

WATERLOO WATER AND LIGHT COMMISSION

An Enterprise Fund of the
City of Waterloo, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

WATERLOO WATER AND LIGHT COMMISSION

An Enterprise Fund of the City of Waterloo, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Utility Commission
Waterloo Water and Light Commission
Waterloo, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Waterloo Water and Light Commission, an enterprise fund of the City of Waterloo, Wisconsin, as of and for the years ended December 31, 2016 and 2015, 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 Waterloo Water and Light Commission'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 Waterloo Water and Light Commission'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 Waterloo Water and Light Commission as of December 31, 2016 and 2015, 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
Waterloo Water and Light Commission

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Waterloo Water and Light Commission enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Waterloo, Wisconsin, as of December 31, 2016 and 2015 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 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.

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 is 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 4, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

The management of the Waterloo Water and Light Commission (utility) offers all persons interested in the financial position of the utility this narrative overview and analysis of the utility's financial performance during the fiscal years ending December 31, 2016 and 2015. You are invited to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

The following summarizes the operating results of each utility.

ELECTRIC UTILITY EARNINGS

Operating income decreased from \$297,000 in 2015 to \$243,000 in 2016. Revenues decreased 5.72% as a result of a decrease in sales volume. Operating expenses decreased 4.87% due to the decrease in purchased power. The rate of return decreased from 6.81% to 5.08% in 2016.

WATER UTILITY EARNINGS

The water utility had an operating income of \$221,000 in 2016 compared to \$227,000 in 2015, a decrease of 2.73%. There was not a significant change in operating revenue in 2016. Operating expenses increased 0.80% in 2016. The rate of return increased from 4.96% to 5.54% in 2016.

SEWER UTILITY EARNINGS

The sewer utility had an operating income in 2016 of \$213,000 compared to \$231,000 in 2015. Operating revenues decrease by 3.63% due to lower usage in 2016 compared to 2015. Operating expenses decreased by 2.38% in 2016.

DEBT COVERAGE

The actual combined debt coverage for 2016 was 2.16 which exceeds the requirement of 1.25.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT

The Waterloo Water and Light Commission is an enterprise fund of the City of Waterloo. The purpose of the utility is to provide electric, water and sewer service to properties located within the municipality and selected areas outside the city.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Waterloo Water and Light Commission is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Waterloo Water and Light Commission.

- > The Statements of Net Position includes all of the Waterloo Water and Light Commission's assets, liabilities, deferred outflows of resources, deferred inflows of resources and net position, and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Waterloo Water and Light Commission.
 - > The Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the Waterloo Water and Light Commission's financial health.
 - > The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
-

UTILITY FINANCIAL ANALYSIS

An analysis of the utility's financial position begins with a review of the Statements of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information. These two statements report the utility's net position and changes therein. The utility's net position – "the difference between assets, deferred outflows, and liabilities" is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position can also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

CONDENSED STATEMENTS OF NET POSITION

	2014	2015	2016
ASSETS AND DEFERRED OUTFLOWS			
Unrestricted Cash and Investments	\$ 405,427	\$ 872,252	\$ 828,224
Customer Accounts Receivable	672,997	617,733	608,718
Restricted and Designated Assets	1,740,688	1,879,552	3,093,975
Other Assets and Deferred Outflows	353,954	343,561	546,101
Net Electric Plant	3,259,104	3,152,768	3,211,137
Net Water Plant	3,827,894	3,702,094	3,650,803
Net Sewer Plant	3,122,673	2,875,263	2,651,149
Total Assets and Deferred Outflows	<u>13,382,737</u>	<u>13,443,223</u>	<u>14,590,107</u>
LIABILITIES			
Long-Term Liabilities	5,366,867	4,997,336	5,853,173
Other Liabilities and Deferred Inflows	<u>1,165,559</u>	<u>1,133,520</u>	<u>1,237,988</u>
Total Liabilities	<u>6,532,426</u>	<u>6,130,856</u>	<u>7,091,161</u>
NET POSITION			
Net Investment in Capital Assets	5,616,118	5,605,742	5,778,453
Restricted for:			
Debt Service	531,095	495,755	529,056
Equipment Replacement	669,815	755,795	813,013
Pension Asset	-	89,024	-
Unrestricted	<u>33,283</u>	<u>366,051</u>	<u>378,424</u>
TOTAL NET POSITION	<u>\$ 6,850,311</u>	<u>\$ 7,312,367</u>	<u>\$ 7,498,946</u>

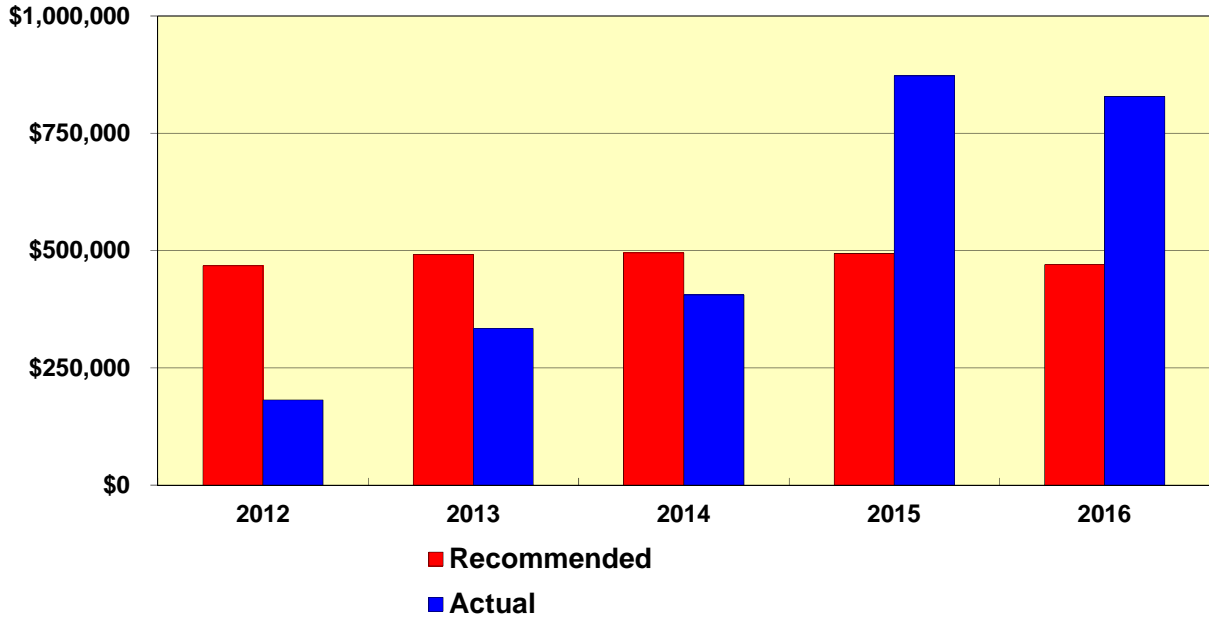
The electric utility increased their net position by \$77,000, the water utility increased their net position by \$94,000 and the sewer utility increased their net position by \$16,000.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

UNRESTRICTED FUNDS ON HAND



**Unrestricted Funds on Hand
Actual vs. Recommended
2012-2016**

	2012	2013	2014	2015	2016
Minimum Funding Benchmark 1 Months Billings	\$ 467,774	\$ 490,979	\$ 495,399	\$ 493,651	\$ 469,861
Actual Funds on Hand	\$ 181,582	\$ 333,603	\$ 405,427	\$ 872,252	\$ 828,224
Months Billings on Hand	<u>0.39</u>	<u>0.68</u>	<u>0.82</u>	<u>1.77</u>	<u>1.76</u>

A utility should maintain funds to cover its operations in a normal business operating cycle (i.e. quarterly, monthly) plus a contingency. In addition, utilities should have available an amount equal to one year's capital improvements. These funding levels facilitate budgeting since there will be less concern for business cycle fluctuations.

This shows that the utility had slightly decreased their cash reserves in 2016. In 2015 and 2016 the utility has cash reserves on hand greater than the amounts recommended. The utility took out new debt in 2012, 2013 and 2016 in order to fund capital projects which combined with recent rate adjustments has allowed unrestricted funds on hand to increase to more acceptable levels.

See Independent Auditors' Report

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2015</u>	<u>2016</u>
OPERATING REVENUES			
Electric	\$ 4,447,285	\$ 4,337,317	\$ 4,089,009
Water	615,514	643,039	640,144
Sewer	<u>881,990</u>	<u>943,460</u>	<u>909,176</u>
Total Operating Revenues	<u>5,944,789</u>	<u>5,923,816</u>	<u>5,638,329</u>
OPERATING EXPENSES			
Electric			
Operation and Maintenance	4,027,334	3,857,042	3,662,894
Depreciation	<u>176,877</u>	<u>182,854</u>	<u>183,088</u>
Total Electric	<u>4,204,211</u>	<u>4,039,896</u>	<u>3,845,982</u>
Water			
Operation and Maintenance	326,444	275,645	281,837
Depreciation	<u>136,566</u>	<u>140,203</u>	<u>137,318</u>
Total Water	<u>463,010</u>	<u>415,848</u>	<u>419,155</u>
Sewer			
Operation and Maintenance	463,780	450,498	433,409
Depreciation	<u>273,517</u>	<u>262,392</u>	<u>262,512</u>
Total Sewer	<u>737,297</u>	<u>712,890</u>	<u>695,921</u>
Total Operating Expenses	<u>5,404,518</u>	<u>5,168,634</u>	<u>4,961,058</u>
OPERATING INCOME			
Electric	243,074	297,421	243,027
Water	152,504	227,191	220,989
Sewer	<u>144,693</u>	<u>230,570</u>	<u>213,255</u>
Total Operating Income	<u>540,271</u>	<u>755,182</u>	<u>677,271</u>
NON-OPERATING REVENUE	11,330	10,858	22,027
NON-OPERATING EXPENSES	<u>(125,373)</u>	<u>(116,624)</u>	<u>(151,017)</u>
Income Before Contributions and Transfers	426,228	649,416	548,281
CAPITAL CONTRIBUTIONS	1,560	24,613	9,430
OPERATING TRANSFER OUT	(146,337)	(148,055)	(142,274)
TRANSFERS - TAX EQUIVALENT	<u>(247,744)</u>	<u>(242,855)</u>	<u>(228,858)</u>
CHANGE IN NET POSITION	<u>\$ 33,707</u>	<u>\$ 283,119</u>	<u>\$ 186,579</u>
Cumulative effect of a change in accounting principle	<u>\$ -</u>	<u>\$ 178,937</u>	<u>\$ -</u>

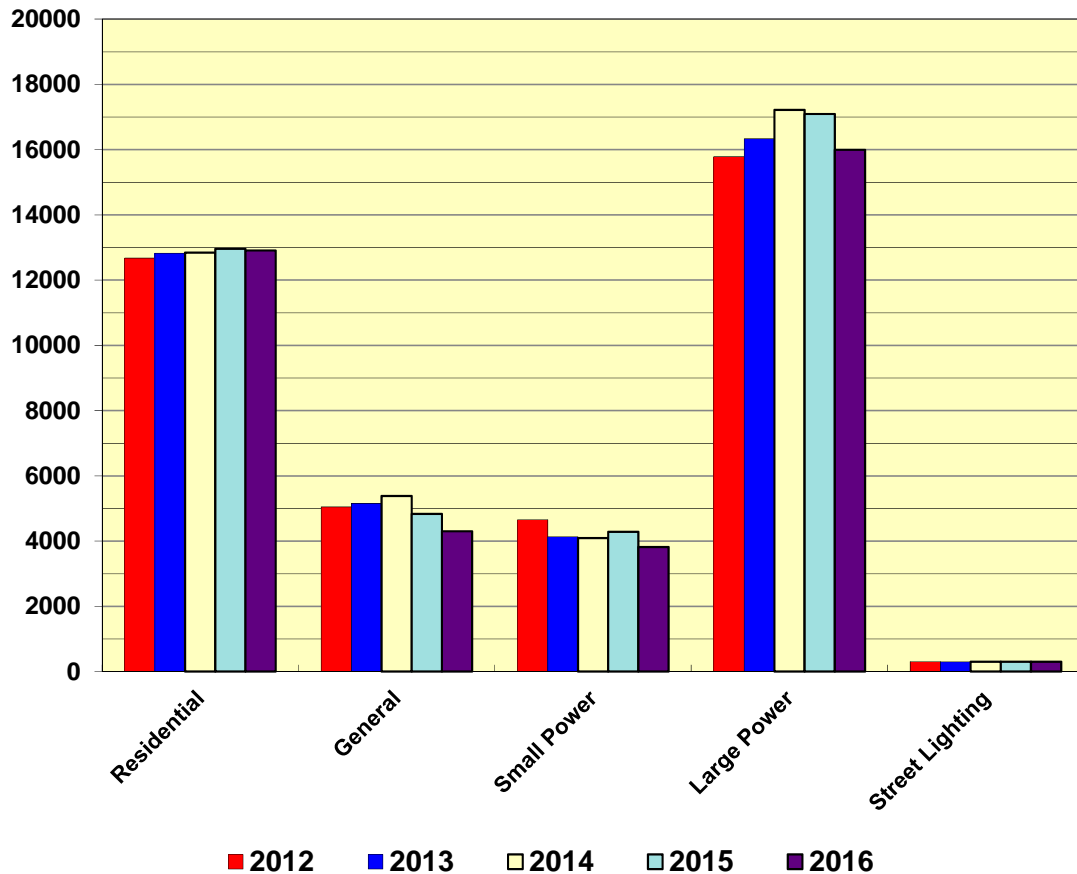
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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Electric Sales



Electric Sales (000 kWh Sold)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	12,672	12,829	12,846	12,962	12,909
General	5,048	5,162	5,383	4,831	4,300
Small Power	4,657	4,138	4,094	4,287	3,820
Large Power	15,790	16,337	17,219	17,088	15,995
Street Lighting	<u>310</u>	<u>305</u>	<u>305</u>	<u>305</u>	<u>304</u>
Total	<u>38,477</u>	<u>38,771</u>	<u>39,847</u>	<u>39,473</u>	<u>37,328</u>

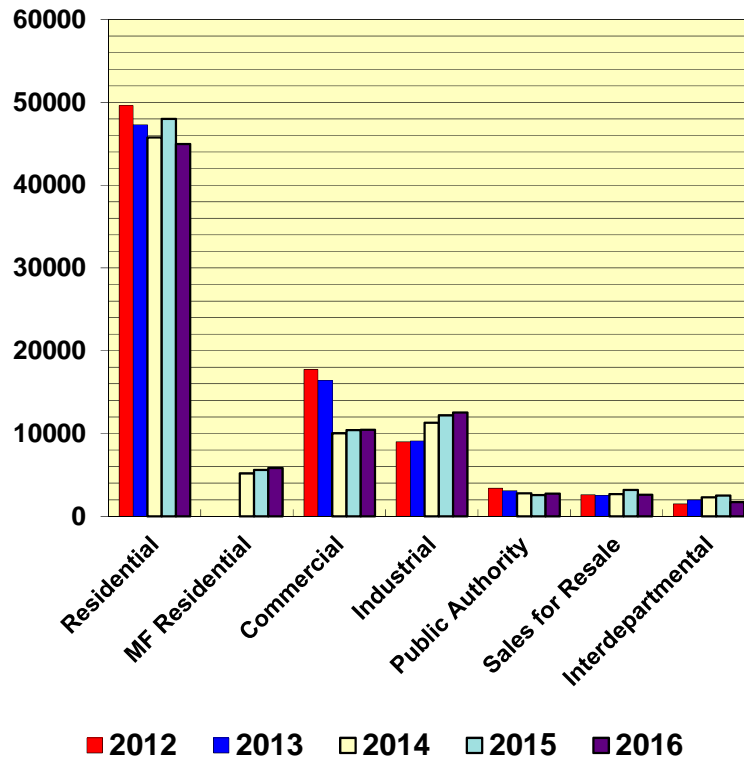
Residential, general, small power, large power and street lighting all saw decreases in usage in 2016. The decreases are due to fluctuations in weather patterns.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Water Sales



Water Sales (000s Gallons Sold) By Customer Class

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	49,616	47,328	45,753	48,000	44,967
Multi-family Residential	-	-	5,168	5,582	5,852
Commercial	17,742	16,429	10,023	10,413	10,436
Industrial	9,002	9,115	11,288	12,194	12,556
Public Authority	3,378	3,082	2,787	2,571	2,755
Sales for Resale (Portland)	2,593	2,546	2,655	3,203	2,590
Interdepartmental	<u>1,511</u>	<u>1,972</u>	<u>2,285</u>	<u>2,495</u>	<u>1,717</u>
Total	<u>83,842</u>	<u>80,472</u>	<u>79,959</u>	<u>84,458</u>	<u>80,873</u>

Prior to 2014, the Multi-family residential class was combined with the Commercial class. Water sales by customer class remained consistent with the prior year with slight increases and decrease due to yearly fluctuations. The large decrease in residential sales was due to high amounts of precipitation experienced in 2016.

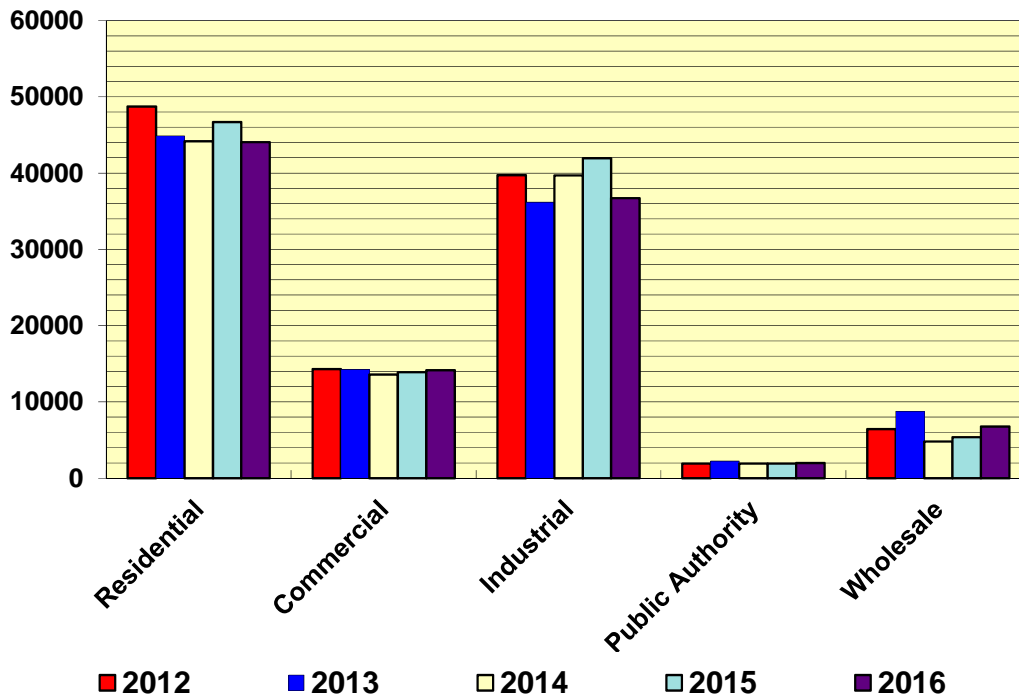
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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Sewer Sales



Sewer Revenues (000s Gallons Billed) By Customer Class

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	48,730	44,868	44,150	46,674	44,050
Commercial	14,295	14,277	13,579	13,870	14,136
Industrial	39,727	36,178	39,675	41,946	36,691
Public Authority	1,915	2,248	1,896	1,901	1,974
Wholesale (Portland)	<u>6,426</u>	<u>8,752</u>	<u>4,790</u>	<u>5,391</u>	<u>6,770</u>
Total	<u>111,093</u>	<u>106,323</u>	<u>104,090</u>	<u>109,782</u>	<u>103,621</u>

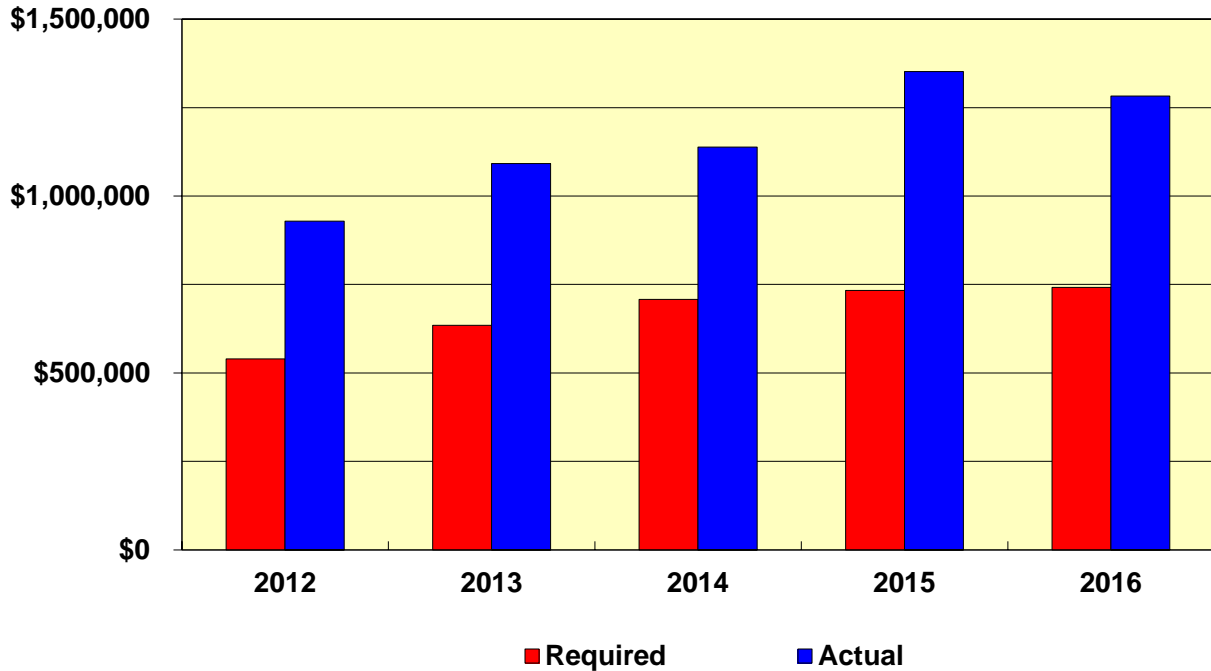
Since water revenues decreased slightly in 2016 it is expected that sewer sales would also decrease due to normal fluctuations.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Debt Coverage



Debt Coverage Actual vs. Required

	2012	2013	2014	2015	2016
Required Net Earnings	<u>\$ 539,598</u>	<u>\$ 634,610</u>	<u>\$ 708,079</u>	<u>\$ 733,240</u>	<u>\$ 741,544</u>
Actual Net Earnings	<u>\$ 929,521</u>	<u>\$ 1,091,472</u>	<u>\$ 1,138,561</u>	<u>\$ 1,351,489</u>	<u>\$ 1,282,216</u>
Times Coverage	<u>2.15</u>	<u>2.15</u>	<u>2.01</u>	<u>2.30</u>	<u>2.16</u>

Under terms of the bond resolutions, revenues must be sufficient to pay operation and maintenance expenses and revenue bond debt service. The excess of actual net earnings over required net earnings represents additional borrowing power.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Consolidated Statements of Cash Flows

	2014	2015	2016
Cash Flow From:			
Operating Activities	\$ 1,122,801	\$ 1,427,650	\$ 1,341,019
Investing Activities	16,865	(290,074)	6,781
Capital and Related Financing Activities			
Capital Improvements	(313,180)	(129,632)	(408,088)
Debt Service	(1,490,499)	(586,594)	(593,248)
Debt Issue	-	-	1,265,412
Contributions in aid of construction	-	43,353	9,430
Other Capital and Related Financing	866	400	-
Noncapital Financing Activities	<u>(309,768)</u>	<u>(247,744)</u>	<u>(365,925)</u>
Net Change in Cash and Cash Equivalents	(972,915)	217,359	1,255,381
Cash and Cash Equivalents - Beginning of the Year	<u>2,407,880</u>	<u>1,434,965</u>	<u>1,652,324</u>
Cash and Cash Equivalents - End of the Year	1,434,965	1,652,324	2,907,705
Long-Term Investments	<u>706,082</u>	<u>1,005,388</u>	<u>1,009,426</u>
Total Cash and Investments	<u>\$ 2,141,047</u>	<u>\$ 2,657,712</u>	<u>\$ 3,917,131</u>

Overall cash flows have been increasing due to increasing rates, debt issues, and contributions for capital projects. The increase in 2016 was the result of issuing electric bonds.

Cash flows from operating activities increased during 2015 as a result of rate increases. There was a decrease seen in 2016 with decreased usage.

Cash flows from investing activities result mainly from the purchase and sale of long-term investments and investment income. The increase in 2016 is the result of an increase investments sold and matured from 2015.

The cash flows from capital and related financing activities are related to new debt in 2016, retiring debt, and capital investments. The increase is a result of the debt proceeds received.

CAPITAL ASSETS

Details of utility capital assets are shown in Note 5 to the financial statements.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

LONG-TERM DEBT

New debt was issued in 2016 to fund electric capital projects. Details of the existing debt are included in Note 6.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

The utility continues to monitor the adequacy of retail rates. Sewer rates were increased in 2016, while electric and water rates last increased in 2015. The utility has applied to the PSCW for an electric rate adjustment in 2017. Increases in rates were designed to improve the utilities cash flow and rate of return and to meet debt coverage requirements.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the utility's finances. If you have questions about this report, or need additional financial information, contact the utility office at 575 Commercial Avenue, Waterloo, Wisconsin 53594.

WATERLOO WATER AND LIGHT COMMISSION

STATEMENTS OF NET POSITION As of December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and investments	\$ 828,224	\$ 872,252
Restricted Assets		
Redemption account	137,050	102,491
Customer accounts receivable	608,718	617,733
Other accounts receivable	12,327	17,810
Due from municipality	17,109	21,718
Materials and supplies	<u>101,963</u>	<u>99,653</u>
Total Current Assets	<u>1,705,391</u>	<u>1,731,657</u>
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	407,110	404,652
Replacement account	813,013	755,795
Construction account	1,731,734	522,522
Net pension asset	-	89,024
Interest receivable	5,068	5,068
Other Assets		
Preliminary survey and investigation	6,199	6,199
Property held for future use	20,011	20,011
Capital Assets		
Plant in service		
Electric	6,719,673	6,484,659
Water	5,660,211	5,588,083
Sewer	<u>7,752,389</u>	<u>7,729,555</u>
Total Plant in Service	<u>20,132,273</u>	<u>19,802,297</u>
Accumulated depreciation		
Electric	(3,516,585)	(3,341,150)
Water	(2,009,408)	(1,885,989)
Sewer	<u>(5,101,240)</u>	<u>(4,854,292)</u>
Total Accumulated Depreciation	<u>(10,627,233)</u>	<u>(10,081,431)</u>
Construction work in progress		
Electric	<u>8,049</u>	<u>9,259</u>
Total Construction Work in Progress	<u>8,049</u>	<u>9,259</u>
Total Noncurrent Assets	<u>12,496,224</u>	<u>11,533,396</u>
Total Assets	<u>14,201,615</u>	<u>13,265,053</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	75,717	88,689
Deferred outflows related to pension	<u>312,775</u>	<u>89,481</u>
Total Deferred Outflows of Resources	<u>388,492</u>	<u>178,170</u>

LIABILITIES	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable	\$ 289,056	\$ 309,950
Due to other funds	256,177	269,862
Due to capital projects fund	694,763	675,559
Accrued vacation leave	20,265	37,248
Accrued liabilities	7,160	5,630
Commitment to Community	5,160	(940)
Current Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	516,897	495,314
Accrued interest	<u>20,172</u>	<u>16,456</u>
Total Current Liabilities	<u>1,809,650</u>	<u>1,809,079</u>
NONCURRENT LIABILITIES		
Revenue bonds	5,044,495	4,251,392
Unamortized debt discount	(19,305)	(11,112)
Accrued sick leave	71,924	71,320
Customer advances for construction	10,177	10,177
Net pension liability	<u>56,119</u>	<u>-</u>
Total Noncurrent Liabilities	<u>5,163,410</u>	<u>4,321,777</u>
 Total Liabilities	 <u>6,973,060</u>	 <u>6,130,856</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	<u>118,101</u>	<u>-</u>
 NET POSITION		
Net investment in capital assets	5,778,453	5,605,742
Restricted for:		
Debt service	529,056	495,755
Equipment replacement	813,013	755,795
Pension asset	-	89,024
Unrestricted	<u>378,424</u>	<u>366,051</u>
 TOTAL NET POSITION	 <u>\$ 7,498,946</u>	 <u>\$ 7,312,367</u>

See accompanying notes to the financial statements.

WATERLOO WATER AND LIGHT COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Electric		
Sales of electricity	\$ 4,076,865	\$ 4,324,605
Other	<u>12,144</u>	<u>12,712</u>
Total Electric	<u>4,089,009</u>	<u>4,337,317</u>
Water		
Sales of water	624,600	626,717
Other	<u>15,544</u>	<u>16,322</u>
Total Water	<u>640,144</u>	<u>643,039</u>
Sewer		
Treatment charges	906,738	940,508
Other	<u>2,438</u>	<u>2,952</u>
Total Sewer	<u>909,176</u>	<u>943,460</u>
Total Operating Revenues	<u>5,638,329</u>	<u>5,923,816</u>
OPERATING EXPENSES		
Electric		
Operation and maintenance	3,662,894	3,857,042
Depreciation	<u>183,088</u>	<u>182,854</u>
Total Electric	<u>3,845,982</u>	<u>4,039,896</u>
Water		
Operation and maintenance	281,837	275,645
Depreciation	<u>137,318</u>	<u>140,203</u>
Total Water	<u>419,155</u>	<u>415,848</u>
Sewer		
Operation and maintenance	433,409	450,498
Depreciation	<u>262,512</u>	<u>262,392</u>
Total Sewer	<u>695,921</u>	<u>712,890</u>
Total Operating Expenses	<u>4,961,058</u>	<u>5,168,634</u>
OPERATING INCOME		
Electric	243,027	297,421
Water	220,989	227,191
Sewer	<u>213,255</u>	<u>230,570</u>
Total Operating Income	<u>677,271</u>	<u>755,182</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	10,819	9,232
Income from non-utility operations	4,717	-
Income from merchandising and jobbing	6,491	1,626
Interest expense	(101,650)	(102,020)
Amortization of discount	(14,604)	(14,604)
Debt issue costs	<u>(34,763)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(128,990)</u>	<u>(105,766)</u>
Income Before Contributions and Transfers	548,281	649,416
CAPITAL CONTRIBUTIONS	9,430	24,613
TRANSFER IN (OUT)	(142,274)	(148,055)
TRANSFERS - TAX EQUIVALENT	<u>(228,858)</u>	<u>(242,855)</u>
CHANGE IN NET POSITION	186,579	283,119
NET POSITION - Beginning of Year	7,312,367	6,850,311
Cumulative effect of a change in accounting principle	<u>-</u>	<u>178,937</u>
NET POSITION - END OF YEAR	<u>\$ 7,498,946</u>	<u>\$ 7,312,367</u>

See accompanying notes to the financial statements.

WATERLOO WATER AND LIGHT COMMISSION

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 5,604,949	\$ 5,976,508
Received from municipality for services	69,795	68,404
Paid to suppliers for goods and services	(3,885,353)	(4,188,968)
Paid to employees for operating payroll	(448,372)	(428,294)
Net Cash Flows From Operating Activities	1,341,019	1,427,650
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(242,855)	(247,744)
Paid to municipality or contractors for sewer maintenance	(123,070)	-
Net Cash Flows From Noncapital Financing Activities	(365,925)	(247,744)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(408,088)	(129,632)
Contributions in aid of construction	9,430	43,353
Special assessments received	-	400
Debt retired	(495,314)	(483,772)
Interest paid	(97,934)	(102,822)
Proceeds from debt issue	1,300,175	-
Debt issuance costs	(34,763)	-
Net Cash Flows From Capital and Related Financing Activities	273,506	(672,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(718,065)	(716,196)
Investments sold and matured	714,027	416,890
Investment income	10,819	9,232
Net Cash Flows From Investing Activities	6,781	(290,074)
Net Change in Cash and Cash Equivalents	1,255,381	217,359
CASH AND CASH EQUIVALENTS - Beginning of Year	1,652,324	1,434,965
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,907,705	\$ 1,652,324
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Amortization	\$ 14,604	\$ 14,604
Discount on new debt	\$ 9,825	\$ -
Transfers due to capital projects fund	\$ 19,204	\$ 148,054

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 677,271	\$ 755,182
Nonoperating revenue (expense)	11,208	1,626
Noncash items in operating income		
Depreciation	582,918	585,449
Depreciation charged to clearing and other utilities	42,206	23,328
Changes in assets, deferred outflows and liabilities		
Customer accounts receivable	9,015	55,264
Other accounts receivable	5,482	3,015
Due from other funds	4,609	62,842
Materials and supplies	(2,310)	2,305
Pension related deferrals and liabilities	39,950	(1,219)
Accounts payable	(20,893)	(54,581)
Due to other funds	312	(2,834)
Accrued liabilities	(14,849)	(2,727)
Commitment to community	6,100	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,341,019</u>	<u>\$ 1,427,650</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 828,224	\$ 872,252
Redemption account	137,050	102,491
Reserve account	407,110	404,652
Replacement account	813,013	755,795
Construction account	<u>1,731,734</u>	<u>522,522</u>
Total Cash and Investments	3,917,131	2,657,712
Less: Noncash equivalents	<u>(1,009,426)</u>	<u>(1,005,388)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,907,705</u>	<u>\$ 1,652,324</u>

See accompanying notes to the financial statements.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Waterloo Water and Light Commission (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.

Waterloo Water and Light Commission (utility) provides electric, water and sewer service to properties within the City of Waterloo (municipality), and electric service to the Towns of Waterloo, Medina and Portland. The utility furnishes water at wholesale to, and treats wastewater from, the Town of Portland. Sewer service consists only of wastewater treatment; collecting of wastewater is part of a different city fund.

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 Waterloo (municipality). The utility is managed by the utility commission. The utility provides electric, water, and sewer service to properties within the municipality. In addition, the utility serves certain properties outside the city as noted above.

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

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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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.

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.

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 methods and inputs as outlined in Note 2. 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 electric, water, and sewer 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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project.

Anticipated Future Special Assessments

At December 31, 2016 there were \$325,010 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.

Property Held for Future Use

The utility has purchased a parcel of land to be used for future construction related to utility operations.

Capital Assets

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or the estimate acquisition 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, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Electric Plant	
Transmission	30
Distribution	20 - 40
General	7 - 40
Water Plant	
Source of supply	34 - 56
Pumping	23 - 31
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 34

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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

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

Capital Assets (cont.)

	<u>Years</u>
Sewer Plant	
Collecting system pumping	20
Treatment and disposal	13 - 38
General	7 - 40

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.

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.

Commitment to Community

The electric utility charges fees to all customers as required by the 1999 Energy Reliability Act and 2006 Act 141. Revenues generated from the fees are used to fund energy conservation and low-income energy assistance ("Commitment to Community") programs. The utility is acting as an agent administering the program so net collections and expenditures/remittances associated with the program are recorded as a current liability on the statements of net position.

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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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

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

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

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 not accrue revenues beyond billing dates.

Current electric rates were approved by the PSCW effective February 2, 2015 and are designed to provide a 6.75% return on rate base.

Current water rates were approved by the PSCW effective July 15, 2015 and are designed to provide a 4.50% return on rate base.

Current sewer rates were approved by the utility commission effective October 1, 2016.

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

GASB has approved GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, 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. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, and Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. When they become effective, application of these standards may restate portions of these financial statements.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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

COMPARATIVE DATA

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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 has collateral or depository insurance agreements in the amount of \$1,295,327 and \$1,965,188 at December 31, 2016 and 2015 respectively.

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.

	2016		2015	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Farmers & Merchants State Bank	\$ 3,463,853	\$ 3,314,815	\$ 2,071,686	\$ 2,056,975
Avestar Credit Union	<u>602,316</u>	<u>602,316</u>	<u>600,737</u>	<u>600,737</u>
Totals	<u>\$ 4,066,169</u>	<u>\$ 3,917,131</u>	<u>\$ 2,672,423</u>	<u>\$ 2,657,712</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2016 and 2015:

Due To	Due From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
Utility	Tax Fund	\$ 17,109	Delinquent on tax roll	\$ 21,718	Delinquent on tax roll
General Fund	Utility	256,177	Tax equivalent and garbage collections	269,862	Tax equivalent and garbage collections
Capital Projects Fund	Utility	694,763	Sewer collection system funding	675,559	Sewer collection system funding

The following is a schedule of transfer balances for the years ending December 31, 2016 and 2015:

To	From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
City	Utility	\$ 228,858	Tax equivalent	\$ 242,855	Tax equivalent
Capital Projects Fund	Utility	142,274	Sewer collection system funding	148,055	Sewer collection system funding

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.
- Construction - Used to report debt proceeds restricted for use in construction.

Replacement Account

As a condition of receiving state and federal funds for wastewater plant construction, the utility has established an account for replacement of certain mechanical equipment.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 - RESTRICTED ASSETS (cont.)

Net Pension Asset

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

Restricted Net Position

The following calculation supports the amount of electric, water, and sewer restricted net position:

	2016	2015
Restricted Assets		
Redemption account	\$ 137,050	\$ 102,491
Reserve account	407,110	404,652
Replacement account	813,013	755,795
Construction account	1,731,734	522,522
Net pension asset	-	89,024
Interest receivable	5,068	5,068
Total Restricted Assets	3,093,975	1,879,552
Less: Restricted Assets Not Funded by Revenues		
Construction account	(1,731,734)	(522,522)
Current Liabilities Payable From Restricted Assets	(20,172)	(16,456)
Total Restricted Net Position as Calculated	\$ 1,342,069	\$ 1,340,574

The purpose of the restricted net position is as follows:

	2016	2015
Debt service	\$ 529,056	\$ 495,755
Equipment replacement	813,013	755,795
Pension asset	-	89,024
Totals	\$ 1,342,069	\$ 1,340,574

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS

Electric Utility

A summary of changes in electric capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 151,729	\$ 1	\$ -	\$ 151,730
Capital assets being depreciated				
Distribution	4,044,872	69,306	22,320	4,091,858
General	2,288,058	200,330	12,303	2,476,085
Total Capital Assets Being Depreciated	6,332,930	269,636	34,623	6,567,943
Total Capital Assets	6,484,659	269,637	34,623	6,719,673
Less: Accumulated depreciation				
Distribution	(2,428,472)	(130,749)	27,791	(2,531,430)
General	(912,678)	(84,780)	12,303	(985,155)
Total Accumulated Depreciation	(3,341,150)	(215,529)	40,094	(3,516,585)
Construction in progress	9,259	(1,210)	-	8,049
Net Capital Assets	\$ 3,152,768			\$ 3,211,137

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Electric Utility (cont.)

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

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 151,730	\$ -	\$ 1	\$ 151,729
Capital assets being depreciated				
Distribution	3,975,267	83,666	14,061	4,044,872
General	2,296,220	1,253	9,415	2,288,058
Total Capital Assets Being Depreciated	6,271,487	84,919	23,476	6,332,930
Total Capital Assets	6,423,217	84,919	23,477	6,484,659
Less: Accumulated depreciation				
Distribution	(2,315,604)	(131,422)	18,554	(2,428,472)
General	(856,510)	(65,583)	9,415	(912,678)
Total Accumulated Depreciation	(3,172,114)	(197,005)	27,969	(3,341,150)
Construction in progress	8,001	4,828	3,570	9,259
Net Capital Assets	\$ 3,259,104			\$ 3,152,768

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility

A summary of changes in water capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 13,113	\$ -	\$ -	\$ 13,113
Capital assets being depreciated				
Source of supply	71,096	-	-	71,096
Pumping	903,619	1	-	903,620
Water treatment	27,700	1,156	821	28,035
Transmission and distribution	3,786,532	95,565	23,330	3,858,767
General	786,023	981	1,424	785,580
Total Capital Assets Being Depreciated	5,574,970	97,703	25,575	5,647,098
Total Capital Assets	5,588,083	97,703	25,575	5,660,211
Less: Accumulated depreciation				
Source of supply	(25,574)	(1,497)	-	(27,071)
Pumping	(486,066)	(31,667)	-	(517,733)
Water treatment	(12,342)	(1,672)	821	(13,193)
Transmission and distribution	(895,756)	(77,346)	25,327	(947,775)
General	(466,251)	(38,809)	1,424	(503,636)
Total Accumulated Depreciation	(1,885,989)	(150,991)	27,572	(2,009,408)
Net Capital Assets	\$ 3,702,094			\$ 3,650,803

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

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	\$ 13,113	\$ -	\$ -	\$ 13,113
Capital assets being depreciated				
Source of supply	71,096	-	-	71,096
Pumping	900,646	2,973	-	903,619
Water treatment	28,296	-	596	27,700
Transmission and distribution	3,790,382	21,619	25,469	3,786,532
General	794,184	1,254	9,415	786,023
Total Capital Assets Being Depreciated	5,584,604	25,846	35,480	5,574,970
Total Capital Assets	5,597,717	25,846	35,480	5,588,083
Less: Accumulated depreciation				
Source of supply	(24,077)	(1,497)	-	(25,574)
Pumping	(454,464)	(31,602)	-	(486,066)
Water treatment	(11,258)	(1,680)	596	(12,342)
Transmission and distribution	(846,622)	(76,584)	27,450	(895,756)
General	(433,402)	(42,264)	9,415	(466,251)
Total Accumulated Depreciation	(1,769,823)	(153,627)	37,461	(1,885,989)
Net Capital Assets	\$ 3,827,894			\$ 3,702,094

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

A summary of changes in sewer capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 21,763	\$ -	\$ -	\$ 21,763
Capital assets being depreciated				
Collecting system	22,722	-	-	22,722
Collecting system pumping	121,579	1	-	121,580
Treatment and disposal	6,528,122	31,853	10,589	6,549,386
General	1,035,369	3,885	2,316	1,036,938
Total Capital Assets Being Depreciated	7,707,792	35,739	12,905	7,730,626
Total Capital Assets	7,729,555	35,739	12,905	7,752,389
Less: Accumulated depreciation				
Collecting system	(2,213)	(295)	-	(2,508)
Collecting system pumping	(96,861)	(5,726)	-	(102,587)
Treatment and disposal	(4,187,752)	(214,084)	10,589	(4,391,247)
General	(567,466)	(39,748)	2,316	(604,898)
Total Accumulated Depreciation	(4,854,292)	(259,853)	12,905	(5,101,240)
Net Capital Assets	\$ 2,875,263			\$ 2,651,149

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility (cont.)

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

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 21,763	\$ -	\$ -	\$ 21,763
Capital assets being depreciated				
Collecting system	22,722	-	-	22,722
Collecting system pumping	116,321	5,258	-	121,579
Treatment and disposal	6,533,255	6,991	12,124	6,528,122
General	1,035,368	1	-	1,035,369
Total Capital Assets Being Depreciated	7,707,666	12,250	12,124	7,707,792
Total Capital Assets	7,729,429	12,250	12,124	7,729,555
Less: Accumulated depreciation				
Collecting system	(1,918)	(295)	-	(2,213)
Collecting system pumping	(90,913)	(5,948)	-	(96,861)
Treatment and disposal	(3,994,568)	(205,308)	12,124	(4,187,752)
General	(519,359)	(48,107)	-	(567,466)
Total Accumulated Depreciation	(4,606,758)	(259,658)	12,124	(4,854,292)
Net Capital Assets	\$ 3,122,671			\$ 2,875,263

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/16
11/6/2012	Capital improvements and refinancing capital improvement debt	11/01/2028	0.50 - 3.00%	\$ 3,255,000	\$ 2,355,000
3/27/2013	Refinance capital improvement debt	5/01/2032	2.63	1,384,900	1,211,392
12/30/2013	Refinance capital improvement debt	11/01/2022	0.80 - 3.20	950,000	685,000
11/15/16	Capital improvements debt	11/01/2036	1.25 - 3.25	1,310,000	1,310,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2017	\$ 516,897	\$ 121,305	\$ 638,202
2018	533,522	115,044	648,566
2019	545,190	106,121	651,311
2020	566,901	95,990	662,891
2021	563,657	84,526	648,183
2022 - 2026	1,406,284	276,751	1,683,035
2027 - 2031	927,641	137,520	1,065,161
2032 - 2036	<u>501,300</u>	<u>41,650</u>	<u>542,950</u>
Totals	<u>\$ 5,561,392</u>	<u>\$ 978,907</u>	<u>\$ 6,540,299</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 2016 and 2015 were \$593,235 and \$586,594, respectively. Total customer net revenues as defined for the same periods were \$1,285,000 and \$1,351,489. Annual principal and interest payments are expected to require 25% of net revenues on average.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 4,746,706	\$ 1,310,000	\$ 495,314	\$ 5,561,392	\$ 516,897
Accrued sick leave	71,320	19,094	18,490	71,924	-
Customer advances for construction	10,177	-	-	10,177	-
Unamortized debt discount	(11,112)	(9,825)	(1,632)	(19,305)	-
Unearned revenues	-	56,119	-	56,119	-
Totals	<u>\$ 4,817,091</u>	<u>\$ 1,375,388</u>	<u>\$ 512,172</u>	<u>\$ 5,680,307</u>	<u>\$ 516,897</u>

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

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Due Within One Year
Revenue bonds	\$ 5,230,478	\$ -	\$ 483,772	\$ 4,746,706	\$ 495,314
Accrued sick leave	94,822	21,832	45,334	71,320	-
Customer advances for construction	10,177	-	-	10,177	-
Unamortized debt discount	(12,744)	-	(1,632)	(11,112)	-
Unearned revenues	400	-	400	-	-
Totals	<u>\$ 5,323,133</u>	<u>\$ 21,832</u>	<u>\$ 527,874</u>	<u>\$ 4,817,091</u>	<u>\$ 495,314</u>

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2012, 2013 and 2016 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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Insurance (cont.)

The utility is covered under the following insurance policies at December 31, 2016:

Type	Coverage	Expiration
<i>Tricor, Inc.</i>		
General Liability	\$ 5,000,000	1/1/17
Automobile	5,000,000	1/1/17
Workers Compensation	500,000	1/1/17

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 annual debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2016 and 2015 as follows:

	2016	2015
Operating revenues	\$ 5,638,329	\$ 5,923,816
Investment income	10,819	9,232
Miscellaneous nonoperating income	11,208	1,626
Less: Operation and maintenance expenses	(4,378,140)	(4,583,185)
Net Defined Earnings	\$ 1,282,216	\$ 1,351,489
Minimum Required Earnings per Resolution:		
Current year's revenue bond debt service	\$ 593,235	\$ 586,594
Coverage factor	1.25	1.25
Minimum Required Earnings	\$ 741,544	\$ 733,243
Actual Debt Coverage	2.16	2.30

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Electric

The utility has the following number of customers and billed volumes for 2016 and 2015:

	Customers		Sales (000 kWh)	
	2016	2015	2016	2015
Residential	1,545	1,522	12,909	12,962
General	254	258	4,300	4,831
Small power	14	12	3,820	4,287
Large power	11	10	15,995	17,088
Street and highway lighting	2	2	304	305
Totals	<u>1,826</u>	<u>1,804</u>	<u>37,328</u>	<u>39,473</u>

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2016 and 2015:

	Customers		Sales (000 gals)	
	2016	2015	2016	2015
Residential	1,098	1,106	44,967	48,000
Multifamily residential	23	21	5,852	5,582
Commercial	108	111	10,436	10,413
Industrial	12	12	12,556	12,194
Public authority	15	16	2,755	2,571
Wholesale	1	1	2,590	3,203
Interdepartmental	6	2	1,717	2,495
Totals	<u>1,263</u>	<u>1,269</u>	<u>80,873</u>	<u>84,458</u>

Number of Customers and Billed Volumes - Sewer

The utility has the following number of customers and billed volumes for 2016 and 2015:

	Customers		Sales (000 gals)	
	2016	2015	2016	2015
Residential	1,083	1,083	44,050	46,674
Commercial	119	118	14,136	13,870
Industrial	10	10	36,691	41,946
Public authority	12	13	1,974	1,901
Wholesale	1	1	6,770	5,391
Totals	<u>1,225</u>	<u>1,225</u>	<u>103,621</u>	<u>109,782</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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 net investment in capital assets:

	<u>2016</u>	<u>2015</u>
Total construction work in progress	\$ 8,049	\$ 9,259
Plant in service	20,132,273	19,802,297
Accumulated depreciation	<u>(10,627,233)</u>	<u>(10,081,431)</u>
Sub-Totals	<u>9,513,089</u>	<u>9,730,125</u>
Less: Capital related debt		
Current portion of capital related long-term debt	516,897	495,314
Long-term portion of capital related long-term debt	5,044,495	4,251,392
Unamortized debt discount	(19,305)	(11,112)
Unamortized loss on advanced refunding	<u>(75,717)</u>	<u>(88,689)</u>
Sub-Totals	<u>5,466,370</u>	<u>4,646,905</u>
Add: Unspent debt proceeds		
Construction funds	<u>1,731,734</u>	<u>522,522</u>
Total Net Investment in Capital Assets, Net of Related Debt	<u>\$ 5,778,453</u>	<u>\$ 5,605,742</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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.

General Information About the Pension Plan

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

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be bound at <http://etf.wi.gov/publications/cafr.htm>.

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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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
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
2015	2.9	2

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

The WRS recognized \$32,949 and \$34,450 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31 are:

	2016		2015	
	Employee	Employer	Employee	Employer
General (including teachers)	6.6%	6.6%	6.8%	6.8%
Executives & Elected Officials	6.6%	6.6%	7.7%	7.7%
Protective with Social Security	6.6%	9.4%	6.8%	9.5%
Protective without Social Security	6.6%	13.2%	6.8%	13.1%

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2016, the utility reported a liability (asset) of \$56,119 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The 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, 2015, the City of Waterloo's proportion was .012664190%, which was a decrease of .00020291% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, and 2015 the utility recognized pension expense of \$66,913 and \$33,797.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,494	\$ 118,101
Changes in assumption	39,263	-
Net differences between project and actual earnings on pension plan	229,766	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,789	-
Employer contributions subsequent to the measurement date	32,463	-
Total	\$ 312,775	\$ 118,101

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,906	\$ -
Changes in assumption	-	-
Net differences between project and actual earnings on pension plan	43,110	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	516	-
Employer contributions subsequent to the measurement date	32,949	-
Total	\$ 89,481	\$ -

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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 subsequent year ended December 31, 2017. \$32,463 is reported for the 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>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 72,769	\$ 28,581
2017	72,769	28,581
2018	72,768	28,581
2019	60,704	28,581
2020	1,302	3,777
Thereafter	-	-
Total	<u>\$ 280,312</u>	<u>\$ 118,101</u>

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

Actuarial valuation date	December 31, 2014
Measurement date of net pension liability (asset)	December 31, 2015
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.2%
Discount rate	7.2%
Salary increases	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%

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

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

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

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>Core Fund Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	4.7%	23.0%
International Equities	5.6	22.0
Fixed Income	1.6	37.0
Inflation Sensitive Assets	1.4	20.0
Real Estate	3.6	7.0
Private Equity/Debt	6.5	7.0
Multi-Asset	3.8	4.0
Total Core Fund	4.5	120

<u>Variable Fund Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	4.7%	70.0%
International Equities	5.6	30.0
Total Variable Fund	5.0	100.0

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.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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.

The sensitivity analysis as of December 31, 2016 follows:

	<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>
Waterloo Water and Light Commission's proportionate share of the net position liability (asset)	\$ 393,617	\$ 56,119	\$ (207,474)

The sensitivity analysis as of December 31, 2015 follows:

	<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>
Waterloo Water and Light Commission's proportionate share of the net position liability (asset)	\$ 251,153	\$ (89,024)	\$ (357,682)

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Long-Term Contracts - WPPI Energy

The electric utility is one of 51 WPPI Energy member municipalities located throughout the States of Wisconsin, Iowa, and Michigan. On December 1, 1989, each initial WPPI Energy member commenced purchasing electric service from WPPI Energy under a long-term Power Supply Contract for Participating Members (long-term contract). Under the long-term contract, WPPI Energy is obligated to provide and sell, and each member is obligated to take and pay for, the electric power and energy required for the operation of each member's electric utility.

The long-term contract requires all WPPI Energy members to pay for power and energy requirements supplied or made available by WPPI Energy at rates sufficient to cover WPPI Energy's revenue requirement including power supply costs, administrative expenses, and debt service. WPPI Energy's subsequent year's operating budget and rates are approved annually by its Board of Directors, consisting of representatives from each member. The members have agreed to charge rates to retail customers sufficient to meet their WPPI Energy obligations. The long-term contract provides that all payments to WPPI Energy constitute operating expenses of the utility payable from any operating and maintenance fund established for that system.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (cont.)

Long-Term Contracts - WPPI Energy (cont.)

In 2015, a majority of WPPI Energy members ratified an eighteen year extension to their existing contracts. all but two of the remaining members ratified the same extension in 2016. The new contract expires at midnight on December 31, 2055.

WPPI Energy's outstanding debt service obligation to be paid by its members through their wholesale power charges through the remainder of the long-term contract is \$411 million as of December 31, 2016.

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 10 - SIGNIFICANT CUSTOMERS

Electric Utility

The utility has one significant customer who was responsible for 16% of operating revenues for both 2016 and 2015.

NOTE 11 - SUBSEQUENT EVENTS

The utility has applied to the PSCW for an adjustment to electric rates.

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 at December 31, 2015 as follows:

Electric Utility

Net pension liability (asset) January 1, 2014	\$	62,626
Deferred outflows January 1, 2014		<u>14,932</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>77,558</u>

Water Utility

Net pension liability (asset) January 1, 2014	\$	43,408
Deferred outflows January 1, 2014		<u>10,350</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>53,758</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 12 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (cont.)

Sewer Utility

Net pension liability (asset) January 1, 2014	\$	38,453
Deferred outflows January 1, 2014		<u>9,168</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>47,621</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

WATERLOO WATER AND LIGHT COMMISSION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET - WISCONSIN RETIREMENT SYSTEM Last 10 Fiscal Years

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/15	0.01286712%	\$ (89,024)	\$ 427,580	20.82%	102.74%
12/31/16	0.01266419%	56,119	470,700	11.92%	98.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM Last 10 Fiscal Years

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 32,949	\$ 32,949	-	\$ 470,700	7.00%
12/31/16	32,463	32,463	-	477,397	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2016

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

SUPPLEMENTAL INFORMATION

WATERLOO WATER AND LIGHT COMMISSION

ELECTRIC UTILITY PLANT As of and for the Year Ended December 31, 2016

	Balance 1/1/16	Additions	Retirements	Adjustments	Balance 12/31/16
DISTRIBUTION					
Land and land rights	\$ 940	\$ -	\$ -	\$ -	\$ 940
Structures and improvements	4,926	-	-	-	4,926
Station equipment	1,016,700	-	-	-	1,016,700
Poles, towers and fixtures	303,380	14,690	1,043	-	317,027
Overhead conductors and devices	354,467	17,840	605	(80)	371,622
Underground conduit	13,222	-	-	-	13,222
Underground conductors and devices	651,312	12,530	-	-	663,842
Line transformers	693,826	924	793	-	693,957
Services	394,222	9,379	1,058	(98)	402,445
Meters	247,333	14,122	18,821	-	242,634
Street lighting and signal systems	365,484	-	-	(1)	365,483
Total Distribution	<u>4,045,812</u>	<u>69,485</u>	<u>22,320</u>	<u>(179)</u>	<u>4,092,798</u>
GENERAL					
Land and land rights	150,789	-	-	1	150,790
Structures and improvements	1,850,802	-	-	-	1,850,802
Office furniture and equipment	12,266	-	-	(1)	12,265
Computer equipment	17,318	2,477	6,953	-	12,842
Transportation equipment	236,310	188,774	-	-	425,084
Stores equipment	13,603	-	-	-	13,603
Tools, shop and garage equipment	61,129	-	-	1	61,130
Laboratory equipment	5,350	9,080	5,350	-	9,080
Power-operated equipment	82,100	-	-	(1)	82,099
Communication equipment	5,681	-	-	-	5,681
Miscellaneous equipment	3,499	-	-	-	3,499
Total General	<u>2,438,847</u>	<u>200,331</u>	<u>12,303</u>	<u>-</u>	<u>2,626,875</u>
TOTAL ELECTRIC UTILITY PLANT	<u>\$ 6,484,659</u>	<u>\$ 269,816</u>	<u>\$ 34,623</u>	<u>\$ (179)</u>	<u>\$ 6,719,673</u>

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2016

	Balance 1/1/16	Additions	Retirements	Adjustments	Balance 12/31/16
SOURCE OF SUPPLY					
Land and land rights	\$ 2,012	\$ -	\$ -	\$ -	\$ 2,012
Wells and springs	19,761	-	-	-	19,761
Supply mains	<u>51,335</u>	-	-	-	<u>51,335</u>
Total Source of Supply	<u>73,108</u>	-	-	-	<u>73,108</u>
PUMPING					
Structures and improvements	666,671	-	-	-	666,671
Electric pumping equipment	234,862	-	-	1	234,863
Other pumping equipment	<u>2,086</u>	-	-	-	<u>2,086</u>
Total Pumping	<u>903,619</u>	-	-	<u>1</u>	<u>903,620</u>
WATER TREATMENT					
Water treatment equipment	<u>27,700</u>	<u>1,156</u>	<u>821</u>	-	<u>28,035</u>
TRANSMISSION AND DISTRIBUTION					
Land and land rights	2,017	-	-	-	2,017
Distribution reservoirs and standpipes	83,086	-	-	-	83,086
Transmission and distribution mains	2,521,977	47,833	961	-	2,568,849
Services	503,098	-	-	-	503,098
Meters	358,800	31,575	21,656	-	368,719
Hydrants	<u>319,571</u>	<u>16,157</u>	<u>713</u>	-	<u>335,015</u>
Total Transmission and Distribution	<u>3,788,549</u>	<u>95,565</u>	<u>23,330</u>	-	<u>3,860,784</u>
GENERAL					
Land and land rights	9,084	-	-	-	9,084
Structures and improvements	359,906	-	-	-	359,906
Office furniture and equipment	4,334	-	-	-	4,334
Computer equipment	9,898	982	1,424	-	9,456
Transportation equipment	37,657	-	-	-	37,657
Stores equipment	7,433	-	-	-	7,433
Tools, shop and garage equipment	28,703	-	-	-	28,703
Laboratory equipment	2,042	-	-	-	2,042
Power-operated equipment	55,637	-	-	-	55,637
Communication equipment	343	-	-	(1)	342
SCADA equipment	278,955	-	-	-	278,955
Miscellaneous equipment	<u>1,115</u>	-	-	-	<u>1,115</u>
Total General	<u>795,107</u>	<u>982</u>	<u>1,424</u>	<u>(1)</u>	<u>794,664</u>
TOTAL WATER UTILITY PLANT	<u>\$ 5,588,083</u>	<u>\$ 97,703</u>	<u>\$ 25,575</u>	<u>\$ -</u>	<u>\$ 5,660,211</u>

WATERLOO WATER AND LIGHT COMMISSION

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2016

	Balance 1/1/16	Additions	Retirements	Adjustments	Balance 12/31/16
COLLECTING SYSTEM					
Force mains	\$ 22,722	\$ -	\$ -	\$ -	\$ 22,722
COLLECTING SYSTEM PUMPING					
Pump station equipment	107,237	-	-	1	107,238
Electric pumping equipment	14,342	-	-	-	14,342
Total Collecting System Pumping	<u>121,579</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>121,580</u>
TREATMENT AND DISPOSAL					
Land and land rights	400	-	-	-	400
Structures and improvements	3,440,002	-	-	1	3,440,003
Preliminary treatment equipment	342,738	2,996	-	-	345,734
Primary treatment equipment	63,473	-	-	-	63,473
Secondary treatment equipment	1,078,954	24,339	3,196	(1)	1,100,096
Advanced treatment equipment	269,230	-	-	-	269,230
Sludge treatment and disposal equipment	690,868	-	-	1	690,869
Plant site piping	348,047	-	-	-	348,047
Flow metering and monitoring equipment	37,160	4,517	7,393	-	34,284
Other treatment and disposal equipment	257,650	-	-	-	257,650
Total Treatment and Disposal	<u>6,528,522</u>	<u>31,852</u>	<u>10,589</u>	<u>1</u>	<u>6,549,786</u>
GENERAL					
Land and land rights	21,363	-	-	-	21,363
Structures and improvements	578,568	-	-	(1)	578,567
Office furniture and equipment	3,740	-	-	-	3,740
Computer equipment	9,650	899	-	-	10,549
Transportation equipment	90,135	-	-	-	90,135
Communication equipment	178,348	-	-	-	178,348
Other general equipment	174,928	2,987	2,316	-	175,599
Total General	<u>1,056,732</u>	<u>3,886</u>	<u>2,316</u>	<u>(1)</u>	<u>1,058,301</u>
TOTAL SEWER UTILITY PLANT	<u>\$ 7,729,555</u>	<u>\$ 35,738</u>	<u>\$ 12,905</u>	<u>\$ 1</u>	<u>\$ 7,752,389</u>

WATERLOO WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sales of Electricity		
Residential	\$ 1,381,323	\$ 1,384,983
Rural	133,426	141,074
General service	433,643	481,946
Small power	333,888	371,135
Large power	1,628,710	1,771,445
Public street and highway lighting	69,795	68,404
Interdepartmental	96,080	105,618
Total Sales of Electricity	4,076,865	4,324,605
Other Operating Revenues		
Forfeited discounts	7,744	9,429
Miscellaneous service revenues	1,760	551
Rent from electric property	2,209	2,289
Other	431	443
Total Operating Revenues	4,089,009	4,337,317
 OPERATING EXPENSES		
Operation and Maintenance		
Other Power Supply		
Purchased power	3,221,430	3,422,460
Distribution		
Station	22,238	23,159
Overhead line	14,195	28,427
Underground line	9,283	7,995
Street lighting and signal system	12,719	7,210
Meter	10,121	5,519
Customer installations	2,462	64
Miscellaneous	8,088	14,479
Maintenance		
Supervision and engineering	22,849	24,499
Overhead lines	18,325	22,454
Underground lines	-	908
Street lighting and signal system	-	3,049
Meters	576	1,492
Total Distribution	120,856	139,255
Customer Accounts		
Meter reading	10,726	5,908
Customer records and collection	41,433	27,009
Total Customer Accounts	52,159	32,917
Sales		
Advertising	1,830	3,942

WATERLOO WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 29,771	\$ 37,539
Office supplies	22,289	25,135
Administrative expenses transferred	(23,956)	(21,275)
Outside services employed	24,843	29,295
Property insurance	9,815	12,830
Employee pensions and benefits	100,305	82,159
Regulatory commission	23	567
Miscellaneous	43,404	36,452
Transportation	6,317	(116)
Maintenance	<u>29,311</u>	<u>32,538</u>
Total Administrative and General	<u>242,122</u>	<u>235,124</u>
Taxes	<u>24,497</u>	<u>23,344</u>
Total Operation and Maintenance	3,662,894	3,857,042
Depreciation	<u>183,088</u>	<u>182,854</u>
Total Operating Expenses	<u>3,845,982</u>	<u>4,039,896</u>
 OPERATING INCOME	 <u>\$ 243,027</u>	 <u>\$ 297,421</u>

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 289,584	\$ 295,131
Commercial	80,042	77,977
Industrial	45,748	43,794
Public authorities	14,359	13,713
Interdepartmental	7,963	10,352
Service to other systems	<u>9,282</u>	<u>11,096</u>
Total Metered Sales	446,978	452,063
Private fire protection	6,900	6,900
Public fire protection	<u>170,722</u>	<u>167,754</u>
Total Sales of Water	<u>624,600</u>	<u>626,717</u>
Other Operating Revenues		
Forfeited discounts	3,133	3,503
Other	<u>12,411</u>	<u>12,819</u>
Total Operating Revenues	<u>640,144</u>	<u>643,039</u>
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	13,594	19,184
Operation labor	<u>10,818</u>	<u>9,752</u>
Total Source of Supply	<u>24,412</u>	<u>28,936</u>
Pumping		
Fuel or purchased power for pumping	14,821	15,336
Pumping labor	15,148	17,009
Miscellaneous	2,004	2,380
Maintenance		
Structures and improvements	903	76
Pumping equipment	<u>296</u>	<u>1,082</u>
Total Pumping	<u>33,172</u>	<u>35,883</u>
Water Treatment		
Chemicals	4,172	5,182
Operation labor	17,316	17,907
Maintenance		
Water treatment equipment	<u>1,472</u>	<u>2,254</u>
Total Water Treatment	<u>22,960</u>	<u>25,343</u>

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Storage facilities	\$ 12,728	\$ 681
Transmission and distribution lines	3,722	8,384
Meters	710	3,149
Customer installations	844	201
Miscellaneous	886	543
Maintenance		
Mains	13,901	10,585
Services	14,616	6,586
Meters	-	1,142
Hydrants	722	7,541
Total Transmission and Distribution	48,129	38,812
Customer Accounts		
Meter reading	2,808	1,277
Accounting and collecting labor	14,748	12,264
Total Customer Accounts	17,556	13,541
Administrative and General		
Salaries	17,123	23,027
Office supplies	10,679	12,009
Administrative expenses transferred	(3,795)	(3,997)
Outside services employed	11,341	14,913
Property insurance	7,589	10,169
Employee pensions and benefits	67,469	54,113
Regulatory commission	-	270
Miscellaneous	7,326	9,563
Maintenance	10,766	6,176
Total Administrative and General	128,498	126,243
Taxes	7,110	6,887
Total Operation and Maintenance	281,837	275,645
Depreciation	137,318	140,203
Total Operating Expenses	419,155	415,848
OPERATING INCOME	\$ 220,989	\$ 227,191

WATERLOO WATER AND LIGHT COMMISSION

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 398,182	\$ 409,585
Commercial	104,063	102,015
Industrial	346,757	380,201
Public authorities	14,005	13,620
Service to other systems	43,731	35,087
Total Sewer Revenues	906,738	940,508
Other Operating Revenues		
Forfeited discounts	2,438	2,754
Miscellaneous	-	198
Total Operating Revenues	909,176	943,460
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	71,853	75,853
Power and fuel for pumping	67,784	75,737
Chlorine	304	311
Phosphorous removal chemicals	26,101	25,972
Sludge conditioning chemicals	11,221	16,924
Other operating supplies	40,749	44,559
Total Operation	218,012	239,356
Maintenance		
Collection system	9,623	8,502
Treatment and disposal plant equipment	25,809	38,553
General plant structures and equipment	13,902	14,081
Total Maintenance	49,334	61,136
Customer Accounts		
Accounting and collecting	16,685	12,186
Meter Reading	390	1,094
Total Customer Accounts	17,075	13,280
Administrative and General		
Salaries	17,823	16,253
Office supplies	14,359	17,092
Outside services employed	25,164	16,787
Insurance	3,323	3,357
Employees pensions and benefits	59,323	53,672
Miscellaneous	15,581	15,888
Total Administrative and General	135,573	123,049
Taxes	13,415	13,677
Total Operation and Maintenance	433,409	450,498
Depreciation	262,512	262,392
Total Operating Expenses	695,921	712,890
 OPERATING INCOME	 \$ 213,255	 \$ 230,570

WATERLOO WATER AND LIGHT COMMISSION

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2016 and 2015

	Electric		Water	
	2016	2015	2016	2015
Utility Financed Plant in Service				
Beginning of year	\$ 5,709,212	\$ 5,672,137	\$ 4,243,640	\$ 4,253,274
End of year	<u>5,934,715</u>	<u>5,709,212</u>	<u>4,315,768</u>	<u>4,243,640</u>
Average	<u>5,821,964</u>	<u>5,690,675</u>	<u>4,279,704</u>	<u>4,248,457</u>
Utility Financed Accumulated				
Depreciation				
Beginning of year	(2,942,682)	(2,797,463)	(1,404,061)	(1,314,131)
End of year	<u>(3,095,730)</u>	<u>(2,942,682)</u>	<u>(1,501,259)</u>	<u>(1,404,061)</u>
Average	<u>(3,019,206)</u>	<u>(2,870,073)</u>	<u>(1,452,660)</u>	<u>(1,359,096)</u>
Materials and Supplies				
Beginning of year	73,194	75,339	26,459	26,619
End of year	<u>77,966</u>	<u>73,194</u>	<u>23,997</u>	<u>26,459</u>
Average	<u>75,580</u>	<u>74,267</u>	<u>25,228</u>	<u>26,539</u>
Regulatory Liability				
Beginning of year	(83,200)	(93,600)	(67,332)	(75,750)
End of year	<u>(72,800)</u>	<u>(83,200)</u>	<u>(58,916)</u>	<u>(67,332)</u>
Average	<u>(78,000)</u>	<u>(88,400)</u>	<u>(63,124)</u>	<u>(71,541)</u>
 AVERAGE NET RATE BASE	 <u>\$ 2,800,338</u>	 <u>\$ 2,806,469</u>	 <u>\$ 2,789,148</u>	 <u>\$ 2,844,359</u>
 OPERATING INCOME - REGULATORY BASIS	 <u>\$ 159,147</u>	 <u>\$ 191,198</u>	 <u>\$ 154,484</u>	 <u>\$ 141,218</u>
 RATE OF RETURN (PERCENT)	 <u>5.68</u>	 <u>6.81</u>	 <u>5.54</u>	 <u>4.96</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.