future expenditures	1,470
TIF Districts fund:	
Restricted for future TIF expenditures	
TIF #9	198,741
Perpetual care fund:	
Restricted for future cemetery expenditures	117,349
Total restricted non-major funds	\$        748,028

**Assigned:**

Capital Improvements Fund:	
Assigned for future capital projects	\$        243,726

The following non-major funds had deficit balances as of December 31, 2015:

**Unassigned fund balance (deficit)**

Transit System Fund	\$    (68,950)
TIF Districts Fund:	
TIF #3	(2,329)
TIF #5	(131,480)
TIF #7	(9,326)
TIF #10	(6,039)
	\$    (218,124)

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 9 NET POSITION RESTRICTION – PROPRIETARY FUNDS

Portions of net position are restricted and are not available for current expenses as follows:

<u>Proprietary Funds</u>	
Water Utility:	
Restricted for:	
Debt reserves	\$ 262,053
Employee pension plan	27,466
	<u>\$ 289,519</u>
Sewer Utility:	
Restricted for:	
Debt reserves	\$ 700,804
DNR Replacement	349,403
Employee pension plan	40,055
	<u>\$ 1,090,262</u>
Telecommunications Utility:	
Restricted for:	
Employee pension plan	<u>\$ 401</u>

DNR Replacement Account: The Wisconsin Department of Natural Resources requires that a replacement fund be established and funded on an annual basis. The balance in this account at December 31, 2015 was \$349,403.

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%.

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%.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
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NOTE 10

JOINT VENTURES (CONTINUED)

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

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

NOTE 11

LANDFILL POST CLOSURE CARE COST

The City of Waupaca has an old landfill that is no longer accepting waste and is being monitored. State and federal laws and regulations require the City to monitor, document and report the condition of the City's closed landfill site in perpetuity. City officials are unable to estimate the total cost of closing the landfill and post closure monitoring at this time. \$697,990, including current year costs of \$1,344 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 from the DNR in 2000. Actual post closure care costs will be paid as incurred. No escrow accounts are required as a part of the current closure agreement and annual costs are paid from property tax revenues.

NOTE 12

TAX INCREMENTAL FINANCE DISTRICTS

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

During 2010, the City declared TIF District Numbers 3, 5 and 8 to be distressed Districts and TIF District 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, 2015 are provided as supplemental financial information.

City of Waupaca, Wisconsin  
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NOTE 13                      WASTEWATER REVENUE CONTRIBUTIONS - OTHER GOVERNMENTS

The Wastewater Utility provides treatment services to the Chain O'Lakes Sanitary District. During 2015, the following amounts were received:

Contributed capital:	
Replacement component	\$ 48,562
Customer charges:	
Flow component (net of overcharge)	184,005
Total	<u>\$ 232,567</u>

NOTE 14    CONTINGENCIES

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

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

NOTE 15    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, 2015 the various components of deferred inflows of resources were as follows:

Property tax receivable	\$ 5,377,548
TIF penalties	131,191
Special assessments	267,858
Long-term notes receivable – CDBG	448,457
Long-term notes receivable – Townhouse Land	94,942
Payment in lieu of taxes	29,800
Total deferred inflows of resources for government funds	<u>\$ 6,349,796</u>

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, 2015 was \$107,824.

City of Waupaca, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2015

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NOTE 16

CONCENTRATION OF RISK

Approximately 25% of the water utility operating revenues and approximately 8% of the sewer utility operating revenues are provided by one customer.

NOTE 17

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.

NOTE 18

SUBSEQUENT EVENTS

Subsequent to December 31, 2015, the City approved purchases for approximately \$957,000 for various upcoming rehabilitation and construction projects as well as for a squad car.

## 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, 2015

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<b>REVENUES</b>					
Taxes	\$ 2,119,741	\$ 2,119,741	\$ 2,117,173	\$ (2,568)	\$ (2,568)
Licenses and permits	138,727	138,727	168,296	29,569	29,569
Fines, forfeits and penalties	75,127	75,127	67,599	(7,528)	(7,528)
Public charges for services	220,470	220,470	239,983	19,513	19,513
Intergovernmental	2,036,261	2,036,261	2,034,987	(1,274)	(1,274)
Interest	2,000	2,000	446	(1,554)	(1,554)
Miscellaneous	129,314	129,314	128,579	(735)	(735)
<b>Total revenues</b>	<b>4,721,640</b>	<b>4,721,640</b>	<b>4,757,063</b>	<b>35,423</b>	<b>35,423</b>
<b>EXPENDITURES</b>					
General government	760,978	760,978	764,295	(3,317)	(3,317)
Public safety	1,726,180	1,726,180	1,786,823	(60,643)	(60,643)
Health and social services	192,126	192,126	185,916	6,210	6,210
Public works	1,009,237	1,009,237	1,019,892	(10,655)	(10,655)
Culture, recreation and education	1,711,157	1,711,157	1,678,687	32,470	32,470
<b>Total expenditures</b>	<b>5,399,678</b>	<b>5,399,678</b>	<b>5,435,613</b>	<b>(35,935)</b>	<b>(35,935)</b>
Excess of revenues over (under) expenditures	(678,038)	(678,038)	(678,550)	(512)	(512)
<b>OTHER FINANCIAL SOURCES (USES)</b>					
Proceeds from sale of capital assets	75,000	75,000	6,949	(68,051)	(68,051)
Transfers in	480,000	480,000	497,916	17,916	17,916
<b>Total other financing sources (uses)</b>	<b>555,000</b>	<b>555,000</b>	<b>504,865</b>	<b>(50,135)</b>	<b>(50,135)</b>
<b>Net change in fund balance</b>	<b>(123,038)</b>	<b>(123,038)</b>	<b>(173,685)</b>	<b>(50,647)</b>	<b>(50,647)</b>
Fund balance - beginning	1,638,264	1,638,264	1,638,264		
Fund balance - ending	\$ 1,515,226	\$ 1,515,226	\$ 1,464,579	\$ (50,647)	\$ (50,647)

City of Waupaca, Wisconsin  
Notes to Required Supplementary Information  
December 31, 2015

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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. 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, 2015, expenditures exceeded budgeted amounts for the following:

General government	\$	3,317
Public safety		60,643
Public works		10,655

Exhibit B-2  
City of Waupaca, Wisconsin  
Wisconsin Retirement System Schedules  
December 31, 2015

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**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**  
Last 10 Fiscal Years\*

	<b>2015</b>
Village's proportion of the net pension liability (asset)	(.02371278%)
Village's proportionate share of the net pension liability (asset)	\$(582,452)
Village's covered-employee payroll	\$2,935,377
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(19.84%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

\*The proportionate share of the net pension liability (asset) and other amounts presented above for each year were determined as of the calendar year-end that occurred 12 months prior to the financial reporting period.

**SCHEDULE OF CONTRIBUTIONS**  
Last 10 Fiscal Years\*\*

	<b>2015</b>
Contractually required contributions	\$269,291
Contributions in relation to the contractually required contributions	(\$269,291)
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$2,937,144
Contributions as a percentage of covered-employee payroll	9.17%

\*\*The contribution and other amounts presented above for each calendar year are based on information that occurred during that same year.

The City implemented Government Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. Requirements have been implemented prospectively; therefore, the above illustrations do not reflect similar information for the 9 preceding years.

**Notes to Wisconsin Retirement System Schedules  
for the Year Ended December 31, 2015**

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumptions.* There were no changes in the assumptions.

## Supplementary Information

Exhibit C-1  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2015

	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	Capital Improvements	Donations and Grants	Library	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
<b>ASSETS</b>												
Cash and investments	\$ 10,527	\$ 217,496		\$ 39,089	\$ 46,442	\$ 119,236	\$ 214,439	\$ 1,679		\$ 274,630	\$ 117,349	\$ 1,040,887
Receivables:												
Taxes			8,000			65,800	126,998		351,454	1,139,446		1,691,698
Special assessments							131,251					131,251
Notes				448,457								448,457
Due from other governments			142,246									142,246
Other		30,336	1,996			7,171	19,219					58,722
Due from other funds							50,000					50,000
Inventory						30,402						30,402
<b>Total assets</b>	<b>\$ 10,527</b>	<b>\$ 247,832</b>	<b>\$ 152,242</b>	<b>\$ 487,546</b>	<b>\$ 46,442</b>	<b>\$ 222,609</b>	<b>\$ 541,907</b>	<b>\$ 1,679</b>	<b>\$ 351,454</b>	<b>\$ 1,414,076</b>	<b>\$ 117,349</b>	<b>\$ 3,593,663</b>
<b>LIABILITIES</b>												
Accounts payable	\$ 630	\$ 35,632	\$ 27,351	\$ 1,499	\$ 1,260	\$ 731	\$ 30,323	\$ 209				\$ 97,635
Due to other governments						77				3,431		3,508
Due to other funds			185,841							146,632		332,473
Advances due from other funds										75,000		75,000
<b>Total liabilities</b>	<b>630</b>	<b>35,632</b>	<b>213,192</b>	<b>1,499</b>	<b>1,260</b>	<b>808</b>	<b>30,323</b>	<b>209</b>		<b>225,063</b>		<b>508,616</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>												
Deferred revenue			8,000	448,457		65,800	267,858		351,454	1,139,446		2,281,015
<b>Total deferred inflows of resources</b>			<b>8,000</b>	<b>448,457</b>		<b>65,800</b>	<b>267,858</b>		<b>351,454</b>	<b>1,139,446</b>		<b>2,281,015</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>630</b>	<b>35,632</b>	<b>221,192</b>	<b>449,956</b>	<b>1,260</b>	<b>66,608</b>	<b>298,181</b>	<b>209</b>	<b>351,454</b>	<b>1,364,509</b>		<b>2,789,631</b>
<b>FUND BALANCES</b>												
Nonspendable						30,402						30,402
Restricted	9,897	212,200		37,590	45,182	125,599		1,470		198,741	117,349	748,028
Assigned							243,726					243,726
Unassigned (deficit)			(68,950)							(149,174)		(218,124)
<b>Total fund balances</b>	<b>9,897</b>	<b>212,200</b>	<b>(68,950)</b>	<b>37,590</b>	<b>45,182</b>	<b>156,001</b>	<b>243,726</b>	<b>1,470</b>		<b>49,567</b>	<b>117,349</b>	<b>804,032</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 10,527</b>	<b>\$ 247,832</b>	<b>\$ 152,242</b>	<b>\$ 487,546</b>	<b>\$ 46,442</b>	<b>\$ 222,609</b>	<b>\$ 541,907</b>	<b>\$ 1,679</b>	<b>\$ 351,454</b>	<b>\$ 1,414,076</b>	<b>\$ 117,349</b>	<b>\$ 3,593,663</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, 2015

	Inland Lakes	Hotel/Motel Tax	Transit System	Revolving Loans	Adult Recreation Center	Airport	Capital Improvements	Donations and Grants	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
<b>REVENUES</b>											
Taxes	\$	\$ 258,266	\$ 8,000	\$	\$	\$ 114,994	\$	\$	\$ 1,043,899	\$	\$ 1,425,159
Special assessments							16,151				16,151
Intergovernmental			334,503				19,219		17,390		371,112
Public charges for services					21,123	121,245					142,368
Miscellaneous:											
Interest					2		69		561	163	795
Other			51,547	29,962		22,348	111,902	2,600	50,633		268,992
<b>Total revenues</b>		<b>258,266</b>	<b>394,050</b>	<b>29,964</b>	<b>21,123</b>	<b>258,587</b>	<b>147,341</b>	<b>2,600</b>	<b>1,112,483</b>	<b>163</b>	<b>2,224,577</b>
<b>EXPENDITURES</b>											
Health and social services									1,130		1,130
Public works			402,615			221,614					624,229
Culture, recreation and education					11,947						11,947
Conservation and development	972	225,460		7,730					99,528		333,690
Capital outlay:											
General government							11,971				11,971
Public works							302,743				302,743
Culture, recreation and education							650,499				650,499
Conservation and development									116,328		116,328
Debt service:											
Principal retirement									848,426		848,426
Interest and fiscal charges									195,177		195,177
<b>Total expenditures</b>	<b>972</b>	<b>225,460</b>	<b>402,615</b>	<b>7,730</b>	<b>11,947</b>	<b>221,614</b>	<b>965,213</b>	<b>1,130</b>	<b>1,259,459</b>		<b>3,096,140</b>
Excess of revenues over (under) expenditures	(972)	32,806	(8,565)	22,234	9,176	36,973	(817,872)	1,470	(146,976)	163	(871,563)
<b>OTHER FINANCIAL SOURCES (USES)</b>											
Transfers in									336,136		336,136
Transfers out									(181,454)		(181,454)
Proceeds from sale of capital assets						1,135	47,428		25,000		73,563
Debt proceeds							841,200				841,200
Total other financing sources (uses)						1,135	888,628		179,682		1,069,445
<b>Net change in fund balances</b>	<b>(972)</b>	<b>32,806</b>	<b>(8,565)</b>	<b>22,234</b>	<b>9,176</b>	<b>38,108</b>	<b>70,756</b>	<b>1,470</b>	<b>32,706</b>	<b>163</b>	<b>197,882</b>
Fund balances - beginning, as previously reported	10,869	80,513	(60,385)	15,356	36,006	117,893	172,970		16,861	117,186	507,269
Prior period adjustment - to correct liability		98,881									98,881
Fund balances - beginning, as restated	10,869	179,394	(60,385)	15,356	36,006	117,893	172,970		16,861	117,186	606,150
<b>Fund balances - ending</b>	<b>\$ 9,897</b>	<b>\$ 212,200</b>	<b>\$ (68,950)</b>	<b>\$ 37,590</b>	<b>\$ 45,182</b>	<b>\$ 156,001</b>	<b>\$ 243,726</b>	<b>\$ 1,470</b>	<b>\$ 49,567</b>	<b>\$ 117,349</b>	<b>\$ 804,032</b>

Exhibit C-3  
City of Waupaca, Wisconsin  
Combining Balance Sheet  
TIF Districts  
December 31, 2015

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>ASSETS</b>							
Cash and investments	\$ 75,889	\$	\$	\$	\$ 198,741	\$	\$ 274,630
Taxes receivable	344,792	22,438	622,424	59,729		90,063	1,139,446
<b>Total assets</b>	<b>\$ 420,681</b>	<b>\$ 22,438</b>	<b>\$ 622,424</b>	<b>\$ 59,729</b>	<b>\$ 198,741</b>	<b>\$ 90,063</b>	<b>\$ 1,414,076</b>
<b>LIABILITIES</b>							
Due to other governments	\$ 3,218	\$ 213	\$	\$	\$	\$	\$ 3,431
Due to other funds		131,267		9,326		6,039	146,632
Advances due from other funds	75,000						75,000
<b>Total liabilities</b>	<b>78,218</b>	<b>131,480</b>		<b>9,326</b>		<b>6,039</b>	<b>225,063</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred revenue	344,792	22,438	622,424	59,729		90,063	1,139,446
<b>Total deferred inflows of resources</b>	<b>344,792</b>	<b>22,438</b>	<b>622,424</b>	<b>59,729</b>		<b>90,063</b>	<b>1,139,446</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>423,010</b>	<b>153,918</b>	<b>622,424</b>	<b>69,055</b>		<b>96,102</b>	<b>1,364,509</b>
<b>FUND BALANCES</b>							
Restricted for TIF expenditures					198,741		198,741
Unassigned (deficit)	(2,329)	(131,480)		(9,326)		(6,039)	(149,174)
<b>Total fund balances</b>	<b>(2,329)</b>	<b>(131,480)</b>		<b>(9,326)</b>	<b>198,741</b>	<b>(6,039)</b>	<b>49,567</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 420,681</b>	<b>\$ 22,438</b>	<b>\$ 622,424</b>	<b>\$ 59,729</b>	<b>\$ 198,741</b>	<b>\$ 90,063</b>	<b>\$ 1,414,076</b>

Exhibit C-4  
City of Waupaca, Wisconsin  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
TIF Districts  
For the Year Ended December 31, 2015

	TIF #3	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
<b>REVENUES</b>							
Taxes	\$ 323,969	\$ 17,998	\$ 557,946	\$ 53,995	\$	\$ 89,991	\$ 1,043,899
Intergovernmental	1,365	3	8,417	1,818	5,711	76	17,390
Miscellaneous:							
Other	12,935	3,386	12,007			22,305	50,633
Interest		144	417				561
<b>Total revenues</b>	<b>338,269</b>	<b>21,531</b>	<b>578,787</b>	<b>55,813</b>	<b>5,711</b>	<b>112,372</b>	<b>1,112,483</b>
<b>EXPENDITURES</b>							
Conservation and development	35,545	35,545	14,220	7,109		7,109	99,528
Capital outlay:							
Conservation and development	115,323	288	243	159	150	165	116,328
Debt service:							
Principal retirement	315,000	58,426	360,000	20,000		95,000	848,426
Interest and fiscal charges	124,058	20,645	28,431	1,400		20,643	195,177
<b>Total expenditures</b>	<b>589,926</b>	<b>114,904</b>	<b>402,894</b>	<b>28,668</b>	<b>150</b>	<b>122,917</b>	<b>1,259,459</b>
<b>OTHER FINANCIAL SOURCES (USES)</b>							
Transfers in	226,657	93,373		5,561		10,545	336,136
Transfers out			(175,893)		(5,561)		(181,454)
Proceeds from sale of capital assets	25,000						25,000
<b>Total other financing sources (uses)</b>	<b>251,657</b>	<b>93,373</b>	<b>(175,893)</b>	<b>5,561</b>	<b>(5,561)</b>	<b>10,545</b>	<b>179,682</b>
Net change in fund balance				32,706			32,706
Fund balances - beginning	(2,329)	(131,480)		(42,032)	198,741	(6,039)	16,861
Fund balances - ending	\$ (2,329)	\$ (131,480)	\$	\$ (9,326)	\$ 198,741	\$ (6,039)	\$ 49,567

## 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, 2015

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<b>SOURCES OF FUNDS</b>									
Taxes	\$ 2,824,524	\$ 7,028,215	\$ 237,855	\$ 6,149,564	\$ 373,237	\$ 605,305	\$ 57,655	\$ 682,728	\$ 17,959,083
Intergovernmental	230,814	51,889	3,157	27,243	14,573	515,343	232,506	76	1,075,601
Other revenue	963,618	974,423	141,239	915,883	58,448	803,076	5,600	196,128	4,058,415
Sale of capital assets	369,434					17,600			387,034
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	1,678,285		359,459	640,639	74,388	2,735,150		186,063	5,673,984
<b>Total sources</b>	<b>13,026,675</b>	<b>15,954,527</b>	<b>1,811,710</b>	<b>17,648,329</b>	<b>1,210,646</b>	<b>25,381,474</b>	<b>295,761</b>	<b>2,959,995</b>	<b>78,289,117</b>
<b>USES OF FUNDS</b>									
Capital expenditures	5,283,903	5,391,117	690,153	7,679,591	415,664	10,983,625	29,384	974,117	31,447,554
Debt service:									
Principal retirement	2,055,000	3,352,942	352,062	7,584,793	324,578	3,705,190		1,462,489	18,837,054
Interest and fiscal charges	1,892,241	1,821,147	308,569	1,317,310	84,110	1,452,046		212,350	7,087,773
Transfers	3,797,860	4,453,623	592,406	1,066,635	395,620	16,695,220	67,636	317,078	27,386,078
<b>Total uses</b>	<b>13,029,004</b>	<b>15,018,829</b>	<b>1,943,190</b>	<b>17,648,329</b>	<b>1,219,972</b>	<b>32,836,081</b>	<b>97,020</b>	<b>2,966,034</b>	<b>84,758,459</b>
Fund balance at December 31	\$ (2,329)	\$ 935,698	\$ (131,480)	\$	\$ (9,326)	\$ (7,454,607)	\$ 198,741	\$ (6,039)	\$ (6,469,342)
Cash	\$ (75,889)	\$ (935,698)	\$	\$	\$	\$	\$ (198,741)	\$	\$ (1,210,328)
Due to other governments	3,218		213						3,431
Debt outstanding	2,700,000	1,699,926	415,071	800,000	40,000	3,020,000		3,815,000	12,489,997
Due to other funds	75,000		131,267		9,326	7,454,607		6,039	7,676,239
Balance to be collected (surplus) at December 31	\$ 2,702,329	\$ 764,228	\$ 546,551	\$ 800,000	\$ 49,326	\$ 10,474,607	\$ (198,741)	\$ 3,821,039	\$ 18,959,339



**Certified Public Accountants**

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

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the City Council  
City of Waupaca, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca, Wisconsin (“City”) as of and for the year ended December 31, 2015, 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 and Company, Inc.

*Johnson Block & Company, Inc.*

June 14, 2016  
Mineral Point, WI

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, 2015. 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 in our letter to you dated April 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date for the year ended in December 31, 2015. 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:

1. 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.
2. Management's estimate of the pension asset and deferred outflows and inflows of resources are based on various factors. These estimates were computed by the pension plan administrator. We evaluated the key factors and assumptions used to develop these amounts in determining that they are reasonable in relation to the financial statements.

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 clearly 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 2014 specials returned by county
- Adjust taxes receivable
- Adjust accounts payable
- Record utility fixed assets additions and removals
- Adjust room tax payable
- Adjust amount due from county
- Write-off CDBG note receivable
- Record prior year deferred revenue on tax roll as revenue
- Record transfer of excess increment to distressed TIF
- Transfer debt service levy for TIF districts
- Record shared meter costs

### *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 June 14, 2016.

### *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 Matters

We applied certain limited procedures to the budgetary comparison information and the Wisconsin Retirement System schedules, which are 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, 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 information and 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.*

June 14, 2016  
Mineral Point, WI

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Proposed JE # 6001</b>			
To record amount spent for new end loader - rec'd in Feb 2016 as a prepaid for 2015. Amount was recorded as A/P for loan proceeds spent.			
400-21211-000-000	VOUCHERS PAYABLE	27,419.00	
400-74111-502-000	C/O MACH & EQUIP: C/O EQUIP		27,419.00
<b>Total</b>		<u><u>27,419.00</u></u>	<u><u>27,419.00</u></u>
<b>Proposed JE # 6002</b>			
To adjust withholding liabilities at 12/31/15.			
100-21331-000-000	SOCIAL SECURITY DEDUCTION	2,775.04	
100-51411-118-000	CLERK: SOCIAL SECURITY		2,775.04
<b>Total</b>		<u><u>2,775.04</u></u>	<u><u>2,775.04</u></u>
<b>Proposed JE # 6003</b>			
To adjust accounts payable at 12/31/15.			
100-21211-000-000	VOUCHERS PAYABLE	2,446.47	
620-21211-000-000	VOUCHERS PAYABLE	4,692.63	
100-51411-301-000	CLERK: SUPPLIES		2,446.47
620-82110-301-000	OP PLANT: SUPPLIES		4,692.63
<b>Total</b>		<u><u>7,139.10</u></u>	<u><u>7,139.10</u></u>
<b>Proposed JE # 6004</b>			
To record additional fixed asset at 12/31/15.			
8-18000-000-000	Governmental Fixed Assets	11,900.00	
400-75411-290-000	SOUTH PARK PHASE II C/O PARKS		11,900.00
<b>Total</b>		<u><u>11,900.00</u></u>	<u><u>11,900.00</u></u>

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

## 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.

#### CDBG Loans

The City Council does not authorize the write off of CDBG loans. We recommend that any write-offs be approved by the Council.

#### Tax Incremental Financing Law Changes

The State of Wisconsin recently passed four bills into law that affect Tax Incremental Financing Districts (TID). Some provisions that may affect the City are as follows:

- 1.) Changes calculation of levy limit exceptions so that the equalized value for the preceding year excludes the value of any TID increments for the year the TID terminates.
- 2.) Effective October 1, 2016:
  - Requires Joint Review Board to meet July 1 each year or as soon as the updated annual report is available to review
  - The Joint Review Board will remain in existence the entire time the TID exists with the same taxing jurisdictions.
  - Municipality must submit an electronic annual report of each existing TID to each overlying taxing jurisdiction. Annual reports must be submitted to the WI Department of Revenue (DOR) beginning July 1, 2017. Any late reports will be assessed \$100 per day. The form of the annual report has yet to be established by the WI DOR but will include, along with others, the source of revenue and a list of expenditures by category of permissible project costs.
- 3.) Municipalities may amend a TID project plan and request a three-year extension of the TID's life if the tax increments were impacted by the 2013 Act 145 which increased state aid to technical colleges.
- 4.) The WI DOR will provide a fiscal estimate if a bill will increase or decrease the increment allocation for TID's or if the effect is indeterminate.

The City should be aware of these changes and their impact. These would include:

- Will the City be preparing the annual report and submitting it or would this be a service requested to be performed by the auditor? If the auditor prepares, the additional fee would be a TID eligible expense.
- Is the Joint Review Board still in place or does one have to be re-established with new members?
- What impact did the 2013 Act 145 have on the City's TIDs' ability to collect sufficient increments? Should the project plan be amended to extend the life? If the life is extended, will that impact what projects are undertaken prior to the final date to incur project costs in the TID?

We are available to discuss the impact of these law changes on the City's TIDs.

### Room Tax Changes

The state budget made changes to the room tax law which take effect on January 1, 2017. Among these are the following:

- 1) Municipalities will no longer have discretion to directly spend the portion of room tax revenues required to be used for tourism promotion and development.
- 2) A municipality will forward the portion of room tax revenue required to be spent on tourism promotion and development to a local tourism commission or a tourism entity for spending. The law outlines what is required to establish a commission by a single municipality.
- 3) Requires a municipality to submit annually, before May 1, a report to the Department of Revenue on a form created by the Department.

### Cash Reconciliations

Cash reconciliations were not performed on a timely basis throughout the year due to the software conversion. The December 2015 cash reconciliations were not fully completed until after the audit fieldwork. Net adjustments of only \$4 were required to reconcile the cash balances to the reconciliations.

Cash reconciliations should be performed on a monthly basis in order to provide assurance that all transactions are being reflected on the general ledger. Timely preparation of complete and accurate cash reconciliations is key to maintaining adequate control over both cash receipts and disbursements.