

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, 2014 and 2013

NEENAH WATER UTILITY

An Enterprise Fund of the City of Neenah, Wisconsin

TABLE OF CONTENTS

As of and for the Years Ended December 31, 2014 and 2013

Independent Auditors' Report	1 - 2
Financial Statements	
Statements of Net Position	3 - 4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 26
Required Supplemental Information	
Other Postemployment Benefits Plan - Schedule of Funded Status	27
Supplemental Information	
Water Utility Plant	28
Water Utility Operating Revenues and Expenses	29 - 30
Rate of Return - Regulatory Basis	31

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, 2014 and 2013, 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.

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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Utility Commission
Neenah Water Utility

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, 2014 and 2013 and the respective changes in financial position, or cash flows thereof 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.

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion 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 Vichow Krause, LLP

Madison, Wisconsin
May 11, 2015

NEENAH WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2014 and 2013

	ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS			
Cash and investments		\$ 2,137,875	\$ 2,555,854
Restricted Assets			
Redemption account		1,073,851	1,053,911
Customer accounts receivable		920,058	806,083
Unbilled revenues		944,095	943,456
Other accounts receivable		3,911	4,332
Materials and supplies		118,744	119,549
Prepayments		1,462	2,368
Other current assets		<u>569</u>	<u>569</u>
Total Current Assets		<u>5,200,565</u>	<u>5,486,122</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		959,257	987,216
Depreciation account		250,000	250,000
Interest receivable		2,178	418
Other Assets			
Other special accounts		2,023,070	1,701,131
Unamortized loss on retirement		258,116	387,175
Capital Assets			
Plant in service		60,242,814	59,816,609
Accumulated depreciation		<u>(14,780,069)</u>	<u>(13,342,900)</u>
Total Noncurrent Assets		<u>48,955,366</u>	<u>49,799,649</u>
Total Assets		<u>54,155,931</u>	<u>55,285,771</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on advance refunding		<u>108,368</u>	<u>126,508</u>

		<u>2014</u>	<u>2013</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		\$ 104,311	\$ 74,336
Due to other funds		1,052,486	1,093,330
Accrued vacation		19,968	17,784
Other current liabilities		19,977	66,449
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		2,531,529	2,415,418
Accrued interest		<u>77,416</u>	<u>85,299</u>
Total Current Liabilities		<u>3,805,687</u>	<u>3,752,616</u>
NONCURRENT LIABILITIES			
Revenue bonds		19,739,162	22,270,691
Unamortized debt premium		141,340	160,669
Accrued sick leave		135,189	124,557
Unearned revenues		8,101	7,000
Other post employment benefits		<u>30,307</u>	<u>25,280</u>
Total Noncurrent Liabilities		<u>20,054,099</u>	<u>22,588,197</u>
Total Liabilities		<u>23,859,786</u>	<u>26,340,813</u>
NET POSITION			
Net investment in capital assets		24,118,339	22,740,655
Restricted for:			
Debt service		998,613	969,030
Depreciation		250,000	250,000
Unrestricted		<u>5,037,561</u>	<u>5,111,781</u>
TOTAL NET POSITION		<u>\$ 30,404,513</u>	<u>\$ 29,071,466</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, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Sales of water	\$ 7,707,018	\$ 8,055,283
Other	<u>293,270</u>	<u>287,767</u>
Total Operating Revenues	<u>8,000,288</u>	<u>8,343,050</u>
OPERATING EXPENSES		
Operation and maintenance	3,289,327	3,304,263
Depreciation	1,567,831	1,558,628
Amortization of loss on retirement	<u>129,059</u>	<u>129,059</u>
Total Operating Expenses	<u>4,986,217</u>	<u>4,991,950</u>
OPERATING INCOME	<u>3,014,071</u>	<u>3,351,100</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	34,932	18,797
Gain (loss) on investments	1,804	(23,401)
Income from merchandising and jobbing	6,309	3,607
Loss on sale of fixed assets	(54,968)	(5,448)
Interest expense	(600,647)	(720,218)
Debt issuance costs	-	(227,448)
Amortization of loss on advance refunding	(18,140)	(18,144)
Amortization of debt premium	<u>19,329</u>	<u>9,524</u>
Total Nonoperating Revenues (Expenses)	<u>(611,381)</u>	<u>(962,731)</u>
Income Before Contributions and Transfers	2,402,690	2,388,369
CAPITAL CONTRIBUTIONS	15,268	17,777
TRANSFER IN (OUT)	(32,274)	(32,274)
TRANSFERS - TAX EQUIVALENT	<u>(1,052,637)</u>	<u>(1,093,330)</u>
CHANGE IN NET POSITION	1,333,047	1,280,542
NET POSITION - Beginning of Year	<u>29,071,466</u>	<u>27,790,924</u>
NET POSITION - END OF YEAR	<u><u>\$ 30,404,513</u></u>	<u><u>\$ 29,071,466</u></u>

See accompanying notes to the financial statements.

NEENAH WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 7,978,612	\$ 8,521,174
Paid to suppliers for goods and services	(2,146,448)	(2,291,678)
Paid to employees for operating payroll	(1,113,762)	(1,014,853)
Net Cash Flows From Operating Activities	4,718,402	5,214,643
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(1,093,481)	(1,097,696)
Transfers to other funds	(32,274)	(32,274)
Net Cash Flows From Noncapital Financing Activities	(1,125,755)	(1,129,970)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(717,269)	(1,094,056)
Capital contributions received	9,535	13,780
Debt retired	(2,415,418)	(6,000,028)
Interest paid	(608,530)	(737,943)
Proceeds from debt issue	-	3,545,000
Debt issuance costs	-	(69,112)
Premium on bonds issued	-	85,568
Net Cash Flows From Capital and Related Financing Activities	(3,731,682)	(4,256,791)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(260,635)	-
Investments sold and matured	299,654	71,312
Investment income	33,172	18,818
Net Cash Flows From Investing Activities	72,191	90,130
Net Change in Cash and Cash Equivalents	(66,844)	(81,988)
CASH AND CASH EQUIVALENTS - Beginning of Year	6,010,463	6,092,451
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,943,619	\$ 6,010,463
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ 5,733	\$ 3,997
Unrealized gain (loss) on investments	\$ 1,804	\$ (23,401)
Debt issuance costs written off	\$ -	\$ 158,336

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 3,014,071	\$ 3,351,100
Nonoperating revenue (expense)	6,309	3,607
Noncash items in operating income		
Depreciation	1,567,831	1,558,628
Depreciation charged to clearing and other utilities	118,993	115,165
Amortization of loss on retirement	129,059	129,059
Changes in assets and liabilities		
Customer accounts receivable	(114,614)	95,551
Other accounts receivable	421	(2,983)
Materials and supplies	805	4,409
Prepayments and other assets	906	(1,095)
Accounts payable	22,149	(16,601)
Accrued sick and vacation	12,816	(33,485)
Other current liabilities	(46,472)	7,324
Unearned revenue	1,101	(1,063)
Other post employment benefits	5,027	5,027
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 4,718,402</u>	<u>\$ 5,214,643</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 2,137,875	\$ 2,555,854
Redemption account	1,073,851	1,053,911
Reserve account	959,257	987,216
Depreciation account	250,000	250,000
Other special funds	<u>2,023,070</u>	<u>1,701,131</u>
Total Cash and Investments	6,444,053	6,548,112
Less: Noncash equivalents	<u>(500,434)</u>	<u>(537,649)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 5,943,619</u>	<u>\$ 6,010,463</u>

See accompanying notes to the financial statements.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

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.

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, DEFERRED OUTFLOWS OF RESOURCES, 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, 2014 and 2013

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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 contains the following 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 gain (loss) on investments. 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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION (cont.)

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.

Other Special Accounts

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, 2014 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, 2014 and 2013

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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 and discounts is shown as an increase or decrease 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. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. When they become effective, application of these standards may restate portions of these financial statements.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2014	2013	
Checking and savings	\$ 1,539,160	\$ 966,314	Custodial credit risk
Money market	180,757	180,757	Custodial credit risk
LGIP	4,223,502	4,863,193	Credit risk
Corporate bonds	260,635	-	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
U.S. agency securities	239,799	537,648	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
Petty cash	200	200	None
Totals	\$ 6,444,053	\$ 6,548,112	

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 have collateral or depository insurance 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, 2014 and 2013, 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, 2014 and 2013

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.

	2014		2013	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Local/area banks	(A)	\$ 1,719,917	(A)	\$ 1,147,071

(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, 2014, the utility's investments were rated as follows:

Investment Type	Moody's Investors Services
U.S. Agencies Implicitly Guaranteed	Aaa
Corporate bonds	Aaa

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk (cont.)

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

Investment Type	Moody's Investors 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.

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, 2014 and 2013, the utility's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2014	2013
Microsoft Corporation	Corporate bonds	5.31%	-%

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, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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, 2014, the utility's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1 Year	1 - 5 Years	Greater than 5 Years
U.S. Agencies Implicitly Guaranteed	\$ 239,799	\$ -	\$ 51,147	\$ 188,652
Corporate bonds	<u>260,635</u>	<u>-</u>	<u>-</u>	<u>260,635</u>
Totals	<u>\$ 500,434</u>	<u>\$ -</u>	<u>\$ 51,147</u>	<u>\$ 449,287</u>

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

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

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 fail 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.

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2014 and 2013:

Due To	Due From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,052,486	Tax equivalent	\$ 1,093,330	Tax equivalent

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of transfer balances for the years ending December 31, 2014 and 2013:

To	From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,052,637	Tax equivalent	\$ 1,093,330	Tax equivalent
Municipality	Water Utility	32,274	Return on city investment	32,274	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.

Restricted Net Position

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

	<u>2014</u>	<u>2013</u>
Restricted Assets		
Redemption account	\$ 1,073,851	\$ 1,053,911
Reserve account	959,257	987,216
Depreciation account	250,000	250,000
Interest receivable	<u>2,178</u>	<u>418</u>
Total Restricted Assets	<u>2,285,286</u>	<u>2,291,545</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	<u>(959,257)</u>	<u>(987,216)</u>
Current Liabilities Payable From Restricted Assets	<u>(77,416)</u>	<u>(85,299)</u>
Total Restricted Net Position as Calculated	<u>\$ 1,248,613</u>	<u>\$ 1,219,030</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position (cont.)

The purpose of the restricted net position is as follows:

	2014	2013
Debt service	\$ 998,613	\$ 969,030
Depreciation	250,000	250,000
 Totals	 \$ 1,248,613	 \$ 1,219,030

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in water capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
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	79,614	75,015	23,853,085
Transmission and distribution	30,267,553	569,573	201,192	30,635,934
General	2,063,259	85,642	32,417	2,116,484
Total Capital Assets Being Depreciated	59,694,429	734,829	308,624	60,120,634
Total Capital Assets	59,816,609	734,829	308,624	60,242,814
Less: Accumulated depreciation				
Source of supply	(130,597)	(381)	-	(130,978)
Pumping	(970,136)	(107,730)	-	(1,077,866)
Water treatment	(6,815,876)	(862,238)	75,015	(7,603,099)
Transmission and distribution	(3,990,270)	(605,940)	201,190	(4,395,020)
General	(1,436,021)	(169,502)	32,417	(1,573,106)
Total Accumulated Depreciation	(13,342,900)	(1,745,791)	308,622	(14,780,069)
Net Capital Assets	\$ 46,473,709			\$ 45,462,745

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

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

	Balance 1/1/13	Increases	Decreases	Balance 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, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/14
4/27/2005	Water treatment plant	5/1/2024	2.365%	\$ 16,666,667	\$ 9,764,958
11/15/2004	Advance refund 1996, 1998, and 2000 bonds	12/1/2017	2.50-3.90	4,210,000	995,000
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	1,610,000
1/25/2006	Water treatment plant	5/1/2025	2.365	8,788,354	5,820,733
9/26/2012	Refund 2001 and 2002 bonds	12/1/2021	2.12	1,350,000	840,000
12/2/2013	Refund 2003 bonds	12/1/2021	2.00-2.50	3,545,000	3,240,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
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
Totals	<u>\$ 22,270,691</u>	<u>\$ 2,887,254</u>	<u>\$ 25,157,945</u>

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 2014 and 2013 were \$3,023,948 and \$3,015,008, respectively. Total customer gross revenues as defined for the same periods were \$8,041,529 and \$8,365,454. 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, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary

Long-term obligation activity for the year ended December 31, 2014 is as follows:

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Revenue bonds	\$ 24,686,109	\$ -	\$ 2,415,418	\$ 22,270,691	\$ 2,531,529
Accrued sick leave	124,557	48,741	38,109	135,189	-
Unamortized debt premium	160,669	-	19,329	141,340	-
Unearned revenues	7,000	1,101	-	8,101	-
Other post employment benefits	25,280	5,027	-	30,307	-
Totals	<u>\$ 25,003,615</u>	<u>\$ 54,869</u>	<u>\$ 2,472,856</u>	<u>\$ 22,585,628</u>	<u>\$ 2,531,529</u>

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

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within 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	-
Unearned revenues	8,063	-	1,063	7,000	-
Other post employment benefits	20,253	5,027	-	25,280	-
Totals	<u>\$ 27,409,143</u>	<u>\$ 3,683,332</u>	<u>\$ 6,088,860</u>	<u>\$ 25,003,615</u>	<u>\$ 2,415,418</u>

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 insurance costs) plus an additional \$161,608 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, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

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, 2014:

Type	Coverage	Expiration
<i>Insurance Company of the State of Pennsylvania and the Cities and Villages Mutual Insurance Company</i>		
General Liability	\$ 5,000,000	1/1/2015
Automobile	10,000,000	1/1/2015
<i>Local Government Property Insurance Fund</i>		
Property (entire city)	\$134,818,939	1/1/15

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 2014 and 2013 as follows:

	2014	2013
Operating revenues	\$ 8,000,288	\$ 8,343,050
Investment income	34,932	18,797
Miscellaneous nonoperating income	6,309	3,607
Less: Operation and maintenance expenses	(3,289,327)	(3,304,263)
Net Defined Earnings	\$ 4,752,202	\$ 5,061,191
Minimum Required Earnings per Resolution:		
Subsequent year annual debt service	\$ 3,075,992	\$ 3,023,948
Coverage factor	1.25	1.25
Minimum Required Earnings	\$ 3,844,994	\$ 3,779,935
Actual Debt Coverage	1.54	1.67

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2014 and 2013:

	Customers		Sales (000 gals)	
	2014	2013	2014	2013
Residential	9,595	9,606	396,547	409,851
Commercial	749	743	179,220	181,081
Industrial	91	89	296,498	321,059
Public authority	<u>56</u>	<u>56</u>	<u>18,312</u>	<u>20,810</u>
Totals	<u>10,491</u>	<u>10,494</u>	<u>890,577</u>	<u>932,801</u>

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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 7 - NET POSITION (cont.)

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

	2014	2013
Plant in service	\$ 60,242,814	\$ 59,816,609
Accumulated depreciation	<u>(14,780,069)</u>	<u>(13,342,900)</u>
Sub-Totals	<u>45,462,745</u>	<u>46,473,709</u>
Less: Capital related debt		
Current portion of capital related long-term debt	2,531,529	2,415,418
Long-term portion of capital related long-term debt	19,739,162	22,270,691
Unamortized debt premium	141,340	160,669
Unamortized loss on advance refunding	<u>(108,368)</u>	<u>(126,508)</u>
Sub-Totals	<u>22,303,663</u>	<u>24,720,270</u>
Add: Unspent debt proceeds		
Reserve from borrowing	<u>959,257</u>	<u>987,216</u>
Total Net Investment in Capital Assets	<u>\$ 24,118,339</u>	<u>\$ 22,740,655</u>

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, 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 2014 and 2013 were:

	Employees	Employer
2014 General category	7.0%	7.0%
2013 General category	6.65%	6.65%

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

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

	Year Ended December 31		
	2014	2013	2012
Total Covered Employee Payroll	<u>\$ 1,114,000</u>	<u>\$ 1,015,000</u>	<u>\$ 1,066,000</u>
Total Required Contributions	<u>\$ 155,927</u>	<u>\$ 134,976</u>	<u>\$ 126,000</u>
Total Required Contributions	<u>14.0%</u>	<u>13.3%</u>	<u>11.8%</u>

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

The utility and other funds of the city administer a single-employer defined benefit healthcare plan. The plan provides health insurance contributions for eligible retirees and their spouses through the utility's group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates. The Retiree Health Plan does not issue a publicly available financial report.

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.

The utility's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially 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 projected 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 plan, and changes in the utility's net OPEB obligation to the Retiree Health Plan:

	2014	2013
Annual required contribution	\$ 9,732	\$ 9,732
Contributions made	<u>(4,705)</u>	<u>(4,705)</u>
Increase in net OPEB obligation	<u>5,027</u>	<u>5,027</u>
Net OPEB Obligation - Beginning of Year	<u>25,280</u>	<u>20,253</u>
"Net OPEB Obligation - End of Year"	<u>\$ 30,307</u>	<u>\$ 25,280</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2012 - 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2014	\$ 9,732	48%	\$ 30,307
2013	9,732	48	25,280
2012	9,813	62	20,253

The funded status of the city's plan as of January 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,026,865
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,026,865
Funded ratio (actuarial value of plan assets/AAL)	-%
Covered payroll (active plan members)	\$ 11,857,056
UAAL as a percentage of covered payroll	9%

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

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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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 at December 31, 2014, 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.

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.

The municipality shows the general obligation bond that it owes to WMIC in the insurance internal service fund (governmental activities column of government-wide statement of net position). The transactions of the organization are not included in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NEENAH WATER UTILITY

OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDED STATUS For the Year Ended December 31, 2014

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 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/14	\$	\$ 1,026,865	\$ 1,026,865	0%	\$11,857,056	8.7%
01/01/12	-	1,058,510	1,058,510	0%	11,088,099	9.5%
01/01/10	-	1,279,401	1,279,401	0%	10,955,068	11.7%

SUPPLEMENTAL INFORMATION

NEENAH WATER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2014

	Balance 1/1/14	Additions	Retirements	Balance 12/31/14
SOURCE OF SUPPLY				
Land and land rights	\$ 23,941	\$ -	\$ -	\$ 23,941
Intakes	<u>130,978</u>	-	-	<u>130,978</u>
Total Source of Supply	<u>154,919</u>	-	-	<u>154,919</u>
PUMPING				
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	<u>4,569</u>	-	-	<u>4,569</u>
Total Pumping	<u>3,384,153</u>	-	-	<u>3,384,153</u>
WATER TREATMENT				
Land and land rights	98,239	-	-	98,239
Structures and improvements	16,251,436	60,078	68,000	16,243,514
Water treatment equipment	<u>7,597,050</u>	<u>19,536</u>	<u>7,015</u>	<u>7,609,571</u>
Total Water Treatment	<u>23,946,725</u>	<u>79,614</u>	<u>75,015</u>	<u>23,951,324</u>
TRANSMISSION AND DISTRIBUTION				
Distribution reservoirs and standpipes	2,454,064	-	-	2,454,064
Transmission and distribution mains	20,358,198	205,781	34,494	20,529,485
Services	3,708,977	124,273	10,546	3,822,704
Meters	1,979,255	182,708	134,807	2,027,156
Hydrants	<u>1,767,059</u>	<u>56,811</u>	<u>21,345</u>	<u>1,802,525</u>
Total Transmission and Distribution	<u>30,267,553</u>	<u>569,573</u>	<u>201,192</u>	<u>30,635,934</u>
GENERAL				
Structures and improvements	93,367	2,391	-	95,758
Office furniture and equipment	37,193	-	-	37,193
Computer equipment	126,264	-	-	126,264
Transportation equipment	205,560	60,080	27,366	238,274
Tools, shop and garage equipment	75,844	23,171	-	99,015
Laboratory equipment	113,408	-	-	113,408
Power-operated equipment	103,635	-	-	103,635
Communication equipment	107,995	-	-	107,995
SCADA equipment	<u>1,199,993</u>	-	<u>5,051</u>	<u>1,194,942</u>
Total General	<u>2,063,259</u>	<u>85,642</u>	<u>32,417</u>	<u>2,116,484</u>
TOTAL WATER UTILITY PLANT	<u><u>\$59,816,609</u></u>	<u><u>\$ 734,829</u></u>	<u><u>\$ 308,624</u></u>	<u><u>\$60,242,814</u></u>

NEENAH WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ 12,539	\$ 10,710
Metered		
Residential	3,156,452	3,242,141
Commercial	1,118,458	1,122,085
Industrial	1,543,880	1,849,668
Public authorities	119,381	136,346
Total Metered Sales	5,938,171	6,350,240
Private fire protection	125,965	115,362
Public fire protection	1,632,105	1,597,956
Bad debt expense	(1,762)	(18,985)
Total Sales of Water	7,707,018	8,055,283
Other Operating Revenues		
Forfeited discounts	81,962	83,449
Miscellaneous service revenue	24,831	22,599
Rents from water property	120,138	118,338
Other	66,339	63,381
Total Operating Revenues	8,000,288	8,343,050
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	753	709
Maintenance		
Supervision and engineering	738	706
Lake, river and other intakes	14,525	8,695
Total Source of Supply	16,016	10,110
Pumping		
Operation supervision and engineering	14,708	12,641
Fuel for power production	163,158	165,301
Pumping labor	92,056	90,803
Miscellaneous	21,789	16,020
Maintenance		
Supervision and engineering	14,733	12,641
Structures and improvements	26	105
Power production equipment	893	5,228
Pumping equipment	-	12,481
Total Pumping	307,363	315,220
Water Treatment		
Operation supervision and engineering	34,468	31,669
Chemicals	544,882	527,168
Operation labor	364,076	337,510
Miscellaneous	82,637	85,114
Maintenance		
Supervision and engineering	31,697	29,219
Structures and improvements	28,218	191,179
Water treatment equipment	205,397	226,186
Total Water Treatment	1,291,375	1,428,045

NEENAH WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 34,384	\$ 32,277
Storage facilities	15,383	10,395
Transmission and distribution lines	121,056	105,959
Meters	44,915	44,141
Customer installations	30,316	37,674
Miscellaneous	63,450	58,987
Maintenance		
Supervision and engineering	29,484	22,279
Reservoirs and standpipes	437	-
Mains	314,722	256,089
Services	70,451	82,495
Meters	1,501	1,509
Hydrants	9,703	54,729
Miscellaneous	3,498	1,122
Total Transmission and Distribution	739,300	707,656
Customer Accounts		
Supervision	31,979	33,184
Meter reading	10,615	12,410
Accounting and collecting labor	77,837	76,632
Total Customer Accounts	120,431	122,226
Administrative and General		
Salaries	143,179	144,277
Office supplies	9,374	3,362
Outside services employed	12,784	13,611
Property insurance	18,712	16,871
Injuries and damages	48,165	38,126
Employee pensions and benefits	416,510	358,287
Miscellaneous	27,437	15,908
Rents	8,900	8,650
Maintenance	50,497	45,914
Total Administrative and General	735,558	645,006
Taxes	79,284	76,000
Total Operation and Maintenance	3,289,327	3,304,263
Depreciation	1,567,831	1,558,628
Amortization	129,059	129,059
Total Operating Expenses	4,986,217	4,991,950
OPERATING INCOME	\$ 3,014,071	\$ 3,351,100

NEENAH WATER UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2014 and 2013

	Water	
	2014	2013
Utility Financed Plant in Service		
Beginning of year	\$ 51,020,627	\$ 50,199,097
End of year	<u>51,454,091</u>	<u>51,020,627</u>
Average	<u>51,237,359</u>	<u>50,609,862</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(12,604,482)	(11,312,245)
End of year	<u>(13,933,757)</u>	<u>(12,604,482)</u>
Average	<u>(13,269,120)</u>	<u>(11,958,364)</u>
Materials and Supplies		
Beginning of year	119,549	123,958
End of year	<u>118,744</u>	<u>119,549</u>
Average	<u>119,147</u>	<u>121,754</u>
Regulatory Liability		
Beginning of year	(282,960)	(311,255)
End of year	<u>(254,665)</u>	<u>(282,960)</u>
Average	<u>(268,813)</u>	<u>(297,108)</u>
AVERAGE NET RATE BASE	<u>\$ 37,818,573</u>	<u>\$ 38,476,144</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 2,091,855</u>	<u>\$ 2,390,976</u>
RATE OF RETURN (PERCENT)	<u>5.53</u>	<u>6.21</u>
AUTHORIZED RATE OF RETURN (PERCENT)	<u>7.50</u>	<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.