

AUDITED FINANCIAL STATEMENTS

CITY OF WAUPACA, WISCONSIN

DECEMBER 31, 2010

CITY OF WAUPACA, WISCONSIN
DECEMBER 31, 2010

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Certified Public Accountants

Quality service through our commitment to clients and staff

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

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, 2010, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waupaca, Wisconsin, as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements is not affected by this missing information.

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 supplementary information listed in the table of contents is presented for additional analysis and are not a required part of the financial statements. The supplementary information listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mineral Point, Wisconsin
April 5, 2011

JOHNSON BLOCK AND COMPANY, INC.

Johnson Block and Company, Inc.

BASIC FINANCIAL STATEMENTS

Exhibit A-1
City of Waupaca, Wisconsin
Statement of Net Assets
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and investments	\$ 2,844,163	\$ 769,330	\$ 3,613,493
Receivables:			
Taxes	5,079,292		5,079,292
Other Governments	99,730		99,730
Customer		444,382	444,382
Other	41,387	2,815	44,202
Internal balances	(6,685,445)	6,685,445	
Inventories	20,669	22,604	43,273
 Total Current Assets	 <u>1,399,796</u>	 <u>7,924,576</u>	 <u>9,324,372</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments		2,604,196	2,604,196
Total restricted assets		<u>2,604,196</u>	<u>2,604,196</u>
Other assets:			
Other deferred debits		17,825	17,825
Unamortized debt issuance costs	111,848		111,848
Long-term accounts receivable	542,746		542,746
Special assessments receivable	794,670	139,580	934,250
Total other assets	<u>1,449,264</u>	<u>157,405</u>	<u>1,606,669</u>
Capital assets:			
Property and plant	30,975,852	35,228,317	66,204,169
Less: accumulated provision for depreciation	6,503,081	12,581,450	19,084,531
 Total capital assets	 <u>24,472,771</u>	 <u>22,646,867</u>	 <u>47,119,638</u>
 Total noncurrent assets	 <u>25,922,035</u>	 <u>25,408,468</u>	 <u>51,330,503</u>
 Total assets	 <u>\$ 27,321,831</u>	 <u>\$ 33,333,044</u>	 <u>\$ 60,654,875</u>

Exhibit A-1 (Continued)
City of Waupaca, Wisconsin
Statement of Net Assets
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	\$ 289,999	\$ 109,179	\$ 399,178
Due to other governments	26,566		26,566
Accrued liabilities	133,101	536	133,637
Deferred revenues	5,496,888		5,496,888
Accrued interest	215,919	53,775	269,694
Customer Deposits		4,018	4,018
Current portion of long-term debt	2,450,000	811,115	3,261,115
Current portion of capital lease	39,109	18,996	58,105
	<hr/>		
Total current liabilities	8,651,582	997,619	9,649,201
Current liabilities (payable from restricted assets):			
Accrued interest		15,393	15,393
Current portion of mortgage revenue bonds		146,141	146,141
	<hr/>		
Total current liabilities (payable from restricted assets)		161,534	161,534
Long-term liabilities			
Mortgage revenue bonds		11,040,503	11,040,503
Bonds and notes payable	24,645,000		24,645,000
Less: deferred charges on refunding	(297,051)		(297,051)
Capital lease	165,466	80,359	245,825
Compensated absences	757,980	107,294	865,274
Less: current portion	(2,489,109)	(976,252)	(3,465,361)
	<hr/>		
Total long-term liabilities	22,782,286	10,251,904	33,034,190
	<hr/>		
Total liabilities	31,433,868	11,411,057	42,844,925
<u>Net Assets</u>			
Investment in capital assets, net of related debt	11,597,306	11,526,005	23,123,311
Restricted	2,323,789	2,588,803	4,912,592
Unrestricted	(18,033,132)	7,807,179	(10,225,953)
	<hr/>		
Total net assets	(4,112,037)	21,921,987	17,809,950
	<hr/>		
Total liabilities and net assets	\$ 27,321,831	\$ 33,333,044	\$ 60,654,875

Exhibit A-2
City of Waupaca, Wisconsin
Statement of Activities
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities
Primary Government:						
Governmental activities:						
General government	\$ 719,480	\$ 112,420	\$	\$	\$ (607,060)	\$ (607,060)
Public safety	1,659,812	186,051	54,135		(1,419,626)	(1,419,626)
Health and social services	174,985	27,282			(147,703)	(147,703)
Public works	2,058,446	174,676	1,001,633	401,311	(480,826)	(480,826)
Culture, recreation and education	1,570,376	200,520	441,317		(928,539)	(928,539)
Conservation and development	833,451	232,594		197,278	(403,579)	(403,579)
Interest and fiscal charges	858,916				(858,916)	(858,916)
Total Expenses	<u>7,875,466</u>	<u>933,543</u>	<u>1,497,085</u>	<u>598,589</u>	<u>(4,846,249)</u>	<u>(4,846,249)</u>
Business-type activities:						
Water utility	972,499	1,327,439		98,711		453,651
Sewer utility	1,816,685	1,904,749		441,272		529,336
Telecommunication utility	232,214	194,585				(37,629)
Total business-type activities	<u>3,021,398</u>	<u>3,426,773</u>		<u>539,983</u>		<u>945,358</u>
Total primary government	<u>\$ 10,896,864</u>	<u>\$ 4,360,316</u>	<u>\$ 1,497,085</u>	<u>\$ 1,138,572</u>	<u>(4,846,249)</u>	<u>(3,900,891)</u>
General Revenues:						
Property taxes						
General purposes				\$ 3,516,513		\$ 3,516,513
Debt service				1,179,020		1,179,020
Other taxes				208,506		208,506
Federal and State aid not restricted for specific purposes				1,167,696		1,167,696
Interest and investment earnings				10,183	79,279	89,462
Gain on Sale of fixed assets				185,232		185,232
Miscellaneous				61,484		61,484
Transfers				460,797	(460,797)	
Total general revenues				<u>6,789,431</u>	<u>(381,518)</u>	<u>6,407,913</u>
Change in net assets				1,943,182	563,840	2,507,022
Net assets - beginning of year				(6,055,219)	21,358,147	15,302,928
Net assets - end of year				<u>\$ (4,112,037)</u>	<u>\$ 21,921,987</u>	<u>\$ 17,809,950</u>

Exhibit A-3
City of Waupaca, Wisconsin
Balance Sheet
Governmental Funds
December 31, 2010

	General	Debt Service	TIF #4	TIF #6	TIF #8	Other Governmental Funds	Total
Assets:							
Cash and investments	\$ 1,603,005	\$ 355,846	\$	\$	\$	\$ 885,312	\$ 2,844,163
Receivables:							
Taxes	1,729,048	1,562,136	640,774	538,258	60,739	548,337	5,079,292
Accounts	41,252					135	41,387
Other governments	22,350					77,380	99,730
Special Assessments						794,670	794,670
Long-term notes receivable						542,746	542,746
Inventory						20,669	20,669
Due from Other Funds	245,104	700,911	1,054,495	83,789		231,355	2,315,654
Total Assets	\$ 3,640,759	\$ 2,618,893	\$ 1,695,269	\$ 622,047	\$ 60,739	\$ 3,100,604	\$ 11,738,311
Liabilities:							
Accounts Payable	\$ 140,293	\$	\$	\$	\$	\$ 149,705	\$ 289,998
Accrued Liabilities	133,101						133,101
Due to Other Governments	675					25,891	26,566
Deferred Revenues	1,611,010	1,562,136	640,774	538,258	60,739	1,884,621	6,297,538
Due to other funds	40,180					8,266,093	9,001,099
Total Liabilities	1,925,259	1,562,136	640,774	538,258	8,326,832	2,755,043	15,748,302
Fund Equity:							
Reserved for other activities						113,312	113,312
Reserved for debt service		1,056,757					1,056,757
Reserved for capital projects			1,054,495	83,789		231,355	1,369,639
Unreserved							
Designated	224,587					440,539	665,126
Undesignated (deficit)	1,490,913				(8,266,093)	(439,645)	(7,214,825)
Total Fund Equity	1,715,500	1,056,757	1,054,495	83,789	(8,266,093)	345,561	(4,009,991)
Total Liabilities and Fund Equity	\$ 3,640,759	\$ 2,618,893	\$ 1,695,269	\$ 622,047	\$ 60,739	\$ 3,100,604	\$ 11,738,311

Exhibit A-4
City of Waupaca, Wisconsin
Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Assets
December 31, 2010

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

Total Fund balances-governmental funds: \$ (4,009,991)

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	30,975,852	
Governmental accumulated depreciation	<u>(6,503,081)</u>	24,472,771

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

Special assessments	800,650
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Payments for bond issuance costs are reported in the funds statement when expended, but are amortized over the life of the bond in the statement of net assets.

111,848

Payments made to the refunding bond escrow are reported in the funds statement when expended, but are amortized over the life of the bond the statement of net assets.

Deferred charges on refunding	297,050
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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	(24,645,000)
Capital lease payable	(165,466)
Accrued interest on general obligation debt	(215,919)
Compensated absences	<u>(757,980)</u>

Net Assets of Governmental Funds	<u><u>\$ (4,112,037)</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, 2010

	General	Debt Service	TIF #4	TIF #6	TIF #8	Other Governmental Funds	Total
<u>Revenues:</u>							
Taxes	\$ 1,437,043	\$ 1,179,021	\$ 616,318	\$ 491,342	\$ 63,473	\$ 1,199,841	\$ 4,987,038
Special Assessments						44,264	44,264
Licenses and Permits	148,626						148,626
Fines, Forfeits and penalties	68,328						68,328
Intergovernmental	2,397,858		3,935	2,032	6,628	619,838	3,030,291
Public Charges for Services	286,180					111,787	397,967
Miscellaneous:							
Interest	996		8		1,079	8,099	10,182
Sale of Recycling Materials	1,975						1,975
Other	88,332		53,333	51,136		91,884	284,685
Total Revenues	4,429,338	1,179,021	673,594	544,510	71,180	2,075,713	8,973,356
<u>Expenditures:</u>							
General Government	752,811						752,811
Public Safety	1,589,491						1,589,491
Health and Social Services	170,985						170,985
Public Works	983,240					604,883	1,588,123
Culture, Recreation and Education	1,358,747					120,582	1,479,329
Conservation and Development			406	406	346	415,326	416,484
Capital Outlay							
Public Safety						8,890	8,890
Conservation and Development			5,895	60,321	31,497	82,333	180,046
Debt Service							
Principal Retirement	145,277	310,000	368,562	456,232	428,857	611,350	2,320,278
Interest and Fiscal Charges	25,624	117,310	200,828	188,378	193,420	448,948	1,174,508
Total Expenditures	5,026,175	427,310	575,691	705,337	654,120	2,292,312	9,680,945
Excess of Revenues Over (Under) Expenditures	(596,837)	751,711	97,903	(160,827)	(582,940)	(216,599)	(707,589)
<u>Other Financing Sources (Uses):</u>							
Payment to refunding escrow				(3,837,673)	(2,140,320)	(1,199,057)	(7,177,050)
Proceeds from sale of capital assets	31,850					190,000	221,850
Proceeds from refunding bonds				3,570,000	1,995,000	1,105,000	6,670,000
Bond issuance costs			(1,777)	(115,041)	(80,675)	(39,427)	(236,920)
Premium on reoffering				52,049	37,443	27,364	116,856
Transfer from Utilities	460,797						460,797
Total Other Financing Sources	492,647		(1,777)	(330,665)	(188,552)	83,880	55,533
Net Change in Fund Balances	(104,190)	751,711	96,126	(491,492)	(771,492)	(132,719)	(652,056)
Fund Balance - January 1	1,819,690	305,046	958,369	575,281	(7,494,601)	478,280	(3,357,935)
Fund Balance - December 31	\$ 1,715,500	\$ 1,056,757	\$ 1,054,495	\$ 83,789	\$ (8,266,093)	\$ 345,561	\$(4,009,991)

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, 2010

Net change in fund balances-total governmental funds \$ (652,056)

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	76,961	
Depreciation expenses reported in the statement of activities	<u>(634,961)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		(558,000)

The cost of capital assets disposed of during the current year is expensed in the
statement of activities. In the governmental funds, the cost of these assets was
recognized as an expenditure in the year purchased. Thus, the change in net assets
differs from the change in fund balances by the undepreciated cost of the disposed assets. (36,468)

Capital assets donated to the City increase net assets in the government-wide statements,
but are not financial resources and, therefore, are not reported in the governmental funds.
This is the value of capital assets donated during the current year. 238,578

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: (35,470)

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: 9,200,277

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 (6,670,000)

Deferred charges associated with long-term debt issued in a prior period are reported
in the statement of activities, but are not a current financial resource and, therefore,
are not reported in the governmental funds. This is the net increase in deferred
charges during the current period. 297,050

Exhibit A-6 (continued)
City of Waupaca, Wisconsin
Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010

Premiums and discounts on bonds issued, along with debt issuance costs, are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net increase in deferred charges during the current period.		111,848
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:		(39,465)
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 The amount of interest accrued during the current period Interest paid is greater (less) than interest expensed by	1,163,896 (1,077,008)	<hr style="width: 100%;"/> 86,888
Change in net assets-governmental activities		<hr style="width: 100%;"/> \$ 1,943,182

Exhibit A-7
City of Waupaca, Wisconsin
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Assets</u>				
<u>Current Assets:</u>				
Cash and Investments	\$ 223,801	\$ 465,413	\$ 80,116	\$ 769,330
Receivables:				
Customer	151,641	268,461	24,280	444,382
Other	1,261	15	1,539	2,815
Due from Other Funds	37,458	20,362		57,820
Inventories	20,111	2,493		22,604
Total Current Assets	434,272	756,744	105,935	1,296,951
<u>Restricted Assets:</u>				
Mortgage Revenue & Interest	1,036,469			1,036,469
Replacement Fund		1,567,727		1,567,727
Total Restricted Assets	1,036,469	1,567,727		2,604,196
<u>Other Assets:</u>				
Other Deferred Debits	17,825			17,825
Special Assessments Receivable	79,963	59,617		139,580
Advance due from Other Funds	3,229,124	3,698,764		6,927,888
Total Other Assets	3,326,912	3,758,381		7,085,293
<u>Fixed Assets:</u>				
Property and Plant	10,918,956	24,045,162	264,199	35,228,317
Less: Accumulated Provision for Depreciation	3,751,544	8,687,597	142,309	12,581,450
Total Fixed Assets	7,167,412	15,357,565	121,890	22,646,867
Total Assets	\$ 11,965,065	\$ 21,440,417	\$ 227,825	\$ 33,633,307

Exhibit A-7 (Continued)
City of Waupaca, Wisconsin
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Water Utility	Sewer Utility	Telecommunications Utility	Total
<u>Liabilities and Net Assets</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$ 41,116	\$ 56,213	\$ 11,850	\$ 109,179
Due to Other Funds	12,905	37,358		50,263
Accrued Liabilities	536			536
Accrued Interest		53,775		53,775
Customer Deposits			4,018	4,018
Current Portion of Revenue Bonds		811,115		811,115
Current Portion of Capital Lease	6,332	12,664		18,996
Total Current Liabilities	60,889	971,125	15,868	1,047,882
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accrued Interest	15,393			15,393
Current Portion of Revenue Bonds	146,141			146,141
Total Current Liabilities (Payable from Restricted Assets)	161,534			161,534
<u>Long-term Liabilities:</u>				
Revenue Bonds	2,352,968	8,687,535		11,040,503
Capital Lease	26,796	53,563		80,359
Advance due to other funds		250,000		250,000
Compensated Absences	41,289	66,005		107,294
Less: current portion	(152,473)	(823,779)		(976,252)
Total Long-term Liabilities	2,268,580	8,233,324		10,501,904
Total Liabilities	2,491,003	9,204,449	15,868	11,711,320
<u>Net Assets:</u>				
Investment in Capital Assets, Net of Related Debt	4,787,648	6,616,467	121,890	11,526,005
Restricted	1,021,076	1,567,727		2,588,803
Unrestricted	3,665,338	4,051,774	90,067	7,807,179
Total Net Assets	9,474,062	12,235,968	211,957	21,921,987
Total Liabilities and Net Assets	\$ 11,965,065	\$ 21,440,417	\$ 227,825	\$ 33,633,307

Exhibit A-8
City of Waupaca, Wisconsin
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Operating Revenues:</u>				
Sales of Water	\$ 1,327,439			\$ 1,327,439
Measured Sewer Service		1,904,749		1,904,749
Telecommunications Revenues			194,585	194,585
Total Operating Revenues	1,327,439	1,904,749	194,585	3,426,773
<u>Operating Expenses:</u>				
Operation and Maintenance	621,358	811,104	209,144	1,641,606
Depreciation	246,702	665,986	23,070	935,758
Taxes	8,556	3,982		12,538
Total Operating Expenses	876,616	1,481,072	232,214	2,589,902
Operating Income	450,823	423,677	(37,629)	836,871
<u>Nonoperating Revenues (Expenses):</u>				
Investment Income	20,803	57,923	553	79,279
Interest Expense	(95,883)	(335,613)		(431,496)
Total Nonoperating Revenues (Expenses)	(75,080)	(277,690)	553	(352,217)
Income Before Contributions and Transfers	375,743	145,987	(37,076)	484,654
Capital Contributions	98,711	441,272		539,983
Transfer of Tax Equivalent	(206,367)	(250,000)	(4,430)	(460,797)
Change in Net Assets	268,087	337,259	(41,506)	563,840
Net Assets - Beginning of Year	9,205,975	11,898,709	253,463	21,358,147
Net Assets - End of Year	\$ 9,474,062	\$ 12,235,968	\$ 211,957	\$ 21,921,987

Exhibit A-9
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 1,380,205	\$ 1,941,423	\$ 196,564	\$ 3,518,192
Payments to employees	(250,779)	(390,463)	(44,638)	(685,880)
Payments to suppliers	(740,654)	(461,538)	(168,505)	(1,370,697)
Net Cash Flows From (Used by) Operating Activities	388,772	1,089,422	(16,579)	1,461,615
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Paid to municipality for tax equivalent	(206,367)	(250,000)	(4,430)	(460,797)
Net Cash Flows (Used by) Noncapital Financing Activities	(206,367)	(250,000)	(4,430)	(460,797)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Payments for capital acquisitions	(33,900)	(20,701)	(17,002)	(71,603)
Principal payments	(151,212)	(798,190)		(949,402)
Interest paid	(96,585)	(340,220)		(436,805)
Contributed capital	16,241	267,601		283,842
Net Cash Flows (Used by) Capital and Related Financing Activities	(265,456)	(891,510)	(17,002)	(1,173,968)
<u>Cash Flows From (Used by) Investing Activities:</u>				
Purchase of investments	(7,875)	(254,421)	(534)	(262,830)
Redemption of investments	222,387			222,387
Receipts of interest	20,803	57,923	553	79,279
Net Cash Flows From (Used by) Investing Activities	235,315	(196,498)	19	38,836
Net change in Cash and Cash Equivalents	152,264	(248,586)	(37,992)	(134,314)
Cash and Cash Equivalents - Beginning of Year	892,760	1,237,802	66,829	2,197,391
Cash and Cash Equivalents - End of Year	\$ 1,045,024	\$ 989,216	\$ 28,837	\$ 2,063,077

Exhibit A-9 (Continued)
City of Waupaca, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Water Utility	Sewer Utility	Telecommunications Utility	Totals
<u>Reconciliation of operating income to net cash provided</u>				
<u>by operating activities:</u>				
Operating Income (Loss)	\$ 450,823	\$ 423,677	\$ (37,629)	\$ 836,871
Noncash items in operating income:				
Depreciation Expense	258,247	654,442	23,070	935,759
Amortization of major repair	17,765			17,765
Changes in assets and liabilities:				
Customer accounts receivable	9,830	(55,548)	3,500	(42,218)
Other accounts receivable	11,119	675	(1,521)	10,273
Due from other funds	(190,463)	(6,960)		(197,423)
Special assessments receivable	15,595	10,406		26,001
Inventories	3,491			3,491
Accounts payable	(4,182)	769	(1,311)	(4,724)
Due to other funds	(203,505)	(26,335)	(2,688)	(232,528)
Compensated absences	3,811	7,155		10,966
 Net Cash Provided (Used) by Operating Activities	 372,531	 1,008,281	 (16,579)	 1,364,233
 <u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Asset Accounts</u>				
Cash and investments	223,801	465,413	80,116	769,330
Cash and investments (restricted assets)	1,036,469	1,567,727		2,604,196
Less: Investments	(215,246)	(1,043,924)	(51,279)	(1,310,449)
 Total cash and cash equivalents	 \$ 1,045,024	 \$ 989,216	 \$ 28,837	 \$ 2,063,077

Noncash Investing, Capital and Financing Activities:

During 2010, fixed asset additions of \$82,470 and \$92,530 were paid for by developers for water and sewer utilities, respectively.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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 2010, 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, 2010

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, 2010

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.

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

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

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, 2010

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, 2010

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, 2010

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 - 2010 tax roll:

Lien date and levy date	December 2011
Payment in full, or	January 31, 2011
First installment due	January 31, 2011
Second installment due	July 31, 2011
January settlement	January 15, 2011
February settlement	February 20, 2011
August settlement	August 20, 2011
Personal property taxes in full	January 31, 2011
Tax sale- 2010 delinquent real estate taxes	October 2013

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, 2010

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, 2010

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 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 \$1,138,663 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, 2010

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 statues 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, 2010

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, 2010

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, 2010, cash and investments included the following:

Petty cash/cash on hand	\$ 1,130
Deposits with financial institutions	2,939,419
Certificates of Deposit	1,401,455
Mutual Funds	1,875,538
Wisconsin Local Government Investment Pool	147
Total cash and investments	\$ 6,217,689

Cash and investments as of December 31, 2010 are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	\$ 3,613,493
Cash and investments-restricted	2,604,196
Total cash and investments	\$ 6,217,689

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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
Certificates of Deposit	\$ 1,401,455	\$ 1,401,455

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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, 2010, the City's investments were rated as follows:

	Amount	Rating
Wisconsin Local Government Investment Pool	\$ 147	Not Rated
Mutual Funds	\$ 1,875,538	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 Dodd-Frank Act. Under this program, the FDIC provides unlimited protection to all noninterest-bearing accounts through December 31, 2012. 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. Additionally, deposits in each local and area credit union are insured by the NCUA in the amount of \$250,000 for interest bearing accounts and \$250,000 for non interest bearing accounts.

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 (SWIB). 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, 2010, 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, 2010 was: 97% in U.S. Government Securities, 2% in commercial paper and corporate notes and 1% in Bankers' Acceptances. The Wisconsin State Treasurer updates the investment allocations on a monthly basis.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2010, \$1,314,967 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	<u>\$ 1,314,967</u>
--------------------------------	---------------------

\$432,503 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.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance 1/1/10	Additions	Retirements	Balance 12/31/10
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 4,188,002		\$ (25,931)	\$ 4,162,071
Total capital assets not being depreciated	4,188,002		(25,931)	4,162,071
Capital Assets, being depreciated				
Building	11,008,344		(16,380)	10,991,964
Infrastructure	12,854,527	238,578		13,093,105
Improvements other than buildings	531,107			531,107
Machinery and equipment	950,801	76,961		1,027,762
Vehicles	1,169,843			1,169,843
Total Capital Assets being depreciated	26,514,622	315,539	(16,380)	26,813,781
Less Accumulated Depreciation for:				
Building	1,822,429	119,860	(5,843)	1,936,446
Infrastructure	2,759,471	387,493		3,146,964
Improvements other than buildings	191,549	19,792		211,341
Machinery and equipment	651,499	40,288		691,787
Vehicles	449,015	67,528		516,543
Total Accumulated Depreciation	5,873,963	634,961	(5,843)	6,503,081
Total Capital Assets being depreciated, Net	20,640,659	(319,422)	(10,537)	20,310,700
Governmental Activities Capital Assets, Net	\$ 24,828,661	\$ (319,422)	\$ (36,468)	\$ 24,472,771

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

General Government	\$ 28,466
Public Safety	52,211
Public Works	461,423
Culture, recreation and education	4,000
Health and Human Services	88,861
Total Governmental Activities Depreciation Expense	\$ 634,961

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

NOTE 4

CAPITAL ASSETS (CONTINUED)

	Balance 1/1/10	Additions	Retirements	Balance 12/31/10
<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	20,700	(13,500)	6,301,078
Infrastructure/systems/equipment	28,547,325	209,662	(15,950)	28,741,037
Total Capital Assets Being Depreciated	34,841,203	230,362	(29,450)	35,042,115
Less accumulated depreciation				
Building	2,686,169	175,277	(13,500)	2,847,946
Infrastructure/systems/equipment	8,988,973	760,481	(15,950)	9,733,504
Total accumulated depreciation	11,675,142	935,758	(29,450)	12,581,450
Total capital assets being depreciated, Net	23,166,061	(705,396)		22,460,665
Business-Type Activity Assets, Net	\$ 23,352,263	\$ (705,396)	\$	\$ 22,646,867

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

Business-Type Activities:	
Water	\$ 246,702
Wastewater	665,986
Telecommunications	23,070
Total Depreciation Expense	\$ 935,758

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

NOTE 5

LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended December 31, 2010.

	Beginning 1/1/2010	Additions	Payments	Balance 12/31/2010	Amounts Due within One Year
<u>Governmental Activities</u>					
General obligation debt:					
Bonds payable	\$ 8,350,000	\$ 6,670,000	\$ (200,000)	\$ 14,820,000	\$ 775,000
Notes payable	1,405,000		(310,000)	1,095,000	325,000
Total General obligation debt	<u>9,755,000</u>	<u>6,670,000</u>	<u>(510,000)</u>	<u>15,915,000</u>	<u>1,100,000</u>
CDA Revenue Bonds	17,385,000		(8,655,000)	8,730,000	1,350,000
Other long-term obligations:					
Capital lease	200,743		(35,277)	165,466	39,109
Compensated absences	722,510	35,470		757,980	
Total Governmental Activities Long-Term Liabilities	<u>\$28,063,253</u>	<u>\$ 6,705,470</u>	<u>\$ (9,200,277)</u>	<u>\$25,568,446</u>	<u>\$ 2,489,109</u>

Interest costs incurred during the year totaled \$1,077,008. Total interest paid during the year aggregated \$1,163,896.

	Beginning 1/1/2010	Additions	Payments	Balance 12/31/2010	Amounts Due within One Year
<u>Business-Type Activities</u>					
Mortgage Revenue Bonds	\$11,972,770	\$	\$ (932,267)	\$ 11,040,503	\$ 957,256
Other long-term obligations:					
Capital Lease	97,494		(17,135)	80,359	18,996
Compensated absences	96,328	10,966		107,294	
Total Business-Type Activities Long-Term Liabilities	<u>\$12,166,592</u>	<u>\$ 10,966</u>	<u>\$ (949,402)</u>	<u>\$ 11,228,156</u>	<u>\$ 976,252</u>

Interest costs incurred during the year totaled \$425,621. Total interest paid during the year aggregated \$430,930.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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, 2010, 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 12/31/10</u>
Notes Payable					
Capital projects-subdivisions	07-13-01	04-01-11	4.7%	\$515,000	\$ 85,000
G.O. Promissory note-Capital Project Woodland- 2005C	08-06-03	04-01-13	3.75-4.15%	1,065,000	390,000
G.O. Promissory note-Capital Project	07-01-05	04-01-13	3.8-4.0%	250,000	130,000
	04-01-06	04-01-16	4.25-4.5%	740,000	490,000
					<u>\$ 1,095,000</u>
Refunding Bonds					
G.O. Promissory bonds-Industrial Park	11-01-00	10-01-20	5.15-5.55%	1,195,000	\$ 750,000
G.O. Promissory bonds-TIF #3	01-06-07	04-01-21	4.0%	2,640,000	2,505,000
G.O. Promissory bonds-TIF #4	01-06-07	04-01-15	4.0%	975,000	920,000
G.O. Promissory bonds-TIF #5	01-06-07	04-01-21	4.0%	275,000	260,000
G.O. Promissory bonds-TIF #4	04-01-08	10-01-27	3.25%	575,000	545,000
G.O. Promissory bonds-TIF #6	04-01-08	10-01-27	3.05%	95,000	90,000
G.O. Promissory bonds-TIF #8	04-01-08	10-01-24	3.25%	1,580,000	1,455,000
G.O. Promissory bonds-Debt Service	04-01-08	04-01-23	3.25%	1,790,000	1,625,000
G.O. Promissory bonds-Refunding	11-09-10	04-01-30	2.0-4.7%	6,670,000	6,670,000
					<u>\$14,820,000</u>
Total Government Activities – General Obligation Debt					<u>\$15,915,000</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	6.2%	\$ 955,000	\$ 230,000
TIF #3	07-15-00	10-01-21	5.15-5.95%	2,615,000	75,000
TIF #4	07-15-00	10-01-21	5.15-5.95%	2,375,000	225,000
TIF #5	07-15-00	10-01-21	5.15-5.95%	305,000	20,000
TIF #4, TIF #5	07-13-01	04-01-18	4.55-5.125%	1,095,000	1,035,000
TIF #8	07-13-01	04-01-12	7.05-7.15%	780,000	395,000
TIF #3, TIF #4, TIF #5	08-01-02	04-01-22	4.1-5%	1,605,000	1,310,000
TIF #3, TIF #4	10-06-03	04-01-23	3.8-5%	2,910,000	2,205,000
Hendrickson Center	10-01-04	04-01-19	3.8-4.7%	3,915,000	3,235,000
Total lease revenue bonds					<u>\$ 8,730,000</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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, 2010, 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 12/31/2010</u>
<u>Revenue Bonds</u>					
Sewerage system revenue bond	04-18-95	05-01-14	3.65%	\$ 8,607,282	\$ 2,427,919
Sewerage system revenue bond	04-08-98	05-01-17	2.64%	717,567	306,397
Sewerage system revenue bond	07-24-02	05-01-22	2.84%	1,135,476	785,446
Sewerage system revenue bond	11-01-04	05-01-24	2.365%	454,008	378,455
Sewerage system revenue bond	01-01-05	05-01-25	2.365%	437,107	347,028
Sewerage system revenue bond	07-11-07	05-01-27	2.475%	502,814	467,288
Sewerage system revenue bond	04-01-08	11-01-24	4.40%	4,125,000	3,975,000
Water system revenue bond	11-01-99	05-01-18	1.58%	760,310	347,970
Water system revenue bond	04-01-08	11-01-24	3.40%	2,210,000	2,005,000
Total Business-Type Activities Revenue Debt					<u>\$11,040,503</u>

General Obligation Debt Limit Calculation

The 2010 equalized valuation of the City as certified by the Wisconsin Department of Revenue is \$407,942,300. The legal debt limit and margin of indebtedness as of December 31, 2010 in accordance with Section 67.03(1)(b) of the Wisconsin Statutes follows:

Debt limit (5% of \$407,942,300)	\$ 20,397,115
General Obligation Debt Outstanding	<u>(15,915,000)</u>
Margin of Indebtedness	<u>\$ 4,482,115</u>

Maturities of Long-Term Obligations

Maturities of the long-term debt to maturity, at December 31, 2010, are:

Years	<u>Governmental Fund Debt</u>		<u>Enterprise Fund Debt</u>	
	Principal	Interest	Principal	Interest
2011	\$ 2,450,000	\$ 918,683	\$ 957,256	\$ 398,641
2012	2,280,000	847,937	993,107	364,964
2013	2,690,000	759,644	1,019,841	329,872
2014	2,290,000	672,667	1,052,494	293,744
2015	2,280,000	586,243	647,738	263,512
2016-2020	8,280,000	1,697,075	3,383,560	938,494
2021-2025	2,575,000	549,814	2,920,933	253,779
2026-2030	1,800,000	244,431	65,574	1,666
Totals	<u>\$24,645,000</u>	<u>\$ 6,276,494</u>	<u>\$11,040,503</u>	<u>\$ 2,844,672</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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, 2010.

Equipment \$ 200,743

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 December 31, 2010.

<u>Year Ended December 31,</u>		
2011	\$	45,314
2012		45,314
2013		45,314
2014		45,321
Total Payment		<u>181,263</u>
Less: Interest		<u>(15,797)</u>
Minimum Lease Payments		<u>\$ 165,466</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, 2010.

Equipment \$ 97,494

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 December 31, 2010.

<u>Year Ended December 31,</u>		
2011	\$	22,010
2012		22,010
2013		22,009
2014		22,003
Total Payment		<u>88,032</u>
Less: Interest		<u>(7,673)</u>
Minimum Lease Payments		<u>\$ 80,359</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 5.9% of their salary (3.0% for Elected Officials, 5.0% for Protective Occupations with Social Security, and 3.2% 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, 2010

NOTE 7

DEFINED BENEFIT PENSION PLANS(CONTINUED)

The payroll for City of Waupaca employees covered by the WRS for the year ended December 31, 2010 was \$2,672,493; the employer's total payroll was \$2,997,057. The total required contribution for the year ended December 31, 2010 was \$373,415, which consisted of \$357,585 or 13 percent of payroll from the employer and \$15,830 or .6 percent of payroll from employees. Total contributions for the years ending December 31, 2009 and 2008, were \$376,889 and \$363,640 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, 2010 was \$249,483. 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, 2010

NOTE 8

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of December 31, 2010 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Government Funds:		
General	Water utility	\$ 12,905
General	Sewer utility	19,718
General	Industrial Park	92,864
General	Transit System	92,496
General	Airport	27,121
Debt Service	TIF #3	241,263
Debt Service	TIF #5	85,505
Debt Service	TIF #7	22,499
Debt Service	TIF #8	293,566
TIF #4	TIF #8	1,054,495
TIF #6	TIF #8	83,789
TIF #9	TIF #8	231,355
Debt Service	TIF #10	<u>58,078</u>
	Total	<u>\$ 2,315,654</u>
Enterprise Funds:		
Water utility	General	\$ 19,819
Water utility	Sewer Utility	17,639
Sewer utility	General	<u>20,362</u>
	Total	<u>\$ 57,820</u>

The following is a schedule of interfund advances at December 31, 2010:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	Sewer	\$ 250,000
Water utility	TIF #8	2,942,888
Water utility	TIF #3	36,236
Sewer utility	TIF #8	3,660,000
Sewer utility	TIF #3	<u>38,764</u>
	Total	<u>\$ 6,927,888</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, 2010

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	\$ 206,367
General	Sewer utility	250,000
General	Telecommunications utility-Tax Equivalent	4,430
	Total	<u>\$ 460,797</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, 2010 includes the following:

GOVERNMENTAL ACTIVITIES

Invested in capital assets, net of related debt	
Land	\$ 4,162,071
Other capital assets, net of accumulated depreciation	20,310,700
Less: related long-term debt outstanding	(12,875,465)
Total Invested Capital Assets	<u>11,597,306</u>
Restricted:	
Debt Service	\$ 840,838
Capital Projects	1,369,639
Perpetual Care	113,312
Total Restricted	<u>2,323,789</u>
Unrestricted	<u>(18,033,132)</u>
Total Governmental Activities Net Assets	<u>\$ (4,112,037)</u>

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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

Governmental fund balances reported on the fund financial statements at December 31, 2010 includes the following:

GOVERNMENTAL FUND BALANCES

<u>Reserved</u>	
Major Funds:	
TIF District #4	\$ 1,054,495
TIF District #6	83,789
Debt Service:	
Debt Service	1,056,757
Total	2,195,041
Non-Major Funds	
Other Activities	113,312
Capital Projects	231,355
Total Non-Major Funds	344,667
Total Reserved	\$ 2,539,708

Unreserved fund balance as of December 31, 2010 includes the following items:

Major Funds:	
Unreserved:	
General:	
Undesignated	\$ 1,490,913
Designated for:	
General:	
Historical	\$ 2,923
Judgments	13,942
Transit System	34,651
Cemetery	9,563
Cable TV	13,491
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 Designated	\$ 224,587
Non-Major Funds:	
Designated for:	
Inland Lakes	\$ 13,711
Hotel/Motel Tax	42,867
Revolving Loans	3,954
Recreation Center	380,007
Total Designated	\$ 440,539

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

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. \$685,229, including current year costs of \$3,467 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.

During 2010, the City declared TIF District Numbers 3, 5 and 8 to be distressed Districts and TIF District Numbers 4 and 6 to be the donor Districts. As such, the donor Districts can use cumulative excess revenues over expenditures to aid in paying the costs of the distressed Districts. This could potentially add ten years to the life of the distressed Districts.

The City has eight active Tax Incremental Financing Districts. Project summaries of the activity and status of the districts through December 31, 2010 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 2010, the following amounts were received:

Contributed capital-debt service principal	\$ 186,459
Interest component	40,833
Replacement component	40,308
Total	267,600
Customer charges:	
Flow component (net of overcharge)	107,211
Total	\$ 374,811

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.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

NOTE 14

CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

NOTE 15

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.

On November 9, 2010 the City issued \$6,670,000 in general obligation bonds with an average interest rate of 3.35% to advance refund \$6,880,000 of outstanding lease revenue bonds. The net proceeds of \$7,469,035 including \$622,182 of existing cash and after payment of debt issuance costs of \$228,705 and related bond premium of \$116,856, were deposited in an escrow to retire the outstanding lease revenue bonds on their call dates. The City completed the advance refunding to reduce its total debt service payments and to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$572,497.

Total of defeased debt outstanding at December 31, 2010 is \$10,415,000.

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, 2010 the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Property tax receivable	\$ 4,883,752
TIF Penalties	63,314
Special assessments	800,650
Long-term notes receivable	542,746
Special Charges	2,120
Interest on Special Assessments	4,956
Total Deferred Revenue for Government Funds	\$ 6,297,538

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 18

CONCENTRATION OF RISK

Approximately 25% of the water utility operating revenues are provided by one customer.

Approximately 12% of the sewer utility operating revenues are provided by one customer.

City of Waupaca, Wisconsin
Notes to the Basic Financial Statements
December 31, 2010

NOTE 19

COMMITMENTS

On May 18, 2010, the City approved the construction of a park shelter, restroom facilities, and other park fixtures at Riverview Park at an estimated cost of \$60,000. The City will perform the construction, and the Rotary Club will reimburse the City.

On October 19, 2010, the City approved the issuance of a loan to a developer to finance a revitalization project for \$60,000 for three years at 5% interest. The loan had not been issued of December 31, 2010.

NOTE 20

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT
PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for the periods beginning after June 15, 2010. Applications of this standard may restate portions of these financial statements.

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, 2010

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<u>Revenues</u>					
Taxes	\$ 1,448,741	\$ 1,448,741	\$ 1,437,043	\$ (11,698)	\$ (11,698)
Licenses and Permits	151,842	151,842	148,626	(3,216)	(3,216)
Fines, Forfeits and penalties	92,500	92,500	68,328	(24,172)	(24,172)
Public Charges for Services	149,840	192,248	286,180	136,340	93,932
Intergovernmental	2,279,276	2,279,276	2,397,858	118,582	118,582
Interest	9,536	9,536	996	(8,540)	(8,540)
Miscellaneous	121,009	129,076	90,307	(30,702)	(38,769)
Total Revenues	4,252,744	4,303,219	4,429,338	176,594	126,119
<u>Expenditures</u>					
General Government	784,946	796,829	752,811	32,135	44,018
Public Safety	1,617,038	1,605,155	1,589,491	27,547	15,664
Health and Social Services	113,371	170,779	170,985	(57,614)	(206)
Public Works	944,510	952,577	983,240	(38,730)	(30,663)
Culture, Recreation and Education	1,422,625	1,407,625	1,358,747	63,878	48,878
Debt Service			170,901	(170,901)	(170,901)
Total Expenditures	4,882,490	4,932,965	5,026,175	(143,685)	(93,210)
Excess (Deficiency) of Revenues Over Expenditures	(629,746)	(629,746)	(596,837)	32,909	32,909
<u>Other Financing Sources (Uses)</u>					
Proceeds from sale of capital assets	33,000	33,000	31,850	(1,150)	(1,150)
Transfer from Utilities	442,217	442,217	460,797	18,580	18,580
Total Other Financing Sources (Uses)	475,217	475,217	492,647	17,430	17,430
Net Change in Fund Balance	(154,529)	(154,529)	(104,190)	50,339	50,339
Fund Balance - Beginning of Year	1,819,690	1,819,690	1,819,690		
Fund Balance - End of Year	\$ 1,665,161	\$ 1,665,161	\$ 1,715,500	\$ 50,339	\$ 50,339

Miscellaneous Financial Data

City of Waupaca
Notes to Required Supplementary Information
On Budgetary Accounting and Control
December 31, 2010

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, 2010, expenditures exceeded budgeted amounts for the following:

Health and Social Services	\$ 206
Public Works	30,663
Debt Service	170,901

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

Supplementary Information

Exhibit C-1
City of Waupaca, Wisconsin
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2010

	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	\$ 208,560	\$ 13,847	\$ 161,549	\$	\$	\$ 3,954	\$ 384,090	\$		\$ 113,312	\$ 885,312
Receivables:											
Taxes	56,111							116,661	375,565		548,337
Loans						542,746					542,746
Accounts	135										135
Other governments				77,380							77,380
Special Assessments	794,670										794,670
Inventory								20,669			20,669
Due from Other Funds									231,355		231,355
Total Assets	\$ 1,059,476	\$ 13,847	\$ 161,549	\$ 77,380	\$	\$ 546,700	\$ 384,090	\$ 137,330	\$ 606,920	\$ 113,312	\$ 3,100,604
Liabilities:											
Accounts Payable	\$ 14	\$ 136	\$ 118,682	\$ 24,593	\$	\$	\$ 3,459	\$ 2,821	\$	\$	\$ 149,705
Due to other governments	25,063						624	124	80		25,891
Deferred Revenue	849,649					542,746		116,661	375,565		1,884,621
Due to other funds				92,496	92,864			27,121	482,345		694,826
Total Liabilities	874,726	136	118,682	117,089	92,864	542,746	4,083	146,727	857,990		2,755,043
Fund Equity:											
Reserved for capital projects									231,355		231,355
Reserved for other activities										113,312	113,312
Unreserved											
Designated		13,711	42,867			3,954	380,007				440,539
Undesignated (deficit)	184,750			(39,709)	(92,864)			(9,397)	(482,425)		(439,645)
Total Fund Equity	184,750	13,711	42,867	(39,709)	(92,864)	3,954	380,007	(9,397)	(251,070)	113,312	345,561
Total Liabilities and Fund Equity	\$ 1,059,476	\$ 13,847	\$ 161,549	\$ 77,380	\$	\$ 546,700	\$ 384,090	\$ 137,330	\$ 606,920	\$ 113,312	\$ 3,100,604

Exhibit C-2
City of Waupaca, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2010

	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	\$	\$	\$ 223,410	\$	\$ 97,896	\$	\$ 479,706	\$ 105,989	\$ 292,840	\$	\$ 1,199,841
Special Assessments	44,264										44,264
Intergovernmental				407,402		197,278			15,158		619,838
Public Charges for Services			243				8,371	103,173			111,787
Miscellaneous:											
Interest	6,129	50				438	4		840	638	8,099
Other	6,992			17,541		3,785	5,916	18,549	39,101		91,884
Total Revenues	57,385	50	223,653	424,943	97,896	201,501	493,997	227,711	347,939	638	2,075,713
Expenditures:											
Public Works				390,309				214,574			604,883
Culture, Recreation and Education							120,582				120,582
Conservation and Development		2,825	184,159			227,649			693		415,326
Capital Outlay											
Public Safety	8,890										8,890
Conservation and Development									82,333		82,333
Debt Service											
Principal Retirement					55,000		225,000		331,350		611,350
Interest and Fiscal Charges					42,036		146,113		260,799		448,948
Total Expenditures	8,890	2,825	184,159	390,309	97,036	227,649	491,695	214,574	675,175		2,292,312
Excess of Revenues Over (Under) Expenditures	48,495	(2,775)	39,494	34,634	860	(26,148)	2,302	13,137	(327,236)	638	(216,599)
Other Financing Sources (Uses):											
Payment to refunding escrow									(1,199,057)		(1,199,057)
Proceeds of refunding bonds									1,105,000		1,105,000
Bond issuance costs									(39,427)		(39,427)
Premium on reoffering									27,364		27,364
Proceeds from sale of fixed assets									190,000		190,000
Total Other Financing Sources (Uses)									83,880		83,880
Net Change in Fund Balances	48,495	(2,775)	39,494	34,634	860	(26,148)	2,302	13,137	(243,356)	638	(132,719)
Fund Balances - January 1	136,255	16,486	3,373	(74,343)	(93,724)	30,102	377,705	(22,534)	(7,714)	112,674	478,280
Fund Balances - December 31	\$ 184,750	\$ 13,711	\$ 42,867	\$ (39,709)	\$ (92,864)	\$ 3,954	\$ 380,007	\$ (9,397)	\$ (251,070)	\$ 113,312	\$ 345,561

Exhibit C-3
City of Waupaca, Wisconsin
Combining Balance Sheet
TIF Districts
December 31, 2010

	TIF #3	TIF #5	TIF #7	TIF #9	TIF #10	Total
<u>Assets:</u>						
Taxes Receivable	\$ 240,896	\$ 20,852	\$ 34,530	\$	\$ 79,287	\$ 375,565
Due from other funds				231,355		231,355
Total Assets	\$ 240,896	\$ 20,852	\$ 34,530	\$ 231,355	\$ 79,287	\$ 606,920
<u>Liabilities:</u>						
Due to other governments	\$	\$ 80	\$	\$	\$	\$ 80
Deferred Revenue	240,896	20,852	34,530		79,287	375,565
Due to other funds	316,263	85,505	22,499		58,078	482,345
Total Liabilities	557,159	106,437	57,029		137,365	857,990
<u>Fund Equity:</u>						
Reserved for capital projects				231,355		231,355
Unreserved						
Undesignated (deficit)	(316,263)	(85,585)	(22,499)		(58,078)	(482,425)
Total Fund Equity	(316,263)	(85,585)	(22,499)	231,355	(58,078)	(251,070)
Total Liabilities and Fund Equity	\$ 240,896	\$ 20,852	\$ 34,530	\$ 231,355	\$ 79,287	\$ 606,920

Exhibit C-4
City of Waupaca, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
TIF Districts
For the Year Ended December 31, 2010

	TIF #3	TIF #5	TIF #7	TIF #9	TIF #10	Total
Revenues:						
Taxes	\$ 170,330	\$ 23,343	\$ 35,716	\$	\$ 63,451	\$ 292,840
Intergovernmental	487	10	451	14,210		15,158
Miscellaneous:						
Interest	6				834	840
Other	10,939	6,089			22,073	39,101
Total Revenues	181,762	29,442	36,167	14,210	86,358	347,939
Expenditures:						
Conservation and Development	346	346			1	693
Capital Outlay						
Conservation and Development	40,448	24,497	10,803	790	5,795	82,333
Debt Service						
Principal Retirement	230,000	46,439	17,268		37,643	331,350
Interest and Fiscal Charges	176,785	31,712	8,559		43,743	260,799
Total Expenditures	447,579	102,994	36,630	790	87,182	675,175
Other Financing Sources (Uses):						
Payments to escrow agent			(171,698)		(1,027,359)	(1,199,057)
Proceeds of long-term debt			160,000		945,000	1,105,000
Bond issuance costs	(1,265)	(1,010)	(5,280)		(31,872)	(39,427)
Premium on reoffering			2,447		24,917	27,364
Sale of fixed assets	190,000					190,000
Total Other Financing Sources (Uses)	188,735	(1,010)	(14,531)		(89,314)	83,880
Net Change in Fund Balance	(77,082)	(74,562)	(14,994)	13,420	(90,138)	(243,356)
Fund Balances - January 1	(239,181)	(11,023)	(7,505)	217,935	32,060	(7,714)
Fund Balances - December 31	\$ (316,263)	\$ (85,585)	\$ (22,499)	\$ 231,355	\$ (58,078)	\$ (251,070)

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, 2010

	TIF #3	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8	TIF #9	TIF #10	Totals
<u>Sources of Funds</u>									
Taxes	\$ 1,343,285	\$ 3,756,723	\$ 135,209	\$ 3,440,831	\$ 160,117	\$ 281,316	\$ 57,655	\$ 262,991	\$ 9,438,127
Intergovernmental	223,089	42,405	3,121	10,841	5,911	508,654	193,614		987,635
Other Revenue	868,211	379,551	107,019	609,766	58,448	700,234	5,600	85,117	2,813,946
Sale of capital Assets	344,434								344,434
Proceeds of long-term debt	6,960,000	7,900,000	1,070,000	9,915,000	690,000	20,705,000		1,895,000	49,135,000
Transfers	300,000					705,000		150,000	1,155,000
Total Sources	10,039,019	12,078,679	1,315,349	13,976,438	914,476	22,900,204	256,869	2,393,108	63,874,142
<u>Uses of Funds</u>									
Capital Expenditures	4,708,038	5,128,879	545,092	5,398,883	264,651	10,836,723	25,514	942,722	27,850,502
Debt Service									
Principal Retirement	690,000	702,124	82,877	4,724,793	204,578	2,880,190		1,097,489	10,382,051
Interest and Fiscal Charges	1,159,384	1,122,163	180,557	903,354	72,126	754,165		93,897	4,285,646
Transfers	3,797,860	4,071,018	592,406	2,865,619	395,620	16,695,220		317,078	28,734,821
Total Uses	10,355,282	11,024,184	1,400,932	13,892,649	936,975	31,166,298	25,514	2,451,186	71,253,020
Fund Balance at December 31	\$ (316,263)	\$ 1,054,495	\$ (85,583)	\$ 83,789	\$ (22,499)	\$ (8,266,094)	\$ 231,355	\$ (58,078)	\$ (7,378,878)
Cash	\$	\$(1,054,495)	\$	\$(83,789)	\$	\$	\$(231,355)	\$	\$(1,369,639)
Due to Other Governments			78						78
Debt Outstanding	4,065,000	4,350,744	684,256	3,660,000	160,000	3,845,000		4,180,000	20,945,000
Due to other funds	316,263		85,505		22,499	8,266,089		58,078	8,748,434
Balance to be Collected	\$ 4,381,263	\$ 3,296,249	\$ 769,839	\$ 3,576,211	\$ 182,499	\$ 12,111,089	\$ (231,355)	\$ 4,238,078	\$ 28,323,873
(Surplus) at December 31									



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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, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

Customer Accounts Receivable

Customer accounts receivable was adjusted by approximately \$707,000, \$546,000, and \$74,000 for the sewer, water, and telecommunications utilities, respectively. This was due to cash receipts not being posted against the general ledger receivable control accounts. We recommend that the City review these transactions to ensure they are recorded correctly and reconcile the subsidiary ledger to the general ledger.

Bond Cash Accounts

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

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

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.

Library Receipts

Presently, cash collected is put into an envelope at the end of the day and filed in a locked file cabinet. The envelopes are counted once a week and submitted to the City Treasurer. Our recommendations to improve controls in this area are as follows:

1. Envelopes be counted at the end of the day and the total amount indicated on the envelope.
2. Access to envelopes be limited to no more than two individuals or the envelopes be submitted to the City Treasurer on a daily basis for depositing. Ideally, the individuals with access are also not performing the daily count.

Other observations 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.

April 5, 2011
Mineral Point, WI

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. This would also assist with the monthly reconciliation of the subsidiary ledger to the general ledger.

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.

Customer Accounts Receivable

The online telecommunications customer accounts receivable balance contains \$21,561 for balances outstanding for more than one year. These receivables cannot be put on tax roll, but collection can be done through the State Tax Refund Intercept Program. We understand that the City has pursued collection of these balances through the state tax refund program and through a collection agency. Approximately \$8,000 of these balances are prior to 2006 and cannot be collected through the tax refund intercept program. We recommend that the City review collections and consider writing off these balances.

Tax Developments

- A) Recent legislation removed employer-provided cell phones from the definition of listed property under the tax code, relieving local governments from the extensive and costly administrative record-keeping requirements that have been necessary to identify and track calls made from these phones. The change is effective for tax years beginning after December 31, 2009.
- B) Allows participants in governmental 457(b) plans to treat elective deferrals as Roth contributions.
- C) Effective March 30, 2010, the Health Care and Education Affordability Reconciliation Act amended previous law that expenses incurred for the medical care of a taxpayer's child who is under the age of 27 at the end of the tax year are not taxable. This is a change in federal law only. For Wisconsin tax purposes, the imputed income for the fair market value of any employer-sponsored health insurance coverage of a non-tax dependent adult under age 27 would need to be included as taxable Wisconsin wages for employees and added to their W-2.
- D) The Early Retiree Insurance program was established under the Patient Protection and Affordable Care Act. The program was created to help health care sponsors with individual retiree costs. Employers who provide their retirees (at least 55 years of age and not eligible for Medicare) with health care coverage are eligible to receive these reimbursements for up to 80% of the costs for certain claims totaling between \$15,000 and \$90,000. But to receive these reimbursements, employers must provide the retirees health care coverage that meets certain criteria. To receive reimbursement, the employer needs to apply to the Secretary of Health and Human Services for certification. We recommend the District review the requirements for this program and determine whether the District would qualify. If they did not qualify, the District may want to consider ways to qualify as part of any cost savings plans.

Cash and Investments

There were instances when the average daily bank balance exceeded the coverage provided by federal depository insurance. In addition, the balance of the State Deposit Guaranty Fund (state depository insurance) is limited. As such, a material amount of losses by individual municipalities may exhaust the fund so that recovery by individual municipalities would not be significant. We recommend the City consider the following to reduce this risk:

- a) Determine whether its present depositories can obtain additional insurance coverage. We have noted several banks, which have now obtained a bank deposit guaranty bond to insure public entity deposits.
- b) Develop a system to analyze the financial stability of potential depositories. This would include receiving rating reports from credit rating bureaus such as Standard and Poor's, Moody's, etc. Town policy could then be to not use any depository with a rating below a certain level.
- c) Depending on interest rates, consider investing more funds in U.S. securities versus certificates of deposits.
- d) Investigating the use of repurchase agreements to invest excess daily funds. This would also result in increased interest earnings for the City.



Johnson & Block AND COMPANY, INC.

Certified Public Accountants

Quality service through our commitment to clients and staff

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

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, 2010. 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 2010. 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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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.

- To record 2010 depreciation
- Adjust customer accounts receivable
- Record additional accounts payable at December 31, 2010
- Capitalize utility fixed assets
- Record community development block grant receivables and deferred revenue

- Record 2010 activity for debt cash accounts and payments
- Record year-end airport inventory balance
- Record utility plant financed by developers
- Adjust taxes receivable, due from county and delinquent personal property receivable accounts

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 April 5, 2011.

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.

City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect
PJE07	Potential	12/31/10				
		610-14311-000-000	MISC ACCTS RECEI		826.63	
		610-47410-000-000	OTHER WATER REVENUES	826.63		
			To write off accounts receivable > 1 year old.			(826.63)
PJE08	Potential	12/31/10				
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI		4,918.42	
		100-47963-000-000	OTHER REVENUE PUBLIC WO	4,918.42		
			To write off accounts receivable > 1 year old.			(4,918.42)
PJE09	Potential	12/31/10				
		7-10000-000-000	Government Wide Fixed Assets	15,283.17		
		100-52112-231-000	POL PATROL: EQUIP		15,283.17	
			Government Wide Entry Only to capitalize general fixed assets.			15,283.17
PJE10	Potential	12/31/10				
		100-51111-210-000	COUNCIL: PROF SERVICES	1,400.00		
		100-21211-000-000	VOUCHERS PAYABLE		1,400.00	
			To record additional A/P for legal services unpaid at 12/31/10.			(1,400.00)
PJE11	Potential	12/31/10				
		100-13911-000-000	ACCOUNTS RECEIVABLE: OTI	15,283.44		
		100-33000-000-000	UNRESERVED FUND EQUITY		14,730.62	
		100-43211-000-000	LICENSES: TELEVISION FRAN		552.82	
			To record 2010 4th quarter franchise fee.			552.82
PJE12	Potential	12/31/10				
		610-14801-000-000	UNBILLED CUSTOMER A/R DE	3,302.00		
		610-46110-000-000	SALES OF WATER: RESIDENTI		3,302.00	
			To record additional amount for unbilled revenue.			3,302.00

City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect
PJE01	Potential	12/31/10				
		100-51911-218-000	ILLEGAL T&R: TAXES	1,520.58		
		100-12311-000-000	DELINQUENT PERS PROP TAX		1,520.58	
			To write off 2009 Del PP tax bill.			(1,520.58)
PJE02	Potential	12/31/10				
		650-13911-000-000	ACCOUNTS RECEIVABLE: OTH	2,233.40		
		650-47110-000-000	MISC SERVICE REVENUE		2,233.40	
			To record additional Receivable			2,233.40
PJE03	Potential	12/31/10				
		100-59163-000-000	Interest on long term debt-City	2,327.00		
		100-21211-000-000	VOUCHERS PAYABLE		2,327.00	
			GOV-WIDE only - record accrued interest liability on capital lease			(2,327.00)
PJE04	Potential	12/31/10				
		610-33000-000-000	UNRESERVED FUND EQUITY	3,286.00		
		610-29611-000-000	ACCRUED VACATION PAY		2,498.00	
		610-92000-108-000	ADM & GEN: VACATION PAY		788.00	
			Record accrued comptime at 12/31/10			788.00
PJE05	Potential	12/31/10				
		620-33000-000-000	UNRESERVED FUND EQUITY	1,161.00		
		620-83310-108-000	FRINGE: VACATION PAY	174.00		
		620-29611-000-000	ACCRUED VACATION PAY		1,335.00	
			To record comp time.			(174.00)
PJE06	Potential	12/31/10				
		650-90410-299-000	UNCOLLECTIBLE ACCOUNTS	7,920.00		
		650-14800-000-000	CUSTOMER ACCT. RECEIVAB		7,920.00	
			To write off old Telecommunication receivables			(7,920.00)

City of Waupaca

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect
PJE13	Potential	12/31/10				
		620-14801-000-000	UNBILLED CUSTOMER A/R DE	4,513.00		
		620-62101-000-000	SEWER CHARGES: RESIDENTI		4,513.00	
			To record additional amount for unbilled revenue.			4,513.00
PJE14	Potential	12/31/10				
		100-42932-000-000	POLICE - STATE TASK FORCE	32,789.00		
		100-25500-000-000	DEFERRED REVENUE		32,789.00	
			To record deferred revenue for MEG funds unspent at 12/31/10.			(32,789.00)
TOTAL				96,937.64	96,937.64	(25,203.24)