

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

**BASIC FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the component unit'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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matters***

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, 2016 and 2015 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 4 through 12, the schedule of OPEB Funding Status on page 48, and the Pension Schedules on page 49 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 50 – 64 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Milwaukee, Wisconsin  
April 27, 2017

## 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, 2016 and 2015. This information should be read in conjunction with the financial statements.

### 2016 Financial Highlights

The Utility's combined net position increased from \$183.1 million to \$190.8 million. Events that had significant impact on the financial statements were:

- Operating revenues increased almost \$1.1 million or 4.2% from 2015 while operating expenses increased \$0.35 million or 1.7% from 2015. This resulted in an increase of \$0.74 million or 13.2% in operating income over 2015.
- Capital contributions increased \$0.9 million in total; donations of water and sewer infrastructure by developers decreased \$0.25 million while revenue from sewer impact fees increased \$0.59 million, grants increased \$0.51 million with the balance attributed to assessments.
- The Utility awarded contracts to paint two water tanks in 2016. The washwater tank at the O. Fred Nelson Water Production Plant and the 58th Street ground storage tank #1 were painted for a combined expense of approximately \$696,000.
- The Utility accepted donated water and sewer main, water services and hydrants from several developers valued at \$2.7 million.

### 2015 Financial Highlights

The Utility's combined net position increased to \$183.1 million from \$174.8 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 for water service on and after June 1, 2015. The increase was approved using the Simplified Rate Case method which authorizes a 3.0% increase in rates for utilities earning less than a 5.9% rate of return on average net rate base during the previous calendar year (the Kenosha Water Utility earned a 3.06% rate of return in 2014). In addition, the Board of Water Commissioners authorized a 3.0% sewage rate increase also effective for sewer service on or after June 1, 2015.
- Operating revenues increased more than \$0.9 million or 3.7% from 2014 while operating expenses increased almost \$0.2 million or 1.0% from 2014. This resulted in an increase of \$0.75 million or 15.4% in operating income over 2014.
- The energy optimized resource recovery project at the wastewater plant neared completion in 2015. Almost \$9.8 million was expended during the year with a target completion date in the spring of 2016.
- The Utility accepted donated water and sewer main, water services and hydrants from several developers valued at \$2.9 million.

## 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, notes to the financial statements, required supplementary information and supplementary schedules.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets), unamortized portion of changes in net pension asset (liability) and the obligations to Utility creditors (liabilities). 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 **required supplementary schedules**, provide more details regarding the funding status and progress of the Other Post Employment Benefit and Pension plans.

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, Villages of Pleasant Prairie, Somers and Bristol, and the Town of Somers. 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 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 2016 to 2015<br>Increase (decrease) |               |
|---|-----------------------|-----------------------|-----------------------|---|---------------|
|   | 2016                  | 2015                  | 2014                  | Dollars   | %             |
|   |                       |                       |                       |   |               |
| Capital assets:   |                       |                       |                       |   |               |
| Net plant in service  | \$ 146,677,514        | \$ 146,163,795        | \$ 145,564,269        | \$ 513,719                                      | 0.4 %         |
| Construction in progress                                      | 13,361,937            | 13,852,603            | 4,282,085             | (490,666)                                       | (3.5)         |
| Other capital assets  | 1,074,404             | 1,071,606             | 1,071,606             | 2,798   | 0.3           |
| Current, restricted and other assets                          | <u>43,353,233</u>     | <u>38,475,648</u>     | <u>44,741,265</u>     | <u>4,877,585</u>                                | <u>12.7</u>   |
| Total assets  | <u>204,467,088</u>    | <u>199,563,652</u>    | <u>195,659,225</u>    | <u>4,903,436</u>                                | <u>2.5</u>    |
| Deferred outflows of resources:                               |                       |                       |                       |   |               |
| Deferred pension resources                                    | <u>4,268,479</u>      | <u>1,120,133</u>      | <u>-</u>              | <u>3,148,346</u>                                | <u>281.1</u>  |
| Current liabilities   | 7,788,192             | 7,376,628             | 8,589,211             | 411,564   | 5.6           |
| Long-term liabilities   | <u>8,452,373</u>      | <u>10,228,345</u>     | <u>12,263,822</u>     | <u>(1,775,972)</u>                              | <u>(17.4)</u> |
| Total liabilities   | <u>16,240,565</u>     | <u>17,604,973</u>     | <u>20,853,033</u>     | <u>(1,364,408)</u>                              | <u>(7.8)</u>  |
| Deferred inflows of resources:                                |                       |                       |                       |   |               |
| Deferred pension resources                                    | <u>1,651,907</u>      | <u>-</u>              | <u>-</u>              | <u>1,651,907</u>                                | <u>100.0</u>  |
| Net position:   |                       |                       |                       |   |               |
| Invested in capital assets,<br>net of related debt (restated) | 155,908,261           | 153,528,920           | 141,103,976           | 2,379,341                                       | 1.5           |
| Restricted for debt service                                   | 8,967,774             | 8,998,095             | 8,962,441             | (30,321)  | (0.3)         |
| Restricted for pension  | -                     | 1,191,602             | -                     | (1,191,602)                                     | (100.0)       |
| Unrestricted  | <u>25,967,060</u>     | <u>19,360,195</u>     | <u>24,739,775</u>     | <u>6,606,865</u>                                | <u>34.1</u>   |
| Total net position  | <u>\$ 190,843,095</u> | <u>\$ 183,078,812</u> | <u>\$ 174,806,192</u> | <u>\$ 7,764,283</u>                             | <u>4.2 %</u>  |

In 2016, total net position increased \$7.76 million or 4.2%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$3.69 million, an increase of 30.6% from 2015, and capital contributions of \$4.07 million. Capital contributions consisted of approximately \$2.73 million of donated infrastructure, \$833,000 in assessments and impact fees, and \$511,000 in grants for infrastructure.

In 2015, total net position increased \$8.27 million or 4.7%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$2.8 million, a decrease of 56.3% from 2014, and capital contributions of \$3.16 million. Capital contributions consisted of approximately \$2.98 million of donated infrastructure and approximately \$180,000 in assessments and impact fees. The prior period adjustment to account for the Utility's share of the net pension asset accounted for the remainder of the increase in net position for 2015.

In 2016, total assets increased \$4.9 million or 2.5%. Capital assets increased \$4.97 million while construction in progress decreased \$0.49 million; accumulated depreciation increased \$4.46 million. Current, restricted and other assets increased \$4.9 million or 12.7%.

In 2015, total assets increased \$3.9 million or 2.0%. Capital assets increased \$4.9 million and construction in progress increased \$9.6 million; accumulated depreciation increased \$4.3 million for a net increase of \$10.2 million. Current, restricted and other assets decreased \$6.3 million or 14.0%.

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 2016 to 2015<br>Increase (decrease) |               |
|--|------------------------|-----------------------|-----------------------|---|---------------|
|  | 2016                   | 2015                  | 2014                  | Dollars   | %             |
|  |                        |                       |                       |   |               |
| <b>Revenues:</b>   |                        |                       |                       |   |               |
| Water service revenues   | \$ 12,612,131          | \$ 11,783,417         | \$ 11,059,130         | \$ 828,714                                      | 7.0 %         |
| Sewerage service revenues  | 10,573,187             | 10,248,301            | 10,105,706            | 324,886   | 3.2           |
| Household Hazardous Waste revenues                                   | 166,175                | 167,353               | 167,327               | (1,178)   | (0.7)         |
| Other revenues   | 4,031,540              | 4,088,006             | 4,005,756             | (56,466)  | (1.4)         |
| Total operating revenues   | <u>27,383,033</u>      | <u>26,287,077</u>     | <u>25,337,919</u>     | <u>1,095,956</u>                                | <u>4.2</u>    |
| <b>Expenses:</b>   |                        |                       |                       |   |               |
| Operating and maintenance, before depreciation and taxes             |                        |                       |                       |   |               |
| Water operations   | 5,447,296              | 4,390,161             | 4,999,894             | 1,057,135                                       | 24.1          |
| Sewerage operations  | 5,468,700              | 6,404,149             | 6,083,323             | (935,449)                                       | (14.6)        |
| Household Hazardous Waste  | 142,357                | 171,308               | 158,713               | (28,951)  | (16.9)        |
| Loss on sale of property   | -                      | -                     | 211,185               | -   | 0.0           |
| Depreciation   | 4,947,405              | 4,979,775             | 4,868,817             | (32,370)  | (0.7)         |
| Customer accounting and collecting, administrative and general       | 5,004,379              | 4,713,398             | 4,139,912             | 290,981   | 6.2           |
| Total operating expenses   | <u>21,010,137</u>      | <u>20,658,791</u>     | <u>20,461,844</u>     | <u>351,346</u>                                  | <u>1.7</u>    |
| Operating income   | <u>6,372,896</u>       | <u>5,628,286</u>      | <u>4,876,075</u>      | <u>744,610</u>                                  | <u>13.2</u>   |
| Nonoperating revenues  | 165,786                | 123,425               | 117,788               | 42,361  | 34.3          |
| Performance bond recoveries  | -                      | -                     | 4,444,574             | -   | 0.0           |
| Nonoperating expenses  | <u>(469,136)</u>       | <u>(562,935)</u>      | <u>(652,513)</u>      | <u>(93,799)</u>                                 | <u>(16.7)</u> |
| Increase in net position, before capital contributions and transfers | <u>6,069,546</u>       | <u>5,188,776</u>      | <u>8,785,924</u>      | <u>880,770</u>                                  | <u>17.0</u>   |
| <b>Capital contributions:</b>  |                        |                       |                       |   |               |
| Assessments, impact fees and grants                                  | 1,344,406              | 182,695               | 542,298               | 1,161,711                                       | 635.9         |
| Donated by developers  | 2,729,108              | 2,978,139             | -                     | (249,031)                                       | (8.4)         |
| Transfers out  | <u>(2,378,777)</u>     | <u>(2,363,371)</u>    | <u>(2,362,495)</u>    | <u>(15,406)</u>                                 | <u>0.7</u>    |
| Increase in net position   | 7,764,283              | 5,986,239             | 6,965,727             | 1,778,044                                       | 29.7          |
| Net position at beginning of year                                    | 183,078,812            | 174,806,192           | 167,840,465           | 8,272,620                                       | 4.7           |
| Prior period adjustment  | -                      | 2,286,381             | -                     | (2,286,381)                                     | (100.0)       |
| Net position at end of year  | <u>\$ 190,843,095</u>  | <u>\$ 183,078,812</u> | <u>\$ 174,806,192</u> | <u>\$ 7,764,283</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 0.1% during 2016. Water consumption increased 8.2%. Water service revenues increased approximately \$859,000 or 7.0%. Sewerage service revenues increased approximately \$325,000 or 3.2%. The increase in water and sewerage service revenues is attributable to increased water consumption.

Operating expenses increased 1.7% or approximately \$351,000 during 2016. Water Unit operating expenses increased 24.1% or \$1.06 million due to increased costs for water tank painting both at the water treatment plant and in the distribution system and increased costs for street restoration related to water main repairs. Sewerage Unit operating expenses decreased 14.6% or \$935,000 mainly due to decreases in sludge handling expenses, maintenance expenses at the wastewater treatment plant for equipment, structures and improvements and decreases in collection system expenses. A combined increase of \$149,000 was recorded in wastewater treatment supervision and labor, chemicals, wastewater maintenance supervision and labor and laboratory labor and supplies. Operating expenses decreased approximately \$29,000 or 16.9% in the Household Hazardous Waste Unit due mainly to decreased disposal,

advertising and allocated and administrative expenses. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$291,000 or 6.2% while depreciation expense for all units decreased approximately \$32,000 or 0.7%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in wages and employee benefits and insurance and legal and engineering services expenses.

Operating income for 2016 increased 13.2% or approximately \$745,000. Nonoperating revenues increased 39.3% or approximately \$42,000 due to increased net investment income; nonoperating expenses decreased 16.7% or approximately \$94,000 due to decreases in interest expense and amortization on long-term debt.

The number of metered customers increased 0.1% during 2015. Water consumption increased 6.7%. Water service revenues increased approximately \$724,000 or 6.5%. Sewerage service revenues increased approximately \$142,000 or 1.4%. The increase in water service revenues is attributable to seven month's revenue at increased rates and increased water consumption.

Operating expenses increased 1.0% or approximately \$197,000 during 2015. Water Unit operating expenses decreased 12.2% or \$609,000 due to decreased costs for water main and service repairs, electricity and natural gas for pumping, aluminum sulfate used for water treatment and water treatment equipment maintenance. Sewerage Unit operating expenses increased 5.3% or \$321,000 mainly due to increased maintenance expenses at the wastewater treatment plant for equipment, structures and improvements. Operating expenses increased approximately \$12,000 or 7.9% in the Household Hazardous Waste Unit due mainly to increased allocated and administrative expenses. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$573,000 or 13.9% while depreciation expense for all units increased approximately \$111,000 or 2.3%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in wages and benefits.

Operating income for 2015 increased 15.4% or approximately \$752,000. Nonoperating revenues increased 4.8% or approximately \$5,600; nonoperating expenses decreased 13.7% or approximately \$89,000 due to decreases in interest expense and amortization on long-term debt.

For 2016, the increase in net position of \$7,764,000 was approximately \$1,778,000 more than the previous year's increase of \$5,986,000 or an increase of 29.7%. This is attributable grants received from Focus on Energy for construction and improvements at the wastewater treatment plant totaling approximately \$510,000, an increase in impact fees of approximately \$760,000, an increase in operating income and nonoperating revenues and a decrease in debt interest expense. The increases in net position attributable to the Water Unit, Sewerage Unit and Household Hazardous Waste Units were approximately \$2,724,000, \$5,001,000 and \$39,000, respectively.

For 2015, the increase in net position of \$5,986,239 was \$979,488 less than the previous year's increase of \$6,965,727 or a decrease of 14.1%. This is attributable to the one time receipt in 2014 of \$4.4 million for the performance bond recovery netted against increases in operating revenues, expenses and assessments, impact fees and infrastructure donations by developers of \$949,000, \$197,000 and \$2,618,000, respectively. The increase in net position attributable to the Water Unit was \$3,511,186; the amount attributable to the Sewerage Unit was \$2,463,750. The Household Hazardous Waste Unit accounted for the remaining \$11,303.

## Capital Assets and Debt Administration

### Capital Assets Changes in Capital Assets

|  | <u>Balance<br/>Jan. 1, 2016</u> | <u>Additions/<br/>reclass-<br/>ifications</u> | <u>Deletions/<br/>reclass-<br/>ifications</u> | <u>Balance<br/>Dec. 31, 2016</u> |
|--|---------------------------------|---|---|----------------------------------|
| Capital assets not being depreciated:              |                                 |   |   |                                  |
| Land and land improvements                         | \$ 2,151,309                    | \$ -  | \$ -  | \$ 2,151,309                     |
| Construction in progress                           | <u>13,852,603</u>               | <u>1,616,504</u>                              | <u>2,107,170</u>                              | <u>13,361,937</u>                |
| Total capital assets not being depreciated         | <u>16,003,912</u>               | <u>1,616,504</u>                              | <u>2,107,170</u>                              | <u>15,513,246</u>                |
| Capital assets being depreciated:                  |                                 |   |   |                                  |
| Revenue producing and service equipment:           |                                 |   |   |                                  |
| Wastewater collection system                       | 1,352,803                       | -   | -   | 1,352,803                        |
| Production pumping                                 | 4,585,427                       | 4,616   | -   | 4,590,043                        |
| Collection system pumping                          | 9,287,565                       | 12,221  | 6,854   | 9,292,932                        |
| Production purification                            | 15,152,056                      | -   | -   | 15,152,056                       |
| Wastewater treatment and disposal                  | <u>20,189,286</u>               | <u>-</u>                                      | <u>57,220</u>                                 | <u>20,132,066</u>                |
| Total revenue producing and service equipment      | <u>50,567,137</u>               | <u>16,837</u>                                 | <u>64,074</u>                                 | <u>50,519,900</u>                |
| Buildings and structures:                          |                                 |   |   |                                  |
| Production intake                                  | 3,425,277                       | -   | -   | 3,425,277                        |
| Wastewater collection system                       | 76,917,727                      | 1,506,563                                     | -   | 78,424,290                       |
| Production pumping                                 | 3,775,411                       | -   | 3,167   | 3,772,244                        |
| Collection system pumping                          | 11,454,468                      | -   | -   | 11,454,468                       |
| Production purification                            | 8,450,031                       | -   | -   | 8,450,031                        |
| Wastewater treatment and disposal                  | 8,230,064                       | 33,856  | 32,956  | 8,230,964                        |
| Transmission and distribution                      | 74,634,268                      | 3,500,198                                     | 206,322                                       | 77,928,144                       |
| General plant                                      | <u>2,192,864</u>                | <u>44,116</u>                                 | <u>-</u>                                      | <u>2,236,980</u>                 |
| Total buildings and structures                     | <u>189,080,110</u>              | <u>5,084,733</u>                              | <u>242,445</u>                                | <u>193,922,398</u>               |
| Office furnishings, shop equipment and other:      |                                 |   |   |                                  |
| General equipment                                  | 8,045,322                       | 409,273                                       | 223,094                                       | 8,231,501                        |
| Engineering equipment                              | <u>536,668</u>                  | <u>25,642</u>                                 | <u>33,523</u>                                 | <u>528,787</u>                   |
| Total office furnishings, shop equipment and other | <u>8,581,990</u>                | <u>434,915</u>                                | <u>256,617</u>                                | <u>8,760,288</u>                 |
| Total capital assets being depreciated             | <u>248,229,237</u>              | <u>5,536,485</u>                              | <u>563,136</u>                                | <u>253,202,586</u>               |
| Total accumulated depreciation                     | <u>103,145,145</u>              | <u>4,947,405</u>                              | <u>490,573</u>                                | <u>107,601,977</u>               |
| Total capital assets being depreciated, net        | <u>145,084,092</u>              | <u>589,080</u>                                | <u>72,563</u>                                 | <u>145,600,609</u>               |
| Total capital assets, net                          | <u>\$ 161,088,004</u>           | <u>\$ 2,205,584</u>                           | <u>\$ 2,179,733</u>                           | <u>\$ 161,113,855</u>            |

The Utility had combined investment in capital assets of \$268.7 million at the end of 2016. Of that amount, construction in progress totaled \$13.4 million; the energy optimized resource recovery project at the wastewater treatment plant accounted for \$11.6 million of the construction in progress total. Accumulated depreciation totaled approximately \$107.6 million resulting in a net book value of \$145.6 million. In 2016, the Utility recorded combined depreciation expense of approximately \$5.0 million. More detailed information about capital assets may be found in the supplemental 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 \$7.5 million in long-term term debt outstanding as of December 31, 2016. Of this amount, approximately \$2.45 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.4 million or 24.1% due to scheduled debt payments.

The Utility had \$9.9 million in long-term term debt outstanding as of December 31, 2015. Of this amount, approximately \$2.34 million was due within one year. Outstanding debt decreased \$2.3 million or 18.9% 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 supplemental information section as well as note 5 to the audited financial statements.

## Long-Term Debt Activity

|   | Balance<br>Jan. 1, 2016 | Additions           | Deletions           | Balance<br>Dec. 31, 2016 | Due Within<br>One Year |
|---|-------------------------|---------------------|---------------------|--------------------------|------------------------|
| Bonds, loans and advances payable:      |                         |                     |                     |                          |                        |
| Clean Water Fund loans                  | \$ 494,084              | \$ -                | \$ 92,750           | \$ 401,334               | \$ 95,688              |
| Revenue bonds                           | 9,325,000               | -                   | 2,250,000           | 7,075,000                | 2,350,000              |
| Bond premium                            | 125,296                 | -                   | 55,054              | 70,242                   | -                      |
| Advance from City of Kenosha            | 340,159                 | -                   | 77,067              | 263,092                  | 82,382                 |
| Worker's compensation accrued liability | 390,086                 | -                   | 66,815              | 323,271                  | -                      |
| Other post employment benefits          | 1,454,428               | 236,429             | 158,000             | 1,532,857                | -                      |
| Net pension liability - WRS             | -                       | 784,947             | -                   | 784,947                  | -                      |
| Accrued compensated absences            | 589,051                 | 78,967              | 60,200              | 607,818                  | 78,118                 |
|   | <u>\$ 12,718,104</u>    | <u>\$ 1,100,343</u> | <u>\$ 2,759,886</u> | <u>\$ 11,058,561</u>     | <u>\$ 2,606,188</u>    |

|   | Balance<br>Jan. 1, 2015 | Additions         | Deletions           | Balance<br>Dec. 31, 2015 | Due Within<br>One Year |
|---|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Bonds, loans and advances payable:      |                         |                   |                     |                          |                        |
| Clean Water Fund loans                  | \$ 583,984              | \$ -              | \$ 89,900           | \$ 494,084               | \$ 92,749              |
| Revenue bonds                           | 11,490,000              | -                 | 2,165,000           | 9,325,000                | 2,250,000              |
| Bond premium                            | 191,273                 | -                 | 65,977              | 125,296                  | -                      |
| Advance from City of Kenosha            | 414,570                 | -                 | 74,411              | 340,159                  | 77,067                 |
| Worker's compensation accrued liability | 35,000                  | 355,086           | -                   | 390,086                  | -                      |
| Other post employment benefits          | 1,360,317               | 264,111           | 170,000             | 1,454,428                | -                      |
| Accrued compensated absences            | 581,434                 | 77,290            | 69,673              | 589,051                  | 69,943                 |
|   | <u>\$ 14,656,578</u>    | <u>\$ 696,487</u> | <u>\$ 2,634,961</u> | <u>\$ 12,718,104</u>     | <u>\$ 2,489,759</u>    |

### **Economic Factors and the Utility's Future**

In order to generate sufficient revenues to replace aging infrastructure and to continue to supply a safe water supply to our customers, the Utility may apply for a Simplified Rate Case increase when it is next allowed by the PSC in early 2018.

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, 2016 and 2015

| <b>Assets</b>  | <b>2016</b>           | <b>2015</b>           |
|--|-----------------------|-----------------------|
| Current assets:  |                       |                       |
| Cash and cash equivalents                                | \$ 7,150,685          | \$ 12,074,157         |
| Investments  | 10,991,000            | -                     |
| Restricted cash and cash equivalents                     | 119,936               | 8,485,000             |
| Restricted cash - Storm Water Utility collections        | 299,074               | 317,013               |
| Restricted Investments                                   | 11,150,178            | 2,812,964             |
| Accounts receivable                                      | 4,678,684             | 4,632,405             |
| Unbilled revenue   | 2,652,695             | 2,691,850             |
| Inventories  | 428,912               | 499,301               |
| Other current assets                                     | 269,589               | 84,595                |
| Total current assets                                     | <u>37,740,753</u>     | <u>31,597,285</u>     |
| Noncurrent assets:                                       |                       |                       |
| Other assets   |                       |                       |
| Special Assessments                                      | 245,210               | 4,370                 |
| Unbilled assessments                                     | 5,367,270             | 5,682,391             |
| Restricted pension asset - Wisconsin Retirement System   | -                     | 1,191,602             |
| Capital assets:  |                       |                       |
| Capital assets not being depreciated:                    |                       |                       |
| Land and land improvements                               | 2,151,309             | 2,151,309             |
| Construction in progress                                 | 13,361,937            | 13,852,603            |
| Capital assets being depreciated:                        |                       |                       |
| Revenue producing and service equipment                  | 50,519,900            | 50,567,137            |
| Buildings and structures                                 | 193,922,398           | 189,080,110           |
| Office furnishings, shop equipment, and other            | 8,760,288             | 8,581,990             |
| Less accumulated depreciation                            | (107,601,977)         | (103,145,145)         |
| Total capital assets, net of accumulated depreciation    | <u>161,113,855</u>    | <u>161,088,004</u>    |
| Total noncurrent assets                                  | <u>166,726,335</u>    | <u>167,966,367</u>    |
| Total assets   | <u>204,467,088</u>    | <u>199,563,652</u>    |
| <b>Deferred Outflows of Resources</b>                    |                       |                       |
| Deferred pension resources                               | <u>4,268,479</u>      | <u>1,120,133</u>      |
| <b>Liabilities</b>                                       |                       |                       |
| Current liabilities:                                     |                       |                       |
| Accounts payable   | 796,668               | 772,442               |
| Accrued liabilities                                      | 31,575                | 39,845                |
| Accrued property taxes                                   | 2,378,777             | 2,363,371             |
| Current portion of accrued compensated absences          | 78,118                | 69,943                |
| Current portion of long-term obligations                 | 2,445,688             | 2,342,749             |
| Current portion of advance from City of Kenosha          | 82,382                | 77,067                |
| Due to City of Kenosha                                   | 1,279,877             | 1,324,987             |
| Due to City of Kenosha - Storm Water Utility collections | 299,074               | 317,013               |
| Other current liabilities                                | 396,033               | 69,211                |
| Total current liabilities                                | <u>7,788,192</u>      | <u>7,376,628</u>      |
| Noncurrent liabilities:                                  |                       |                       |
| Long-term portion of accrued compensated absences        | 529,700               | 519,108               |
| Worker's compensation accrued liability                  | 323,271               | 390,086               |
| Other postemployment benefits                            | 1,532,857             | 1,454,428             |
| Net pension liability - Wisconsin Retirement System      | 784,947               | -                     |
| Advance from City of Kenosha                             | 180,710               | 263,092               |
| Revenue bonds payable                                    | 4,795,242             | 7,200,296             |
| Clean Water Fund loans                                   | 305,646               | 401,335               |
| Total noncurrent liabilities                             | <u>8,452,373</u>      | <u>10,228,345</u>     |
| Total liabilities  | <u>16,240,565</u>     | <u>17,604,973</u>     |
| <b>Deferred Inflows of Resources</b>                     |                       |                       |
| Deferred pension resources                               | <u>1,651,907</u>      | <u>-</u>              |
| <b>Net Position</b>                                      |                       |                       |
| Invested in capital assets, net of related debt          | 155,908,261           | 153,528,920           |
| Restricted for debt service                              | 8,967,774             | 8,998,095             |
| Restricted for pension                                   | -                     | 1,191,602             |
| Unrestricted   | 25,967,060            | 19,360,195            |
| Total net position                                       | <u>\$ 190,843,095</u> | <u>\$ 183,078,812</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)

Statements of Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2016 and 2015

|  | <u>2016</u>           | <u>2015</u>           |
|--|-----------------------|-----------------------|
| Operating revenues:  |                       |                       |
| Charges for services   | \$ 23,351,493         | \$ 22,199,071         |
| Miscellaneous  | 4,031,540             | 4,088,006             |
| Total operating revenues   | <u>27,383,033</u>     | <u>26,287,077</u>     |
| Operating expenses:  |                       |                       |
| General and administrative   | 5,004,379             | 4,713,398             |
| Operations and maintenance   | 11,058,353            | 10,965,618            |
| Depreciation   | 4,947,405             | 4,979,775             |
| Total operating expenses   | <u>21,010,137</u>     | <u>20,658,791</u>     |
| Operating income   | <u>6,372,896</u>      | <u>5,628,286</u>      |
| Nonoperating revenues (expenses):                                      |                       |                       |
| Net investment income  | 76,741                | 25,574                |
| Interest expense   | (469,136)             | (562,935)             |
| Miscellaneous  | 89,045                | 97,851                |
| Total nonoperating revenue (expenses)                                  | <u>(303,350)</u>      | <u>(439,510)</u>      |
| Increase in net position before capital contributions<br>and transfers | 6,069,546             | 5,188,776             |
| Capital contributions  | 4,073,514             | 3,160,834             |
| Transfers out  | <u>(2,378,777)</u>    | <u>(2,363,371)</u>    |
| Increase in net position   | 7,764,283             | 5,986,239             |
| Net position at beginning of year                                      | <u>183,078,812</u>    | <u>177,092,573</u>    |
| Net position at end of year  | <u>\$ 190,843,095</u> | <u>\$ 183,078,812</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)

Statements of Cash Flows

Years ended December 31, 2016 and 2015

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| Cash flows from operating activities:   |               |               |
| Receipts from customers   | \$ 27,374,526 | \$ 26,637,414 |
| Payments to suppliers   | (11,019,067)  | (11,477,271)  |
| Payments to employees   | (4,502,829)   | (4,281,938)   |
| Net cash provided by operating activities   | 11,852,630    | 10,878,205    |
| Cash flows from noncapital financing activities:  |               |               |
| Payment on advances from other funds  | (77,068)      | (74,410)      |
| Interest paid on noncapital debt  | (17,081)      | (20,682)      |
| Miscellaneous receipts  | 33,991        | 31,874        |
| Transfer to City of Kenosha   | (2,363,371)   | (2,362,495)   |
| Net cash used in noncapital financing activities  | (2,423,529)   | (2,425,713)   |
| Cash flows from capital and related financing activities:                               |               |               |
| Acquisition and construction of capital assets  | (2,262,940)   | (12,228,275)  |
| Special assessments collected (purchased)   | 43,829        | 123,815       |
| Impact fees and contributions collected   | 801,132       | 181,601       |
| Grant proceeds  | 510,930       | -             |
| Customer deposits for construction  | 326,822       | (812,552)     |
| Proceeds on disposal of capital assets  | 52,357        | 56,427        |
| Principal paid on capital debt  | (2,342,750)   | (2,254,900)   |
| Interest paid on capital debt   | (460,324)     | (549,968)     |
| Net cash used in capital and related financing activities                               | (3,330,944)   | (15,483,852)  |
| Cash flows from investing activities:   |               |               |
| Sale of investments   | 3,867         | 22,160,000    |
| Purchase of investments   | (19,332,081)  | (2,961)       |
| Interest and dividends received   | (76,418)      | 36,496        |
| Net cash provided by (used in) investing activities                                     | (19,404,632)  | 22,193,535    |
| Net increase (decrease) in cash and cash equivalents                                    | (13,306,475)  | 15,162,175    |
| Cash and cash equivalents – beginning of year   | 20,876,170    | 5,713,995     |
| Cash and cash equivalents – end of year   | \$ 7,569,695  | \$ 20,876,170 |
| Reconciliation of cash and cash equivalents to the statement of net assets:             |               |               |
| Cash and cash equivalents   | \$ 7,150,685  | \$ 12,074,157 |
| Restricted cash and cash equivalents  | 419,010       | 8,802,013     |
| Total cash and cash equivalents   | \$ 7,569,695  | \$ 20,876,170 |
| Reconciliation of operating income to net cash provided by operating activities:        |               |               |
| Operating income  | \$ 6,372,896  | \$ 5,628,286  |
| Adjustments to reconcile operating income to net cash provided by operating activities: |               |               |
| Depreciation expense  | 4,947,405     | 4,979,775     |
| Loss (gain) on disposal of capital assets   | (1,221)       | 1,261         |
| Changes in assets and liabilities:  |               |               |
| Accounts receivable   | (46,279)      | 480,519       |
| Unbilled revenues   | 39,155        | (139,279)     |
| Inventories   | 70,389        | (22,718)      |
| Other current assets  | (1,383)       | 9,097         |
| Accounts payable  | 24,226        | 206,711       |
| Compensated absences  | 18,767        | 7,617         |
| Worker's compensation accrued liability   | (66,815)      | 355,086       |
| Other post employment benefits  | 78,429        | 94,111        |
| Pension benefits  | 480,110       | (25,354)      |
| Payable to City of Kenosha  | (63,049)      | (686,480)     |
| Other current liabilities   | -             | (10,427)      |
| Total adjustments   | 5,479,734     | 5,249,919     |
| Net cash provided by operating activities   | \$ 11,852,630 | \$ 10,878,205 |
| Noncash investing, capital, and financing activities:                                   |               |               |
| Contributions of capital assets from developers, including assessments and impact fees  | \$ 4,033,413  | \$ 2,979,233  |

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, 2016 and 2015

**(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, 2016 and 2015

**(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.

The Pension Asset – Wisconsin Retirement System represents the Utility's proportionate share of the overfunded status of the Wisconsin Retirement System. These assets are held by the Wisconsin Retirement System in trust and their use is limited to the settlement of pension related obligations.

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, 2016 and 2015

**(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, other than US Treasury Notes with original maturities of less than one year, 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. U.S. Treasury notes are carried at amortized cost. Non-negotiable Certificates of Deposit are deposits reported at cost and are not subject to fair value measurement.

***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, 2016 and 2015

**(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:

|                                 | <b>Useful life<br/>(years)</b> |
|---------------------------------|--------------------------------|
| 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, 2016 and 2015

**(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 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.

**Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**CITY OF KENOSHA WATER UTILITY**  
(An Enterprise Fund of the City of Kenosha, Wisconsin)  
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December 31, 2016 and 2015

(1) **Summary of Significant Accounting Policies** (Continued)

***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.

***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 water, sewerage, and hazardous waste services. Nonoperating revenues and expenses arise from activities that have the characteristics of nonexchange transactions, such as those related 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 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 implemented the requirements of this standard beginning with the year ended December 31, 2015.

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. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2015.

**CITY OF KENOSHA WATER UTILITY**  
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**(1) Summary of Significant Accounting Policies (Continued)**

***New Accounting Pronouncements (Continued)***

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

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes accounting and financial reporting standards for defined benefit pensions that are not within the scope of GASB Statements 67 and 68. The Statement also clarifies certain provisions of Statement 67 and 68. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2016.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes new accounting and financial reporting requirements for the OPEB provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of OPEB plans, including methods and assumptions to be used for defined benefit OPEB. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2018. This will result in the inclusion in the Utility's statement of net position the total OPEB obligation.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies the hierarchy of GAAP as it relates to the governmental entities. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2016.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*, which established reporting requirements for governments that enter into tax abatement agreements. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2016.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, which adds additional criterion regarding the blending of certain component units. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2017.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which establishes recognition and measurement guidance for irrevocable split-interest agreements. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2017



**CITY OF KENOSHA WATER UTILITY**  
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**(1) Summary of Significant Accounting Policies** (Continued)

***New Accounting Pronouncements*** (Continued)

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from guidance and classification of payments made by employers on behalf of employees raised as related to previously issued GASB statements. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2016.

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which address accounting and reporting requirements for certain asset retirement obligations. The Housing Authority will implement the requirements of this standard beginning with the year ended December 31, 2019.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*, which modifies the guidance regarding the identification and report of fiduciary activities for accounting and financial reporting. The Housing Authority will implement the requirements of this standard beginning with the year ended December 31, 2019.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues related to blending component units, goodwill, fair value measurement and other post-employment benefits result from implementation and application of various GASB statements. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2018.

**CITY OF KENOSHA WATER UTILITY**  
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**(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, 2016 and 2015 are as follows:

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| Petty cash  | \$ 1,700      | \$ 1,700      |
| Demand deposits                                   | 4,579,995     | 1,889,470     |
| U.S. Treasury notes                               | 25,019,178    | -             |
| Certificates of deposit                           | 110,000       | 21,797,964    |
| Total cash, cash equivalents and investments      | \$ 29,710,873 | \$ 23,689,134 |
| Reconciliation to the financial statement:        |               |               |
| Current assets:                                   |               |               |
| Cash and cash equivalents                         | \$ 7,150,685  | \$ 12,074,157 |
| Investments                                       | 10,991,000    | -             |
| Restricted Cash                                   | 119,936       | 8,485,000     |
| Restricted cash - Storm Water Utility collections | 299,074       | 317,013       |
| Restricted Investments                            | 11,150,178    | 2,812,964     |
| Total cash, cash equivalents and investments      | \$ 29,710,873 | \$ 23,689,134 |

***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, 2016 and 2015.

**CITY OF KENOSHA WATER UTILITY**  
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**(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, 2016 and 2015, the Utility's investments were U.S. Treasury notes with maturities of less than one year.

***Fair Value Measurements***

The Utility uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Utility follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Utility has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

*Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The Utility does not have any assets that are subject to fair value measurements.

**CITY OF KENOSHA WATER UTILITY**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
 December 31, 2016 and 2015

**(3) Restricted Assets**

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

|  | <b>2016</b>         |                     |   |                      |
|--|---------------------|---------------------|---|----------------------|
|  | <u>Water Unit</u>   | <u>Sewer Unit</u>   | <u>Household<br/>Hazardous<br/>Waste Unit</u> | <u>Total</u>         |
| Restricted for Debt Service  |                     |                     |   |                      |
| Debt service account   | \$ -                | \$ 110,000          | \$ -  | \$ 110,000           |
| Special redemption account   | 2,705,945           | -                   | -   | 2,705,945            |
| Reserve account  | 2,270,741           | -                   | -   | 2,270,741            |
|  | <u>4,976,686</u>    | <u>110,000</u>      | <u>-</u>                                      | <u>5,086,686</u>     |
| Restricted for renewal and replacement                                       | -                   | 1,730,711           | -   | 1,730,711            |
| Restricted for taxes   | 2,473,729           | -                   | -   | 2,473,729            |
| Restricted for depreciation  | 989,494             | 989,494             | -   | 1,978,988            |
| Restricted for Storm Water Utility collections<br>due to the City of Kenosha | -                   | 299,074             | -   | 299,074              |
| Total restricted assets  | <u>\$ 8,439,909</u> | <u>\$ 3,129,279</u> | <u>\$ -</u>                                   | <u>\$ 11,569,188</u> |
| Restricted cash and cash equivalents   | \$ 75,731           | \$ 343,279          | \$ -  | \$ 419,010           |
| Restricted investments   | 8,364,178           | 2,786,000           | -   | 11,150,178           |
| Total restricted assets  | <u>\$ 8,439,909</u> | <u>\$ 3,129,279</u> | <u>\$ -</u>                                   | <u>\$ 11,569,188</u> |
|  |                     |                     |   |                      |
|  | <b>2015</b>         |                     |   |                      |
|  | <u>Water Unit</u>   | <u>Sewer Unit</u>   | <u>Household<br/>Hazardous<br/>Waste Unit</u> | <u>Total</u>         |
| Restricted for Debt Service  |                     |                     |   |                      |
| Debt service account   | \$ -                | \$ 110,000          | \$ -  | \$ 110,000           |
| Special redemption account   | 2,702,964           | -                   | -   | 2,702,964            |
| Reserve account  | 2,260,000           | -                   | -   | 2,260,000            |
|  | <u>4,962,964</u>    | <u>110,000</u>      | <u>-</u>                                      | <u>5,072,964</u>     |
| Restricted for renewal and replacement                                       | -                   | 1,725,000           | -   | 1,725,000            |
| 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<br>due to the City of Kenosha | -                   | 317,013             | -   | 317,013              |
| Restricted for pension   | 590,010             | 595,717             | 5,875   | 1,191,602            |
| Total restricted assets  | <u>\$ 9,052,974</u> | <u>\$ 3,747,730</u> | <u>\$ 5,875</u>                               | <u>\$ 12,806,579</u> |
| Restricted cash and cash equivalents   | \$ 5,760,000        | \$ 3,042,013        | \$ -  | \$ 8,802,013         |
| Restricted investments   | 2,702,964           | 110,000             | -   | 2,812,964            |
| Restricted pension asset   | 590,010             | 595,717             | 5,875   | 1,191,602            |
| Total restricted assets  | <u>\$ 9,052,974</u> | <u>\$ 3,747,730</u> | <u>\$ 5,875</u>                               | <u>\$ 12,806,579</u> |

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 December 31, 2016 and 2015

**(4) Capital Assets**

Capital asset activity for the year ended December 31, 2016 was as follows:

|  | <u>Balance<br/>January 1,<br/>2016</u> | <u>Additions</u>    | <u>Deletions</u>    | <u>Balance<br/>December 31,<br/>2016</u> |
|--|--|---------------------|---------------------|--|
| Capital assets not being depreciated:            |  |                     |                     |  |
| Land and land improvements                       | \$ 2,151,309                           | \$ -                | \$ -                | \$ 2,151,309                             |
| Construction in progress                         | 13,852,603                             | 1,616,504           | 2,107,170           | 13,361,937                               |
| Total capital assets<br>not being depreciated    | <u>16,003,912</u>                      | <u>1,616,504</u>    | <u>2,107,170</u>    | <u>15,513,246</u>                        |
| Capital assets being depreciated:                |  |                     |                     |  |
| Revenue producing and service<br>equipment       | 50,567,137                             | 16,837              | 64,074              | 50,519,900                               |
| Buildings and structures                         | 189,080,110                            | 5,084,733           | 242,445             | 193,922,398                              |
| Office furnishings, shop equipment,<br>and other | 8,581,990                              | 413,488             | 235,190             | 8,760,288                                |
| Total capital assets<br>being depreciated        | <u>248,229,237</u>                     | <u>5,515,058</u>    | <u>541,709</u>      | <u>253,202,586</u>                       |
| Less accumulated depreciation:                   |  |                     |                     |  |
| Revenue producing and service<br>equipment       | 41,460,396                             | 1,641,889           | 60,572              | 43,041,713                               |
| Buildings and structures                         | 56,892,946                             | 2,915,080           | 214,160             | 59,593,866                               |
| Office furnishings, shop equipment,<br>and other | 4,791,803                              | 390,436             | 215,841             | 4,966,398                                |
| Total accumulated<br>depreciation                | <u>103,145,145</u>                     | <u>4,947,405</u>    | <u>490,573</u>      | <u>107,601,977</u>                       |
| Total capital assets<br>being depreciated, net   | <u>145,084,092</u>                     | <u>567,653</u>      | <u>51,136</u>       | <u>145,600,609</u>                       |
| Total capital assets, net                        | <u>\$ 161,088,004</u>                  | <u>\$ 2,184,157</u> | <u>\$ 2,158,306</u> | <u>\$ 161,113,855</u>                    |

**CITY OF KENOSHA WATER UTILITY**  
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 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2016 and 2015

**(4) Capital Assets (Continued)**

Capital asset activity for the year ended December 31, 2015 was as follows:

|  | <b>Balance<br/>January 1,<br/>2015</b> | <b>Additions</b>     | <b>Deletions</b>    | <b>Balance<br/>December 31,<br/>2015</b> |
|--|--|----------------------|---------------------|--|
| Capital assets not being depreciated:            |  |                      |                     |  |
| Land and land improvements                       | \$ 2,150,778                           | \$ 531               | \$ -                | \$ 2,151,309                             |
| Construction in progress                         | 4,282,085                              | 11,562,031           | 1,991,513           | 13,852,603                               |
| Total capital assets<br>not being depreciated    | <u>6,432,863</u>                       | <u>11,562,562</u>    | <u>1,991,513</u>    | <u>16,003,912</u>                        |
| Capital assets being depreciated:                |  |                      |                     |  |
| Revenue producing and service<br>equipment       | 50,252,225                             | 540,649              | 225,737             | 50,567,137                               |
| Buildings and structures                         | 184,672,874                            | 4,642,727            | 235,491             | 189,080,110                              |
| Office furnishings, shop equipment,<br>and other | 8,430,167                              | 453,082              | 301,259             | 8,581,990                                |
| Total capital assets<br>being depreciated        | <u>243,355,266</u>                     | <u>5,636,458</u>     | <u>762,487</u>      | <u>248,229,237</u>                       |
| Less accumulated depreciation:                   |  |                      |                     |  |
| Revenue producing and service<br>equipment       | 39,958,521                             | 1,727,612            | 225,737             | 41,460,396                               |
| Buildings and structures                         | 54,239,749                             | 2,854,432            | 201,235             | 56,892,946                               |
| Office furnishings, shop equipment,<br>and other | 4,671,899                              | 397,731              | 277,827             | 4,791,803                                |
| Total accumulated<br>depreciation                | <u>98,870,169</u>                      | <u>4,979,775</u>     | <u>704,799</u>      | <u>103,145,145</u>                       |
| Total capital assets<br>being depreciated, net   | <u>144,485,097</u>                     | <u>656,683</u>       | <u>57,688</u>       | <u>145,084,092</u>                       |
| Total capital assets, net                        | <u>\$ 150,917,960</u>                  | <u>\$ 12,219,245</u> | <u>\$ 2,049,201</u> | <u>\$ 161,088,004</u>                    |

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2016 and 2015

**(5) Long-term Debt**

Long-term debt activity for the year ended December 31, 2016 was as follows:

| Issue                                      | Interest rate | Balance<br>January 1,<br>2016 | Additions           | Deletions           | Balance<br>December 31,<br>2016 | Due within<br>one year |
|--|---------------|-------------------------------|---------------------|---------------------|---------------------------------|------------------------|
| State of Wisconsin Clean Water Loan Funds: |               |                               |                     |                     |                                 |                        |
| Series 2000                                | 3.17%         | \$ 494,084                    | -                   | \$ 92,750           | \$ 401,334                      | \$ 95,688              |
| Revenue Bonds:                             |               |                               |                     |                     |                                 |                        |
| Series 2008                                | 3.25-5.00%    | 9,325,000                     | -                   | 2,250,000           | 7,075,000                       | 2,350,000              |
|  |               | 9,819,084                     | -                   | 2,342,750           | 7,476,334                       | 2,445,688              |
| Unamortized premium                        |               | 125,296                       | -                   | 55,054              | 70,242                          | -                      |
| Advance from Municipality:                 |               |                               |                     |                     |                                 |                        |
| 1999 agreement                             | 4.74-6.00%    | 340,159                       | -                   | 77,067              | 263,092                         | 82,382                 |
| Worker's compensation accrued liability    | N/A           | 390,086                       | -                   | 66,815              | 323,271                         | -                      |
| Other post employment benefits             | N/A           | 1,454,428                     | 236,429             | 158,000             | 1,532,857                       | -                      |
| Net pension liability - WRS                | N/A           | -                             | 784,947             | -                   | 784,947                         | -                      |
| Accrued Compensated Absences               | N/A           | 589,051                       | 88,710              | 69,943              | 607,818                         | 78,118                 |
| Total                                      |               | <u>\$ 12,718,104</u>          | <u>\$ 1,110,086</u> | <u>\$ 2,769,629</u> | <u>\$ 11,058,561</u>            | <u>\$ 2,606,188</u>    |

Long-term debt activity for the year ended December 31, 2015 was as follows:

| Issue                                      | Interest rate | Balance<br>January 1,<br>2015 | Additions         | Deletions           | Balance<br>December 31,<br>2015 | Due within<br>one year |
|--|---------------|-------------------------------|-------------------|---------------------|---------------------------------|------------------------|
| State of Wisconsin Clean Water Loan Funds: |               |                               |                   |                     |                                 |                        |
| Series 2000                                | 3.17%         | \$ 583,984                    | -                 | \$ 89,900           | \$ 494,084                      | \$ 92,749              |
| Revenue Bonds:                             |               |                               |                   |                     |                                 |                        |
| Series 2008                                | 3.25-5.00%    | 11,490,000                    | -                 | 2,165,000           | 9,325,000                       | 2,250,000              |
|  |               | 12,073,984                    | -                 | 2,254,900           | 9,819,084                       | 2,342,749              |
| Less: Unamortized premium                  |               | 191,273                       | -                 | 65,977              | 125,296                         | -                      |
| Advance from Municipality:                 |               |                               |                   |                     |                                 |                        |
| 1999 agreement                             | 4.74-6.00%    | 414,570                       | -                 | 74,411              | 340,159                         | 77,067                 |
| Worker's compensation accrued liability    | N/A           | 35,000                        | 355,086           | -                   | 390,086                         | -                      |
| Other post employment benefits             | N/A           | 1,360,317                     | 264,111           | 170,000             | 1,454,428                       | -                      |
| Accrued Compensated Absences               | N/A           | 581,434                       | 77,290            | 69,673              | 589,051                         | 69,943                 |
| Total                                      |               | <u>\$ 14,656,578</u>          | <u>\$ 696,487</u> | <u>\$ 2,634,961</u> | <u>\$ 12,718,104</u>            | <u>\$ 2,489,759</u>    |

**CITY OF KENOSHA WATER UTILITY**  
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December 31, 2016 and 2015

**(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.



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

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016 and 2015

**(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 year of the change's pension expense.

**Principal and Interest Payments**

Long-term debt principal and interest requirements to maturity as of December 31, 2016 are as follows:

|      | Principal           |                   |                     | Interest          |                  |                   |
|------|---------------------|-------------------|---------------------|-------------------|------------------|-------------------|
|      | Water unit          | Sewerage unit     | Total               | Water unit        | Sewerage unit    | Total             |
| 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 | -                   | 105,076           | 105,076             | -                 | 1,665            | 1,665             |
|      | <u>\$ 7,205,441</u> | <u>\$ 533,985</u> | <u>\$ 7,739,426</u> | <u>\$ 601,791</u> | <u>\$ 37,923</u> | <u>\$ 639,714</u> |

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**(6) Net Position**

The components of net position are shown below:

|   | <b>2016</b>          |                       |   |                       |
|---|----------------------|-----------------------|---|-----------------------|
|   | <u>Water Unit</u>    | <u>Sewer Unit</u>     | <u>Household<br/>Hazardous<br/>Waste Unit</u> | <u>Total</u>          |
| Invested in capital assets, net of related debt |                      |                       |   |                       |
| Net investment in capital assets                | \$ 76,036,078        | \$ 85,014,499         | \$ 63,278                                     | \$ 161,113,855        |
| Outstanding long-term debt                      | (7,075,000)          | (401,335)             | -   | (7,476,335)           |
| Debt not related to capital assets              | 2,270,741            | -                     | -   | 2,270,741             |
|   | <u>71,231,819</u>    | <u>84,613,164</u>     | <u>63,278</u>                                 | <u>155,908,261</u>    |
| Restricted                                      |                      |                       |   |                       |
| Restricted for renewal and replacement          | -                    | 1,730,712             | -   | 1,730,712             |
| Restricted for taxes                            | 2,473,728            | -                     | -   | 2,473,728             |
| Restricted for depreciation                     | 989,494              | 989,494               | -   | 1,978,988             |
| Restricted for debt service                     | 2,705,945            | 110,000               | -   | 2,815,945             |
| Restricted for bond reserve                     | 2,270,741            | -                     | -   | 2,270,741             |
| Restricted for Storm Water Utility collections  | -                    | 299,074               | -   | 299,074               |
| Liabilities payable from restricted assets      |                      |                       |   |                       |
| Storm Water Utility collections                 | -                    | (299,074)             | -   | (299,074)             |
| Accrued interest payable                        | (29,479)             | (2,120)               | -   | (31,599)              |
| Long-term debt                                  | (2,270,741)          | -                     | -   | (2,270,741)           |
|   | <u>6,139,688</u>     | <u>2,828,086</u>      | <u>-</u>                                      | <u>8,967,774</u>      |
| Unrestricted                                    | <u>1,041,841</u>     | <u>24,497,850</u>     | <u>427,369</u>                                | <u>25,967,060</u>     |
| Total net position                              | <u>\$ 78,413,348</u> | <u>\$ 111,939,100</u> | <u>\$ 490,647</u>                             | <u>\$ 190,843,095</u> |

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**(6) Net Position (Continued)**

|   | <b>2015</b>          |                       |   |                       |
|---|----------------------|-----------------------|---|-----------------------|
|   | <u>Water Unit</u>    | <u>Sewer Unit</u>     | <u>Household<br/>Hazardous<br/>Waste Unit</u> | <u>Total</u>          |
| Invested in capital assets, net of related debt |                      |                       |   |                       |
| Net investment in capital assets                | \$ 76,238,253        | \$ 84,788,435         | \$ 61,316                                     | \$ 161,088,004        |
| Outstanding long-term debt                      | (9,325,000)          | (494,084)             | -   | (9,819,084)           |
| Debt not related to capital assets              | 2,260,000            | -                     | -   | 2,260,000             |
|   | <u>69,173,253</u>    | <u>84,294,351</u>     | <u>61,316</u>                                 | <u>153,528,920</u>    |
| Restricted                                      |                      |                       |   |                       |
| Restricted for renewal and replacement          | -                    | 1,725,000             | -   | 1,725,000             |
| 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                     | 4,962,964            | 110,000               | -   | 5,072,964             |
| Restricted for Storm Water Utility collections  | -                    | 317,013               | -   | 317,013               |
| Liabilities payable from restricted assets      |                      |                       | -   | -                     |
| Storm Water Utility collections                 | -                    | (317,013)             | -   | (317,013)             |
| Accrued interest payable                        | (37,259)             | (2,610)               | -   | (39,869)              |
| Long-term debt                                  | (2,260,000)          | -                     | -   | (2,260,000)           |
|   | <u>6,165,705</u>     | <u>2,832,390</u>      | <u>-</u>                                      | <u>8,998,095</u>      |
| Retricted for pension                           | <u>590,010</u>       | <u>595,717</u>        | <u>5,875</u>                                  | <u>1,191,602</u>      |
| Unrestricted                                    | <u>(239,632)</u>     | <u>19,215,257</u>     | <u>384,570</u>                                | <u>19,360,195</u>     |
| Total net position                              | <u>\$ 75,689,336</u> | <u>\$ 106,937,715</u> | <u>\$ 451,761</u>                             | <u>\$ 183,078,812</u> |

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**(7) Pensions**

***General Information about the Pension Plan***

**Plan description**

The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. ETF is responsible for administration of the WRS and the State of Wisconsin Investment Board (SWIB) is responsible for managing WRS investments.

**Vesting**

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**Benefits provided**

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

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**(7) Pensions** (continued)

**Post-Retirement Adjustments**

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

| <u>Year</u> | <u>Core Fund Adjustment</u> | <u>Variable Fund Adjustment</u> |
|-------------|-----------------------------|---------------------------------|
| 2006        | 0.8                         | 3.0                             |
| 2007        | 3.0                         | 10.0                            |
| 2008        | 6.6                         | 0.0                             |
| 2009        | (2.1)                       | (42.0)                          |
| 2010        | (1.3)                       | 22.0                            |
| 2011        | (1.2)                       | 11.0                            |
| 2012        | (7.0)                       | (7.0)                           |
| 2013        | (9.6)                       | 9.0                             |
| 2014        | 4.7                         | 25.0                            |
| 2015        | 2.9                         | 2.0                             |

**Contributions**

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The Kenosha Water Utility participates in the Plan as part of the City of Kenosha. The City has determined that Kenosha Water Utility's allocation of the City's proportional share of participation in the Pension, to be 9.92%, for the year ended December 31, 2016.

During the reporting period, the WRS recognized contributions from the City of Kenosha including \$347,298 of contributions from the Kenosha Water.

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(7) **Pensions** (continued)

Contribution rates as of December 31, 2016 are:

| <u>Employee Category</u>           | <u>Employee</u> | <u>Employer</u> |
|------------------------------------|-----------------|-----------------|
| General (including teachers)       | 6.6%            | 6.6%            |
| Executives & Elected Officials     | 6.6%            | 6.6%            |
| Protective with Social Security    | 6.6%            | 9.4%            |
| Protective without Social Security | 6.6%            | 13.2%           |

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2016, the Utility reported a liability of \$784,947 for its allocation of the City of Kenosha's proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. The Utility's allocation of the City's proportion was determined by the City. At December 31, 2015, the Utility's allocated proportion was 0.04915221%, which was an increase of 0.00059839% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the Utility recognized pension expense of \$828,981.

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**(7) Pensions** (continued)

At December 31, 2016 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience   | \$ 132,791                        | \$ 1,651,907                     |
| Changes in assumptions   | 549,183                           | -                                |
| Net differences between projected and actual earnings<br>on pension plan investments                             | 3,213,796                         | -                                |
| Changes in proportion and differences between employer<br>contributions and proportionate share of contributions | 23,837                            | -                                |
| Employer contributions subsequent to the measurement<br>date   | 348,872                           | -                                |
| Total  | \$ 4,268,479                      | \$ 1,651,907                     |

\$348,872 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year ended December 31 | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|------------------------|-----------------------------------|----------------------------------|
| 2017                   | \$ 1,018,212                      | \$ 399,764                       |
| 2018                   | 1,018,212                         | 399,764                          |
| 2019                   | 1,018,212                         | 399,764                          |
| 2020                   | 847,209                           | 399,764                          |
| 2021                   | 17,762                            | 52,851                           |

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**(7) Pensions** (continued)

**Actuarial assumptions.** The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|  |                                |
|--|--------------------------------|
| Actuarial Valuation Date:                          | December 31, 2014              |
| Measurement Date of Net Pension Liability (Asset): | December 31, 2015              |
| Actuarial Cost Method:                             | Entry Age                      |
| Asset Valuation Method:                            | Fair Market Value              |
| Long-Term Expected Rate of Return:                 | 7.2%                           |
| Discount Rate:                                     | 7.2%                           |
| Salary Increases                                   |                                |
| Inflation:   | 3.2%                           |
| Seniority/Merit:                                   | 0.2% - 5.6%                    |
| Mortality:   | Wisconsin 2012 Mortality Table |
| Post-retirement Adjustments*:                      | 2.1%                           |

*\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.



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**(7) Pensions** (continued)

*Long-term expected Return on Plan Assets.* The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <b>Core Fund Asset Class</b> | <b>Current Asset<br/>Allocation %</b> | <b>Destination<br/>Target Asset<br/>Allocation %</b> | <b>Long-Term<br/>Expected Nominal<br/>Rate of Return %</b> | <b>Long-Term<br/>Expected Real<br/>Rate of Return %</b> |
|------------------------------|---------------------------------------|--|--|---|
| U.S. Equities                | 0.3                                   | 0.2  | 0.1  | 0.0   |
| International Equities       | 0.2                                   | 0.2  | 0.1  | 0.1   |
| Fixed Income                 | 0.3                                   | 0.4  | 0.0  | 0.0   |
| Inflation Sensitive Assets   | 0.1                                   | 0.2  | 0.0  | 0.0   |
| Real Estate                  | 0.1                                   | 0.1  | 0.1  | 0.0   |
| Private Equity/Debt          | 0.1                                   | 0.1  | 0.1  | 0.1   |
| Multi-Asset                  | <u>0.0</u>                            | <u>0.0</u>   | <u>0.1</u>   | <u>0.0</u>  |
| Total Core Fund              | <u>1.1</u>                            | <u>1.2</u>   | <u>0.1</u>   | <u>0.0</u>  |
| Variable Fund Asset Class    |                                       |  |  |   |
| U.S. Equities                | 0.7                                   | 0.7  | 0.1  | 0.0   |
| International Equities       | <u>0.3</u>                            | <u>0.3</u>   | <u>0.1</u>   | <u>0.1</u>  |
| Total Variable Fund          | <u>1.0</u>                            | <u>1.0</u>   | <u>0.1</u>   | <u>0.1</u>  |

*Single Discount rate.* A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**(7) Pensions** (continued)

*Sensitivity of the Utility's allocation of the City's proportionate share of the net pension liability (asset) to changes in the discount rate.* The following presents the Utility's allocation of the City's proportionate share of the net pension asset calculated using the discount rate of 7.20 percent, as well as what the Utility's allocation of the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

|   | 1% Decrease to<br>Discount Rate<br>(6.20%) | Current Discount<br>Rate<br>(7.20%) | 1% Increase to<br>Discount Rate<br>(8.20%) |
|---|--|-------------------------------------|--|
| Water Utility's allocation of the City's proportionate share of the net pension liability (asset) | \$ 5,505,630                               | \$ 784,947                          | \$ (2,901,992)                             |

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

**Payables to the pension plan**

The Utility's share of the City's payable to WRS as of December 31, 2016, was \$36,156.

**(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.

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**(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***

On April 20, 2015, the PSCW authorized a rate increase effective June 1, 2015. The new rates were approved using the Simplified Rate Case Process which allowed a 3.0% 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 5.9%, the Commission's overall rate of return applicable to a municipally owned water utility.

***Sewerage Unit***

On November 17, 2014, the Board of Water Commissioners approved a rate adjustment for sewerage service, industrial waste discharge permit and miscellaneous services that was placed into effect June 1, 2015.

***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, 2016, the Utility had outstanding purchase commitments for contracts of approximately \$883,851 for the installation of bar screen equipment and \$194,664 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$11,518 for painting the 58th Street ground storage tank #1, \$80,843 for water main construction and \$6,169 for sewer main construction.

At December 31, 2015, the Utility had outstanding purchase commitments for contracts of approximately \$232,824 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$348,000 for painting the washwater elevated storage tank at the water treatment plant and \$77,413 for water main construction.

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 2016 and 2015, the Utility contributed \$158,000 and \$170,000 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, 2016:

|  | <u>Water<br/>Unit</u>    | <u>Sewerage<br/>Unit</u> | <u>Total</u>               |
|--|--------------------------|--------------------------|----------------------------|
| Annual required contribution               | \$ 146,985               | \$ 117,853               | \$ 264,838                 |
| Interest on net OPEB obligation            | 24,216                   | 19,417                   | 43,633                     |
| Adjustment to annual required contribution | <u>(39,983)</u>          | <u>(32,059)</u>          | <u>(72,042)</u>            |
| Annual OPEB cost                           | 131,218                  | 105,211                  | 236,429                    |
| Contributions made                         | <u>(87,690)</u>          | <u>(70,310)</u>          | <u>(158,000)</u>           |
| Increase in net OPEB obligation            | 43,528                   | 34,901                   | 78,429                     |
| Net OPEB obligation, beginning of year     | <u>755,703</u>           | <u>698,725</u>           | <u>1,454,428</u>           |
| Net OPEB obligation, end of year           | <u><u>\$ 799,231</u></u> | <u><u>\$ 733,626</u></u> | <u><u>\$ 1,532,857</u></u> |

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2016 and 2015

**(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, 2015:

|  | <u>Water<br/>Unit</u> | <u>Sewerage<br/>Unit</u> | <u>Total</u>        |
|--|-----------------------|--------------------------|---------------------|
| Annual required contribution               | \$ 157,259            | \$ 133,423               | \$ 290,682          |
| Interest on net OPEB obligation            | 22,078                | 18,732                   | 40,810              |
| Adjustment to annual required contribution | <u>(36,453)</u>       | <u>(30,928)</u>          | <u>(67,381)</u>     |
| Annual OPEB cost                           | 142,884               | 121,227                  | 264,111             |
| Contributions made                         | <u>(91,970)</u>       | <u>(78,030)</u>          | <u>(170,000)</u>    |
| Increase in net OPEB obligation            | 50,914                | 43,197                   | 94,111              |
| Net OPEB obligation, beginning of year     | <u>704,789</u>        | <u>655,528</u>           | <u>1,360,317</u>    |
| Net OPEB obligation, end of year           | <u>\$ 755,703</u>     | <u>\$ 698,725</u>        | <u>\$ 1,454,428</u> |

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2016 and 2015

**(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 were as follows:

|  | <u>Water<br/>Unit</u> | <u>Sewerage<br/>Unit</u> | <u>Total</u> |
|--|-----------------------|--------------------------|--------------|
| Year ended December 31, 2016               |                       |                          |              |
| Annual OPEB cost                           | \$ 131,218            | \$ 105,211               | \$ 236,429   |
| Percentage of annual OPEB cost contributed | 66.83%                | 66.83%                   | 66.83%       |
| Net OPEB obligation                        | \$ 799,231            | \$ 733,626               | \$1,532,857  |
| Year ended December 31, 2015               |                       |                          |              |
| Annual OPEB cost                           | \$ 142,884            | \$ 121,227               | \$ 264,111   |
| Percentage of annual OPEB cost contributed | 64.37%                | 64.37%                   | 64.37%       |
| Net OPEB obligation                        | \$ 755,703            | \$ 698,725               | \$1,454,428  |
| 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  |

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2016 and 2015

**(11) Other Postemployment Benefits (Continued)**

The funded status of the plan as of December 31, 2016, the most recent actuarial valuation date, was as follows:

|   | Water<br>Unit       | Sewerage<br>Unit    | Total               |
|---|---------------------|---------------------|---------------------|
| Actuarial accrued liability (AAL)                   | \$ 1,486,576        | \$ 1,191,940        | \$ 2,678,516        |
| Actuarial value of plan assets                      | -                   | -                   | -                   |
| Unfunded actuarial accrued liability (UAAL)         | <u>\$ 1,486,576</u> | <u>\$ 1,191,940</u> | <u>\$ 2,678,516</u> |
| Funded ratio (actuarial value of plan assets / AAL) | 0.00%               | 0.00%               | 0.00%               |
| Covered payroll (active plan members)               | \$ 2,932,750        | \$ 2,351,484        | \$ 5,284,234        |

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 2016 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 6.2% initially, reduced by decrements to an ultimate rate of 4.0% after 2074. 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, 2016 and 2015

**(12) Subsequent Events**

On March 27, 2017, a contract was awarded to Bradford Contractors, LLC by the Board of Water Commissioners for water main relays in the amount of \$678,009.

On March 27, 2017, a contract was awarded to George Kountoupes Painting Company by the Board of Water Commissioners for the painting of the 75th Street and Green Bay Road elevated storage tank in the amount of \$495,750.

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, 2016 and 2015

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | (AAL)<br>Accrued<br>Actuarial<br>Liability<br>(b) | (UAAL)<br>Unfunded<br>AAL<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 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%  |
| 12/31/2016                     | \$ -                                   | \$ 2,678,516                                      | \$ 2,678,516                       | 0.00%                    | \$ 5,284,234              | 50.69%  |

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

SCHEDULE OF UTILITY'S ALLOCATION OF THE CITY'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY (ASSET)  
 Wisconsin Retirement System  
 Last 10 Measurement Periods

|   | Year Ended December 31, |                |
|---|-------------------------|----------------|
|   | 2015                    | 2014           |
| Utility's allocation of the City of Kenosha's<br>proportion of the net pension liability (asset)          | 0.04915221%             | 0.04851257%    |
| Utility's allocation of the City of Kenosha's<br>proportionate share of the net pension liability (asset) | \$ 784,947              | \$ (1,191,602) |
| Utility's covered - employee payroll  | \$ 5,124,588            | \$ 4,980,993   |
| Plan fiduciary net position as a percentage of the total pension<br>liability (asset)                     | 98.20%                  | 102.74%        |

SCHEDULE OF KENOSHA WATER UTILITY CONTRIBUTIONS  
 Wisconsin Retirement System  
 Last 10 Fiscal Years\*

|  | 2016         | 2015         |
|--|--------------|--------------|
| Contractually required contributions                                     | \$ 347,298   | \$ 348,556   |
| Contributions in relation to the<br>contractually required contributions | \$ (347,298) | \$ (348,556) |
| Contribution deficiency (excess)   | \$ -         | \$ -         |
| Utility's covered - employee payroll                                     | \$ 5,124,588 | \$ 4,980,993 |
| Contributions as a percentage of covered - employee payroll              | 6.78%        | 7.00%        |

\*The amounts presented for each measurement period that was presented for each fiscal year noted.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 For the year ended December 31, 2016

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumptions.* There were no changes in the assumptions.

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

Combining Schedule of Net Position

December 31, 2016

| <b>Assets</b>  | <b>Water<br/>unit</b> | <b>Sewerage<br/>unit</b> | <b>Household<br/>hazardous<br/>waste unit</b> | <b>Total</b>          |
|--|-----------------------|--------------------------|---|-----------------------|
| Current assets:  |                       |                          |   |                       |
| Cash and cash equivalents                                | \$ 493,075            | \$ 6,302,404             | \$ 355,206                                    | \$ 7,150,685          |
| Investments  | 1,996,000             | 8,995,000                | -   | 10,991,000            |
| Restricted cash equivalents                              | 75,731                | 44,205                   | -   | 119,936               |
| Restricted cash - Storm Water Utility collections        | -                     | 299,074                  | -   | 299,074               |
| Restricted investments                                   | 8,364,178             | 2,786,000                | -   | 11,150,178            |
| Accounts receivable                                      | 2,264,377             | 2,368,233                | 46,074  | 4,678,684             |
| Unbilled revenue   | 1,585,556             | 1,046,337                | 20,802  | 2,652,695             |
| Inventories  | 380,511               | 48,401                   | -   | 428,912               |
| Other current assets                                     | 164,886               | 104,703                  | -   | 269,589               |
| Total current assets                                     | <u>15,324,314</u>     | <u>21,994,357</u>        | <u>422,082</u>                                | <u>37,740,753</u>     |
| Noncurrent assets:                                       |                       |                          |   |                       |
| Advance to Water Unit                                    | -                     | 5,000,000                | -   | 5,000,000             |
| Other assets   |                       |                          |   |                       |
| Special assessments                                      | 108,271               | 136,939                  | -   | 245,210               |
| Unbilled assessments                                     | 2,890,369             | 2,476,901                | -   | 5,367,270             |
| Capital assets:  |                       |                          |   |                       |
| Capital assets not being depreciated:                    |                       |                          |   |                       |
| Land and land improvements                               | 878,572               | 1,272,737                | -   | 2,151,309             |
| Construction in progress                                 | 727,538               | 12,634,399               | -   | 13,361,937            |
| Capital assets being depreciated:                        |                       |                          |   |                       |
| Revenue producing and service equipment                  | 19,742,099            | 30,777,801               | -   | 50,519,900            |
| Buildings and structures                                 | 93,575,696            | 100,259,660              | 87,042  | 193,922,398           |
| Office furnishings, shop equipment, and other            | 3,602,282             | 5,157,174                | 832   | 8,760,288             |
| Less accumulated depreciation                            | (42,490,109)          | (65,087,272)             | (24,596)                                      | (107,601,977)         |
| Total capital assets, net of accumulated depreciation    | <u>76,036,078</u>     | <u>85,014,499</u>        | <u>63,278</u>                                 | <u>161,113,855</u>    |
| Total noncurrent assets                                  | <u>79,034,718</u>     | <u>92,628,339</u>        | <u>63,278</u>                                 | <u>171,726,335</u>    |
| Total assets   | <u>\$ 94,359,032</u>  | <u>\$ 114,622,696</u>    | <u>\$ 485,360</u>                             | <u>\$ 209,467,088</u> |
| <b>Deferred Outflows of Resources</b>                    |                       |                          |   |                       |
| Deferred pension resources                               | <u>\$ 2,085,768</u>   | <u>\$ 2,162,579</u>      | <u>\$ 20,132</u>                              | <u>\$ 4,268,479</u>   |
| <b>Liabilities</b>                                       |                       |                          |   |                       |
| Current liabilities:                                     |                       |                          |   |                       |
| Accounts payable   | \$ 176,492            | \$ 618,030               | \$ 2,146                                      | \$ 796,668            |
| Accrued liabilities                                      | 29,455                | 2,120                    | -   | 31,575                |
| Accrued property taxes                                   | 2,378,777             | -                        | -   | 2,378,777             |
| Current portion of accrued compensated absences          | 35,049                | 43,069                   | -   | 78,118                |
| Current portion of long-term obligations                 | 2,350,000             | 95,688                   | -   | 2,445,688             |
| Current portion of advance from City of Kenosha          | 40,845                | 41,537                   | -   | 82,382                |
| Due to City of Kenosha                                   | 641,140               | 636,961                  | 1,776   | 1,279,877             |
| Due to City of Kenosha - Storm Water Utility collections | -                     | 299,074                  | -   | 299,074               |
| Other current liabilities                                | 7,146                 | 388,887                  | -   | 396,033               |
| Total current liabilities                                | <u>5,658,904</u>      | <u>2,125,366</u>         | <u>3,922</u>                                  | <u>7,788,192</u>      |
| Noncurrent liabilities:                                  |                       |                          |   |                       |
| Long-term portion of accrued compensated absences        | 335,983               | 193,716                  | -   | 529,699               |
| Worker's compensation accrued liability                  | 179,092               | 144,179                  | -   | 323,271               |
| Other postemployment benefits                            | 799,231               | 733,626                  | -   | 1,532,857             |
| Pension liability - Wisconsin Retirement System          | 366,209               | 415,606                  | 3,132   | 784,947               |
| Advance from City of Kenosha                             | 89,596                | 91,114                   | -   | 180,710               |
| Advance from Sewerage Unit                               | 5,000,000             | -                        | -   | 5,000,000             |
| Revenue bonds payable (net of unamortized discounts)     | 4,795,242             | -                        | -   | 4,795,242             |
| Clean Water Fund loans                                   | -                     | 305,647                  | -   | 305,647               |
| Total noncurrent liabilities                             | <u>11,565,353</u>     | <u>1,883,888</u>         | <u>3,132</u>                                  | <u>13,452,373</u>     |
| Total liabilities  | <u>17,224,257</u>     | <u>4,009,254</u>         | <u>7,054</u>                                  | <u>21,240,565</u>     |
| <b>Deferred Inflows of Resources</b>                     |                       |                          |   |                       |
| Deferred pension resources                               | <u>\$ 807,195</u>     | <u>836,921</u>           | <u>\$ 7,791</u>                               | <u>\$ 1,651,907</u>   |
| <b>Net Position</b>                                      |                       |                          |   |                       |
| Invested in capital assets, net of related debt          | 71,231,819            | 84,613,164               | 63,278  | 155,908,261           |
| Restricted for debt service                              | 6,139,688             | 2,828,086                | -   | 8,967,774             |
| Unrestricted   | 1,041,841             | 24,497,850               | 427,369                                       | 25,967,060            |
| Total net position                                       | <u>\$ 78,413,348</u>  | <u>\$ 111,939,100</u>    | <u>\$ 490,647</u>                             | <u>\$ 190,843,095</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, 2016

|  | <u>Water<br/>unit</u> | <u>Sewerage<br/>unit</u> | <u>Household<br/>hazardous<br/>waste unit</u> | <u>Total</u>          |
|--|-----------------------|--------------------------|---|-----------------------|
| Operating revenues:  |                       |                          |   |                       |
| Charges for services   | \$ 12,612,131         | \$ 10,573,187            | \$ 166,175                                    | \$ 23,351,493         |
| Miscellaneous  | 2,181,685             | 2,034,145                | 17,941  | 4,233,771             |
| Total operating revenues   | <u>14,793,816</u>     | <u>12,607,332</u>        | <u>184,116</u>                                | <u>27,585,264</u>     |
| Operating expenses:  |                       |                          |   |                       |
| General and administrative   | 2,486,270             | 2,720,340                | -   | 5,206,610             |
| Operations and maintenance   | 5,447,296             | 5,468,700                | 142,357                                       | 11,058,353            |
| Depreciation   | 2,816,133             | 2,128,003                | 3,269   | 4,947,405             |
| Total operating expenses   | <u>10,749,699</u>     | <u>10,317,043</u>        | <u>145,626</u>                                | <u>21,212,368</u>     |
| Operating income   | <u>4,044,117</u>      | <u>2,290,289</u>         | <u>38,490</u>                                 | <u>6,372,896</u>      |
| Nonoperating revenues (expenses):                                      |                       |                          |   |                       |
| Investment income  | 37,346                | 214,172                  | 223   | 251,741               |
| Interest expense   | (622,312)             | (21,824)                 | -   | (644,136)             |
| Miscellaneous  | 58,657                | 30,215                   | 173   | 89,045                |
| Total nonoperating revenue (expenses)                                  | <u>(526,309)</u>      | <u>222,563</u>           | <u>396</u>                                    | <u>(303,350)</u>      |
| Increase in net position before<br>capital contributions and transfers | 3,517,808             | 2,512,852                | 38,886  | 6,069,546             |
| Capital contributions  | 1,532,607             | 2,540,907                | -   | 4,073,514             |
| Transfers out  | <u>(2,326,403)</u>    | <u>(52,374)</u>          | <u>-</u>                                      | <u>(2,378,777)</u>    |
| Increase in net position   | 2,724,012             | 5,001,385                | 38,886  | 7,764,283             |
| Net position at beginning of year                                      | <u>75,689,336</u>     | <u>106,937,715</u>       | <u>451,761</u>                                | <u>183,078,812</u>    |
| Net position at end of year  | <u>\$ 78,413,348</u>  | <u>\$ 111,939,100</u>    | <u>\$ 490,647</u>                             | <u>\$ 190,843,095</u> |

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

Schedule of Capital Assets  
Water Unit

Year ended December 31, 2016

|  | <b>Balance<br/>January 1,<br/>2016</b> | <b>Additions</b>    | <b>Deletions</b>    | <b>Balance<br/>December 31,<br/>2016</b> |
|--|--|---------------------|---------------------|--|
| Capital assets not being depreciated:            |  |                     |                     |  |
| Land and land improvements                       | \$ 878,572                             | \$ -                | \$ -                | \$ 878,572                               |
| Construction in progress                         | 1,664,033                              | 888,466             | 1,824,961           | 727,538                                  |
| Total capital assets not<br>being depreciated    | <u>2,542,605</u>                       | <u>888,466</u>      | <u>1,824,961</u>    | <u>1,606,110</u>                         |
| Capital assets being depreciated:                |  |                     |                     |  |
| Revenue producing and service<br>equipment       | 19,737,483                             | 4,616               | -                   | 19,742,099                               |
| Buildings and structures                         | 90,284,987                             | 3,500,198           | 209,489             | 93,575,696                               |
| Office furnishings, shop equipment,<br>and other | 3,657,661                              | 66,525              | 121,904             | 3,602,282                                |
| Total capital assets<br>being depreciated        | <u>113,680,131</u>                     | <u>3,571,339</u>    | <u>331,393</u>      | <u>116,920,077</u>                       |
| Less accumulated depreciation:                   |  |                     |                     |  |
| Revenue producing and service<br>equipment       | 13,538,147                             | 1,032,057           | -                   | 14,570,204                               |
| Buildings and structures                         | 24,062,371                             | 1,598,576           | 181,204             | 25,479,743                               |
| Office furnishings, shop equipment,<br>and other | 2,383,965                              | 185,500             | 129,303             | 2,440,162                                |
| Total accumulated<br>depreciation                | <u>39,984,483</u>                      | <u>2,816,133</u>    | <u>310,507</u>      | <u>42,490,109</u>                        |
| Total capital assets being<br>depreciated, net   | <u>73,695,648</u>                      | <u>755,206</u>      | <u>20,886</u>       | <u>74,429,968</u>                        |
| Total capital assets, net                        | <u>\$ 76,238,253</u>                   | <u>\$ 1,643,672</u> | <u>\$ 1,845,847</u> | <u>\$ 76,036,078</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> |              |
| 2017        | 2,350,000         | 176,875         | 176,875           | 2,703,750    |
| 2018        | 4,725,000         | 118,125         | 118,125           | 4,961,250    |
| Totals      | \$ 7,075,000      | \$ 295,000      | \$ 295,000        | \$ 7,665,000 |

**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> |                   |
| 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>130,441</u> | \$ <u>7,774</u> | \$ <u>4,017</u>  | \$ <u>142,232</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, 2016 and 2015

|                                      | <b>2016</b>  | <b>2015</b>  |
|--------------------------------------|--------------|--------------|
| Operating revenues:                  |              |              |
| Metered sales to general customers:  |              |              |
| Residential                          | \$ 5,910,377 | \$ 5,738,762 |
| Commercial                           | 2,752,976    | 2,667,754    |
| Industrial                           | 1,000,504    | 858,005      |
| Public                               | 319,338      | 299,690      |
| Irrigation                           | -            | 4,752        |
| Total metered sales                  | 9,983,195    | 9,568,963    |
| Flat rate sales to general customers | 12,718       | 9,457        |
| Private fire protection              | 167,224      | 165,072      |
| Public fire protection               | 1,351,071    | 1,325,246    |
| Sales to other municipalities        | 2,616,218    | 2,204,997    |
| Total sales of water                 | 14,130,426   | 13,273,735   |
| Penalties                            | 160,111      | 166,821      |
| Allocated services                   | 146,531      | 142,906      |
| Other                                | 356,748      | 462,551      |
| Total operating revenues             | 14,793,816   | 14,046,013   |
| Operating expenses:                  |              |              |
| Source of supply:                    |              |              |
| Maintenance of lake intake           | 54,130       | 12,552       |
| Miscellaneous                        | 9,625        | 9,625        |
| Total source of supply               | 63,755       | 22,177       |
| Power and pumping:                   |              |              |
| Operations:                          |              |              |
| Supervision and engineering          | 144,169      | 115,176      |
| Fuel and power purchased             | 827,827      | 779,772      |
| Pumping labor and supplies           | 117,654      | 111,002      |
| Miscellaneous                        | 5,993        | 5,569        |
| Maintenance:                         |              |              |
| Structures and improvements          | 21,545       | 24,195       |
| Power production equipment           | 257          | 4,120        |
| Pumping equipment                    | 96,291       | 86,599       |
| Total power and pumping              | 1,213,736    | 1,126,433    |

**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, 2016 and 2015

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Water treatment:                         |             |             |
| Operations:                              |             |             |
| Supervision and engineering              | \$ 54,428   | \$ 56,307   |
| Labor and supplies                       | 307,646     | 286,874     |
| Chemicals                                | 147,766     | 135,171     |
| Structures and improvements              | 440,979     | 91,496      |
| Treatment equipment                      | 503,570     | 523,797     |
| Miscellaneous                            | 23,084      | 34,420      |
| Total water treatment                    | 1,477,473   | 1,128,065   |
| Transmission and distribution:           |             |             |
| Operations:                              |             |             |
| Supervision and engineering              | 217,662     | 71,275      |
| Transmission and distribution lines      | 67,008      | 49,456      |
| Meters                                   | 43,379      | 63,180      |
| Customer installation                    | 137,366     | 35,107      |
| Labor and equipment                      | 469,557     | 534,367     |
| Maintenance:                             |             |             |
| Supervision and engineering              | 11,131      | 21,401      |
| Distribution reservoirs and standpipes   | 461,455     | 105,171     |
| Mains                                    | 1,082,053   | 874,461     |
| Services                                 | 119,368     | 256,472     |
| Meters                                   | 41,310      | 46,336      |
| Hydrants                                 | 42,043      | 56,260      |
| Total transmission and distribution      | 2,692,332   | 2,113,486   |
| Total operations and maintenance         | 5,447,296   | 4,390,161   |
| General and administrative:              |             |             |
| Customer accounting and collecting:      |             |             |
| Meter reading                            | 60,952      | 60,249      |
| Customer records and collection          | 304,004     | 306,358     |
| Total customer accounting and collecting | 364,956     | 366,607     |

**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, 2016 and 2015

|                                  | <b>2016</b>  | <b>2015</b>  |
|----------------------------------|--------------|--------------|
| Administrative:                  |              |              |
| Executive and general office     | \$ 211,712   | \$ 202,966   |
| Office supplies                  | 48,094       | 38,091       |
| Outside services                 | 223,081      | 189,100      |
| Casualty and property insurance  | 109,036      | 78,190       |
| Employee benefits and insurance  | 1,486,635    | 1,557,454    |
| Miscellaneous                    | 27,419       | 26,152       |
| Regulatory commission            | 15,337       | 12,644       |
| Total administrative             | 2,121,314    | 2,104,597    |
| Total general and administrative | 2,486,270    | 2,471,204    |
| Depreciation                     | 2,816,133    | 2,776,244    |
| Total operating expenses         | 10,749,699   | 9,637,609    |
| Operating income                 | \$ 4,044,117 | \$ 4,408,404 |

**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, 2016 and 2015

Local property taxes due to the City of Kenosha for the years ended December 31, 2016 and 2015 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| Gross book value – January 1:                     |                |                |
| Plant and equipment                               | \$ 116,848,293 | \$ 113,212,927 |
| Materials and supplies                            | 443,622        | 436,530        |
| Total gross book value                            | 117,291,915    | 113,649,457    |
| Less plant outside municipal boundaries           | (5,944,321)    | (6,451,929)    |
| Assessable plant                                  | 111,347,594    | 107,197,528    |
| Assessment ratio                                  | 0.971250       | 0.962109       |
| Assessed value of property                        | 108,146,351    | 103,135,706    |
| Local and school share of tax rate (per thousand) | 21.995910      | 22.915162      |
| Computed tax equivalent (floor = \$1,033,306)     | \$ 2,378,777   | \$ 2,363,371   |

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

Schedule of Capital Assets  
Sewerage Unit

Year ended December 31, 2016

|  | <b>Balance<br/>January 1,<br/>2016</b> | <b>Additions</b>         | <b>Deletions</b>         | <b>Balance<br/>December 31,<br/>2016</b> |
|--|--|--------------------------|--------------------------|--|
| Capital assets not being depreciated:            |  |                          |                          |  |
| Land and land improvements                       | \$ 1,272,737                           | \$ -                     | \$ -                     | \$ 1,272,737                             |
| Construction in progress                         | 12,183,157                             | 728,038                  | 276,796                  | 12,634,399                               |
| Total capital assets not<br>being depreciated    | <u>13,455,894</u>                      | <u>728,038</u>           | <u>276,796</u>           | <u>13,907,136</u>                        |
| Capital assets being depreciated:                |  |                          |                          |  |
| Revenue producing and service<br>equipment       | 30,829,654                             | 12,221                   | 64,074                   | 30,777,801                               |
| Buildings and structures                         | 98,718,725                             | 1,573,891                | 32,956                   | 100,259,660                              |
| Office furnishings, shop equipment,<br>and other | 4,923,497                              | 346,963                  | 113,286                  | 5,157,174                                |
| Total capital assets<br>being depreciated        | <u>134,471,876</u>                     | <u>1,933,075</u>         | <u>210,316</u>           | <u>136,194,635</u>                       |
| Less accumulated depreciation:                   |  |                          |                          |  |
| Revenue producing and service<br>equipment       | 27,922,248                             | 609,832                  | 60,572                   | 28,471,508                               |
| Buildings and structures                         | 32,810,081                             | 1,313,235                | 32,956                   | 34,090,360                               |
| Office furnishings, shop equipment,<br>and other | 2,407,006                              | 204,936                  | 86,538                   | 2,525,404                                |
| Total accumulated<br>depreciation                | <u>63,139,335</u>                      | <u>2,128,003</u>         | <u>180,066</u>           | <u>65,087,272</u>                        |
| Total capital assets being<br>depreciated, net   | <u>71,332,541</u>                      | <u>(194,928)</u>         | <u>30,250</u>            | <u>71,107,363</u>                        |
| Total capital assets, net                        | \$ <u><u>84,788,435</u></u>            | \$ <u><u>533,110</u></u> | \$ <u><u>307,046</u></u> | \$ <u><u>85,014,499</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> |                   |
| 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>401,335</u> | \$ <u>16,146</u> | \$ <u>9,786</u>   | \$ <u>427,267</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> |                   |
| 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>132,651</u> | \$ <u>7,905</u> | \$ <u>4,086</u>  | \$ <u>144,642</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, 2016 and 2015

|                                     | <b>2016</b>  | <b>2015</b>  |
|-------------------------------------|--------------|--------------|
| Operating revenues:                 |              |              |
| Metered sales to general customers: |              |              |
| Residential                         | \$ 4,393,738 | \$ 4,365,422 |
| Commercial                          | 2,245,706    | 2,241,532    |
| Industrial                          | 1,261,564    | 1,034,706    |
| Public                              | 217,807      | 206,191      |
| Total sales to general customers    | 8,118,815    | 7,847,851    |
| Sales to other municipalities       | 2,454,372    | 2,400,450    |
| Industrial waste monitoring         | 106,414      | 100,071      |
| Engineering services                | 1,385,536    | 1,427,361    |
| Waste haulers                       | 326,726      | 263,869      |
| Penalties                           | 125,817      | 130,463      |
| Other                               | 89,652       | 86,135       |
| Total operating revenues            | 12,607,332   | 12,256,200   |
| Operating expenses:                 |              |              |
| Wastewater treatment:               |              |              |
| Operations:                         |              |              |
| Supervision and labor               | 435,363      | 410,829      |
| Chemicals                           | 551,038      | 462,481      |
| Power                               | 654,878      | 655,439      |
| Sludge handling                     | 309,612      | 434,498      |
| Maintenance:                        |              |              |
| Supervision and labor               | 293,214      | 278,673      |
| Treatment equipment                 | 278,699      | 759,305      |
| Structures and improvements         | 132,431      | 241,957      |
| Transportation expense              | 82,050       | 100,404      |
| Total wastewater treatment          | 2,737,285    | 3,343,586    |
| Collection system:                  |              |              |
| Collection                          | 398,189      | 518,617      |
| Equalization basin and pump station | 82,761       | 110,955      |
| Cleaning and inspection             | 377,989      | 440,609      |
| Lift station equipment              | 155,223      | 240,307      |
| Monitoring equipment                | 3,803        | 9,884        |
| Total collection system             | 1,017,965    | 1,320,372    |
| Laboratory operations:              |              |              |
| Labor and supplies                  | 303,615      | 282,134      |
| Industrial waste monitoring         | 58,994       | 65,228       |
| Total laboratory operations         | 362,609      | 347,362      |
| Engineering services                | 1,350,841    | 1,392,829    |
| Total operation and maintenance     | 5,468,700    | 6,404,149    |



**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, 2016 and 2015

|  | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
| General and administrative:              |              |              |
| Customer accounting and collecting:      |              |              |
| Meter reading                            | \$ 60,952    | \$ 60,249    |
| Customer records and collection          | 278,745      | 280,162      |
| Total customer accounting and collecting | 339,697      | 340,411      |
| Administrative:                          |              |              |
| Salaries                                 | 299,205      | 272,703      |
| Office supplies                          | 51,539       | 38,629       |
| Outside services                         | 319,352      | 290,718      |
| Accidents and damages                    | (6,488)      | 143,692      |
| Insurance and employee benefits          | 1,368,623    | 1,033,694    |
| Meter operation                          | 348,412      | 322,956      |
| Total administrative                     | 2,380,643    | 2,102,392    |
| Total general and administrative         | 2,720,340    | 2,442,803    |
| Depreciation                             | 2,128,003    | 2,200,467    |
| Total operating expenses                 | 10,317,043   | 11,047,419   |
| Operating income                         | \$ 2,290,289 | \$ 1,208,781 |

**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, 2016

|  | <u>Balance<br/>January 1,<br/>2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>December 31,<br/>2016</u> |
|--|--|------------------|------------------|--|
| Capital assets not being depreciated:            |  |                  |                  |  |
| Construction in progress                         | \$ 5,413                               | \$               | \$ 5,413         | \$ -                                     |
| Total capital assets not<br>being depreciated    | <u>5,413</u>                           | <u>-</u>         | <u>5,413</u>     | <u>-</u>                                 |
| Capital assets being depreciated:                |  |                  |                  |  |
| Buildings and structures                         | 76,398                                 | 10,644           | -                | 87,042                                   |
| Office furnishings, shop equipment,<br>and other | <u>832</u>                             | <u>-</u>         | <u>-</u>         | <u>832</u>                               |
| Total capital assets<br>being depreciated        | <u>77,230</u>                          | <u>10,644</u>    | <u>-</u>         | <u>87,874</u>                            |
| Less accumulated depreciation:                   |  |                  |                  |  |
| Buildings and structures                         | 20,495                                 | 3,269            | -                | 23,764                                   |
| Office furnishings, shop equipment,<br>and other | <u>832</u>                             | <u>-</u>         | <u>-</u>         | <u>832</u>                               |
| Total accumulated depreciation                   | <u>21,327</u>                          | <u>3,269</u>     | <u>-</u>         | <u>24,596</u>                            |
| Total capital assets, net                        | <u>\$ 61,316</u>                       | <u>\$ 7,375</u>  | <u>\$ 5,413</u>  | <u>\$ 63,278</u>                         |