

CITY OF KAUKAUNA, WISCONSIN

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2012

CITY OF KAUKAUNA, WISCONSIN

December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Kaukauna, Wisconsin

Report on the Financial Statements

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 Kaukauna, Wisconsin ("the City") as of and for the year ended December 31, 2012, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City'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 as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As described in Note A.5.h, the City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions on pages 3 through 12 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not 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.

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 financial information listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Schmidt SC

Certified Public Accountants
Green Bay, Wisconsin
May 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management Discussion and Analysis December 31, 2012

The management of the City of Kaukauna offers all readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the fiscal year ended December 31, 2012. You are encouraged to read this narrative in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$5,190,376 to \$89,001,569; governmental activities net position decreased by \$8,557,683 to \$15,451,279 while business type activities net position increased \$13,748,059 to \$73,550,290.
- Total fund balance in governmental activities as of December 31, 2012 is \$9,040,245. Of this balance, \$172,522 is nonspendable, \$1,576,595 is restricted for debt service, \$110,515 is committed for improvements and equipment, \$5,165,221 is assigned to subsequent years' budgets, and \$2,015,392 is unassigned and available for ongoing operations and capital improvement projects.
- General fund's total fund balance increased \$978,684 or 31.8%. The increase in fund balance is primarily the result of positive revenue budget variances in intergovernmental revenues, licenses and permits, and fines and forfeitures of \$171,232 that are partially offset by negative revenue budget variances of \$91,495 in charges for services and interest income. Positive expenditure budget variances in general government, public safety, public works, and culture and recreation of \$420,402 were partially offset by negative expenditure budget variances of \$91,495 in conservation and development and other.
- General fund revenues and operating transfers in for 2012 were over budget by \$133,408 while general fund expenditures and operating transfers out for 2012 were under budget by \$418,856. Expenditures were under budget primarily as a result of cost saving measures in general government, public safety, public works, and culture and recreation.
- At the end of 2012, total fund balance for the general fund is \$4,056,645. The unassigned portion of fund balance \$3,884,123, increased \$1,624,504 or 71.9%, and it is approximately 33.3% of 2012 budgeted general fund expenditures. The increase in total general fund balance results from positive revenue and very positive expenditure variances for 2012.
- The City's outstanding general obligation debt decreased \$125,000 from \$40,450,000 to \$40,325,000 for the fiscal year ended December 31, 2012. This decrease is the result of decreased borrowing for building and infrastructure improvements.
- The City's outstanding revenue bonds increased \$41,955,000 for the fiscal year ended December 31, 2012 primarily due to the issuance of \$44,875,000 of revenue bonds to finance Electric Utility facility improvements including reconstruction of a hydroelectric generating facility.

- The Electric Utility's net position increased \$1,265,040 or 3.13% in 2012 as compared to 2011. This increase was due to an increase in total assets of \$46,892,021 or 60.6% offset by an increase in total liabilities of \$45,626,981 or 123.6%. In 2012, the Electric Utility issued \$44,875,000 in bonds to finance capital additions, including the Badger Hydro project at \$37,904,000. This project is scheduled for completion at the end of 2013.
- The Water Utility's net position increased \$716,604 or 4.15% in 2012 as compared to 2011. This increase was due to an increase in total assets of \$449,860 or 2.13% coupled with a decrease in total liabilities of \$266,744 or 6.93%. Long-term debt outstanding decreased \$645,000 or 24.25% because the Water Utility, instead of issuing bonds, financed its 2012 capital expenditures from its operations and available cash.
- The Electric Utility's cash and cash equivalents increased \$28,672,811. The Electric Utility issued bonds in 2012 to finance the 2012/2013 capital expenditures. This method of financing helped build cash reserves in 2012. Because not all of the bond proceeds were expended at the end of 2012, \$24,139,855 is reported as a restricted asset.
- The Water Utility's cash and cash equivalents decreased \$213,504. The Water Utility financed its 2012 capital expenditures from its operations and operating cash reserves. Because the cash expended on financing activities was greater than the funds from operations, the Water Utility operating cash reserves decreased in 2012.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide statements are made up of the statement of net position and the statement of activities.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two being reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This means, some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues from those functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities (those supported primarily by taxes and intergovernmental revenues) of the City include general government; public safety; public works; health and welfare; culture and recreation; conservation and development, and non-departmental. The business-type activities (those supported by user fees) are the Electric Utility, Water Utility, Sanitary Sewer Utility and Storm Water Utility.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate component unit known as the Redevelopment Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Redevelopment Authority had no financial transactions for 2012.

The government-wide financial statements can be found on pages 13 – 15 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same activities as governmental activities in the government-wide financial statements; however, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison may help readers better understand the long-term impact of a government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintained 26 individual governmental type funds during the course of 2012. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, special assessment fund and debt service fund which are considered major funds. Data from the remaining 23 governmental type funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the combining statements found later in this report.

The City adopts annual appropriation budgets for the general fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Proprietary Funds - Enterprise funds are used to report the functions of the water utility, electric utility, storm water utility, and sanitary sewer utility are presented as business-type activities in the government-wide financial statements. Individual fund data for enterprise funds is provided later in this report.

The basic proprietary fund financial statements can be found on pages 20 - 22 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. At this time, the City does not have any fiduciary funds for which it is responsible.

Notes To The Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 46 of this report.

Supplemental Information - The combining statements referred to in connection with non-major governmental funds is presented immediately following the required supplementary information. Required supplemental information and supplemental combining and individual fund statements and schedules can be found on pages 47 - 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As discussed earlier, net position over time, serve as a useful indicator of a government's financial position. The assets of the City exceed liabilities for total net position of \$89,001,569 at year end December 31, 2012.

CITY OF KAUKAUNA, WISCONSIN
Condensed Statement of Net Position
December 31, 2012

| | Governmental Activities | Business-type Activities | Total |
|--------------------------------------|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current and other assets | \$ 41,554,984 | \$ 49,273,778 | \$ 90,828,762 |
| Capital Assets | 37,177,032 | 115,176,384 | 152,353,416 |
| TOTAL ASSETS | 78,732,016 | 164,450,162 | 243,182,178 |
| LIABILITIES | | | |
| Noncurrent liabilities | 36,593,848 | 82,226,756 | 118,820,604 |
| Other liabilities | 16,071,326 | 8,673,116 | 24,744,442 |
| TOTAL LIABILITIES | 52,665,174 | 90,899,872 | 143,565,046 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes | 10,615,563 | - | 10,615,563 |
| NET POSITION | | | |
| Net investment in capital assets | 3,189,242 | 57,231,724 | 60,420,966 |
| Restricted assets - debt service | 1,576,595 | 7,322,143 | 8,898,738 |
| Unrestricted | 10,685,442 | 8,996,423 | 19,681,865 |
| TOTAL NET POSITON | \$ 15,451,279 | \$ 73,550,290 | \$ 89,001,569 |

Management's Analysis

By far the largest portion of the City's total net position, \$60,420,966 or 67.9%, is its investment in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure), less any related outstanding indebtedness used to acquire those assets. The investment in capital assets net of related debt increased \$1,398,924 or 2.4%. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's total net position, \$8,898,738 or 10.0% represents resources that are subject to restrictions regarding their use. The remaining balance of unrestricted net position, \$19,681,865 or 22.1% may be used to meet the government's ongoing obligations to creditors and provide services to its citizens.

Business-type activities total net position increased by \$13,748,059 to \$73,550,290 in 2012, an increase of 23.0%. The increase in net position is primarily due to the reclassification of sanitary sewer services from the general fund to an enterprise fund.

At the end of the current fiscal year, the City is able to report growth in total net position for governmental activities, and positive balances in all categories of net position for governmental activities as well as for business-type activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

CITY OF KAUKAUNA, WISCONSIN
 Condensed Statement of Activities
 December 31, 2012

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| REVENUES | | | |
| Program Revenues: | | | |
| Charges for services | \$ 1,157,388 | \$ 70,094,764 | \$ 71,252,152 |
| Operating grants and contributions | 1,255,062 | - | 1,255,062 |
| Capital grants and contributions | 1,360,939 | 834,638 | 2,195,577 |
| TOTAL REVENUES | 3,773,389 | 70,929,402 | 74,702,791 |
| GENERAL REVENUES | | | |
| Property taxes | 8,240,384 | - | 8,240,384 |
| Other taxes | 150,517 | - | 150,517 |
| State and federal aids not restricted to specific functions | 2,492,418 | - | 2,492,418 |
| Interest and investment earnings | 101,311 | 367,976 | 469,287 |
| Miscellaneous | 206,318 | 29,791 | 236,109 |
| Transfers | 705,295 | (705,295) | - |
| TOTAL GENERAL REVENUES | 11,896,243 | (307,528) | 11,588,715 |
| EXPENSES | | | |
| General government | 2,032,660 | - | 2,032,660 |
| Public safety | 5,222,045 | - | 5,222,045 |
| Public works | 4,367,360 | - | 4,367,360 |
| Health and human services | 2,299 | - | 2,299 |
| Culture and recreation | 2,090,714 | - | 2,090,714 |
| Development | 332,978 | - | 332,978 |
| Interest on debt | 1,272,124 | - | 1,272,124 |
| Electric utility | - | 60,904,257 | 60,904,257 |
| Water utility | - | 2,433,219 | 2,433,219 |
| Storm water utility | - | 452,084 | 452,084 |
| Sanitary sewer utility | - | 2,149,041 | 452,084 |
| TOTAL EXPENSES | 15,320,180 | 65,938,601 | 79,561,824 |
| Change in net position | 349,452 | 4,683,273 | 5,032,725 |
| Net position – beginning of year | 24,008,962 | 59,802,231 | 83,811,193 |
| Prior period adjustment | (8,907,135) | 9,064,786 | 157,651 |
| Net position – end of year | \$ 15,451,279 | \$ 73,550,290 | \$ 89,001,569 |

Management's Analysis

The decrease in net position for governmental activities for year ended December 31, 2012 was 35.64% compared with an increase in net position of 10.0% for year ended December 31, 2011. Business-type activities growth in net position for year ended December 31, 2012 was 23.0% compared with 4.4% for year ended December 31, 2011.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The decrease in governmental activities and the increase in business-type activities are attributable to the reclassification of sanitary sewer services. Management expects growth to continue at a modest rate especially for business-type activities.

Governmental activities revenue decreased \$14,041,938 or 68.0% while business-type activities revenue increased \$6,715,185 or 10.5% during 2012 primarily due to the reclassification of sanitary sewer services from governmental activities to business-type activities.

Debt and Debt Management

CITY OF KAUKAUNA, WISCONSIN
Condensed Summary of Long-Term Obligations

| | Outstanding 1/1/2012 | Issued In 2012 | Retired In 2012 | Outstanding 12/31/2012 | Due Within One Year |
|--|-------------------------|----------------------|---------------------|---------------------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| General obligation notes | \$ 26,790,488 | \$ 2,800,000 | \$ 5,027,699 | \$ 24,562,789 | \$ 2,537,450 |
| General obligation bonds | 10,773,298 | - | 248,298 | 10,525,000 | 75,000 |
| Unfunded pension liability - | | | | | |
| Private pension plan | 39,000 | 8,752 | 10,752 | 37,000 | - |
| OPEB liability | 814,128 | 595,957 | 404,357 | 1,005,728 | - |
| Long-term employee | | | | | |
| Compensated absences | 514,065 | - | 50,734 | 463,331 | - |
| TOTAL GOVERNMENTAL ACTIVITIES DEBT | \$ 38,930,979 | \$ 3,404,709 | \$ 5,741,840 | \$ 36,593,848 | \$ 2,612,450 |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| General obligation bonds | \$ 2,859,512 | \$ 2,865,929 | \$ 488,230 | \$ 5,237,211 | \$ 587,550 |
| General obligation notes | 26,702 | - | 26,702 | - | - |
| Revenue bonds | 34,825,000 | 46,150,000 | 4,195,000 | 76,780,000 | 2,540,000 |
| OPEB liability | 119,744 | 89,801 | - | 209,545 | - |
| TOTAL BUSINESS-TYPE ACTIVITIES DEBT | \$ 37,830,958 | \$ 49,105,730 | \$ 4,709,932 | \$ 82,226,756 | \$ 3,127,550 |

Management's Analysis

Overall, long-term obligations increased significantly from \$76,761,937 in 2011 to \$118,820,604 in 2012. The most significant factor was the issuance of \$44,875,000 of revenue bonds, \$37,904,000 of which was used to reconstruct an existing hydroelectric generation facility and associated power canal. All general obligation notes and bonds are scheduled to be paid off within ten (10) years and all of the revenue bonds are scheduled to be paid off within twenty three (23) years.

The City has maintained its current general obligation bond rating of AA- for the past several years. The current outstanding general obligation bonds and notes of \$40,325,000, less available funds of \$2,075,053, is 85.2% of the statutory limit for cities in the State of Wisconsin.

The City's five year capital improvement plan anticipates general obligation borrowing of approximately \$1,000,000 to \$1,500,000 per year for the next five (5) years plus the design and construction of a municipal complex beginning in 2014.

FINANCIAL ANALYSIS OF THE GOVERNMENTS' FUNDS

As indicated earlier, the City uses fund accounting to ensure and demonstrate compliance with budgetary finance-related legal requirements.

General Fund Budgetary Analysis

CITY OF KAUKAUNA, WISCONSIN General Fund Budget to Actual Comparison

| | Final Budget 2012 | Actual 2012 | Budget Variance Positive (Negative) |
|---|-------------------------|-------------------|--|
| REVENUES | | | |
| Taxes | \$ 5,697,807 | \$ 5,699,624 | \$ 1,817 |
| Intergovernmental | 3,636,885 | 3,703,002 | 66,117 |
| Licenses and permits | 219,000 | 296,823 | 77,823 |
| Fines and forfeitures | 131,500 | 158,792 | 27,292 |
| Charges for services | 736,450 | 684,016 | (52,434) |
| Interest | 55,000 | 15,939 | (39,061) |
| Other | - | 9,794 | 9,794 |
| Transfers in | 1,631,000 | 1,673,060 | 42,060 |
| TOTAL REVENUES | 12,107,642 | 12,241,050 | 133,408 |
| EXPENDITURES | | | |
| General government | 1,557,397 | 1,484,076 | 73,321 |
| Public safety | 5,207,434 | 5,056,180 | 151,254 |
| Public works | 2,582,887 | 2,387,040 | 195,847 |
| Health and welfare | 2,000 | 2,299 | (299) |
| Culture and recreation | 1,863,690 | 1,772,215 | 91,475 |
| Conservation and development | - | 111,100 | (111,100) |
| Non-departmental | 467,814 | 449,456 | 18,358 |
| TOTAL EXPENDITURES | 11,681,222 | 11,262,366 | 418,856 |
| Excess (Deficit) of Revenues Over Expenditures | \$ 426,420 | \$ 978,684 | \$ 552,264 |

Management's Analysis

The 2012 general fund budget to actual comparison is much more favorable than several prior years.

Revenue Variances – Intergovernmental, licenses and permit, fines and forfeitures, other, and transfers in were over budget because of conservative budgeting. Charges for services was under budget \$52,434 primarily because collection of ambulance fees lagged. Interest was under budget \$39,061 because the budget did not adequately anticipate the continued decline in investment income.

Expenditure Variances – The general fund expenditure budget was under budget except for conservation and development primarily because most general government departments spent less than they budgeted. Public safety budget was under budget primarily because of various open positions throughout the year and public safety departments spent less than they budgeted in non-personal services. Within the public work budget, forestry, parks, street lighting, and refuse collection were \$192,962 over budget and street maintenance, snow and ice removal, and equipment maintenance were \$267,224 under budget.

General Fund Budgetary Analysis (Continued)

Within the culture and recreation budget, athletic fields were \$20,373 over budget and public library and adult sports were \$137,758 under budget.

Non-departmental is over budget because budgeted contingency of \$50,000 was partially offset by retiree health insurance which is \$24,185 over budget. Management expects the excess of revenues over expenditures in the general fund to be approximately \$100,000 to \$200,000 at the end of any given year.

Debt Service Fund Budgetary Analysis

CITY OF KAUKAUNA, WISCONSIN
Debt Service Fund Budget to Actual Comparison

| | Final Budget 2012 | Actual 2012 | Budget Variance Positive (Negative) |
|---|-------------------------|------------------|--|
| REVENUES | | | |
| Taxes | \$ 2,482,626 | \$ 2,035,523 | \$ (447,103) |
| Other | 78,903 | 78,903 | - |
| Transfers in | 1,858,899 | 3,720,264 | 1,861,365 |
| TOTAL REVENUES | 4,420,428 | 5,834,690 | 1,414,262 |
| EXPENDITURES | | | |
| Debt service principal | 2,925,000 | 2,410,067 | 514,933 |
| Debt service interest | 1,495,428 | 1,288,328 | 207,100 |
| Transfers out | - | 559,700 | - |
| TOTAL EXPENDITURES | 4,420,428 | 4,258,095 | 722,033 |
| Excess (Deficit) of Revenues Over Expenditures | \$ - | \$ 1,576,595 | \$ 2,136,295 |

Management's Analysis

Management takes a conservative approach to budgeting for special assessments. Special assessment projects are funded from the proceeds of long-term borrowing. The specific projects and the timing of the repayment by individual property owners to repay the assessments vary considerably from year to year. Special assessment funds are transferred into the debt service fund in an amount that approximates the debt services requirement for debt incurred to fund special assessment projects.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. Note how unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2012, the City's governmental funds reported combined year ending fund balance of \$9,040,245, a decrease of \$376,366 for the calendar year 2012. Of the total fund balance, \$2,015,392 is unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available because it is designated as follows;

- Nonspendable, \$172,522.
- Restricted for debt service, \$1,576,595.
- Committed, \$110,515.
- Assigned, \$5,165,221.

Fund Balance Analysis – General Fund

The general fund balance increased from \$3,077,961 at calendar year end 2011 to \$4,056,645 for calendar year end 2012. The City Council adopted a policy in 2010 to maintain the fund balance at 15% of the operating budget. Fifteen percent of the 2012 operating budget is \$1,752,183. The unassigned fund balance as of December 31, 2012 was \$3,884,123. The year end fund balance for 2012 is in compliance with the policy that was established in 2010. As a measure of the general fund's liquidity, it is useful to compare both unassigned and total fund balance to budgeted expenditures for 2012. Unassigned fund balance equals 1.5% of budgeted expenditures while total fund balance represents 33.3% of budgeted expenditures for 2012.

Fund Balance Analysis – Debt Service Fund

The debt service fund balance had a balance of \$1,576,595 at year end 2012 to be used to pay debt in 2013. Going forward the debt service fund is expected to have no balance at year end.

Fund Balance Analysis – Special Revenue Funds

The combined non-major special revenue funds have a calendar year end 2012 fund balance of \$645,477. The combined fund balance for special revenue funds decreased \$963,657 or 59.9% for calendar year ended December 31, 2012 compared to calendar year end 2011. The largest contributing fund balance decrease is in the inflow and infiltration remediation fund with a decrease of \$967,765 which was reclassified to the sanitary sewer utility. Total year end special revenue fund balance of \$645,477 is 42.1% of total special revenue fund expenditures and operating transfers out of \$1,531,875 for 2012.

Fund Balance Analysis – Capital Project Funds

The combined non-major capital project funds have a calendar year end 2012 fund balance of \$3,422,735. In the industrial park fund, all of the available \$1,198,465 in fund balance at December 31, 2012 will be needed to service debt issued for the purchase industrial park land. Tax incremental districts 4, 5 and 7, and the environmental remediation TID have negative fund balances at the end of 2012 totaling \$1,868,731 as a result of insufficient development and consequently a lack of tax increment within the districts. Total capital projects year end fund balance of \$7,975,994 is 32.9% of total governmental expenditures and operating transfers out of \$24,231,758 for calendar year 2012.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, net of accumulated depreciation is \$152,353,416. Outstanding debt related to the purchase of capital assets is \$118,820,604 or 78.0% of asset value net of accumulated depreciation. Governmental activities capital assets decreased in 2012 by \$11,089,879 from \$48,266,879 to \$37,177,032 as a result of the reclassification of sewer services. The net increase of \$30,346,221 in business-type activities capital assets from \$84,830,163 to \$115,176,384 for the calendar year ended 2012 is result of investment in reconstructing a hydroelectric facility and reclassification of sewer services.

ECONOMIC FACTORS

The City of Kaukauna, Wisconsin benefits from its location in the Fox River Valley. Located south of Green Bay, the City benefits from its favorable location in the Fox River Valley. From 2003-2012, the City's tax base, which currently stands at \$898 million (see following schedule), averaged a 4.5% annual increase; however, the average increase over the past five years (2008 – 2012) averages a very modest 0.04% per year. Management believes that tax base growth, which has historically been driven by residential and commercial construction, will increase rather modestly in the near term. Thilmany, the City's largest employer and largest tax payer poses some risk to the local economy. However, this concern is mitigated by the City's proximity to numerous employment opportunities located throughout the Fox River Valley and the decreasing assessed value Thilmany relative to the City's overall assessed value over the past several years.

CITY OF KAUKAUNA, WISCONSIN Summary of Changes in Equalized Value

| Assessment Year | Equalized Value Including TID's | % Change | Equalized Value Excluding TID's | % Change |
|--------------------|------------------------------------|----------|------------------------------------|----------|
| 2012 | \$ 898,369,100 | -3.63% | \$ 876,128,200 | -3.64% |
| 2011 | 932,227,600 | -0.34% | 909,241,100 | -0.56% |
| 2010 | 935,396,400 | 1.25% | 914,342,300 | 1.66% |
| 2009 | 923,842,800 | -0.45% | 899,406,800 | -0.55% |
| 2008 | 928,064,700 | 4.88% | 904,389,700 | 2.87% |
| 2007 | 884,859,600 | 2.42% | 879,136,000 | 1.97% |
| 2006 | 863,927,100 | 8.20% | 862,166,500 | 8.15% |
| 2005 | 798,476,200 | 8.23% | 797,165,900 | 8.17% |
| 2004 | 737,726,400 | 11.66% | 736,965,400 | 19.33% |
| 2003 | 660,672,700 | 8.86% | 617,595,500 | 7.97% |

Standard & Poor's, which currently has the City's debt rated at AA-, characterizes the City's debt burden as moderate but tempered by the City's participation in the deep and diverse Fox Cities metropolitan area economy, strong market value per capita, positive financial trends coupled with very strong general fund debt repayment schedule. The City rapidly retires general obligation debt within ten years. Debt service accounts for high, though manageable, expenditures reflecting the City's above average debt burden and rapid principal payout.

The City's sound financial operations will be maintained through prudent financial management and growth in tax base, resulting in increased property tax revenues, which is the City's largest operating revenue source.

BASIC FINANCIAL STATEMENTS

CITY OF KAUKAUNA, WISCONSIN

Statement of Net Position

December 31, 2012

| | Governmental Activities | Business-type Activities | Total |
|--------------------------------------|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 19,402,856 | \$ 4,328,187 | \$ 23,731,043 |
| Receivables | | | |
| Taxes | 14,726,348 | - | 14,726,348 |
| Accounts (net) | 316,958 | 7,774,179 | 8,091,137 |
| Special assessments | 3,147,607 | - | 3,147,607 |
| Loans | 2,590,459 | - | 2,590,459 |
| Internal balances | 68,353 | (68,353) | - |
| Due from other governments | 167,068 | - | 167,068 |
| Restricted assets | | | |
| Cash and investments | 962,813 | 31,578,078 | 32,540,891 |
| Inventories and prepaid items | 172,522 | 3,400,828 | 3,573,350 |
| Other assets | - | 2,260,859 | 2,260,859 |
| Capital assets | | | |
| Land | 7,514,204 | 2,010,595 | 9,524,799 |
| Buildings and improvements | 4,280,445 | 17,101,398 | 21,381,843 |
| Improvements other than buildings | - | 79,509,705 | 79,509,705 |
| Machinery and equipment | 6,276,813 | 25,613,564 | 31,890,377 |
| Infrastructure | 39,169,734 | 20,440,490 | 59,610,224 |
| Construction in progress | - | 20,315,661 | 20,315,661 |
| Less: Accumulated depreciation | (20,064,164) | (49,815,029) | (69,879,193) |
| TOTAL ASSETS | 78,732,016 | 164,450,162 | 243,182,178 |
| LIABILITIES | | | |
| Accounts payable | 288,503 | 5,890,134 | 6,178,637 |
| Accrued liabilities | 749,607 | 461,958 | 1,211,565 |
| Accrued interest payable | 230,490 | 164,339 | 394,829 |
| Due to other governments | 14,280,146 | - | 14,280,146 |
| Contracts payable | 133,771 | - | 133,771 |
| Unearned revenues | 388,809 | 2,156,685 | 2,545,494 |
| Noncurrent liabilities | | | |
| Due within one year | 2,612,450 | 3,127,550 | 5,740,000 |
| Due in more than one year | 33,981,398 | 79,099,206 | 113,080,604 |
| TOTAL LIABILITIES | 52,665,174 | 90,899,872 | 143,565,046 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes | 10,615,563 | - | 10,615,563 |
| NET POSITION | | | |
| Net investment in capital assets | 3,189,242 | 57,231,724 | 60,420,966 |
| Restricted | | | |
| Debt service | 1,576,595 | 7,322,143 | 8,898,738 |
| Unrestricted | 10,685,442 | 8,996,423 | 19,681,865 |
| TOTAL NET POSITION | \$ 15,451,279 | \$ 73,550,290 | \$ 89,001,569 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN
Statement of Activities
For the Year Ended December 31, 2012

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | |
| General government | \$ 2,032,660 | \$ 41,594 | \$ - | \$ 25,630 |
| Public safety | 5,222,045 | 594,419 | 47,354 | - |
| Public works | 4,367,360 | 96,083 | 964,831 | 1,157,433 |
| Health and human services | 2,299 | 1,079 | - | - |
| Culture and recreation | 2,090,714 | 422,704 | 215,216 | - |
| Development | 332,978 | 1,509 | 27,661 | 177,876 |
| Interest on debt | 1,272,124 | - | - | - |
| Total Governmental Activities | 15,320,180 | 1,157,388 | 1,255,062 | 1,360,939 |
| Business-type Activities | | | | |
| Electric | 60,904,257 | 62,701,517 | - | 150,949 |
| Water | 2,433,219 | 3,547,235 | - | 21,896 |
| Storm water | 452,084 | 761,222 | - | 395,212 |
| Sanitary sewer | 2,149,041 | 3,084,790 | - | 266,581 |
| Total Business-type Activities | 65,938,601 | 70,094,764 | - | 834,638 |
| Total | \$ 81,258,781 | \$ 71,252,152 | \$ 1,255,062 | \$ 2,195,577 |

General revenues
Property taxes
Other taxes
State and federal aids not restricted to specific functions
Interest and investment earnings
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position - January 1

Prior period adjustment

Net position - December 31

The notes to the basic financial statements are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-----------------------------|-------|
| Governmental Activities | Business-type Activities | Total |

| | | |
|---------------------|----------|---------------------|
| \$ (1,965,436) | \$ - | \$ (1,965,436) |
| (4,580,272) | - | (4,580,272) |
| (2,149,013) | - | (2,149,013) |
| (1,220) | - | (1,220) |
| (1,452,794) | - | (1,452,794) |
| (125,932) | - | (125,932) |
| (1,272,124) | - | (1,272,124) |
| <u>(11,546,791)</u> | <u>-</u> | <u>(11,546,791)</u> |

| | | |
|----------|------------------|------------------|
| - | 1,948,209 | 1,948,209 |
| - | 1,135,912 | 1,135,912 |
| - | 704,350 | 704,350 |
| - | 1,202,330 | 1,202,330 |
| <u>-</u> | <u>4,990,801</u> | <u>4,990,801</u> |

| | | |
|---------------------|------------------|--------------------|
| <u>(11,546,791)</u> | <u>4,990,801</u> | <u>(6,555,990)</u> |
|---------------------|------------------|--------------------|

| | | |
|-------------------|------------------|-------------------|
| 8,240,384 | - | 8,240,384 |
| 150,517 | - | 150,517 |
| 2,492,418 | - | 2,492,418 |
| 101,311 | 367,976 | 469,287 |
| 206,318 | 29,791 | 236,109 |
| 705,295 | (705,295) | - |
| <u>11,896,243</u> | <u>(307,528)</u> | <u>11,588,715</u> |

| | | |
|--------------------|------------------|----------------|
| 349,452 | 4,683,273 | 5,032,725 |
| 24,008,962 | 59,802,231 | 83,811,193 |
| <u>(8,907,135)</u> | <u>9,064,786</u> | <u>157,651</u> |

| | | |
|----------------------|----------------------|----------------------|
| <u>\$ 15,451,279</u> | <u>\$ 73,550,290</u> | <u>\$ 89,001,569</u> |
|----------------------|----------------------|----------------------|

CITY OF KAUKAUNA, WISCONSIN

Balance Sheet
Governmental Funds
December 31, 2012

| | General | Special Assessments | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|---------------------|---------------------|--------------------------|--------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 12,676,712 | \$ 2,095,727 | \$ 919,375 | \$ 3,711,042 | \$ 19,402,856 |
| Receivables | | | | | |
| Taxes | 12,341,426 | 378,550 | 1,190,770 | 815,602 | 14,726,348 |
| Accounts (net) | 316,958 | - | - | - | 316,958 |
| Special assessments | - | 3,128,507 | - | 19,100 | 3,147,607 |
| Loans | - | - | - | 2,590,459 | 2,590,459 |
| Due from other funds | 176,474 | - | 1,576,595 | 290,000 | 2,043,069 |
| Due from other governments | 47,068 | - | - | 120,000 | 167,068 |
| Inventories | 21,902 | - | - | - | 21,902 |
| Prepaid expenses | 150,620 | - | - | - | 150,620 |
| Restricted and other assets | | | | | |
| Cash and cash equivalents | 240,750 | 292,272 | - | 429,791 | 962,813 |
| TOTAL ASSETS | \$ 25,971,910 | \$ 5,895,056 | \$ 3,686,740 | \$ 7,975,994 | \$ 43,529,700 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 157,270 | \$ - | \$ - | \$ 131,233 | \$ 288,503 |
| Accrued liabilities | 746,209 | - | - | 3,398 | 749,607 |
| Contracts payable | - | - | - | 133,771 | 133,771 |
| Due to other funds | 25,492 | 17,268 | - | 1,931,956 | 1,974,716 |
| Due to other governments | 14,280,146 | - | - | - | 14,280,146 |
| Unearned revenue | - | - | - | 388,809 | 388,809 |
| Total Liabilities | 15,209,117 | 17,268 | - | 2,589,167 | 17,815,552 |
| Deferred Inflows of Resources | | | | | |
| Property taxes | 6,399,661 | 670,822 | 2,110,145 | 1,434,935 | 10,615,563 |
| Special assessments | - | 3,131,913 | - | 29,481 | 3,161,394 |
| Ambulance billings | 306,487 | - | - | - | 306,487 |
| Loans | - | - | - | 2,590,459 | 2,590,459 |
| Total Deferred Inflows of Resources | 6,706,148 | 3,802,735 | 2,110,145 | 4,054,875 | 16,673,903 |
| Fund Balance | | | | | |
| Nonspendable | | | | | |
| Inventories and prepaid expenses | 172,522 | - | - | - | 172,522 |
| Restricted for | | | | | |
| Debt service | - | - | 1,576,595 | - | 1,576,595 |
| Committed | | | | | |
| Improvements and equipment | - | - | - | 110,515 | 110,515 |
| Assigned | | | | | |
| Subsequent year's expenditures | - | 2,075,053 | - | 3,090,168 | 5,165,221 |
| Unassigned, reported in | | | | | |
| General fund | 3,884,123 | - | - | - | 3,884,123 |
| Capital projects funds | - | - | - | (1,868,731) | (1,868,731) |
| Total Fund Balance | 4,056,645 | 2,075,053 | 1,576,595 | 1,331,952 | 9,040,245 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | \$ 25,971,910 | \$ 5,895,056 | \$ 3,686,740 | \$ 7,975,994 | \$ 43,529,700 |
| Reconciliation to the Statement of Net Position | | | | | |
| Total fund balances as shown above | | | | | \$ 9,040,245 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | | | 37,177,032 |
| Other long-term assets are not available to pay for current expenditures and, therefore, are deferred in the funds. | | | | | 6,058,340 |
| Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | | | | |
| Long-term debt | | | | \$ (35,087,789) | |
| Unfunded pension plan | | | | (37,000) | |
| OPEB liability | | | | (1,005,728) | |
| Compensated absences | | | | (463,331) | |
| Accrued interest | | | | (230,490) | (36,824,338) |
| Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 13) | | | | | \$ 15,451,279 |

The notes to the financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

| | General | Special Assessments | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|---------------------|--------------------------|--------------------------|
| Revenues | | | | | |
| Taxes | \$ 5,699,624 | \$ - | \$ 2,035,523 | \$ 655,754 | \$ 8,390,901 |
| Special assessments | - | 988,863 | - | 1,291 | 990,154 |
| Intergovernmental | 3,703,002 | - | 78,903 | 208,656 | 3,990,561 |
| Licenses and permits | 296,823 | - | - | - | 296,823 |
| Fines and forfeitures | 158,792 | - | - | 500 | 159,292 |
| Charges for services | 684,016 | - | - | 34,100 | 718,116 |
| Interest and return on investments | 15,939 | - | - | 11,859 | 27,798 |
| Other | 9,794 | 73,513 | - | 316,430 | 399,737 |
| Total Revenues | 10,567,990 | 1,062,376 | 2,114,426 | 1,228,590 | 14,973,382 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | 1,484,076 | - | - | - | 1,484,076 |
| Public safety | 5,056,180 | - | - | 1,954 | 5,058,134 |
| Public works | 2,387,040 | - | - | - | 2,387,040 |
| Health and welfare | 2,299 | - | - | - | 2,299 |
| Culture and recreation | 1,772,215 | - | - | 167,519 | 1,939,734 |
| Conservation and development | 111,100 | - | - | 349,264 | 460,364 |
| Nondepartmental | 449,456 | - | - | - | 449,456 |
| Capital outlay | | | | | |
| General government | - | - | - | 22,999 | 22,999 |
| Public safety | - | - | - | 144,958 | 144,958 |
| Public works | - | - | - | 2,908,676 | 2,908,676 |
| Culture and recreation | - | - | - | 74,807 | 74,807 |
| Conservation and development | - | - | - | 257,275 | 257,275 |
| Debt service | | | | | |
| Principal retirement | - | - | 2,410,067 | - | 2,410,067 |
| Interest and fiscal charges | - | - | 1,288,328 | - | 1,288,328 |
| Bond issuance costs | - | - | - | 22,830 | 22,830 |
| Total Expenditures | 11,262,366 | - | 3,698,395 | 3,950,282 | 18,911,043 |
| Excess of Revenues Over (Under) Expenditures | (694,376) | 1,062,376 | (1,583,969) | (2,721,692) | (3,937,661) |
| Other Financing Sources (Uses) | | | | | |
| General obligation notes issued | - | - | - | 2,800,000 | 2,800,000 |
| Premium on debt issued | - | - | - | 56,000 | 56,000 |
| Transfers in | 1,673,060 | 559,700 | 3,720,264 | 58,527 | 6,011,551 |
| Transfers out | - | (1,787,903) | (559,700) | (2,958,653) | (5,306,256) |
| Total Other Financing Sources (Uses) | 1,673,060 | (1,228,203) | 3,160,564 | (44,126) | 3,561,295 |
| Net Change in Fund Balances | 978,684 | (165,827) | 1,576,595 | (2,765,818) | (376,366) |
| Fund Balances - January 1 | 3,077,961 | 2,240,880 | - | 4,097,770 | 9,416,611 |
| Fund Balances - December 31 | \$ 4,056,645 | \$ 2,075,053 | \$ 1,576,595 | \$ 1,331,952 | \$ 9,040,245 |

(Continued)

CITY OF KAUKAUNA, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
General Fund
For the Year Ended December 31, 2012

Reconciliation to the Statement of Activities

Net change in fund balance from previous page \$ (376,366)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|----------------------|--------------------|---------|
| Capital outlay | \$ 2,502,216 | |
| Depreciation expense | <u>(1,616,039)</u> | 886,177 |

Reduction from transfer of prior year capital assets to sanitary sewer (11,976,024)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 385,415

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | | |
|---|----------------|-----------|
| Long-term debt issued | \$ (2,800,000) | |
| Principal paid on long term debt | 2,410,067 | |
| Principal reduction from transfer of prior year accrual to sanitary sewer | 2,885,535 | |
| Interest accrued on long term debt | 2,640 | |
| Interest reduction from transfer of prior year accrual to sanitary sewer | <u>6,087</u> | 2,504,329 |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (138,865)

Change in Net Position of Governmental Activities as Reported in the Statement of Activities (see pages 14 and 15) \$ (8,715,334)

The notes to the financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|--|
| Revenues | | | | |
| Taxes | \$ 5,697,807 | \$ 5,697,807 | \$ 5,699,624 | \$ 1,817 |
| Intergovernmental | 3,636,885 | 3,636,885 | 3,703,002 | 66,117 |
| Licenses and permits | 219,000 | 219,000 | 296,823 | 77,823 |
| Fines and forfeitures | 131,500 | 131,500 | 158,792 | 27,292 |
| Charges for services | 736,450 | 736,450 | 684,016 | (52,434) |
| Interest | 55,000 | 55,000 | 15,939 | (39,061) |
| Other | - | - | 9,794 | 9,794 |
| Total Revenues | <u>10,476,642</u> | <u>10,476,642</u> | <u>10,567,990</u> | <u>91,348</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 1,557,397 | 1,557,397 | 1,484,076 | 73,321 |
| Public safety | 5,207,434 | 5,207,434 | 5,056,180 | 151,254 |
| Public works | 2,582,887 | 2,582,887 | 2,387,040 | 195,847 |
| Health and welfare | 2,000 | 2,000 | 2,299 | (299) |
| Culture and recreation | 1,863,690 | 1,863,690 | 1,772,215 | 91,475 |
| Conservation and development | - | - | 111,100 | (111,100) |
| Nondepartmental | 467,814 | 467,814 | 449,456 | 18,358 |
| Total Expenditures | <u>11,681,222</u> | <u>11,681,222</u> | <u>11,262,366</u> | <u>418,856</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(1,204,580)</u> | <u>(1,204,580)</u> | <u>(694,376)</u> | <u>510,204</u> |
| Other Financing Sources | | | | |
| Transfers in | <u>1,631,000</u> | <u>1,631,000</u> | <u>1,673,060</u> | <u>42,060</u> |
| Net Change in Fund Balance | <u>426,420</u> | <u>426,420</u> | <u>978,684</u> | <u>552,264</u> |
| Fund Balance - January 1 | <u>2,717,215</u> | <u>2,717,215</u> | <u>3,077,961</u> | <u>360,746</u> |
| Fund Balance - December 31 | <u>\$ 3,143,635</u> | <u>\$ 3,143,635</u> | <u>\$ 4,056,645</u> | <u>\$ 913,010</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN

Statement of Net Position

Proprietary Funds

December 31, 2012

| | Electric Utility | Water Utility | Storm Water Utility | Sanitary Sewer Utility | Total |
|--|----------------------|----------------------|---------------------------|------------------------------|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and investments | \$ 2,935,545 | \$ 417,534 | \$ 333,065 | \$ 642,043 | \$ 4,328,187 |
| Accounts receivable (net) | 6,811,405 | 960,178 | 2,596 | - | 7,774,179 |
| Due from other funds | - | 395,639 | 1,753 | 639,846 | 1,037,238 |
| Materials and supplies inventory | 1,956,904 | 83,885 | - | - | 2,040,789 |
| Prepaid items | 1,340,221 | 19,818 | - | - | 1,360,039 |
| Total Current Assets | 13,044,075 | 1,877,054 | 337,414 | 1,281,889 | 16,540,432 |
| Restricted and Other Assets | | | | | |
| Restricted cash and investments | 25,086,616 | 51,867 | - | - | 25,138,483 |
| U.S. Government agency securities | 5,888,971 | 550,624 | - | - | 6,439,595 |
| Total Restricted and Other Assets | 30,975,587 | 602,491 | - | - | 31,578,078 |
| Capital Assets | | | | | |
| Utility plant in service | 98,471,328 | 25,546,875 | 5,953,937 | 14,625,453 | 144,597,593 |
| Construction in progress | 20,293,541 | 22,120 | - | - | 20,315,661 |
| Net non-utility plant | 78,159 | - | - | - | 78,159 |
| Less: Accumulated depreciation | (40,765,330) | (6,501,804) | (728,117) | (1,819,778) | (49,815,029) |
| Total Capital Assets | 78,077,698 | 19,067,191 | 5,225,820 | 12,805,675 | 115,176,384 |
| Other Assets | | | | | |
| Investment in ATC LLC | 2,260,859 | - | - | - | 2,260,859 |
| TOTAL ASSETS | 124,358,219 | 21,546,736 | 5,563,234 | 14,087,564 | 165,555,753 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | 4,992,192 | 770,259 | 1,386 | 126,297 | 5,890,134 |
| Accrued liabilities | 372,917 | 83,197 | 2,730 | 3,114 | 461,958 |
| Accrued interest | 110,530 | 5,550 | 24,225 | 24,034 | 164,339 |
| Customer advances and deposits | 257,837 | - | - | - | 257,837 |
| Unearned revenues | 1,892,190 | 2,058 | 4,600 | - | 1,898,848 |
| Due to other funds | 89,455 | 663,257 | 108,215 | 244,664 | 1,105,591 |
| Noncurrent liabilities | | | | | |
| Due within one year | 2,075,000 | 465,000 | 190,607 | 396,943 | 3,127,550 |
| Due in more than one year | 72,857,636 | 1,591,909 | 2,505,138 | 2,144,523 | 79,099,206 |
| TOTAL LIABILITIES | 82,647,757 | 3,581,230 | 2,836,901 | 2,939,575 | 92,005,463 |
| NET POSITION | | | | | |
| Net investment in capital assets | 27,385,249 | 17,052,191 | 2,530,075 | 10,264,209 | 57,231,724 |
| Restricted | | | | | |
| Debt service | 6,725,202 | 596,941 | - | - | 7,322,143 |
| Unrestricted | 7,600,011 | 316,374 | 196,258 | 883,780 | 8,996,423 |
| TOTAL NET POSITION | \$ 41,710,462 | \$ 17,965,506 | \$ 2,726,333 | \$ 11,147,989 | \$ 73,550,290 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2012

| | Electric Utility | Water Utility | Storm Water Utility | Sanitary Sewer Utility | Total |
|--|----------------------|----------------------|---------------------------|------------------------------|----------------------|
| Operating Revenues | | | | | |
| Charges for services | \$ 62,325,268 | \$ 3,467,335 | \$ 761,222 | \$ 3,084,790 | \$ 69,638,615 |
| Rents | 253,662 | - | - | - | 253,662 |
| Forfeited discounts | 82,757 | 15,834 | - | - | 98,591 |
| Other | 39,830 | 64,066 | - | - | 103,896 |
| Total Operating Revenues | 62,701,517 | 3,547,235 | 761,222 | 3,084,790 | 70,094,764 |
| Operating Expenses | | | | | |
| Operation and maintenance | 54,120,403 | 1,792,298 | 281,727 | 1,835,874 | 58,030,302 |
| Depreciation | 3,233,797 | 464,811 | 95,009 | 201,868 | 3,995,485 |
| Taxes | 1,391,535 | 59,543 | 10,942 | 4,979 | 1,466,999 |
| Total Operating Expenses | 58,745,735 | 2,316,652 | 387,678 | 2,042,721 | 63,492,786 |
| Operating Income | 3,955,782 | 1,230,583 | 373,544 | 1,042,069 | 6,601,978 |
| Nonoperating Revenues (Expenses) | | | | | |
| Interest and dividend income | 367,748 | 228 | - | - | 367,976 |
| Merchandising and jobbing | 29,762 | 29 | - | - | 29,791 |
| Interest and fiscal charges | (2,158,522) | (116,567) | (64,406) | (106,320) | (2,445,815) |
| Total Nonoperating Revenues (Expenses) | (1,761,012) | (116,310) | (64,406) | (106,320) | (2,048,048) |
| Net Income before Contributions and Transfers | 2,194,770 | 1,114,273 | 309,138 | 935,749 | 4,553,930 |
| Customer contributions | 150,949 | 21,896 | 395,212 | 266,581 | 834,638 |
| Transfers in | - | - | - | 967,765 | 967,765 |
| Transfers out | (1,080,679) | (419,565) | (85,924) | (86,892) | (1,673,060) |
| Change in Net Position | 1,265,040 | 716,604 | 618,426 | 2,083,203 | 4,683,273 |
| Net Position - January 1 | 40,445,422 | 17,248,902 | 2,107,907 | - | 59,802,231 |
| Prior period adjustment | - | - | - | 9,064,786 | 9,064,786 |
| Net Position - January 1, as restated | 40,445,422 | 17,248,902 | 2,107,907 | 9,064,786 | 68,867,017 |
| Net Position - December 31 | \$ 41,710,462 | \$ 17,965,506 | \$ 2,726,333 | \$ 11,147,989 | \$ 73,550,290 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

| | Electric Utility | Water Utility | Storm Water Utility | Sanitary Sewer Utility | Total |
|---|----------------------|---------------------|---------------------------|------------------------------|----------------------|
| Cash Flows from Operating Activities | | | | | |
| Cash received from customers | \$ 61,508,951 | \$ 3,571,172 | \$ 761,473 | \$ 2,444,944 | \$ 68,286,540 |
| Cash paid to suppliers | (50,003,811) | (1,240,352) | (41,611) | (1,424,827) | (52,710,601) |
| Cash paid to employees | (2,910,304) | (788,692) | (144,856) | (62,999) | (3,906,851) |
| Net Cash Provided by Operating Activities | 8,594,836 | 1,542,128 | 575,006 | 957,118 | 11,669,088 |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Transfers out to other funds | - | - | - | 967,765 | 967,765 |
| Transfers out to General Fund | (1,080,679) | (419,565) | (85,924) | (86,892) | (1,673,060) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (1,080,679) | (419,565) | (85,924) | 880,873 | (705,295) |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Acquisition of capital assets | (19,527,936) | (594,304) | (83,983) | (743,900) | (20,950,123) |
| Capital asset removal cost | (281,076) | (1,167) | - | - | (282,243) |
| Proceeds of salvage | 139,806 | 540 | - | - | 140,346 |
| Principal paid on long-term debt | (2,275,000) | (1,920,000) | (409,149) | (344,070) | (4,948,219) |
| Interest paid on long-term debt | (2,105,603) | (121,260) | (89,673) | (107,977) | (2,424,513) |
| Long-term debt issued | 44,875,000 | 1,275,000 | 218,680 | - | 46,368,680 |
| Customer contributions | 150,949 | 21,896 | - | - | 172,845 |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | 20,976,140 | (1,339,295) | (364,125) | (1,195,947) | 18,076,773 |
| Cash flows from investing activities | | | | | |
| Income on investments | 367,748 | 228 | - | - | 367,976 |
| Investment in ATC LLC | (185,234) | - | - | - | (185,234) |
| Net Cash Provided by Investing Activities | 182,514 | 228 | - | - | 182,742 |
| Net Change in Cash and Cash Equivalents | 28,672,811 | (216,504) | 124,957 | 642,043 | 29,223,308 |
| Cash and Cash Equivalents - January 1 | 5,238,321 | 1,236,529 | 208,108 | - | 6,682,958 |
| Cash and Cash Equivalents - December 31 | \$ 33,911,132 | \$ 1,020,025 | \$ 333,065 | \$ 642,043 | \$ 35,906,266 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | | |
| Operating income | \$ 3,955,782 | \$ 1,230,583 | \$ 373,544 | \$ 1,042,069 | \$ 6,601,978 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation (operating and other) | 3,543,845 | 544,825 | 95,009 | 201,868 | 4,385,547 |
| Merchandising and jobbing | 29,762 | 29 | - | - | 29,791 |
| Changes in certain assets and liabilities: | | | | | |
| Accounts receivable, net of allowance | (1,223,694) | 23,908 | (2,596) | - | (1,202,382) |
| Due from other funds | 11,194 | (375,349) | (1,753) | (639,846) | (1,005,754) |
| Materials and supplies inventory | (250,500) | (819) | - | - | (251,319) |
| Prepaid items | 33,547 | (1,059) | - | - | 32,488 |
| Accounts payable | 617,742 | 142,292 | (882) | 105,249 | 864,401 |
| Accrued liabilities | 15,017 | 5,990 | (1,131) | 3,114 | 22,990 |
| Customer deposits and advances | 1,366 | - | - | - | 1,366 |
| OPEB liability | 71,841 | 17,960 | - | - | 89,801 |
| Due to other funds | - | (30,806) | 108,215 | 244,664 | 322,073 |
| Deferred credits | 1,788,934 | (15,426) | 4,600 | - | 1,778,108 |
| Net Cash Provided by Operating Activities | \$ 8,594,836 | \$ 1,542,128 | \$ 575,006 | \$ 957,118 | \$ 11,669,088 |
| Non-cash Capital and related Financing Activities | | | | | |
| Contributions of capital assets | \$ - | \$ - | \$ 395,212 | \$ 266,581 | \$ 661,793 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Kaukauna ("the City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the City are described below:

1. Reporting Entity

The City of Kaukauna is a municipal corporation governed by an elected eight member council. Included in the City's operations (the primary government) are the City's Electric and Water Utilities, managed by a separate commission appointed by the City Council. In accordance with GAAP, the basic financial statements are required to include the City and any separate component units that have a significant operational or financial relationship with the City. The City has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement Nos. 14 and 39.

2. Related Organization

City officials are responsible for appointing the board members of the Housing Authority of the City of Kaukauna, but the City's accountability for this organization does not extend beyond making the appointments. The City is not financially accountable for the Housing Authority as defined by standards in GASB Statement Nos. 14 and 39. Therefore this organization is not included in the City's reporting entity. Additional information on the Housing Authority follows:

The Housing Authority was established by the City to administer the low and moderate income housing program funded by federal grants and rental income. Although board members of the Housing Authority are appointed by the City Council, there is no financial interdependency with the City of Kaukauna nor does the City have any significant influence over Housing Authority operations. The City does not provide funding for the Housing Authority. Additionally, the City does not hold title to any of the Housing Authority assets, nor does it have any right to the Housing Authority's surpluses. The City has no legal obligation to fund Housing Authority programs should grant funding no longer be available.

3. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Governmental funds include general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds. The City has no internal service funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

GENERAL FUND

This is the City's main operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

SPECIAL ASSESSMENTS SPECIAL REVENUE FUND

This fund accounts for the accumulation of special assessment proceeds to be used for subsequent year debt service payments. Significant revenues are special assessments.

DEBT SERVICE FUND

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

ELECTRIC UTILITY

This fund accounts for the provision of electric service to City residents, businesses, public authorities and the communities of Little Chute and Combined Locks, Wisconsin.

WATER UTILITY

This fund accounts for the provision of water service to City residents, businesses and public authorities.

STORM WATER UTILITY

This fund accounts for the provision of storm water management to City residents, businesses and public authorities.

SANITARY SEWER UTILITY

This fund accounts for the provision of wastewater collection to City residents, businesses and public authorities.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter 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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual include intergovernmental grants, intergovernmental charges for services, public charges for services and interest. Other revenues such as licenses and permits, fines and forfeits and miscellaneous revenues are recognized when received in cash or when measurable and available.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and electric functions and various other functions of the City. 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, and fees and fines, 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.

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 City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable have been shown net of allowance for uncollectible accounts of \$114,000.

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements.

The amount reported on the statement of net position for internal balances represents the residual balance outstanding between the governmental activities and business-type activities.

d. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventories of governmental funds in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

e. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

Prepaid items of governmental funds in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

| | Governmental Activities | Business-type Activities |
|-----------------------------------|----------------------------|-----------------------------|
| | Years | |
| <u>Assets</u> | | |
| Buildings | 20 - 40 | 25 - 50 |
| Improvements other than buildings | 10 - 20 | 25 - 100 |
| Machinery and equipment | 3 - 20 | 3 - 10 |
| Infrastructure | 18 - 70 | 70 |

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with bargaining unit agreements. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

h. Deferred Inflows/Outflows of Resources

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2012. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category, property taxes. This amount will be recognized as an inflow of resources in the subsequent year for which it was levied. The City also has additional types of items, which arise only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources, special assessments, loans receivable and ambulance billings. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

i. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

In the fund financial statements, governmental funds 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 received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as capital project fund expenditures.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Fund Equity

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- Restricted fund balance - Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- Committed fund balance - Amounts that are constrained for specific purposes by action of the City Council. These constraints can only be removed or changed by the City Council using the same action that was used to create them.
- Assigned fund balance - Amounts that are constrained for specific purposes by action of City management. The City Council has authorized the Finance Director to assign fund balance. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- Unassigned fund balance - Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

The City has adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. Where applicable, the policy requires restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

GOVERNMENT-WIDE AND PROPRIETARY FUND STATEMENTS

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

- Net investment in capital assets - Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Amount of net position that are subject to restrictions that are imposed 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.
- Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

6. Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE B - STEWARDSHIP AND COMPLIANCE

1. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. During November, City management submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by City Council action.
- b. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general, certain special revenue, debt service funds and certain capital projects funds. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
- c. During the year, formal budgetary integration is employed as a management control device for the general fund, certain special revenue funds, debt service funds and certain capital projects funds.
- d. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the City. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the City Council.
- e. Encumbrance accounting is not used by the City to record commitments related to unperformed contracts for goods or services.

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2012.

2. Deficit Fund Equity

The following funds had deficit fund equity as of December 31, 2012:

| Fund | Deficit Fund Equity |
|-------------------------------|---------------------|
| Capital Projects Funds | |
| Tax Incremental District #4 | \$ 89,411 |
| Tax Incremental District #5 | 1,064,917 |
| Tax Incremental District #7 | 2,000 |
| Environmental Remediation TID | 712,403 |

The City anticipates funding the above deficit from future revenues and tax levies of the fund.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The City maintains various cash and investment accounts, including pooled funds that are available for use by all funds. Each fund's portion of these accounts is displayed in the financial statements as "Cash and investments."

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

The carrying amount of the City's cash and investments totaled \$56,271,934 on December 31, 2012 as summarized below:

| | |
|--------------------------------------|---------------|
| Petty cash and cash on hand | \$ 1,090 |
| Deposits with financial institutions | 16,497,930 |
| Investments | 39,772,914 |
| | \$ 56,271,934 |

Government-wide Statement of Net Position

| | |
|---------------------------------|---------------|
| Cash and investments | \$ 23,731,043 |
| Restricted cash and investments | 32,540,891 |
| | \$ 56,271,934 |

Deposits and investments of the City are subject to various risks. Presented below is a discussion of the City's deposits and investments and the related risks.

Deposits with Financial Institutions

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for interest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for all time accounts, savings accounts and interest-bearing demand deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. In addition, the City's non-interest bearing transaction accounts are fully insured through December 31, 2012. As of January 1, 2013 the City's noninterest-bearing transaction accounts are combined with its interest-bearing demand deposits for FDIC insurance. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of December 31, 2012, \$68,982 of the City's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

On December 31, 2012, the City held repurchase agreement investments of \$950,990 of which the underlying securities are held by the investment's counterparty, not in the name of the City.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will 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 City does not have an additional custodial credit risk policy.

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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The City does not have an additional credit risk policy. Presented below is the actual rating at year end for each investment type.

| Investment Type | Amount | Exempt From Disclosure | AAA | Aa | Not Rated |
|--|----------------------|------------------------|---------------------|---------------------|----------------------|
| Money market mutual funds | \$ 349,961 | \$ - | \$ - | \$ - | \$ 349,961 |
| Government security mutual funds | 64,830 | - | - | - | 64,830 |
| Federal National Mortgage | 1,209,263 | - | 1,209,263 | - | - |
| Federal Home Loan Bank | 363,038 | - | 363,038 | - | - |
| Federal Home Loan Mortgage | 402,634 | - | 402,634 | - | - |
| Government National Mortgage | 533,673 | 135,907 | - | - | 397,766 |
| Corporate Bonds | 684,828 | - | - | 684,828 | - |
| Municipal Bonds | 606,406 | - | - | 606,406 | - |
| Wisconsin local government investment pool | 34,336,598 | - | - | - | 34,336,598 |
| Community Foundation of the Fox Valley | 270,693 | - | - | - | 270,693 |
| Totals | \$ 38,821,924 | \$ 135,907 | \$ 1,974,935 | \$ 1,291,234 | \$ 35,419,848 |

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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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

| Investment Type | Amount | Remaining Maturity (in Months) | | | |
|--|----------------------|--------------------------------|---------------------|-------------------|---------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| Money market mutual funds | \$ 349,961 | \$ 349,961 | \$ - | \$ - | \$ - |
| Government security mutual funds | 64,830 | 64,830 | - | - | - |
| Federal National Mortgage | 1,209,263 | 150,898 | 354,142 | 704,223 | - |
| Federal Home Loan Bank | 363,038 | 312,086 | 50,952 | - | - |
| Federal Home Loan Mortgage | 402,634 | 301,290 | 101,344 | - | - |
| Government National Mortgage | 533,673 | - | 135,907 | - | 397,766 |
| Corporate Bonds | 684,828 | 684,828 | - | - | - |
| Municipal Bonds | 606,406 | - | 389,032 | 217,374 | - |
| Repurchase agreements | 950,990 | 950,990 | - | - | - |
| Wisconsin local government investment pool | 34,336,598 | 34,336,598 | - | - | - |
| Community Foundation of the Fox Valley | 270,693 | 270,693 | - | - | - |
| Totals | \$ 39,772,914 | \$ 37,422,174 | \$ 1,031,377 | \$ 921,597 | \$ 397,766 |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

| Highly Sensitive Investments | Fair Value at Year End |
|---|------------------------|
| Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates. | <u>\$ 2,508,608</u> |

Investment in Wisconsin Local Government Investment Pool

The City has investments in the Wisconsin local government investment pool of \$34,336,598 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2012, the fair value of the City's share of the LGIP's assets was substantially equal to the carrying value.

2. Property Taxes

Property taxes consist of taxes on real estate and personal property. They are levied during December of the prior year and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are purchased by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the City.

The City bills and collects its own property taxes and also levies and collects taxes for the Kaukauna School District, Outagamie County, Fox Valley Technical College and the State of Wisconsin.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

3. Restricted Assets

Restricted assets on December 31, 2012 totaled \$32,540,891 held for the following purposes:

| | |
|---------------------------------------|---------------|
| General Fund | |
| HRA Account | \$ 240,750 |
| Special Revenue Fund | |
| Thousand Islands Environmental Center | 429,791 |
| Special Assessments | 292,272 |
| Total Special Revenue | 722,063 |
| Enterprise Funds | |
| Electric Utility | |
| Debt service | 753,509 |
| Debt reserve | 5,888,971 |
| HRA/FSA cash | 193,252 |
| Bond proceeds | 24,139,855 |
| Total Electric Utility | 30,975,587 |
| Water Utility | |
| Debt service | 51,867 |
| Debt reserve | 550,624 |
| Total Water Utility | 602,491 |
| Total Restricted Assets | \$ 32,540,891 |

4. Capital Assets

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

| | Beginning Balance | Increases | Decreases | Adjustment | Ending Balance |
|---|----------------------|------------|-----------|-----------------|-------------------|
| Governmental activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 7,492,742 | \$ 21,462 | \$ - | \$ - | \$ 7,514,204 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 4,280,445 | - | - | - | 4,280,445 |
| Machinery and equipment | 6,334,303 | 581,290 | 638,780 | - | 6,276,813 |
| Infrastructure | 50,864,196 | 1,899,464 | - | (13,593,926) | 39,169,734 |
| Subtotals | 61,478,944 | 2,480,754 | 638,780 | (13,593,926) | 49,726,992 |
| Less accumulated depreciation | 20,704,807 | 1,616,039 | 638,780 | (1,617,902) | 20,064,164 |
| Total capital assets, being depreciated, net | 40,774,137 | 864,715 | - | (11,976,024) | 29,662,828 |
| Governmental activities capital assets, net | \$ 48,266,879 | \$ 886,177 | \$ - | \$ (11,976,024) | 37,177,032 |
| Less related long-term debt outstanding | | | | | 33,987,790 |
| Net investment in capital assets | | | | | \$ 3,189,242 |

The adjustment column represents the transfer of assets from governmental funds to proprietary sanitary sewer.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

| | Beginning Balance | Increases | Decreases | Adjustment | Ending Balance |
|--|----------------------|----------------------|---------------------|----------------------|----------------------|
| Business-type activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 2,010,595 | \$ - | \$ - | \$ - | \$ 2,010,595 |
| Construction in progress | 3,623,937 | 20,309,138 | 3,617,414 | - | 20,315,661 |
| Total capital assets, not being depreciated | 5,634,532 | 20,309,138 | 3,617,414 | - | 22,326,256 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 17,371,257 | 2,885 | 272,744 | - | 17,101,398 |
| Improvements other than buildings | 77,120,249 | 3,864,653 | 1,475,197 | - | 79,509,705 |
| Machinery and equipment | 25,916,637 | 305,077 | 608,150 | - | 25,613,564 |
| Infrastructure | 5,311,610 | 1,534,955 | - | 13,593,925 | 20,440,490 |
| Subtotals | 125,719,753 | 5,707,570 | 2,356,091 | 13,593,925 | 142,665,157 |
| Less accumulated depreciation | 46,524,122 | 4,170,908 | 2,497,903 | 1,617,902 | 49,815,029 |
| Total capital assets, being depreciated, net | 79,195,631 | 1,536,662 | (141,812) | 11,976,023 | 92,850,128 |
| Business-type activities capital assets, net | <u>\$ 84,830,163</u> | <u>\$ 21,845,800</u> | <u>\$ 3,475,602</u> | <u>\$ 11,976,023</u> | 115,176,384 |
| Less related long-term debt outstanding | | | | | <u>57,944,660</u> |
| Net investment in capital assets | | | | | <u>\$ 57,231,724</u> |

The adjustment column represents the transfer of assets from governmental funds to proprietary sanitary sewer.

Depreciation expense was charged to functions of the City as follows:

| | |
|---|---------------------|
| Governmental activities | |
| General government | \$ 41,761 |
| Public safety | 126,336 |
| Public works | 1,321,500 |
| Culture and recreation | 126,442 |
| Total depreciation expense - governmental activities | <u>\$ 1,616,039</u> |
| Business-type activities | |
| Electric utility | \$ 3,233,797 |
| Water utility | 464,811 |
| Storm water utility | 95,009 |
| Sanitary sewer utility | 201,868 |
| Depreciation expense charged operating accounts | 175,423 |
| Total depreciation expense - business-type activities | <u>\$ 4,170,908</u> |

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

5. Interfund Receivable, Payables, and Transfers

Interfund receivables and payables between individual funds of the City, as reported in the fund financial statements, as of December 31, 2012 are detailed below:

| | Interfund Receivables | Interfund Payables |
|--------------------------------------|--------------------------|-----------------------|
| Operating Accounts Between Funds | | |
| General Fund | \$ 176,474 | \$ 25,492 |
| Special Assessments | - | 17,268 |
| Debt Service | 1,576,595 | - |
| Nonmajor Governmental Funds | | |
| Industrial Park | 290,000 | - |
| Revolving Economic Development Loans | - | 50,000 |
| Environmental Remediation TID | - | 712,395 |
| Tax Incremental District #4 | - | 89,261 |
| Tax Incremental District #5 | - | 1,078,300 |
| Tax Incremental District #7 | - | 2,000 |
| Enterprise Funds | | |
| Electric Utility | - | 89,455 |
| Water Utility | 395,639 | 663,257 |
| Storm Water Utility | 1,753 | 108,215 |
| Sanitary Sewer Utility | 639,846 | 244,664 |
| Totals | \$ 3,080,307 | \$ 3,080,307 |

The outstanding balances between funds result mainly from the time lag between the dates that (a) interfund goods and services are provided or reimbursable expenditures occur, (b) transactions are recorded in the accounting system, and (c) payments between funds are made.

Interfund transfers for the year ended December 31, 2012 were as follows:

| | Transfer to: | | | | | Totals |
|--|---------------------|-------------------------------|---------------------|--------------------------------|-------------------|---------------------|
| | General Fund | Special Assessment Fund | Debt Service | Other Governmental Funds | Sanitary Sewer | |
| Transfers from: | | | | | | |
| Nonmajor governmental funds | \$ - | \$ - | \$ 1,932,361 | \$ 58,527 | \$ 967,765 | \$ 2,958,653 |
| Special assessment fund | - | - | 1,787,903 | - | - | 1,787,903 |
| Debt service fund | - | 559,700 | - | - | - | 559,700 |
| Electric utility enterprise fund | 1,080,679 | - | - | - | - | 1,080,679 |
| Water utility enterprise fund | 419,565 | - | - | - | - | 419,565 |
| Storm water utility enterprise fund | 85,924 | - | - | - | - | 85,924 |
| Sanitary sewer utility enterprise fund | 86,892 | - | - | - | - | 86,892 |
| Totals | \$ 1,673,060 | \$ 559,700 | \$ 3,720,264 | \$ 58,527 | \$ 967,765 | \$ 6,979,316 |

Transfers are used to: (a) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (b) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (c) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

6. Long-term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2012:

| | Outstanding 1/1/12 | Issued | Retired | Outstanding 12/31/12 | Due Within One Year |
|---|-----------------------|----------------------|---------------------|-------------------------|------------------------|
| Governmental activities: | | | | | |
| General Obligation Debt | | | | | |
| Notes | \$ 26,790,488 | \$ 2,800,000 | \$ 5,027,699 | \$ 24,562,789 | \$ 2,537,450 |
| Bonds | 10,773,298 | - | 248,298 | 10,525,000 | 75,000 |
| Total General Obligation Debt | 37,563,786 | 2,800,000 | 5,275,997 | 35,087,789 | 2,612,450 |
| Unfunded pension liability - | | | | | |
| Private pension plan | 39,000 | 8,752 | 10,752 | 37,000 | - |
| OPEB liability | 814,128 | 595,957 | 404,357 | 1,005,728 | - |
| Compensated absences | 514,065 | - | 50,734 | 463,331 | - |
| Governmental activities Long-term obligations | <u>\$ 38,930,979</u> | <u>\$ 3,404,709</u> | <u>\$ 5,741,840</u> | <u>\$ 36,593,848</u> | <u>\$ 2,612,450</u> |
| Business-type activities: | | | | | |
| General Obligation Debt | | | | | |
| Notes | \$ 2,859,512 | \$ 2,865,929 | \$ 488,230 | \$ 5,237,211 | \$ 587,550 |
| Bonds | 26,702 | - | 26,702 | - | - |
| Total General Obligation Debt | 2,886,214 | 2,865,929 | 514,932 | 5,237,211 | 587,550 |
| Revenue bonds | 34,825,000 | 46,150,000 | 4,195,000 | 76,780,000 | 2,540,000 |
| OPEB Liability | 119,744 | 89,801 | - | 209,545 | - |
| Business-type activities Long-term obligations | <u>\$ 37,830,958</u> | <u>\$ 49,105,730</u> | <u>\$ 4,709,932</u> | <u>\$ 82,226,756</u> | <u>\$ 3,127,550</u> |

Total interest paid during the year on long-term debt totaled \$5,106,315.

During 2012, \$2,885,535 of general obligation debt was transferred from governmental activities to the storm water utility enterprise fund, and \$238,286 was transferred to governmental activities from the sanitary sewer enterprise fund. The above schedule reports this as a retirement to governmental activities general obligation debt and an issued amount to business-type activities general obligation debt.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

Bonds

| | |
|--|-------------------|
| \$6,575,000 issued 11/4/10; \$50,000 to \$950,000 due annually through 2026; interest 3.75% to 4.70% | \$ 6,575,000 |
| \$3,950,000 issued 11/4/10; \$25,000 to \$650,000 due annually through 2026; interest 2.00% to 4.00% | <u>3,950,000</u> |
| Total Bonds | <u>10,525,000</u> |

Notes

| | |
|---|-----------------------------|
| \$1,830,000 issued 7/15/03; \$400,000 due in 2013; interest 3.30% | 400,000 |
| \$1,510,000 issued 6/15/04; \$100,000 due in 2013 and \$1,000,000 due in 2014; interest 5.50% | 1,100,000 |
| \$2,310,000 issued 8/1/04; \$325,000 due annually through 2014; interest 3.50% to 3.60% | 650,000 |
| \$3,165,000 issued 8/16/05; \$400,000 to \$850,000 due annually through 2015; interest 3.625% to 4.000% | 1,675,000 |
| \$2,650,000 issued 5/1/06; \$300,000 to \$465,000 due annually through 2016; interest 5.75% | 1,650,000 |
| \$3,400,000 issued 8/15/06; \$400,000 to \$575,000 due annually through 2016; interest 4.25% | 2,000,000 |
| \$3,975,000 issued 2/01/07; \$275,000 to \$2,450,000 due annually through 2016; interest 3.75% to 4.00% | 3,450,000 |
| \$3,850,000 issued 9/01/07; \$425,000 to \$850,000 due annually through 2017; interest 3.95% | 3,075,000 |
| \$3,000,000 issued 9/1/08; \$75,000 to \$725,000 due annually through 2018; interest 3.70% to 4.00% | 2,800,000 |
| \$3,150,000 issued 9/1/09; \$50,000 to \$800,000 due annually through 2019; interest 1.25% to 4.50% | 3,000,000 |
| \$1,350,000 issued 9/1/10; \$100,000 to \$225,000 due annually through 2020; interest 1.50% to 2.55% | 1,175,000 |
| \$3,850,000 issued 9/1/10; \$50,000 to \$850,000 due annually through 2020; interest .70% to 3.45% | 3,250,000 |
| \$2,775,000 issued 10/4/11; \$50,000 to \$800,000 due annually through 2021; interest 2.00% to 3.00% | 2,775,000 |
| \$2,800,000 issued 8/1/12; \$25,000 to \$800,000 due annually through 2022; interest 2.00% to 3.00% | <u>2,800,000</u> |
| Total Notes | <u>29,800,000</u> |
| Total Outstanding General Obligation Debt | <u><u>\$ 40,325,000</u></u> |

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the outstanding general obligation debt of \$40,325,000 on December 31, 2012 are detailed below:

| Year Ended December 31 | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------|-------------------------|---------------------|--------------------------|-------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 2,612,450 | \$ 1,282,685 | \$ 587,550 | \$ 182,605 | \$ 3,200,000 | \$ 1,465,290 |
| 2014 | 3,709,153 | 1,142,917 | 590,847 | 161,562 | 4,300,000 | 1,304,479 |
| 2015 | 3,284,095 | 1,003,512 | 625,905 | 141,176 | 3,910,000 | 1,144,688 |
| 2016 | 5,106,855 | 847,015 | 658,145 | 119,372 | 5,765,000 | 966,387 |
| 2017 | 2,293,625 | 718,043 | 706,375 | 97,069 | 3,000,000 | 815,112 |
| 2018-2022 | 12,331,611 | 2,318,060 | 2,068,389 | 148,015 | 14,400,000 | 2,466,075 |
| 2023-2026 | 5,750,000 | 633,250 | - | - | 5,750,000 | 633,250 |
| | <u>\$ 35,087,789</u> | <u>\$ 7,945,482</u> | <u>\$ 5,237,211</u> | <u>\$ 849,799</u> | <u>\$ 40,325,000</u> | <u>\$ 8,795,281</u> |

For governmental activities, the other long-term liabilities are generally funded by the general fund.

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2012 was \$4,598,105 as follows:

| | |
|---|---------------------|
| Equalized valuation of the City | \$ 898,462,100 |
| Statutory limitation percentage | <u>(x) 5%</u> |
| General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes | 44,923,105 |
| Total outstanding general obligation debt applicable to debt limitation | \$ 40,325,000 |
| Less: Amounts available for financing general obligation debt | |
| Debt service fund | <u>1,576,595</u> |
| Net outstanding general obligation debt applicable to debt limitation | 38,748,405 |
| Legal Margin for New Debt | <u>\$ 6,174,700</u> |

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Revenue Bonds

Revenue bond debt service requirements are financed from operations of the enterprise funds. Revenue bonds outstanding on December 31, 2012 totaled \$76,780,000 and were composed of the following issues:

Electric Utility

| | |
|--|-------------------|
| \$2,500,000 issued 5/15/03; \$200,000 to \$275,000 due annually through 2018; interest 2.875% to 5.0% | \$ 1,450,000 |
| \$4,000,000 issued 6/1/05; \$75,000 to \$500,000 due annually through 2025; interest 3.2% to 5.0% | 3,675,000 |
| \$5,650,000 issued 11/15/06; \$125,000 to \$600,000 due annually through 2026; interest 4.0% | 5,150,000 |
| \$9,000,000 issued 6/1/08; \$250,000 to \$775,000 due annually through 2028; interest 4.375% to 5.25% | 8,250,000 |
| \$3,925,000 issued 6/1/09; \$375,000 to \$475,000 due annually through 2018; interest 3.25% to 4.50% | 2,550,000 |
| \$6,775,000 issued 4/1/10; \$250,000 to \$475,000 due annually through 2030; interest 1.625% to 6.75% | 6,275,000 |
| \$3,665,000 issued 8/3/10; \$125,000 to \$250,000 due annually through 2030; interest 1.50% to 6.75% | 3,415,000 |
| \$18,225,000 issued 2/1/12; \$3,300,000 to \$4,000,000 due annually 2031 through 2035; interest at 5.0% beginning in 2031 | 18,225,000 |
| \$1,300,000 issued 2/1/12; \$100,000 to \$150,000 due annually through 2022; interest 2.0% to 3.625% | 1,200,000 |
| \$25,350,000 issued 2/1/12; \$525,000 to \$3,900,000 due annually through 2030; interest at 5.0% | <u>24,575,000</u> |
| Total Electric Utility Revenue Bonds | <u>74,765,000</u> |

Water Utility

| | |
|--|------------------|
| \$1,665,000 issued 5/1/03; \$215,000 due in 2013; interest at 4.0% | 215,000 |
| \$1,000,000 issued 6/1/05; \$25,000 to \$200,000 due annually through 2017; interest 3.50% to 4.50% | 750,000 |
| \$1,275,000 issued 5/1/12; \$200,000 to \$225,000 due annually through 2017; interest 1.0% to 3.0% | <u>1,050,000</u> |
| Total Water Utility Revenue Bonds | <u>2,015,000</u> |

| | |
|---------------------|-----------------------------|
| Total Revenue Bonds | <u><u>\$ 76,780,000</u></u> |
|---------------------|-----------------------------|

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the outstanding revenue bonds of \$76,780,000 on December 31, 2012 are detailed as follows:

| Year Ended December 31 | Business-type Activities | | |
|---------------------------|--------------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2013 | \$ 2,540,000 | \$ 3,769,606 | \$ 6,309,606 |
| 2014 | 2,550,000 | 3,674,356 | 6,224,356 |
| 2015 | 2,625,000 | 3,576,075 | 6,201,075 |
| 2016 | 2,750,000 | 3,467,663 | 6,217,663 |
| 2017 | 2,850,000 | 3,350,463 | 6,200,463 |
| 2018-2022 | 14,065,000 | 14,871,750 | 28,936,750 |
| 2023-2027 | 17,975,000 | 10,983,663 | 28,958,663 |
| 2028-2032 | 19,975,000 | 6,382,563 | 26,357,563 |
| 2033-2035 | 11,450,000 | 1,163,750 | 12,613,750 |
| | <u>\$ 76,780,000</u> | <u>\$ 51,239,889</u> | <u>\$ 128,019,889</u> |

There are various requirements associated with each of the City's bond issues. It has been determined that the City is in compliance with all significant bond issue requirements.

The electric and water utility enterprise funds have pledged future water and electric customer revenues, net of specified operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used by the utilities. The bonds are payable solely from the water and electric customer net revenues and are payable through 2030. The total principal and interest remaining to be paid on the bonds is \$128,019,889. Principal and interest paid for the current year and total customer net revenues were \$7,806,112 and \$8,884,973, respectively.

Build America Bonds

The general obligation notes issued on 9/1/09, and electric utility revenue bonds issued on 4/1/10, and 8/3/10 qualify as Build America Bonds, as described in Section 54AA of the Internal Revenue Code. The interest on the debt is taxable as set forth in the regulations. The City is eligible to receive a 35% subsidy of the annual interest payment from the Federal government. In order to receive this subsidy it is necessary for the City to file a claim form when each payment is made.

Unfunded Pension Liability - Private Pension Plan

The State of Wisconsin administers a plan for two retired employees of the City of Kaukauna Police and Fire Departments. These individuals were covered by a private pension plan prior to the City joining the Wisconsin Retirement System. No new employees are added to the plan. The City's policy is to fund retirement contributions to meet current benefit payments to these retired employees. The total amount expended for 2012 was approximately \$2,000. The total estimated future cost to the City of this plan is approximately \$37,000 as of December 31, 2012, all of which related to prior service.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

7. Fund Equity

Government-wide Statements

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

| | |
|--|----------------------|
| Net investment in capital assets | |
| Land | \$ 7,514,204 |
| Buildings and improvements | 4,280,445 |
| Machinery and equipment | 6,276,813 |
| Infrastructure | 39,169,734 |
| Less: accumulated depreciation | (20,064,164) |
| Less: related long-term debt outstanding | <u>(33,987,790)</u> |
| Total Net Investment in Capital Assets | <u>3,189,242</u> |
| Restricted for debt service | 1,576,595 |
| Unrestricted | <u>10,697,674</u> |
| Total Governmental Activities Net Position | <u>\$ 15,463,511</u> |

Fund Statements

In the fund financial statements, portions of governmental fund balances are nonspendable and not available for appropriation. At December 31, 2012, fund balance was nonspendable as follows:

| | |
|--|------------|
| General Fund | |
| Nonspendable for inventories and prepaid items | \$ 172,522 |

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE D - OTHER POST-EMPLOYMENT BENEFITS

Plan Description - The City provides health care insurance coverage for employees who retire until they reach the age of 65. The health care insurance coverage is provided under two separate plans. One plan is for employees of the electric and water utilities and the other is for all other City employees. For the utilities, the retired employee contributes a percentage of the premium based on the number of years they retire after eligibility for Wisconsin Retirement (currently age 55). The employee also needs to have 15 years of service to be eligible. For all other City employees, the City pays 75% of the premium until age 64. At age 65, the retiree may continue in the health plan by paying 100% of the premium. There are 55 active and 25 retired employees in the utilities' plan and 81 active and 23 retired employees under the City plan.

Annual OPEB Cost and Net OPEB Obligation - The annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

| Component | Amount | |
|--|-------------------|---------------------|
| | Utilities | City |
| Annual required contribution | \$ 320,463 | \$ 610,423 |
| Interest on net OPEB | 4,790 | 32,565 |
| Adjustment to annual required contribution | (13,664) | (47,031) |
| Annual OPEB cost (expense) | <u>311,589</u> | <u>595,957</u> |
| Contributions made | 221,788 | 404,357 |
| Change in net OPEB obligation | 89,801 | 191,600 |
| OPEB obligation - beginning of year | 119,744 | 814,128 |
| OPEB obligation - end of year | <u>\$ 209,545</u> | <u>\$ 1,005,728</u> |

The annual required contribution for the current year was determined as part of two separate actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 4.0% discount rate, and (b) projected salary increases at 3%.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE D - OTHER POST-EMPLOYMENT BENEFITS (Continued)

The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level dollar amount of projected payroll. The remaining amortization period at December 31, 2012 is 25 years, and the remaining amount is \$2,141,160 for the utilities' plan and \$5,235,602 for the City's plan.

Trend Information - The annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 for the utilities' plan is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage Of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 12/31/2010 | \$ 312,492 | 93.50% | \$ 47,599 |
| 12/31/2011 | 314,098 | 77.03% | 119,744 |
| 12/31/2012 | 311,589 | 71.18% | 209,545 |

The annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 for the City's plan is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage Of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 12/31/2010 | \$ 589,761 | 67.84% | \$ 591,346 |
| 12/31/2011 | 593,612 | 62.47% | 814,128 |
| 12/31/2012 | 595,957 | 67.85% | 1,005,728 |

Funded Status and Funding Progress - As of the most recent actuarial valuations, conducted during 2010, the utilities' plan unfunded actuarial accrued liability (UAAL) was \$2,141,160. The annual payroll for active employees covered by the plan for the 2010 fiscal year was \$4,123,268 for a ratio of the UAAL to covered payroll of 51.9%. The City's plan unfunded actuarial accrued liability (UAAL) was \$5,235,602. The annual payroll for active employees covered by the plan for the 2010 fiscal year was \$4,674,201 for a ratio of the UAAL to covered payroll of 112%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future terminations, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actuarial results are compared with past experience and new estimates are made about the future.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2010 actuarial valuations, the projected unit credit method was used. The actuarial assumptions included a rate of 4.0% to discount expected liabilities to the valuation date. The initial healthcare trend rate for the utilities' plan was 9.5%, reduced by decrements to an ultimate rate of 5.5% after 14 years. The initial healthcare trend rate for the City's plan was 12%, reduced by decrements to an ultimate rate of 5.5% after nine years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2012 was 25 years.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE E - OTHER INFORMATION

1. Retirement Commitments

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

Prior to June 29, 2011, covered employees in the General/Teacher/Educational Support Personnel category were required by statute to contribute 6.5% of their salary (3.9% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 4.8% for Protective Occupations without Social Security) to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to 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. Contribution rates are as follows:

| | 2012 | |
|------------------------------------|-----------------|-----------------|
| | <u>Employee</u> | <u>Employer</u> |
| General (including Teachers) | 5.9% | 5.9% |
| Executives & Elected Officials | 7.05% | 7.05% |
| Protective with Social Security | 5.9% | 9.0% |
| Protective without Social Security | 5.9% | 11.3% |

The payroll for City employees covered by the WRS for the year ended December 31, 2012 was \$10,074,224; the employer's total payroll was \$10,238,330. The total required contribution for the year ended December 31, 2012 was \$1,312,509, which consisted of \$715,714 or 7.1% of covered payroll from the employer, and \$596,795, or 5.9% of covered payroll from employees. Total contributions for the years ended December 31, 2011 and 2010 were \$1,298,196 and \$1,179,864, respectively, equal to the required contributions for each year.

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

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE E - OTHER INFORMATION (Continued)

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

The WRS issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

2. WPPI Energy Contract (WPPI)

The Kaukauna Electric Utility purchases its electric requirements from WPPI Energy (WPPI). WPPI is a municipal electric company and political subdivision of the State of Wisconsin created by contract by its members on September 5, 1980 pursuant to the Municipal Electric Company Act, Sec. 66.073 of the Wisconsin Statutes (the Act). WPPI's purposes include providing an adequate, economical and reliable supply of electric energy to its members.

The Kaukauna Electric Utility is one of 51 members of WPPI located throughout the States of Wisconsin, Iowa, and Michigan. On December 31, 1989, each of WPPI's members, including the City of Kaukauna, commenced purchasing electric service from WPPI under a new Long-term Power Supply Contract for Participating Members (the Long-term Contract) under which WPPI has agreed to sell and deliver to each member, and each member has agreed to take and pay for, the electric power and energy requirements of the members for an initial thirty-five (35) year term. The contract has been amended to extend the term of the contract through 2037.

Under the Long-term Contract, the Kaukauna Electric Utility and the other members of WPPI are required to pay for all power and energy requirements supplied or made available by WPPI at rates sufficient to cover all of WPPI's revenue requirement which includes power supply costs, administrative expenses and debt service on outstanding bonds. WPPI's subsequent year's rates and operating budget are approved annually by its Board of Directors, which consists of representatives from each member municipality. The Kaukauna Electric Utility has agreed to charge rates to the retail ratepayers of its electric system sufficient to meet its obligations to WPPI. The Long-term Contract provides that all payments to WPPI under the Contract constitute operating expenses of the Kaukauna electric system payable from any operating and maintenance fund established by the Kaukauna Electric Utility.

The Long-term Contract may be terminated by either party upon five years prior written notice effective at the end of the initial thirty-five year term, or at any other time thereafter, provided that no WPPI bonds are outstanding at the time of the proposed termination and certain other contract provisions are met.

Electric power purchases by the Kaukauna Electric Utility from the WPPI for distribution to its customers under the above arrangement amounted to approximately \$48.1 million in 2012.

3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City completes an annual review of its insurance coverage to ensure adequate coverage.

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 Attorney 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.

CITY OF KAUKAUNA, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE E - OTHER INFORMATION (Continued)

4. Tax Incremental District

The City has established a separate capital projects fund for three Tax Incremental Districts (TID) created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the Districts were created, the property tax base within each District was "frozen" and increment taxes resulting from increases to the property tax base are used to finance District improvements, including principal and interest on long-term debt issued by the City to finance such improvements. Except for certain exceptions under Section 66.1105(6)(am)(2), the Statutes allow a tax incremental district to incur project costs up to five years prior to termination of the district. The City's TID No. 4 was created in September, 2000, TID No. 5 was created in September, 2003, and TID No. 6 was created in September, 2006. All TID's are still eligible to incur project costs.

Since creation of the above Districts, the City has provided various financing sources to the TID's. Detail of the amounts recoverable by the City as of December 31, 2012 from future excess tax increment revenues of the TID's are as follows:

| | TID No. 4 | TID No. 5 | TID No. 6 |
|--------------------------------|------------|---------------|--------------|
| Net Unreimbursed Project Costs | \$ 400,561 | \$ 11,589,917 | \$ 4,557,301 |

The intent of the City is to recover the above amounts from future TID surplus funds, if any, prior to termination of the Districts. Unless terminated by the City prior thereto, TID No. 4 has a statutory termination year of 2023, TID No. 5 has a statutory termination year of 2026, and TID No. 6 has a statutory termination year of 2029.

5. Major Customers

Revenue from two industrial customers aggregated approximately 43% of total Electric Utility enterprise fund operating revenue in 2012. Current accounts receivable at December 31, 2012 includes approximately \$1.97 million due from these customers.

6. Presentation of Sales Taxes

The electric utility enterprise fund collects sales tax from certain (or all) customers and remits the entire amount to the appropriate governmental entities. The utility's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

7. Property Tax Levy Limit

Wisconsin state statutes provide for a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. For the 2012 and 2013 budget years, the increase in the maximum allowable tax levy is limited to the percentage change in the City's January 1 equalized value as a result of net new construction. The actual limit for the City for the 2012 budget was 1.14%. The actual limit for the City for the 2013 budget was 0.51%. Debt service for debt authorized after July 1, 2005 is exempt from the levy limit. In addition, Wisconsin statutes allow the limit to be adjusted for the increase in debt service authorized prior to July 1, 2005 and in certain other situations.

8. Prior Period Adjustment

The prior period adjustment reported in governmental activities represents loans issued in prior years totaling \$157,651 that were not previously recorded. The prior period adjustment reported in business-type activities totaling \$9,064,786 related to the transfer of capital assets and debt to establish the sanitary sewer enterprise fund.

9. Subsequent Event

As described in Note C.1, the FDIC insurance coverage changed on January 1, 2013. At that date, noninterest-bearing transaction (demand deposit) accounts changed from fully insured to a \$250,000 limit for the total of noninterest-bearing and interest-bearing demand deposit accounts. As of January 1, 2013, the City's uninsured balance was \$8,648,941.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF KAUKAUNA, WISCONSIN
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
 December 31, 2012

Utilities' Plan

| Actuarial Valuation Date December 31 | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) Unit Credit | (3) Funded Ratio (1) / (2) | (4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) | (5) Covered Payroll | UAAL as a Percentage of Covered Payroll (4) / (5) |
|---|----------------------------------|--|----------------------------------|---|------------------------|--|
| 2008 | \$ - | \$ 2,381,197 | 0.00% | \$ 2,381,197 | \$ 3,878,980 | 61% |
| 2010 | - | 2,141,160 | 0.00% | 2,141,160 | 4,123,268 | 52% |

City's Plan

| Actuarial Valuation Date December 31 | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) Unit Credit | (3) Funded Ratio (1) / (2) | (4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) | (5) Covered Payroll | UAAL as a Percentage of Covered Payroll (4) / (5) |
|---|----------------------------------|--|----------------------------------|---|------------------------|--|
| 2008 | \$ - | \$ 6,560,000 | 0.00% | \$ 6,560,000 | \$ 5,876,691 | 112% |
| 2010 | - | 5,235,602 | 0.00% | 5,235,602 | 4,674,201 | 112% |

The City implemented GASB Statement No. 45 for the fiscal year ended December 31, 2008. Information for prior years is not available.

CITY OF KAUKAUNA, WISCONSIN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
For the Year Ended December 31, 2012

Utilities' Plan

| Year Ended December 31, | Employer Contributions | Annual Required Contribution (ARC) | Percentage Contributed |
|----------------------------|---------------------------|---|---------------------------|
| 2008 | \$ 299,000 | \$ 321,070 | 93% |
| 2009 | 300,000 | 305,522 | 98% |
| 2010 | 292,141 | 314,237 | 93% |
| 2011 | 241,953 | 317,438 | 76% |
| 2012 | 221,788 | 320,463 | 69% |

City's Plan

| Year Ended December 31, | Employer Contributions | Annual Required Contribution (ARC) | Percentage Contributed |
|----------------------------|---------------------------|---|---------------------------|
| 2008 | \$ 408,000 | \$ 630,000 | 65% |
| 2009 | 434,000 | 613,680 | 71% |
| 2010 | 400,095 | 589,761 | 68% |
| 2011 | 370,830 | 604,899 | 61% |
| 2012 | 404,357 | 610,423 | 66% |

The City implemented GASB Statement No. 45 for the fiscal year ended December 31, 2008. Information for prior years is not available.

SUPPLEMENTARY INFORMATION

CITY OF KAUKAUNA, WISCONSIN

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|---------------------|--|
| Revenues | | | | |
| Taxes | \$ 2,482,626 | \$ 2,482,626 | \$ 2,035,523 | \$ (447,103) |
| Intergovernmental | 78,903 | 78,903 | 78,903 | - |
| Total Revenues | <u>2,561,529</u> | <u>2,561,529</u> | <u>2,114,426</u> | <u>(447,103)</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | 2,925,000 | 2,925,000 | 2,410,067 | 514,933 |
| Interest and fiscal charges | 1,495,428 | 1,495,428 | 1,288,328 | 207,100 |
| Total Expenditures | <u>4,420,428</u> | <u>4,420,428</u> | <u>3,698,395</u> | <u>722,033</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(1,858,899)</u> | <u>(1,858,899)</u> | <u>(1,583,969)</u> | <u>274,930</u> |
| Other Financing Sources | | | | |
| Transfers in | 1,858,899 | 1,858,899 | 3,720,264 | 1,861,365 |
| Transfers out | - | - | (559,700.00) | (559,700) |
| Total Other Financing Sources (Uses) | <u>1,858,899</u> | <u>1,858,899</u> | <u>3,160,564</u> | <u>1,301,665</u> |
| Net Change in Fund Balance | - | - | 1,576,595 | 1,576,595 |
| Fund Balance - January 1 | - | - | - | - |
| Fund Balance - December 31 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,576,595</u> | <u>\$ 1,576,595</u> |

CITY OF KAUKAUNA, WISCONSIN

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012

| | Special Revenue Funds | | | |
|---|---|---|------------------------------------|----------------------------------|
| | 1000 Islands Environmental Center | Revolving Economic Development Loans | Rental Rehabilitation Grants | Housing Development Grants |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 38,018 | \$ 132,088 | \$ 15,779 | \$ 32,489 |
| Receivables | | | | |
| Taxes | 51,332 | - | - | - |
| Special assessments | - | - | - | - |
| Loans | - | 1,351,570 | 243,129 | 274,596 |
| Due from other funds | - | - | - | - |
| Due from other governments | - | - | - | - |
| Restricted assets | | | | |
| Cash and cash equivalents | 429,791 | - | - | - |
| TOTAL ASSETS | \$ 519,141 | \$ 1,483,658 | \$ 258,908 | \$ 307,085 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 870 | \$ 685 | \$ - | \$ 1,027 |
| Accrued liabilities | 3,398 | - | - | - |
| Contracts payable | - | - | - | - |
| Due to other funds | - | 50,000 | - | - |
| Unearned revenue | 388,809 | - | - | - |
| Total Liabilities | 393,077 | 50,685 | - | 1,027 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property taxes | 90,964 | - | - | - |
| Special assessments | - | - | - | - |
| Loans | - | 1,351,570 | 243,129 | 274,596 |
| Total Deferred Inflows of Resources | 90,964 | 1,351,570 | 243,129 | 274,596 |
| FUND BALANCES | | | | |
| Committed for park improvements | - | - | - | - |
| Committed for equipment replacement | - | - | - | - |
| Assigned for other subsequent years expenditures | 35,100 | 81,403 | 15,779 | 31,462 |
| Unassigned | - | - | - | - |
| Total Fund Balances (Deficit) | 35,100 | 81,403 | 15,779 | 31,462 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 519,141 | \$ 1,483,658 | \$ 258,908 | \$ 307,085 |

(Continued)

| Special Revenue Funds (Continued) | | | | | | | | Total Special Revenue Funds |
|-----------------------------------|----------------------------|-----------------------|---------------------|-----------------|--|----------------------|-----------------|--------------------------------------|
| CDBG Grant | Public Safety Grants | Library Foundation | Subdivision Fees | Greenspace | Inflow/ Infiltration Remediation | PACE Loan Fund | Grignon Home | |
| \$ 3,824 | \$ 77,218 | \$ 270,693 | \$ 115,038 | \$ 6,940 | \$ - | \$ 6,763 | \$ 8,878 | \$ 707,728 |
| - | - | - | 5,858 | - | - | 3,791 | - | 60,981 |
| - | - | - | 19,100 | - | - | - | - | 19,100 |
| 302,721 | - | - | - | - | - | 33,119 | - | 2,205,135 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 429,791 |
| <u>\$ 306,545</u> | <u>\$ 77,218</u> | <u>\$ 270,693</u> | <u>\$ 139,996</u> | <u>\$ 6,940</u> | <u>\$ -</u> | <u>\$ 43,673</u> | <u>\$ 8,878</u> | <u>\$ 3,422,735</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 171 | \$ 2,753 |
| - | - | - | - | - | - | - | - | 3,398 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 50,000 |
| - | - | - | - | - | - | - | - | 388,809 |
| - | - | - | - | - | - | - | 171 | 444,960 |
| - | - | - | - | - | - | 6,718 | - | 97,682 |
| - | - | - | 29,481 | - | - | - | - | 29,481 |
| 302,721 | - | - | - | - | - | 33,119 | - | 2,205,135 |
| 302,721 | - | - | 29,481 | - | - | 39,837 | - | 2,332,298 |
| - | - | - | 110,515 | - | - | - | - | 110,515 |
| - | - | - | - | - | - | - | - | - |
| 3,824 | 77,218 | 270,693 | - | 6,940 | - | 3,836 | 8,707 | 534,962 |
| - | - | - | - | - | - | - | - | - |
| 3,824 | 77,218 | 270,693 | 110,515 | 6,940 | - | 3,836 | 8,707 | 645,477 |
| <u>\$ 306,545</u> | <u>\$ 77,218</u> | <u>\$ 270,693</u> | <u>\$ 139,996</u> | <u>\$ 6,940</u> | <u>\$ -</u> | <u>\$ 43,673</u> | <u>\$ 8,878</u> | <u>\$ 3,422,735</u> |

CITY OF KAUKAUNA, WISCONSIN
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
December 31, 2012

| | Capital Project Funds | | | | |
|---|-----------------------|---------------------|-------------------|-----------------------------------|-----------------------------------|
| | Industrial Park | Park Development | Space Needs | Tax Incremental District #4 | Tax Incremental District #5 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 908,465 | \$ 97,698 | \$ 333,305 | \$ - | \$ 17,099 |
| Receivables | | | | | |
| Taxes | - | 8,465 | 431,695 | - | - |
| Special assessments | - | - | - | - | - |
| Loans | - | - | - | - | - |
| Due from other funds | 290,000 | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| Restricted assets | | | | | |
| Cash and cash equivalents | - | - | - | - | - |
| TOTAL ASSETS | \$1,198,465 | \$ 106,163 | \$ 765,000 | \$ - | \$ 17,099 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 150 | \$ - |
| Accrued liabilities | - | - | - | - | - |
| Contracts payable | - | - | - | - | 3,716 |
| Due to other funds | - | - | - | 89,261 | 1,078,300 |
| Unearned revenue | - | - | - | - | - |
| Total Liabilities | - | - | - | 89,411 | 1,082,016 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Property taxes | - | 15,000 | 765,000 | - | - |
| Special assessments | - | - | - | - | - |
| Loans | - | - | - | - | - |
| Total Deferred Inflows of Resources | - | 15,000 | 765,000 | - | - |
| FUND BALANCES | | | | | |
| Committed for park improvements | - | - | - | - | - |
| Committed for equipment replacement | - | - | - | - | - |
| Assigned for other subsequent years expenditures | 1,198,465 | 91,163 | - | - | - |
| Unassigned | - | - | - | (89,411) | (1,064,917) |
| Total Fund Balances (Deficit) | 1,198,465 | 91,163 | - | (89,411) | (1,064,917) |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$1,198,465 | \$ 106,163 | \$ 765,000 | \$ - | \$ 17,099 |

| Capital Project Funds (Continued) | | | | | | | Total Capital Projects | Total Nonmajor Funds |
|-----------------------------------|-----------------------------------|-------------------------------------|------------------|------------------|-------------------|-------------------|------------------------------|----------------------------|
| Tax Incremental District #6 | Tax Incremental District #7 | Environmental Remediation TID | 2009 Projects | 2010 Projects | 2011 Projects | 2012 Projects | | |
| \$ 235,692 | \$ - | \$ 9,800 | \$ - | \$ - | \$ 428,261 | \$ 972,994 | \$ 3,003,314 | \$ 3,711,042 |
| 301,769 | - | 12,692 | - | - | - | - | 754,621 | 815,602 |
| - | - | - | - | - | - | - | - | 19,100 |
| 385,324 | - | - | - | - | - | - | 385,324 | 2,590,459 |
| - | - | - | - | - | - | - | 290,000 | 290,000 |
| - | - | - | - | - | 120,000 | - | 120,000 | 120,000 |
| - | - | - | - | - | - | - | - | 429,791 |
| <u>\$ 922,785</u> | <u>\$ -</u> | <u>\$ 22,492</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 548,261</u> | <u>\$ 972,994</u> | <u>\$ 4,553,259</u> | <u>\$ 7,975,994</u> |
| \$ - | \$ - | \$ 8 | \$ - | \$ - | \$ 2,551 | \$ 125,771 | 128,480 | \$ 131,233 |
| - | - | - | - | - | - | - | - | 3,398 |
| - | - | - | - | - | 29,264 | 100,791 | 133,771 | 133,771 |
| - | 2,000 | 712,395 | - | - | - | - | 1,881,956 | 1,931,956 |
| - | - | - | - | - | - | - | - | 388,809 |
| - | 2,000 | 712,403 | - | - | 31,815 | 226,562 | 2,144,207 | 2,589,167 |
| 534,761 | - | 22,492 | - | - | - | - | 1,337,253 | 1,434,935 |
| - | - | - | - | - | - | - | - | 29,481 |
| 385,324 | - | - | - | - | - | - | 385,324 | 2,590,459 |
| <u>920,085</u> | <u>-</u> | <u>22,492</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,722,577</u> | <u>4,054,875</u> |
| - | - | - | - | - | - | - | - | 110,515 |
| - | - | - | - | - | - | - | - | - |
| 2,700 | - | - | - | - | 516,446 | 746,432 | 2,555,206 | 3,090,168 |
| - | (2,000) | (712,403) | - | - | - | - | (1,868,731) | (1,868,731) |
| <u>2,700</u> | <u>(2,000)</u> | <u>(712,403)</u> | <u>-</u> | <u>-</u> | <u>516,446</u> | <u>746,432</u> | <u>686,475</u> | <u>1,331,952</u> |
| <u>\$ 922,785</u> | <u>\$ -</u> | <u>\$ 22,492</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 548,261</u> | <u>\$ 972,994</u> | <u>\$ 4,553,259</u> | <u>\$ 7,975,994</u> |

CITY OF KAUKAUNA, WISCONSIN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2012

| | Special Revenue Funds | | | |
|---|---|---|------------------------------------|----------------------------------|
| | 1000 Islands Environmental Center | Revolving Economic Development Loans | Rental Rehabilitation Grants | Housing Development Grants |
| Revenues | | | | |
| Taxes | \$ 85,383 | \$ - | \$ - | \$ - |
| Special assessments | - | - | - | - |
| Intergovernmental | 25,000 | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Charges for services | 14,185 | - | - | - |
| Interest | - | 261 | - | - |
| Other | 23,767 | 247,463 | 2,725 | 8,643 |
| Total Revenues | 148,335 | 247,724 | 2,725 | 8,643 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | - | - | - | - |
| Culture and recreation | 144,111 | - | - | - |
| Conservation and development | 61 | 270,673 | - | 7,500 |
| Capital outlay | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Debt service | | | | |
| Bond issuance costs | - | - | - | - |
| Total Expenditures | 144,172 | 270,673 | - | 7,500 |
| Excess of Revenues Over (Under) Expenditures | 4,163 | (22,949) | 2,725 | 1,143 |
| Other Financing Sources (Uses) | | | | |
| General obligation notes issued | - | - | - | - |
| Premium on debt issued | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | (651) | - | - | - |
| Total Other Financing Sources (Uses) | (651) | - | - | - |
| Net Change in Fund Balances | 3,512 | (22,949) | 2,725 | 1,143 |
| Fund Balances - January 1 | 31,588 | 104,352 | 13,054 | 30,319 |
| Fund Balances - December 31 | \$ 35,100 | \$ 81,403 | \$ 15,779 | \$ 31,462 |

(Continued)

| Special Revenue Funds (Continued) | | | | | | | | Total Special Revenue Funds |
|-----------------------------------|----------------------------|-----------------------|---------------------|------------|--|----------------------|-----------------|--------------------------------------|
| CDBG Grant | Public Safety Grants | Library Foundation | Subdivision Fees | Greenspace | Inflow/ Infiltration Remediation | PACE Loan Fund | Grignon Home | |
| \$ - | \$ - | \$ - | \$ 10,715 | \$ - | \$ - | \$ - | \$ - | \$ 96,098 |
| - | - | - | 1,291 | - | - | - | - | 1,291 |
| 57,876 | - | - | - | - | - | - | - | 82,876 |
| - | 500 | - | - | - | - | - | - | 500 |
| - | (1,953) | 13,667 | - | - | - | - | - | 25,899 |
| 2 | - | 6,288 | - | - | - | - | - | 6,551 |
| 3,298 | - | - | - | - | - | 2,190 | 9,041 | 297,127 |
| 61,176 | (1,453) | 19,955 | 12,006 | - | - | 2,190 | 9,041 | 510,342 |
| - | 1,954 | - | - | - | - | - | - | 1,954 |
| - | - | 5,016 | - | - | - | - | 18,392 | 167,519 |
| 57,876 | - | - | - | - | - | - | - | 336,110 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 57,876 | 1,954 | 5,016 | - | - | - | - | 18,392 | 505,583 |
| 3,300 | (3,407) | 14,939 | 12,006 | - | - | 2,190 | (9,351) | 4,759 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 57,876 | - | - | - | - | - | - | - | 57,876 |
| (57,876) | - | - | - | - | (967,765) | - | - | (1,026,292) |
| - | - | - | - | - | (967,765) | - | - | (968,416) |
| 3,300 | (3,407) | 14,939 | 12,006 | - | (967,765) | 2,190 | (9,351) | (963,657) |
| 524 | 80,625 | 255,754 | 98,509 | 6,940 | 967,765 | 1,646 | 18,058 | 1,609,134 |
| \$ 3,824 | \$ 77,218 | \$ 270,693 | \$ 110,515 | \$ 6,940 | \$ - | \$ 3,836 | \$ 8,707 | \$ 645,477 |

CITY OF KAUKAUNA, WISCONSIN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended December 31, 2012

| | Capital Project Funds | | | |
|--|-----------------------|---------------------|-----------------------------------|-----------------------------------|
| | Industrial Park | Park Development | Tax Incremental District #4 | Tax Incremental District #5 |
| Revenues | | | | |
| Taxes | \$ - | \$ 15,000 | \$ - | \$ - |
| Special assessments | - | - | - | - |
| Intergovernmental | - | - | 3,974 | 114 |
| Fines and forfeitures | - | - | - | - |
| Charges for services | 4,669 | - | 3,532 | - |
| Interest | - | - | 267 | 289 |
| Other | - | - | - | 1,500 |
| Total Revenues | <u>4,669</u> | <u>15,000</u> | <u>7,773</u> | <u>1,903</u> |
| Expenditures | | | | |
| Current | | | | |
| Public safety | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | 5,445 | - | - | 7,709 |
| Capital outlay | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Culture and recreation | - | 31,884 | - | - |
| Conservation and development | - | - | 30,891 | - |
| Debt service | | | | |
| Bond issuance costs | - | - | - | - |
| Total Expenditures | <u>5,445</u> | <u>31,884</u> | <u>30,891</u> | <u>7,709</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(776)</u> | <u>(16,884)</u> | <u>(23,118)</u> | <u>(5,806)</u> |
| Other Financing Sources (Uses) | | | | |
| General obligation notes issued | - | - | - | - |
| Premium on debt issued | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | (403,500) | - | (38,850) | (838,300) |
| Total Other Financing Sources (Uses) | <u>(403,500)</u> | <u>-</u> | <u>(38,850)</u> | <u>(838,300)</u> |
| Net Change in Fund Balances | (404,276) | (16,884) | (61,968) | (844,106) |
| Fund Balances (Deficits) - January 1 | <u>1,602,741</u> | <u>108,047</u> | <u>(27,443)</u> | <u>(220,811)</u> |
| Fund Balances (Deficits) - December 31 | <u>\$ 1,198,465</u> | <u>\$ 91,163</u> | <u>\$ (89,411)</u> | <u>\$ (1,064,917)</u> |

| Capital Project Funds (Continued) | | | | | | | Total Capital Projects | Total Nonmajor Funds |
|-----------------------------------|-----------------------------------|-------------------------------------|------------------|------------------|------------------|------------------|------------------------------|----------------------------|
| Tax Incremental District #6 | Tax Incremental District #7 | Environmental Remediation TID | 2009 Projects | 2010 Projects | 2011 Projects | 2012 Projects | | |
| \$ 522,399 | \$ - | \$ 22,257 | \$ - | \$ - | \$ - | \$ - | \$ 559,656 | \$ 655,754 |
| - | - | - | - | - | - | - | - | 1,291 |
| 1,692 | - | - | - | - | 120,000 | - | 125,780 | 208,656 |
| - | - | - | - | - | - | - | - | 500 |
| - | - | - | - | - | - | - | 8,201 | 34,100 |
| 364 | - | - | 373 | 707 | 1,515 | 1,793 | 5,308 | 11,859 |
| 17,803 | - | - | - | - | - | - | 19,303 | 316,430 |
| 542,258 | - | 22,257 | 373 | 707 | 121,515 | 1,793 | 718,248 | 1,228,590 |
| - | - | - | - | - | - | - | - | 1,954 |
| - | - | - | - | - | - | - | - | 167,519 |
| - | - | - | - | - | - | - | 13,154 | 349,264 |
| - | - | - | - | - | - | 22,999 | 22,999 | 22,999 |
| - | - | - | - | - | 125,853 | 19,105 | 144,958 | 144,958 |
| - | - | 11,752 | 78,275 | 640,465 | 148,357 | 2,029,827 | 2,908,676 | 2,908,676 |
| - | - | - | - | (3,000) | 29,323 | 16,600 | 74,807 | 74,807 |
| 224,384 | 2,000 | - | - | - | - | - | 257,275 | 257,275 |
| - | - | - | - | - | - | 22,830 | 22,830 | 22,830 |
| 224,384 | 2,000 | 11,752 | 78,275 | 637,465 | 303,533 | 2,111,361 | 3,444,699 | 3,950,282 |
| 317,874 | (2,000) | 10,505 | (77,902) | (636,758) | (182,018) | (2,109,568) | (2,726,451) | (2,721,692) |
| - | - | - | - | - | - | 2,800,000 | 2,800,000 | 2,800,000 |
| - | - | - | - | - | - | 56,000 | 56,000 | 56,000 |
| - | - | - | - | - | 651 | - | 651 | 58,527 |
| (488,503) | - | (163,208) | - | - | - | - | (1,932,361) | (2,958,653) |
| (488,503) | - | (163,208) | - | - | 651 | 2,856,000 | 924,290 | (44,126) |
| (170,629) | (2,000) | (152,703) | (77,902) | (636,758) | (181,367) | 746,432 | (1,802,161) | (2,765,818) |
| 173,329 | - | (559,700) | 77,902 | 636,758 | 697,813 | - | 2,488,636 | 4,097,770 |
| \$ 2,700 | \$ (2,000) | \$ (712,403) | \$ - | \$ - | \$ 516,446 | \$ 746,432 | \$ 686,475 | \$ 1,331,952 |

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Council
City of Kaukauna, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kaukauna, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Kaukauna's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated May 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kaukauna, Wisconsin's internal control over financial reporting (internal control) to determine the 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 of Kaukauna, Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kaukauna, Wisconsin's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kaukauna, Wisconsin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Kaukauna, Wisconsin's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kaukauna, Wisconsin's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.

Schneider SC

Certified Public Accountants
Green Bay, Wisconsin
May 8, 2013