

CITY OF WAUKESHA

Waukesha, Wisconsin

REPORT ON FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2010

CITY OF WAUKESHA

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

To the City Council
City of Waukesha
Waukesha, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waukesha, Wisconsin as of and for the year ended December 31, 2010, and have issued our report thereon dated July 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

A separate report on internal control over financial reporting and on compliance and other matters was issued for the Housing Authority of the City of Waukesha. The information contained in that report is not included in this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Waukesha's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Waukesha's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waukesha's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This material weakness is item 2010-01.

To the City Council
City of Waukesha

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Waukesha in a separate letter dated July 18, 2011.

The City of Waukesha's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Waukesha's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Waukesha's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dawn Kelly, Director, Finance, LLP

Milwaukee, Wisconsin
July 18, 2011



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE STATE SINGLE AUDIT GUIDELINES AND THE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

To the City Council
City of Waukesha
Waukesha, Wisconsin

Compliance

We have audited the City of Waukesha's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the City of Waukesha's major federal and major state programs for the year ended December 31, 2010. The City of Waukesha's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and major state programs is the responsibility of the City of Waukesha's management. Our responsibility is to express an opinion on the City of Waukesha's compliance based on our audit.

The City of Waukesha's basic financial statements include the operation of the Housing Authority of the City of Waukesha, which received \$5,824,904 in federal awards which is not included in the schedule of expenditures of federal and state awards for the year ended December 31, 2010. Our audit, described below, did not include the operations of the Housing Authority of the City of Waukesha because the component unit had a separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State Single Audit Guidelines*. Those standards, OMB Circular A-133 and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or major state program occurred. An audit includes examining, on a test basis, evidence about the City of Waukesha's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Waukesha's compliance with those requirements.

In our opinion, City of Waukesha complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and major state programs for the year ended December 31, 2010.

To the City Council
City of Waukesha
Waukesha, Wisconsin

Internal Control Over Compliance

Management of the City of Waukesha is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City of Waukesha's internal control over compliance with the requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Waukesha's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

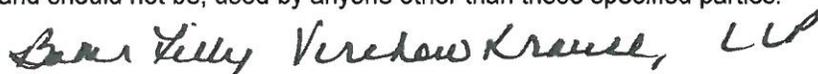
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waukesha as of and for the year ended December 31, 2010, and have issued our report thereon dated July 18, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Waukesha's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the *State Single Audit Guidelines* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City of Waukesha's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Waukesha's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Waukesha's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Milwaukee, Wisconsin
July 18, 2011

CITY OF WAUKESHA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 Year Ended December 31, 2010

Grantor Agency/Pass Through Agency/ Grant or Project Title/Grant or Project Number	Federal CFDA Number	Program or Award Amount	Revenues				Expenditures		
			(Accrued) Deferred 12/31/2009	Revenue Recorded	Cash Received	Accrued (Deferred) 12/31/2010	Local	Grantor	Total
FEDERAL PROGRAMS									
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Passed through Waukesha County, Wisconsin Community Development Block Grant (CDBG)									
2009	14.218	\$ 260,000	\$ 12,765	\$ 12,465	\$ -	\$ (280)	\$ 12,485	\$ -	\$ 12,485
2010 - ARRA	14.218	116,000	-	89,861	124,301	10,596	89,861	134,897	89,861
	14.218	245,000	12,765	134,897	124,301	10,596	134,897	237,243	134,897
CDBG State - Administered Small Cities Program Cluster									
Lead - Based Paint Hazard Control Program	14.907	92,060	-	-	-	-	43,629	43,629	43,629
Passed through U.S. Department of Commerce Lead - Based Paint Hazard Control Program	14.907	108,000	-	-	-	-	4,520	4,520	4,520
U.S. DEPARTMENT OF JUSTICE									
Edward Byrne Memorial Justice Assistance Grant #2007-DJ-BX-1310	16.738	19,037	9,111	9,111	18,822	(9,849)	9,164	9,111	9,164
	16.738	18,822	9,111	8,973	18,822	(9,849)	8,973	8,973	8,973
			9,111	18,084	18,822	(9,849)	18,137	18,084	18,137
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government Grant #2009-SB-B9-1941	16.804	140,708	(15,693)	96,001	111,694	-	96,001	96,001	96,001
U.S. DEPARTMENT OF HOMELAND SECURITY									
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.038	123,944	123,944	98,295	-	(25,649)	98,295	98,295	98,295
U.S. ENVIRONMENTAL PROTECTION AGENCY									
Congressionally Mandated Projects	66.202	388,000	-	388,000	-	388,000	388,000	388,000	388,000
Congressionally Mandated Projects	66.202	300,000	(300,000)	-	300,000	-	-	-	-
			(300,000)	388,000	300,000	388,000	388,000	388,000	388,000
U.S. DEPARTMENT OF ENERGY									
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	657,400	-	463,803	148,396	-	463,803	463,803	463,803
U.S. DEPARTMENT OF TRANSPORTATION									
Highway Planning and Construction	20.205	220,720	-	29,121	29,121	-	36,401	29,121	36,401
Highway Planning and Construction	20.205	144,680	-	119,275	119,275	-	149,094	119,275	149,094
Highway Planning and Construction	20.205	371,340	-	148,396	148,396	-	185,495	148,396	185,495
Passed through Wisconsin Department of Transportation Speed & Aggressive Driving Grant Alcohol Mobilization and Sustained Enforcement Patrols	20.600	25,000	-	24,775	24,775	-	24,775	24,775	24,775
	20.600	25,000	-	24,599	24,599	-	24,599	24,599	24,599
			-	49,374	49,374	-	49,374	49,374	49,374
Congestion Mitigation and Air Quality Grant	20.507	334,242	(11,538)	3,824	11,538	3,824	3,824	3,824	3,824
Federal Transit Formula Grants									
WI-90-0472	20.507	1,608,656	-	6,734	-	6,734	6,734	6,734	6,734
WI-90-0492	20.507	972,312	(19,540)	7,797	20,661	6,876	7,797	7,797	7,797
WI-90-0545	20.507	1,108,365	(257,387)	37,656	293,443	1,800	37,656	37,656	37,656
WI-90-0568	20.507	1,055,421	-	1,040,339	774,146	286,193	1,040,339	1,040,339	1,040,339
WI-95-0010	20.507	60,750	-	9,377	9,377	-	9,377	9,377	9,377
WI-95-0017 (ARRA)	20.507	1,477,951	(94,470)	198,859	181,594	111,735	198,859	198,859	198,859
Passed through WI Department of Transportation Section 5309 - Capital improvement Section 5309 - Capital improvement	20.500	n/a	-	27,681	27,681	-	27,681	27,681	27,681
	20.500	n/a	-	98,295	98,295	-	98,295	98,295	98,295
Congestion Mitigation and Air Quality Grant Congestion Mitigation and Air Quality Grant Federal Trans't Cluster	20.507	477,524	(513)	11,390	7,914	3,889	11,390	11,390	11,390
	20.507	413,568	(383,448)	1,494,739	52,413	20,374	52,787	52,787	52,787
				1,457,062	1,457,062	421,125	1,494,739	1,494,739	1,494,739
TOTAL FEDERAL AWARDS			\$ (553,921)	\$ 2,893,935	\$ 2,209,649	\$ 1,337,607	\$ 85,301	\$ 3,079,236	\$ 3,079,236

CITY OF WAUKESHA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Concluded)
Year Ended December 31, 2010

Grantor Agency/Pass Through Agency/ Grant or Project Title/Grant or Project Number	State ID Number	Program or Award Amount	(Accrued) Deferred 12/31/2009	Revenue Recorded	Cash Received	Accrued (Deferred) 12/31/2010	Revenues		Expenditures	
							Total	Local	Grantor	Local
STATE PROGRAMS										
WISCONSIN DEPARTMENT OF TRANSPORTATION										
2003-2008 Transit Operating Aids	395.104	n/a	\$ (556,290)	\$ 441,415	\$ 997,705	\$ -	\$ -	\$ 441,415	\$ -	\$ 441,415
2009 Transit Operating Aids	395.104	\$4,777,366	119,511	-	-	(119,511)	-	-	-	-
2010 Transit Operating Aids	395.104	4,521,788	(436,779)	4,468,487	3,391,431	1,077,056	-	4,468,487	4,468,487	4,468,487
				4,909,902	4,389,136	957,545	-	4,909,902	4,909,902	4,909,902
WISCONSIN DEPARTMENT OF NATURAL RESOURCES										
Acquisition and Development of Local Parks	370.TA2	210,000	-	-	105,000	(105,000)	-	-	-	-
Urban Nonpoint Source Pollution & Storm Water Grant	370.658	58,100	-	5,405	5,405	-	225,540	230,945	5,405	230,945
Brownsfield Site Assessment Grant	370.687	30,000	-	29,929	29,929	-	-	29,929	29,929	29,929
Urban Forestry Grant Program - EAB Management Strategies	370.587	18,926	-	18,926	18,926	-	6,083	25,009	18,926	25,009
				4,964,162	4,548,396	852,545	231,623	5,195,785	4,964,162	5,195,785
TOTAL STATE AWARDS			\$ (436,779)	\$ 4,964,162	\$ 4,548,396	\$ 852,545	\$ 231,623	\$ 5,195,785	\$ 4,964,162	\$ 5,195,785
TOTAL FEDERAL AND STATE AWARDS										
			\$ (990,100)	\$ 8,048,999	\$ 6,852,515	\$ 2,186,584	\$ 316,924	\$ 8,365,923	\$ 8,097,148	\$ 8,365,923

See accompanying notes to schedule of expenditures of federal and state awards

CITY OF WAUKESHA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Year Ended December 31, 2010

NOTE 1 – REPORTING ENTITY

This report on Federal and State Awards includes the federal and state awards of the City of Waukesha. The reporting entity for the City of Waukesha is based upon criteria established by the Governmental Accounting Standards Board.

The City of Waukesha is the primary government according to GASB criteria, while the Business Improvement District (BID) and the Housing Authority of the City of Waukesha (Housing Authority) are component units.

Federal and state awards received directly by the Housing Authority are not included in this report since the Housing Authority has been audited for their grants and those amounts are reported in a separate report.

The schedule includes only those programs required to be included in accordance with the *State Single Audit Guidelines*.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., 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. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* and the *State Single Audit Guidelines*.

NOTE 3 – PRIOR YEAR FINDINGS

The finding from 2009 reported as No. 2009-01 is still valid in 2010 and has been repeated as finding No. 2010-01. The finding reported as 2009-02 has been addressed and is no longer applicable.

CITY OF WAUKESHA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

Section I: Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency (ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal or State Awards

Internal control over major programs			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant Deficiency (ies) identified?	<u> </u> yes	<u> X </u> none reported	
Type of auditor's report issued on compliance for major programs	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u> </u> yes	<u> X </u> no	
Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no	<u> </u> yes <u> X </u> no

Identification of major federal programs

CFDA NUMBER(S)
20.500 and 20.507
81.128

Name of Federal Program or Cluster
Federal Transit Cluster
Energy Efficiency and Conservation Block Grant Program (EECBG)

Dollar threshold used to distinguish between Type A and Type B programs

\$ 300,000

Identification of major state programs

STATE ID NUMBER(S)
395.104

Name of State Program
Transit Operating Aids

Dollar threshold used to distinguish between Type A and Type B programs

\$ 100,000

CITY OF WAUKESHA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

Section II: Financial Statement Findings

Finding No. 2010-01: Internal Control over Financial Reporting - Financial Statement Preparation

Criteria: Statement on Auditing Standards No. 115 requires communication of significant deficiencies and material weaknesses in the year end reporting process.

Condition: The City's personnel do not presently have the necessary time needed to prepare the financial statements, including the schedules of federal and state awards, in accordance with generally accepted accounting principles. Accordingly, the City presently contracts with its audit firm to perform this function.

Questioned Cost: None

Effect: Preparation of yearend financial statements, including the schedules of federal and state awards, by City personnel is not currently done.

Recommendation: Management should evaluate if the benefits achieved by resolving this internal control deficiency warrants the additional cost to hire additional finance staff to achieve the goal of having its external financial statements prepared by the City personnel.

Management's

Response: Management concurs with the finding and has determined that the economic cost of addressing this issue out weighs the benefits to be achieved at this time.

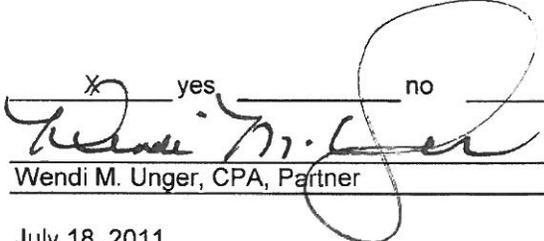
Section III: Federal and State Awards Findings and Questioned Costs

There were no federal and state awards findings or questioned costs.

CITY OF WAUKESHA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

Section IV: Other Issues

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? _____ yes X no _____ N/A
2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the State Single Audit Guidelines:
- Department of Natural Resources _____ yes X no _____ N/A
Department of Transportation _____ yes X no _____ N/A
3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? X yes _____ no _____ N/A
4. Name and signature of partner


Wendi M. Unger, CPA, Partner
5. Date of report

July 18, 2011