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AUDITED FINANCIAL STATEMENTS

CITY OF WAUPACA, WISCONSIN

DECEMBER 31, 2009

CITY OF WAUPACA, WISCONSIN
DECEMBER 31, 2009

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INDEPENDENT AUDITOR'S REPORT

The City Council
City of Waupaca
Waupaca, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waupaca, Wisconsin as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waupaca, Wisconsin, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City of Waupaca has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison schedule is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waupaca's basic financial statements. The combining fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

JOHNSON BLOCK AND COMPANY, INC.

Johnson Block and Company Inc.

Mineral Point, Wisconsin
March 27, 2010

BASIC FINANCIAL STATEMENTS

Exhibit A-1
City of Waupaca, Wisconsin
Statement of Net Assets
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and investments	\$ 3,180,158	\$ 754,885	\$ 3,935,043
Receivables:			
Taxes	4,826,056		4,826,056
Customer		402,163	402,163
Other	24,791	13,088	37,879
Internal balances	(6,255,495)	6,255,495	
Inventories		26,095	26,095
 Total Current Assets	 1,775,510	 7,451,726	 9,227,236
Noncurrent assets:			
Restricted assets:			
Cash and investments		2,712,512	2,712,512
Total restricted assets		2,712,512	2,712,512
Other assets:			
Other deferred debits		35,590	35,590
Long-term accounts receivable	335,836		335,836
Special assessments receivable	820,413	165,581	985,994
Total other assets	1,156,249	201,171	1,357,420
Capital assets:			
Property and plant	30,702,624	35,027,405	65,730,029
Less: accumulated provision for depreciation	5,873,963	11,675,141	17,549,104
 Total capital assets	 24,828,661	 23,352,264	 48,180,925
 Total noncurrent assets	 25,984,910	 26,265,947	 52,250,857
 Total assets	 \$ 27,760,420	 \$ 33,717,673	 \$ 61,478,093

Exhibit A-1 (Continued)
City of Waupaca, Wisconsin
Statement of Net Assets
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 234,721	\$ 113,165	\$ 347,886
Due to other governments	61,817		61,817
Accrued liabilities	69,554	492	70,046
Deferred revenues	5,083,487		5,083,487
Accrued interest	302,807	58,382	361,189
Customer Deposits		4,800	4,800
Current portion of long-term debt	2,285,000	786,767	3,071,767
Current portion of capital lease	35,277	17,135	52,412
Total current liabilities	<u>8,072,663</u>	<u>980,741</u>	<u>9,053,404</u>
Current liabilities (payable from restricted assets):			
Accrued interest		16,095	16,095
Current portion of mortgage revenue bonds		145,500	145,500
Total current liabilities (payable from restricted assets)		<u>161,595</u>	<u>161,595</u>
Long-term liabilities			
Mortgage revenue bonds		11,972,770	11,972,770
Bonds and notes payable	27,140,000		27,140,000
Capital lease	200,743	97,494	298,237
Compensated absences	722,510	96,328	818,838
Less: current portion	(2,320,277)	(949,402)	(3,269,679)
Total long-term liabilities	<u>25,742,976</u>	<u>11,217,190</u>	<u>36,960,166</u>
Total liabilities	<u>33,815,639</u>	<u>12,359,526</u>	<u>46,175,165</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	11,072,918	11,427,500	22,500,418
Restricted	1,898,559	2,550,917	4,449,476
Unrestricted	(19,026,696)	7,379,730	(11,646,966)
Total net assets	<u>(6,055,219)</u>	<u>21,358,147</u>	<u>15,302,928</u>
Total liabilities and net assets	<u>\$ 27,760,420</u>	<u>\$ 33,717,673</u>	<u>\$ 61,478,093</u>

Exh -2
City of Waupun, Wisconsin
Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Totals 2009
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 903,031	\$ 98,027	\$	\$	\$ (805,004)	\$	\$ (805,004)
Public safety	1,585,511	160,584	21,021		(1,403,906)		(1,403,906)
Health and social services	147,140	23,900			(123,240)		(123,240)
Public works	1,802,909	206,573	1,122,887		(473,449)		(473,449)
Culture, recreation and education	1,514,392	133,324	404,847		(976,221)		(976,221)
Conservation and development	273,641	211,747		101,722	39,828		39,828
Interest and fiscal charges	1,242,593				(1,242,593)		(1,242,593)
Total Expenses	7,469,217	834,155	1,548,755	101,722	(4,984,585)		(4,984,585)
Business-type activities:							
Water utility	1,023,451	1,294,816		265,509		536,874	536,874
Sewer utility	1,801,524	1,756,757		507,685		462,918	462,918
Telecommunication utility	208,103	189,429				(18,674)	(18,674)
Total business-type activities	3,033,078	3,241,002		773,194		981,118	981,118
Total primary government	\$ 10,502,295	\$ 4,075,157	\$ 1,548,755	\$ 874,916	(4,984,585)	981,118	(4,003,467)
General Revenues:							
Property taxes							
General purposes					\$ 3,769,631	\$	\$ 3,769,631
Debt service					806,220		806,220
Capital projects					38,771		38,771
Other taxes					144,135		144,135
Federal and State aid not restricted for specific purposes					1,235,772		1,235,772
Interest and investment earnings					35,455	70,511	105,966
Gain on Sale of fixed assets					58		58
Miscellaneous					16,996		16,996
Total general revenues					6,047,038	70,511	6,117,549
Special items:							
Transfers					515,483	(515,483)	
Total special items					515,483	(515,483)	
Change in net assets					1,577,936	536,146	2,114,082
Net assets - beginning of year					(8,064,780)	20,822,001	12,757,221
Prior period adjustment					431,625		431,625
Net assets - end of year					\$ (6,055,219)	\$ 21,358,147	\$ 15,302,928

Exhibit A-3
City of Waupaca, Wisconsin
Balance Sheet
Governmental Funds
December 31, 2009

	General	Debt Service	TIF #4	TIF #6	TIF #8	Other Governmental Funds	Total
Assets:							
Cash and investments	\$ 249,512	\$ 302,136	\$ 958,369	\$ 575,281	\$	\$ 1,094,860	\$ 3,180,158
Receivables:							
Taxes	1,411,520	1,179,020	618,528	548,847	63,473	1,004,668	4,826,056
Accounts	19,100					5,691	24,791
Special Assessments						820,413	820,413
Long-term notes receivable						335,836	335,836
Due from Other Funds	1,682,508	2,910				4,611	1,690,029
Total Assets	\$ 3,362,640	\$ 1,484,066	\$ 1,576,897	\$ 1,124,128	\$ 63,473	\$ 3,266,079	\$ 10,877,283
Liabilities:							
Accounts Payable	\$ 67,792	\$	\$	\$	\$ 100	\$ 166,829	\$ 234,721
Accrued Liabilities	69,554						69,554
Due to Other Governments	23,434					38,383	61,817
Deferred Revenues	1,352,816	1,179,020	618,528	548,847	63,473	2,160,917	5,923,601
Due to other funds	29,354				7,494,501	421,669	7,945,524
Total Liabilities	1,542,950	1,179,020	618,528	548,847	7,558,074	2,787,798	14,235,217
Fund Equity:							
Reserved for other activities						112,675	112,675
Reserved for debt service		305,046					305,046
Reserved for capital projects			958,369	575,281		249,995	1,783,645
Unreserved							
Designated	312,761					427,666	740,427
Undesignated (deficit)	1,506,929				(7,494,601)	(312,055)	(6,299,727)
Total Fund Equity	1,819,690	305,046	958,369	575,281	(7,494,601)	478,281	(3,357,934)
Total Liabilities and Fund Equity	\$ 3,362,640	\$ 1,484,066	\$ 1,576,897	\$ 1,124,128	\$ 63,473	\$ 3,266,079	\$ 10,877,283

Exhibit A-4
City of Waupaca, Wisconsin
Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Assets
December 31, 2009

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

Total Fund balances-governmental funds:	\$ (3,357,934)
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Capital assets used in governmental funds are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental capital asset	30,702,624	
Governmental accumulated depreciation	<u>(5,873,963)</u>	24,828,661

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

Special assessments	840,114
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds statements. Long-term liabilities reported in the statement of net assets that are not reported in the funds balance sheet are:

Bonds and notes payable	(27,140,000)	
Capital lease payable	(200,743)	
Accrued interest on general obligation debt	(302,807)	
Compensated absences	<u>(722,510)</u>	

Net Assets of Governmental Funds	<u><u>\$ (6,055,219)</u></u>
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Exhibit A-5
City of Waupaca, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Debt Service	TIF #4	TIF #6	TIF #8	Other Governmental Funds	Total
Revenues:							
Taxes	\$ 1,698,351	\$ 806,220	\$ 622,486	\$ 516,432	\$ 64,428	\$ 1,118,377	\$ 4,826,294
Special Assessments						46,952	46,952
Licenses and Permits	125,927						125,927
Fines, Forfeits and penalties	72,138						72,138
Intergovernmental	2,501,163		7,452	712	6,112	554,510	3,069,949
Public Charges for Services	168,722					101,836	270,558
Miscellaneous:							
Interest	3,744		3,565	2,513	281	22,356	32,459
Sale of Assets	1,983					42,338	44,321
Other	71,613		47,315	22,803		151,297	293,028
Total Revenues	4,643,641	806,220	680,818	542,460	70,821	2,037,666	8,781,626
Expenditures:							
General Government	895,657						895,657
Public Safety	1,572,980						1,572,980
Health and Social Services	142,290						142,290
Public Works	1,143,384					543,762	1,687,146
Culture, Recreation and Education	1,392,253					131,728	1,523,981
Conservation and Development						273,641	273,641
Capital Outlay							
Public Safety						40,674	40,674
Public Works	100,100					190,149	290,249
Culture, Recreation and Education						117,474	117,474
Conservation and Development			7,896	62,126	61,240	151,536	282,798
Debt Service							
Principal Retirement	105,000	522,500	333,562	430,888	311,013	509,538	2,212,501
Interest and Fiscal Charges	20,208	168,416	227,816	208,019	242,623	470,704	1,337,786
Total Expenditures	5,371,872	690,916	569,274	701,033	614,876	2,429,206	10,377,177
Excess of Revenues Over (Under) Expenditures	(728,231)	115,304	111,544	(158,573)	(544,055)	(391,540)	(1,595,551)
Other Financing Sources (Uses):							
Proceeds from capital lease	200,743						200,743
Transfer from Utilities	490,483					25,000	515,483
Total Other Financing Sources (Uses)	691,226					25,000	716,226
Net Change in Fund Balances	(37,005)	115,304	111,544	(158,573)	(544,055)	(366,540)	(879,325)
Fund Balance - January 1	1,856,695	189,742	719,986	733,836	(6,950,565)	829,958	(2,620,348)
Prior period adjustment			126,839	18	19	14,863	141,739
Fund Balance - January 1 Adjusted	1,856,695	189,742	846,825	733,854	(6,950,546)	844,821	(2,478,609)
Fund Balance - December 31	\$ 1,819,690	\$ 305,046	\$ 958,369	\$ 575,281	\$(7,494,601)	\$ 478,281	\$(3,357,934)

Exhibit A-6
City of Waupaca, Wisconsin
Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009

Net change in fund balances-total governmental funds		\$ (879,325)
Amounts reported for governmental activities in the statement of activities are different because:		
The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
Capital outlay reported in governmental fund statements	1,036,475	
Depreciation expenses reported in the statement of activities	<u>(613,299)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		423,176
The City disposed of equipment resulting in a reduction of capital assets and recapture of prior year depreciation expense and has no effect on the governmental funds balance sheet.		
The value of capital assets disposed of during the year was:	(170,520)	
The amount of depreciation recapture for the year was:	121,460	
The amount received for trade-ins of assets disposed was:		
The difference in the value of assets net of recaptured depreciation and trade-ins		<u>(49,060)</u>
Compensated absences are reported in the governmental funds when amounts are paid. The statement of activities reports the amount earned during the year. The difference between the amount paid and earned was:		
		177,090
Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net assets and does not affect the statement of activities		
The amount of long-term debt principal payments in the current year is:		2,212,501
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds but does not affect the statement of activities		
		(200,743)
In governmental funds, special assessment collections are reflected as revenue when received. In the statement of activities, revenue is recognized when assessed.		
Amount assessed is greater (less) than collected by:		(200,896)
In governmental funds, interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities, interest is reported as incurred.		
The amount of interest paid during the current period	1,241,977	
The amount of interest accrued during the current period	<u>(1,146,784)</u>	
Interest paid is greater (less) than interest expensed by		<u>95,193</u>
Change in net assets-governmental activities		<u>\$ 1,577,936</u>

Exhibit A-7
City of Waupaca, Wisconsin
Statement of Net Assets
Proprietary Funds
December 31, 2009

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Investments	\$ 204,875	\$ 432,436	\$ 117,574	\$ 754,885
Receivables:				
Customer	161,471	212,912	27,780	402,163
Other	12,380	690	18	13,088
Due from Other Funds	2,826,119	3,712,167		6,538,286
Advance to Other Funds	250,000			250,000
Inventories	23,602	2,493		26,095
Total Current Assets	3,478,447	4,360,698	145,372	7,984,517
<u>Restricted Assets:</u>				
Mortgage Revenue & Interest	1,117,643			1,117,643
Replacement Fund		1,594,869		1,594,869
Total Restricted Assets	1,117,643	1,594,869		2,712,512
<u>Other Assets:</u>				
Other Deferred Debits	35,590			35,590
Special Assessments Receivable	95,558	70,023		165,581
Total Other Assets	131,148	70,023		201,171
<u>Fixed Assets:</u>				
Property and Plant	10,834,777	23,945,431	247,197	35,027,405
Less: Accumulated Provision for Depreciation	3,509,247	8,046,655	119,239	11,675,141
Total Fixed Assets	7,325,530	15,898,776	127,958	23,352,264
Total Assets	\$ 12,052,768	\$ 21,924,366	\$ 273,330	\$ 34,250,464

Exhibit A-7 (Continued)
City of Waupaca, Wisconsin
Statement of Net Assets
Proprietary Funds
December 31, 2009

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Liabilities and Net Assets</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$ 45,342	\$ 55,444	\$ 12,379	\$ 113,165
Due to Other Funds	216,410	63,693	2,688	282,791
Accrued Liabilities	492			492
Accrued Interest		58,382		58,382
Customer Deposits			4,800	4,800
Current Portion of Revenue Bonds		786,767		786,767
Current Portion of Capital Lease	5,712	11,423		17,135
Total Current Liabilities	267,956	975,709	19,867	1,263,532
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accrued Interest	16,095			16,095
Current Portion of Revenue Bonds	145,500			145,500
Total Current Liabilities (Payable from Restricted Assets)	161,595			161,595
<u>Long-term Liabilities:</u>				
Revenue Bonds	2,498,468	9,474,302		11,972,770
Capital Lease	32,508	64,986		97,494
Advance due to other funds		250,000		250,000
Compensated Absences	37,478	58,850		96,328
Less: current portion	(151,212)	(798,190)		(949,402)
Total Long-term Liabilities	2,417,242	9,049,948		11,467,190
Total Liabilities	2,846,793	10,025,657	19,867	12,892,317
<u>Net Assets:</u>				
Investment in Capital Assets, Net of Related Debt	4,940,054	6,359,488	127,958	11,427,500
Restricted	956,048	1,594,869		2,550,917
Unrestricted	3,309,873	3,944,352	125,505	7,379,730
Total Net Assets	9,205,975	11,898,709	253,463	21,358,147
Total Liabilities and Net Assets	\$ 12,052,768	\$ 21,924,366	\$ 273,330	\$ 34,250,464

Exhibit A-8
City of Waupaca, Wisconsin
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2009

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Operating Revenues:</u>				
Sales of Water	\$ 1,294,816	\$	\$	\$ 1,294,816
Measured Sewer Service		1,756,757		1,756,757
Telecommunications Revenues			189,130	189,130
Miscellaneous Income			299	299
 Total Operating Revenues	 1,294,816	 1,756,757	 189,429	 3,241,002
<u>Operating Expenses:</u>				
Operation and Maintenance	657,858	776,900	188,209	1,622,967
Depreciation	258,736	661,456	19,894	940,086
Taxes	8,446	3,839		12,285
 Total Operating Expenses	 925,040	 1,442,195	 208,103	 2,575,338
 Operating Income	 369,776	 314,562	 (18,674)	 665,664
<u>Nonoperating Revenues (Expenses):</u>				
Investment Income	23,480	46,016	1,015	70,511
Interest Expense	(98,411)	(359,329)		(457,740)
 Total Nonoperating Revenues (Expenses)	 (74,931)	 (313,313)	 1,015	 (387,229)
 Income Before Contributions and Transfers	 294,845	 1,249	 (17,659)	 278,435
Capital Contributions	265,509	507,685		773,194
Transfers Out			(51,000)	(51,000)
Transfer of Tax Equivalent	(194,521)	(265,532)	(4,430)	(464,483)
 Change in Net Assets	 365,833	 243,402	 (73,089)	 536,146
 Net Assets - Beginning of Year	 8,840,142	 11,655,307	 326,552	 20,822,001
 Net Assets - End of Year	 \$ 9,205,975	 \$ 11,898,709	 \$ 253,463	 \$ 21,358,147

Exhibit A-9
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 1,278,645	\$ 1,775,411	\$ 179,110	\$ 3,233,166
Payments to employees	(243,986)	(375,835)	(14,967)	(634,788)
Payments to suppliers	(709,305)	(403,450)	(161,780)	(1,274,535)
Net Cash Flows From Operating Activities	325,354	996,126	2,363	1,323,843
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Transfers to other funds			(51,000)	(51,000)
Paid to municipality for tax equivalent	(194,521)	(265,532)	(4,430)	(464,483)
Net Cash Flows (Used by) Noncapital Financing Activities	(194,521)	(265,532)	(55,430)	(515,483)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Payments for major repairs	(53,385)			(53,385)
Payments for capital acquisitions	(111,101)	(127,970)	(10,887)	(249,958)
Debt proceeds	32,508	91,316		123,824
Principal payments	(139,869)	(762,085)		(901,954)
Advance paid back	190,339	(190,339)		
Interest paid	(99,082)	(363,688)		(462,770)
Contributed capital		290,368		290,368
Proceeds from sale of fixed assets	6,781	35,000		41,781
Net Cash Flows (Used by) Capital and Related Financing Activities	(173,809)	(1,027,398)	(10,887)	(1,212,094)
<u>Cash Flows From Investing Activities:</u>				
Purchase of investments	(429,758)	(789,503)	(50,745)	(1,270,006)
Receipts of interest	23,480	46,016	1,015	70,511
Net Cash Flows From Investing Activities	(406,278)	(743,487)	(49,730)	(1,199,495)
Net change in Cash and Cash Equivalents	(449,254)	(1,040,291)	(113,684)	(1,603,229)
Cash and Cash Equivalents - Beginning of Year	1,342,014	2,278,093	180,513	3,800,620
Cash and Cash Equivalents - End of Year	\$ 892,760	\$ 1,237,802	\$ 66,829	\$ 2,197,391

Exhibit A-9 (Continued)
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Reconciliation of operating income to net cash provided</u>				
<u>by operating activities:</u>				
Operating Income	\$ 369,776	\$ 314,562	\$ (18,674)	\$ 665,664
Noncash items in operating income:				
Depreciation Expense	270,278	649,913	19,894	940,085
Amortization of major repair	17,795			17,795
Changes in assets and liabilities:				
Customer accounts receivable	(13,776)	(6,203)	(10,348)	(30,327)
Other accounts receivable	(10,193)	15,256	29	5,092
Due from other funds	(341,556)	181,948		(159,608)
Special assessments receivable	7,798	9,601		17,399
Inventories	9,806			9,806
Accounts payable	17,537	17,419	10,811	45,767
Due to other funds	8,509	(179,023)	651	(169,863)
Compensated absences	(10,620)	(7,347)		(17,967)
Net Cash Provided by Operating Activities	325,354	996,126	2,363	1,323,843
<u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Asset Accounts</u>				
Cash and investments	204,875	432,436	117,574	754,885
Cash and investments (restricted assets)	1,117,643	1,594,869		2,712,512
Less: Investments	(429,758)	(789,503)	(50,745)	(1,270,006)
Total cash and cash equivalents	\$ 892,760	\$ 1,237,802	\$ 66,829	\$ 2,197,391

Noncash Investing, Capital and Financing Activities:

During 2009, fixed asset additions of \$265,509 and \$217,317 were paid for by developers for water and sewer utilities, respectively.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Waupaca conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The City of Waupaca, Wisconsin was incorporated under the provisions of Chapter 131, Laws of Wisconsin, 1981. The City operates under a Council-Mayor form of government and provides the following services as authorized by its charter; public safety (police and fire), highways and streets, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning, and general administrative services.

The basic criterion for including a legally separate organization as a Component Unit is the degree of financial accountability the City has with the organization. The following circumstances set forth the City's financial accountability for a legally separate organization:

- a. The City is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.
- b. The City may be financially accountable if an organization is fiscally dependent on the City regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The financial statements include the City of Waupaca Community Development Authority as a component unit. The Authority is organized as a legally separate organization under Section 66.431 of the State of Wisconsin Statutes for the purpose of carrying out blight elimination, slum clearance and urban renewal projects. The board of the Authority is appointed by the mayor of the City. Wisconsin statutes provide for circumstances whereby the City can impose its will on the Authority and also create a potential financial benefit to or burden the City. As a component unit, the activities of the Community Development Authority, when they occur, are blended into the City's general and capital projects funds. Separately issued financial statements of the Authority are not available.

For 2009, there were no revenues or expenditures for the Community Development Authority.

B. Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made to minimize the double-counting of internal activities of the City.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major fund within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the city believes is particularly important to financial statement users may be reported as a major fund.

Basis of Presentation:

The City reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Cont.)

Debt Service– Used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

TIF No. 4, 6, and 8 Capital Projects Funds – Accounts for the activity of Tax Incremental District No.'s 4, 6, and 8, including any payment of long-term debt principal, interest and related costs.

The City reports the following major proprietary funds:

Water– All activities necessary to provide water services to residents of the City and outlying areas. Fund activities include administration, billing and collection, operations, maintenance and financing.

Wastewater – This fund accounts for the maintenance of the City's sewer system. Wisconsin State Statutes Section 66.076, permit municipalities to implement sewer fees to recover the costs of operation, maintenance, repair, and depreciation of sewer collection and transportation facilities. Sewer maintenance costs are recovered through a user fee rather than through the property tax.

Communications– This fund accounts for the activities of the City's communication utility. This utility offers broadband services to businesses and individuals. Expenditures are recovered through user fees.

Non-Major Governmental Funds:

The City reports the following non-major governmental funds:

Special Revenue Funds – Accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Inland Lakes
Hotel/Motel Tax
Transit System
Industrial Park
Revolving Loans
Recreation Center
Airport

TIF No. 3,5,7,9 & 10 Capital Projects Fund – Accounts for the activity of Tax Incremental Districts, including any payment of long-term debt principal, interest and related costs.

Permanent Funds – Are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs.

-Cemetery Perpetual care

Capital Improvements – Used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water and sewer utility and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the city is entitled to the resources and the amounts are available. Amounts owed to the City, which are not available, are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year, which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the city has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the city has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

The proprietary funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected to follow only the Financial Accounting Standards Board pronouncements issued before November 30, 1989. The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer utility are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues and expenditures arising from non-exchange transactions, such as property and sales taxes, fines, and grants are recorded according to the standards in Governmental Accounting Standards Board Statement 33 (GASB-33).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalent

The City has pooled the cash resources of its funds in order to maximize investment opportunities. Each fund's portion of total cash and investments is reported as cash and cash equivalents/investments by the City's individual major funds, and in the aggregate for non-major and agency funds.

All deposits of the City are made in board designated official depositories and are secured as required by State Statute. The City may designate, as an official depository, any bank or savings association. Also the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost, which approximates fair value. Investments with a maturity of more than one year at acquisition and nonmoney market investments are carried at fair value as determined by quoted market prices.

For purposes of the statement of cash flows, all cash and highly liquid investments with an original maturity of three months or less (including restricted assets) are considered to be cash equivalents.

E. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units in the accompanying agency fund balance sheet.

Property tax calendar - 2009 tax roll:

Lien date and levy date	November 2009
Tax bills mailed	December 2009
Payment in full, or	January 31, 2010
First installment due	January 31, 2010
Second installment due	July 31, 2010
January settlement	January 15, 2010
February settlement	February 20, 2010
August settlement	August 20, 2010
Personal property taxes in full	January 31, 2010
Tax sale- 2009 delinquent real estate taxes	October 2012

No provision for uncollectible accounts receivable has been made for the City and the utilities because they have the right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds," Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

F. Inventories and Prepaid Items

Inventories of governmental fund types consist of expendable supplies held for consumption. Such items, which are not material, are considered expenditures when purchased and, accordingly, are not reflected on the Balance Sheet- Governmental Funds.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories of proprietary fund types are valued at the lower-of-cost or market using the first-in, first-out method and are initially capitalized and then charged to expense when used.

G. Restricted Assets

Certain proceeds of the Utility revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “revenue bond construction” account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The “revenue bond special redemption” account is used to segregate resources accumulated for debt service payments over the next twelve months. The “revenue bond depreciation” account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Other restricted assets include a “DNR Replacement Fund” which is required by the Wisconsin Department of Natural Resources for repairs and maintenance on the Wastewater Utility plant. “Customer Deposits” are deposits made by the customer which are due to the customers unless their bills are not paid.

H. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure, are reported at cost or estimated historical cost if actual cost is not available. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset’s lives are not capitalized. As allowed by GASB, the City has opted to report major infrastructure assets placed into service beginning in the year 2000.

Major capital outlays for capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Interest expenses incurred during construction are capitalized as part of the additions to capital assets.

Capitalization thresholds and the estimated useful lives are as follows:

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

Fund Financial Statements

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

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Compensated Absences

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

Sick leave can be accumulated up to a maximum of 135-150 days, depending on job classification. Employees earn 12 sick days per year. Accumulated unused sick leave is placed in a bank for the employee and upon retirement, credit towards premiums of the City's hospital insurance plan. For all full-time employees, any employee leaving employment with the City in good standing has the option to receive a lump sum payment (paid at a pre-determined percentage based on years of service) or the credit towards the City's hospital insurance plan.

Compensated absence expenditures and liabilities are recorded and adjusted to December 31st salaries/wages at the close of each fiscal year.

J. Bond Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The City has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is approximately \$1,557,124 and consists of five issues.

K. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.
- b. Restricted net assets - Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balances represent amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

M. Budgets

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1(C).

The City budget is adopted in accordance with state law. The legally adopted budget and budgetary expenditure control is exercised at the two-digit subfunction level for all funds. Budget amounts in the financial statements include appropriations authorized in the original budget resolution, designated carryovers from prior years, and subsequent revisions authorized by the City Council. Such revisions are required by a statutory provision, which states that no expenditures can be made from an expired appropriation. The statutes also require publication of the budget revisions. Revisions require a majority vote of the Common Council. Appropriations for the general fund lapse at year end unless specifically carried forward by council action.

N. Transfers

Transfers include the payment in lieu of taxes from the water utility to the general fund.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Encumbrances

Encumbrances outstanding represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders at year-end are fulfilled. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent liabilities or expenditures. Encumbrance accounting applies only to governmental fund types. The City does not use encumbrance accounting.

P. Risk Management

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

Q. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

R. Regulation of Municipal Utilities

The Waupaca Water and Telecommunications Utilities operate under service rules which are established by the Public Service Commission of Wisconsin. Rates charged are regulated by the Commission. The accounting records of the utility are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission. The Sewer Utility is not regulated. However, the accounting records of the utility are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission.

S. State and Federal Aids

State general and categorical aids are recognized as revenue in the entitlement year. Federal aids and certain state aids for reimbursable programs are recognized as revenue in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenue.

T. Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expense in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 2 EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS
AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories.

- a. Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b. Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording depreciation expense on those items as recorded in the statement of activities.
- c. Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability, interest expense is recorded as incurred, and principal payments are recorded as a reduction of liabilities.

NOTE 3 CASH AND INVESTMENTS

At December 31, 2009, cash and investments included the following:

Petty cash/cash on hand	\$ 300
Deposits with financial institutions	4,140,393
Mutual Funds	2,506,715
Wisconsin Local Government Investment Pool	147
Total cash and investments	\$ 6,647,555

Cash and investments as of December 31, 2009 are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	\$ 3,935,043
Cash and investments-restricted	2,712,512
Total cash and investments	\$ 6,647,555

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Wisconsin State Statutes

Investment of City funds is restricted by state statutes. Available investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company or savings and loan association maturing in three years or less.
- Bonds are securities of any county, city, drainage district, technical college district, district, town, or school district of the state.
- Bonds or securities issued or guaranteed by the federal government.
- The local government investment pool.
- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.
- Bonds issued by a local exposition district
- Bonds issued by a local professional baseball park district
- Bonds issued by the University of Wisconsin Hospital and Clinics Authority
- Bonds issued by a local football stadium district
- Bonds issued by a local arts district
- Bonds issued by the Wisconsin Aerospace Authority.

Income Allocation – Interest income is generally allocated to the fund that owns the certificate of deposit, money market account, savings account, and investment.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Investment Type	Amount	12 Months or Less	13 to 24 Months
Certificates of Deposit	\$ 1,361,014	\$ 1,017,206	\$ 343,808

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. At December 31, 2009, the City's investments were rated as follows:

	Amount	Rating
Wisconsin Local Government Investment Pool	\$ 147	Not Rated
Mutual Funds	\$ 2,506,715	AAA

Custodial Credit Risk

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and \$250,000 for non interest bearing accounts. In addition, the banks used by the City participate in the FDIC's transaction account guarantee program. Under this program, the FDIC provides unlimited protection to all accounts earning less than .5% interest. This program is effective through June 30, 2010. Bank accounts and the local government investment pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may be significant to individual organizations.

The 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, 2009, the fair value of the City's share of the LGIP's assets was substantially equal to the amount reported above. Information on derivatives was not available to the City.

SWIB may invest in obligations of the U.S. Treasury and its agencies, Commercial Paper, Bank Time Deposits/Certificates of Deposit, Bankers' Acceptances, Asset Backed Securities and Repurchase Agreements secured by the U.S. Government or its agencies and other instruments authorized under State Investment Fund Investment guidelines.

Investment allocation in the local government investment pool as of December 31, 2009 was: 88% in U.S. Government Securities, 12% in FDIC insured deposit accounts. The Wisconsin State Treasurer updates the investment allocations on a monthly basis.

As of December 31, 2009, \$426,134 of the City's deposits with financial institutions in excess of federal depository insurance limits were exposed to custodial risk as follows:

Uninsured and uncollateralized	\$ 426,134
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City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

\$400,000 of this amount would be insured by the State of Wisconsin Guaranty Fund, providing funds are available at the time of any potential loss.

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

Concentration of Credit Risk

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

NOTE 4

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance 1/1/09	Additions	Retirements	Balance 12/31/09
<u>Governmental Activities:</u>				
Capital Assets, not being depreciated:				
Land	\$ 4,140,502	\$ 50,000	\$ (2,500)	\$ 4,188,002
Construction work in progress	255,881		(255,881)	
Total Capital Assets not being depreciated	<u>4,396,383</u>	<u>50,000</u>	<u>(258,381)</u>	<u>4,188,002</u>
Capital Assets, being depreciated:				
Buildings	11,008,344			11,008,344
Infrastructure	12,019,113	835,414		12,854,527
Improvements other than buildings	391,824	139,283		531,107
Machinery and Equipment	912,067	53,334	(14,600)	950,801
Vehicles	1,108,938	214,325	(153,420)	1,169,843
Total Capital Assets being depreciated	<u>25,440,286</u>	<u>1,242,356</u>	<u>(168,020)</u>	<u>26,514,622</u>
Less: Accumulated Depreciation for:				
Buildings	1,702,516	119,913		1,822,429
Infrastructure	2,392,516	366,955		2,759,471
Improvements other than buildings	172,589	18,960		191,549
Machinery and Equipment	624,503	41,596	(14,600)	651,499
Vehicles	490,000	65,875	(106,860)	449,015
Total Accumulated depreciation	<u>5,382,124</u>	<u>613,299</u>	<u>(121,460)</u>	<u>5,873,963</u>
Total Capital Assets being depreciated, net	<u>20,058,162</u>	<u>629,057</u>	<u>(46,560)</u>	<u>20,640,659</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,454,545</u>	<u>\$ 679,057</u>	<u>\$ (304,941)</u>	<u>\$24,828,661</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 4

CAPITAL ASSETS (CONTINUED)

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

General government	\$ 28,713
Public Safety	52,188
Public Works	442,924
Culture, recreation and education	4,850
Health and Human Services	84,624
Total depreciation expense for governmental activities	\$ 613,299

	Balance 1/1/09	Additions	Salvage	Retirements	Balance 12/31/09
<u>Business-Type Activities:</u>					
Capital assets not being depreciated:					
Land	\$ 72,639	\$	\$	\$	\$ 72,639
Non-utility property	13,563				13,563
Property held for future use	100,000				100,000
Total capital assets not being depreciated	186,202				186,202
Capital assets being depreciated:					
Building	6,293,878				6,293,878
Infrastructure/systems/equipment	27,960,268	732,783		(145,726)	28,547,325
Total capital assets being depreciated	34,254,146	732,783		(145,726)	34,841,203
Less accumulated depreciation for:					
Buildings	2,510,990	175,178			2,686,168
Infrastructure/systems/equipment	8,328,012	764,908	41,779	(145,726)	8,988,973
Total accumulated depreciation	10,839,002	940,086	41,779	(145,726)	11,675,141
Total capital assets being depreciated, net	23,415,144		41,779		23,166,062
Business-Type Activity Assets, Net	\$23,601,346	\$	\$ 4 1,779	\$	\$23,352,264

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

Water	\$ 258,736
Wastewater	661,456
Telecommunications	19,894
Total depreciation expense for business-type activities	\$ 940,086

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2009.

	Beginning 1/1/09	Additions	Payments	Balance 12/31/09	Amounts Due Within One Year
<u>Governmental Activities</u>					
General obligation debt:					
Bonds payable	\$ 8,660,000		\$ (310,000)	\$ 8,350,000	\$ 200,000
Notes payable	1,762,500		(357,500)	1,405,000	310,000
Total General Obligation Debt	10,422,500		(667,500)	9,755,000	510,000
CDA revenue bonds	18,930,000		(1,545,000)	17,385,000	1,775,000
Other long-term obligations:					
Capital lease		200,743		200,743	35,277
Compensated absences	899,600		(177,090)	722,510	
Total Governmental Activities Long-Term Liabilities	<u>\$ 30,252,100</u>	<u>\$ 200,743</u>	<u>\$ (2,389,590)</u>	<u>\$ 28,063,253</u>	<u>\$ 2,320,277</u>

Interest costs incurred during the year totaled \$1,241,977. Total interest paid during the year aggregated \$1,337,089.

Business-Type Activities

Mortgage Revenue Bonds	\$ 12,848,393	\$ 26,330	\$ (901,953)	\$ 11,972,770	\$ 932,267
Other long-term obligations:					
Capital Lease		97,494		97,494	17,135
Compensated absences	114,295		(17,967)	96,328	
Total Business-Type Activities Long-Term Liabilities	<u>\$ 12,962,688</u>	<u>\$ 123,824</u>	<u>\$ (919,920)</u>	<u>\$ 12,166,592</u>	<u>\$ 949,402</u>

Interest costs incurred during the year totaled \$456,740. Total interest paid during the year aggregated \$461,770.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Debt

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the City. The general obligation debt is expected to be repaid with general property taxes, special assessments, and tax increments. General obligation debt at December 31, 2009, is comprised of the following issues:

<u>DESCRIPTION</u>	<u>Issue Dates</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/2009</u>
<u>Notes Payable</u>					
Capital projects-subdivisions	07-13-01	04-01-11	4.7%	\$515,000	\$ 165,000
G.O. Promissory note-Capital Project Woodland- 2005C	08-06-03	04-01-13	1.8-4.15%	1,065,000	510,000
	07-01-05	04-01-13	3.75-4.0%	250,000	170,000
G.O. Promissory note-Capital Project	04-01-06	04-01-16	4.25-4.5%	740,000	560,000
					<u>\$ 1,405,000</u>
<u>Refunding Bonds</u>					
G.O. Promissory bonds-Industrial Park	11-01-00	10-01-20	4.95-5.55%	1,195,000	\$ 805,000
G.O. Promissory bonds-TIF #3	01-06-07	04-01-21	4.0%	2,640,000	2,530,000
G.O. Promissory bonds-TIF #4	01-06-07	04-01-15	4.0%	975,000	930,000
G.O. Promissory bonds-TIF #5	01-06-07	04-01-21	4.0%	275,000	265,000
G.O. Promissory bonds-TIF #4	04-01-08	10-01-27	3.25%	575,000	565,000
G.O. Promissory bonds-TIF #6	04-01-08	10-01-27	3.05%	95,000	95,000
G.O. Promissory bonds-TIF #8	04-01-08	10-01-24	3.25%	1,580,000	1,535,000
G.O. Promissory bonds-Debt Service	04-01-08	04-01-23	3.25%	1,790,000	1,625,000
					<u>\$ 8,350,000</u>
Total Government Activities – General Obligation Debt					<u>\$ 9,755,000</u>

Community Development Authority Lease Revenue Bonds

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

Lease Revenue Bonds

City Hall/Library	11-01-98	10-01-12	6.1-6.2%	\$ 955,000	\$ 340,000
TIF #3	07-15-00	10-01-21	5.05-5.95%	2,615,000	125,000
TIF #4	07-15-00	10-01-21	5.05-5.95%	2,375,000	440,000
TIF #5	07-15-00	10-01-21	5.05-5.95%	305,000	40,000
TIF #4, TIF #5	07-13-01	04-01-18	4.3-5.125%	1,095,000	1,050,000
TIF #6, TIF #7, TIF #8, TIF #10	07-13-01	04-01-17	4.3-5.1%	6,400,000	4,725,000
TIF #8	07-13-01	04-01-12	7.0-7.15%	780,000	575,000
TIF #3, TIF #4, TIF #5	08-01-02	04-01-22	3.75-5%	1,605,000	1,405,000
TIF #6, TIF #8	08-01-02	04-01-22	3.75-5%	1,460,000	1,230,000
TIF #3, TIF #4	10-06-03	04-01-23	3.1-5%	2,910,000	2,395,000
TIF #6, TIF #10	10-06-03	04-01-21	3.1-4.9%	2,075,000	1,600,000
Hendrickson Center	10-01-04	04-01-19	3.3-4.7%	3,915,000	3,460,000
Total lease revenue bonds					<u>\$17,385,000</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 5

LONG-TERM OBLIGATIONS (CONTINUED)

Enterprise Fund debt is expected to be repaid with Enterprise Fund revenue. The mortgage revenue bonds are expected to be repaid with water and wastewater revenue. Enterprise Fund debt at December 31, 2009, is comprised of the following:

<u>DESCRIPTION</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance 12/31/2009</u>
<u>Revenue Bonds</u>					
Sewerage system revenue bond	04-18-95	05-01-14	3.65%	\$ 8,607,282	\$ 2,982,421
Sewerage system revenue bond	04-08-98	05-01-17	2.64%	717,567	345,781
Sewerage system revenue bond	07-24-02	05-01-22	2.84%	1,135,476	839,749
Sewerage system revenue bond	11-01-04	05-01-24	2.365%	454,008	401,040
Sewerage system revenue bond	01-01-05	05-01-25	2.365%	437,107	366,120
Sewerage system revenue bond	07-11-07	05-01-27	2.475%	502,814	489,189
Sewerage system revenue bond	04-01-08	11-01-24	4.40%	4,125,000	4,050,000
Water system revenue bond	11-01-99	05-01-18	1.58%	760,310	388,470
Water system revenue bond	04-01-08	11-01-24	3.40%	2,210,000	2,110,000
Total Business-Type Activities Revenue Debt					<u>\$11,972,770</u>

General Obligation Debt Limit Calculation

The 2009 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$401,038,300. The legal debt limit and margin of indebtedness as of December 31, 2009 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$401,038,300)	\$ 20,051,915
General Obligation Debt Outstanding	<u>(9,755,000)</u>
Margin of Indebtedness	<u>\$ 10,296,915</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2009, are:

<u>Years</u>	<u>Governmental Fund Debt</u>		<u>Enterprise Fund Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,285,000	\$ 1,163,900	\$ 932,267	\$ 430,932
2011	2,385,000	1,060,505	957,257	398,641
2012	2,585,000	949,019	993,106	364,964
2013	3,365,000	814,179	1,019,841	329,872
2014	2,465,000	685,908	1,052,494	293,744
2015-2019	10,270,000	1,856,265	3,348,818	1,066,780
2020-2024	3,640,000	315,607	3,603,414	386,690
2025-2029	145,000	9,384	65,573	3,968
Totals	<u>\$ 27,140,000</u>	<u>\$ 6,854,767</u>	<u>\$ 11,972,770</u>	<u>\$ 3,275,591</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 6

CAPITAL LEASES, AS LESSEE

Governmental Activities

The following is an analysis of the original cost of leased property under capital leases by major classes as of December 31, 2009.

Equipment	<u>\$ 200,743</u>
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The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2009.

<u>Year Ended December 31,</u>	
2010	\$ 45,314
2011	45,314
2012	45,314
2013	45,314
2014	<u>45,321</u>
Total Payment	226,577
Less: Interest	<u>(25,834)</u>
Minimum Lease Payments	<u>\$ 200,743</u>

Business-Type Activities

The following is an analysis of the original cost of leased property under capital leases by major classes as of December 31, 2009.

Equipment	<u>\$ 97,494</u>
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The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2009.

<u>Year Ended December 31,</u>	
2010	\$ 22,010
2011	22,010
2012	22,010
2013	22,009
2014	<u>22,003</u>
Total Payment	110,042
Less: Interest	<u>(12,548)</u>
Minimum Lease Payments	<u>\$ 97,494</u>

NOTE 7

DEFINED BENEFIT PENSION PLANS

All eligible City of Waupaca employees participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined public employee retirement system. All permanent employees expected to work at least 600 hours a year are eligible to participate in the WRS. Covered employees in the General category are required by statute to contribute 6.0% of their salary (3.0% for Elected Officials, 5.1% for Protective Occupations with Social Security, and 3.4% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 7

DEFINED BENEFIT PENSION PLANS(CONTINUED)

The payroll for City of Waupaca employees covered by the WRS for the year ended December 31, 2009 was \$2,786,641; the employer's total payroll was \$3,064,525. The total required contribution for the year ended December 31, 2009 was \$376,889, which consisted of \$361,578 or 13 percent of payroll from the employer and \$15,311 or .5 percent of payroll from employees. Total contributions for the years ending December 31, 2008 and 2007, were \$363,640 and \$361,785 respectively, equal to the required contributions for each year.

Employees who retire at or after 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. Final average earnings is the average of the employee's three highest years 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 are immediately vested.

The WRS also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is 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, Post Office Box 7931, Madison, Wisconsin 53707-7931.

The pension related debt for the City as of December 31, 2009 was \$269,597. This liability was determined in accordance with provisions of GASB Statement 27 regarding pension-related debt. Depending on actuarial assumptions, this estimate can vary significantly. This liability is considered an actuarial liability and is not reported on the Statement of Net Assets.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 8

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2009 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Government Funds:		
General	Water utility	\$ 210,924
General	Sewer utility	30,614
General	Telecommunications	2,688
General	Industrial Park	93,724
General	Transit System	51,156
General	Airport	19,258
General	TIF #3	164,081
General	TIF #5	10,945
General	TIF #7	7,505
General	TIF #8	1,091,613
Debt Service	Water utility	2,910
Capital Improvements	Water utility	2,575
Capital Improvements	Sewer utility	2,036
	Total	<u>\$ 1,690,029</u>
Enterprise Funds:		
Water utility	General	\$ 15,953
Water utility	TIF #8	2,742,888
Water utility	Sewer Utility	31,042
Water utility	TIF #3	36,236
Sewer utility	TIF #8	3,660,000
Sewer utility	General	13,401
Sewer utility	TIF #3	38,766
	Total	<u>\$ 6,538,286</u>

The following is a schedule of interfund advances at December 31, 2009:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	Sewer	\$ 250,000
	Total	<u>\$ 250,000</u>

No repayment schedule has been prepared for the advance to the sewer utility. The water utility is not charging interest on the advance to the sewer utility.

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

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

The following is a schedule of interfund transfers:

<u>Fund Transfer To</u>	<u>Fund Transferred From</u>	<u>Amount</u>
Government Funds:		
General	Water utility-tax equivalent	\$ 194,521
General	Sewer utility	265,532
General	Telecommunications utility-Tax Equivalent	4,430
General	Telecommunications utility-IT Costs	26,000
Capital Improvements	Telecommunications utility	25,000
	Total	<u>\$ 515,483</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires collection from to the fund that statute or budget required to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES

Governmental activities net assets reported on the government wide statement of net assets at December 31, 2009 includes the following:

GOVERNMENTAL ACTIVITIES

Invested in capital assets, net of related debt	
Land	\$ 4,188,002
Other capital assets, net of accumulated depreciation	20,640,659
Less: related long-term debt outstanding	<u>(13,755,743)</u>
Total Invested Capital Assets	<u>11,072,918</u>
Restricted:	
Debt Service	\$ 2,239
Capital Projects	1,783,645
Perpetual Care	<u>112,675</u>
Total Restricted	<u>1,898,559</u>
Unrestricted	<u>(19,026,696)</u>
Total Governmental Activities Net Assets	<u>\$ (6,055,219)</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 9 GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES (CONTINUED)

Governmental fund balances reported on the fund financial statements at December 31, 2009 includes the following:

GOVERNMENTAL FUND BALANCES

<u>Reserved</u>	
Major Funds:	
TIF District #4	\$ 958,369
TIF District #6	575,281
Debt Service:	
Debt Service	305,046
Total	<u>1,838,696</u>
Non-Major Funds	
Other Activities	112,675
Capital Projects	<u>249,995</u>
Total Non-Major Funds	<u>362,670</u>
Total Reserved	<u>\$ 2,201,366</u>

Unreserved fund balance as of December 31, 2009 includes the following items:

Major Funds:	
Unreserved:	
General:	
Undesignated	<u>\$ 1,506,929</u>
Designated for:	
Historical	\$ 2,923
Judgments	13,942
Transit System	34,651
Cemetery	9,563
Swan Park	81,970
Cable TV	19,695
Civic Promotions	10,965
Sidewalks	5,485
Elections	1,200
Equipment	9,168
Garage	12,000
Tower Road	100,000
Bridges	999
Parkway Beautification	10,200
Total Major Funds	<u>\$ 312,761</u>
Non-Major Funds:	
Designated for:	
Inland Lakes	\$ 16,486
Hotel/Motel Tax	3,373
Revolving Loans	30,102
Recreation Center	377,705
Total Designated	<u>\$ 427,666</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 9 GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES (CONTINUED)

Undesignated (Deficit):	
Capital Improvements	\$ 136,255
Transit System	(74,343)
Industrial Park	(93,724)
Airport	(22,534)
TIF Districts	(257,709)
Total Designated	\$ (312,055)

NOTE 10 JOINT VENTURE

The Waupaca Area Fire District was established in 1991 for the purpose of furnishing fire fighting services to the territory included within the district. The municipalities participating in the fire district and their percentage shares are as follows: City of Waupaca – 37.88%; Town of Waupaca – 6.95%; Town of Dayton – 20.07%; Town of Farmington – 29.74%; and Town of Lind – 5.36%.

The percentage shares of each municipality is based on their 1999 share of equalized value within the district. The governing body consists of five voting members, those being the four town chairpersons and the chairperson of the Police and Fire Committee of the City of Waupaca. Budgets and expenditures must be approved by at least 80% of the shares. Fire district dues are based on the percentages above, and all shortfalls in revenue are allocated to each participating municipality in the same percentage. The Fire District does not have authority to borrow funds and participating municipalities do not have any equity interest in the assets of the district. The City accounts for its share of the operation in the general fund. The City believes that the district will continue to provide services in the future at similar rates.

Summary unaudited financial information of the Waupaca Area Fire District may be obtained at City Clerk's Office, 111 South Main Street, Waupaca, WI 54981.

The Waupaca Regional Recycling/Composting Center was established in July of 1990 for the purpose of joining together in the recycling of items in the waste stream that can be recycled. Additionally, the other purposes of the center are to protect the interests of the taxpayers and to insure that solid wastes generate within the district are properly recycled or disposed of in accordance with the applicable laws. The municipalities currently participating in the recycling district and their percentage shares are as follows: City of Waupaca – 37.28%; Town of Farmington – 28.68%; Town of Dayton – 16.37%; Town of Waupaca – 8.18%; and Town of Lind – 9.49%.

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

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

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 11

LANDFILL POST CLOSURE CARE COST

The City of Waupaca has an old landfill that is no longer accepting waste and is being monitored. State and federal laws and regulations require the City to monitor, document and report the condition of the City's closed landfill site in perpetuity. City officials are unable to estimate the total cost of closing the landfill and post closure monitoring at this time. \$681,762, including current year costs of \$2,880 have been incurred to date in closing and monitoring the landfill. The City has received a grant from the Wisconsin Department of Natural Resources, which will finance approximately 50% of the original costs of the landfill over a period of years beginning in 1992. The City received \$27,559 for DNR in 2000. Actual post closure care costs will be paid as incurred. No escrow accounts are required as a part of the current closure agreement and annual costs are paid from property tax revenues.

NOTE 12

TAX INCREMENTAL FINANCE DISTRICTS

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

The City has eight active Tax Incremental Financing Districts. Project summaries of the activity and status of the districts through December 31, 2009 are provided as supplemental financial information.

NOTE 13

WASTEWATER REVENUE CONTRIBUTIONS- OTHER GOVERNMENTS

The Wastewater Utility provides treatment services to the Chain O'Lakes Sanitary District. During 2009, the following amounts were received:

Contributed capital-debt service principal	\$ 178,630
Customer charges:	
Flow component (net of overcharge)	100,526
Interest component	75,091
Replacement component	36,647
	<u>\$ 390,894</u>

NOTE 14

CONTINGENCIES AND COMMITMENTS

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

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

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2009

NOTE 15

ADVANCE REFUNDINGS

In 2007, the City issued general obligation refunding bonds to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of CDA revenue lease bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets.

Total of defeased debt outstanding at December 31, 2009 is \$3,535,000. This debt will be paid off April 1, 2011.

NOTE 16

DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2009 the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Property tax receivable	\$ 4,678,761
TIF Penalties	62,804
Special assessments	840,114
Long-term notes receivable	335,836
Special Charges	639
Interest on Special Assessments	5,447
Total Deferred Revenue for Government Funds	\$ 5,923,601

Postponed special assessments are generally collectible in annual installments over five years while others have been deferred until the property is sold or placed in service.

NOTE 17

PRIOR PERIOD ADJUSTMENTS

Investments were not reflected properly in prior year financial statements. Adjustments of \$141,739 were necessary to reflect the beginning balances of the investments.

The pension related debt for the City as of December 31, 2008 was \$289,886. This liability was determined in accordance with provisions of GASB Statement 27 regarding pension-related debt. This liability is considered an actuarial liability and should not be reported in the Statement of Net Assets. Beginning net assets were adjusted accordingly.

NOTE 18

CONCENTRATION OF RISK

Approximately 26% of the water utility operating revenues are provided by one customer.

NOTE 19

SUBSEQUENT EVENT

The City purchased two taxi cabs for \$44,953 in February, 2010 and has ordered a mini-bus for \$39,649. The City has applied for grant funds to finance the cost of these items.

Required Supplementary Information

Exhibit B-1
Required Supplementary Information
City of Waupaca, Wisconsin
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<u>Revenues</u>					
Taxes	\$ 1,723,855	\$ 1,723,855	\$ 1,698,351	\$ (25,504)	\$ (25,504)
Licenses and Permits	144,842	144,842	125,927	(18,915)	(18,915)
Fines, Forfeits and penalties	80,000	80,000	72,138	(7,862)	(7,862)
Public Charges for Services	141,440	141,440	168,722	27,282	27,282
Intergovernmental	2,370,505	2,370,505	2,501,163	130,658	130,658
Interest	45,500	45,500	3,744	(41,756)	(41,756)
Miscellaneous	81,801	81,801	73,596	(8,205)	(8,205)
Total Revenues	4,587,943	4,587,943	4,643,641	55,698	55,698
<u>Expenditures</u>					
General Government	936,071	936,071	895,657	40,414	40,414
Public Safety	1,623,020	1,623,020	1,572,980	50,040	50,040
Health and Social Services	121,029	121,029	142,290	(21,261)	(21,261)
Public Works	932,566	932,566	1,243,484	(310,918)	(310,918)
Culture, Recreation and Education	1,433,006	1,433,006	1,392,253	40,753	40,753
Debt Service			125,208	(125,208)	(125,208)
Total Expenditures	5,045,692	5,045,692	5,371,872	(326,180)	(326,180)
Excess (Deficiency) of Revenues Over Expenditures	(457,749)	(457,749)	(728,231)	(270,482)	(270,482)
<u>Other Financing Sources (Uses)</u>					
Capital Lease Proceeds			200,743	200,743	200,743
Transfer from Utilities	457,749	457,749	490,483	32,734	32,734
Total Other Financing Sources (Uses)	457,749	457,749	691,226	233,477	233,477
Net Change in Fund Balance			(37,005)	(37,005)	(37,005)
Fund Balance - Beginning of Year	1,856,695	1,856,695	1,856,695		
Fund Balance - End of Year	\$ 1,856,695	\$ 1,856,695	\$ 1,819,690	\$ (37,005)	\$ (37,005)

City of Waupaca
Notes to Required Supplementary Information
On Budgetary Accounting and Control
December 31, 2009

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

Annual budgets, as required by state statutes, are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds.

A budget has been adopted for the general, certain special revenue, debt service and certain capital projects funds and comparisons of budget to actual are presented in the general purpose financial statements. Budgets have not been formally adopted for certain special revenue and capital projects funds, since effective control is achieved through alternative means. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

The budgeted amounts presented include both the original and amended budgets. The City council may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds council action. There were no supplemental appropriations during the year. Appropriations lapse at year-end unless specifically carried over. Budgets are adopted at the broad functional category level of expenditures in the general fund and total expenditures level for other funds.

Although there are adopted budgets for the enterprise funds, budget to actual data is not shown since there is no requirement under U.S. generally accepted accounting principles to present budget to actual comparisons for enterprise funds as part of the financial statements, even if annual budgets are legally adopted for these funds.

Encumbrances – Encumbrance accounting is not used.

Excess of Expenditures Over Appropriations – For the year ended December 31, 2009, expenditures exceeded budgeted amounts for the following:

Health and Social Services	\$ 21,261
Public Works	310,918
Debt Service	125,208

These over expenditures were funded by available fund balance in the general fund.

Supplementary Information

Exh. C-1
City of Waupaca, Wisconsin
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2009

	Capital Improvements	Inland Lakes	Hotel/Motel Tax	Transit System	Industrial Park	Revolving Loans	Recreation Center	Airport	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
Assets:											
Cash and Investments	\$ 176,554	\$ 16,486	\$ 126,433	\$	\$	\$ 30,102	\$ 382,615	\$	\$ 249,995	\$ 112,675	\$ 1,094,860
Taxes Receivable	25,148				97,896		479,706	105,989	295,929		1,004,668
Loans Receivable						335,836					335,836
Accounts Receivable	135							5,556			5,691
Special Assessments	820,413										820,413
Due from Other Funds	4,611										4,611
Total Assets	\$ 1,026,861	\$ 16,486	\$ 126,433	\$	\$ 97,896	\$ 365,938	\$ 862,321	\$ 111,545	\$ 545,924	\$ 112,675	\$ 3,266,079
Liabilities:											
Accounts Payable	\$ 7,450	\$	\$ 123,060	\$ 23,187	\$	\$	\$ 4,298	\$ 8,734	\$ 100	\$	\$ 166,829
Due to other governments	37,595						612	98	78		38,383
Deferred Revenue	845,561				97,896	335,836	479,706	105,989	295,929		2,160,917
Due to other funds				51,156	93,724			19,258	257,531		421,669
Total Liabilities	890,606		123,060	74,343	191,620	335,836	484,616	134,079	553,638		2,787,798
Fund Equity:											
Reserved for capital projects									249,995		249,995
Reserved for other activities										112,675	112,675
Unreserved Designated		16,486	3,373			30,102	377,705				427,666
Undesignated (deficit)	136,255			(74,343)	(93,724)			(22,534)	(257,709)		(312,055)
Total Fund Equity	136,255	16,486	3,373	(74,343)	(93,724)	30,102	377,705	(22,534)	(7,714)	112,675	478,281
Total Liabilities and Fund Equity	\$ 1,026,861	\$ 16,486	\$ 126,433	\$	\$ 97,896	\$ 365,938	\$ 862,321	\$ 111,545	\$ 545,924	\$ 112,675	\$ 3,266,079

Exhibit
City of Waupaca, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2009

	Capital Improvements	Inland Lakes	Hotel/Motel Tax	Transit System	Industrial Park	Revolving Loans	Recreation Center	Airport	TIF Districts	Permanent Fund Perpetual Care	Total Nonmajor Governmental Funds
Revenues:											
Taxes	\$ 38,771	\$	\$ 163,798	\$	\$ 100,619	\$	\$ 419,967	\$ 76,000	\$ 319,222	\$	\$ 1,118,377
Special Assessments	46,952										46,952
Intergovernmental	191,821			240,303		101,722			20,664		554,510
Public Charges for Services			40				7,975	93,821			101,836
Miscellaneous:											
Interest	18,647	113				2			2,073	1,521	22,356
Sale of Assets	42,338										42,338
Other	13,196			22,540	9	4,140	6,715	44,186	60,511		151,297
Total Revenues	351,725	113	163,838	262,843	100,628	105,864	434,657	214,007	402,470	1,521	2,037,666
Expenditures:											
Public Works				307,221				236,541			543,762
Culture, Recreation and Education							131,728				131,728
Conservation and Development		3,057	178,039			92,545					273,641
Capital Outlay											
Public Safety	40,674										40,674
Public Works	190,149										190,149
Culture, Recreation and Education	117,474										117,474
Conservation and Development									151,536		151,536
Debt Service											
Principal Retirement					55,000		160,000		294,538		509,538
Interest and Fiscal Charges	13				44,759		152,803		273,129		470,704
Total Expenditures	348,310	3,057	178,039	307,221	99,759	92,545	444,531	236,541	719,203		2,429,206
Excess of Revenues Over (Under) Expenditures	3,415	(2,944)	(14,201)	(44,378)	869	13,319	(9,874)	(22,534)	(316,733)	1,521	(391,540)
Other Financing Sources (Uses):											
Transfer from general fund	25,000										25,000
Total Other Financing Sources (Uses)	25,000										25,000
Net Change in Fund Balances	28,415	(2,944)	(14,201)	(44,378)	869	13,319	(9,874)	(22,534)	(316,733)	1,521	(366,540)
Fund Balances - January 1	107,840	19,430	17,574	(29,965)	(94,593)	16,783	387,579		294,156	111,154	829,958
Prior Year Adjustment									14,863		14,863
Fund Balances - January 1 Adjusted	107,840	19,430	17,574	(29,965)	(94,593)	16,783	387,579		309,019	111,154	844,821
Fund Balances - December 31	\$ 136,255	\$ 16,486	\$ 3,373	\$ (74,343)	\$ (93,724)	\$ 30,102	\$ 377,705	\$ (22,534)	\$ (7,714)	\$ 112,675	\$ 478,281

Exhibit C-3
City of Waupaca, Wisconsin
Combining Balance Sheet
TIF Districts
December 31, 2009

	TIF #3	TIF #5	TIF #7	TIF #9	TIF #10	Total
Assets:						
Cash and Investments	\$	\$	\$	\$ 217,935	\$ 32,060	\$ 249,995
Taxes Receivable	173,419	23,343	35,716		63,451	295,929
Total Assets	\$ 173,419	\$ 23,343	\$ 35,716	\$ 217,935	\$ 95,511	\$ 545,924
Liabilities:						
Accounts Payable	\$ 100	\$	\$	\$	\$	\$ 100
Due to other governments		78				78
Deferred Revenue	173,419	23,343	35,716		63,451	295,929
Due to other funds	239,081	10,945	7,505			257,531
Total Liabilities	412,600	34,366	43,221		63,451	553,638
Fund Equity:						
Reserved for capital projects reserved				217,935	32,060	249,995
Undesignated (deficit)	(239,181)	(11,023)	(7,505)			(257,709)
Total Fund Equity	(239,181)	(11,023)	(7,505)	217,935	32,060	(7,714)
Total Liabilities and Fund Equity	\$ 173,419	\$ 23,343	\$ 35,716	\$ 217,935	\$ 95,511	\$ 545,924

Exhibit C-4
City of Waupaca, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2009

	TIF #3	TIF #5	TIF #7	TIF #9	TIF #10	Total
Revenues:						
Taxes	\$ 172,590	\$ 25,817	\$ 38,758	\$ 15,808	\$ 66,249	\$ 319,222
Intergovernmental	748	14	492	19,410		20,664
Miscellaneous:						
Interest	1,351	722				2,073
Other	10,984	1,627	24,570		23,330	60,511
Total Revenues	185,673	28,180	63,820	35,218	89,579	402,470
Expenditures:						
Capital Outlay						
Conservation and Development	38,321	25,342	64,100	16,024	7,749	151,536
Debt Service						
Principal Retirement	210,000	36,439	15,612		32,487	294,538
Interest and Fiscal Charges	185,261	33,549	9,279		45,040	273,129
Total Expenditures	433,582	95,330	88,991	16,024	85,276	719,203
Net Change in Fund Balance	(247,909)	(67,150)	(25,171)	19,194	4,303	(316,733)
Fund Balances - January 1	31,073	18,919	17,666	198,741	27,757	294,156
Prior Year Adjustment	(22,345)	37,208				14,863
Fund Balances - January 1 Adjusted	8,728	56,127	17,666	198,741	27,757	309,019
Fund Balances - December 31	\$ (239,181)	\$ (11,023)	\$ (7,505)	\$ 217,935	\$ 32,060	\$ (7,714)

Miscellaneous Financial Data

City of Waupaca, Wisconsin
Historical Sources, Uses and Status of Funds - Tax Incremental Financing Districts
From Dates of Creation Through December 31, 2009

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<u>Sources of Funds</u>									
Taxes	\$ 1,172,955	\$ 3,140,405	\$ 111,866	\$ 2,949,489	\$ 124,401	\$ 217,843	\$ 57,655	\$ 199,540	\$ 7,974,154
Intergovernmental	222,602	38,470	3,111	8,809	5,460	502,027	179,405		959,884
Other Revenue	857,266	326,209	100,930	506,581	56,001	661,712	5,600	37,293	2,551,592
Sale of capital Assets	154,434								154,434
Proceeds of long-term debt	6,960,000	7,900,000	1,070,000	6,345,000	530,000	18,710,000		950,000	42,465,000
Transfers	300,000					705,000		150,000	1,155,000
Total Sources	9,667,257	11,405,084	1,285,907	9,809,879	715,862	20,796,582	242,660	1,336,833	55,260,064
<u>Uses of Funds</u>									
Capital Expenditures	4,665,979	5,120,801	519,239	5,223,115	248,568	10,724,205	24,725	905,054	27,431,686
Debt Service									
Principal Retirement	460,000	333,562	36,439	430,888	15,612	311,013		32,487	1,620,001
Interest and Fiscal Charges	982,599	921,334	148,846	714,976	63,567	560,745		50,154	3,442,221
Transfers	3,797,860	4,071,018	592,406	2,865,619	395,620	16,695,220		317,078	28,734,821
Total Uses	9,906,438	10,446,715	1,296,930	9,234,598	723,367	28,291,183	24,725	1,304,773	61,228,729
Fund Balance at December 31	\$ (239,181)	\$ 958,369	\$ (11,023)	\$ 575,281	\$ (7,505)	\$ (7,494,601)	\$ 217,935	\$ 32,060	\$ (5,968,665)
Cash	\$	\$ (958,369)	\$	\$ (575,281)	\$	\$	\$ (217,935)	\$ (32,060)	\$ (1,783,645)
Accounts Payable	100					100			200
Due to Other Governments			78						78
Debt Outstanding	4,295,000	4,719,305	730,695	4,267,520	184,980	4,326,895		980,605	19,505,000
Due to other funds	239,081		10,945		7,505	7,494,501			7,752,032
Balance to be Collected (Surplus) at December 31	\$ 4,534,181	\$ 3,760,936	\$ 741,718	\$ 3,692,239	\$ 192,485	\$ 11,821,496	\$ (217,935)	\$ 948,545	\$ 25,473,665

COMMUNICATION WITH AUDIT COMMITTEES

The City Council
City of Waupaca, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information previously to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriations of accounting policies and their application. The significant accounting policies used by City of Waupaca are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We are not aware of any particular sensitive accounting estimates utilized by management.

We are not aware of any particular sensitive accounting estimates utilized by management.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. We are not aware of any particular sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit

Additional time was spent reconciling general ledger accounts that had not been adjusted in past audits.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following material misstatements detected as a result of audit procedures were corrected by management.

- Record grant activity
- Adjust delinquent personal property taxes.
- Record additional accounts payable at December 31, 2009
- Capitalize utility fixed assets and record depreciation expense
- Record community development block grant activity
- Record 2009 activity for debt cash accounts and payments
- Adjust delinquent special charges due from the County
- Record Senior cash activity
- Remove old accounts receivable balances
- Record other deferred debits
- Adjust year-end water inventory balance
- Record utility plant financed by developers
- Adjust utility unbilled revenue
- Record capital leases

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 27, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statement or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

JOHNSON BLOCK AND COMPANY, INC.

Johnson Block and Company, Inc.

Prepared by_ ___

**City of Tupaca
Adjusting Journal Entries**

AUPCITY

Reviewed by_____

Page 1

04/05/10

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
009	Potential	12/31/09						
		245-54531-305-000	AIRPORT: SALT & S&-SNOW R	2,000.00				
		245-21211-000-000	VOUCHERS PAYABLE		2,000.00			
			To record additional A/P per X-10. Snow Removal at airport			(2,000.00)		
027	Potential	12/31/09						
		100-51911-218-000	ILLEGAL T&R: TAXES	2,182.22				
		100-12311-000-000	DELIQUENT PERS PROP TAX		2,182.22			
			PJE for uncollectible accounts.			(2,182.22)		
079	Potential	12/31/09						
		100-59163-000-000	Interest on long term debt-City	5,334.00				
		100-21211-000-000	VOUCHERS PAYABLE		5,334.00			
		620-94100-404-000	LTD: PRINCIPAL: INTEREST	1,727.00				
		620-22000-000-000	Capital Lease payable		1,727.00			
			To record accrued interest on capital lease liability.			(7,061.00)		
096	Potential	12/31/09						
		7-10000-000-000	Government Wide Fixed Assets	17,209.09				
		100-55345-207-000	IT/COMMUNICATI: MAINT OF		6,723.00			
		450-72112-502-000	C/O PATROL: C/O EQUIP		10,486.09			
			To record governmental fixed assets- GOVT WIDE ONLY.			17,209.09		

Prepared by_ ____

Reviewed by_ _____

City of Tupaca
Adjusting Journal Entries

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
105	Potential	12/31/09						
		620-11123-000-000	INVESTMENTS:	16,882.26				
		620-48111-000-000	INTEREST		16,882.26			
			To record accrued interest on CDs at 12/31/09.			16,882.26	A-7	
106	Potential	12/31/09						
		610-11123-000-000	INVESTMENTS:	11,209.03				
		610-47510-000-000	INTEREST ON INVESTMENTS		11,209.03			
			To record accrued interest on CDs at 12/31/09.			11,209.03	A-7	
107	Potential	12/31/09						
		610-14311-000-000	MISC ACCTS RECEI		1,536.82			
		610-47410-000-000	OTHER WATER REVENUES	1,536.82				
			To write off accounts receivable > 1 year old.			(1,536.82)	D-2/1	
108	Potential	12/31/09						
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI		3,136.27			
		100-47963-000-000	OTHER REVENUE PUBLIC WO	3,136.27				
			To write off accounts receivable > 1 year old			(3,136.27)	D-3/1	

Prepared by_ _____

Reviewed by_____

**City of Waupaca
Adjusting Journal Entries**

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
109	Potential	12/31/09						
		650-14800-000-000	CUSTOMER ACCT. RECEIVAB.		16,953.93			
		650-41020-000-000	Subscriber - Residential	16,953.93				
			To write off customer A/R > 1 year old.			(16,953.93)	D-4	
110	Potential	12/31/09						
		610-29611-000-000	ACCRUED VACATION PAY		1,161.47			
		610-92600-107-000	FRINGE: SICK PAY	1,161.47				
			To adjust compensated absences for comp time at 12/31/09.			(1,161.47)	CC-1	
111	Potential	12/31/09						
		620-29611-000-000	ACCRUED VACATION PAY		3,286.42			
		620-83310-107-000	FRINGE: SICK PAY	3,286.42				
			To adjust compensated absences for comp time at 12/31/09.			(3,286.42)	CC-1	
112	Potential	12/31/09						
		100-21211-000-000	VOUCHERS PAYABLE		22,082.49			
		100-54111-108-000	MACH & EQUIP: VACATION P/	22,082.49				
			GOVT WIDE ENTRY to record unpaid earned vacation time at 12/31/09.			(22,082.49)	CC-1	

Prepared by_ _

City of Wapaca
Adjusting Journal Entries

AUPCITY

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04/05/10

Reviewed by_____

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper	Misstatement
113	Potential	12/31/09						
		650-21211-000-000	VOUCHERS PAYABLE		3,227.50			
		650-92300-210-000	OUTSIDE SERVICE -PROF SER	3,227.50				
			To record additional A/P at 12/31/09.			(3,227.50)	X-7.2/2	
115	Potential	12/31/09						
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI	36,891.00				
		100-42751-000-000	STATE AID: TAXI CAB SUBSID		36,891.00			
			To record 4th quarter 2009 taxi grant receivable.			36,891.00	D-3.1	
		TOTAL		<u>144,819.50</u>	<u>144,819.50</u>	<u>19,563.26</u>		



Certified Public Accountants

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Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krynski ▲ Janice L. Froelich

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the City Council
City of Waupaca, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the business- type activities, each major fund, and the aggregate remaining fund information of the City of Waupaca as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we consider the City of Waupaca's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Waupaca's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the City of Waupaca's internal control to be material weaknesses:

Segregation of Duties

The size of the office staff precludes a proper segregation of functions to assure adequate internal control. This is not unusual in organizations of your size, but management should continue to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge and monitoring of matters relating to the City's operations.

Preparation of Financial Statements

The City's staff does not prepare the financial statements and accompanying notes. The City has designated an individual responsible for reviewing and accepting the financial statements and related notes.

Cash Reconciliations

A bank reconciliation of the City's pooled cash account was not being performed on a monthly basis. As such, an adjustment of \$15,822 was required to reconcile the cash balances to the reconciliation.

We recommend that a bank reconciliation be performed on all accounts on a monthly basis and reviewed by someone other than the person performing this function. The reviewer should initial the reconciliation when completed.

Adjustments

During the audit there were numerous audit adjustments required to correct coding errors and to adjust account balances.

Debt Cash Accounts/Debt Activity

Several cash accounts and related debt activity were not recorded on the City's books. We recommend that the activity and cash accounts be reconciled monthly.

Significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the material weaknesses described above in the City's internal control to be significant deficiencies.

Other observations and deficiencies are summarized on the attached page.

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

JOHNSON BLOCK AND COMPANY, INC.

Johnson Block and Company, Inc.

March 27, 2010

Senior Center Cash

Senior Center cash is kept by one person. The activity was not recorded on the general ledger prior to 2009. We recommend that two signatures be required for each check written, signing blank checks be prohibited, and another person review the bank reconciliations monthly for unusual items. The City should consider closing the Senior Center checking and recording all deposits and disbursements through regular City procedures.

Utility Billings and Receipts

Utility billings and receipts are recorded with a manual journal entry each month. Since both are Civic System programs, we recommend integrating the utility billings and receipts into the City's general ledger program.

Delinquent Special Charges

Delinquent special charges uncollected and due from the County was adjusted by \$28,607 in 2009. We recommend the City reconcile this account with the County each year.

Delinquent Personal Property Tax

Currently, the City is not charging back delinquent personal property tax to the other taxing districts. This process allows the City to collect the portion of the uncollected personal property tax amount from the other taxing districts. Should the personal property tax later be collected from the taxpayer, the City would reimburse the other taxing districts. We recommend charging back delinquent personal property taxes during the allowed time period. We also recommend determining the status of delinquent personal property taxes that can't be charged back to the other taxing districts and either pursue collection of these amounts or write them off as uncollectible. For 2009, \$44,325 in delinquent personal property was written off.

Credit Card Policy

Currently, there is no written credit card policy and all individual invoices don't accompany the statement for payment on the credit card. An important control is reviewing and matching individual invoices to the credit card statement to ensure that it is a valid, approved expenditure. We recommend the City develop a written credit card policy and require invoices for every payment request. If proper documentation isn't being kept for charges, the City should reevaluate allowing the use of credit cards.

CDBG Loans Receivable

CDBG loans receivable were not previously reflected in the audit report. An adjustment of \$335,836 was made to record these receivables for the City. We recommend that the City reconcile the loans receivable each year.

Fraud Risk Controls

The City Council is aware of the various fraud risks that exist in a smaller entity, especially with limited opportunity to segregate all duties due to staff size. The Council believes it has conveyed to City employees the importance of communicating any fraudulent activity to management. We recommend that the City consider adopting a policy related to fraud activities that addresses how any employee would report any possible fraud activity and the consequences of such activity.

Future Accounting Standard

The Governmental Accounting Standards Board recently issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for periods beginning after June 15, 2010. Some of the major changes are as follows:

A) Governmental Fund Balance Reporting

The reporting of governmental fund balances as reserved, unreserved or designated will be replaced with five possible classifications of governmental fund balances. They are as follows:

- Nonspendable Fund Balance
- Restricted Fund Balance
- Committed Fund Balance
- Assigned Fund Balance
- Unassigned Fund Balance

The goal of these new classifications is to report governmental balances based on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance and, accordingly, the extent to which the government is bound to honor them.

In order to report fund balance as committed, the amounts must be constrained for a specific purpose by the government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources. In addition, action to constrain resources must occur prior to year-end, however, the amount can be determined in the subsequent period.

Statement No. 54 requires fund balances to be restated for the prior year when comparative financial statements are presented.

B) Disclosure

The new standard requires disclosure of:

- a description of the authority for and actions that lead to committed and assigned fund balance.
- the government's policy regarding order of spending for committed, assigned and unassigned funds.
- description of any formally adopted minimum fund balance policies.
- purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds. This may impact the calculation of additional shared revenue under the State's expenditure restraint program.

Actions to consider before year end in the year of implementation

- In order to report fund balance as committed, the government's highest level of decision making authority must act to establish committed fund balances, including stabilization arrangements.
- Decide which person(s) have direct or delegated authority to assign fund balance.
- Review any formal minimum fund balance policy and possible changes required as it relates to this new standard.
- Establish a policy on the order in which unrestricted resources are to be used when any of these amounts are available for expenditure. If no policy exists, the default assumes committed funds are used first, followed by assigned and then unassigned amounts.

New Withholding Requirements on Payments

Requires that a 3% income tax withholding amount be withheld by governments on payments greater than \$10,000 to all persons providing property or services to the government, including individuals, trusts, estates, partnerships, associations and corporations. Withholding would occur at the time of payment and applies to payment in any form. If the government fails to withhold the tax required, it becomes liable for the payment of the tax. This IRS regulation is set to be effective for payments made after December 31, 2011. Certain exceptions apply to these withholding requirements.

Wisconsin Retirement System

The City's Wisconsin Retirement System (WRS) unfunded prior service liability at December 31, 2009 was \$289,886. Of the monthly contribution rate that the City pays, a portion is applied to this balance. This portion of the monthly contribution rate for 2009 was 1.4% of covered wages. The WRS then adds interest of 7.8% each year.

We recommend that the City consider reviewing whether there would be a savings from paying this liability off and reducing their monthly contribution rate by the amount being applied to the unfunded prior service liability. The financing could come from a bond issue, local banks or the State Trust Fund which has a loan program for this purpose with interest presently at 6.0%. These would all be taxable debt issues. We have reviewed this for other municipalities and it has proved to be a savings for some of them.

Customer Accounts Receivable

The online telecommunications customer accounts receivable balance contains \$16,954 for balances outstanding for more than one year. This receivable cannot be put on tax roll, but collection can be done through the State Tax Refund Intercept Program. We recommend the City pursue collection of these receivables on a timely basis.

Water Inventory

Water inventory was not counted until February 2010. Inventory should be counted in late December each year and a year-end adjustment should be recorded to adjust the books to the actual amount on hand.