

**NEENAH WATER UTILITY**

An Enterprise Fund of the  
City of Neenah, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2013 and 2012

# NEENAH WATER UTILITY

An Enterprise Fund of the City of Neenah, Wisconsin

## TABLE OF CONTENTS

As of and for the Years Ended December 31, 2013 and 2012

---

|  |         |
|--|---------|
| Independent Auditors' Report                                   | 1 - 3   |
| Financial Statements   |         |
| Statements of Net Position                                     | 4 - 5   |
| Statements of Revenues, Expenses, and Changes in Net Position  | 6       |
| Statements of Cash Flows                                       | 7 - 8   |
| Notes to Financial Statements                                  | 9 - 28  |
| Required Supplementary Information                             |         |
| Other Postemployment Benefits Plan - Schedule of Funded Status | 29      |
| Supplemental Information                                       |         |
| Water Utility Plant  | 30      |
| Water Utility Operating Revenues and Expenses                  | 31 - 32 |
| Rate of Return - Regulatory Basis                              | 33      |

## INDEPENDENT AUDITORS' REPORT

To the Utility Commission  
Neenah Water Utility  
Neenah, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Neenah Water Utility, an enterprise fund of the City of Neenah, Wisconsin, as of and for the years ended December 31, 2013 and 2012, and the related notes to the 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 Neenah Water Utility'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 Neenah Water Utility'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.

To the Utility Commission  
Neenah Water Utility

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neenah Water Utility as of December 31, 2013 and 2012, 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 Neenah Water Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Neenah, Wisconsin, as of December 31, 2013 and 2012 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. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, Neenah Water Utility adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

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

To the Utility Commission  
Neenah Water Utility

*Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental utility plant, operating revenues and expenses, and rate of return - regulatory basis schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental utility plant, operating revenues and expenses, and rate of return - regulatory basis schedules are fairly stated in all material respects in relation to the financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
July 7, 2014

# NEENAH WATER UTILITY

## STATEMENTS OF NET POSITION As of December 31, 2013 and 2012

|                                       | <b>ASSETS</b> |  | <u>2013</u>         | <u>2012</u>         |
|---------------------------------------|---------------|--|---------------------|---------------------|
| <b>CURRENT ASSETS</b>                 |               |  |                     |                     |
| Cash and investments                  |               |  | \$ 2,555,854        | \$ 2,756,025        |
| Restricted Assets                     |               |  |                     |                     |
| Redemption account                    |               |  | 1,053,911           | 1,042,626           |
| Customer accounts receivable          |               |  | 806,083             | 832,795             |
| Unbilled revenues                     |               |  | 943,456             | 1,012,295           |
| Other accounts receivable             |               |  | 4,332               | 1,349               |
| Materials and supplies                |               |  | 119,549             | 123,958             |
| Prepayments                           |               |  | 2,368               | 1,273               |
| Other current assets                  |               |  | <u>569</u>          | <u>569</u>          |
| Total Current Assets                  |               |  | <u>5,486,122</u>    | <u>5,770,890</u>    |
| <b>NONCURRENT ASSETS</b>              |               |  |                     |                     |
| Restricted Assets                     |               |  |                     |                     |
| Reserve account                       |               |  | 987,216             | 1,148,764           |
| Depreciation account                  |               |  | 250,000             | 250,000             |
| Interest receivable                   |               |  | 418                 | 439                 |
| Other Assets                          |               |  |                     |                     |
| Other special funds                   |               |  | 1,701,131           | 1,527,398           |
| Unamortized debt issuance costs       |               |  | -                   | 158,336             |
| Unamortized loss on retirement        |               |  | 387,175             | 516,234             |
| Capital Assets                        |               |  |                     |                     |
| Plant in service                      |               |  | 59,816,609          | 59,029,234          |
| Accumulated depreciation              |               |  | <u>(13,342,900)</u> | <u>(11,973,382)</u> |
| Total Noncurrent Assets               |               |  | <u>49,799,649</u>   | <u>50,657,023</u>   |
| Total Assets                          |               |  | <u>55,285,771</u>   | <u>56,427,913</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> |               |  |                     |                     |
| Unamortized loss on advance refunding |               |  | <u>126,508</u>      | <u>144,652</u>      |

| <b>LIABILITIES</b>                                 |  | <u>2013</u>              | <u>2012</u>              |
|--|--|--------------------------|--------------------------|
| <b>CURRENT LIABILITIES</b>                         |  |                          |                          |
| Accounts payable                                   |  | \$ 74,336                | \$ 91,892                |
| Due to other funds                                 |  | 1,093,330                | 1,097,696                |
| Accrued vacation                                   |  | 17,784                   | 20,761                   |
| Other current liabilities                          |  | 66,449                   | 59,125                   |
| Current Liabilities Payable from Restricted Assets |  |                          |                          |
| Current portion of revenue bonds                   |  | 2,415,418                | 2,280,028                |
| Accrued interest                                   |  | <u>85,299</u>            | <u>103,024</u>           |
| Total Current Liabilities                          |  | <u>3,752,616</u>         | <u>3,652,526</u>         |
| <b>NONCURRENT LIABILITIES</b>                      |  |                          |                          |
| Revenue bonds                                      |  | 22,270,691               | 24,861,109               |
| Unamortized debt premium                           |  | 160,669                  | 84,625                   |
| Accrued sick leave                                 |  | 124,557                  | 155,065                  |
| Unearned revenues                                  |  | 7,000                    | 8,063                    |
| Other post employment benefits                     |  | <u>25,280</u>            | <u>20,253</u>            |
| Total Noncurrent Liabilities                       |  | <u>22,588,197</u>        | <u>25,129,115</u>        |
| <br>Total Liabilities                              |  | <br><u>26,340,813</u>    | <br><u>28,781,641</u>    |
| <b>NET POSITION</b>                                |  |                          |                          |
| Net investment in capital assets                   |  | 22,740,655               | 21,281,842               |
| Restricted for:                                    |  |                          |                          |
| Debt service                                       |  | 969,030                  | 940,041                  |
| Depreciation                                       |  | 250,000                  | 250,000                  |
| Unrestricted                                       |  | <u>5,111,781</u>         | <u>5,319,041</u>         |
| <br>TOTAL NET POSITION                             |  | <br><u>\$ 29,071,466</u> | <br><u>\$ 27,790,924</u> |

See accompanying notes to the financial statements.

## NEENAH WATER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

|   | 2013                        | 2012                        |
|---|-----------------------------|-----------------------------|
| <b>OPERATING REVENUES</b>                 |                             |                             |
| Sales of water                            | \$ 8,055,283                | \$ 8,860,202                |
| Other                                     | <u>287,767</u>              | <u>283,619</u>              |
| Total Operating Revenues                  | <u>8,343,050</u>            | <u>9,143,821</u>            |
| <b>OPERATING EXPENSES</b>                 |                             |                             |
| Operation and maintenance                 | 3,304,263                   | 3,176,012                   |
| Depreciation                              | 1,558,628                   | 1,548,331                   |
| Amortization of loss on retirement        | <u>129,059</u>              | <u>129,059</u>              |
| Total Operating Expenses                  | <u>4,991,950</u>            | <u>4,853,402</u>            |
| <b>OPERATING INCOME</b>                   | <u>3,351,100</u>            | <u>4,290,419</u>            |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                             |                             |
| Investment income                         | 18,797                      | 27,406                      |
| Loss on investments                       | (23,401)                    | (3,878)                     |
| Income from merchandising and jobbing     | 3,607                       | 8,529                       |
| Loss on sale of fixed assets              | (5,448)                     | (1,908)                     |
| Interest expense                          | (720,218)                   | (847,524)                   |
| Debt issuance costs                       | (227,448)                   | (16,986)                    |
| Amortization of loss on advance refunding | (18,144)                    | (15,104)                    |
| Amortization of debt premium              | <u>9,524</u>                | <u>5,151</u>                |
| Total Nonoperating Revenues (Expenses)    | <u>(962,731)</u>            | <u>(844,314)</u>            |
| Income Before Contributions and Transfers | 2,388,369                   | 3,446,105                   |
| <b>CAPITAL CONTRIBUTIONS</b>              | 17,777                      | (287,447)                   |
| <b>TRANSFER IN (OUT)</b>                  | (32,274)                    | (32,278)                    |
| <b>TRANSFERS - TAX EQUIVALENT</b>         | <u>(1,093,330)</u>          | <u>(1,097,696)</u>          |
| <b>CHANGE IN NET POSITION</b>             | 1,280,542                   | 2,028,684                   |
| NET POSITION - Beginning of Year          | <u>27,790,924</u>           | <u>25,762,240</u>           |
| <b>NET POSITION - END OF YEAR</b>         | <u><u>\$ 29,071,466</u></u> | <u><u>\$ 27,790,924</u></u> |

See accompanying notes to the financial statements.

# NEENAH WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

|   | 2013         | 2012         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |              |              |
| Received from customers   | \$ 8,521,174 | \$ 9,299,723 |
| Customer deposits received (returned)                           | -            | (49,327)     |
| Paid to suppliers for goods and services                        | (2,291,678)  | (2,043,450)  |
| Paid to employees for operating payroll                         | (1,014,853)  | (1,075,193)  |
| Net Cash Flows From Operating Activities                        | 5,214,643    | 6,131,753    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |              |              |
| Paid to municipality for tax equivalent                         | (1,097,696)  | (1,028,921)  |
| Transfers to other funds  | (32,274)     | (32,278)     |
| Net Cash Flows From Noncapital Financing Activities             | (1,129,970)  | (1,061,199)  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |              |              |
| Acquisition and construction of capital assets                  | (1,094,056)  | (802,223)    |
| Proceeds from sale of fixed assets                              | -            | 42,500       |
| Capital contributions received                                  | 13,780       | 4,110        |
| Paid to developer   | -            | (272,246)    |
| Debt retired  | (6,000,028)  | (4,135,339)  |
| Interest paid   | (737,943)    | (855,626)    |
| Proceeds from debt issue  | 3,545,000    | 1,350,000    |
| Debt issuance costs   | (69,112)     | (41,251)     |
| Premium on debt issue   | 85,568       | 41,473       |
| Net Cash Flows From Capital and Related Financing Activities    | (4,256,791)  | (4,668,602)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |              |              |
| Investments sold and matured                                    | 71,312       | 313,400      |
| Investment income   | 18,818       | 25,976       |
| Net Cash Flows From Investing Activities                        | 90,130       | 339,376      |
| <b>Net Change in Cash and Cash Equivalents</b>                  | (81,988)     | 741,328      |
| CASH AND CASH EQUIVALENTS - Beginning of Year                   | 6,092,451    | 5,351,123    |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                  | \$ 6,010,463 | \$ 6,092,451 |
| <b>NONCASH CAPITAL, FINANCING AND INVESTING ACTIVITIES</b>      |              |              |
| Developer financed additions to utility plant                   | \$ 3,997     | \$ 6,489     |
| Credit received for amount paid to developer                    | \$ -         | \$ (25,800)  |
| Unrealized loss on investments                                  | \$ 23,401    | \$ 3,878     |
| Debt issuance costs written off                                 | \$ 158,336   | \$ -         |

|   | <u>2013</u>         | <u>2012</u>         |
|---|---------------------|---------------------|
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b> |                     |                     |
| <b>FLAWS FROM OPERATING ACTIVITIES</b>                |                     |                     |
| Operating income                                      | \$ 3,351,100        | \$ 4,290,419        |
| Nonoperating revenue (expense)                        | 3,607               | 8,529               |
| Noncash items in operating income                     |                     |                     |
| Depreciation  | 1,558,628           | 1,548,331           |
| Depreciation charged to clearing and other utilities  | 115,165             | 113,288             |
| Amortization of loss on retirement                    | 129,059             | 129,059             |
| Changes in assets and liabilities                     |                     |                     |
| Customer accounts receivable                          | 95,551              | 56,184              |
| Other accounts receivable                             | (2,983)             | 2,350               |
| Materials and supplies                                | 4,409               | (2,248)             |
| Prepayments and other assets                          | (1,095)             | 498                 |
| Accounts payable                                      | (16,601)            | 5,877               |
| Customer deposits                                     | -                   | (49,327)            |
| Accrued sick and vacation                             | (33,485)            | 10,928              |
| Other current liabilities                             | 7,324               | 6,050               |
| Unearned revenue                                      | (1,063)             | 8,063               |
| Other post employment benefits                        | 5,027               | 3,752               |
|   | <u>\$ 5,214,643</u> | <u>\$ 6,131,753</u> |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>       |                     |                     |
| <br>  |                     |                     |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b> |                     |                     |
| <b>STATEMENTS OF NET POSITION ACCOUNTS</b>            |                     |                     |
| Cash and investments                                  | \$ 2,555,854        | \$ 2,756,025        |
| Redemption account                                    | 1,053,911           | 1,042,626           |
| Reserve account                                       | 987,216             | 1,148,764           |
| Depreciation account                                  | 250,000             | 250,000             |
| Other special funds                                   | <u>1,701,131</u>    | <u>1,527,398</u>    |
| Total Cash and Investments                            | 6,548,112           | 6,724,813           |
| Less: Noncash equivalents                             | <u>(537,649)</u>    | <u>(632,362)</u>    |
|   | <u>\$ 6,010,463</u> | <u>\$ 6,092,451</u> |
| <b>CASH AND CASH EQUIVALENTS</b>                      |                     |                     |

See accompanying notes to the financial statements.

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

---

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

The financial statements of Neenah Water Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below.

### ***REPORTING ENTITY***

The utility is a separate enterprise fund of the City of Neenah (municipality). The utility is managed by a utility commission. The utility provides water service to properties within the municipality.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW).

### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In March 2012, the GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The utility implemented this standard effective January 1, 2013.

Preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***ASSETS, LIABILITIES AND NET POSITION***

#### ***Deposits and Investments***

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

---

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### *ASSETS, LIABILITIES AND NET POSITION (cont.)*

#### *Deposits and Investments (cont.)*

Investment of utility funds is restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing 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 the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The local government investment pool.
- > Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- > Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- > Repurchase agreements with public depositories, with certain conditions.

The utility has adopted an investment policy. That policy follows these guidelines for allowable investments.

Investments are stated 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. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

#### *Receivables/Payables*

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

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

#### *Materials and Supplies*

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

#### *Restricted Assets*

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

---

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

### *ASSETS, LIABILITIES AND NET POSITION (cont.)*

#### *Other Special Funds*

The commission has approved the segregation of resources as reserves for future costs related to non-routine maintenance of facilities.

#### *Anticipated Future Special Assessments*

At December 31, 2013 there were \$416,238 of anticipated future assessments which are not reported as receivables because collection is subject to certain events occurring in the future and no formal repayment schedule has been established.

#### *Capital Assets*

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

|                               | <u>Years</u> |
|-------------------------------|--------------|
| Water Plant                   |              |
| Source of supply              | 59           |
| Pumping                       | 23 - 43      |
| Water treatment               | 29 - 31      |
| Transmission and distribution | 18 - 77      |
| General                       | 4 - 34       |

#### *Accrued Vacation and Sick Leave*

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

#### *Deferred Loss on Retirement*

In 2011, the utility obtained approval from the PSCW to recognize a loss related to amounts recorded as plant in service that were not fully depreciated when retired. This loss will be amortized over five years, starting in 2012.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### *ASSETS, LIABILITIES AND NET POSITION (cont.)*

##### *Long-Term Obligations*

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums is shown as an increase in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

##### *REVENUES AND EXPENSES*

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### *Charges for Services*

Billings are rendered and recorded monthly based on metered usage. The utility does accrue revenues beyond billing dates.

Current water rates were approved by the PSCW on November 2010 and placed into effect January 1, 2011.

##### *Capital Contributions*

Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net position.

##### *EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS*

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

##### *COMPARATIVE DATA*

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### **NOTE 2 - DEPOSITS AND INVESTMENTS**

|                        | Carrying Value as of<br>December 31, |                     | Risks  |
|------------------------|--------------------------------------|---------------------|--|
|                        | 2013                                 | 2012                |  |
| Checking and savings   | \$ 966,314                           | \$ 2,740,022        | Custodial credit risk  |
| Money market           | 180,757                              | 180,764             | Custodial credit risk  |
| LGIP                   | 4,863,193                            | 3,171,465           | Credit risk  |
| U.S. agency securities | 537,648                              | 632,362             | Custodial credit risk, credit risk, concentration of credit risk, interest rate risk |
| Petty cash             | <u>200</u>                           | <u>200</u>          | None   |
| Totals                 | <u>\$ 6,548,112</u>                  | <u>\$ 6,724,813</u> |  |

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

In addition, the utility and other funds of the city maintain collateral agreements with Associated Bank, Bank Mutual, and Great Bank Trust Company.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2013 and 2012, the fair value of the LGIP's assets were substantially equal to the utility's share.

#### ***Custodial Credit Risk***

##### **Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### *Custodial Credit Risk* (cont.)

#### **Deposits** (cont.)

The utility maintains certain deposits in the same institutions as the municipality. The following is a summary of the utility's total deposit balances at these institutions.

|                  | 2013            |                   | 2012            |                   |
|------------------|-----------------|-------------------|-----------------|-------------------|
|                  | Bank<br>Balance | Carrying<br>Value | Bank<br>Balance | Carrying<br>Value |
| Local/area banks | (A)             | \$ 1,147,071      | (A)             | \$ 2,920,786      |

(A) The utility's cash and investments are co-mingled with the entire municipality. Therefore, the utility's individual bank balances cannot be determined.

The city's investment policy requires full collateralization of deposits where allowed by state law.

#### **Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility does not have any investments exposed to custodial credit risk.

The city's investment policy does not address this risk.

#### ***Credit Risk***

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2013 and 2012, the utility's investments were rated as follows:

| Investment Type                     | Moody's<br>Investors<br>Services |
|-------------------------------------|----------------------------------|
| U.S. Agencies Implicitly Guaranteed | Aaa                              |

The utility also held investments in the Local Government Investment Pool which is not rated.

The city's investment policy addresses this risk. The City of Neenah will minimize credit risk, which is the risk of loss due to failure of the security issuer or backer, by limiting investments to types of securities listed within the policy; pre-qualifying financial institutions, brokers/dealers, intermediaries and advisors, and; diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### **NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)**

#### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2013 and 2012, the utility's investment portfolio was concentrated as follows:

| Issuer | Investment Type                     | Percentage of Portfolio |        |
|--------|-------------------------------------|-------------------------|--------|
|        |                                     | 2013                    | 2012   |
| FHLB   | U.S. Agencies Implicitly Guaranteed | 4.24%                   | 12.53% |

The city's investment policy addresses this risk. The City of Neenah will minimize credit risk, which is the risk of loss due to failure of the security issuer or backer, by limiting investments to types of securities listed within the policy; pre-qualifying financial institutions, brokers/dealers, intermediaries and advisors, and; diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

#### ***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2013, the utility's investments were as follows:

| Investment Type                     | Fair Value | Maturity (In Years) |             |                         |
|-------------------------------------|------------|---------------------|-------------|-------------------------|
|                                     |            | Less than 1<br>Year | 1 - 5 Years | Greater than 5<br>Years |
| U.S. Agencies Implicitly Guaranteed | \$ 537,649 | \$ -                | \$ 75,619   | \$ 462,030              |

As of January 01, 2012, the utility's investments were as follows:

| Investment Type                     | Fair Value | Maturity (In Years) |             |                         |
|-------------------------------------|------------|---------------------|-------------|-------------------------|
|                                     |            | Less than 1<br>Year | 1 - 5 Years | Greater than 5<br>Years |
| U.S. Agencies Implicitly Guaranteed | \$ 632,362 | \$ -                | \$ -        | \$ 632,362              |

The city's investment policy addresses this risk. The City of Neenah will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

## NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### **NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a schedule of interfund balances for the years ending December 31, 2013 and 2012:

| Due To       | Due From      | 2013         |                   | 2012         |                   |
|--------------|---------------|--------------|-------------------|--------------|-------------------|
|              |               | Amount       | Principal Purpose | Amount       | Principal Purpose |
| Municipality | Water Utility | \$ 1,093,330 | Tax equivalent    | \$ 1,097,696 | Tax equivalent    |

The following is a schedule of transfer balances for the years ending December 31, 2013 and 2012:

| To           | From          | 2013         |                           | 2012         |                           |
|--------------|---------------|--------------|---------------------------|--------------|---------------------------|
|              |               | Amount       | Principal Purpose         | Amount       | Principal Purpose         |
| Municipality | Water Utility | \$ 1,093,330 | Tax equivalent            | \$ 1,097,696 | Tax equivalent            |
| Municipality | Water Utility | 32,274       | Return on city investment | 32,278       | Return on city investment |

### **NOTE 4 - RESTRICTED ASSETS**

#### ***Restricted Accounts***

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### **NOTE 4 - RESTRICTED ASSETS (cont.)**

#### *Restricted Net Position*

The following calculation supports the amount of water restricted net position:

|  | 2013         | 2012         |
|--|--------------|--------------|
| Restricted Assets                                  |              |              |
| Redemption account                                 | \$ 1,053,911 | \$ 1,042,626 |
| Reserve account                                    | 987,216      | 1,148,764    |
| Depreciation account                               | 250,000      | 250,000      |
| Interest receivable                                | 418          | 439          |
| Total Restricted Assets                            | 2,291,545    | 2,441,829    |
| Less: Restricted Assets Not Funded by Revenues     |              |              |
| Reserve from borrowing                             | (987,216)    | (1,148,764)  |
| Current Liabilities Payable From Restricted Assets | (85,299)     | (103,024)    |
| Total Restricted Net Position as Calculated        | \$ 1,219,030 | \$ 1,190,041 |

The purpose of the restricted net position is as follows:

|              | 2013         | 2012         |
|--------------|--------------|--------------|
| Debt service | \$ 969,030   | \$ 940,041   |
| Depreciation | 250,000      | 250,000      |
| Totals       | \$ 1,219,030 | \$ 1,190,041 |

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

## NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in water capital assets for 2013 follows:

|  | Balance<br>1/1/13 | Increases   | Decreases | Balance<br>12/31/13 |
|--|-------------------|-------------|-----------|---------------------|
| Capital assets, not being depreciated  |                   |             |           |                     |
| Land and land rights                   | \$ 122,180        | \$ -        | \$ -      | \$ 122,180          |
| Capital assets being depreciated       |                   |             |           |                     |
| Source of supply                       | 130,978           | -           | -         | 130,978             |
| Pumping                                | 3,384,153         | -           | -         | 3,384,153           |
| Water treatment                        | 23,848,486        | -           | -         | 23,848,486          |
| Transmission and distribution          | 29,480,178        | 1,097,100   | 309,725   | 30,267,553          |
| General                                | 2,063,259         | -           | -         | 2,063,259           |
| Total Capital Assets Being Depreciated | 58,907,054        | 1,097,100   | 309,725   | 59,694,429          |
| Total Capital Assets                   | 59,029,234        | 1,097,100   | 309,725   | 59,816,609          |
| Less: Accumulated depreciation         |                   |             |           |                     |
| Source of supply                       | (128,371)         | (2,227)     | -         | (130,598)           |
| Pumping                                | (862,403)         | (107,733)   | -         | (970,136)           |
| Water treatment                        | (6,010,195)       | (805,842)   | 162       | (6,815,875)         |
| Transmission and distribution          | (3,700,993)       | (599,002)   | 309,725   | (3,990,270)         |
| General                                | (1,271,420)       | (164,601)   | -         | (1,436,021)         |
| Total Accumulated Depreciation         | (11,973,382)      | (1,679,405) | 309,887   | (13,342,900)        |
| Net Capital Assets                     | \$ 47,055,852     |             |           | \$ 46,473,709       |

## NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

*Water Utility* (cont.)

A summary of changes in water capital assets for 2012 follows:

|   | Balance<br>1/1/12 | Increases   | Decreases | Balance<br>12/31/12 |
|---|-------------------|-------------|-----------|---------------------|
| Capital assets, not being depreciated     |                   |             |           |                     |
| Land and land rights                      | \$ 122,180        | \$ -        | \$ -      | \$ 122,180          |
| Capital assets being depreciated          |                   |             |           |                     |
| Source of supply                          | 130,978           | -           | -         | 130,978             |
| Pumping                                   | 3,384,153         | -           | -         | 3,384,153           |
| Water treatment                           | 23,848,486        | -           | -         | 23,848,486          |
| Transmission and distribution             | 29,089,906        | 669,507     | 279,235   | 29,480,178          |
| General                                   | 2,064,370         | 117,062     | 118,173   | 2,063,259           |
| Total Capital Assets Being<br>Depreciated | 58,517,893        | 786,569     | 397,408   | 58,907,054          |
| Total Capital Assets                      | 58,640,073        | 786,569     | 397,408   | 59,029,234          |
| Less: Accumulated depreciation            |                   |             |           |                     |
| Source of supply                          | (126,144)         | (2,227)     | -         | (128,371)           |
| Pumping                                   | (754,674)         | (107,729)   | -         | (862,403)           |
| Water treatment                           | (5,204,192)       | (806,003)   | -         | (6,010,195)         |
| Transmission and distribution             | (3,399,599)       | (580,629)   | 279,235   | (3,700,993)         |
| General                                   | (1,178,133)       | (213,181)   | 119,894   | (1,271,420)         |
| Total Accumulated Depreciation            | (10,662,742)      | (1,709,769) | 399,129   | (11,973,382)        |
| Construction in progress                  | 681               | -           | 681       | -                   |
| Net Capital Assets                        | \$ 47,978,012     |             |           | \$ 47,055,852       |

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

## NOTE 6 - LONG-TERM OBLIGATIONS

### *Revenue Bonds*

The following bonds have been issued:

| Date       | Purpose                                   | Final Maturity | Interest Rate | Original Amount | Outstanding Amount<br>12/31/13 |
|------------|---|----------------|---------------|-----------------|--------------------------------|
| 4/27/2005  | Water treatment plant                     | 5/1/2024       | 2.365%        | \$ 16,666,667   | \$ 10,621,717                  |
| 11/15/2004 | Advance refund 1996, 1998, and 2000 bonds | 12/1/2017      | 2.50-3.90     | 4,210,000       | 1,430,000                      |
| 7/1/2003   | Capital improvements                      | 12/1/2022      | 2.00-4.00     | 6,000,000       | -                              |
| 6/1/2007   | Capital Improvements                      | 12/1/2026      | 4.00-4.125    | 2,345,000       | 1,710,000                      |
| 1/25/2006  | Water treatment plant                     | 5/1/2025       | 2.365         | 8,788,354       | 6,279,392                      |
| 9/26/2012  | Refund 2001 and 2002 bonds                | 12/1/2021      | 2.12          | 1,350,000       | 1,100,000                      |
| 12/2/2013  | Refund 2003 bonds                         | 12/1/2021      | 2.00-2.50     | 3,545,000       | 3,545,000                      |

Revenue bonds debt service requirements to maturity follows:

| Year Ending<br>December 31 | Principal            | Interest            | Total                |
|----------------------------|----------------------|---------------------|----------------------|
| 2014                       | \$ 2,415,418         | \$ 608,530          | \$ 3,023,948         |
| 2015                       | 2,531,529            | 544,463             | 3,075,992            |
| 2016                       | 2,293,373            | 478,636             | 2,772,009            |
| 2017                       | 2,360,972            | 420,181             | 2,781,153            |
| 2018                       | 2,134,342            | 359,559             | 2,493,901            |
| 2019                       | 2,183,501            | 307,446             | 2,490,947            |
| 2020                       | 2,238,467            | 255,410             | 2,493,877            |
| 2021                       | 2,294,260            | 199,481             | 2,493,741            |
| 2022                       | 1,725,901            | 142,239             | 1,868,140            |
| 2023                       | 1,768,407            | 98,514              | 1,866,921            |
| 2024                       | 1,816,801            | 53,685              | 1,870,486            |
| 2025                       | 753,138              | 20,627              | 773,765              |
| 2026                       | 170,000              | 7,013               | 177,013              |
| <b>Totals</b>              | <b>\$ 24,686,109</b> | <b>\$ 3,495,784</b> | <b>\$ 28,181,893</b> |

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2013 and 2012 were \$3,015,008 and \$2,957,001, respectively (excluding amounts refunded). Total customer gross revenues as defined for the same periods were \$8,365,454 and \$9,179,756. Annual principal and interest payments are expected to require 26% of gross revenues on average.

## NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### *Long-Term Obligations Summary*

Long-term obligation activity for the year ended December 31, 2013 is as follows:

|                                | 1/1/13<br>Balance           | Additions                  | Reductions                 | 12/31/13<br>Balance         | Due Within<br>One Year     |
|--------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| Revenue bonds                  | \$ 27,141,137               | \$ 3,545,000               | \$ 6,000,028               | \$ 24,686,109               | \$ 2,415,418               |
| Accrued sick leave             | 155,065                     | 47,737                     | 78,245                     | 124,557                     | -                          |
| Unamortized debt premium       | 84,625                      | 85,568                     | 9,524                      | 160,669                     | 19,329                     |
| Unearned revenues              | 8,063                       | -                          | 1,063                      | 7,000                       | -                          |
| Other post employment benefits | 20,253                      | 5,027                      | -                          | 25,280                      | -                          |
| <b>Totals</b>                  | <b><u>\$ 27,409,143</u></b> | <b><u>\$ 3,683,332</u></b> | <b><u>\$ 6,088,860</u></b> | <b><u>\$ 25,003,615</u></b> | <b><u>\$ 2,434,747</u></b> |

Long-term obligation activity for the year ended December 31, 2012 is as follows:

|                                | 1/1/12<br>Balance           | Additions                  | Reductions                 | 12/31/12<br>Balance         | Due Within<br>One Year     |
|--------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| Revenue bonds                  | \$ 29,926,476               | \$ 1,350,000               | \$ 4,135,339               | \$ 27,141,137               | \$ 2,280,028               |
| Accrued sick leave             | 146,876                     | 51,327                     | 43,138                     | 155,065                     | -                          |
| Unamortized debt premium       | 48,303                      | 41,473                     | 5,151                      | 84,625                      | 8,633                      |
| Unearned revenues              | -                           | 8,063                      | -                          | 8,063                       | -                          |
| Other post employment benefits | 16,501                      | 3,752                      | -                          | 20,253                      | -                          |
| <b>Totals</b>                  | <b><u>\$ 30,138,156</u></b> | <b><u>\$ 1,454,615</u></b> | <b><u>\$ 4,183,628</u></b> | <b><u>\$ 27,409,143</u></b> | <b><u>\$ 2,288,661</u></b> |

#### *Current Refunding*

On December 2, 2013, bonds in the amount of \$3,545,000 were issued with an average interest rate of 2.13% to refund \$3,720,000 of outstanding 2003 bonds with an average interest rate of 3.46%. The net proceeds of \$3,722,964 (after payment of \$69,112 in underwriting fees, and other issuance costs) plus an additional \$161,508 of sinking fund monies were used to prepay the outstanding debt service requirements on the bonds.

The cash flow requirements on the 2003 bonds prior to the current refunding was \$4,449,525 from December 2, 2013 through 2022. The cash flow requirements on the new bonds are \$3,909,940 from 2013 through 2021. The current refunding resulted in an economic gain of \$290,011.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

---

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

---

#### *Current Refunding* (cont.)

On September 26, 2012, bonds in the amount of \$1,350,000 were issued with an average interest rate of 2.12 % to refund \$2,035,000 of outstanding 2001 and 2002 bonds with an average interest rate of 4.13 %. The net proceeds of \$1,391,473 (after payment of \$41,250 in underwriting fees, and other issuance costs) plus an additional \$853,637 of sinking fund monies were used to prepay the outstanding debt service requirements on the bonds.

The cash flow requirements on the 2001 and 2002 bonds prior to the current refunding was \$2,449,653 from 2012 through 2022. The cash flow requirements on the new bonds are \$1,480,292 from 2013 through 2021. The current refunding resulted in an economic gain of \$205,479.

#### *Bond Covenant Disclosures*

The following information is provided in compliance with the resolution creating the revenue bonds:

#### *Insurance*

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

The utility is covered under the following insurance policies at December 31, 2013:

| <u>Type</u>  | <u>Coverage</u> | <u>Expiration</u> |
|--|-----------------|-------------------|
| <i>Insurance Company of the State of Pennsylvania and<br/>the Cities and Villages Mutual Insurance Company</i> |                 |                   |
| General Liability  | \$ 5,000,000    | 1/1/2014          |
| Excess Public Liability  | 8,000,000       | 1/1/2014          |
| Automobile   | 10,000,000      | 1/1/2014          |
| <i>Local Government Property Insurance Fund</i>  |                 |                   |
| Property (entire city)   | \$136,081,627   | 4/4/2014          |

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

## NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

### *Bond Covenant Disclosures (cont.)*

#### *Debt Coverage*

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.25 times the subsequent year's annual debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2013 and 2012 as follows:

|   | 2013             | 2012             |
|---|------------------|------------------|
| Operating revenues                            | \$ 8,343,050     | \$ 9,143,821     |
| Investment income                             | 18,797           | 27,406           |
| Miscellaneous nonoperating income             | 3,607            | 8,529            |
| Less: Operation and maintenance expenses      | (3,304,263)      | (3,176,012)      |
| <br>Net Defined Earnings                      | <br>\$ 5,061,191 | <br>\$ 6,003,744 |
| <br>Minimum Required Earnings per Resolution: |                  |                  |
| Subsequent year annual debt service           | \$ 3,023,948     | \$ 3,015,008     |
| Coverage factor                               | 1.25             | 1.25             |
| <br>Minimum Required Earnings                 | <br>\$ 3,779,935 | <br>\$ 3,768,760 |
| <br>Actual Debt Coverage                      | <br>1.67         | <br>1.99         |

#### *Number of Customers and Billed Volumes - Water*

The utility has the following number of customers and billed volumes for 2013 and 2012:

|                  | Customers  |            | Sales (000 gals) |               |
|------------------|------------|------------|------------------|---------------|
|                  | 2013       | 2012       | 2013             | 2012          |
| Residential      | 9,606      | 9,546      | 409,851          | 444,411       |
| Commercial       | 743        | 745        | 181,081          | 189,406       |
| Industrial       | 89         | 92         | 321,059          | 468,804       |
| Public authority | 56         | 55         | 20,810           | 25,538        |
| <br>Totals       | <br>10,494 | <br>10,438 | <br>932,801      | <br>1,128,159 |

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

### NOTE 7 - NET POSITION

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

**Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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

The following calculation supports the water net investment in capital assets:

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| Plant in service                                      | \$ 59,816,609        | \$ 59,029,234        |
| Accumulated depreciation                              | <u>(13,342,900)</u>  | <u>(11,973,382)</u>  |
| Sub-Totals  | <u>46,473,709</u>    | <u>47,055,852</u>    |
| Less: Capital related debt                            |                      |                      |
| Current portion of capital related long-term debt     | 2,415,418            | 2,280,028            |
| Long-term portion of capital related long-term debt   | 22,270,691           | 24,861,109           |
| Unamortized debt issuance costs funded with borrowing | -                    | (158,336)            |
| Unamortized debt premium                              | 160,669              | 84,625               |
| Unamortized loss on advance refunding                 | <u>(126,508)</u>     | <u>(144,652)</u>     |
| Sub-Totals  | <u>24,720,270</u>    | <u>26,922,774</u>    |
| Add: Unspent debt proceeds                            |                      |                      |
| Reserve from borrowing                                | <u>987,216</u>       | <u>1,148,764</u>     |
| Total Net Investment in Capital Assets                | <u>\$ 22,740,655</u> | <u>\$ 21,281,842</u> |

# NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

## **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM**

All eligible employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. 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 and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category 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. Contribution rates for 2013 and 2012 are:

| <u>2013</u>                    | <u>Employees</u> | <u>Employer</u> |
|--------------------------------|------------------|-----------------|
| General                        | 6.65%            | 6.65%           |
| Executives & Elected Officials | 7.05%            | 7.05%           |
|                                |                  |                 |
| <u>2012</u>                    | <u>Employees</u> | <u>Employer</u> |
| General                        | 5.9%             | 5.9%            |
| Executives & Elected Officials | 7.05%            | 7.05%           |

Covered payroll listed below is substantially the same as total payroll.

|                                | <u>Year Ended December 31</u> |                     |                     |
|--------------------------------|-------------------------------|---------------------|---------------------|
|                                | <u>2013</u>                   | <u>2012</u>         | <u>2011</u>         |
| Total Covered Employee Payroll | <u>\$ 1,015,000</u>           | <u>\$ 1,066,000</u> | <u>\$ 1,023,000</u> |
| Total Required Contributions   | <u>\$ 134,976</u>             | <u>\$ 126,000</u>   | <u>\$ 119,000</u>   |
| Total Required Contributions   | <u>13.3%</u>                  | <u>11.8%</u>        | <u>11.6%</u>        |

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

## **NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS**

The utility is part of the city's group health insurance plan which provides coverage to active employees and retirees at blended premium rates. This results in a postemployment benefit (OPEB) for retirees, commonly referred to as an implicit rate subsidy.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the city and the union. The retirees pay 100% of the premium amounts under the plan.

## NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

The city's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actually determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is protected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the utility's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the utility's net OPEB obligation to the Retiree Health Plan:

|   | 2013      | 2012      |
|---|-----------|-----------|
| Annual required contribution                | \$ 9,732  | \$ 9,813  |
| Contributions made                          | (4,705)   | (6,061)   |
| Increase in net OPEB obligation             | 5,027     | 3,752     |
| <br>Net OPEB Obligation - Beginning of Year | 20,253    | 16,501    |
| <br>Net OPEB Obligation - End of Year       | \$ 25,280 | \$ 20,253 |

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2013 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 2013              | \$ 9,732         | 48%  | \$ 25,280           |
| 2012              | 9,813            | 62   | 20,253              |
| 2011              | 11,655           | 48   | 16,501              |

The funded status of the city's plan as of January 1, 2012, the most recent actuarial valuation date, was as follows:

|   |               |
|---|---------------|
| Actuarial accrued liability (AAL)                 | \$ 1,058,510  |
| Actuarial value of plan assets                    | -             |
| Unfunded Actuarial Accrued Liability (UAAL)       | \$ 1,058,510  |
| Funded ratio (actuarial value of plan assets/AAL) | -%            |
| Covered payroll (active plan members)             | \$ 11,088,099 |
| UAAL as a percentage of covered payroll           | 10%           |

This information is provided for the city as a whole and does not separate the utility's proportionate share.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

---

### **NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)**

---

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 as 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 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 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4 % investment rate of return and an annual healthcare cost trend rate of 16 % initially, reduced by decrements to an ultimate rate of 6 % after 13 years. Both rates include a 4 % inflation assumption. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The initial amortization period was 30 years.

---

### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

---

#### ***Claims and Judgments***

From time to time, the utility is party to various pending 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 legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations.

---

### **NOTE 11 - RISK MANAGEMENT**

---

#### ***Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC)***

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment, and capitalization of the CVMIC, and has numerous municipalities as members.

The CVMIC is a municipal mutual insurance company established on September 14, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the municipalities which make up the membership of the WMIC.

# NEENAH WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

---

### **NOTE 11 - RISK MANAGEMENT (cont.)**

---

#### ***Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC) (cont.)***

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities. The municipality's share of such losses is approximately 1%.

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The municipality does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC can be obtained directly from CVMIC's offices.

## NEENAH WATER UTILITY

### OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDED STATUS For the Year Ended December 31, 2013

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule below represents the City of Neenah as a whole, and does not separate Neenah Water Utility's proportionate share.

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial Accrued<br>Liability (AAL)<br>Projected Unit | Unfunded<br>AAL (UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |       |
|--------------------------------|---------------------------------|--|------------------------|-----------------|--------------------|--|-------|
| 1/1/12                         | \$                              | - \$   | 1,058,510              | \$ 1,058,510    | 0%                 | \$ 11,088,099                                    | 9.5%  |
| 1/1/10                         |                                 | -  | 1,279,401              | 1,279,401       | 0%                 | 10,955,068                                       | 11.7% |
| 1/1/08                         |                                 | -  | 1,240,180              | 1,240,180       | 0%                 | 10,729,562                                       | 11.6% |

## NEENAH WATER UTILITY

WATER UTILITY PLANT  
As of and for the Year Ended December 31, 2013

|  | Balance<br>1/1/13          | Additions                  | Retirements              | Balance<br>12/31/13        |
|--|----------------------------|----------------------------|--------------------------|----------------------------|
| <b>SOURCE OF SUPPLY</b>                |                            |                            |                          |                            |
| Land and land rights                   | \$ 23,941                  | \$ -                       | \$ -                     | \$ 23,941                  |
| Intakes                                | 130,978                    | -                          | -                        | 130,978                    |
| Total Source of Supply                 | <u>154,919</u>             | <u>-</u>                   | <u>-</u>                 | <u>154,919</u>             |
| <b>PUMPING</b>                         |                            |                            |                          |                            |
| Structures and improvements            | 1,960,368                  | -                          | -                        | 1,960,368                  |
| Other power production equipment       | 283,192                    | -                          | -                        | 283,192                    |
| Electric pumping equipment             | 1,136,024                  | -                          | -                        | 1,136,024                  |
| Other pumping equipment                | 4,569                      | -                          | -                        | 4,569                      |
| Total Pumping                          | <u>3,384,153</u>           | <u>-</u>                   | <u>-</u>                 | <u>3,384,153</u>           |
| <b>WATER TREATMENT</b>                 |                            |                            |                          |                            |
| Land and land rights                   | 98,239                     | -                          | -                        | 98,239                     |
| Structures and improvements            | 16,251,436                 | -                          | -                        | 16,251,436                 |
| Water treatment equipment              | 7,597,050                  | -                          | -                        | 7,597,050                  |
| Total Water Treatment                  | <u>23,946,725</u>          | <u>-</u>                   | <u>-</u>                 | <u>23,946,725</u>          |
| <b>TRANSMISSION AND DISTRIBUTION</b>   |                            |                            |                          |                            |
| Distribution reservoirs and standpipes | 2,451,464                  | 10,400                     | 7,800                    | 2,454,064                  |
| Transmission and distribution mains    | 19,822,355                 | 666,478                    | 130,635                  | 20,358,198                 |
| Services                               | 3,559,252                  | 159,116                    | 9,391                    | 3,708,977                  |
| Meters                                 | 1,937,523                  | 182,980                    | 141,248                  | 1,979,255                  |
| Hydrants                               | 1,709,584                  | 78,126                     | 20,651                   | 1,767,059                  |
| Total Transmission and Distribution    | <u>29,480,178</u>          | <u>1,097,100</u>           | <u>309,725</u>           | <u>30,267,553</u>          |
| <b>GENERAL</b>                         |                            |                            |                          |                            |
| Structures and improvements            | 93,367                     | -                          | -                        | 93,367                     |
| Office furniture and equipment         | 37,193                     | -                          | -                        | 37,193                     |
| Computer equipment                     | 126,264                    | -                          | -                        | 126,264                    |
| Transportation equipment               | 205,560                    | -                          | -                        | 205,560                    |
| Tools, shop and garage equipment       | 75,844                     | -                          | -                        | 75,844                     |
| Laboratory equipment                   | 113,408                    | -                          | -                        | 113,408                    |
| Power-operated equipment               | 103,635                    | -                          | -                        | 103,635                    |
| Communication equipment                | 107,995                    | -                          | -                        | 107,995                    |
| SCADA equipment                        | 1,199,993                  | -                          | -                        | 1,199,993                  |
| Total General                          | <u>2,063,259</u>           | <u>-</u>                   | <u>-</u>                 | <u>2,063,259</u>           |
| <b>TOTAL WATER UTILITY PLANT</b>       | <u><b>\$59,029,234</b></u> | <u><b>\$ 1,097,100</b></u> | <u><b>\$ 309,725</b></u> | <u><b>\$59,816,609</b></u> |

## NEENAH WATER UTILITY

### WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2013 and 2012

|                                       | 2013      | 2012      |
|---------------------------------------|-----------|-----------|
| <b>OPERATING REVENUES</b>             |           |           |
| Sales of Water                        |           |           |
| Unmetered                             | \$ 10,710 | \$ 12,702 |
| Metered                               |           |           |
| Residential                           | 3,242,141 | 3,420,226 |
| Commercial                            | 1,122,085 | 1,184,730 |
| Industrial                            | 1,849,668 | 2,420,529 |
| Public authorities                    | 136,346   | 155,650   |
| Total Metered Sales                   | 6,350,240 | 7,181,135 |
| Private fire protection               | 115,362   | 114,312   |
| Public fire protection                | 1,597,956 | 1,596,476 |
| Bad debt expense                      | (18,985)  | (44,423)  |
| Total Sales of Water                  | 8,055,283 | 8,860,202 |
| Other Operating Revenues              |           |           |
| Forfeited discounts                   | 83,449    | 88,194    |
| Miscellaneous service revenue         | 22,599    | 23,781    |
| Rents from water property             | 118,338   | 109,122   |
| Other                                 | 63,381    | 62,522    |
| Total Operating Revenues              | 8,343,050 | 9,143,821 |
| <b>OPERATING EXPENSES</b>             |           |           |
| Operation and Maintenance             |           |           |
| Source of Supply                      |           |           |
| Operation supervision and engineering | 709       | 713       |
| Maintenance                           |           |           |
| Supervision and engineering           | 706       | 752       |
| Lake, river and other intakes         | 8,695     | 7,845     |
| Total Source of Supply                | 10,110    | 9,310     |
| Pumping                               |           |           |
| Operation supervision and engineering | 12,641    | 12,273    |
| Fuel for power production             | 165,301   | 173,861   |
| Pumping labor                         | 90,803    | 86,955    |
| Miscellaneous                         | 16,020    | 14,294    |
| Maintenance                           |           |           |
| Supervision and engineering           | 12,641    | 12,330    |
| Structures and improvements           | 105       | 160       |
| Power production equipment            | 5,228     | -         |
| Pumping equipment                     | 12,481    | -         |
| Total Pumping                         | 315,220   | 299,873   |
| Water Treatment                       |           |           |
| Operation supervision and engineering | 31,669    | 33,392    |
| Chemicals                             | 527,168   | 609,709   |
| Operation labor                       | 337,510   | 317,216   |
| Miscellaneous                         | 85,114    | 80,789    |
| Maintenance                           |           |           |
| Supervision and engineering           | 29,219    | 28,926    |
| Structures and improvements           | 191,179   | 121,747   |
| Water treatment equipment             | 226,186   | 240,443   |
| Total Water Treatment                 | 1,428,045 | 1,432,222 |

## NEENAH WATER UTILITY

### WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2013 and 2012

|                                       | 2013         | 2012         |
|---------------------------------------|--------------|--------------|
| <b>OPERATING EXPENSES (cont.)</b>     |              |              |
| Operation and Maintenance (cont.)     |              |              |
| Transmission and Distribution         |              |              |
| Operation supervision and engineering | \$ 32,277    | \$ 35,079    |
| Storage facilities                    | 10,395       | 8,913        |
| Transmission and distribution lines   | 105,959      | 96,600       |
| Meters                                | 44,141       | 43,756       |
| Customer installations                | 37,674       | 26,465       |
| Miscellaneous                         | 58,987       | 60,377       |
| Maintenance                           |              |              |
| Supervision and engineering           | 22,279       | 22,224       |
| Reservoirs and standpipes             | -            | 8,011        |
| Mains                                 | 256,089      | 194,855      |
| Services                              | 82,495       | 50,256       |
| Meters                                | 1,509        | 2,334        |
| Hydrants                              | 54,729       | 56,175       |
| Miscellaneous                         | 1,122        | 808          |
| Total Transmission and Distribution   | 707,656      | 605,853      |
| Customer Accounts                     |              |              |
| Supervision                           | 33,184       | 39,894       |
| Meter reading                         | 12,410       | 12,423       |
| Accounting and collecting labor       | 76,632       | 72,261       |
| Total Customer Accounts               | 122,226      | 124,578      |
| Administrative and General            |              |              |
| Salaries                              | 144,277      | 143,317      |
| Office supplies                       | 3,362        | 1,520        |
| Outside services employed             | 13,611       | 18,757       |
| Property insurance                    | 16,871       | 14,278       |
| Injuries and damages                  | 38,126       | 36,520       |
| Employee pensions and benefits        | 358,287      | 348,907      |
| Miscellaneous                         | 15,908       | 15,241       |
| Rents                                 | 8,650        | 8,400        |
| Maintenance                           | 45,914       | 41,117       |
| Total Administrative and General      | 645,006      | 628,057      |
| Taxes                                 | 76,000       | 76,119       |
| Total Operation and Maintenance       | 3,304,263    | 3,176,012    |
| Depreciation                          | 1,558,628    | 1,548,331    |
| Amortization                          | 129,059      | 129,059      |
| Total Operating Expenses              | 4,991,950    | 4,853,402    |
| OPERATING INCOME                      | \$ 3,351,100 | \$ 4,290,419 |

## NEENAH WATER UTILITY

### RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2013 and 2012

|   | Water                    |                          |
|---|--------------------------|--------------------------|
|   | 2013                     | 2012                     |
| Utility Financed Plant in Service         |                          |                          |
| Beginning of year                         | \$ 50,199,097            | \$ 49,462,090            |
| End of year                               | <u>51,020,627</u>        | <u>50,199,097</u>        |
| Average                                   | <u>50,609,862</u>        | <u>49,830,594</u>        |
| Utility Financed Accumulated Depreciation |                          |                          |
| Beginning of year                         | (11,312,245)             | (10,080,876)             |
| End of year                               | <u>(12,604,482)</u>      | <u>(11,312,245)</u>      |
| Average                                   | <u>(11,958,364)</u>      | <u>(10,696,561)</u>      |
| Materials and Supplies                    |                          |                          |
| Beginning of year                         | 123,958                  | 121,710                  |
| End of year                               | <u>119,549</u>           | <u>123,958</u>           |
| Average                                   | <u>121,754</u>           | <u>122,834</u>           |
| Regulatory Liability                      |                          |                          |
| Beginning of year                         | (311,255)                | (338,420)                |
| End of year                               | <u>(282,960)</u>         | <u>(311,255)</u>         |
| Average                                   | <u>(297,108)</u>         | <u>(324,838)</u>         |
| <br>AVERAGE NET RATE BASE                 | <br><u>\$ 38,476,144</u> | <br><u>\$ 38,932,029</u> |
| <br>OPERATING INCOME - REGULATORY BASIS   | <br><u>\$ 2,390,976</u>  | <br><u>\$ 3,328,282</u>  |
| <br>RATE OF RETURN (PERCENT)              | <br><u>6.21</u>          | <br><u>8.55</u>          |
| <br>AUTHORIZED RATE OF RETURN (PERCENT)   | <br><u>7.50</u>          | <br><u>7.50</u>          |

This schedule is computed based on Public Service Commission of Wisconsin regulatory accounting which differs from accounting principles generally accepted in the United States of America due to GASB No. 34 as well as PSC order 05-US-105.