

City of Waukesha, Wisconsin
Management's Discussion and Analysis

This discussion and analysis of the City of Waukesha's financial performance is intended to provide an overview of the City's financial activities for the fiscal year ended December 31, 2005 in comparison with the year ended December 31, 2004. Please consider it in conjunction with the City's financial statements, which begin on page __, following this narrative.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Waukesha's basic financial statements are comprised of three components: 1) government-wide statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, themselves.

Government-Wide Financial Statements

The two *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business entities.

The *Statement of Net Assets* presents information on all of the City of Waukesha's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 those functions of the municipality that are principally supported by taxes and intergovernmental revenues, known as *governmental activities*, from other functions that are intended to recover all or a significant portion of their costs through user fees and service charges, called *business-type activities*. The governmental activities of the City of Waukesha include general government, public safety, highways and streets, culture and recreation, conservation and development and other interest and fiscal charges. The business-type activities of the City include a water utility, wastewater utility, mass transit, parking utility and the city cemetery.

The government-wide financial statements include not only the City of Waukesha itself (*the primary government*) but also a legally separate Housing Authority and Business Improvement District for which the City is accountable (*component unit*). Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages __ through __ 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 activities or objectives. The City of Waukesha, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with various finance related legal requirements. All of the funds of the City of Waukesha can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, 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 the City'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. By doing so, readers may better understand the long-term impact of the municipality's near-term financing decisions. Both the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Waukesha maintains 40 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, General Debt Service and Combined TIF Debt Service, all of which are considered to be major funds or funds for which separate reporting has been determined to be helpful in fulfilling other legal reporting requirements. Data from the other 33 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental fund financial statements can be found beginning on page ___ of this report.

Proprietary Funds maintained by the City of Waukesha are of two different types: *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report those functions presented as business-type activities in the government-wide financial statements. The City's fund financial statements present separate enterprise fund information for the Water Utility, Wastewater Utility, Transit Utility, Parking Utility and the city's only non-major enterprise fund (Cemetery). *Internal service funds* are used to account for enterprise-like operations that provide services, on a user fee basis, primarily or exclusively to departmental customers within the governmental entity itself, rather than to external customers. The City of Waukesha uses internal service funds to account for its print shop, dental and life insurance, health insurance, and property, liability and workers compensation insurance. These internal functions are reported in a single, aggregated proprietary fund statement presentation and included with other governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found beginning on page ___ of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds would not be available to support the City of Waukesha's own programs. The accounting for fiduciary funds is similar to that used for proprietary funds. The City of Waukesha has no fiduciary funds to report.

Notes to the Financial Statements

The notes to the financial statements provide additional detail 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 beginning on page ___ of this report.

Supplementary Information

Following the basic government-wide and fund financial statements, accompanying notes, and required supplementary information (RSI), additional supplementary information has been provided as part of this report. The supplementary information includes combining statements for the non-major governmental, enterprise, internal service, and agency funds. This supplementary information section of the report begins on page ___.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City of Waukesha's statement of net assets is summarized in the table below. The City's assets exceeded liabilities by \$192.1 million at the close of 2005. This is an increase of \$8.4 million over last year. The increase was largely due to construction, purchased and contributed capital asset additions. The vast majority of these net assets 97% reflect the City's investment in capital assets including land, land improvements, buildings, machinery and equipment, infrastructure, plant in service and construction in progress, net of related outstanding debt used to acquire the assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Waukesha, Wisconsin Summary Statement of Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
	Current and Other Assets	\$ 125,801,102	\$ 126,326,148	\$ 22,850,197	\$ 22,492,747	\$ 148,651,299
Capital Assets (net)	\$ 137,333,856	\$ 124,983,878	\$ 132,263,841	\$ 130,251,397	\$ 269,597,697	\$ 255,235,275
Total Assets	\$ 263,134,958	\$ 251,310,026	\$ 155,114,038	\$ 152,744,144	\$ 418,248,996	\$ 404,054,170
Current Liabilities	\$ 110,213,264	\$ 110,070,216	\$ 3,887,205	\$ 4,291,212	\$ 114,100,469	\$ 114,361,428
Non-current Liabilities	\$ 85,855,306	\$ 76,303,783	\$ 26,202,338	\$ 29,733,464	\$ 112,057,644	\$ 106,037,247
Total Liabilities	\$ 196,068,570	\$ 186,373,999	\$ 30,089,543	\$ 34,024,676	\$ 226,158,113	\$ 220,398,675
Net Assets:						
Invested in Capital Net of Debt	\$ 79,061,271	\$ 76,147,710	\$ 108,092,234	\$ 104,828,220	\$ 187,153,505	\$ 180,975,930
Restricted	\$ 1,312,199	\$ 1,738,134	\$ 3,686,105	\$ 3,683,582	\$ 4,998,304	\$ 5,421,716
Unrestricted (deficit)	\$ (13,307,112)	\$ (12,949,817)	\$ 13,246,156	\$ 10,207,666	\$ (60,956)	\$ (2,742,151)
Total Net Assets	\$ 67,066,358	\$ 64,936,027	\$ 125,024,495	\$ 118,719,468	\$ 192,090,853	\$ 183,655,495
Total Net Assets as a % of Total Liabilities	34%	35%	416%	349%	85%	83%
Unrestricted Net Assets as a % of Total Liabilities	-7%	-7%	44%	30%	0%	-1%

A portion of the City's net assets (2.6%) represents resources that are subject to other restrictions as to how they may be used. The remaining deficit of \$60,956 of total net assets will need to be raised in the future to meet the City's on-going obligations to its citizens and creditors. The further reduction in unrestricted net assets of the governmental activities is primarily the result of spending activity within the City's TIF districts and capital funds of assets accumulated in the previous year. Overall, the City's business-type activities continued to improve their positive unrestricted net assets balance due to favorable results of operations and developer contributions.

At the end of 2005, the City is not able to report positive balances in all categories of net assets for the government as a whole. Only its business-type activities can report a positive balance on an individual basis. While the governmental-type activities had a deficit unrestricted net assets, total net assets exceeded total liabilities at the end of 2005 for both governmental and business-type activities. Unrestricted net assets remained unchanged at -7% of total liabilities for governmental activities, and grew by 14% to 44% for business-type activities. The unrestricted net assets of the governmental activities fell by only \$357,295 from 2004 to 2005. The reduction was the result of spending cash and investments accumulated in 2004 on capital assets in 2005 for construction of buildings, infrastructure and TIF activities

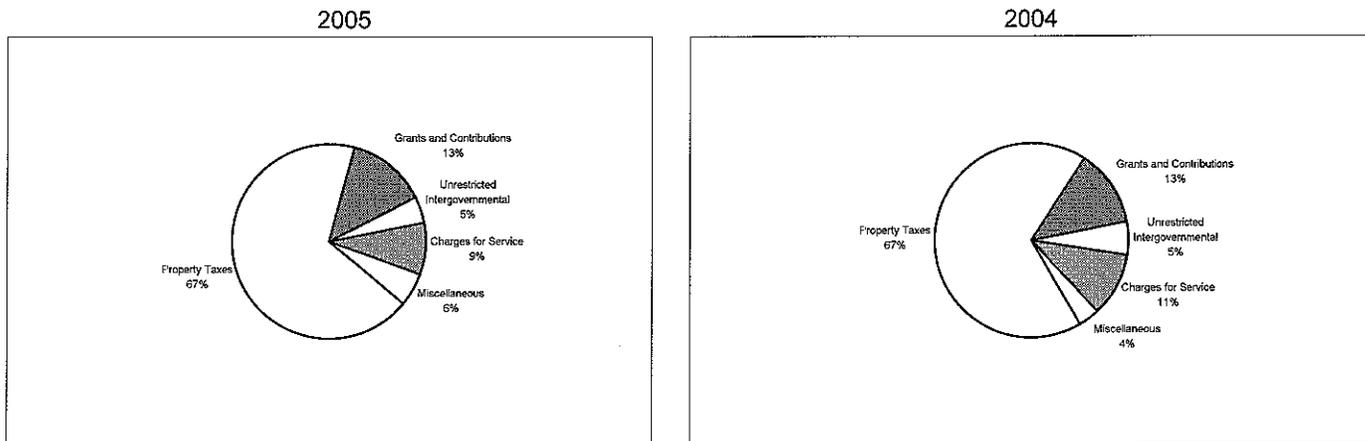
**City of Waukesha, Wisconsin
Summary Statement of Activities**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for service	\$ 5,270,665	\$ 6,116,736	\$ 18,704,419	\$ 18,251,327	\$ 23,975,084	\$ 24,368,063
Operating grants and contributions	\$ 5,229,776	\$ 4,804,080	\$ 5,819,378	\$ 5,794,138	\$ 11,049,154	\$ 10,598,218
Capital grants and contributions	\$ 2,876,902	\$ 2,486,343	\$ 4,342,002	\$ 13,619,477	\$ 7,218,904	\$ 16,105,820
General Revenues						
Property taxes	\$ 41,364,912	\$ 38,696,030	\$ 1,135,106	\$ 734,287	\$ 42,500,018	\$ 39,430,317
Other taxes	\$ 1,472,178	\$ 719,477	\$ -	\$ -	\$ 1,472,178	\$ 719,477
Intergovernmental revenues*	\$ 2,738,815	\$ 3,123,420	\$ -	\$ -	\$ 2,738,815	\$ 3,123,420
Investment earnings	\$ 1,280,326	\$ 612,283	\$ 382,032	\$ 269,690	\$ 1,662,358	\$ 881,973
Miscellaneous	\$ 618,470	\$ 716,295	\$ 30,671	\$ (202,373)	\$ 649,141	\$ 513,922
Total Revenues	\$ 60,852,044	\$ 57,274,664	\$ 30,413,608	\$ 38,466,546	\$ 91,265,652	\$ 95,741,210
Expenses						
General government	\$ 7,171,272	\$ 7,478,978			\$ 7,171,272	\$ 7,478,978
Public safety	\$ 25,018,063	\$ 23,853,107			\$ 25,018,063	\$ 23,853,107
Highways and streets	\$ 11,017,532	\$ 15,235,397			\$ 11,017,532	\$ 15,235,397
Sanitation	\$ 1,960,635	\$ 1,958,663			\$ 1,960,635	\$ 1,958,663
Culture and recreation	\$ 10,375,323	\$ 8,299,713			\$ 10,375,323	\$ 8,299,713
Conservation and development	\$ 710,042	\$ 683,873			\$ 710,042	\$ 683,873
Interest and fiscal charges	\$ 3,189,687	\$ 2,797,495			\$ 3,189,687	\$ 2,797,495
Water			\$ 4,805,332	\$ 4,432,772	\$ 4,805,332	\$ 4,432,772
Wastewater			\$ 8,510,188	\$ 8,566,074	\$ 8,510,188	\$ 8,566,074
Transit			\$ 9,349,101	\$ 9,015,608	\$ 9,349,101	\$ 9,015,608
Parking			\$ 904,590	\$ 801,036	\$ 904,590	\$ 801,036
Other	\$ -	\$ -	\$ 724,509	\$ 815,167	\$ 724,509	\$ 815,167
Total Expenses	\$ 59,442,554	\$ 60,307,226	\$ 24,293,720	\$ 23,630,657	\$ 83,736,274	\$ 83,937,883
Changes in Net Assets Before Transfers	\$ 1,409,490	\$ (3,032,562)	\$ 6,119,888	\$ 14,835,889	\$ 7,529,378	\$ 11,803,327
Transfers	\$ 720,841	\$ 776,400	\$ (720,841)	\$ (776,400)	\$ -	\$ -
Change in Net Assets	\$ 2,130,331	\$ (2,256,162)	\$ 5,399,047	\$ 14,059,489	\$ 7,529,378	\$ 11,803,327
NET ASSETS - Beginning of Year	\$ 64,936,027	\$ 67,135,527	\$ 118,719,468	\$ 104,659,979	\$ 183,655,495	\$ 171,795,506
Prior Period Adjustment	\$ -	\$ 56,662	\$ 905,980	\$ -	\$ 905,980	\$ 56,662
NET ASSETS - End of Year	\$ 67,066,358	\$ 64,936,027	\$ 125,024,495	\$ 118,719,468	\$ 192,090,853	\$ 183,655,495

The Governmental activities net assets rose during the year by \$2.1 million during 2005. This was primarily because of favorable operations, the addition of capital spending and capital contributions. The Business-type activities grew by \$5.4 million as a result of favorable operations and capital contributions. For further information on the Business-type activities please refer to the Financial Analysis Section of the major Proprietary funds.

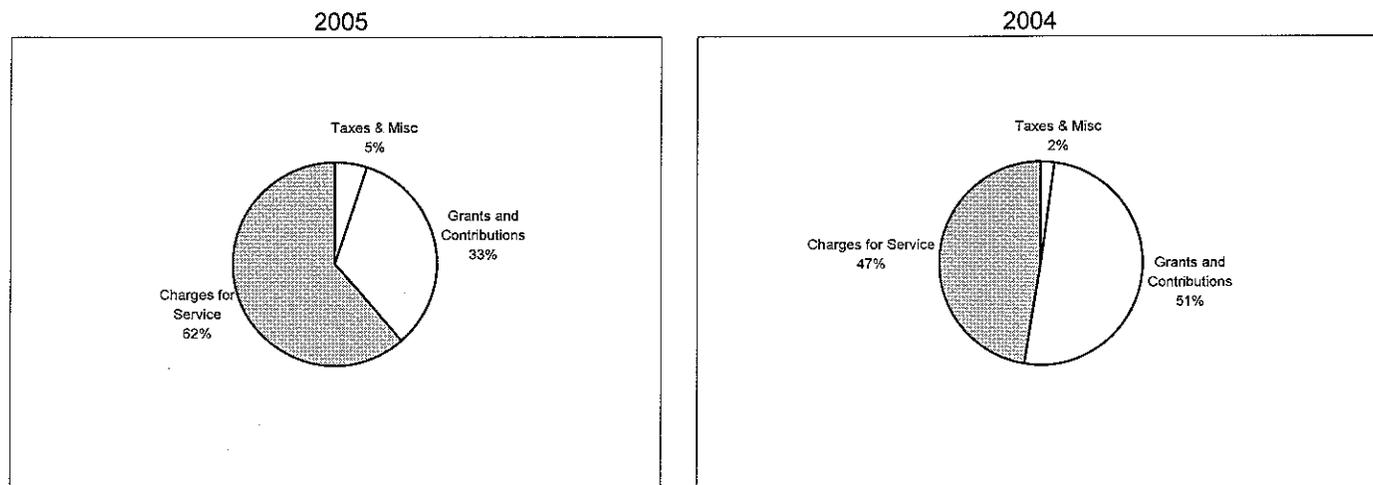
An examination of the statement of activities can provide a concise picture of how the various activities of the City are funded. The following pie charts draw data from the statement of activities. For governmental services, the City is highly dependent upon the property tax for funding, deriving 67% in both 2005 and 2004 of its revenue from this single source. Operating and capital grants and contributions along with unrestricted intergovernmental revenues comprise another 18% in both 2005 and 2004, while charges for services and all other sources account for 15% in 2005 and 2004 of total governmental activity resources.

Governmental Activities Revenues by Source



In the case of business-type activities, the data shows a considerably different picture. Charges for services (62% 2005, 47% 2004) replace property taxes as the primary revenue. The decrease of grants and contributions by 18% in 2005 is attributable to the city's transit utility primarily. During 2004, the governmental activities contributed \$4.7 million towards the construction of a new transit terminal. The transit utility also received over \$4 million from the Federal Government towards the cost of the terminal. Also during 2004 the city partnered with Waukesha county for the management of the county's transit operations

Business-Type Activities Revenues by Source



FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information regarding near-term inflows, outflows and spendable resources. Such information can be useful in assessing the City's financing requirements. In particular, the level of unreserved fund balances 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, 2005, the City of Waukesha's governmental funds reported combined ending fund balances of approximately \$17.1 million, a decrease of \$840,344 over the previous year. This was mostly from the expenditures of cash and investments to acquire or construct capital assets. Of the total fund balance for 2005, \$8.3 million is reserved for specific legal requirements and other commitments, leaving total unreserved governmental fund balances of \$8.8 million available for spending at the discretion of the City's common council. This is a decrease of \$26,040 from 2004. As the result of past actions and policy decisions, \$4.2 million of these unreserved balances have been segregated or otherwise designated for specific uses, leaving an unreserved, undesignated fund balance of nearly \$4.6 million in the governmental funds. Which is an increase of \$0.2 million over last year.

General Fund: The general fund is the primary governmental fund of the city. As of December 31, 2005 the fund balance for the general fund was approximately \$4.8 million. This is an increase of \$147,957 over the ending fund balance from the previous year. The increase in fund balance is due primarily from favorable increases in room taxes and interest income over what was budgeted.

General Debt Service: The debt service fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The ending fund balance for 2005 was \$805,065. This was a decrease of \$127,814 from the 2004 balance. This was primarily the result of less than expected transfers in from capital projects.

Tax Incremental Financing Debt Service: The TIF debt service funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs associated with the eight open tax incremental districts of the city. The TIF debt service fund balance fell in aggregate by \$298,121 from the previous year. This was the result of TIF increment revenues not keeping pace with debt service requirements and the closing of two districts. During 2005 the City closed out two TIF districts. TIF 4 and TIF 10 transferred over \$591,000 to the overlapping taxing jurisdictions and added over \$53 million in equalized property valuation to the City's tax base.

The aggregated other governmental funds column includes various special revenue, revolving loan, grant, endowment and capital project funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The accumulated fund balances of these funds fell by more than \$562,366 during 2005 as a result of spending resources accumulated in 2004 to complete several building projects and TIF projects.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. The net assets of the enterprise-type proprietary funds at the end of 2005 totaled \$125 million, up \$5.4 million from the previous year before a prior period adjustment of \$905,980 from the Water Utility. Over \$4.3 million of the increase was due to capital contributions to the Water, Sewer and Transit utilities. Most of the contributions were for the distribution and collection systems and were added by outside developers. This is a direct reflection of the strong development and continuing growth of the City. The remaining increase in net assets of the enterprise-type proprietary funds was a result of favorable operations.

The net assets of the City's internal service-type proprietary funds increased during the year by \$62,107. The majority of the increase was attributable to the City's printshop operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

As shown in the "Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund", the original 2005 general fund budget authorized expenditures and transfers out of approximately \$46.9 million, funded by anticipated revenues and transfers in of \$46.9 million. During the year, the Common Council increased expenditure appropriations by \$773,251 to accommodate carryovers from the previous year, additional grants and increases in health insurance. The revenue budget was increased by \$202,400 for additional revenues associated with these new grants and programs.

The City ended the year with a favorable general fund budget variance in revenues and an unfavorable one for expenditures. Revenues were \$671,411 or 1.5% above the final amended budget while expenditures came in \$11,495 over the final budget amount. Overall the General Fund ended the year on a positive note, with revenues and transfers in exceeding expenditures by \$148,098.

During the year expenditure appropriations were increased by \$773,251 by the council. Of the increase, \$520,000 was for additional health insurance, overtime, fuel and road salt costs incurred by the city. Carryovers from the previous year for projects started in 2004 amounted to a \$150,516 increase in the 2005 expenditure budget. Additional capital equipment grants received and miscellaneous increased expenditures with offsetting revenues accounted for \$102,735 of the remaining expenditure budget increase.

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets

In accordance with the implementation requirements of GASB #34, the City has recorded historical costs and depreciation expense associated with all of its capital assets, including infrastructure with the exception of the storm sewer network. The current year storm sewer additions have been recorded but the historical costs of the existing network will be added to the statement of net assets in subsequent years. As summarized in the table below, the City's reported net investment in capital assets for governmental and business type activities as of December 31, 2005 totaled over \$269.6 million.

Total accumulated depreciation at the end of the year was \$146.7 million, or approximately 35% of the historical asset cost.

City of Waukesha, Wisconsin Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 23,815,002	\$ 18,208,085	\$ 2,848,496	\$ 2,916,151	\$ 26,663,498	\$ 21,124,236
Improvements	\$ 3,652,809	\$ 3,417,529			\$ 3,652,809	\$ 3,417,529
Buildings	\$ 42,678,437	\$ 34,492,871	\$ 70,423,760	\$ 70,174,695	\$ 113,102,197	\$ 104,667,566
Machinery and Equipment	\$ 30,631,712	\$ 29,303,133	\$ 37,370,411	\$ 36,473,646	\$ 68,002,123	\$ 65,776,779
Infrastructure	\$ 125,495,032	\$ 121,210,475	\$ 74,856,343	\$ 70,333,317	\$ 200,351,375	\$ 191,543,792
Construction in Progress	\$ 2,115,226	\$ 4,143,409	\$ 2,376,670	\$ 1,250,829	\$ 4,491,896	\$ 5,394,238
Sub-total	\$ 228,388,218	\$ 210,775,502	\$ 187,875,680	\$ 181,148,638	\$ 416,263,898	\$ 391,924,140
Less: Accumulated Depreciation	\$ (91,054,362)	\$ (85,791,624)	\$ (55,611,839)	\$ (50,897,242)	\$ (146,666,201)	\$ (136,688,866)

Some of the most significant additions to the City's capital assets during 2005 included:

• Library Addition	\$4.4 million
• Parkland Acquisitions	\$4.0 million
• Horeb Pool Reconstruction	\$3.8 million
• Street network additions	\$2.6 million
• Water mains and distribution assets	\$3.2 million
• Storm sewer additions	\$1.9 million
• Sanitary sewer collection system additions	\$1.3 million
• Fleet and heavy Equipment	\$1.1 million

Additional information related to the City of Waukesha's capital assets is reported in Note ___ – capital assets following the financial statements

Long-Term Debt

On December 31, 2005, the City of Waukesha had \$100,004,285 of long-term notes, bonds, bond anticipation and note anticipation notes outstanding and revenue bonds, as summarized in the following table:

City of Waukesha, Wisconsin Notes and Bonds Outstanding

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
	General Obligation Bonds and Notes	\$ 78,559,859	\$ 70,270,821	\$ 6,061,023	\$ 6,495,350	\$ 84,620,882
Revenue Bonds	\$ -	\$ -	\$ 20,141,315	\$ 23,238,114	\$ 20,141,315	\$ 23,238,114
Total	\$ 78,559,859	\$ 70,270,821	\$ 26,202,338	\$ 29,733,464	\$ 104,762,197	\$ 100,004,285

It is anticipated that the outstanding bond and note anticipation notes will be refinanced with long-term bonds and notes over the next few years.

Under Wisconsin State Statutes, the outstanding long-term debt of a municipality may not exceed 5% of the equalized property value of all taxable property within the jurisdiction. Applicable debt of the City totaled \$72,533,683 which is 27.5% of the maximum legal limit of \$262,828,950. During 2005, the City issued new debt for the following amounts and purposes:

City of Waukesha, Wisconsin Long-Term Debt Issued during 2005

<u>Date</u>	<u>Type of Debt</u>	<u>Amount</u>	<u>Moody's Rating</u>
4/1/2005	General Obligation Refunding Bonds	\$ 4,220,000	Aa2
5/1/2005	General Obligation Promissory Note	\$ 4,770,000	Aa2
5/1/2005	General Obligation Refunding Bonds	\$ 1,700,000	Aa2
5/10/2005	Bond Anticipation Note	\$ 3,900,000	MIG-1
10/18/2005	Note Anticipation Note	\$ 5,000,000	MIG-1
		<u>\$ 19,590,000</u>	

For more information on the city's long-term obligations refer to Note ____ – long-term obligations

CURRENTLY KNOWN FACTS

The adoption of the 2006 general fund budget resulted in an expenditure increase of 4.18% over the previous year. The general fund property tax levy increased by .11%, while other revenue sources increased by 13.3%. A large portion of the increase was a result of increased interest income, and room taxes projected by the city. The resulting tax levy increase for all funds in 2006 was 5.23% and the assessed tax rate decreased by 20.38%. The City underwent a reassessment of its property values in 2005.

REQUESTS FOR INFORMATION

This report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to provide accountability for the financial resources it receives. If you have questions about the information contained in this report or need additional financial information concerning the City of Waukesha, please contact the City Finance Office, 201 Delafield St., Room 111, Waukesha, Wisconsin, 53188. Our telephone number is 262-524-3560 and our e-mail address is Finanace@ci.waukesha.wi.us.