

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the
City of Kenosha, Wisconsin)
Kenosha, Wisconsin

BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

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Independent Auditors' Report

Board of Water Commissioners
City of Kenosha Water Utility
Kenosha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the Kenosha Water Utility, an enterprise fund of the City of Kenosha, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kenosha Water Utility as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1, the financial statements present only the Kenosha Water Utility and do not purport to, and do not, present fairly the financial position of the City of Kenosha, Wisconsin, as of December 31, 2014 and 2013 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 11, and the schedule of OPEB Funding Status on page 40 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kenosha Water Utility's basic financial statements. The supplementary schedules on pages 41 – 55 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Racine, Wisconsin
April 29, 2015

Management's Discussion and Analysis

The management discussion and analysis of the Kenosha Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements.

2014 Financial Highlights

The Utility's combined net position increased to \$174.8 million from \$167.8 million. Events that had significant impact on the financial statements were:

- The Utility collected a full year of increased revenue that resulted from an increase in water rates approved by the Public Service Commission of Wisconsin effective August 1, 2013. The rates were designed to provide the utility with a 4.25% return on average net rate base.
- Operating revenues increased more than \$1.1 million or 4.6% from 2013. This increase was due to an increase in the rate charged for water sold and increased revenue from private fire protection, engineering services and wastehaulers.
- Operating expenses increased more than \$1.3 million or 7.1% from 2013. The increase was a combination of increases in both the water unit and sewerage unit operation and maintenance expense. The majority of the increase resulted from increased cost of water main and service maintenance caused by unseasonably cold weather during the months of February and March, payment to affected properties of a sewer backup, increased maintenance expenses at the water treatment plant, equalization basin and pump station and sewerage lift stations, increased cost of natural gas at the water treatment plant and increased cost of electricity for the sewerage lift stations caused by increased pumping.
- Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality decreased \$181,337 or 7.1% to \$2,362,495 in 2014 from \$2,543,832 in 2013.

2013 Financial Highlights

The Utility's combined net position increased to \$167.8 million from \$164.5 million. Events that had significant impact on the financial statements were:

- An increase in water rates was approved by the Public Service Commission of Wisconsin effective August 1, 2013. The rates were designed to provide the utility with a 4.25% return on average net rate base.
- Operating revenues decreased more than \$62,000 or 0.3% from 2012. The decrease in revenue was primarily due to a decrease in the volume of water sold and sewage treated. The revenue decrease in the water unit was mitigated by a rate increase effective August 1, 2013.
- Operating expenses increased more than \$987,000 or 5.5% from 2012. The increase was mostly a combination of increases in water unit administrative and depreciation expenses and sewerage unit operation and maintenance expense.
- Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$150,863 or 6.3% to \$2,543,832 in 2013 from \$2,392,969 in 2012.

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements.

The **statement of net position** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net position presents information on all of the Utility's assets, liabilities and deferred inflows, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets) and the obligations to Utility creditors (liabilities), and revenue collected but not yet earned (deferred inflows). Over time, increases and decreases in net position is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **supplementary schedules** provide more detail than the preceding statements. A Schedule of Capital Assets is provided for the Water, Sewerage, and Household Hazardous Waste units. Detailed debt repayment schedules are provided for all debt issues. Detailed operating revenue and expense schedules are provided as well as the water tax equivalent calculation.

Summary of Organization and Business

The Kenosha Water Utility's mission is:

"Providing and Protecting Kenosha's Greatest Natural Resource – *Water*"

The Kenosha Water Utility (KWU) provides water and wastewater service to more than 100,000 persons in the greater Kenosha area, including the City of Kenosha, Village of Pleasant Prairie, Town of Somers and Village of Bristol. The Kenosha Water Utility also provides a monthly household hazardous waste collection service for City of Kenosha residents.

The Kenosha Water Utility is a municipally-owned, fiscally-independent public utility organized under authority of Section 66.0805 of the Wisconsin State Statutes and Chapter XXXII of the City of Kenosha Code of General Ordinances. The Utility is an enterprise fund of the City of Kenosha and is solely financed by service charges operating like a private business entity. The Utility has no taxing power and receives no tax revenues from the City of Kenosha. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, developers, federal and state grants and loans, bond sales, and Utility revenues.

The Board of Water Commissioners is composed of six aldermen appointed under authority of Section 1.06H of the City of Kenosha Code of General Ordinances. The powers and duties of the Board of Water Commissioners include establishing policy, adopting rules and regulations, adopting an annual budget, establishing rates and fees, and approving contracts and agreements. The management and operation of the Water Utility is under the direction of the General Manager who is appointed by the Board of Water Commissioners.

Surface water from Lake Michigan has been Kenosha's source of water since 1894. Lake Michigan water is valued for both its quality and quantity. The Utility provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection, and other purposes. The wastewater treatment plant provides primary and secondary treatment with disinfection in accordance with permits from the State of Wisconsin Department of Natural Resources. The treated wastewater is discharged to Lake Michigan and the solids are transported to a landfill. Both plants are in compliance with all state and federal regulations. The Household Hazardous Waste program was established in 1992 and provides for a monthly drop-off service to city residential customers; wastes are disposed of by licensed wastehaulers.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as a reasonable level of unrestricted net assets. Management feels that the current financial condition, technical support staff capabilities and operating and expansion plans will meet anticipated customer needs.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statements and associated notes.

Condensed Summary of Net Position

| | December 31 | | | Variance of 2014 to 2013 Increase (decrease) | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-------------------------------------------------|---------------|
| | 2014 | 2013 | 2012 | Dollars | % |
| | Capital assets: | | | | |
| Net plant in service | \$ 145,564,269 | \$ 147,895,291 | \$ 151,755,111 | \$ (2,331,022) | (1.6) % |
| Construction in progress | 4,282,085 | 3,649,059 | 1,930,433 | 633,026 | 17.3 |
| Other capital assets | 1,071,606 | 1,351,792 | 1,351,792 | (280,186) | (20.7) |
| Current, restricted and other assets | <u>44,741,265</u> | <u>36,066,083</u> | <u>32,843,133</u> | <u>8,675,182</u> | <u>24.1</u> |
| Total assets | <u>195,659,225</u> | <u>188,962,225</u> | <u>187,880,469</u> | <u>6,697,000</u> | <u>3.5</u> |
| Current liabilities | 8,589,211 | 6,475,549 | 6,572,150 | 2,113,662 | 32.6 |
| Long-term liabilities | <u>12,263,822</u> | <u>14,646,211</u> | <u>16,853,091</u> | <u>(2,382,389)</u> | <u>(16.3)</u> |
| Total liabilities | <u>20,853,033</u> | <u>21,121,760</u> | <u>23,425,241</u> | <u>(268,727)</u> | <u>(1.3)</u> |
| Net position: | | | | | |
| Net Investment in capital assets | 141,103,975 | 140,915,020 | 140,619,001 | 188,955 | 0.1 |
| Restricted for debt service | 8,962,441 | 8,755,047 | 8,812,751 | 207,394 | 2.4 |
| Unrestricted | <u>24,739,776</u> | <u>18,170,398</u> | <u>15,023,477</u> | <u>6,569,378</u> | <u>36.2</u> |
| Total net position | <u>\$ 174,806,192</u> | <u>\$ 167,840,465</u> | <u>\$ 164,455,229</u> | <u>\$ 6,965,727</u> | <u>4.2 %</u> |

In 2014, total net position increased \$6.96 million or 4.2%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$6.4 million, an increase of 222.2% from 2013, and capital contributions of \$540,000. Capital contributions consisted solely of assessments and impact fees.

In 2013, total net position increased \$3.39 million or 2.1%, nearly identical to 2012. This was due to combined net income of the water, sewerage, and household hazardous waste units of \$1.99 million, a decrease of 35.3% from 2012, and capital contributions of \$1.39 million. Capital contributions consisted solely of assessments and impact fees.

In 2014, total assets increased \$6.7 million or 3.5%. Capital assets increased \$1.9 million; accumulated depreciation increased \$3.9 million for a net decrease of \$2.0 million. Current, restricted and other assets increased \$8.7 million or 24.1%.

In 2013, total assets increased \$1.1 million or 0.6%. Capital assets increased \$2.5 million; accumulated depreciation increased \$4.6 million for a net decrease of \$2.1 million. Current, restricted and other assets increased \$3.2 million or 9.8%.

The Water, Sewerage, and Household Hazardous Waste units are self-supporting divisions. Net assets of one division are not permanently used by other divisions.

Condensed Summary of Revenues, Expenses and Changes in Fund Net Position

| | Year ended December 31 | | | Variance of 2014 to 2013 Increase (decrease) | |
|----------------------------------------------------------------------|------------------------|-----------------------|-----------------------|-------------------------------------------------|---------------|
| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>Dollars</u> | <u>%</u> |
| | | | | | |
| Revenues: | | | | | |
| Water service revenues | \$ 11,059,130 | \$ 10,371,644 | \$ 10,410,002 | \$ 687,486 | 6.6 % |
| Sewerage service revenues | 10,105,706 | 10,099,447 | 10,338,727 | 6,259 | 0.1 |
| Household Hazardous Waste revenues | 167,327 | 167,378 | 167,169 | (51) | (0.0) |
| Other revenues | <u>4,005,756</u> | <u>3,588,974</u> | <u>3,374,291</u> | <u>416,782</u> | <u>11.6</u> |
| Total operating revenues | <u>25,337,919</u> | <u>24,227,443</u> | <u>24,290,189</u> | <u>1,110,476</u> | <u>4.6</u> |
| Expenses: | | | | | |
| Operating and maintenance, before depreciation and taxes | | | | | |
| Water operations | 4,999,894 | 4,048,429 | 3,971,251 | 951,465 | 23.5 |
| Sewerage operations | 6,083,323 | 5,737,729 | 5,103,930 | 345,594 | 6.0 |
| Household Hazardous Waste | 158,713 | 153,346 | 151,589 | 5,367 | 3.5 |
| Loss on sale of property | 211,185 | - | - | 211,185 | 100.0 |
| Depreciation | 4,868,817 | 4,932,332 | 4,949,111 | (63,515) | (1.3) |
| Customer accounting and collecting, administrative and general | <u>4,139,912</u> | <u>4,225,216</u> | <u>3,933,751</u> | <u>(85,304)</u> | <u>(2.0)</u> |
| Total operating expenses | <u>20,461,844</u> | <u>19,097,052</u> | <u>18,109,632</u> | <u>1,364,792</u> | <u>7.1</u> |
| Operating income | <u>4,876,075</u> | <u>5,130,391</u> | <u>6,180,557</u> | <u>(254,316)</u> | <u>(5.0)</u> |
| Nonoperating revenues | 117,788 | 167,824 | 175,478 | (50,036) | (29.8) |
| Performance bond recoveries | 4,444,574 | - | - | 4,444,574 | 100.0 |
| Nonoperating expenses | <u>(652,513)</u> | <u>(760,720)</u> | <u>(881,849)</u> | <u>(108,207)</u> | <u>(14.2)</u> |
| Increase in net position, before capital contributions and transfers | <u>8,785,924</u> | <u>4,537,495</u> | <u>5,474,186</u> | <u>4,248,429</u> | <u>93.6</u> |
| Capital contributions: | | | | | |
| Assessments and impact fees | 542,298 | 1,391,573 | 98,701 | (849,275) | (61.0) |
| Donated by developers | - | - | 209,300 | - | 100.0 |
| Transfers out | <u>(2,362,495)</u> | <u>(2,543,832)</u> | <u>(2,392,969)</u> | <u>181,337</u> | <u>(7.1)</u> |
| Increase in net position | <u>6,965,727</u> | <u>3,385,236</u> | <u>3,389,218</u> | <u>3,580,491</u> | <u>105.8</u> |
| Net position at beginning of year | <u>167,840,465</u> | <u>164,455,229</u> | <u>161,066,011</u> | <u>3,385,236</u> | <u>2.1</u> |
| Net position at end of year | <u>\$ 174,806,192</u> | <u>\$ 167,840,465</u> | <u>\$ 164,455,229</u> | <u>\$ 6,965,727</u> | <u>4.2 %</u> |

Revenues from operations fall into four general categories: water service, sewerage service, household hazardous waste and other charges. Other charges include penalty fees and charges for miscellaneous billed services.

The number of metered customers increased less than 0.1% during 2014. Water consumption decreased 0.7%. Water service revenues increased approximately \$687,000 or 6.6%. Sewerage service revenues increased approximately \$6,000 or 0.1%. The increase in water service revenues is attributable to a full year's revenue at increased rates.

Operating expenses increased 7.1% or approximately \$1.36 million during 2014. Water Unit operating expenses increased 23.5% or \$951,000 due to increased costs for water main and service repairs caused by unseasonably cold weather during February and March and increased costs for natural gas and water treatment equipment maintenance. Sewerage Unit operating expenses increased 6.0% or \$346,000 mainly due to the cost of damage claims for a sewer backup and increases in collection system maintenance expenses. Operating expenses increased approximately \$5,000 or 3.5% in the Household Hazardous Waste Unit due mainly to increased wages and benefits and cost of disposal. Customer accounting and collecting, administrative and general expenses for all units decreased approximately \$85,000 or 2.0% while depreciation expense for all units decreased approximately \$63,000 or 1.3%.

The decrease in customer accounting and collecting, administrative and general expenses is mainly due to a decrease of 93.9% in regulatory commission expense; the remaining expenses in administrative and general expense increased approximately \$102,000 or 7.1% due to increases in wages and benefits and outside services expense.

Operating income for 2014 decreased 5.0% or approximately \$254,000. Nonoperating revenues decreased 29.8% or approximately \$50,000 due to decreased investment income. Nonoperating expenses decreased 14.2% or \$108,000 due to decreases in interest expense and amortization on long-term debt.

The number of metered customers increased less than 0.1% during 2013. Water consumption decreased 8.0%. Water services revenue decreased approximately \$35,000 or 0.3%. Sewerage service revenues decreased approximately \$239,000 or 2.3%. The decrease in revenue is attributable to decreased water consumption. The decrease in water services revenue was mitigated by a rate increase effective August 1, 2013.

Operating expenses increased 5.5% or approximately \$987,000 during 2013. Water Unit operating expenses increased 1.9% or \$77,000. Sewerage Unit operating expenses increased 12.4% or \$634,000 mainly due to increases in collection system maintenance expenses. Operating expenses increased approximately \$2,000 or 1.2% in the Household Hazardous Waste Unit. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$291,000 or 7.4% while depreciation for all units decreased approximately \$17,000 or 0.3%. The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in outside services, casualty and property insurance, employee benefits and insurance and regulatory commission expense for commission, consultant and legal fees related to the contested water rate case.

Operating income for 2013 decreased 17.0% or approximately \$1.0 million. Nonoperating revenues decreased 4.4% or approximately \$8,000. Nonoperating expenses decreased 13.7% or \$121,000 due to decreases in interest expense and amortization on long-term debt.

For 2013, the increase in net position of \$3,385,239 was \$3,982 less than the previous year's increase of \$3,389,218 or a decrease of 0.1%. This was attributable to an increase in operating expenses and nearly flat operating revenues. The increase in net position attributable to the Water Unit was \$674,720; the amount attributable to the Sewerage Unit was \$2,681,369. The Household Hazardous Waste Unit accounted for the remaining \$29,147.

For 2013, the increase in net position of \$3,385,239 was \$3,982 less than the previous year's increase of \$3,389,218 or a decrease of 0.1%. This was attributable to an increase in operating expenses and nearly flat operating revenues. The increase in net position attributable to the Water Unit was \$674,720; the amount attributable to the Sewerage Unit was \$2,681,369. The Household Hazardous Waste Unit accounted for the remaining \$29,147.

Capital Assets and Debt Administration

Capital Assets Changes in Capital Assets

| | <u>Balance Jan. 1, 2014</u> | <u>Additions/ reclass- ifications</u> | <u>Deletions/ reclass- ifications</u> | <u>Balance Dec. 31, 2014</u> |
|----------------------------------------------------|---------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 2,150,778 | \$ - | \$ - | \$ 2,150,778 |
| Construction in progress | 3,649,059 | 2,104,002 | 1,470,976 | 4,282,085 |
| Total capital assets not being depreciated | <u>5,799,837</u> | <u>2,104,002</u> | <u>1,470,976</u> | <u>6,432,863</u> |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment: | | | | |
| Wastewater collection system | 1,361,057 | 2,701 | 8,975 | 1,354,783 |
| Production pumping | 4,466,051 | - | 1,515 | 4,464,536 |
| Collection system pumping | 9,072,775 | 26,721 | - | 9,099,496 |
| Production purification | 15,152,056 | - | - | 15,152,056 |
| Wastewater treatment and disposal | 19,809,486 | 1,031,379 | 659,511 | 20,181,354 |
| Total revenue producing and service equipment | <u>49,861,425</u> | <u>1,060,801</u> | <u>670,001</u> | <u>50,252,225</u> |
| Buildings and structures: | | | | |
| Production intake | 3,425,277 | - | - | 3,425,277 |
| Wastewater collection system | 75,508,688 | 59,400 | 12,883 | 75,555,205 |
| Production pumping | 3,832,609 | - | 57,198 | 3,775,411 |
| Collection system pumping | 11,454,468 | - | - | 11,454,468 |
| Production purification | 8,443,789 | 6,242 | - | 8,450,031 |
| Wastewater treatment and disposal | 8,329,205 | 5,936 | - | 8,335,141 |
| Transmission and distribution | 71,322,515 | 367,034 | 178,976 | 71,510,573 |
| General plant | 2,109,570 | 57,198 | - | 2,166,768 |
| Total buildings and structures | <u>184,426,121</u> | <u>495,810</u> | <u>249,057</u> | <u>184,672,874</u> |
| Office furnishings, shop equipment and other: | | | | |
| General equipment | 7,155,519 | 1,002,879 | 386,595 | 7,771,803 |
| Engineering equipment | 608,420 | 74,775 | 24,831 | 658,364 |
| Total office furnishings, shop equipment and other | <u>7,763,939</u> | <u>1,077,654</u> | <u>411,426</u> | <u>8,430,167</u> |
| Total capital assets being depreciated | <u>242,051,485</u> | <u>2,634,265</u> | <u>1,330,484</u> | <u>243,355,266</u> |
| Total accumulated depreciation | <u>94,955,180</u> | <u>4,868,817</u> | <u>953,828</u> | <u>98,870,169</u> |
| Total capital assets being depreciated, net | <u>147,096,305</u> | <u>(2,234,552)</u> | <u>376,656</u> | <u>144,485,097</u> |
| Total capital assets, net | <u>\$ 152,896,142</u> | <u>\$ (130,550)</u> | <u>\$ 1,847,632</u> | <u>\$ 150,917,960</u> |

The Utility had combined investment in capital assets of \$249.8 million at the end of 2014. Of that amount, construction in progress totaled \$4.3 million. Accumulated depreciation totaled approximately \$98.8 million resulting in a net book value of \$150.9 million. In 2014, the Utility recorded combined depreciation expense of approximately \$4.9 million. More detailed information about capital assets may be found in the supplementary information section report – Schedule of Capital Assets – for the Water, Sewerage, and Hazardous Waste Units as well as in Note 4 to the financial statements.

Long-Term Debt

The Utility had \$12.3 million in long-term term debt outstanding as of December 31, 2014. Of this amount, approximately \$2.25 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.2 million or 15.5% due to scheduled debt payments.

The Utility had \$14.5 million in long-term term debt outstanding as of December 31, 2013. Of this amount, approximately \$2.2 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.5 million or 14.8% due to scheduled debt payments.

The Utility carries an AA rating from Standard & Poor's Ratings Services and a rating of Aa2 from Moody's Investor Service for its water revenue bonds; the Clean Water Fund loans are not rated. Detailed debt schedules may be found in the supplementary information section as well as note 5 to the audited financial statements.

Long-Term Liability Activity

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 | Due Within One Year |
|-----------------------------------------|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Bonds, loans and advances payable: | | | | | |
| Clean Water Fund loans | \$ 671,123 | \$ - | \$ 87,139 | \$ 583,984 | \$ 89,900 |
| Revenue bonds | 13,570,000 | - | 2,080,000 | 11,490,000 | 2,165,000 |
| Bond premium | 267,712 | - | 76,439 | 191,273 | - |
| Advance from City of Kenosha | 486,322 | - | 71,752 | 414,570 | 74,410 |
| Worker's compensation accrued liability | 122,559 | - | 87,559 | 35,000 | - |
| Other post employment benefits | 1,256,918 | 258,399 | 155,000 | 1,360,317 | - |
| Accrued compensated absences | 549,225 | 104,151 | 71,942 | 581,434 | 63,446 |
| | <u>\$ 16,923,859</u> | <u>\$ 362,550</u> | <u>\$ 2,629,831</u> | <u>\$ 14,656,578</u> | <u>\$ 2,392,756</u> |

| | Balance Jan. 1, 2013 | Additions | Deletions | Balance Dec. 31, 2013 | Due Within One Year |
|-----------------------------------------|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Bonds, loans and advances payable: | | | | | |
| Clean Water Fund loans | \$ 1,132,335 | \$ - | \$ 461,212 | \$ 671,123 | \$ 87,139 |
| Revenue bonds | 15,545,000 | - | 1,975,000 | 13,570,000 | 2,080,000 |
| Bond premium | 356,363 | - | 88,651 | 267,712 | - |
| Advance from City of Kenosha | 555,416 | - | 69,094 | 486,322 | 71,753 |
| Worker's compensation accrued liability | 110,216 | 12,343 | - | 122,559 | - |
| Other post employment benefits | 1,156,531 | 357,387 | 257,000 | 1,256,918 | - |
| Accrued compensated absences | 545,188 | 54,130 | 50,093 | 549,225 | 38,757 |
| | <u>\$ 19,401,049</u> | <u>\$ 423,860</u> | <u>\$ 2,901,050</u> | <u>\$ 16,923,859</u> | <u>\$ 2,277,649</u> |

Economic Factors and the Utility's Future

The Utility will apply for a Simplified Rate Case with the Public Service Commission of Wisconsin (PSC) in April 2015. The 2014 rate of return for the water unit of the Kenosha Water Utility is 3.06% which is below the target rate of 4.25% sought by the utility with the rates approved by the PSC effective August 1, 2013. It is anticipated that this increase will be effective in June 2015. Also, as approved by the Board of Water Commissioners in the 2015 budget, a 3% increase in sewerage rates will be implemented on the same effective date as the water rate increase.

There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use.

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Kenosha Water Utility, Director of Business Services, 4401 Green Bay Road, Kenosha, Wisconsin 53144.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Net Position
December 31, 2014 and 2013

| Assets | 2014 | 2013 |
|----------------------------------------------------------|----------------|----------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 5,401,028 | \$ 11,202,334 |
| Investments | 13,700,000 | - |
| Restricted cash and cash equivalents | | |
| Restricted cash - Storm Water Utility collections | 312,967 | 331,990 |
| Restricted Investments | 11,270,000 | 11,070,000 |
| Accounts receivable | 5,112,924 | 4,389,489 |
| Unbilled revenue | 2,552,571 | 2,623,356 |
| Inventories | 476,583 | 477,804 |
| Other current assets | 112,347 | 88,863 |
| Total current assets | 38,938,420 | 30,183,836 |
| Noncurrent assets: | | |
| Other assets | | |
| Special Assessments | 64,757 | 84,428 |
| Unbilled assessments | 5,738,088 | 5,797,819 |
| Capital assets: | | |
| Capital assets not being depreciated: | | |
| Land and land improvements | 2,150,778 | 2,150,778 |
| Construction in progress | 4,282,085 | 3,649,059 |
| Capital assets being depreciated: | | |
| Revenue producing and service equipment | 50,252,225 | 49,861,426 |
| Buildings and structures | 184,672,874 | 184,426,121 |
| Office furnishings, shop equipment, and other | 8,430,167 | 7,763,938 |
| Less accumulated depreciation | (98,870,169) | (94,955,180) |
| Total capital assets, net of accumulated depreciation | 150,917,960 | 152,896,142 |
| Total noncurrent assets | 156,720,805 | 158,778,389 |
| Total assets | \$ 195,659,225 | \$ 188,962,225 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | \$ 565,731 | \$ 237,028 |
| Accrued liabilities | 47,559 | 54,953 |
| Accrued property taxes | 2,362,495 | 2,543,832 |
| Current portion of accrued compensated absences | 63,446 | 38,757 |
| Current portion of long-term obligations | 2,254,900 | 2,167,139 |
| Current portion of advance from City of Kenosha | 74,410 | 71,752 |
| Due to City of Kenosha | 2,015,513 | 506,044 |
| Due to City of Kenosha - Storm Water Utility collections | 312,967 | 331,990 |
| Other current liabilities | 892,190 | 524,054 |
| Total current liabilities | 8,589,211 | 6,475,549 |
| Noncurrent liabilities: | | |
| Long-term portion of accrued compensated absences | 517,988 | 510,468 |
| Worker's compensation accrued liability | 35,000 | 122,559 |
| Other postemployment benefits | 1,360,317 | 1,256,918 |
| Advance from City of Kenosha | 340,160 | 414,570 |
| Revenue bonds payable | 9,516,273 | 11,757,712 |
| Clean Water Fund loans | 494,084 | 583,984 |
| Total noncurrent liabilities | 12,263,822 | 14,646,211 |
| Total liabilities | 20,853,033 | 21,121,760 |
| Net Position | | |
| Net investment in capital assets | 141,103,976 | 140,915,020 |
| Restricted for debt service | 8,962,441 | 8,755,047 |
| Unrestricted | 24,739,775 | 18,170,398 |
| Total net position | \$ 174,806,192 | \$ 167,840,465 |

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---------------------------------------------------------------------|----------------|----------------|
| Operating revenues: | | |
| Charges for services | \$ 21,332,163 | \$ 20,638,469 |
| Miscellaneous | 4,005,756 | 3,588,974 |
| Total operating revenues | 25,337,919 | 24,227,443 |
| Operating expenses: | | |
| General and administrative | 4,139,912 | 4,225,216 |
| Operations and maintenance | 11,241,930 | 9,939,504 |
| Loss on sale of equipment | 211,185 | - |
| Depreciation | 4,868,817 | 4,932,332 |
| Total operating expenses | 20,461,844 | 19,097,052 |
| Operating income | 4,876,075 | 5,130,391 |
| Nonoperating revenues (expenses): | | |
| Investment income | 26,753 | 32,900 |
| Interest expense | (652,513) | (760,720) |
| Performance bond recoveries | 4,444,574 | - |
| Miscellaneous | 91,035 | 134,924 |
| Total nonoperating revenue (expenses) | 3,909,849 | (592,896) |
| Increase in net position before capital contributions and transfers | 8,785,924 | 4,537,495 |
| Capital contributions | 542,298 | 1,391,573 |
| Transfers out | (2,362,495) | (2,543,832) |
| Increase in net position | 6,965,727 | 3,385,236 |
| Net position at beginning of year | 167,840,465 | 164,455,229 |
| Net position at end of year | \$ 174,806,192 | \$ 167,840,465 |

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Cash Flows
Years ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------------------------------------------------------------|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 24,667,028 | \$ 23,485,576 |
| Payments to suppliers | (9,421,560) | (9,893,029) |
| Payments to employees | (4,091,863) | (4,104,556) |
| Net cash provided by operating activities | <u>11,153,605</u> | <u>9,487,991</u> |
| Cash flows from noncapital financing activities: | | |
| Advances paid to other funds | (71,752) | (69,094) |
| Interest paid on noncapital debt | (23,881) | (26,788) |
| Miscellaneous receipts | 14,597 | 45,732 |
| Transfer to City of Kenosha | (2,543,832) | (2,392,969) |
| Net cash used in noncapital financing activities | <u>(2,624,868)</u> | <u>(2,443,119)</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (3,078,240) | (2,824,738) |
| Special assessments collected (purchased) | 85,152 | 177,545 |
| Impact fees and contributions collected | 410,444 | 208,475 |
| Customer deposits for construction | 368,137 | 500,000 |
| Proceeds on disposal of capital assets | 108,275 | 5,172 |
| Proceeds from performance bond recovery | 4,444,574 | - |
| Principal paid on capital debt | (2,167,139) | (2,436,211) |
| Interest paid on capital debt | (636,025) | (745,819) |
| Net cash used in capital and related financing activities | <u>(464,822)</u> | <u>(5,115,576)</u> |
| Cash flows from investing activities: | | |
| Sale of investments | 2,600,000 | 9,137,900 |
| Purchase of investments | (16,500,000) | (9,070,000) |
| Interest and dividends received | 15,756 | 33,941 |
| Net cash provided by (used in) investing activities | <u>(13,884,244)</u> | <u>101,841</u> |
| Net increase (decrease) in cash and cash equivalents | (5,820,329) | 2,031,137 |
| Cash and cash equivalents – beginning of year | <u>11,534,324</u> | <u>9,503,187</u> |
| Cash and cash equivalents – end of year | <u>\$ 5,713,995</u> | <u>\$ 11,534,324</u> |
| Reconciliation of cash and cash equivalents to the statement of net assets: | | |
| Cash and cash equivalents | \$ 5,401,028 | \$ 11,202,334 |
| Restricted cash and cash equivalents | 312,967 | 331,990 |
| Total cash and cash equivalents | <u>\$ 5,713,995</u> | <u>\$ 11,534,324</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | <u>\$ 4,876,075</u> | <u>\$ 5,130,391</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 4,868,817 | 4,932,332 |
| Loss on disposal of capital assets | 211,185 | 36,562 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (723,435) | 136,097 |
| Unbilled revenues | 70,784 | (375,204) |
| Inventories | 1,221 | (20,929) |
| Other current assets | (18,238) | (2,066) |
| Accounts payable | 328,703 | (311,672) |
| Compensated absences | 32,209 | 4,038 |
| Worker's compensation accrued liability | (87,559) | 12,343 |
| Other post employment benefits | 103,399 | 100,387 |
| Payable to City of Kenosha | 1,490,444 | (154,288) |
| Total adjustments | <u>6,277,530</u> | <u>4,357,600</u> |
| Net cash provided by operating activities | <u>\$ 11,153,605</u> | <u>\$ 9,487,991</u> |
| Noncash investing, capital, and financing activities: | | |
| Contributions of capital assets from developers, including assessments and impact fees | <u>\$ 131,855</u> | <u>\$ 1,183,098</u> |

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

Nature of Business

The City of Kenosha Water Utility (Utility) is an enterprise fund of the City of Kenosha, Wisconsin (City) and is comprised of three units: Water, Sewerage, and Household Hazardous Waste. The Utility is governed by the City of Kenosha Board of Water Commissioners (Board) consisting of six members appointed by the Mayor of the City of Kenosha.

These financial statements present only the City of Kenosha Water Utility and are not intended to present the financial position and results of operations of the City of Kenosha, Wisconsin in conformity with accounting principles generally accepted in the United States of America.

The Water Unit operates, maintains, and constructs the City's water system. Services are financed primarily by user charges. The Water Unit charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSCW). Accounting records of the Water Unit are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The Sewerage Unit operates, maintains, and constructs the City's sewage collection and treatment system. Services are financed primarily by user charges. Service rates and rules are established by the Board.

The Household Hazardous Waste Unit collects, stores, and disposes of residential household hazardous waste. Services are financed primarily by user charges. Service rates and rules are established by the Board.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting policies of the Utility conform to U.S. generally accepted accounting principles (GAAP) for enterprise funds as formulated by the Governmental Accounting Standards Board. The accounts of the Utility, which are organized as an enterprise fund, are used to account for the Utility's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Utility maintains its records on the full accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Utility receives value without directly giving equal value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Utility on a reimbursement basis.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents, are considered to have original maturities of three months or less from the date of purchase.

Receivables/Payables

Transactions between the Utility and other funds of the City that are representative of lending/borrowing arrangements outstanding at year end are referred to as advance to/from the municipality. All other outstanding balances between the Utility and other funds of the City are reported as due to/from other funds.

The Utility has the right under Wisconsin statutes to place special assessments and delinquent water and sewerage bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Materials and Supplies

Inventories of materials and supplies are generally used for construction, operation, and maintenance work, and are not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction and expense when used.

Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as certain resources set aside for their repayment, system renewal and replacement, depreciation and taxes, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. In addition, amounts collected for the Storm Water Utility, which are due to the City, are considered restricted.

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

Other Current Assets

Other current assets include the current portion of special assessments receivable, interest receivable and prepaid expenses.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

Investments

Investment of Utility funds is restricted by Wisconsin Statutes to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association authorized to transact business in the state which matures in three years or less.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district or the University of Wisconsin Hospitals and Clinics Authority.
- Bonds or securities issued or guaranteed by the federal government.
- The Wisconsin 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.

Investments are reported at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to report investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Special Assessments and Unbilled Assessments

Unbilled assessments represent assessments that have been levied upon properties within the City that are not currently connected to the Utility system. This balance also includes assessments levied on properties outside the boundaries of the City which are not collectible until and unless the property connects to the Utility system or is attached to the City. Amounts reported as special assessments represent amounts levied that are currently payable.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the Utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost or the fair market value at the time of contribution to the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase is reflected in the capitalized value of utility plant constructed, net of interest earned on the invested proceeds over the same period.

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

| | Useful life (years) |
|---------------------------------|--------------------------------|
| Water unit: | |
| Production intake | 50-75 |
| Production pumping | 25-50 |
| Production purification | 18-50 |
| Transmission and distribution | 20-108 |
| General plant and equipment | 5-17 |
| Sewerage unit: | |
| Collection system | 20-100 |
| Collection system pumping | 20-50 |
| Treatment and disposal | 15-50 |
| Engineering equipment | 5-17 |
| General plant and equipment | 5-50 |
| Household hazardous waste unit: | |
| Structures and improvements | 25 |
| Equipment | 12 |

Compensated Absences

Vacation

The Utility compensates all employees upon termination for unused vacation earned in the current year. Employees may carry-over up to two weeks of unused vacation into the next calendar year to be used by June 30 of that year; any unused vacation carry-over not used by June 30 is forfeited.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

Sick Leave

Utility employees are entitled to sick leave at a rate of one day per month of full-time service. Sick leave is paid upon normal retirement or disability up to a maximum of 66 days. Terminated employees are not compensated for unused sick leave. The balance sheets of the Water and Sewerage Units contain a liability for estimated accrued sick leave and associated fringe benefits.

Equity Classifications

The difference between all other elements in a statement of financial position is net position. Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unspent related debt proceeds or deferred inflows of resources is excluded from the calculation of net investment in capital assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Long-term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Long-term debt is reported net of any premium or discount. Issuance costs are reported as expenses in the year incurred.

Charges for Services

Billings for water and sewerage services are issued monthly to high-consumption users and bi-monthly to all other customers. Hazardous waste charges are billed bimonthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The Utility has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses arise from activities that have the characteristics of exchange transactions, including providing for water, sewerage, and hazardous waste services. Nonoperating revenue and expenses arise from activities that have the characteristics of nonexchange transactions, such as those related to grants and contributions. Investment activities are also classified as nonoperating.

Taxes

The Water Unit records an annual payment in lieu of taxes (PILOT) based on the value of its plant and materials and supplies inventory using the current assessment ratio and local and school portion of the mill rate. Municipal utilities are exempt from federal and state income taxes. A portion of the payment is allocated to the Sewerage Unit. The payment is recorded as a transfer out to the City's General Fund.

Use of Estimates

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

New Accounting Pronouncements

In November 2010, the GASB issued an accounting standard which amended previous guidance related to the definition of the reporting entity. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The Utility implemented the requirements of this standard beginning with the year ending December 31, 2013.

In March 2012, the GASB issued an accounting standard regarding financial reporting of deferred outflows of resources, deferred inflows of resources, and net position. The objective of this statement is to clarify the reporting of certain items previously reported as assets and liabilities. The Utility implemented the requirements of this standard beginning with the year ending December 31, 2013.

In March 2012, the GASB issued an accounting standard which contains technical corrections for previously issued standards to resolve conflicting guidance. The Utility implemented the requirements of this standard beginning with the year ending December 31, 2013.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In June 2012, the GASB issued an accounting standard which establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2014.

In June 2012, the GASB issued an accounting standard that replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2015.

In January 2013, the GASB issued an accounting standard that establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Utility implemented the requirements of this standard beginning with the year ending December 31, 2014.

In November 2013, the GASB issued an accounting standard that amends Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this standard will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual basis financial statements and nonemployer contributing entities.

In February 2015, the GASB issued an account standard that address accounting and financial reporting issues related to fair value measurements. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2016.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(2) Cash and Investments

The Utility, as an enterprise fund of the City, maintains separate cash and investment accounts at the same financial institutions utilized by the City. A summary of cash and investments as of December 31, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------------------|----------------------|----------------------|
| Petty cash | \$ 1,700 | \$ 1,700 |
| Demand deposits | 1,712,295 | 2,532,624 |
| Certificates of deposit | <u>28,970,000</u> | <u>20,070,000</u> |
| Total cash, cash equivalents and investments | <u>\$ 30,683,995</u> | <u>\$ 22,604,324</u> |
| Reconciliation to the financial statement: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,401,028 | \$ 11,202,334 |
| Investments | 13,700,000 | - |
| Restricted cash - Storm Water Utility collections | 312,967 | 331,990 |
| Restricted Investments | <u>11,270,000</u> | <u>11,070,000</u> |
| Total cash, cash equivalents and investments | <u>\$ 30,683,995</u> | <u>\$ 22,604,324</u> |

Investment Policy

The Utility's investments are made in accordance with the Utility's investment policy which is similar to the City of Kenosha's investment policies and the Wisconsin Statutes. A summary of authorized investments is included in Note 1.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned. Deposits of governmental entities held by an official custodian in banks located in the same state as the governmental entity are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per financial institution. Deposits are also insured for \$400,000 by the State Deposit Guarantee Fund. The investment policies require collateralization of deposits at financial institutions when the total amount of such deposits exceeds the insured limits. Federal depository insurance and the State of Wisconsin Guarantee Fund insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the Utility alone.

The Utility invests in various certificate of deposits held at multiple banks. The balance at each bank is below the FDIC limits noted above, resulting in all balances being fully insured at December 31, 2014 and 2013.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(2) Cash and Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Utility. The Utility does not have a formal policy addressing this type of investment risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. As of December 31, 2014 and 2013, the Utility's investments were certificates of deposit with maturities of less than one year.

(3) Restricted Assets

Restricted assets have been established in accordance with the requirements of debt agreements and City policies as follows:

| | 2014 | | |
|------------------------------------------------------------------------------|---------------------|---------------------|----------------------|
| | <u>Water Unit</u> | <u>Sewer Unit</u> | <u>Total</u> |
| Restricted for Debt Service | | | |
| Debt service account | \$ - | \$ 110,000 | \$ 110,000 |
| Special redemption account | 2,700,000 | - | 2,700,000 |
| Reserve account | <u>2,260,000</u> | <u>-</u> | <u>2,260,000</u> |
| | 4,960,000 | 110,000 | 5,070,000 |
| Restricted for renewal and replacement | - | 1,700,000 | 1,700,000 |
| Restricted for taxes | 2,500,000 | - | 2,500,000 |
| Restricted for depreciation | 1,000,000 | 1,000,000 | 2,000,000 |
| Restricted for Storm Water Utility collections due to the City of Kenosha | <u>-</u> | <u>312,967</u> | <u>312,967</u> |
| Total restricted assets | <u>\$ 8,460,000</u> | <u>\$ 3,122,967</u> | <u>\$ 11,582,967</u> |
| Restricted cash and cash equivalents | \$ - | \$ 312,967 | \$ 312,967 |
| Restricted investments | <u>8,460,000</u> | <u>2,810,000</u> | <u>11,270,000</u> |
| Total restricted assets | <u>\$ 8,460,000</u> | <u>\$ 3,122,967</u> | <u>\$ 11,582,967</u> |

CITY OF KENOSHA WATER UTILITY
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(3) Restricted Assets (Continued)

| | 2013 | | |
|------------------------------------------------------------------------------|---------------------|---------------------|----------------------|
| | <u>Water Unit</u> | <u>Sewer Unit</u> | <u>Total</u> |
| Restricted for Debt Service | | | |
| Debt service account | \$ - | \$ 110,000 | \$ 110,000 |
| Special redemption account | 2,600,000 | - | 2,600,000 |
| Reserve account | <u>2,260,000</u> | <u>-</u> | <u>2,260,000</u> |
| | 4,860,000 | 110,000 | 4,970,000 |
| Restricted for renewal and replacement | - | 1,600,000 | 1,600,000 |
| Restricted for taxes | 2,500,000 | - | 2,500,000 |
| Restricted for depreciation | 1,000,000 | 1,000,000 | 2,000,000 |
| Restricted for Storm Water Utility collections due to the City of Kenosha | <u>-</u> | <u>331,990</u> | <u>331,990</u> |
| Total restricted assets | <u>\$ 8,360,000</u> | <u>\$ 3,041,990</u> | <u>\$ 11,401,990</u> |
| Restricted cash and cash equivalents | \$ - | \$ 331,990 | \$ 331,990 |
| Restricted investments | <u>8,360,000</u> | <u>2,710,000</u> | <u>11,070,000</u> |
| Total restricted assets | <u>\$ 8,360,000</u> | <u>\$ 3,041,990</u> | <u>\$ 11,401,990</u> |

CITY OF KENOSHA WATER UTILITY
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(4) Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

| | Balance January 1, 2014 | Additions | Deletions | Balance December 31, 2014 |
|--------------------------------------------------|----------------------------------------|---------------------|---------------------|------------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 2,150,778 | \$ - | \$ - | \$ 2,150,778 |
| Construction in progress | 3,649,059 | 2,104,002 | 1,470,976 | 4,282,085 |
| Total capital assets not being depreciated | <u>5,799,837</u> | <u>2,104,002</u> | <u>1,470,976</u> | <u>6,432,863</u> |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment | 49,861,426 | 1,060,801 | 670,002 | 50,252,225 |
| Buildings and structures | 184,426,121 | 438,612 | 191,859 | 184,672,874 |
| Office furnishings, shop equipment, and other | 7,763,938 | 1,077,655 | 411,426 | 8,430,167 |
| Total capital assets being depreciated | <u>242,051,485</u> | <u>2,577,068</u> | <u>1,273,287</u> | <u>243,355,266</u> |
| Less accumulated depreciation: | | | | |
| Revenue producing and service equipment | 38,970,867 | 1,657,656 | 670,002 | 39,958,521 |
| Buildings and structures | 51,575,868 | 2,821,201 | 157,320 | 54,239,749 |
| Office furnishings, shop equipment, and other | 4,408,445 | 389,960 | 126,506 | 4,671,899 |
| Total accumulated depreciation | <u>94,955,180</u> | <u>4,868,817</u> | <u>953,828</u> | <u>98,870,169</u> |
| Total capital assets being depreciated, net | <u>147,096,305</u> | <u>(2,291,749)</u> | <u>319,459</u> | <u>144,485,097</u> |
| Total capital assets, net | <u>\$ 152,896,142</u> | <u>\$ (187,747)</u> | <u>\$ 1,790,435</u> | <u>\$ 150,917,960</u> |

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(4) Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2013 was as follows:

| | Balance January 1, 2013 | Additions | Deletions | Balance December 31, 2013 |
|--------------------------------------------------|----------------------------------------|-----------------------|-------------------|------------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 2,151,478 | \$ - | \$ 700 | \$ 2,150,778 |
| Construction in progress | 1,930,433 | 2,456,055 | 737,429 | 3,649,059 |
| Total capital assets not being depreciated | <u>4,081,911</u> | <u>2,456,055</u> | <u>738,129</u> | <u>5,799,837</u> |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment | 49,785,635 | 123,547 | 47,756 | 49,861,426 |
| Buildings and structures | 183,732,166 | 805,412 | 111,457 | 184,426,121 |
| Office furnishings, shop equipment, and other | 7,800,726 | 184,748 | 221,536 | 7,763,938 |
| Total capital assets being depreciated | <u>241,318,527</u> | <u>1,113,707</u> | <u>380,749</u> | <u>242,051,485</u> |
| Less accumulated depreciation: | | | | |
| Revenue producing and service equipment | 37,249,226 | 1,769,398 | 47,757 | 38,970,867 |
| Buildings and structures | 48,847,292 | 2,810,506 | 81,930 | 51,575,868 |
| Office furnishings, shop equipment, and other | 4,266,585 | 352,428 | 210,568 | 4,408,445 |
| Total accumulated depreciation | <u>90,363,103</u> | <u>4,932,332</u> | <u>340,255</u> | <u>94,955,180</u> |
| Total capital assets being depreciated, net | <u>150,955,424</u> | <u>(3,818,625)</u> | <u>40,494</u> | <u>147,096,305</u> |
| Total capital assets, net | <u>\$ 155,037,335</u> | <u>\$ (1,362,570)</u> | <u>\$ 778,623</u> | <u>\$ 152,896,142</u> |

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 December 31, 2014 and 2013

(5) Long-term Debt

Long-term debt activity for the year ended December 31, 2014 was as follows:

| <u>Issue</u> | <u>Interest rate</u> | <u>Balance January 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance December 31, 2014</u> | <u>Due within one year</u> |
|----------------------------------------------------------------|----------------------|--------------------------------|-------------------|---------------------|----------------------------------|----------------------------|
| State of Wisconsin Clean Water Loan Funds: | | | | | | |
| Series 2000 | 3.17% | \$ 671,123 | - | \$ 87,139 | \$ 583,984 | \$ 89,900 |
| Revenue Bonds: | | | | | | |
| Series 2008 | 3.25-5.00% | 13,570,000 | - | 2,080,000 | 11,490,000 | 2,165,000 |
| | | 14,241,123 | - | 2,167,139 | 12,073,984 | 2,254,900 |
| Less: unamortized (discount) premium and refunding bond losses | | 267,712 | - | 76,439 | 191,273 | - |
| Advance from Municipality: | | | | | | |
| 1999 agreement | 4.74-6.00% | 486,322 | - | 71,752 | 414,570 | 74,410 |
| Worker's compensation accrued liability | N/A | 122,559 | - | 87,559 | 35,000 | - |
| Other post employment benefits | N/A | 1,256,918 | 258,399 | 155,000 | 1,360,317 | - |
| Accrued Compensated Absences | N/A | 549,225 | 104,151 | 71,942 | 581,434 | 63,446 |
| Total | | <u>\$ 16,923,859</u> | <u>\$ 362,550</u> | <u>\$ 2,629,831</u> | <u>\$ 14,656,578</u> | <u>\$ 2,392,756</u> |

Long-term debt activity for the year ended December 31, 2013 was as follows:

| <u>Issue</u> | <u>Interest rate</u> | <u>Balance January 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance December 31, 2013</u> | <u>Due within one year</u> |
|----------------------------------------------------------------|----------------------|--------------------------------|-------------------|---------------------|----------------------------------|----------------------------|
| State of Wisconsin Clean Water Loan Funds: | | | | | | |
| Series 1993 | 4.02% | \$ 376,750 | - | \$ 376,750 | - | - |
| Series 2000 | 3.17% | 755,585 | - | 84,462 | 671,123 | 87,139 |
| Revenue Bonds: | | | | | | |
| Series 2008 | 3.25-5.00% | 15,545,000 | - | 1,975,000 | 13,570,000 | 2,080,000 |
| | | 16,677,335 | - | 2,436,212 | 14,241,123 | 2,167,139 |
| Less: unamortized (discount) premium and refunding bond losses | | 356,363 | - | 88,651 | 267,712 | - |
| Advance from Municipality: | | | | | | |
| 1999 agreement | 4.74-6.00% | 555,416 | - | 69,094 | 486,322 | 71,752 |
| Worker's compensation accrued liability | N/A | 110,216 | 12,343 | - | 122,559 | - |
| Other post employment benefits | N/A | 1,156,531 | 357,387 | 257,000 | 1,256,918 | - |
| Accrued Compensated Absences | N/A | 545,188 | 54,130 | 50,093 | 549,225 | 38,757 |
| Total | | <u>\$ 19,401,049</u> | <u>\$ 423,860</u> | <u>\$ 2,901,050</u> | <u>\$ 16,923,859</u> | <u>\$ 2,277,648</u> |

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(5) Long-term Debt (Continued)

State of Wisconsin Department of Natural Resources Clean Water Fund Loan (CWFL)

Clean Water Fund loans are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Sewerage Unit Clean Water Fund debt is payable from revenues of the sewerage system; however, upon default, the City's transportation aids or shared revenue may be reduced. The municipal ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established:

- Renewal and replacement - Utilities receiving federal or state construction grant funds from the EPA or the Wisconsin Fund are required by Wis. Admin. Code NR 128.13 and CFR 35.2005, Federal Register, to establish and fund a "replacement account" for mechanical equipment. Each grantee must review its facility and estimate its future expenditures for equipment replacement that will be necessary to maintain the facility's capacity throughout its design life of 20 years. Withdrawals are made as major mechanical equipment is repaired or replaced.

- Debt Service account - Used to deposit monthly one-sixth and one-twelfth of the Next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.

Revenue Bonds

Revenue bond debt is payable from revenues derived by the Utility. Revenue bonds are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Such ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established for the Water and Sewerage units:

- Special redemption account - Used to deposit monthly one-sixth and one-twelfth of the next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount is on deposit.

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(5) Long-term Debt (Continued)

Revenue Bonds (continued)

- Reserve account - Used to make interest or principal payments when amounts are not available in the special redemption account, remedy deficiencies in any of the other accounts, or retire bonds in advance of maturity.
- Renewal and replacement - Used for the payment of repairs, replacements, new construction, and expansion on or additions to the system.
- Tax equivalent account - Used to fund the annual tax equivalent paid to the City.
- Depreciation account - Used for the payment of extraordinary repairs or replacements and to remedy any deficiencies in the special redemption account.

Advance from Municipality

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue, and makes principal and interest payments to the City. During 2009, the City refunded the 1999 general obligation refunding bonds which resulted in an increase in annual principal payments and a reduction in annual interest payments due for the remaining life of the bonds. The Utility recorded its share of the increase in principal due as a charge to the current year's pension expense.

Principal and Interest Payments

Long-term debt principal and interest requirements to maturity as of December 31, 2014 are as follows:

| | Principal | | | Interest | | |
|------|----------------------|-------------------|----------------------|---------------------|------------------|---------------------|
| | Water unit | Sewerage unit | Total | Water unit | Sewerage unit | Total |
| 2015 | \$ 2,201,893 | \$ 127,417 | \$ 2,329,310 | \$ 543,954 | \$ 27,510 | \$ 571,464 |
| 2016 | 2,288,210 | 131,607 | 2,419,817 | 455,569 | 22,800 | 478,369 |
| 2017 | 2,390,845 | 137,225 | 2,528,070 | 360,141 | 17,701 | 377,842 |
| 2018 | 4,768,480 | 142,938 | 4,911,418 | 240,267 | 12,206 | 252,473 |
| 2019 | 46,116 | 148,746 | 194,862 | 1,383 | 6,351 | 7,734 |
| 2020 | - | 105,077 | 105,077 | - | 1,665 | 1,665 |
| | <u>\$ 11,695,544</u> | <u>\$ 793,010</u> | <u>\$ 12,488,554</u> | <u>\$ 1,601,314</u> | <u>\$ 88,233</u> | <u>\$ 1,689,547</u> |

CITY OF KENOSHA WATER UTILITY
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(6) Net Position

The components of net position are shown below:

| | 2014 | | | Total |
|-------------------------------------------------|----------------------|-----------------------|-----------------------------------------------|-----------------------|
| | <u>Water Unit</u> | <u>Sewer Unit</u> | <u>Household Hazardous Waste Unit</u> | |
| Invested in capital assets, net of related debt | | | | |
| Net investment in capital assets | \$ 75,007,963 | \$ 75,851,030 | \$ 58,967 | \$ 150,917,960 |
| Outstanding long-term debt | (11,490,000) | (583,984) | - | (12,073,984) |
| Debt not related to capital assets | 2,260,000 | - | - | 2,260,000 |
| | <u>65,777,963</u> | <u>75,267,046</u> | <u>58,967</u> | <u>141,103,976</u> |
| Restricted | | | | |
| Restricted for renewal and replacement | - | 1,700,000 | - | 1,700,000 |
| Restricted for taxes | 2,500,000 | - | - | 2,500,000 |
| Restricted for depreciation | 1,000,000 | 1,000,000 | - | 2,000,000 |
| Restricted for debt service | 4,960,000 | 110,000 | - | 5,070,000 |
| Restricted for Storm Water Utility collections | - | 312,967 | - | 312,967 |
| Liabilities payable from restricted assets | | | | |
| Storm Water Utility collections | - | (312,967) | - | (312,967) |
| Accrued interest payable | (44,475) | (3,084) | - | (47,559) |
| Long-term debt | (2,260,000) | - | - | (2,260,000) |
| | <u>6,155,525</u> | <u>2,806,916</u> | <u>-</u> | <u>8,962,441</u> |
| Unrestricted | <u>(887,417)</u> | <u>25,256,973</u> | <u>370,219</u> | <u>24,739,775</u> |
| Total net position | <u>\$ 71,046,071</u> | <u>\$ 103,330,935</u> | <u>\$ 429,186</u> | <u>\$ 174,806,192</u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(6) Net Position (Continued)

| | 2013 | | | |
|-------------------------------------------------|----------------------|----------------------|-----------------------------------------------|-----------------------|
| | <u>Water Unit</u> | <u>Sewer Unit</u> | <u>Household Hazardous Waste Unit</u> | <u>Total</u> |
| Invested in capital assets, net of related debt | | | | |
| Net investment in capital assets | \$ 75,712,329 | \$ 77,121,722 | \$ 62,092 | \$ 152,896,143 |
| Outstanding long-term debt | (13,570,000) | (671,123) | - | (14,241,123) |
| Debt not related to capital assets | 2,260,000 | - | - | 2,260,000 |
| | <u>64,402,329</u> | <u>76,450,599</u> | <u>62,092</u> | <u>140,915,020</u> |
| Restricted | | | | |
| Restricted for renewal and replacement | - | 1,600,000 | - | 1,600,000 |
| Restricted for taxes | 2,500,000 | - | - | 2,500,000 |
| Restricted for depreciation | 1,000,000 | 1,000,000 | - | 2,000,000 |
| Restricted for debt service | 4,860,000 | 110,000 | - | 4,970,000 |
| Restricted for Storm Water Utility collections | - | 331,990 | - | 331,990 |
| Liabilities payable from restricted assets | | | - | - |
| Storm Water Utility collections | - | (331,990) | - | (331,990) |
| Accrued interest payable | (51,408) | (3,545) | - | (54,953) |
| Long-term debt | (2,260,000) | - | - | (2,260,000) |
| | <u>6,048,592</u> | <u>2,706,455</u> | <u>-</u> | <u>8,755,047</u> |
| Unrestricted | <u>(36,931)</u> | <u>17,864,253</u> | <u>343,076</u> | <u>18,170,398</u> |
| Total net position | <u>\$ 70,413,990</u> | <u>\$ 97,021,307</u> | <u>\$ 405,168</u> | <u>\$ 167,840,465</u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
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(7) Employees' Retirement System

All eligible Utility employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 1,200 hours per year (600 hours if hired before July 1, 2011) are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 7.00% (6.65% for 2013 and 5.9% for 2012) of their salary to the plan. Employers generally made these contributions to the plan on behalf of employees prior to 2011. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. As of January 1, 2012, the Utility no longer made the employee required contribution for any employee; the Utility contributed 7.00% of the required 14.00% contribution to the System. Total Utility payroll, covered payroll, and contributions for 2014, 2013, and 2012 are as follows:

| | Year ended December 31, | | |
|----------------------------------|-------------------------|--------------|--------------|
| | 2014 | 2013 | 2012 |
| Total Utility payroll | \$ 5,131,520 | \$ 4,826,429 | \$ 4,501,815 |
| Total covered employee payroll | \$ 4,980,993 | \$ 4,723,637 | \$ 4,461,416 |
| Total required contributions | \$ 348,556 | \$ 313,929 | \$ 263,678 |
| Total required contributions (%) | 7.00% | 6.65% | 5.90% |

Details of the plan are disclosed in the financial statements of the City.

(8) Risk Management

The Utility is exposed to various risks of loss related to theft of, damage to, or destruction of assets, torts, errors and omissions, workers' compensation, and health care of its employees. The Utility purchases commercial insurance to insure its assets and protect against liability claims. Settled liability and property damage claims have not exceeded the commercial insurance coverage in the last five years. The Utility, in conjunction with the City, is self-insured for workers' compensation and health insurance. The City purchases stop loss insurance to limit risk exposures.

For liability and errors and omissions insurance, the City, including the Utility, is a participant in the Wisconsin Municipal Insurance Commission (WMIC). The WMIC is an intergovernmental cooperation commission created by contract under Section 66.0301 of the Wisconsin Statutes in August 1987 for the purpose of facilitating the organization, establishment, and capitalization of the Cities and Villages Mutual Insurance Company (CVMIC) and has approximately forty-six municipalities as members. CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. CVMIC provides liability and worker's compensation insurance coverage. Separately issued financial statements for CVMIC may be obtained from CVMIC at 9898 W. Bluemound Road, Wauwatosa, WI 53226-4319.

CITY OF KENOSHA WATER UTILITY
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December 31, 2014 and 2013

(8) Risk Management (Continued)

For liability and errors and omissions insurance claims, the uninsured risk of loss is \$125,000 per incident and \$500,000 in the aggregate for a policy year.

The participation of the City, and its related funding for capitalization, is accounted in an internal service fund in the financial statements of the City. See the City's financial statements for additional information on the City's participation in the public entity risk pools as a whole.

(9) Basis for Existing Rates

Water Unit

Rates were approved by the PSCW on July 31, 2013, and placed into effect by the Utility for service on and after August 1, 2013. The new rates were designed to provide a 4.25% return on rate base calculated on estimated utility plant in service and operating revenue and expense for the test year 2013.

On December 22, 2009, the PSCW authorized a rate increase effective December 31, 2009. The new rates were approved using the Simplified Rate Case Process which allowed a 3.8% increase in rates for general service, public fire protection and wholesale service. The revenue increase combined with the Utility's prior year's net operating income did not exceed an overall rate of return of 7.4%, the Commission's overall rate of return applicable to a municipally owned water utility.

Sewerage Unit

On October 27, 2008, the Board of Water Commissioners approved a rate adjustment for sewerage service, industrial waste discharge permit and miscellaneous services that was placed into effect December 31, 2008.

Household Hazardous Waste Unit

Rates were approved by the Board of Water Commissioners on November 27, 2006, and placed into effect January 1, 2007.

(10) Commitments and Contingencies

At December 31, 2014, the Utility had outstanding purchase commitments for contracts of approximately \$9,312,957 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$116,585 for water and sewer main construction and \$56,850 for water booster station backup generator installations.

At December 31, 2013, the Utility had no outstanding purchase commitments.

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

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(11) Other Postemployment Benefits

The Utility participates in a single-employer defined benefit health care plan (“the Retiree Health Plan”) administered by the City of Kenosha. The plan provides health insurance benefits for eligible retirees, their spouses and eligible dependents through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through personnel policy guidelines or past practice and state that eligible retirees, their spouses and eligible dependents receive healthcare insurance based on the following criteria:

- Regularly appointed full-time employee’s retiring under the provisions of the Wisconsin Retirement System (WRS) with greater than or equal to fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree’s sixtieth birthday, for a maximum of five years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.
- Regularly appointed full-time employee’s retiring under the provisions of the WRS with greater than or equal to eight years of service but less than fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree’s sixty-second birthday, for a maximum of three years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.

The Retiree Health Plan does not issue a publicly available financial report.

Benefit provisions are established through personnel policies and generally result in the employer paying 100% of the health care costs – less plan deductibles and co-pays – as outlined above. Benefit provisions may be amended through changes in personnel policy guidelines by action of the City’s Common Council. There is no contribution requirement since the Utility pays 100% of health care costs less plan deductibles and co-pays. For fiscal 2014 and 2013, the Utility contributed \$155,000 and \$257,000 to the plan, respectively.

The Utility’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB interpretations. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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(11) Other Postemployment Benefits (Continued)

The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation for the year ended December 31, 2014:

| | <u>Water Unit</u> | <u>Sewerage Unit</u> | <u>Total</u> |
|--------------------------------------------|-----------------------|--------------------------|---------------------|
| Annual required contribution | \$ 151,661 | \$ 131,289 | \$ 282,950 |
| Interest on net OPEB obligation | 20,211 | 17,497 | 37,708 |
| Adjustment to annual required contribution | <u>(33,371)</u> | <u>(28,888)</u> | <u>(62,259)</u> |
| Annual OPEB cost | 138,501 | 119,898 | 258,399 |
| Contributions made | <u>(83,080)</u> | <u>(71,920)</u> | <u>(155,000)</u> |
| Increase in net OPEB obligation | 55,421 | 47,978 | 103,399 |
| Net OPEB obligation, beginning of year | <u>649,368</u> | <u>607,550</u> | <u>1,256,918</u> |
| Net OPEB obligation, end of year | <u>\$ 704,789</u> | <u>\$ 655,528</u> | <u>\$ 1,360,317</u> |

CITY OF KENOSHA WATER UTILITY
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 December 31, 2014 and 2013

(11) Other Postemployment Benefits (Continued)

The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation for the year ended December 31, 2013:

| | <u>Water Unit</u> | <u>Sewerage Unit</u> | <u>Total</u> |
|--------------------------------------------|--------------------------|--------------------------|----------------------------|
| Annual required contribution | \$ 207,209 | \$ 171,601 | \$ 378,810 |
| Interest on net OPEB obligation | 20,560 | 17,027 | 37,587 |
| Adjustment to annual required contribution | <u>(32,278)</u> | <u>(26,732)</u> | <u>(59,010)</u> |
| Annual OPEB cost | 195,491 | 161,896 | 357,387 |
| Contributions made | <u>(140,579)</u> | <u>(116,421)</u> | <u>(257,000)</u> |
| Increase in net OPEB obligation | 54,912 | 45,475 | 100,387 |
| Net OPEB obligation, beginning of year | <u>594,456</u> | <u>562,075</u> | <u>1,156,531</u> |
| Net OPEB obligation, end of year | <u><u>\$ 649,368</u></u> | <u><u>\$ 607,550</u></u> | <u><u>\$ 1,256,918</u></u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(11) Other Postemployment Benefits (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

| | <u>Water Unit</u> | <u>Sewerage Unit</u> | <u>Total</u> |
|--------------------------------------------|-----------------------|--------------------------|--------------|
| Year ended December 31, 2014 | | | |
| Annual OPEB cost | \$ 138,501 | \$ 119,898 | \$ 258,399 |
| Percentage of annual OPEB cost contributed | 59.98% | 59.98% | 59.98% |
| Net OPEB obligation | \$ 704,789 | \$ 655,528 | \$1,360,317 |
| Year ended December 31, 2013 | | | |
| Annual OPEB cost | \$ 195,491 | \$ 161,896 | \$ 357,387 |
| Percentage of annual OPEB cost contributed | 71.91% | 71.91% | 71.91% |
| Net OPEB obligation | \$ 649,368 | \$ 607,550 | \$1,256,918 |
| Year ended December 31, 2012 | | | |
| Annual OPEB cost | \$ 180,705 | \$ 170,861 | \$ 351,566 |
| Percentage of annual OPEB cost contributed | 67.70% | 67.70% | 67.70% |
| Net OPEB obligation | \$ 594,456 | \$ 562,075 | \$1,156,531 |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2014 and 2013

(11) Other Postemployment Benefits (Continued)

The funded status of the plan as of December 31, 2014, the most recent actuarial valuation date, was as follows:

| | Water Unit | Sewerage Unit | Total |
|-----------------------------------------------------|---------------------|---------------------|---------------------|
| Actuarial accrued liability (AAL) | \$ 1,511,745 | \$ 1,308,675 | \$ 2,820,420 |
| Actuarial value of plan assets | - | - | - |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 1,511,745</u> | <u>\$ 1,308,675</u> | <u>\$ 2,820,420</u> |
| Funded ratio (actuarial value of plan assets / AAL) | 0.00% | 0.00% | 0.00% |
| Covered payroll (active plan members) | \$ 2,478,495 | \$ 2,502,498 | \$ 4,980,993 |

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.00% investment rate of return and an annual healthcare cost trend rate of 5.5% initially, reduced by decrements to an ultimate rate of 4.4% after 2080. The unfunded actuarial accrued liability is being amortized over 30 years from the valuation date on an open basis in level dollar payments.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

(12) Subsequent Events

On February 16, 2015, a contract was awarded to Porta-Painting, Inc. by the Board of Water Commissioners for painting the pump room at the Wastewater Treatment Plant in the amount of \$92,000.

On April 6, 2015, a contract was awarded to A.W. Oakes & Son, Inc. by the Board of Water Commissioners for water main relays in the amount of \$834,972.

This information is an integral part of the accompanying financial statements.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF OPEB FUNDING PROGRESS
 December 31, 2014 and 2013

| Actuarial Valuation Date | Actuarial Value of Assets (a) | (AAL) Accrued Actuarial Liability (b) | (UAAL) Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|---------------------------------------------------|------------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| 12/31/2010 | \$ - | \$ 4,303,992 | \$ 4,303,992 | 0.00% | \$ 4,614,870 | 93.26% |
| 12/31/2012 | \$ - | \$ 3,986,522 | \$ 3,986,522 | 0.00% | \$ 4,461,416 | 89.36% |
| 12/31/2014 | \$ - | \$ 2,820,420 | \$ 2,820,420 | 0.00% | \$ 4,980,993 | 56.62% |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Net Position

December 31, 2014

| Assets | Water unit | Sewerage unit | Household hazardous waste unit | Total |
|----------------------------------------------------------|----------------------|-----------------------|--------------------------------------|-----------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 219,587 | \$ 4,868,858 | \$ 312,583 | \$ 5,401,028 |
| Investments | 2,000,000 | 11,700,000 | - | 13,700,000 |
| Restricted cash - Storm Water Utility collections | - | 312,967 | - | 312,967 |
| Restricted investments | 8,460,000 | 2,810,000 | - | 11,270,000 |
| Accounts receivable | 2,256,200 | 2,809,494 | 47,230 | 5,112,924 |
| Unbilled revenue | 1,500,558 | 1,031,033 | 20,980 | 2,552,571 |
| Inventories | 436,530 | 40,053 | - | 476,583 |
| Other current assets | 107,163 | 5,184 | - | 112,347 |
| Total current assets | <u>14,980,038</u> | <u>23,577,589</u> | <u>380,793</u> | <u>38,938,420</u> |
| Noncurrent assets: | | | | |
| Advance to Water Unit | - | 5,000,000 | - | 5,000,000 |
| Other assets | | | | |
| Special assessments | 37,679 | 27,078 | - | 64,757 |
| Unbilled assessments | 3,041,003 | 2,697,085 | - | 5,738,088 |
| Capital assets: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | 878,572 | 1,272,206 | - | 2,150,778 |
| Construction in progress | 1,488,353 | 2,793,732 | - | 4,282,085 |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment | 19,616,592 | 30,635,633 | - | 50,252,225 |
| Buildings and structures | 87,161,292 | 97,435,184 | 76,398 | 184,672,874 |
| Office furnishings, shop equipment, and other | 3,442,560 | 4,986,775 | 832 | 8,430,167 |
| Less accumulated depreciation | <u>(37,579,406)</u> | <u>(61,272,500)</u> | <u>(18,263)</u> | <u>(98,870,169)</u> |
| Total capital assets, net of accumulated depreciation | <u>75,007,963</u> | <u>75,851,030</u> | <u>58,967</u> | <u>150,917,960</u> |
| Total noncurrent assets | <u>78,086,645</u> | <u>83,575,193</u> | <u>58,967</u> | <u>161,720,805</u> |
| Total assets | <u>\$ 93,066,683</u> | <u>\$ 107,152,782</u> | <u>\$ 439,760</u> | <u>\$ 200,659,225</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 254,191 | \$ 302,893 | \$ 8,647 | \$ 565,731 |
| Accrued liabilities | 44,475 | 3,084 | - | 47,559 |
| Accrued property taxes | 2,362,495 | - | - | 2,362,495 |
| Current portion of accrued compensated absences | 25,173 | 38,273 | - | 63,446 |
| Current portion of long-term obligations | 2,165,000 | 89,900 | - | 2,254,900 |
| Current portion of advance from City of Kenosha | 36,893 | 37,517 | - | 74,410 |
| Due to City of Kenosha | 997,278 | 1,016,308 | 1,927 | 2,015,513 |
| Due to City of Kenosha - Storm Water Utility collections | - | 312,967 | - | 312,967 |
| Other current liabilities | 425,120 | 467,070 | - | 892,190 |
| Total current liabilities | <u>6,310,625</u> | <u>2,268,012</u> | <u>10,574</u> | <u>8,589,211</u> |
| Noncurrent liabilities: | | | | |
| Long-term portion of accrued compensated absences | 301,374 | 216,614 | - | 517,988 |
| Worker's compensation accrued liability | 18,900 | 16,100 | - | 35,000 |
| Other postemployment benefits | 704,789 | 655,528 | - | 1,360,317 |
| Advance from City of Kenosha | 168,651 | 171,509 | - | 340,160 |
| Advance from Sewerage Unit | 5,000,000 | - | - | 5,000,000 |
| Revenue bonds payable (net of unamortized premiums) | 9,516,273 | - | - | 9,516,273 |
| Clean Water Fund loans | - | 494,084 | - | 494,084 |
| Total noncurrent liabilities | <u>15,709,987</u> | <u>1,553,835</u> | <u>-</u> | <u>17,263,822</u> |
| Total liabilities | <u>22,020,612</u> | <u>3,821,847</u> | <u>10,574</u> | <u>25,853,033</u> |
| Net Position | | | | |
| Net investment in capital assets | 65,777,963 | 75,267,046 | 58,967 | 141,103,976 |
| Restricted for debt service | 6,155,525 | 2,806,916 | - | 8,962,441 |
| Unrestricted | <u>(887,417)</u> | <u>25,256,973</u> | <u>370,219</u> | <u>24,739,775</u> |
| Total net position | <u>\$ 71,046,071</u> | <u>\$ 103,330,935</u> | <u>\$ 429,186</u> | <u>\$ 174,806,192</u> |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year ended December 31, 2014

| | <u>Water unit</u> | <u>Sewerage unit</u> | <u>Household hazardous waste unit</u> | <u>Total</u> |
|------------------------------------------------------------------------|-----------------------|--------------------------|-----------------------------------------------|-----------------------|
| Operating revenues: | | | | |
| Charges for services | \$ 11,059,130 | \$ 10,105,706 | \$ 167,327 | \$ 21,332,163 |
| Miscellaneous | 2,128,589 | 2,058,415 | 18,380 | 4,205,384 |
| Total operating revenues | <u>13,187,719</u> | <u>12,164,121</u> | <u>185,707</u> | <u>25,537,547</u> |
| Operating expenses: | | | | |
| General and administrative | 1,962,894 | 2,376,646 | - | 4,339,540 |
| Operations and maintenance | 4,999,894 | 6,083,323 | 158,713 | 11,241,930 |
| Loss on sale of equipment | - | 211,185 | - | 211,185 |
| Depreciation | 2,738,808 | 2,126,884 | 3,125 | 4,868,817 |
| Total operating expenses | <u>9,701,596</u> | <u>10,798,038</u> | <u>161,838</u> | <u>20,661,472</u> |
| Operating income | <u>3,486,123</u> | <u>1,366,083</u> | <u>23,869</u> | <u>4,876,075</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 14,697 | 186,906 | 149 | 201,752 |
| Interest expense | (796,429) | (31,083) | - | (827,512) |
| Performance bond recoveries | - | 4,444,574 | - | 4,444,574 |
| Miscellaneous | 85,787 | 5,248 | - | 91,035 |
| Total nonoperating revenue (expenses) | <u>(695,945)</u> | <u>4,605,645</u> | <u>149</u> | <u>3,909,849</u> |
| Increase in net position before capital contributions and transfers | 2,790,178 | 5,971,728 | 24,018 | 8,785,924 |
| Capital contributions | 151,418 | 390,880 | - | 542,298 |
| Transfers out | (2,309,515) | (52,980) | - | (2,362,495) |
| Increase in net position | 632,081 | 6,309,628 | 24,018 | 6,965,727 |
| Net position at beginning of year | <u>70,413,990</u> | <u>97,021,307</u> | <u>405,168</u> | <u>167,840,465</u> |
| Net position at end of year | <u>\$ 71,046,071</u> | <u>\$ 103,330,935</u> | <u>\$ 429,186</u> | <u>\$ 174,806,192</u> |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Schedule of Capital Assets
Water Unit

Year ended December 31, 2014

| | Balance January 1, 2014 | Additions | Deletions | Balance December 31, 2014 |
|--------------------------------------------------|----------------------------------------|---------------------|-------------------|------------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 878,572 | \$ - | \$ - | \$ 878,572 |
| Construction in progress | 317,062 | 1,373,306 | 202,015 | 1,488,353 |
| Total capital assets not being depreciated | <u>1,195,634</u> | <u>1,373,306</u> | <u>202,015</u> | <u>2,366,925</u> |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment | 19,618,108 | - | 1,516 | 19,616,592 |
| Buildings and structures | 87,024,190 | 316,078 | 178,976 | 87,161,292 |
| Office furnishings, shop equipment, and other | 2,910,061 | 572,232 | 39,733 | 3,442,560 |
| Total capital assets being depreciated | <u>109,552,359</u> | <u>888,310</u> | <u>220,225</u> | <u>110,220,444</u> |
| Less accumulated depreciation: | | | | |
| Revenue producing and service equipment | 11,653,988 | 1,026,671 | 1,516 | 12,679,143 |
| Buildings and structures | 21,253,715 | 1,525,695 | 173,880 | 22,605,530 |
| Office furnishings, shop equipment, and other | 2,127,961 | 186,442 | 19,670 | 2,294,733 |
| Total accumulated depreciation | <u>35,035,664</u> | <u>2,738,808</u> | <u>195,066</u> | <u>37,579,406</u> |
| Total capital assets being depreciated, net | <u>74,516,695</u> | <u>(1,850,498)</u> | <u>25,159</u> | <u>72,641,038</u> |
| Total capital assets, net | <u>\$ 75,712,329</u> | <u>\$ (477,192)</u> | <u>\$ 227,174</u> | <u>\$ 75,007,963</u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 2008 – Water System Revenue Bonds

| <u>Year</u> | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|-------------|----------------------|-------------------|-------------------|-----------|-------------------|
| | <u>December 1</u> | <u>June 1</u> | <u>December 1</u> | | |
| 2015 | \$ 2,165,000 | \$ 266,850 | \$ 266,850 | \$ | 2,698,700 |
| 2016 | 2,250,000 | 223,550 | 223,550 | | 2,697,100 |
| 2017 | 2,350,000 | 176,875 | 176,875 | | 2,703,750 |
| 2018 | 4,725,000 | 118,125 | 118,125 | | 4,961,250 |
| Totals | <u>\$ 11,490,000</u> | <u>\$ 785,400</u> | <u>\$ 785,400</u> | <u>\$</u> | <u>13,060,800</u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

| <u>Year</u> | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|-------------|-------------------|------------------|------------------|----|----------------|
| | <u>April 1</u> | <u>April 1</u> | <u>October 1</u> | | |
| 2015 | \$ 36,893 | \$ 5,542 | \$ 4,712 | \$ | 47,147 |
| 2016 | 38,210 | 4,712 | 3,757 | | 46,679 |
| 2017 | 40,845 | 3,757 | 2,634 | | 47,236 |
| 2018 | 43,480 | 2,634 | 1,383 | | 47,497 |
| 2019 | 46,116 | 1,383 | - | | 47,499 |
| Totals | \$ <u>205,544</u> | \$ <u>18,028</u> | \$ <u>12,486</u> | \$ | <u>236,058</u> |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|--------------------------------------|--------------|--------------|
| Operating revenues: | | |
| Metered sales to general customers: | | |
| Residential | \$ 5,588,167 | \$ 5,406,992 |
| Commercial | 2,606,107 | 2,471,778 |
| Industrial | 836,947 | 619,873 |
| Public | 285,807 | 262,386 |
| Irrigation | 4,233 | 3,333 |
| Total metered sales | 9,321,261 | 8,764,362 |
| Flat rate sales to general customers | 10,992 | 6,158 |
| Private fire protection | 149,898 | 148,218 |
| Public fire protection | 1,293,947 | 1,195,278 |
| Sales to other municipalities | 1,726,877 | 1,601,124 |
| Total sales of water | 12,502,975 | 11,715,140 |
| Penalties | 172,875 | 144,986 |
| Allocated services | 142,968 | 136,437 |
| Other | 368,901 | 389,700 |
| Total operating revenues | 13,187,719 | 12,386,263 |
| Operating expenses: | | |
| Source of supply: | | |
| Maintenance of lake intake | 331 | 26 |
| Miscellaneous | 30,875 | 9,625 |
| Total source of supply | 31,206 | 9,651 |
| Power and pumping: | | |
| Operations: | | |
| Supervision and engineering | 109,814 | 122,751 |
| Fuel and power purchased | 863,868 | 822,932 |
| Pumping labor and supplies | 116,584 | 112,874 |
| Miscellaneous | 8,281 | 5,238 |
| Maintenance: | | |
| Structures and improvements | 34,418 | 21,362 |
| Power production equipment | 67,128 | 39 |
| Pumping equipment | 81,397 | 69,880 |
| Total power and pumping | 1,281,490 | 1,155,076 |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|------------------------------------------|-------------|-------------|
| Water treatment: | | |
| Operations: | | |
| Supervision and engineering | \$ 53,017 | \$ 53,853 |
| Labor and supplies | 258,935 | 258,258 |
| Lead testing program | 1,889 | - |
| Chemicals | 149,217 | 143,973 |
| Structures and improvements | 86,739 | 63,679 |
| Treatment equipment | 522,855 | 506,184 |
| Miscellaneous | 49,055 | 21,248 |
| Total water treatment | 1,121,707 | 1,047,195 |
| Transmission and distribution: | | |
| Operations: | | |
| Supervision and engineering | 143,955 | 126,883 |
| Transmission and distribution lines | 57,574 | 24,250 |
| Meters | 69,795 | 62,744 |
| Customer installation | 38,392 | 71,861 |
| Labor and equipment | 488,431 | 485,764 |
| Maintenance: | | |
| Supervision and engineering | 23,250 | 29,854 |
| Distribution reservoirs and standpipes | 35,876 | 32,371 |
| Mains | 1,294,151 | 736,312 |
| Services | 326,184 | 176,691 |
| Meters | 45,285 | 44,365 |
| Hydrants | 42,598 | 45,411 |
| Total transmission and distribution | 2,565,491 | 1,836,506 |
| Total operations and maintenance | 4,999,894 | 4,048,428 |
| General and administrative: | | |
| Customer accounting and collecting: | | |
| Meter reading | 71,768 | 69,938 |
| Customer records and collection | 331,435 | 337,537 |
| Total customer accounting and collecting | 403,203 | 407,475 |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|----------------------------------|--------------|--------------|
| Administrative: | | |
| Executive and general office | \$ 172,466 | 166,001 |
| | 24,488 | |
| | 185,104 | 162,601 |
| Casualty and property insurance | | 65,433 |
| Employee benefits and insurance | | 996,048 |
| Miscellaneous | | 24,756 |
| Regulatory commission | | 195,948 |
| Total administrative | 1,559,691 | 1,641,304 |
| Total general and administrative | 1,962,894 | 2,048,779 |
| Depreciation | 2,738,808 | 2,742,467 |
| Total operating expenses | 9,701,596 | 8,839,674 |
| Operating income | \$ 3,486,123 | \$ 3,546,589 |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Water Tax Equivalent Calculation Schedules

Years ended December 31, 2014 and 2013

Local property taxes due to the City of Kenosha for the years ended December 31, 2014 and 2013 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

| | 2014 | 2013 |
|---------------------------------------------------|----------------|----------------|
| Gross book value – January 1: | | |
| Plant and equipment | \$ 111,373,551 | \$ 110,695,430 |
| Materials and supplies | 434,851 | 405,936 |
| Total gross book value | 111,808,402 | 111,101,366 |
| Less plant outside municipal boundaries | (6,508,423) | (6,287,846) |
| Assessable plant | 105,299,979 | 104,813,520 |
| Assessment ratio | 0.981709 | 0.997359 |
| Assessed value of property | 103,373,937 | 104,536,707 |
| Local and school share of tax rate (per thousand) | 22.853870 | 24.334343 |
| Computed tax equivalent (floor = \$1,033,306) | \$ 2,362,495 | \$ 2,543,832 |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Schedule of Capital Assets
Sewerage Unit

Year ended December 31, 2014

| | Balance January 1, 2014 | Additions | Deletions | Balance December 31, 2014 |
|--------------------------------------------------|----------------------------------------|--------------------------|----------------------------|------------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 1,272,206 | \$ - | \$ - | \$ 1,272,206 |
| Construction in progress | 3,331,997 | 730,696 | 1,268,961 | 2,793,732 |
| Total capital assets not being depreciated | <u>4,604,203</u> | <u>730,696</u> | <u>1,268,961</u> | <u>4,065,938</u> |
| Capital assets being depreciated: | | | | |
| Revenue producing and service equipment | 30,243,319 | 1,060,801 | 668,487 | 30,635,633 |
| Buildings and structures | 97,325,533 | 122,534 | 12,883 | 97,435,184 |
| Office furnishings, shop equipment, and other | 4,853,045 | 505,423 | 371,693 | 4,986,775 |
| Total capital assets being depreciated | <u>132,421,897</u> | <u>1,688,758</u> | <u>1,053,063</u> | <u>133,057,592</u> |
| Less accumulated depreciation: | | | | |
| Revenue producing and service equipment | 27,316,879 | 630,985 | 668,487 | 27,279,377 |
| Buildings and structures | 30,307,769 | 1,292,450 | (16,562) | 31,616,781 |
| Office furnishings, shop equipment, and other | 2,279,729 | 203,449 | 106,836 | 2,376,342 |
| Total accumulated depreciation | <u>59,904,377</u> | <u>2,126,884</u> | <u>758,761</u> | <u>61,272,500</u> |
| Total capital assets being depreciated, net | <u>72,517,520</u> | <u>(438,126)</u> | <u>294,302</u> | <u>71,785,092</u> |
| Total capital assets, net | \$ <u><u>77,121,723</u></u> | \$ <u><u>292,570</u></u> | \$ <u><u>1,563,263</u></u> | \$ <u><u>75,851,030</u></u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 2000 – Clean Water Fund Loan

| <u>Year</u> | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|-------------|-------------------|------------------|-------------------|----|----------------|
| | <u>May 1</u> | <u>May 1</u> | <u>November 1</u> | | |
| 2015 | \$ 89,900 | \$ 9,253 | \$ 7,829 | \$ | 106,982 |
| 2016 | 92,749 | 7,829 | 6,359 | | 106,937 |
| 2017 | 95,688 | 6,359 | 4,843 | | 106,890 |
| 2018 | 98,721 | 4,843 | 3,278 | | 106,842 |
| 2019 | 101,849 | 3,279 | 1,665 | | 106,793 |
| 2020 | 105,077 | 1,665 | - | | 106,742 |
| Totals | \$ <u>583,984</u> | \$ <u>33,228</u> | \$ <u>23,974</u> | \$ | <u>641,186</u> |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

| <u>Year</u> | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|-------------|-------------------|------------------|------------------|----|----------------|
| | <u>April 1</u> | <u>April 1</u> | <u>October 1</u> | | |
| 2015 | \$ 37,517 | \$ 5,636 | \$ 4,792 | \$ | 47,945 |
| 2016 | 38,858 | 4,792 | 3,820 | | 47,470 |
| 2017 | 41,537 | 3,820 | 2,679 | | 48,036 |
| 2018 | 44,217 | 2,678 | 1,407 | | 48,302 |
| 2019 | 46,897 | 1,407 | - | | 48,304 |
| Totals | \$ <u>209,026</u> | \$ <u>18,333</u> | \$ <u>12,698</u> | \$ | <u>240,057</u> |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|-------------------------------------|--------------|--------------|
| Operating revenues: | | |
| Metered sales to general customers: | | |
| Residential | \$ 4,298,136 | \$ 4,417,095 |
| Commercial | 2,177,289 | 2,219,844 |
| Industrial | 1,001,044 | 1,058,156 |
| Public | 205,673 | 202,736 |
| Total sales to general customers | 7,682,142 | 7,897,831 |
| Sales to other municipalities | 2,423,564 | 2,201,616 |
| Industrial waste monitoring | 82,156 | 85,309 |
| Engineering services | 1,471,849 | 1,249,326 |
| Waste haulers | 278,933 | 204,994 |
| Penalties | 138,871 | 130,992 |
| Other | 86,606 | 86,083 |
| Total operating revenues | 12,164,121 | 11,856,151 |
| Operating expenses: | | |
| Wastewater treatment: | | |
| Operations: | | |
| Supervision and labor | 394,734 | 414,977 |
| Chemicals | 528,964 | 503,282 |
| Power | 622,675 | 652,795 |
| Sludge handling | 439,717 | 440,508 |
| Maintenance: | | |
| Supervision and labor | 202,086 | 197,376 |
| Treatment equipment | 541,051 | 569,892 |
| Structures and improvements | 106,163 | 107,393 |
| Transportation expense | 88,615 | 76,961 |
| Total wastewater treatment | 2,924,005 | 2,963,184 |
| Collection system: | | |
| Collection | 570,291 | 466,412 |
| Equalization basin and pump station | 139,231 | 84,111 |
| Cleaning and inspection | 477,346 | 532,864 |
| Lift station equipment | 200,281 | 152,618 |
| Monitoring equipment | 7,934 | 7,229 |
| Total collection system | 1,395,083 | 1,243,234 |
| Laboratory operations: | | |
| Labor and supplies | 274,756 | 246,733 |
| Industrial waste monitoring | 58,823 | 67,574 |
| Total laboratory operations | 333,579 | 314,307 |
| Engineering services | 1,430,656 | 1,217,004 |
| Total operation and maintenance | 6,083,323 | 5,737,729 |

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|------------------------------------------|--------------|--------------|
| General and administrative: | | |
| Customer accounting and collecting: | | |
| Meter reading | \$ 71,768 | \$ 66,938 |
| Customer records and collection | 308,041 | 309,302 |
| Total customer accounting and collecting | 379,809 | 376,240 |
| Administrative: | | |
| Salaries | 219,998 | 210,989 |
| Outside services | 300,310 | 328,645 |
| Office supplies | 42,367 | 40,504 |
| Accidents and damages | (2,563) | 78,661 |
| Insurance and employee benefits | 1,111,080 | 1,026,807 |
| Meter operation | 325,645 | 318,009 |
| Total administrative | 1,996,837 | 2,003,615 |
| Total general and administrative | 2,376,646 | 2,379,855 |
| Loss on sale of equipment | 211,185 | - |
| Depreciation | 2,126,884 | 2,186,741 |
| Total operating expenses | 10,798,038 | 10,304,325 |
| Operating income | \$ 1,366,083 | \$ 1,551,826 |

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Schedule of Capital Assets
Household Hazardous Waste Unit
Year ended December 31, 2014

| | Balance January 1, 2014 | Additions | Deletions | Balance December 31, 2014 |
|--------------------------------------------------|----------------------------------------|------------------|------------------|------------------------------------------|
| Capital assets being depreciated: | | | | |
| Buildings and structures | \$ 76,398 | \$ - | \$ - | \$ 76,398 |
| Office furnishings, shop equipment, and other | 832 | - | - | 832 |
| Total capital assets being depreciated | 77,230 | - | - | 77,230 |
| Less accumulated depreciation: | | | | |
| Buildings and structures | 14,383 | 3,056 | - | 17,439 |
| Office furnishings, shop equipment, and other | 755 | 69 | - | 824 |
| Total accumulated depreciation | 15,138 | 3,125 | - | 18,263 |
| Total capital assets, net | \$ 62,092 | \$ (3,125) | \$ - | \$ 58,967 |