

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, 2015 and 2014

NEENAH WATER UTILITY

An Enterprise Fund of the City of Neenah, Wisconsin

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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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 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.

As discussed in the Note 1, Neenah Water Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

Other Matters

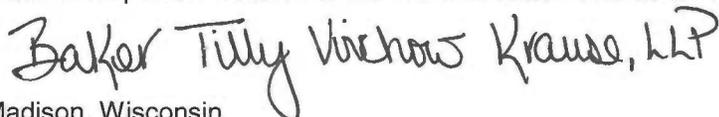
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary 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 information 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



Madison, Wisconsin
May 4, 2016

NEENAH WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2015 and 2014

	ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and investments		\$ 2,264,745	\$ 2,137,875
Restricted Assets			
Redemption account		1,064,473	1,073,851
Customer accounts receivable		824,840	920,058
Unbilled revenues		895,411	944,095
Other accounts receivable		3,586	3,911
Materials and supplies		148,740	118,744
Prepayments		1,929	1,462
Other current assets		<u>569</u>	<u>569</u>
Total Current Assets		<u>5,204,293</u>	<u>5,200,565</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		1,122,913	959,257
Depreciation account		250,000	250,000
Net pension asset		185,460	-
Interest receivable		6,565	2,178
Other Assets			
Other special accounts		2,391,070	2,023,070
Unamortized loss on retirement		129,057	258,116
Capital Assets			
Plant in service		60,611,873	60,242,814
Accumulated depreciation		<u>(16,318,226)</u>	<u>(14,780,069)</u>
Total Noncurrent Assets		<u>48,378,712</u>	<u>48,955,366</u>
Total Assets		<u>53,583,005</u>	<u>54,155,931</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on advance refunding		95,325	108,368
Deferred outflows related to pension		<u>192,906</u>	<u>-</u>
Total Deferred Outflows of Resources		<u>288,231</u>	<u>108,368</u>

		<u>2015</u>	<u>2014</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		\$ 116,438	\$ 104,311
Due to other funds		1,057,955	1,052,486
Accrued vacation		22,912	19,968
Other current liabilities		26,209	19,977
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		2,293,373	2,531,529
Accrued interest		<u>69,308</u>	<u>77,416</u>
Total Current Liabilities		<u>3,586,195</u>	<u>3,805,687</u>
NONCURRENT LIABILITIES			
Revenue bonds		17,445,789	19,739,162
Unamortized debt premium		122,011	141,340
Accrued sick leave		123,167	135,189
Unearned revenues		4,972	8,101
Other post employment benefits		<u>36,273</u>	<u>30,307</u>
Total Noncurrent Liabilities		<u>17,732,212</u>	<u>20,054,099</u>
Total Liabilities		<u>21,318,407</u>	<u>23,859,786</u>
NET POSITION			
Net investment in capital assets		25,487,056	24,118,339
Restricted for:			
Debt service		1,165,386	998,613
Depreciation		250,000	250,000
Pension		185,460	-
Unrestricted		<u>5,464,927</u>	<u>5,037,561</u>
TOTAL NET POSITION		<u><u>\$ 32,552,829</u></u>	<u><u>\$ 30,404,513</u></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, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sales of water	\$ 7,714,877	\$ 7,707,018
Other	271,447	293,270
Total Operating Revenues	7,986,324	8,000,288
OPERATING EXPENSES		
Operation and maintenance	2,995,535	3,289,327
Depreciation	1,573,076	1,567,831
Amortization of loss on retirement	129,059	129,059
Total Operating Expenses	4,697,670	4,986,217
OPERATING INCOME	3,288,654	3,014,071
NONOPERATING REVENUES (EXPENSES)		
Investment income	22,817	34,932
Gain (loss) on investments	(11,660)	1,804
Income from merchandising and jobbing	14,377	6,309
Loss on sale of fixed assets	(1,435)	(54,968)
Interest expense	(536,355)	(600,647)
Amortization of loss on advance refunding	(13,043)	(18,140)
Amortization of debt premium	19,329	19,329
Total Nonoperating Revenues (Expenses)	(505,970)	(611,381)
Income Before Contributions and Transfers	2,782,684	2,402,690
CAPITAL CONTRIBUTIONS	78,139	15,268
TRANSFER IN (OUT)	(32,274)	(32,274)
TRANSFERS - TAX EQUIVALENT	(1,058,024)	(1,052,637)
CHANGE IN NET POSITION	1,770,525	1,333,047
NET POSITION - Beginning of Year	30,404,513	29,071,466
Cumulative effect of a change in accounting principle	377,791	-
NET POSITION - END OF YEAR	\$ 32,552,829	\$ 30,404,513

See accompanying notes to the financial statements.

NEENAH WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 8,226,840	\$ 7,978,612
Paid to suppliers for goods and services	(1,937,430)	(2,146,448)
Paid to employees for operating payroll	(1,046,409)	(1,113,762)
Net Cash Flows From Operating Activities	5,243,001	4,718,402
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(1,052,555)	(1,093,481)
Transfers to other funds	(32,274)	(32,274)
Net Cash Flows From Noncapital Financing Activities	(1,084,829)	(1,125,755)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(463,323)	(717,269)
Capital contributions received	23,521	9,535
Debt retired	(2,531,529)	(2,415,418)
Interest paid	(544,463)	(608,530)
Net Cash Flows From Capital and Related Financing Activities	(3,515,794)	(3,731,682)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(515,783)	(260,635)
Investments sold and matured	74,061	299,654
Investment income	6,770	33,172
Net Cash Flows From Investing Activities	(434,952)	72,191
Net Change in Cash and Cash Equivalents	207,426	(66,844)
CASH AND CASH EQUIVALENTS - Beginning of Year	5,943,619	6,010,463
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,151,045	\$ 5,943,619
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ 54,618	\$ 5,733
Unrealized gain (loss) on investments	\$ (11,661)	\$ 1,804

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLows FROM OPERATING ACTIVITIES		
Operating income	\$ 3,288,654	\$ 3,014,071
Nonoperating revenue (expense)	14,377	6,309
Noncash items in operating income		
Depreciation	1,573,076	1,567,831
Depreciation charged to clearing and other utilities	120,662	118,993
Amortization of loss on retirement	129,059	129,059
Changes in assets and liabilities		
Customer accounts receivable	143,902	(114,614)
Other accounts receivable	325	421
Materials and supplies	(29,996)	805
Pension related deferrals and assets	(575)	-
Prepayments and other assets	(467)	906
Accounts payable	3,993	22,149
Accrued sick and vacation	(12,022)	12,816
Other current liabilities	9,176	(46,472)
Unearned revenue	(3,129)	1,101
Other post employment benefits	5,966	5,027
	<u>5,966</u>	<u>5,027</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 5,243,001</u>	<u>\$ 4,718,402</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 2,264,745	\$ 2,137,875
Redemption account	1,064,473	1,073,851
Reserve account	1,122,913	959,257
Depreciation account	250,000	250,000
Other special funds	2,391,070	2,023,070
Total Cash and Investments	7,093,201	6,444,053
Less: Noncash equivalents	(942,156)	(500,434)
	<u>(942,156)</u>	<u>(500,434)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 6,151,045</u>	<u>\$ 5,943,619</u>

See accompanying notes to the financial statements.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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.

GASB issued 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*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 12.

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, 2015 and 2014

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 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. Chemicals inventory is valued using the "First-In, First-Out" (FIFO) method.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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.

Anticipated Future Special Assessments

At December 31, 2015 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

Pensions

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

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Loss on Refunding

The deferred change resulting from the refunding of debt is amortized over the shorter of the term of the refunding issue or the original term of the refunded debt.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

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

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.

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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2015	2014	
Checking and savings	\$ 1,663,385	\$ 1,539,160	Custodial credit risk
Money market	180,756	180,757	Custodial credit risk
LGIP	4,306,704	4,223,502	Credit risk
Corporate bonds	519,795	260,635	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
Municipal bonds	257,077	-	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
U.S. agency securities	165,284	239,799	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
Petty cash	<u>200</u>	<u>200</u>	None
Totals	<u>\$ 7,093,201</u>	<u>\$ 6,444,053</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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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, 2015 and 2014, 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.

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.

	<u>2015</u>		<u>2014</u>	
	<u>Bank Balance</u>	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Carrying Value</u>
Local/area bank	(A)	<u>\$ 1,844,141</u>	(A)	<u>\$ 1,719,917</u>

(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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

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

As of December 31, 2015, the utility's investments were rated as follows:

Investment Type	Moody's Investors Services
U.S. Agencies Implicitly Guaranteed	Aaa
Corporate bonds	Aaa/A1
Municipal bonds	Not Rated

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

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, 2015 and 2014, the utility's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2015	2014
Microsoft Corporation	Corporate bonds	4.81%	5.31%

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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, 2015, 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	\$ 165,284	\$ -	\$ 138,695	\$ 26,589
Corporate bonds	519,795	-	258,705	261,090
Municipal bonds	<u>257,077</u>	<u>-</u>	<u>257,077</u>	<u>-</u>
Totals	<u>\$ 942,156</u>	<u>\$ -</u>	<u>\$ 654,477</u>	<u>\$ 287,679</u>

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>

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, 2015 and 2014:

Due To	Due From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,057,955	Tax equivalent	\$ 1,052,486	Tax equivalent

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

The following is a schedule of transfer balances for the years ending December 31, 2015 and 2014:

To	From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,058,024	Tax equivalent	\$ 1,052,637	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>2015</u>	<u>2014</u>
Restricted Assets		
Redemption account	\$ 1,064,473	\$ 1,073,851
Reserve account	1,122,913	959,257
Depreciation account	250,000	250,000
Net pension asset	185,460	-
Special assessments receivable	<u>6,565</u>	<u>2,178</u>
Total Restricted Assets	<u>2,629,411</u>	<u>2,285,286</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	<u>(959,257)</u>	<u>(959,257)</u>
Current Liabilities Payable From Restricted Assets	<u>(69,308)</u>	<u>(77,416)</u>
Total Restricted Net Position as Calculated	<u>\$ 1,600,846</u>	<u>\$ 1,248,613</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 4 - RESTRICTED ASSETS (cont.)

The purpose of the restricted net position is as follows:

	2015	2014
Debt service	\$ 1,165,386	\$ 998,613
Depreciation	250,000	250,000
Pension	185,460	-
Totals	\$ 1,600,846	\$ 1,248,613

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in water capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
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	23,853,085	3,960	2,494	23,854,551
Transmission and distribution	30,635,934	499,832	154,186	30,981,580
General	2,116,484	22,802	855	2,138,431
Total Capital Assets Being Depreciated	60,120,634	526,594	157,535	60,489,693
Total Capital Assets	60,242,814	526,594	157,535	60,611,873
Less: Accumulated depreciation				
Source of supply	(130,978)	-	-	(130,978)
Pumping	(1,077,866)	(107,731)	-	(1,185,597)
Water treatment	(7,603,099)	(807,924)	2,494	(8,408,529)
Transmission and distribution	(4,395,020)	(611,608)	154,186	(4,852,442)
General	(1,573,106)	(168,429)	855	(1,740,680)
Total Accumulated Depreciation	(14,780,069)	(1,695,692)	157,535	(16,318,226)
Construction in progress	-	464,361	464,361	-
Net Capital Assets	\$ 45,462,745			\$ 44,293,647

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

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

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount 12/31/15
4/27/2005	Water treatment plant	5/1/2024	2.365%	\$ 16,666,667	\$ 8,887,936
11/15/2004	Advance refund 1996, 1998, and 2000 bonds	12/1/2017	2.50-3.90	4,210,000	555,000
6/1/2007	Capital Improvements	12/1/2026	4.00-4.125	2,345,000	1,505,000
1/25/2006	Water treatment plant	5/1/2025	2.365	8,788,354	5,351,226
9/26/2012	Refund 2001 and 2002 bonds	12/1/2021	2.12	1,350,000	730,000
12/2/2013	Refund 2003 bonds	12/1/2021	2.00-2.50	3,545,000	2,710,000

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds (cont.)

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>170,000</u>	<u>7,013</u>	<u>177,013</u>
Totals	<u>\$ 19,739,162</u>	<u>\$ 2,342,791</u>	<u>\$ 22,081,953</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 2015 and 2014 were \$3,075,992 and \$3,023,948, respectively. Total customer gross revenues as defined for the same periods were \$8,023,519 and \$8,041,529. Annual principal and interest payments are expected to require 25% of gross revenues on average.

Long-Term Obligations Summary

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	<u>1/1/15 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 22,270,691	\$ -	\$ 2,531,529	\$ 19,739,162	\$ 2,293,373
Accrued sick leave	135,189	48,203	60,225	123,167	-
Unamortized debt premium	141,340	-	19,329	122,011	-
Unearned revenues	8,101	-	3,129	4,972	-
Other post employment benefits	<u>30,307</u>	<u>9,836</u>	<u>3,870</u>	<u>36,273</u>	<u>-</u>
Totals	<u>\$ 22,585,628</u>	<u>\$ 58,039</u>	<u>\$ 2,618,082</u>	<u>\$ 20,025,585</u>	<u>\$ 2,293,373</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary (cont.)

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	9,732	4,705	30,307	-
Totals	<u>\$ 25,003,615</u>	<u>\$ 59,574</u>	<u>\$ 2,477,561</u>	<u>\$ 22,585,628</u>	<u>\$ 2,531,529</u>

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, 2015:

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	1/1/2016
Automobile	10,000,000	1/1/2016
<i>Local Government Property Insurance Fund</i>		
Property (entire city)	\$ 137,274,641	4/4/2016

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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 2015 and 2014 as follows:

	2015	2014
Operating revenues	\$ 7,986,324	\$ 8,000,288
Investment income	22,817	34,932
Miscellaneous nonoperating income	14,377	6,309
Less: Operation and maintenance expenses	(2,995,535)	(3,289,327)
 Net Defined Earnings	 \$ 5,027,983	 \$ 4,752,202
 Minimum Required Earnings per Resolution:		
Subsequent year annual debt service	\$ 2,772,009	\$ 3,075,992
Coverage factor	1.25	1.25
 Minimum Required Earnings	 \$ 3,465,011	 \$ 3,844,990
 Actual Debt Coverage	 1.81	 1.54

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2015 and 2014:

	Customers		Sales (000 gals)	
	2015	2014	2015	2014
Residential	9,590	9,595	401,381	396,547
Multifamily residential	95	95	23,915	24,595
Commercial	647	654	171,099	171,379
Industrial	91	91	193,248	198,375
Public authority	56	56	26,689	20,438
 Totals	 10,479	 10,491	 816,332	 811,334

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

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:

	2015	2014
Plant in service	60,611,873	60,242,814
Accumulated depreciation	<u>(16,318,226)</u>	<u>(14,780,069)</u>
Sub-Totals	<u>44,293,647</u>	<u>45,462,745</u>
Less: Capital related debt		
Current portion of capital related long-term debt	2,293,373	2,531,529
Long-term portion of capital related long-term debt	17,445,789	19,739,162
Unamortized debt premium	122,011	141,340
Unamortized loss on advance refunding	<u>(95,325)</u>	<u>(108,368)</u>
Sub-Totals	<u>19,765,848</u>	<u>22,303,663</u>
Add: Unspent debt proceeds		
Reserve from borrowing	<u>959,257</u>	<u>959,257</u>
Total Net Investment in Capital Assets	<u>\$ 25,487,056</u>	<u>\$ 24,118,339</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

The utility implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by WRS. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

General Information About the Pension Plan

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

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

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

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

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

The WRS also provides death and disability benefits for employees.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7%
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25

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

During the reporting period, the WRS recognized \$77,920 in contributions from the utility.

Contribution rates as of December 31, 2015 are:

	2015		2014	
	Employee	Employer	Employee	Employer
General (including teachers	6.8%	6.8%	7.0%	7.0%
Executives & Elected Officials	7.7%	7.7%	7.75%	7.75%
Protective with Social Security	6.8%	9.5%	7.0%	10.1%
Protective without Social Security	6.8%	13.1%	7.0%	13.7%

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2015, the utility reported a liability (asset) of \$(185,460) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the City of Neenah's proportion was .126757090%, which was a decrease of .000934150% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the utility recognized pension expense of \$73,333.

At December 31, 2015, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Neenah Water Utility</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,886	\$ -
Changes in assumption	-	-
Net differences between project and actual earnings on pension plan	89,809	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,303	-
Employer contributions subsequent to the measurement date	<u>73,908</u>	<u>-</u>
Total	<u>\$ 192,906</u>	<u>\$ -</u>

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. \$73,908 is reported for the water utility. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Neenah Water Utility</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 29,107	\$ -
2017	29,107	-
2018	29,107	-
2019	29,107	-
2020	2,570	-
Thereafter	-	-
Total	\$ 118,998	\$ -

Actuarial assumptions. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2013
Measurement date of net pension liability (asset)	December 31, 2014
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.2%
Discount rate	7.2%
Salary increases	
Salary increases	3.2%
Salary increases	0.2% - 5.8%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

<u>Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	5.3%	21.0%
International Equities	5.7	23.0
Fixed Income	1.7	36.0
Inflation Sensitive Assets	2.3	20.0
Real Estate	4.2	7.0
Private Equity/Debt	6.9	7.0
Multi-Asset	3.9	6.0
Cash	0.9	(20.0)

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

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

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
Neenah Water Utility's proportionate share of the net position liability (asset)	\$ 523,215	\$ (185,460)	\$ (745,143)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Required Disclosures Under GASB No. 27

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

	Year Ended December 31	
	2014	2013
Total Covered Employee Payroll	\$ 1,114,000	\$ 1,015,000
Total Required Contributions	\$ 155,927	\$ 134,976
Total Required Contributions	14.0%	13.3%

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 within the 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 (or funding excess) 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:

	2015	2014
Annual required contribution	\$ 9,836	\$ 9,732
Contributions made	(3,870)	(4,705)
Increase in net OPEB obligation (asset)	5,966	5,027
Net OPEB Obligation (Asset) - Beginning of Year	30,307	25,280
Net OPEB Obligation - End of Year	\$ 36,273	\$ 30,307

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

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, 2015 and the one/two preceding year(s) were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 9,836	48%	\$ 36,273
2014	9,732	48	30,307
2013	9,732	48	25,280

The funded status of the plan as of December 31, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	1,026,965
Actuarial value of plan assets		-
Unfunded Actuarial Accrued Liability (UAAL)	\$	<u>1,026,965</u>
Funded ratio (actuarial value of plan assets/AAL)		-%
Covered payroll (active plan members)	\$	11,857,056
UAAL as a percentage of covered payroll		12%

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, 2015 and 2014

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 amortization period at December 31, 2015, 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.

NEENAH WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 12 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utility adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

Water Utility

Net pension liability (asset) January 1, 2014	\$ 299,871
Deferred outflows January 1, 2014	<u>77,920</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 377,791</u>

Additional information required for retroactive implementation was not provided by the pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

NEENAH WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) Wisconsin Retirement System Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS. The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	<u>2015</u>
Neenah Water Utility's proportion of the City's net pension liability (asset)	.0595664%
Neenah Water Utility's proportionate share of the net pension liability (asset)	\$ (185,460)
Neenah Water Utility's covered employee payroll	\$ 1,113,762
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

SCHEDULE OF CONTRIBUTIONS Wisconsin Retirement System Last 10 Fiscal Years*

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

	<u>2015</u>
Contractually required contributions	\$ 73,908
Contributions in relation to the contractually required contributions	\$ 73,908
Contributions deficiency (excess)	\$ -
Neenah Water Utility's covered-employee payroll	\$ 1,003,689
Contributions as a percentage of covered-employee payroll	13.58%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See Independent auditors' report and accompanying notes to the required supplementary information.

NEENAH WATER UTILITY

OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDED STATUS For the Year Ended December 31, 2015

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%

NEENAH WATER UTILITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2015

Net Pension Liability (Asset)

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

Changes of assumption: There were no changes in the assumptions.

See independent auditors' report.

SUPPLEMENTAL INFORMATION

NEENAH WATER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2015

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
SOURCE OF SUPPLY				
Land and land rights	\$ 23,941	\$ -	\$ -	\$ 23,941
Intakes	<u>130,978</u>	<u>-</u>	<u>-</u>	<u>130,978</u>
Total Source of Supply	<u>154,919</u>	<u>-</u>	<u>-</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>-</u>	<u>-</u>	<u>4,569</u>
Total Pumping	<u>3,384,153</u>	<u>-</u>	<u>-</u>	<u>3,384,153</u>
WATER TREATMENT				
Land and land rights	98,239	-	-	98,239
Structures and improvements	16,243,514	-	-	16,243,514
Water treatment equipment	<u>7,609,571</u>	<u>3,960</u>	<u>2,494</u>	<u>7,611,037</u>
Total Water Treatment	<u>23,951,324</u>	<u>3,960</u>	<u>2,494</u>	<u>23,952,790</u>
TRANSMISSION AND DISTRIBUTION				
Distribution reservoirs and standpipes	2,454,064	-	-	2,454,064
Transmission and distribution mains	20,529,485	257,653	31,964	20,755,174
Services	3,822,704	111,839	6,419	3,928,124
Meters	2,027,156	56,903	98,665	1,985,394
Hydrants	<u>1,802,525</u>	<u>73,437</u>	<u>17,138</u>	<u>1,858,824</u>
Total Transmission and Distribution	<u>30,635,934</u>	<u>499,832</u>	<u>154,186</u>	<u>30,981,580</u>
GENERAL				
Structures and improvements	95,758	-	-	95,758
Office furniture and equipment	37,193	-	-	37,193
Computer equipment	126,264	13,373	-	139,637
Transportation equipment	238,274	-	-	238,274
Tools, shop and garage equipment	99,015	9,429	855	107,589
Laboratory equipment	113,408	-	-	113,408
Power-operated equipment	103,635	-	-	103,635
Communication equipment	107,995	-	-	107,995
SCADA equipment	<u>1,194,942</u>	<u>-</u>	<u>-</u>	<u>1,194,942</u>
Total General	<u>2,116,484</u>	<u>22,802</u>	<u>855</u>	<u>2,138,431</u>
TOTAL WATER UTILITY PLANT	<u>\$ 60,242,814</u>	<u>\$ 526,594</u>	<u>\$ 157,535</u>	<u>\$ 60,611,873</u>

NEENAH WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ 6,815	\$ 12,539
Metered		
Residential	3,176,537	3,156,452
Commercial	1,085,803	1,118,458
Industrial	1,546,272	1,543,880
Public authorities	136,761	119,381
Total Metered Sales	5,945,373	5,938,171
Private fire protection	126,689	125,965
Public fire protection	1,639,153	1,632,105
Bad debt expense	(3,153)	(1,762)
Total Sales of Water	7,714,877	7,707,018
Other Operating Revenues		
Forfeited discounts	77,187	81,962
Miscellaneous service revenue	27,843	24,831
Rents from water property	103,029	120,138
Other	63,388	66,339
Total Operating Revenues	7,986,324	8,000,288
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	797	753
Maintenance		
Supervision and engineering	796	738
Lake, river and other intakes	7,250	14,525
Total Source of Supply	8,843	16,016
Pumping		
Operation supervision and engineering	14,773	14,708
Fuel for power production	151,426	163,158
Pumping labor	79,993	92,056
Miscellaneous	12,370	21,789
Maintenance		
Supervision and engineering	14,694	14,733
Structures and improvements	-	26
Power production equipment	1,308	893
Total Pumping	274,564	307,363
Water Treatment		
Operation supervision and engineering	34,356	34,468
Chemicals	461,898	544,882
Operation labor	291,505	364,076
Miscellaneous	92,113	82,637
Maintenance		
Supervision and engineering	31,326	31,697
Structures and improvements	3,206	28,218
Water treatment equipment	209,768	205,397
Total Water Treatment	1,124,172	1,291,375

NEENAH WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 30,133	\$ 34,384
Storage facilities	17,329	15,383
Transmission and distribution lines	111,958	121,056
Meters	48,946	44,915
Customer installations	47,813	30,316
Miscellaneous	67,484	63,450
Maintenance		
Supervision and engineering	26,456	29,484
Reservoirs and standpipes	3,250	437
Mains	233,083	314,722
Services	74,113	70,451
Meters	1,007	1,501
Hydrants	23,984	9,703
Miscellaneous	(734)	3,498
Total Transmission and Distribution	684,822	739,300
Customer Accounts		
Supervision	32,107	31,979
Meter reading	10,564	10,615
Accounting and collecting labor	82,614	77,837
Total Customer Accounts	125,285	120,431
Administrative and General		
Salaries	150,021	143,179
Office supplies	6,715	9,374
Outside services employed	13,223	12,784
Property insurance	18,170	18,712
Injuries and damages	45,672	48,165
Employee pensions and benefits	417,324	416,510
Miscellaneous	31,417	27,437
Rents	9,150	8,900
Maintenance	11,639	50,497
Total Administrative and General	703,331	735,558
Taxes	74,518	79,284
Total Operation and Maintenance	2,995,535	3,289,327
Depreciation	1,573,076	1,567,831
Amortization	129,059	129,059
Total Operating Expenses	4,697,670	4,986,217
OPERATING INCOME	\$ 3,288,654	\$ 3,014,071

NEENAH WATER UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2015 and 2014

	Water	
	2015	2014
Utility Financed Plant in Service		
Beginning of year	\$ 51,454,091	\$ 51,020,627
End of year	<u>51,763,448</u>	<u>51,454,091</u>
Average	<u>51,608,770</u>	<u>51,237,359</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(13,933,757)	(12,604,482)
End of year	<u>(14,046,100)</u>	<u>(13,933,757)</u>
Average	<u>(13,989,929)</u>	<u>(13,269,120)</u>
Materials and Supplies		
Beginning of year	118,744	119,549
End of year	<u>148,740</u>	<u>118,744</u>
Average	<u>133,742</u>	<u>119,147</u>
Regulatory Liability		
Beginning of year	(254,665)	(282,960)
End of year	<u>(226,373)</u>	<u>(254,665)</u>
Average	<u>(240,519)</u>	<u>(268,813)</u>
AVERAGE NET RATE BASE	<u>\$ 37,512,064</u>	<u>\$ 37,818,573</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 2,361,410</u>	<u>\$ 2,091,855</u>
RATE OF RETURN (PERCENT)	<u>6.30</u>	<u>5.53</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.