



CITY OF WAUPACA

Audit Presentation To the Common Council

For the Year Ended
December 31, 2016

June 6, 2017

*Prepared by:
Johnson Block & Company, Inc.
Certified Public Accountants*

CITY OF WAUPACA

AUDIT OVERVIEW

- We have completed our audit of the City of Waupaca for the year ended December 31, 2016, and have issued our independent auditor's report on the financial statements of the City. Our report and the audited financial statements are presented in a bound document.
- We issued an unmodified opinion on the financial statements.
- Management has reviewed and accepted the financial statements and adjusting journal entries.
- A separate audit communications document designed for the Common Council has also been submitted and should be read in conjunction with the audited financial statements.

CITY OF WAUPACA

2016 FINANCIAL HIGHLIGHTS

➤ Cash balances in various funds are as follows:

➤ General fund	\$ 922,136
➤ Debt Service	\$ 401,668
➤ TIF 3#	\$ 71,564
➤ Water Utility	\$1,251,573 (Unrestricted)
➤ Water Utility	\$ 262,997 (Restricted – Debt Reserves)
➤ Sewer Utility	\$ 1,164,505 (Unrestricted)
➤ Sewer Utility	\$ 676,062 (Restricted – Debt Reserves)
➤ Telecommunication	\$ 68,963
➤ Other Non-major funds	\$1,005,396

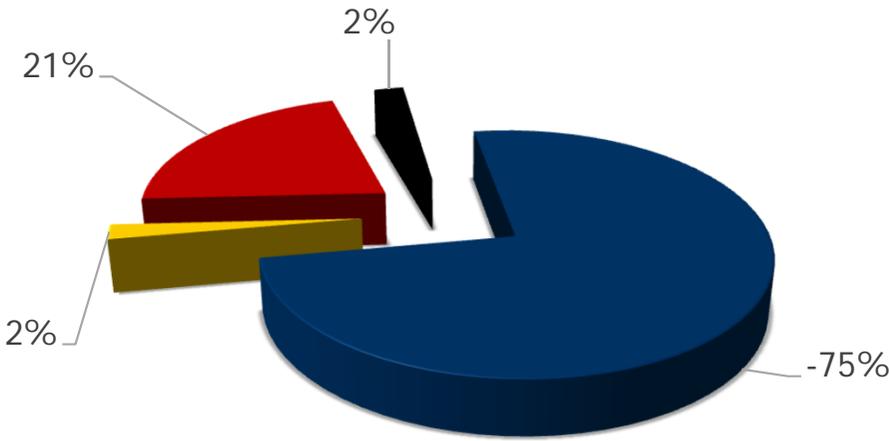
➤ Governmental funds of the City reported a decrease in overall fund balance of (\$697,351). 2015 was a (3,654) decrease.

➤ General fund increased	\$11,015
➤ TIF district #4 decreased	(\$ 262,599)
➤ TIF district #8 decreased	(\$149,387)
➤ Debt Service decreased	(\$360,423)
➤ Other Non-major funds increased	\$61,714

➤ The Water utility reported a decrease in net position of (\$7,428), and the Sewer utility showed an increase in net position of \$79,772 in 2016.

CITY OF WAUPACA

GOVERNMENTAL FUND BALANCES AS OF 12/31/16



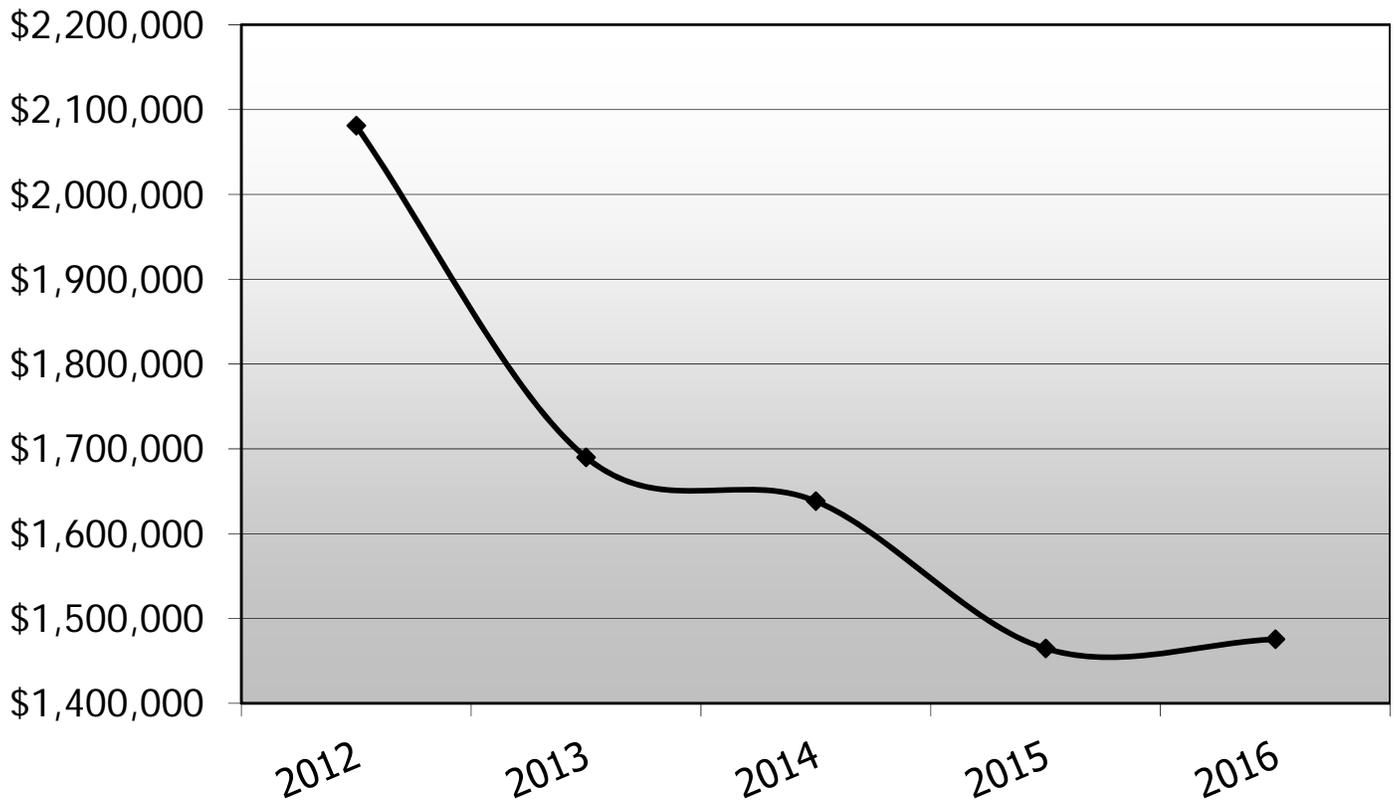
■ Nonspendable - \$171,636 ■ Restricted - \$1,831,050
■ Assigned - \$189,918 ■ Unassigned - \$(6,442,488)

OBSERVATIONS AND COMMENTS:

➤ See Note 8 to the financial statements for more detailed information.

CITY OF WAUPACA

TREND IN GENERAL FUND BALANCE



General Fund Balances as of December 31

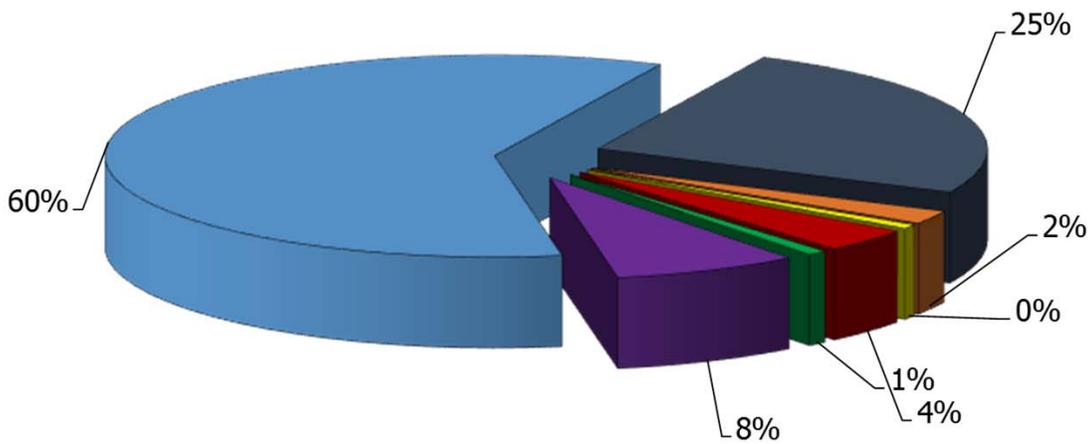
2012	\$ 2,080,862
2013	\$ 1,689,963
2014	\$ 1,638,264
2015	\$ 1,464,579
2016	\$ 1,475,594

OBSERVATIONS AND COMMENTS:

- General unassigned fund balance is 29% of 2016 general budgeted expenditures.
- The City's minimum fund balance policy is 20% of expenditures.

CITY OF WAUPACA

GOVERNMENTAL FUNDS 2016 REVENUES



2016	2015
■ Taxes (\$5,651,268)	\$5,687,019
■ Intergovernmental (\$2,370,303)	\$2,409,115
■ Licenses & Permits (\$201,366)	\$ 168,296
■ Fines (\$63,481)	\$ 67,599
■ Public Charges for Services (\$360,167)	\$ 382,351
■ Special Assessments (\$76,172)	\$ 203,434
■ Miscellaneous (\$729,449)	\$ 417,856

OBSERVATIONS AND COMMENTS:

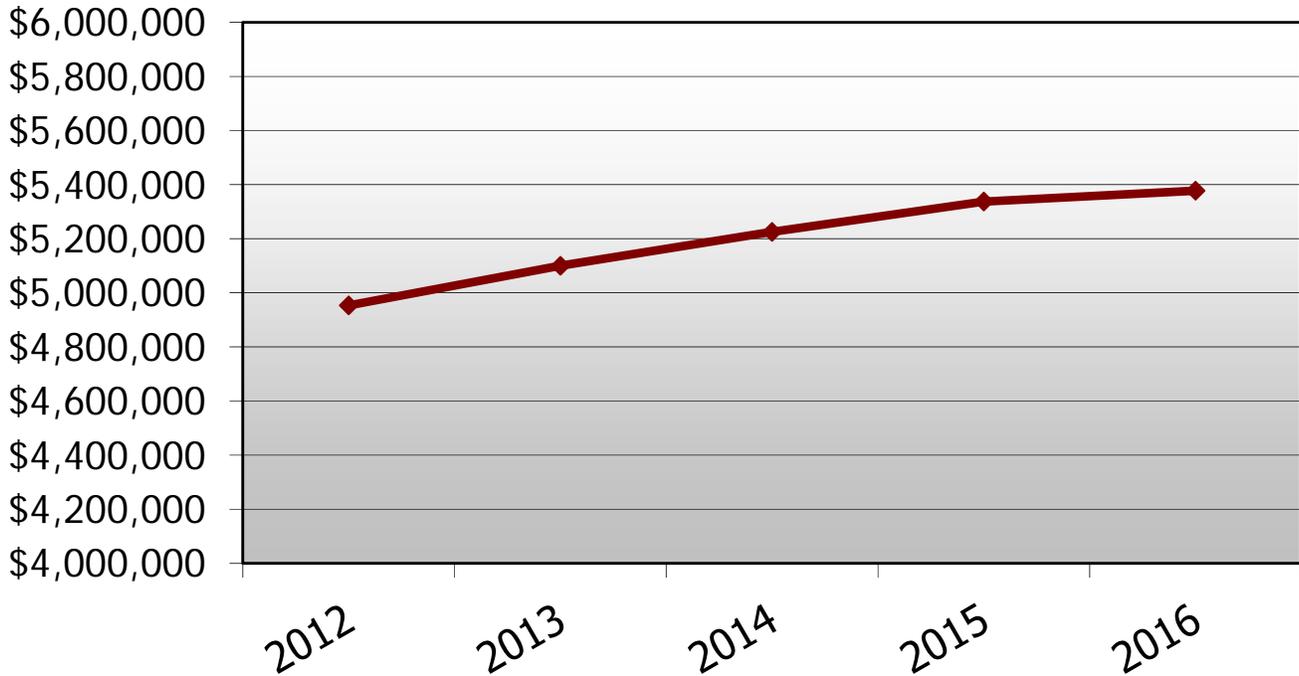
- Tax revenue was 60% of total revenues in 2016 compared to 61% in 2015.
- The most significant intergovernmental revenues are:

Highway aids	\$ 367,462	Paid quarterly
Shared taxes & Restraint aid	\$1,045,224	Payable in July & November
County Library Aid	\$ 387,161	
Taxi cab subsidy	\$ 264,869	

SOURCE: 12/31/16 AUDITED FINANCIAL STATEMENTS

CITY OF WAUPACA

PROPERTY TAXES – Including TIF increments



Local Property Tax Levy (Includes TIF)

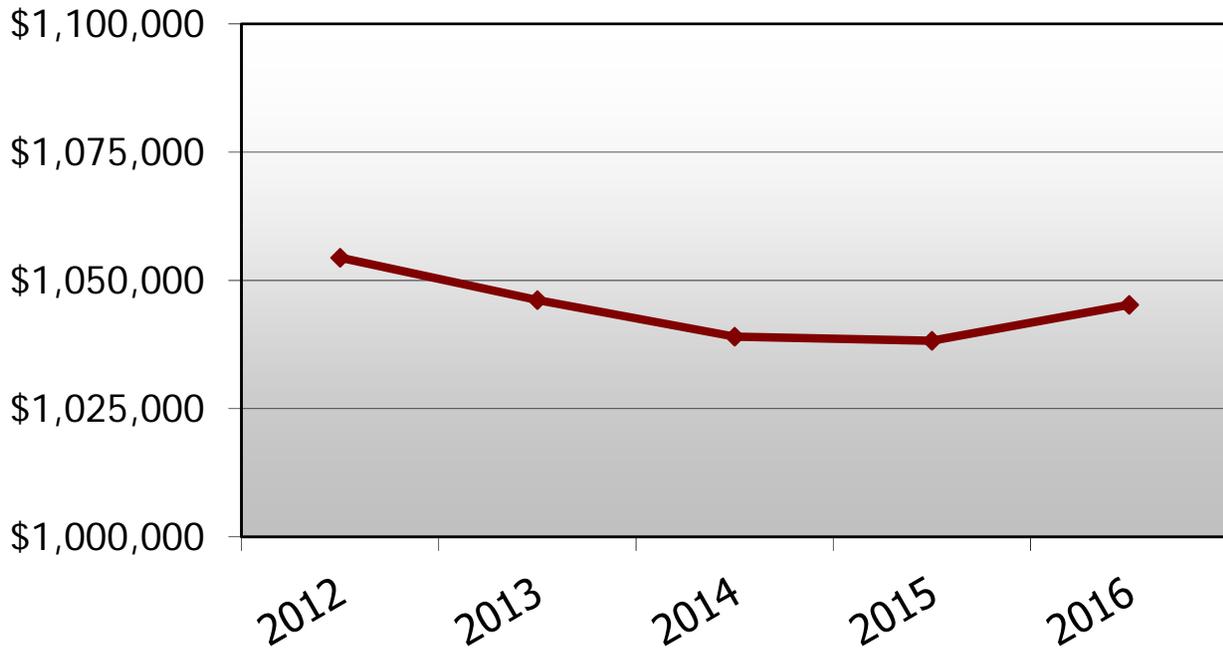
2012	\$ 4,953,584	2015	\$5,337,208
2013	\$ 5,100,151	2016	\$5,377,548
2014	\$ 5,225,236		

OBSERVATIONS AND COMMENTS:

- Over the time frame presented, the levy increased by an average of 2.14%.

CITY OF WAUPACA

TREND IN SHARED REVENUES & EXPENDITURE RESTRAINT



Shared Revenues

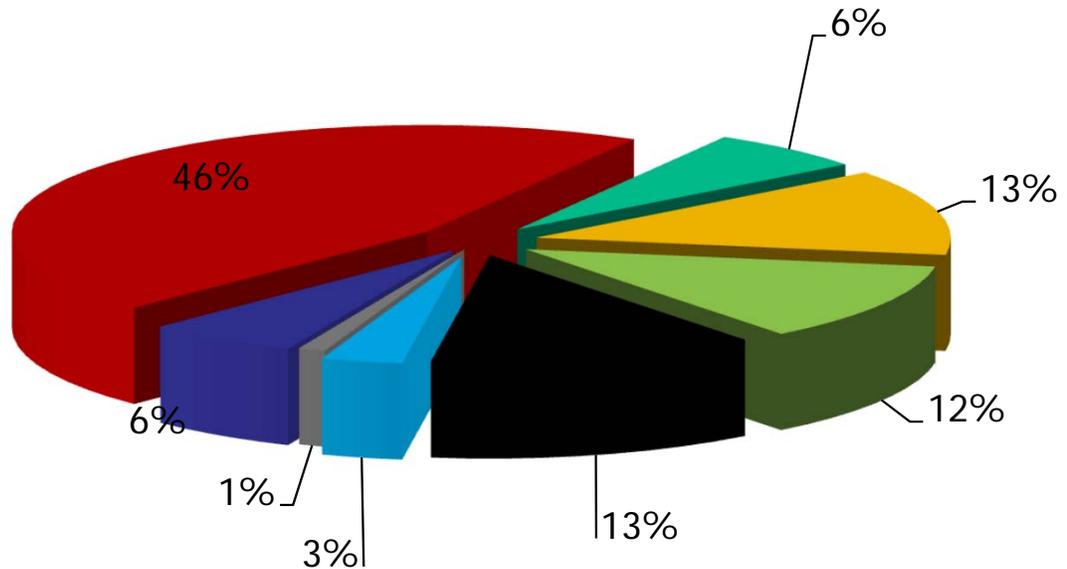
2012	\$ 1,054,423	2015	\$ 1,038,238
2013	\$ 1,046,166	2016	\$ 1,045,224
2014	\$ 1,039,044		

OBSERVATIONS AND COMMENTS:

- The estimated 2017 shared revenue and expenditure restraint payments are \$895,868 and \$146,808, respectively, according to the Department of Revenue.

CITY OF WAUPACA

GOVERNMENTAL FUNDS 2016 EXPENDITURES



2016	2015
■ General Government (\$832,641)	\$ 764,295
■ Public Safety (\$1,742,448)	\$ 1,786,823
■ Public Works (\$1,592,028)	\$ 1,644,121
■ Culture & Recreation (\$1,710,044)	\$ 1,690,634
■ Conservation & Economic Development (\$423,148)	\$ 376,344
■ Health & Social Services (\$141,811)	\$ 187,046
■ Capital Outlay (\$794,842)	\$ 1,302,189
■ Debt Service (\$6,139,221)	\$ 3,007,500

OBSERVATIONS AND COMMENTS:

➤ Overall expenses increased from \$10,758,952 to \$13,376,183 or \$2,617,231 or 24.3%. The increase in expenditures was due to a debt refinancing transaction.

CITY OF WAUPACA

CHANGES IN LONG-TERM OBLIGATIONS

➤ The following table is a summary of long-term obligations for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities</u>					
General obligation debt:					
Bonds payable	\$ 8,360,000	\$	\$ (1,100,000)	\$ 7,260,000	\$ 1,130,000
Notes payable	<u>1,530,130</u>	<u>2,835,632</u>	<u>(293,229)</u>	<u>4,072,533</u>	<u>326,792</u>
Total general obligation debt	<u>9,890,130</u>	<u>2,835,632</u>	<u>(1,393,229)</u>	<u>11,332,533</u>	<u>1,456,792</u>
CDA revenue bonds	<u>4,205,000</u>		<u>(4,205,000)</u>		
Other long-term obligations:					
Compensated absences	<u>724,932</u>	<u>69,412</u>	<u>(17,383)</u>	<u>776,961</u>	
Total governmental activities					
Long-term liabilities	\$ <u>14,820,062</u>	\$ <u>2,905,044</u>	\$ <u>(5,615,612)</u>	\$ <u>12,109,494</u>	\$ <u>1,456,792</u>

OBSERVATIONS AND COMMENTS:

➤ General obligation debt limit was \$19,762,440 and debt subject to limitation totaled \$11,332,533. The City had 42.7% of its debt capacity remaining at December 31, 2016.

OTHER MATTERS

➤ Audit Communication Letters

1. Preparation of Financial Statements.
2. Sick Leave Policy.
3. Payroll Liability Reconciliation.
4. Water Loss.

➤ We want to extend thanks to Kathy and her staff for their assistance during the audit.

➤ We received full and complete cooperation from City personnel.



TO: Henry Veleker, City Administrator/Clerk
Mayor Brian Smith
City Council Members

FROM: Kathryn Kasza, Finance Director/Treasurer

DATE: June 1, 2017

SUBJECT: Response to 2016 Audit Management Letter

Attached is your copy of the Management Letter for the audit of the 2016 financial statements from the City's external auditing firm, Johnson Block & Company. Mr. Jay Bennett from Johnson Block & Company, will be reviewing the financial statements for the Common Council at the June 6th meeting.

The items listed below are items the City should improve upon for the 2017 audit or be aware of for future reporting years and staff's plans to remedy the item. None of the items were significant to cause a qualification of the audit.

The City, like similar governments its size and even larger entities, have the auditors prepare the financial statements. While this is a significant deficiency the amount of time and effort required for staff to prepare at this time is not cost effective. With continued improvements to the financial reporting information provided by the City's current software provider, it is staff's long term plan to at some point remove this remark from the management letter.

The internal control and segregation of duties comment from the 2015 audit has been removed due to the hiring of the part-time administrative assistant position and the restructuring of duties within the department.

City staff would like to take this moment to thank the Johnson Block & Company staff on this audit engagement. They continue to provide the City with the necessary assistance and professional guidance to complete the audit and financial statements. It is because of this level of professionalism that the staff is confident that the City is fairly presented in its financial statements. As Finance Director/Treasurer, I would also like to thank my staff, without them keeping up with the day-to-day operations during this busy time of year; I would not have been able to dedicate a majority of my time to the audit and the financial statements. As with any audit, a major disturbance invades the office once a year for a week or more. Staff has to put things aside and address questions by the auditors. The 2016 audit continues to provide staff with information to make improvements to provide a high standard of financial accountability to the elected officials and the public. The Finance Department staff continues to make sure that the customer/constituent receives a friendly greeting and is treated in a professional manner. They deserve recognition for their commitment to the City.

CITY OF WAUPACA, WISCONSIN
AUDITED FINANCIAL STATEMENTS
Including Independent Auditor's Report
As of and for the year ended December 31, 2016

Johnson Block & Company, Inc.
Certified Public Accountants
2500 Business Park Road
Mineral Point, Wisconsin 53565
(608) 987-2206
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CITY OF WAUPACA, WISCONSIN
DECEMBER 31, 2016

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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, 2016, 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 from 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the Wisconsin Retirement System schedules on pages 52 – 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 & Company, Inc.

Johnson Block and Company, Inc.
May 11, 2017
Mineral Point, WI

BASIC FINANCIAL STATEMENTS

Exhibit A-1
City of Waupaca, Wisconsin
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 2,400,764	\$ 2,485,041	\$ 4,885,805
Receivables:			
Taxes	5,466,172		5,466,172
Due from other governments	88,555		88,555
Customer		407,378	407,378
Other	267,949	66,735	334,684
Internal balances	(6,745,081)	6,745,081	
Prepays	50,427		50,427
Inventories	23,419	66,827	90,246
	<hr/>		
Total current assets	1,552,205	9,771,062	11,323,267
Noncurrent assets:			
Restricted assets:			
Cash and investments		939,059	939,059
Other assets:			
Long-term notes receivable	627,031		627,031
Less: discount on long-term notes receivable	(102,210)		(102,210)
Special assessments receivable	135,359	112,339	247,698
Capital assets:			
Property and plant	34,243,392	36,985,313	71,228,705
Less: accumulated provision for depreciation	(10,043,963)	(17,418,852)	(27,462,815)
	<hr/>		
Total noncurrent assets	24,859,609	20,617,859	45,477,468
	<hr/>		
Total assets	26,411,814	30,388,921	56,800,735
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	1,916,551	271,543	2,188,094
Unamortized major repairs		24,351	24,351
Deferred charges on refunding	35,773		35,773
	<hr/>		
Total deferred outflows of resources	1,952,324	295,894	2,248,218
	<hr/>		
Total assets and deferred outflows of resources	\$ 28,364,138	\$ 30,684,815	\$ 59,048,953

Exhibit A-1 (Continued)
City of Waupaca, Wisconsin
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 352,913	\$ 110,742	\$ 463,655
Developer payable	1,023		1,023
Due to other governments	937		937
Accrued liabilities	142,021	16,537	158,558
Accrued interest	131,563	27,789	159,352
Customer deposits	5,316		5,316
Current portion of long-term debt	1,456,792	522,443	1,979,235
Total current liabilities	2,090,565	677,511	2,768,076
Current liabilities (payable from restricted assets):			
Accrued interest		10,375	10,375
Current portion of mortgage revenue bonds		185,210	185,210
Total current liabilities (payable from restricted assets)		195,585	195,585
Long-term liabilities:			
Mortgage revenue bonds		5,856,738	5,856,738
Bonds and notes payable	11,332,533		11,332,533
Net pension liability	340,354	48,222	388,576
Compensated absences	776,961	121,336	898,297
Less: current portion	(1,456,792)	(707,653)	(2,164,445)
Total long-term liabilities	10,993,056	5,318,643	16,311,699
Total liabilities	13,083,621	6,191,739	19,275,360
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	727,266	103,041	830,307
Deferred revenues	5,296,865		5,296,865
Total deferred inflows of resources	6,024,131	103,041	6,127,172
NET POSITION			
Net investment in capital assets	17,104,500	13,709,723	30,814,223
Restricted	2,071,979	928,684	3,000,663
Unrestricted	(9,920,093)	9,751,628	(168,465)
Total net position	9,256,386	24,390,035	33,646,421
Total liabilities, deferred inflows of resources and net position	\$ 28,364,138	\$ 30,684,815	\$ 59,048,953

Exhibit A-2
City of Waupaca, Wisconsin
Statement of Activities
For the Year Ended December 31, 2016

<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
Primary Government:						
Governmental activities:						
General government	\$ 1,046,111	\$ 134,338	\$	\$	\$ (911,773)	\$ (911,773)
Public safety	2,021,477	223,248	28,265		(1,769,964)	(1,769,964)
Health and social services	143,398	30,130	17,941		(95,327)	(95,327)
Public works	2,133,514	189,402	264,869	4,580	(1,674,663)	(1,674,663)
Culture, recreation and education	1,912,004	263,834	672,051		(976,119)	(976,119)
Conservation and development	515,941	330,836			(185,105)	(185,105)
Interest and fiscal charges	529,468				(529,468)	(529,468)
Total governmental activities	<u>8,301,913</u>	<u>1,171,788</u>	<u>983,126</u>	<u>4,580</u>	<u>(6,142,419)</u>	<u>(6,142,419)</u>
Business-type activities:						
Water utility	1,058,930	1,286,551			227,621	227,621
Sewer utility	1,785,197	2,018,322		95,399	328,524	328,524
Telecommunication utility	125,969	158,072			32,103	32,103
Total business-type activities	<u>2,970,096</u>	<u>3,462,945</u>		<u>95,399</u>	<u>588,248</u>	<u>588,248</u>
Total primary government	<u>\$ 11,272,009</u>	<u>\$ 4,634,733</u>	<u>\$ 983,126</u>	<u>\$ 99,979</u>	<u>(6,142,419)</u>	<u>(5,554,171)</u>
<u>General Revenues and Transfers:</u>						
Property taxes						
General purposes					5,388,408	5,388,408
Other taxes					262,860	262,860
Federal and state aid not restricted for specific purposes					1,605,176	1,605,176
Interest and investment earnings					3,970	8,722
Proceeds from insurance					12,232	12,232
Gain on sale of fixed assets					41,382	240
Miscellaneous					27,484	27,484
Transfers					492,518	(492,518)
Total general revenues					<u>7,834,030</u>	<u>(483,556)</u>
Change in net position					1,691,611	104,692
Net position - beginning					7,564,775	24,285,343
Net position - ending					<u>\$ 9,256,386</u>	<u>\$ 24,390,035</u>
						<u>\$ 33,646,421</u>

Exhibit A-3
City of Waupaca, Wisconsin
Balance Sheet
Governmental Funds
December 31, 2016

	General	Debt Service	TIF #3	TIF #4	TIF #8	Other Governmental Funds	Total
ASSETS							
Cash and investments	\$ 922,136	\$ 401,668	\$ 71,564	\$	\$	\$ 1,005,396	\$ 2,400,764
Receivables:							
Taxes	3,513,104		315,872	689,668	77,730	869,798	5,466,172
Due from other governments						88,555	88,555
Special assessments						135,359	135,359
Due from other funds	841,939			673,004			1,514,943
Other	82,931		4,481	343		180,194	267,949
Long-term notes receivable, net of discount of \$102,210	97,790					470,206	567,996
Inventory						23,419	23,419
Prepays	50,427						50,427
Total assets	\$ 5,508,327	\$ 401,668	\$ 391,917	\$ 1,363,015	\$ 77,730	\$ 2,772,927	\$ 10,515,584
LIABILITIES							
Accounts payable	\$ 159,740	\$	\$ 22	\$ 248	\$ 5,517	\$ 187,386	\$ 352,913
Developer payable			1,023			-	1,023
Accrued liabilities	130,269					11,752	142,021
Customer deposits	5,316						5,316
Due to other governments	937						937
Due to other funds	167,143	64,326			995,589	355,078	1,582,136
Advances due from other funds			75,000		6,602,888	-	6,677,888
Total liabilities	463,405	64,326	76,045	248	7,603,994	554,216	8,762,234
DEFERRED INFLOWS OF RESOURCES							
Deferred revenues	3,569,328		315,872	689,668	77,730	1,350,636	6,003,234
Total deferred inflows of resources	3,569,328		315,872	689,668	77,730	1,350,636	6,003,234
Total liabilities and deferred inflows of resources	4,032,733	64,326	391,917	689,916	7,681,724	1,904,852	14,765,468
FUND BALANCES							
Nonspendable	148,217					23,419	171,636
Restricted		337,342		673,099		820,609	1,831,050
Assigned						189,918	189,918
Unassigned (deficit)	1,327,377				(7,603,994)	(165,871)	(6,442,488)
Total fund balances	1,475,594	337,342		673,099	(7,603,994)	868,075	(4,249,884)
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,508,327	\$ 401,668	\$ 391,917	\$ 1,363,015	\$ 77,730	\$ 2,772,927	\$ 10,515,584

Exhibit A-4
City of Waupaca, Wisconsin
Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Position
December 31, 2016

Total fund balances-governmental funds: \$ (4,249,884)

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	34,243,392	
Governmental accumulated depreciation	<u>(10,043,963)</u>	24,199,429

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	1,916,551	
Deferred inflows of resources	(727,266)	

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	138,373	
Long-term notes receivable	627,031	
Discount on notes receivable	(102,210)	

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	35,773	
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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	(11,332,533)	
Accrued interest on general obligation debt	(131,563)	
Net pension liability	(340,354)	
Compensated absences	<u>(776,961)</u>	

Total net position of governmental activities	<u>\$ 9,256,386</u>
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Exhibit A-5
City of Waupaca, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Debt Service	TIF #3	TIF #4	TIF #8	Other Governmental Funds	Total
REVENUES							
Taxes	\$ 3,512,205	\$	\$ 344,792	\$ 726,513	\$ 85,715	\$ 982,043	\$ 5,651,268
Special assessments				76,172			76,172
Licenses and permits	201,366						201,366
Fines, forfeits and penalties	63,481						63,481
Intergovernmental	1,607,661		791	6,772	3,182	751,897	2,370,303
Public charges for services	216,259					143,908	360,167
Miscellaneous:							
Interest	3,803					426	4,229
Other	171,311		7,843		45,230	500,836	725,220
Total revenues	5,776,086		353,426	809,457	134,127	2,379,110	9,452,206
EXPENDITURES							
General government	832,641					798,723	1,631,364
Public safety	1,740,721					1,727	1,742,448
Health and social services	133,922					7,889	141,811
Public works	1,030,219					561,809	1,592,028
Culture, recreation and education	854,130					57,191	911,321
Conservation and development				23		423,125	423,148
Capital outlay:							
General government						256,805	256,805
Public safety						35,000	35,000
Public works						294,719	294,719
Culture, recreation and education						93,766	93,766
Conservation and development			49,460	17,880	23,071	24,141	114,552
Debt service:							
Principal retirement		2,138,229	1,290,000	1,309,927	95,000	765,073	5,598,229
Interest and fiscal charges		177,675	110,956	65,585	128,309	55,334	537,859
Debt issuance costs			687	1,376	125	945	3,133
Total expenditures	4,591,633	2,315,904	1,451,103	1,394,791	246,505	3,376,247	13,376,183
Excess of revenues over (under) expenditures	1,184,453	(2,315,904)	(1,097,677)	(585,334)	(112,378)	(997,137)	(3,923,977)
OTHER FINANCIAL SOURCES (USES)							
Proceeds from sale of capital assets	1,747		45,000			4,723	51,470
Transfers in	624,141	1,346,227	168,371			719,839	2,858,578
Transfers out	(1,799,326)	(273,774)	(37,009)	(8,250)	(37,009)	(363,686)	(2,519,054)
Debt proceeds		883,028	923,644	330,985		697,975	2,835,632
Total other financing sources (uses)	(1,173,438)	1,955,481	1,100,006	322,735	(37,009)	1,058,851	3,226,626
Net change in fund balances	11,015	(360,423)	2,329	(262,599)	(149,387)	61,714	(697,351)
Fund balances - beginning	1,464,579	697,765	(2,329)	935,698	(7,454,607)	806,361	(3,552,533)
Fund balances - ending	\$ 1,475,594	\$ 337,342	\$	\$ 673,099	\$ (7,603,994)	\$ 868,075	\$ (4,249,884)

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, 2016

Net change in fund balances-total governmental funds \$ (697,351)

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	598,660	
Depreciation expenses reported in the statement of activities	(734,672)	
Amount by which capital outlays and donations are greater (less) than depreciation in the current period.		(136,012)

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. (10,089)

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: (52,029)

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: 5,598,229

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 (2,835,632)

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. (20,956)

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, 2016

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:	4,580	
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:	21,748	
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.		
	2,848	
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	535,414	
The amount of interest accrued during the current period	<u>(502,933)</u>	
Interest paid is greater (less) than interest expensed by	32,481	
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>(216,206)</u>	
Change in net position-governmental activities	<u>\$ 1,691,611</u>	

Exhibit A-7
City of Waupaca, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2016

	Water Utility	Sewer Utility	Telecommunications Utility	Total
ASSETS				
Current assets:				
Cash and investments	\$ 1,251,573	\$ 1,164,505	\$ 68,963	\$ 2,485,041
Receivables:				
Customer	147,206	241,448	18,724	407,378
Other	3,535	63,200		66,735
Due from other funds	236,202	167,143		403,345
Inventories	64,334	2,493		66,827
Total current assets	1,702,850	1,638,789	87,687	3,429,326
Restricted assets:				
Debt reserves	262,997	676,062		939,059
Total restricted assets	262,997	676,062		939,059
Other assets:				
Special assessments receivable	65,283	47,056		112,339
Advance due from other funds	2,979,124	3,698,764		6,677,888
Total other assets	3,044,407	3,745,820		6,790,227
Capital assets:				
Property and plant	12,050,508	24,670,606	264,199	36,985,313
Less: accumulated provision for depreciation	(4,978,744)	(12,175,909)	(264,199)	(17,418,852)
Total capital assets	7,071,764	12,494,697		19,566,461
Total assets	12,082,018	18,555,368	87,687	30,725,073
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension outflows	102,622	167,608	1,313	271,543
Unamortized major repairs	24,351			24,351
Total deferred outflows of resources	126,973	167,608	1,313	295,894
Total assets and deferred outflows of resources	\$ 12,208,991	\$ 18,722,976	\$ 89,000	\$ 31,020,967

Exhibit A-7 (Continued)
City of Waupaca, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2016

	Water Utility	Sewer Utility	Telecommunications Utility	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 29,381	\$ 74,977	\$ 6,384	\$ 110,742
Due to other funds	164,276	171,876		336,152
Accrued liabilities	6,274	9,892	371	16,537
Accrued interest		27,789		27,789
Current portion of revenue bonds	9,034	513,409		522,443
Total current liabilities	208,965	797,943	6,755	1,013,663
Current liabilities (payable from restricted assets):				
Accrued interest	10,375			10,375
Current portion of revenue bonds	185,210			185,210
Total current liabilities (payable from restricted assets)	195,585			195,585
Long-term liabilities:				
Revenue bonds	1,545,917	4,310,821		5,856,738
Net pension liability	18,224	29,765	233	48,222
Compensated absences	58,589	62,747		121,336
Less: current portion	(194,244)	(513,409)		(707,653)
Total long-term liabilities	1,428,486	3,889,924	233	5,318,643
Total liabilities	1,833,036	4,687,867	6,988	6,527,891
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	38,941	63,602	498	103,041
NET POSITION				
Net investment in capital assets	5,525,847	8,183,876		13,709,723
Restricted	252,622	676,062		928,684
Unrestricted	4,558,545	5,111,569	81,514	9,751,628
Total net position	10,337,014	13,971,507	81,514	24,390,035
Total liabilities, deferred inflows of resources, and net position	\$ 12,208,991	\$ 18,722,976	\$ 89,000	\$ 31,020,967

Exhibit A-8
City of Waupaca, Wisconsin
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
OPERATING REVENUES				
Sales of water	\$ 1,286,551		\$	\$ 1,286,551
Measured sewer service		2,018,322		2,018,322
Telecommunications revenues			158,072	158,072
Total operating revenues	1,286,551	2,018,322	158,072	3,462,945
OPERATING EXPENSES				
Operation and maintenance	773,867	917,689	112,479	1,804,035
Depreciation	210,350	686,558	13,490	910,398
Taxes	9,896	5,390		15,286
Total operating expenses	994,113	1,609,637	125,969	2,729,719
Operating income	292,438	408,685	32,103	733,226
NONOPERATING REVENUES (EXPENSES)				
Investment income	7,579	1,138	5	8,722
Proceeds from sale of capital assets			240	240
Interest expense	(64,817)	(175,560)		(240,377)
Total nonoperating revenues (expenses)	(57,238)	(174,422)	245	(231,415)
Income before contributions and transfers	235,200	234,263	32,348	501,811
Capital contributions		95,399		95,399
Transfer of tax equivalent	(242,628)	(249,890)		(492,518)
Change in net position	(7,428)	79,772	32,348	104,692
Net position - beginning	10,344,442	13,891,735	49,166	24,285,343
Net position - ending	\$ 10,337,014	\$ 13,971,507	\$ 81,514	\$ 24,390,035

Exhibit A-9
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES				
Received from customers	\$ 1,320,274	\$ 2,010,883	\$ 157,209	\$ 3,488,366
Payments to employees	(269,641)	(422,120)	(29,341)	(721,102)
Payments to suppliers	(452,593)	(507,656)	(81,846)	(1,042,095)
Net cash flows from (used by) operating activities	598,040	1,081,107	46,022	1,725,169
CASH FLOWS (USED BY) NONCAPITAL FINANCING ACTIVITIES				
Paid to municipality for tax equivalent	(242,628)	(249,890)		(492,518)
Net cash flows (used by) noncapital financing activities	(242,628)	(249,890)		(492,518)
CASH FLOWS FROM (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments for capital acquisitions	(431,197)	(81,816)		(513,013)
Proceeds from the sale of fixed assets			240	240
Principal payments	(183,422)	(498,606)		(682,028)
Interest paid	(65,852)	(178,671)		(244,523)
Contributed capital		95,399		95,399
Net cash flows from (used by) capital and related financing activities	(680,471)	(663,694)	240	(1,343,925)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts of interest	7,579	1,138	5	8,722
Net cash flows from investing activities	7,579	1,138	5	8,722
Net change in cash and cash equivalents	(317,480)	168,661	46,267	(102,552)
Cash and cash equivalents - beginning of year	1,832,050	1,671,906	22,696	3,526,652
Cash and cash equivalents - end of year	\$ 1,514,570	\$ 1,840,567	\$ 68,963	\$ 3,424,100
Reconciliation of cash and cash equivalents to statement of net position accounts				
Cash and investments	\$ 1,251,573	\$ 1,164,505	\$ 68,963	\$ 2,485,041
Cash and investments (restricted assets)	262,997	676,062		939,059
Cash and cash equivalents	\$ 1,514,570	\$ 1,840,567	\$ 68,963	\$ 3,424,100

Exhibit A-9 (Continued)
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 292,438	\$ 408,685	\$ 32,103	\$ 733,226
Noncash items in operating income:				
Depreciation expense	224,536	672,372	13,490	910,398
Pension expense	12,556	10,362	264	23,182
Amortization of major repair	21,902			21,902
Changes in assets and liabilities:				
Customer accounts receivable	9,425	(7,745)	(2,463)	(783)
Other accounts receivable	14,732	4,570	1,600	20,902
Due from other funds	31,830	166		31,996
Special assessments receivable	9,566	(4,264)		5,302
Inventories	(483)			(483)
Accounts payable	(28,472)	11,534	2,534	(14,404)
Due to other governments	(1,742)	(574)	(824)	(3,140)
Due to other funds	186	(28,240)		(28,054)
Accrued liabilities	2,127	7,262	371	9,760
Customer deposits			(1,053)	(1,053)
Compensated absences	9,439	6,979		16,418
Net cash provided by operating activities	<u>\$ 598,040</u>	<u>\$ 1,081,107</u>	<u>\$ 46,022</u>	<u>\$ 1,725,169</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

City of Waupaca, Wisconsin
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December 31, 2016

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December 31, 2016

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 2016, 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
Index to Notes to Basic Financial Statements
December 31, 2016

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
Index to Notes to Basic Financial Statements
December 31, 2016

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. 3, 4 and 8 Capital Projects Funds – Accounts for the activity of Tax Incremental District No.'s 3, 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. 5, 6, 7, 9 & 10 Capital Projects Funds – 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
Index to Notes to Basic Financial Statements
December 31, 2016

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.

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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 represent 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 represent 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
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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 - 2016 tax roll:

Lien date and levy date	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	July 31, 2017
January settlement	January 15, 2017
February settlement	February 20, 2017
August settlement	August 20, 2017
Personal property taxes in full	January 31, 2017
Tax sale- 2016 delinquent real estate taxes	October 2018

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
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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 acquisition value. 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
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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 \$106,811 and consists of one issue.

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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 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
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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, 2016, the unassigned fund balance of the general fund was 26% 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 \$114,967 and \$110,655, respectively.

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.

City of Waupaca, Wisconsin
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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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. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports 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 \$36,527 for the rehabilitation of two wells are being amortized by the Wisconsin Public Service Commission. The balance at December 31, 2016 was \$24,351.

In addition to liabilities, the statement of net position reports 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.

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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, 2016, cash and investments included the following:

Petty cash/cash on hand	\$ 1,190
Deposits with financial institutions	5,669,242
Certificate of deposit	89,006
Mutual Fund	13,869
Municipal Bonds	<u>51,557</u>
Total cash and investments	<u><u>\$ 5,824,864</u></u>

Cash and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	4,885,806
Cash and investments-restricted	<u>939,058</u>
Total cash and investments	<u><u>\$ 5,824,864</u></u>

City of Waupaca, Wisconsin
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 December 31, 2016

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

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, village, 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.

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:

<u>Investment Type</u>	<u>12 months</u>	
	<u>Amount</u>	<u>or less</u>
Certificates of deposit	\$ 89,006	\$ 89,006
Mutual Fund	13,869	13,869
Total	<u>\$ 102,875</u>	<u>\$ 102,875</u>

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, 2016 the City’s investments were rated as follows:

	<u>Amount</u>	<u>Rating</u>
Waunakee Wis Taxable Community Bond	\$ 51,557	Aa 2 (Moody’s)
Mutual Fund	\$ 13,869	(4) Stars (Morningstar)

City of Waupaca, Wisconsin
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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

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.

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, 2016, \$3,798,579 of the City's deposits were insured by collateral at financial institutions, \$820,518 were insured by the FDIC and \$1,174,898 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 \$400,000 of coverage, provided funds are available at the time of any potential loss.

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NOTE 3

CASH AND INVESTMENTS (CONTINUED)

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.

Financial assets required to be measured on a recurring basis are classified under a three-tier hierarchy for fair value investments. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurements date.

Fair Value Measurement

The City uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the City’s assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The City uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the City measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

	Assets at Fair Value as of June 30, 2016		
	Fair Value	Level 1	Level 2
Mutual Fund	\$ 13,869	\$ 13,869	\$
Municipal Bonds	51,557		51,557
Totals	\$ 65,426	\$ 13,869	\$ 51,557

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NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Removals	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Construction work in progress	\$	\$ 152,654	\$	\$ 152,654
Land	4,376,896		(7,200)	4,369,696
Total capital assets not being depreciated	4,376,896	152,654	(7,200)	4,522,350
 <i>Capital assets, being depreciated:</i>				
Building	12,022,874			12,022,874
Infrastructure	13,737,577	112,165		13,849,742
Improvements other than buildings	871,828	284,215		1,156,043
Machinery and equipment	1,197,458	10,378	(9,475)	1,198,361
Vehicles	1,454,774	39,248		1,494,022
Total capital assets, being depreciated	29,284,511	446,006	(9,475)	29,721,042
Total capital assets	33,661,407	598,660	(16,675)	34,243,392
 <i>Less accumulated depreciation:</i>				
Building	2,512,700	134,107		2,646,807
Infrastructure	5,064,915	406,694		5,471,609
Improvements other than buildings	326,672	48,529		375,201
Machinery and equipment	725,645	41,566	(6,586)	760,625
Vehicles	685,945	103,776		789,721
Total accumulated depreciation	9,315,877	734,672	(6,586)	10,043,963
Total net capital assets	\$ 24,345,530	\$ (136,012)	\$ (10,089)	\$ 24,199,429

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

Governmental activities	
General government	\$ 40,705
Public safety	72,337
Public works	507,931
Culture, recreation and education	112,112
Health and human services	1,587
Total governmental activities depreciation expense	\$ 734,672

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NOTE 4

CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	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	6,447,089			6,447,089
Infrastructure/systems/equipment	29,933,245	513,013	(94,236)	30,352,022
Total capital assets, being depreciated	36,380,334	513,013	(94,236)	36,799,111
Total capital assets	36,566,536	513,013	(94,236)	36,985,313
 <i>Less accumulated depreciation:</i>				
Building	4,173,535	275,676	(40,000)	4,409,211
Infrastructure/systems/equipment	12,429,155	634,722	(54,236)	13,009,641
Total accumulated depreciation	16,602,690	910,398	(94,236)	17,418,852
Total net capital assets	\$ 19,963,846	\$ (397,385)	\$	\$ 19,566,461

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

Business-type activities	
Water	\$ 210,350
Wastewater	686,558
Telecommunications	13,490
Total depreciation expense per exhibit A-8	\$ 910,398

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NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2016.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities</u>					
General obligation debt:					
Bonds payable	\$ 8,360,000	\$	\$ (1,100,000)	\$ 7,260,000	\$ 1,130,000
Notes payable	1,530,130	2,835,632	(293,229)	4,072,533	326,792
Total general obligation debt	9,890,130	2,835,632	(1,393,229)	11,332,533	1,456,792
CDA revenue bonds	4,205,000		(4,205,000)		
Other long-term obligations:					
Compensated absences	724,932	69,412	(17,383)	776,961	
Total governmental activities					
Long-term liabilities	\$ 14,820,062	\$ 2,905,044	\$ (5,615,612)	\$ 12,109,494	\$ 1,456,792

Interest costs incurred during the year totaled \$502,933. Total interest paid during the year aggregated \$535,414.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type Activities</u>					
Mortgage revenue bonds	\$ 6,538,766	\$	\$ (682,028)	\$ 5,856,738	\$ 707,653
Other long-term obligations:					
Compensated absences	104,918	16,641	(223)	121,336	
Total business-type activities					
Long-term liabilities	\$ 6,643,684	\$ 16,641	\$ (682,251)	\$ 5,978,074	\$ 707,653

Interest costs incurred during the year totaled \$239,377. Total interest paid during the year aggregated \$243,523.

City of Waupaca, Wisconsin
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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, 2016, is comprised of the following issues:

Description	Issue Dates	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/16
<u>Notes payable</u>					
State trust fund loan	05/27/15	03/15/25	3.25%	841,200	761,895
State trust fund loan-WRS payoff	01/22/13	03/15/17	2.50%	188,200	48,978
State trust fund loan	01/09/12	03/15/21	3.75%	710,000	426,028
State trust fund loan	04/26/16	03/15/17	2.50%	35,000	35,000
State trust fund loan	07/05/16	03/15/22	3.00%	545,000	545,000
State trust fund loan	09/30/16	03/15/18	2.50%	170,034	170,034
State trust fund loan	09/30/16	03/15/22	3.00%	278,926	278,926
State trust fund loan	09/30/16	03/15/23	3.00%	923,644	923,644
State trust fund loan	09/30/16	03/15/19	2.50%	883,028	883,028
					<u>\$ 4,072,533</u>
<u>Refunding bonds</u>					
G.O. promissory bonds-TIF #3	01/06/07	04/01/21	4.00%	\$ 2,640,000	\$ 1,410,000
G.O. promissory bonds-TIF #5	01/06/07	04/01/21	4.00%	275,000	140,000
G.O. promissory bonds-TIF #4	04/01/08	10/01/27	3.25%	575,000	390,000
G.O. promissory bonds-TIF #6	04/01/08	10/01/27	3.05%	95,000	60,000
G.O. promissory bonds-TIF #8	04/01/08	10/01/24	3.25%	1,580,000	930,000
G.O. promissory bonds	04/01/08	04/01/23	3.25%	1,790,000	1,135,000
G.O. promissory bonds	11/09/10	04/01/30	3.0-4.7%	6,670,000	2,865,000
G.O. promissory bonds	04/05/11	10/01/20	3.5-4.0%	1,040,000	330,000
					<u>\$ 7,260,000</u>
Total governmental activities - general obligation debt					<u>\$ 11,332,533</u>

City of Waupaca, Wisconsin
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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, 2016, is comprised of the following:

Description	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/16
<u>Revenue bonds</u>					
Sewerage system revenue bond	04/08/98	05/01/17	2.64%	\$ 717,567	\$ 47,266
Sewerage system revenue bond	07/24/02	05/01/22	2.84%	1,135,476	425,651
Sewerage system revenue bond	11/01/04	05/01/24	2.37%	454,008	231,275
Sewerage system revenue bond	01/01/05	05/01/25	2.37%	437,107	222,612
Sewerage system revenue bond	07/11/07	05/01/27	2.48%	502,814	324,017
Sewerage system revenue bond	04/01/08	11/01/24	4.40%	4,125,000	3,060,000
Water system revenue bond	11/01/99	05/01/18	1.58%	760,310	91,136
Water system revenue bond	04/01/08	11/01/24	3.40%	2,210,000	1,295,000
Water system revenue bond	06/13/12	05/01/32	1.32%	194,758	159,781
Total business-type activities revenue debt					<u>\$ 5,856,738</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 for both the sewer utility and the water utility for the year ended December 31, 2016. The debt service fund requirement for the sewer utility is \$370,062 and the Debt Service Fund Account had a balance of \$370,062 at December 31, 2016. The debt service fund requirement for the water utility is \$133,496 and the Debt Service Fund Account had a balance of \$133,496 at December 31, 2016.

Bond Reserve Requirement: The City covenants to establish and maintain a Reserve Account in an amount equal to the least of (a) 10% of the principal of the Bonds and the Parity Bonds; (b) maximum amount of principal and interest due on the outstanding Bonds and Parity Bonds in any Fiscal Year; or (c) 125% of average annual debt service on the outstanding Bonds and the Parity Bonds requirement will be deposited in the Reserve Account. This requirement was met for both the sewer utility and the water utility for the year ended December 31, 2016. The reserve requirement for the sewer utility is \$306,000 and the Bond Reserve Account had a balance of \$306,000 at December 31, 2016. The reserve requirement for the water utility is \$129,500 and the Bond Reserve Account had a balance of \$129,500 at December 31, 2016.

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, 2016. The net earnings for the sewer utility were \$1,096,381 or 1.88 times the annual principal and interest amount of \$452,490. The net earnings for the water utility were \$267,739 or 1.37 times the annual principal and interest amount of \$195,680.

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NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Debt Limit Calculation

The 2016 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$395,248,800. The legal debt limit and margin of indebtedness as of December 31, 2016 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$395,248,800)	\$ 19,762,440
General obligation debt outstanding	<u>(11,332,533)</u>
Margin of indebtedness	<u>\$ 8,429,907</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2016, are:

Years	Governmental Fund Debt		Enterprise Fund Debt	
	Principal	Interest	Principal	Interest
2017	\$ 1,456,792	\$ 325,840	\$ 707,653	\$ 212,925
2018	1,782,609	378,396	684,904	186,863
2019	1,698,402	291,111	662,877	160,512
2020	1,295,855	226,846	691,876	133,406
2021	1,246,001	193,525	720,978	104,850
2022-2026	2,407,874	541,960	2,291,588	141,276
2027-2031	1,445,000	132,925	86,066	2,900
2032			10,796	73
Totals	<u>\$ 11,332,533</u>	<u>\$ 2,090,603</u>	<u>\$ 5,856,738</u>	<u>\$ 942,805</u>

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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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Accounting Changes. The WRS adopted GASB Statement No. 82, Pension Issues, an amendment of GASB No. 67, No. 68, and No. 73 during the year ended December 31, 2015. Statement No. 82 addresses the presentation of payroll-related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions.

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.

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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

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
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
2015	2.9	2

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 \$233,643 in contributions from the employer.

Contribution rates as of December 31, 2016 are:

	<u>2016</u>	
	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.60%	6.60%
Executive & elected officials	6.60%	6.60%
Protective with social security	6.60%	9.40%
Protective without social security	6.60%	13.20%

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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

At December 31, 2016, the City reported a liability of \$388,576 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. 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 liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City's proportion was 0.02391266%, which was an increase of 0.00019988% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the City recognized pension expense of \$465,024.

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 City.

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,736	\$ 817,752
Changes of assumptions	271,865	
Net differences between projected and actual earnings on pension plan investments	1,590,942	
Changes in proportion and differences between employer contributions and proportionate share of contributions		12,556
Employer contributions subsequent to the measurement date	259,551	
Total	\$ 2,188,094	\$ 830,308

\$259,551 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Year ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 500,725	\$ 201,358
2018	500,725	201,358
2019	500,725	201,358
2020	417,670	199,924
2021	8,698	26,310
Total	\$ 1,928,543	\$ 830,308

Actuarial assumptions. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
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% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

* 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. Starting with 2015, this item includes the impact of known Market Recognition Account deferred gains/losses on the liability for dividend payments.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 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:

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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Retirement Funds								
Asset Allocation Targets and Expected Returns								
As of December 31, 2015								
Core Fund Asset Class	Current Asset Allocation %		Destination Target Asset Allocation %		Long-Term Expected Nominal Rate of Return %		Long-Term Expected Real Rate of Return %	
U.S. Equities	27	%	23	%	7.6	%	4.7	%
International Equities	24.5		22		8.5		5.6	
Fixed Income	27.5		37		4.4		1.6	
Inflation Sensitive Assets	10		20		4.2		1.4	
Real Estate	7		7		6.5		3.6	
Private Equity/Debt	7		7		9.4		6.5	
Multi-Asset	4		4		6.7		3.8	
Total Core Fund	107	%	120	%	7.4	%	4.5	%
Variable Fund Asset Class								
U.S. Equities	70	%	70	%	7.6	%	4.7	%
International Equities	30		30		8.5		5.6	
Total Variable Fund	100	%	100	%	7.9	%	5.0	%
New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%								
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations								

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 3.57%. 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.

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NOTE 6

DEFINED BENEFIT PENSION PLAN (CONTINUED)

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:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$2,725,480	\$388,576	\$(1,436,588)

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://etf.wi.gov/publications/cafr.htm>.

NOTE 7

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2016 were as follows:

Receivable Fund	Payable Fund	Amount
Government Funds:		
General	Water utility	\$ 164,276
General	Transit system	169,393
General	TIF #8	508,270
TIF #4	TIF #8	487,319
TIF #4	TIF #5	57,942
TIF #4	TIF #	127,743
	Total	\$ 1,514,943
Receivable Fund	Payable Fund	Amount
Enterprise Funds:		
Water utility	Sewer utility	\$ 171,876
Water utility	Debt service	64,326
Sewer utility	General	167,143
	Total	\$ 403,345

The following is a schedule of interfund advances at December 31, 2016:

Receivable Fund	Payable Fund	Amount
Water utility	TIF #8	\$ 2,942,888
Water utility	TIF #3	36,236
Sewer utility	TIF #8	3,660,000
Sewer utility	TIF #3	38,764
	Total	\$ 6,677,888

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NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

No repayment schedule has been prepared for the advance to the TIF District's and no interest is being charged on the advance.

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

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	\$ 242,509
General	Sewer utility	250,008
TIF #3	Debt service fund	53,733
TIF #5	Debt service fund	227,919
General	Hotel/Motel revenue	65,635
General	Debt service fund	65,989
Donations/Grants	General	25,998
Donations/Grants	Capital improvements	1,704
Airport	General	65,800
Transit system	General	8,000
Library	General	353,301
Debt service fund	General	1,346,227
TIF #3	TIF #6	114,638
TIF #5	TIF #6	37,117
	<u>Total</u>	<u>\$ 2,858,578</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.

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NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

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	\$	838,493
TIF #5		553,119
TIF #6		640,639
TIF #7		6,752
TIF #8		1,647,546
TIF #10		36,063
	\$	<u>3,722,612</u>

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

NOTE 8 GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES

Governmental activities net position reported on the government wide statement of net position at December 31, 2016 includes the following:

GOVERNMENTAL ACTIVITIES

Net investment in capital assets		
Land	\$	4,369,696
Other capital assets, net of accumulated depreciation		19,829,733
Less: related long-term debt outstanding		<u>(7,094,929)</u>
Total net investment in capital assets		<u>17,104,500</u>
Restricted:		
Debt service		205,779
TIF #4		673,099
Inland Lakes		8,358
Hotel/motel tax		115,479
Revolving loans		486,014
Adult Recreation Center		32,369
Airport		134,417
TIF #9		198,108
Donation and Grants		69,507
Library		31,087
Perpetual care-expendable		<u>117,762</u>
Total restricted		<u>2,071,979</u>
Unrestricted		<u>(9,920,093)</u>
Total governmental activities net assets	\$	<u>9,256,386</u>

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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, 2016 includes the following:

Major Funds

General Fund:

Nonspendable:

Prepays	\$ 50,427
Long-term receivable	97,790
Total	<u>\$ 148,217</u>

Unassigned: \$ 1,327,377

Debt Service Fund:

Restricted:

Restricted for future debt payments	<u>\$ 337,342</u>
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TIF District #4 Fund:

Restricted:

Restricted for TIF purposes	<u>\$ 673,099</u>
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Other Non-major Governmental Funds:

Nonspendable:

Airport fund:

Inventories	<u>\$ 23,419</u>
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City of Waupaca, Wisconsin
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NOTE 8

GOVERNMENTAL ACTIVITIES NET POSITION/FUND BALANCES (CONTINUED)

Restricted:

Inland Lakes fund:	
Restricted for future expenditures	\$ 8,358
Hotel/motel tax fund:	
Restricted for economic development	115,479
Revolving loan fund:	
Restricted for economic development	15,808
Adult Recreation Center:	
Restricted for future expenditures	32,369
Airport fund:	
Restricted for future expenditures	110,998
Donations and Grants fund:	
Restricted for future expenditures	69,507
Library fund:	
Restricted for future expenditures	31,087
TIF Districts fund:	
Restricted for future TIF expenditures	
TIF #7	16,524
TIF #9	198,108
TIF #10	104,609
Perpetual care fund:	
Restricted for future cemetery expenditures	117,762
Total restricted non-major funds	<u>\$ 820,609</u>

Assigned:

Capital Improvements Fund:	
Assigned for future capital projects	<u>\$ 189,918</u>

The following non-major funds had deficit balances as of December 31, 2016:

Unassigned fund balance (deficit)	
Transit System Fund	\$ (107,929)
TIF Districts Fund:	
TIF #5	(57,942)
	<u>\$ (165,871)</u>

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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	<u>\$ 252,622</u>
Sewer Utility:	
Restricted for:	
Debt reserves	<u>\$ 676,062</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
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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. \$703,170, including current year costs of \$5,180 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, 2016 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 2016, the following amounts were received:

Contributed capital:	
Replacement component	\$ 28,215
Customer charges:	
Flow component (net of overcharge)	141,359
Total	\$ 169,574

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, 2016 the various components of deferred inflows of resources were as follows:

Property tax receivable	\$ 5,296,863
Special assessments	138,375
Long-term notes receivable – CDBG	470,206
Long-term notes receivable – Townhouse Land	97,790
Total deferred inflows of resources for government funds	\$ 6,003,234

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, 2016 was \$105,059.

City of Waupaca, Wisconsin
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NOTE 16

CONCENTRATION OF RISK

Approximately 21% of the water utility operating revenues and approximately 7% 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

COMMITMENT

As of December 31, 2016, the City approved a Main Street Reconstruction Project for approximately \$485,000.

NOTE 19

SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the City approved equipment purchases of approximately \$120,000 with funds to be provided through the Capital Fund.

Subsequent to December 31, 2016, the City also approved a street reconstruction bid for approximately \$290,000.

Required Supplementary Information

Exhibit B-1
Required Supplementary Information
City of Waupaca, Wisconsin
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
REVENUES					
Taxes	\$ 1,829,840	\$ 3,515,850	\$ 3,512,205	\$ 1,682,365	\$ (3,645)
Licenses and permits	166,905	168,505	201,366	34,461	32,861
Fines, forfeits and penalties	70,000	70,000	63,481	(6,519)	(6,519)
Public charges for services	204,820	210,250	216,259	11,439	6,009
Intergovernmental	1,609,804	1,609,804	1,607,661	(2,143)	(2,143)
Interest	2,300	2,300	3,803	1,503	1,503
Miscellaneous	155,165	174,965	171,311	16,146	(3,654)
Total revenues	4,038,834	5,751,674	5,776,086	1,737,252	24,412
EXPENDITURES					
General government	933,324	875,263	832,641	100,683	42,622
Public safety	1,716,088	1,724,118	1,740,721	(24,633)	(16,603)
Health and social services	165,123	153,436	133,922	31,201	19,514
Public works	1,137,178	1,205,776	1,030,219	106,959	175,557
Culture, recreation and education	875,095	916,389	854,130	20,965	62,259
Total expenditures	4,826,808	4,874,982	4,591,633	235,175	283,349
Excess of revenues over (under) expenditures	(787,974)	876,692	1,184,453	1,972,427	307,761
OTHER FINANCIAL SOURCES (USES)					
Proceeds from sale of capital assets	11,000	11,000	1,747	(9,253)	(9,253)
Transfers in	526,974	646,715	624,141	97,167	(22,574)
Transfers out		(1,773,328)	(1,799,326)	(1,799,326)	(25,998)
Total other financing sources (uses)	537,974	(1,115,613)	(1,173,438)	(1,711,412)	(57,825)
Net change in fund balance	(250,000)	(238,921)	11,015	261,015	249,936
Fund balance - beginning	1,464,579	1,464,579	1,464,579		
Fund balance - ending	<u>\$ 1,214,579</u>	<u>\$ 1,225,658</u>	<u>\$ 1,475,594</u>	<u>\$ 261,015</u>	<u>\$ 249,936</u>

Exhibit B-2
City of Waupaca, Wisconsin
Wisconsin Retirement System Schedules
December 31, 2016

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

Year ended December 31,	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered- employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability (asset)
2015	0.02391266%	\$ 388,576	\$ 3,068,385	12.66%	98.20%
2014	(0.02371278%)	(582,291)	2,935,377	(19.84%)	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 Calendar Years**

Year ended December 31,	Contractually required contributions	Contributions in relation to the contractually required contributions	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2016	\$ 259,551	\$ (259,551)		\$ 3,042,669	8.53%
2015	269,909	(269,909)		2,937,144	9.19%

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

City of Waupaca, Wisconsin
Notes to Required Supplementary Information
December 31, 2016

NOTE 1

BUDGET SCHEDULE

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, 2016, expenditures exceeded budgeted amounts for the following:

Public safety	\$	16,603
Transfers Out		25,998

NOTE 2

WISCONSIN RETIREMENT SYSTEM SCHEDULES

Governmental Accounting Standards Board Statement No. 68 requirements have been implemented prospectively; therefore, the illustrations do not present similar information for the 8 preceding years.

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

Changes of assumptions. Rates used in mortality tables were updated based on actual WRS experience and adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%). The mortality table was adopted by the Board in connection with the 2012-2014 Experience Study. This assumption is used to measure the probabilities of participants dying before retirement and the probabilities of each benefit payment being made after retirement.

Supplementary Information

Exhibit C-1
City of Waupaca, Wisconsin
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	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
ASSETS												
Cash and investments	\$ 8,619	\$ 217,683	\$	\$ 15,808	\$ 33,509	\$ 118,670	\$ 56,786	\$ 70,405	\$ 46,913	\$ 319,241	\$ 117,762	\$ 1,005,396
Receivables:												
Taxes										869,798		869,798
Special assessments							135,359					135,359
Notes				470,206								470,206
Due from other governments			88,555									88,555
Other		22,431					157,628		135			180,194
Due from other funds												
Inventory						23,419						23,419
Total assets	\$ 8,619	\$ 240,114	\$ 88,555	\$ 486,014	\$ 33,509	\$ 142,089	\$ 349,773	\$ 70,405	\$ 47,048	\$ 1,189,039	\$ 117,762	\$ 2,772,927
LIABILITIES												
Accounts payable	\$ 261	\$ 124,635	\$ 27,091	\$	\$ 1,140	\$ 7,672	\$ 21,480	\$ 898	\$ 4,209	\$	\$	\$ 187,386
Developer payables												
Accrued liabilities									11,752			11,752
Due to other funds			169,393							185,685		355,078
Advances due from other funds												
Total liabilities	261	124,635	196,484		1,140	7,672	21,480	898	15,961	185,685		554,216
DEFERRED INFLOWS OF RESOURCES												
Deferred revenue				470,206			138,375			742,055		1,350,636
Total deferred inflows of resources				470,206			138,375			742,055		1,350,636
Total liabilities and deferred inflows of resources	261	124,635	196,484	470,206	1,140	7,672	159,855	898	15,961	927,740		1,904,852
FUND BALANCES												
Nonspendable						23,419						23,419
Restricted	8,358	115,479		15,808	32,369	110,998		69,507	31,087	319,241	117,762	820,609
Assigned							189,918					189,918
Unassigned (deficit)			(107,929)							(57,942)		(165,871)
Total fund balances	8,358	115,479	(107,929)	15,808	32,369	134,417	189,918	69,507	31,087	261,299	117,762	868,075
Total liabilities, deferred inflows of resources and fund balances	\$ 8,619	\$ 240,114	\$ 88,555	\$ 486,014	\$ 33,509	\$ 142,089	\$ 349,773	\$ 70,405	\$ 47,048	\$ 1,189,039	\$ 117,762	\$ 2,772,927

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, 2016

	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
REVENUES												
Taxes	\$	\$ 233,053		\$	\$	\$	\$	\$	\$	\$ 748,990	\$	\$ 982,043
Intergovernmental			264,869				94,240		387,161	5,627		751,897
Public charges for services		10			16,913	106,076			20,909			143,908
Miscellaneous:												
Interest				2			11				413	426
Other			39,209			14,241	84,333	81,868	68,147	213,038		500,836
Total revenues		233,063	304,078	2	16,913	120,317	178,584	81,868	476,217	967,655	413	2,379,110
EXPENDITURES												
General government								292	798,431			798,723
Public safety								1,727				1,727
Health and social services								7,889				7,889
Public works			354,108			207,701						561,809
Culture, recreation and education					25,566			31,625				57,191
Conservation and development	1,539	264,150		21,784			135,652					423,125
Capital outlay:												
General government							256,805					256,805
Public safety							35,000					35,000
Public works							294,719					294,719
Culture, recreation and education					4,871		88,895					93,766
Conservation and development										24,141		24,141
Debt service:												
Principal retirement										765,073		765,073
Interest and fiscal charges										55,334		55,334
Debt issuance costs							578			367		945
Total expenditures	1,539	264,150	354,108	21,784	30,437	207,701	811,649	41,533	798,431	844,915		3,376,247
Excess of revenues over (under) expenditures	(1,539)	(31,087)	(50,030)	(21,782)	(13,524)	(87,384)	(633,065)	40,335	(322,214)	122,740	413	(997,137)
OTHER FINANCIAL SOURCES (USES)												
Transfers in			8,000			65,800		27,702	353,301	265,036		719,839
Transfers out		(65,634)					(1,704)			(296,348)		(363,686)
Proceeds from sale of capital assets			3,051		711		961					4,723
Debt proceeds							580,000			117,975		697,975
Total other financing sources (uses)		(65,634)	11,051		711	65,800	579,257	27,702	353,301	86,663		1,058,851
Net change in fund balances	(1,539)	(96,721)	(38,979)	(21,782)	(12,813)	(21,584)	(53,808)	68,037	31,087	209,403	413	61,714
Fund balances - beginning	9,897	212,200	(68,950)	37,590	45,182	156,001	243,726	1,470		51,896	117,349	806,361
Fund balances - ending	\$ 8,358	\$ 115,479	\$ (107,929)	\$ 15,808	\$ 32,369	\$ 134,417	\$ 189,918	\$ 69,507	\$ 31,087	\$ 261,299	\$ 117,762	\$ 868,075

Exhibit C-3
City of Waupaca, Wisconsin
Combining Balance Sheet
TIF Districts
December 31, 2016

	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
ASSETS						
Cash and investments	\$	\$	\$ 16,524	\$ 198,108	\$ 104,609	\$ 319,241
Receivables:						
Other						
Taxes	21,103	677,215	84,919		86,561	869,798
Total assets	\$ 21,103	\$ 677,215	\$ 101,443	\$ 198,108	\$ 191,170	\$ 1,189,039
LIABILITIES						
Accounts payable	\$	\$	\$	\$	\$	\$
Developer payables						
Due to other funds	57,942	127,743				185,685
Advances due from other funds						
Total liabilities	57,942	127,743				185,685
DEFERRED INFLOWS OF RESOURCES						
Deferred revenue	21,103	549,472	84,919		86,561	742,055
Total deferred inflows of resources	21,103	549,472	84,919		86,561	742,055
Total liabilities and deferred inflows of resources	79,045	677,215	84,919		86,561	927,740
FUND BALANCES						
Restricted for TIF expenditures			16,524	198,108	104,609	319,241
Unassigned (deficit)	(57,942)					(57,942)
Total fund balances	(57,942)		16,524	198,108	104,609	261,299
Total liabilities, deferred inflows of resources and fund balances	\$ 21,103	\$ 677,215	\$ 101,443	\$ 198,108	\$ 191,170	\$ 1,189,039

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, 2016

	TIF #5	TIF #6	TIF #7	TIF #9	TIF #10	Total
REVENUES						
Taxes	\$ 22,438	\$ 576,760	\$ 59,729	\$	\$ 90,063	\$ 748,990
Intergovernmental	3	1,069	1,228	3,277	50	5,627
Miscellaneous:						
Other	5,368	56,742			150,928	213,038
Total revenues	27,809	634,571	60,957	3,277	241,041	967,655
EXPENDITURES						
Conservation and development						
Capital outlay:						
Conservation and development	7,229	4,734	5,982	2,133	4,063	24,141
Debt service:						
Principal retirement	275,073	370,000	20,000		100,000	765,073
Interest and fiscal charges	17,729	18,650	875		18,080	55,334
Debt issuance costs	242	125				367
Total expenditures	300,273	393,509	26,857	2,133	122,143	844,915
OTHER FINANCIAL SOURCES (USES)						
Transfers in	265,036					265,036
Transfers out	(37,009)	(241,062)	(8,250)	(1,777)	(8,250)	(296,348)
Debt proceeds	117,975					117,975
Proceeds from sale of capital assets						
Total other financing sources (uses)	346,002	(241,062)	(8,250)	(1,777)	(8,250)	86,663
Net change in fund balance	73,538		25,850	(633)	110,648	209,403
Fund balances - beginning	(131,480)		(9,326)	198,741	(6,039)	51,896
Fund balances - ending	\$ (57,942)	\$	\$ 16,524	\$ 198,108	\$ 104,609	\$ 261,299

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, 2016

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
SOURCES OF FUNDS									
Taxes	\$ 3,169,316	\$ 7,754,728	\$ 260,293	\$ 6,726,324	\$ 432,966	\$ 691,020	\$ 57,655	\$ 772,791	\$ 19,865,093
Intergovernmental	231,605	58,661	3,160	28,312	15,801	518,525	235,783	126	1,091,973
Other revenue	971,461	1,050,595	146,607	972,625	58,448	848,306	5,600	347,056	4,400,698
Sale of capital assets	414,434					17,600			432,034
Proceeds of long-term debt	7,883,644	8,230,985	1,187,975	9,915,000	690,000	20,705,000		1,895,000	50,507,604
Transfers	1,846,656		624,495	640,639	74,388	2,735,150		186,063	6,107,391
Total sources	14,517,116	17,094,969	2,222,530	18,282,900	1,271,603	25,515,601	299,038	3,201,036	82,404,793
USES OF FUNDS									
Capital expenditures	5,333,363	5,409,020	697,382	7,684,325	421,646	11,006,696	31,517	978,180	31,562,129
Debt service:									
Principal retirement	3,345,000	4,662,869	627,135	7,954,793	344,578	3,800,190		1,562,489	22,297,054
Interest and fiscal charges	2,003,884	1,888,108	326,540	1,336,085	84,985	1,580,480		230,430	7,450,512
Transfers	3,834,869	4,461,873	629,415	1,307,697	403,870	16,732,229	69,413	325,328	27,764,694
Total uses	14,517,116	16,421,870	2,280,472	18,282,900	1,255,079	33,119,595	100,930	3,096,427	89,074,389
Fund balance at December 31	\$	\$ 673,099	\$ (57,942)	\$	\$ 16,524	\$ (7,603,994)	\$ 198,108	\$ 104,609	\$ (6,669,596)
Cash	\$ (71,564)	\$ (673,004)	\$	\$	\$ (16,524)	\$	\$ (198,108)	\$ (104,609)	\$ (1,063,809)
Taxes receivable				(127,743)					(127,743)
Other receivable	(4,481)	(343)							(4,824)
Accounts payable	22	248				5,517			5,787
Developer payables	1,023								1,023
Debt outstanding	2,333,644	720,985	257,975	430,000	20,000	2,925,000		3,715,000	10,402,604
Due to other funds	75,000		57,942	127,743		7,598,477			7,859,162
Balance to be collected (surplus) at December 31	\$ 2,333,644	\$ 47,886	\$ 315,917	\$ 430,000	\$ 3,476	\$ 10,528,994	\$ (198,108)	\$ 3,610,391	\$ 17,072,200



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, 2016, 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 audit 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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 Unites States of America, resulting in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Johnson Block & Company, Inc.

Johnson Block and Company, Inc.
May 11, 2017
Mineral Point, WI



Certified Public Accountants

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

The City Council
City of Waupaca, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca, Wisconsin (“City”) for the year ended December 31, 2016. 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 June 9, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. 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 estimates affecting the financial statements were:

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

- Record additional accounts receivable
- Adjust payroll liabilities
- Record utility fixed asset removals
- Record transfer of excess increment to distressed TIF
- Transfer debt service levy for TIF districts

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 May 11, 2017.

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 & Company, Inc.

Johnson Block and Company, Inc.
May 11, 2017
Mineral Point, WI

Client: **WAUPCITY - City of Waupaca**
 Engagement: **2016 City of Waupaca Audit**
 Period Ending: **12/31/2016**
 Trial Balance: **TB**
 Workpaper: **PJE - Proposed JE Report**

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 6001				
Record additional accounts receivable at 12/31/16.				
225-13998-000-000	REVENUES RECEIVABLE	D-15	29,242.00	
225-47961-000-000	FEEES: VETS HOME DELIVERY SERV			29,242.00
Total			<u>29,242.00</u>	<u>29,242.00</u>

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

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.

Payroll Liability Reconciliation

Payroll liabilities at year-end were not reconciled. Adjustments totaling approximately \$46,000 were required to adjust the balances to the correct ending balances. We recommend that the City personnel reconcile these accounts to the general ledger on a monthly basis.

Water Net Loss

The Water Utility experienced a net loss of (\$7,428) for 2016. We recommend that the City review the Utility rates for adequacy and consider a simplified rate increase or a full rate case if major capital projects are planned in the next year or two. We are able to assist the City with establishing new rates.

City of Waupaca
Council Agenda Item Staff Report

FROM: Kathryn Kasza
Finance Director/City Treasurer

DATE: June 1, 2017

SUBJECT: Engagement of Johnson Block & Company for External Audit of Financial Statements ending December 31, 2017

DISCUSSION:

Johnson Block and Company, the City's external auditors, have provided another one-year extension to their current audit engagement for the auditing of the City's financial statements ending December 31, 2017. Staff is requesting another one-year extension to continue with Johnson Block as we continue to put in place all of the applications of the financial software. A new auditing firm would not be a productive and efficient use of staff time and City resources at this time, however, it may be warranted in the future to see if auditing fees may be reduced further and a Request for Proposals for the 2018 audit could be let next June.

The scope of the 2017 audit will continue with staff completing the Water Utility annual report to the Public Service Commission as well as the City's Annual State Financial Report (Form C); Annual Tax Incremental Financing (TIF) Reports and Annual Room Tax Report to the Wisconsin Department of Revenue which will allow for another 0% increase. Staff will continue to provide necessary work papers and make improvements to procedures to make the audit a more efficient process to provide cost savings as well as improve the City's financial reporting.

Attached is the 2017 audit engagement letter from Johnson Block & Company.

If you have any questions regarding this matter, please contact me prior to Tuesday's meeting.

REQUESTED ACTION:

Please consider approving the 2017 financial statement audit with Johnson Block & Company in an amount not to exceed \$28,000 which includes the City's Utilities.



Johnson & Block
AND COMPANY, INC.

Certified Public Accountants

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

May 26, 2017

Kathy Kasza
City of Waupaca
111 South Main St
Waupaca, WI 54981

Dear Kathy,

Enclosed is a copy of the audit engagement letter for the year ending December 31, 2017. If agreeable, please sign and return to us.

Despite increasing cost pressures, we strive to keep audit fees at a fair price. I believe our high degree of expertise provides a high quality audit for a competitive price. The price range includes a 0% increase. If the audit comes in lower, I would only bill for actual time incurred for the audit.

Please review the enclosed engagement letter and call me with any questions or concerns you may have. I have enjoyed working with the City in the past and hope to continue to do so in the future.

Sincerely,

Jay Bennett, CPA



Certified Public Accountants

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

May 26, 2017

The City Council
City of Waupaca
111 South Main St.
Waupaca, WI 54981

We are pleased to confirm our understanding of the services we are to provide the City of Waupaca, Wisconsin for the year ended December 31, 2017. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Waupaca, Wisconsin as of and for the year ended December 31, 2017. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as the budgetary comparison schedule, to supplement the City of Waupaca, Wisconsin's 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. As part of our engagement, we will apply certain limited procedures to the City of Waupaca, Wisconsin's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist 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 will 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. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management Discussion and Analysis
- 2) Budgetary Comparison Schedule

We have also been engaged to report on supplementary information other than RSI that accompanies the City of Waupaca, Wisconsin's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole:

- 1) Combining Schedules

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

Historical Sources, Uses and Status of Funds – Tax Incremental Financing Districts

Audit Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the City of Waupaca, Wisconsin's financial statements. Our report will be addressed to the City Council of Waupaca, Wisconsin. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions, we may decline to express opinions or may withdraw from the engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with generally accepted accounting principles; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with generally accepted accounting principles; (3) that the methods of measurement or presentation have not changed from those used in the prior period and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

With regard to electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitation of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures-Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City of Waupaca, Wisconsin's compliance with the provisions of applicable laws, regulations contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

Our fees for these services will be at our standard hourly rate plus out-of-pocket costs (such as staff travel, mileage and lodging, etc.) except that we agree that our gross fee, including expenses will range as follows:

Our fees for our services are as follows:

	2017
General City audit, including utilities	\$ 26,100-28,000

If a Single Audit is required, we will bill for this service at our standard hourly rates. The amount of time spent on a Single Audit is dependent on the type of major programs to be tested.

Any additional assistance or projects would be billed at our standard hourly rates. This would include the implementation of new accounting or auditing standards during the term of the contract.

The audit documentation for this engagement is the property of Johnson Block and Company, Inc. and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to federal or state agencies or their designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Johnson Block and Company, Inc. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to federal or state agencies or their designee. The federal or state agency or their designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to the City of Waupaca, Wisconsin and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



JOHNSON BLOCK AND COMPANY, INC.

RESPONSE:

This letter correctly sets forth the understanding of the City of Waupaca, Wisconsin

By: _____

Title: _____

Date: _____