

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, 2017 and 2016

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

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, 2017 and 2016, 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, 2017 and 2016, 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.

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, 2017 and 2016 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, 2018

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2017 and 2016

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, 2017 and 2016. 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 \$243,000 in 2016 to \$218,000 in 2017. Revenues decreased 4.96% as a result of a decrease in sales volume. Operating expenses decreased 4.79% due to the decrease in purchased power. The rate of return decreased from 5.68% to 4.05% in 2017.

WATER UTILITY EARNINGS

The water utility had an operating income of \$209,000 in 2017 compared to \$221,000 in 2016, a decrease of 5.50%. There was not a significant change in operating revenue or operating expenses in 2017. The rate of return decreased from 5.54% to 5.03% in 2017.

SEWER UTILITY EARNINGS

The sewer utility had an operating income in 2017 of \$137,000 compared to \$213,000 in 2016. Operating revenues decrease by 7.48% due to lower usage in 2017 compared to 2016. Operation and maintenance costs increased by 4.14% in 2017.

DEBT COVERAGE

The actual combined debt coverage for 2017 was 1.84, 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, 2017 and 2016

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 plus deferred outflows and liabilities plus deferred inflows," 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, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

CONDENSED STATEMENTS OF NET POSITION

	2015	2016	2017
ASSETS AND DEFERRED OUTFLOWS			
Unrestricted Cash and Investments	\$ 872,252	\$ 828,224	\$ 902,614
Customer Accounts Receivable	617,733	608,718	553,470
Restricted and Designated Assets	1,879,552	3,093,975	2,530,927
Other Assets and Deferred Outflows	343,561	546,101	442,601
Net Electric Plant	3,152,768	3,211,282	3,548,002
Net Water Plant	3,702,094	3,650,658	4,751,554
Net Sewer Plant	2,875,263	2,651,149	2,424,818
Total Assets and Deferred Outflows	<u>13,443,223</u>	<u>14,590,107</u>	<u>15,153,986</u>
LIABILITIES			
Long-Term Liabilities	4,997,336	5,853,173	5,267,339
Other Liabilities and Deferred Inflows	1,133,520	1,237,988	1,173,456
Total Liabilities	<u>6,130,856</u>	<u>7,091,161</u>	<u>6,440,795</u>
NET POSITION			
Net Investment in Capital Assets	5,605,742	5,778,453	6,982,287
Restricted for:			
Debt Service	495,755	529,056	448,072
Equipment Replacement	755,795	813,013	841,035
Pension Asset	89,024	-	-
Unrestricted	<u>366,051</u>	<u>378,424</u>	<u>441,797</u>
TOTAL NET POSITION	<u>\$ 7,312,367</u>	<u>\$ 7,498,946</u>	<u>\$ 8,713,191</u>

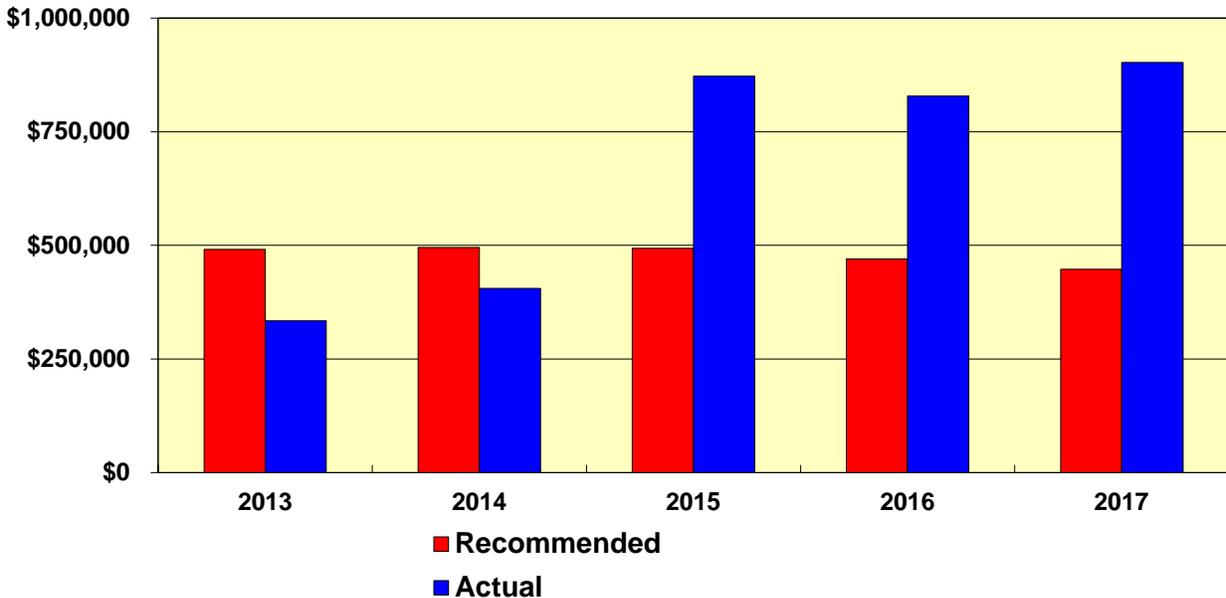
The electric utility increased their net position by \$145,000, the water utility increased their net position by \$1,104,000 and the sewer utility decreased their net position by \$35,000.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

UNRESTRICTED FUNDS ON HAND



Unrestricted Funds on Hand Actual vs. Recommended 2012-2016

	2013	2014	2015	2016	2017
Minimum Funding Benchmark 1 Months Billings	<u>\$ 490,979</u>	<u>\$ 495,399</u>	<u>\$ 493,651</u>	<u>\$ 469,861</u>	<u>\$ 447,136</u>
Actual Funds on Hand	<u>\$ 333,603</u>	<u>\$ 405,427</u>	<u>\$ 872,252</u>	<u>\$ 828,224</u>	<u>\$ 902,614</u>
Months Billings on Hand	<u>0.68</u>	<u>0.82</u>	<u>1.77</u>	<u>1.76</u>	<u>2.02</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 increased their cash reserves in 2017. In 2015, 2016 and 2017 the utility has cash reserves on hand greater than the amounts recommended. The utility took out new debt in 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.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2015	2016	2017
OPERATING REVENUES			
Electric	\$ 4,337,317	\$ 4,089,009	\$ 3,886,169
Water	643,039	640,144	638,307
Sewer	<u>943,460</u>	<u>909,176</u>	<u>841,152</u>
Total Operating Revenues	<u>5,923,816</u>	<u>5,638,329</u>	<u>5,365,628</u>
OPERATING EXPENSES			
Electric			
Operation and Maintenance	3,857,042	3,662,894	3,487,530
Depreciation	<u>182,854</u>	<u>183,088</u>	<u>180,987</u>
Total Electric	<u>4,039,896</u>	<u>3,845,982</u>	<u>3,668,517</u>
Water			
Operation and Maintenance	275,645	281,837	278,954
Depreciation	<u>140,203</u>	<u>137,318</u>	<u>150,522</u>
Total Water	<u>415,848</u>	<u>419,155</u>	<u>429,476</u>
Sewer			
Operation and Maintenance	450,498	433,409	451,346
Depreciation	<u>262,392</u>	<u>262,512</u>	<u>253,270</u>
Total Sewer	<u>712,890</u>	<u>695,921</u>	<u>704,616</u>
Total Operating Expenses	<u>5,168,634</u>	<u>4,961,058</u>	<u>4,802,609</u>
OPERATING INCOME			
Electric	297,421	243,027	217,652
Water	227,191	220,989	208,831
Sewer	<u>230,570</u>	<u>213,255</u>	<u>136,536</u>
Total Operating Income	<u>755,182</u>	<u>677,271</u>	<u>563,019</u>
NON-OPERATING REVENUE	10,858	22,027	29,277
NON-OPERATING EXPENSES	<u>(116,624)</u>	<u>(151,017)</u>	<u>(136,303)</u>
Income Before Contributions and Transfers	649,416	548,281	455,993
CAPITAL CONTRIBUTIONS	24,613	9,430	10,177
CAPITAL CONTRIBUTIONS - MUNICIPAL	-	-	1,104,990
OPERATING TRANSFER OUT	(148,055)	(142,274)	(121,502)
TRANSFERS - TAX EQUIVALENT	<u>(242,855)</u>	<u>(228,858)</u>	<u>(235,413)</u>
CHANGE IN NET POSITION	<u>\$ 283,119</u>	<u>\$ 186,579</u>	<u>\$ 1,214,245</u>
Cumulative effect of a change in accounting principle	<u>\$ 178,937</u>	<u>\$ -</u>	<u>\$ -</u>

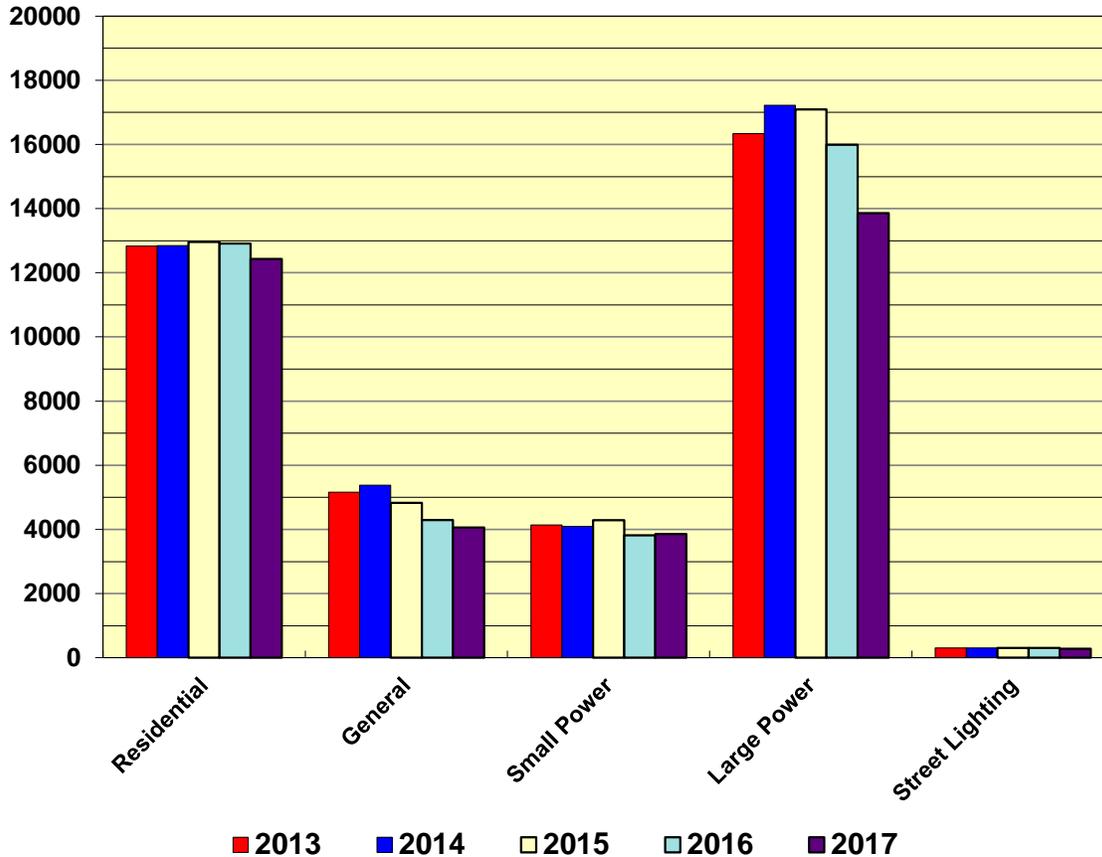
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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC SALES



Electric Sales (000 kWh Sold)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	12,829	12,846	12,962	12,909	12,433
General	5,162	5,383	4,831	4,300	4,060
Small Power	4,138	4,094	4,287	3,820	3,856
Large Power	16,337	17,219	17,088	15,995	13,866
Street Lighting	<u>305</u>	<u>305</u>	<u>305</u>	<u>304</u>	<u>286</u>
Total	<u>38,771</u>	<u>39,847</u>	<u>39,473</u>	<u>37,328</u>	<u>34,501</u>

Residential, general, large power and street lighting all saw decreases in usage in 2017. The decreases are due to fluctuations in weather patterns.

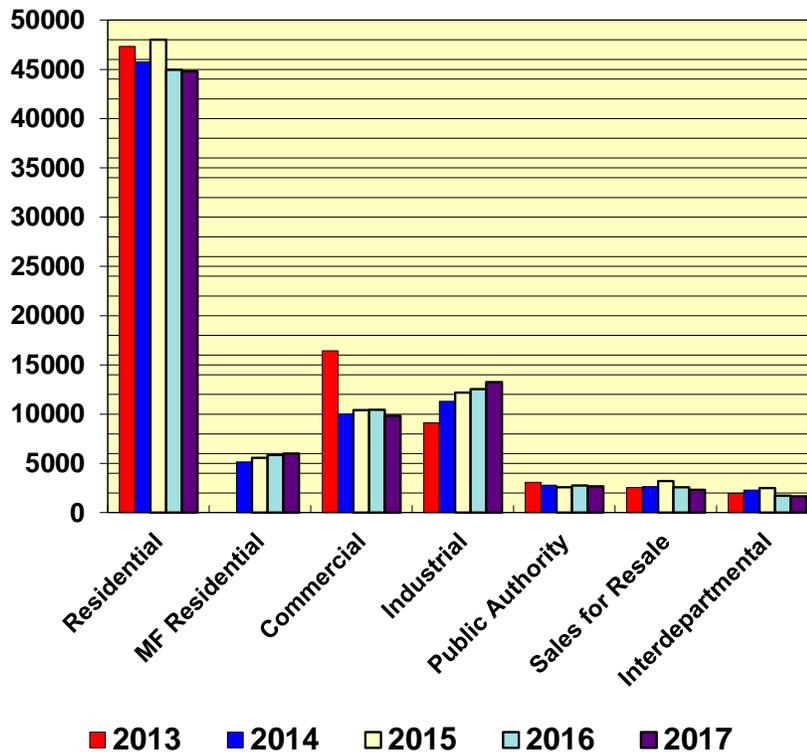
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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

WATER SALES



Water Sales (000s Gallons Sold) By Customer Class

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	47,328	45,753	48,000	44,967	44,808
Multi-family Residential	-	5,168	5,582	5,852	6,024
Commercial	16,429	10,023	10,413	10,436	9,831
Industrial	9,115	11,288	12,194	12,556	13,245
Public Authority	3,082	2,787	2,571	2,755	2,662
Sales for Resale (Portland)	2,546	2,655	3,203	2,590	2,325
Interdepartmental	<u>1,972</u>	<u>2,285</u>	<u>2,495</u>	<u>1,717</u>	<u>1,664</u>
Total	<u>80,472</u>	<u>79,959</u>	<u>84,458</u>	<u>80,873</u>	<u>80,559</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.

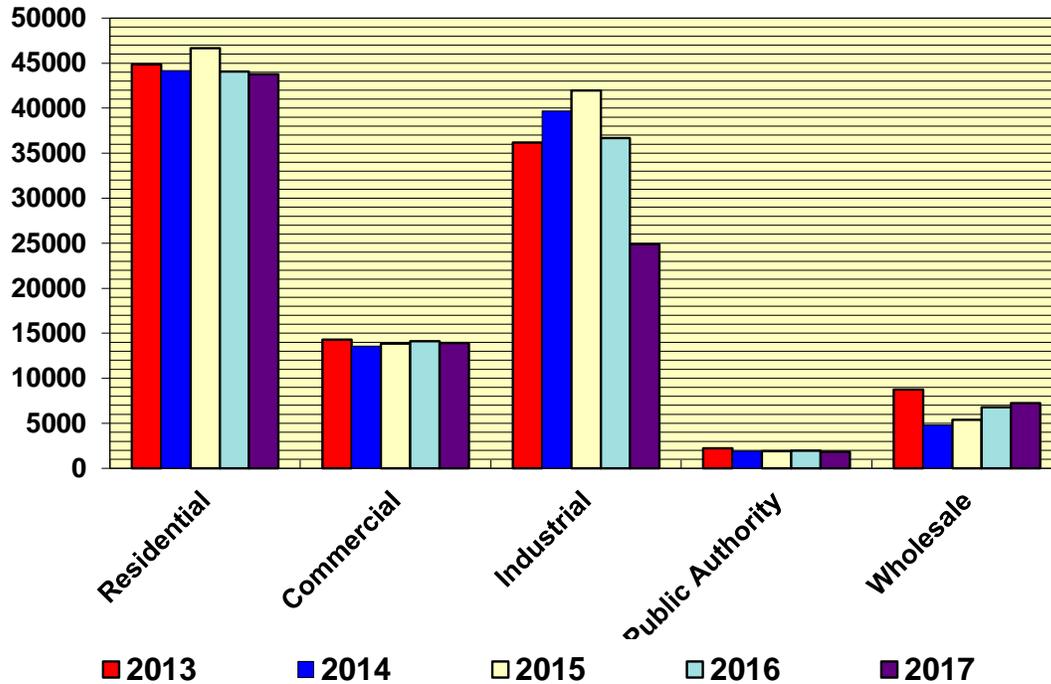
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WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

SEWER SALES



Sewer Revenues (000s Gallons Billed) By Customer Class

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	44,868	44,150	46,674	44,050	43,772
Commercial	14,277	13,579	13,870	14,136	13,927
Industrial	36,178	39,675	41,946	36,691	24,895
Public Authority	2,248	1,896	1,901	1,974	1,828
Wholesale (Portland)	<u>8,752</u>	<u>4,790</u>	<u>5,391</u>	<u>6,770</u>	<u>7,235</u>
Total	<u>106,323</u>	<u>104,090</u>	<u>109,782</u>	<u>103,621</u>	<u>91,657</u>

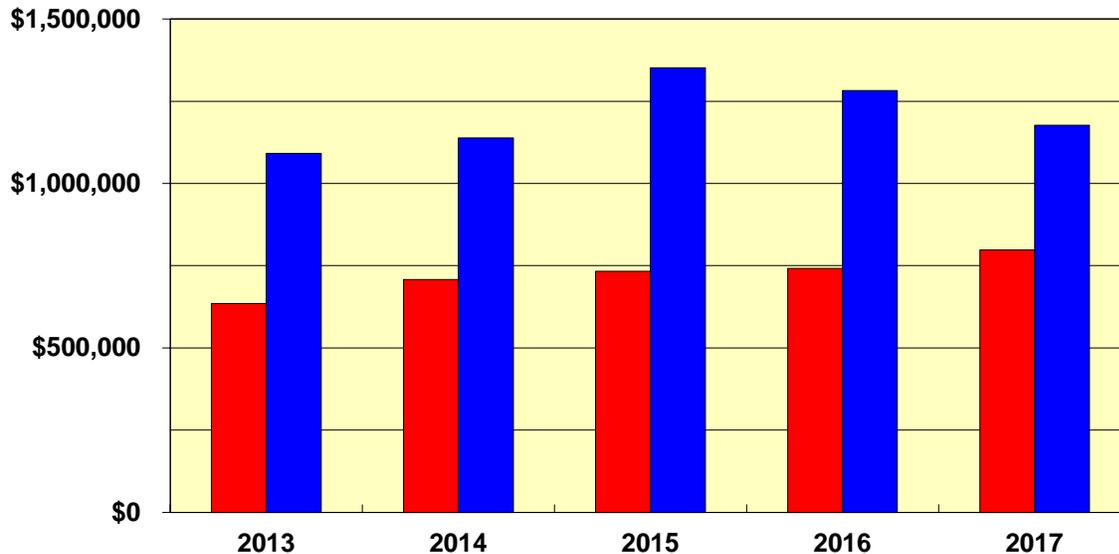
Since water revenues decreased slightly in 2017 it is expected that sewer sales would also decrease due to normal fluctuations. The large decrease in industrial sales is due to process changes at one customer.

WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

DEBT COVERAGE



Debt Coverage Actual vs. Required

	2013	2014	2015	2016	2017
Required Net Earnings	<u>\$ 634,610</u>	<u>\$ 708,079</u>	<u>\$ 733,240</u>	<u>\$ 741,544</u>	<u>\$ 797,753</u>
Actual Net Earnings	<u>\$ 1,091,472</u>	<u>\$ 1,138,561</u>	<u>\$ 1,351,489</u>	<u>\$ 1,282,216</u>	<u>\$ 1,177,075</u>
Times Coverage	<u>2.15</u>	<u>2.01</u>	<u>2.30</u>	<u>2.16</u>	<u>1.84</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, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash Flow From:			
Operating Activities	\$ 1,427,650	\$ 1,341,019	\$ 1,235,984
Investing Activities	(290,074)	6,781	101,253
Capital and Related Financing Activities			
Capital Improvements	(129,632)	(408,088)	(727,450)
Debt Service	(586,594)	(593,248)	(638,209)
Debt Issue	-	1,265,412	-
Contributions in aid of construction	43,353	9,430	-
Other Capital and Related Financing	400	-	-
Noncapital Financing Activities	<u>(247,744)</u>	<u>(365,925)</u>	<u>(375,361)</u>
Net Change in Cash and Cash Equivalents	217,359	1,255,381	(403,783)
Cash and Cash Equivalents - Beginning of the Year	<u>1,434,965</u>	<u>1,652,324</u>	<u>2,907,705</u>
Cash and Cash Equivalents - End of the Year	1,652,324	2,907,705	2,503,922
Long-Term Investments	<u>1,005,388</u>	<u>1,009,426</u>	<u>924,551</u>
Total Cash and Investments	<u>\$ 2,657,712</u>	<u>\$ 3,917,131</u>	<u>\$ 3,428,473</u>

Overall cash flows have been increasing due to increasing rates, debt issues, and contributions for capital projects. The decrease in 2017 was the result of increased capital investments from prior year borrowing.

Cash flows from operating activities decreased in 2017 and 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 2017 is the result of an increase investments sold and matured from 2016.

The cash flows from capital and related financing activities are related to retiring debt and capital investments. The decrease is a result of the debt proceeds received in 2016 with no new debt issued in 2017.

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, 2017 and 2016

LONG-TERM DEBT

No new debt was issued in 2017. New debt was last 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. Electric rates were increased in 2017, sewer rates were increased in 2016, and water rates last increased in 2015. 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, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and investments	\$ 902,614	\$ 828,224
Restricted Assets		
Redemption account	142,750	137,050
Customer accounts receivable	553,470	608,718
Other accounts receivable	896	12,327
Due from municipality	14,552	17,109
Materials and supplies	<u>115,998</u>	<u>101,963</u>
Total Current Assets	<u>1,730,280</u>	<u>1,705,391</u>
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	319,590	407,110
Replacement account	841,035	813,013
Construction account	1,132,484	1,731,734
Interest receivable	5,068	5,068
Other Assets		
Construction funds - Designated	90,000	-
Preliminary survey and investigation	-	6,199
Property held for future use	20,011	20,011
Capital Assets		
Plant in service		
Electric	7,125,162	6,719,673
Water	6,718,862	5,660,211
Sewer	<u>7,742,100</u>	<u>7,752,389</u>
Total Plant in Service	<u>21,586,124</u>	<u>20,132,273</u>
Accumulated depreciation		
Electric	(3,588,157)	(3,516,585)
Water	(1,967,308)	(2,009,408)
Sewer	<u>(5,317,282)</u>	<u>(5,101,240)</u>
Total Accumulated Depreciation	<u>(10,872,747)</u>	<u>(10,627,233)</u>
Construction work in progress		
Electric	<u>10,997</u>	<u>8,049</u>
Total Construction Work in Progress	<u>10,997</u>	<u>8,049</u>
Total Noncurrent Assets	<u>13,132,562</u>	<u>12,496,224</u>
Total Assets	<u>14,862,842</u>	<u>14,201,615</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	62,745	75,717
Deferred outflows related to pension	<u>228,399</u>	<u>312,775</u>
Total Deferred Outflows of Resources	<u>291,144</u>	<u>388,492</u>

LIABILITIES	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable	\$ 237,211	\$ 289,056
Due to other funds	260,523	256,177
Due to capital projects fund	669,185	694,763
Accrued vacation leave	20,515	20,265
Accrued liabilities	5,684	7,160
Commitment to Community	5,051	5,160
Current Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	533,522	516,897
Accrued interest	<u>19,336</u>	<u>20,172</u>
Total Current Liabilities	<u>1,751,027</u>	<u>1,809,650</u>
NONCURRENT LIABILITIES		
Revenue bonds	4,510,973	5,044,495
Unamortized debt discount	(17,181)	(19,305)
Accrued sick leave	77,982	71,924
Customer advances for construction	-	10,177
Net pension liability	<u>26,380</u>	<u>56,119</u>
Total Noncurrent Liabilities	<u>4,598,154</u>	<u>5,163,410</u>
 Total Liabilities	 <u>6,349,181</u>	 <u>6,973,060</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	<u>91,614</u>	<u>118,101</u>
 NET POSITION		
Net investment in capital assets	6,892,287	5,778,453
Restricted for:		
Debt service	448,072	529,056
Equipment replacement	841,035	813,013
Unrestricted	<u>531,797</u>	<u>378,424</u>
 TOTAL NET POSITION	 <u>\$ 8,713,191</u>	 <u>\$ 7,498,946</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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Electric		
Sales of electricity	\$ 3,874,153	\$ 4,076,865
Other	12,016	12,144
Total Electric	3,886,169	4,089,009
Water		
Sales of water	623,057	624,600
Other	15,250	15,544
Total Water	638,307	640,144
Sewer		
Treatment charges	839,130	906,738
Other	2,022	2,438
Total Sewer	841,152	909,176
Total Operating Revenues	5,365,628	5,638,329
OPERATING EXPENSES		
Electric		
Operation and maintenance	3,487,530	3,662,894
Depreciation	180,987	183,088
Total Electric	3,668,517	3,845,982
Water		
Operation and maintenance	278,954	281,837
Depreciation	150,522	137,318
Total Water	429,476	419,155
Sewer		
Operation and maintenance	451,346	433,409
Depreciation	253,270	262,512
Total Sewer	704,616	695,921
Total Operating Expenses	4,802,609	4,961,058
OPERATING INCOME		
Electric	217,652	243,027
Water	208,831	220,989
Sewer	136,536	213,255
Total Operating Income	563,019	677,271
NONOPERATING REVENUES (EXPENSES)		
Investment income	16,378	10,819
Income from non-utility operations	12,899	4,717
Income (expense) from merchandising and jobbing	(737)	6,491
Interest expense	(120,476)	(101,650)
Amortization of discount and loss	(15,090)	(14,604)
Debt issue costs	-	(34,763)
Total Nonoperating Revenues (Expenses)	(107,026)	(128,990)
Income Before Contributions and Transfers	455,993	548,281
CAPITAL CONTRIBUTIONS	10,177	9,430
CAPITAL CONTRIBUTIONS - MUNICIPAL	1,104,990	-
TRANSFER IN (OUT)	(121,502)	(142,274)
TRANSFERS - TAX EQUIVALENT	(235,413)	(228,858)
CHANGE IN NET POSITION	1,214,245	186,579
NET POSITION - Beginning of Year	7,498,946	7,312,367
NET POSITION - END OF YEAR	\$ 8,713,191	\$ 7,498,946

See accompanying notes to the financial statements.

WATERLOO WATER AND LIGHT COMMISSION

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 5,380,456	\$ 5,604,949
Received from municipality for services	66,467	69,795
Paid to suppliers for goods and services	(3,697,164)	(3,885,353)
Paid to employees for operating payroll	(513,775)	(448,372)
Net Cash Flows From Operating Activities	1,235,984	1,341,019
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(228,281)	(242,855)
Paid to municipality or contractors for sewer maintenance	(147,080)	(123,070)
Net Cash Flows From Noncapital Financing Activities	(375,361)	(365,925)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(727,450)	(408,088)
Contributions in aid of construction	-	9,430
Debt retired	(516,897)	(495,314)
Interest paid	(121,312)	(97,934)
Proceeds from debt issue	-	1,300,175
Debt issuance costs	-	(34,763)
Net Cash Flows From Capital and Related Financing Activities	(1,365,659)	273,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(924,551)	(718,065)
Investments sold and matured	1,009,426	714,027
Investment income	16,378	10,819
Net Cash Flows From Investing Activities	101,253	6,781
Net Change in Cash and Cash Equivalents	(403,783)	1,255,381
CASH AND CASH EQUIVALENTS - Beginning of Year	2,907,705	1,652,324
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,503,922	\$ 2,907,705
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Municipality financed additions to utility plant	\$ 1,104,990	\$ -
Amortization	\$ 15,090	\$ 14,604
Discount on new debt	\$ -	\$ 9,825
Transfers due to capital projects fund	\$ -	\$ 19,204

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 563,019	\$ 677,271
Nonoperating revenue (expense)	12,168	11,208
Noncash items in operating income		
Depreciation	584,779	582,918
Depreciation charged to clearing and other utilities	42,575	42,206
Changes in assets, deferred outflows and liabilities		
Customer accounts receivable	55,248	9,015
Other accounts receivable	11,431	5,482
Due from other funds	2,557	4,609
Materials and supplies	(14,035)	(2,310)
Pension related deferrals and liabilities	28,150	39,950
Accounts payable	(51,845)	(20,893)
Due to other funds	(2,786)	312
Accrued liabilities	4,832	(14,849)
Commitment to community	(109)	6,100
	<u> </u>	<u> </u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,235,984</u>	<u>\$ 1,341,019</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 902,614	\$ 828,224
Redemption account	142,750	137,050
Reserve account	319,590	407,110
Replacement account	841,035	813,013
Construction account	1,132,484	1,731,734
Construction fund - Designated	90,000	-
Total Cash and Investments	<u>3,428,473</u>	<u>3,917,131</u>
Less: Noncash equivalents	<u>(924,551)</u>	<u>(1,009,426)</u>
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,503,922</u>	<u>\$ 2,907,705</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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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, 2017 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 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, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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 pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with 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, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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 September 1, 2017 and are designed to provide a 5% 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.

Sewer rate changes were approved by the utility commission November 7, 2017 to be effective December 31, 2017.

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. 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*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. 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, 2017 and 2016

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 \$795,691 and \$1,295,327 at December 31, 2017 and 2016, 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.

	2017		2016	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Farmers & Merchants State Bank	\$ 2,823,028	\$ 2,823,512	\$ 3,463,853	\$ 3,314,815
Avestar Credit Union	604,961	604,961	602,316	602,316
Totals	<u>\$ 3,427,989</u>	<u>\$ 3,428,473</u>	<u>\$ 4,066,169</u>	<u>\$ 3,917,131</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2017 and 2016:

Due To	Due From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Utility	Tax Fund	\$ 14,552	Delinquent on tax roll	\$ 17,109	Delinquent on tax roll
General Fund	Utility	260,523	Tax equivalent and garbage collections	256,177	Tax equivalent and garbage collections
Capital Projects Fund	Utility	669,185	Sewer collection system funding	694,763	Sewer collection system funding

The following is a schedule of transfer balances for the years ending December 31, 2017 and 2016:

To	From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
City	Utility	\$ 235,413	Tax equivalent	\$ 228,858	Tax equivalent
Capital Projects Fund	Utility	121,502	Sewer collection system funding	142,274	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, 2017 and 2016

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position

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

	2017	2016
Restricted Assets		
Redemption account	\$ 142,750	\$ 137,050
Reserve account	319,590	407,110
Replacement account	841,035	813,013
Construction account	1,132,484	1,731,734
Special assessments receivable	5,068	5,068
Total Restricted Assets	2,440,927	3,093,975
Less: Restricted Assets Not Funded by Revenues		
Construction account	(1,132,484)	(1,731,734)
Current Liabilities Payable From Restricted Assets	(19,336)	(20,172)
Total Restricted Net Position as Calculated	\$ 1,289,107	\$ 1,342,069

The purpose of the restricted net position is as follows:

	2017	2016
Debt service	\$ 448,072	\$ 529,056
Equipment replacement	841,035	813,013
Total Restricted Net Position	\$ 1,289,107	\$ 1,342,069

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS

Electric Utility

A summary of changes in electric capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 151,730	\$ -	\$ -	\$ 151,730
Capital assets being depreciated				
Distribution	4,091,858	423,437	114,411	4,400,884
General	2,476,085	14,002	8,928	2,481,159
Completed construction not classified	-	91,388	-	91,388
Total Capital Assets Being Depreciated	<u>6,567,943</u>	<u>528,827</u>	<u>123,339</u>	<u>6,973,431</u>
Total Capital Assets	<u>6,719,673</u>	<u>528,827</u>	<u>123,339</u>	<u>7,125,161</u>
Less: Accumulated depreciation				
Distribution	(2,531,430)	(138,463)	139,769	(2,530,124)
General	(985,155)	(81,028)	8,928	(1,057,255)
Completed construction not classified	-	(777)	-	(777)
Total Accumulated Depreciation	<u>(3,516,585)</u>	<u>(220,268)</u>	<u>148,697</u>	<u>(3,588,156)</u>
Construction in progress	<u>8,049</u>	<u>411,890</u>	<u>408,942</u>	<u>10,997</u>
Net Capital Assets	<u>\$ 3,211,137</u>			<u>\$ 3,548,002</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Electric Utility (cont.)

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	<u>2,288,058</u>	<u>200,330</u>	<u>12,303</u>	<u>2,476,085</u>
Total Capital Assets Being Depreciated	<u>6,332,930</u>	<u>269,636</u>	<u>34,623</u>	<u>6,567,943</u>
Total Capital Assets	<u>6,484,659</u>	<u>269,637</u>	<u>34,623</u>	<u>6,719,673</u>
Less: Accumulated depreciation				
Distribution	(2,428,472)	(130,749)	27,791	(2,531,430)
General	<u>(912,678)</u>	<u>(84,780)</u>	<u>12,303</u>	<u>(985,155)</u>
Total Accumulated Depreciation	<u>(3,341,150)</u>	<u>(215,529)</u>	<u>40,094</u>	<u>(3,516,585)</u>
Construction in progress	<u>9,259</u>	<u>(1,210)</u>	<u>-</u>	<u>8,049</u>
Net Capital Assets	<u>\$ 3,152,768</u>			<u>\$ 3,211,137</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility

A summary of changes in water capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
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	903,620	4,490	4,294	903,816
Water treatment	28,035	-	-	28,035
Transmission and distribution	3,858,767	234,421	194,297	3,898,891
General	785,580	14,002	1,758	797,824
Completed construction not classified	-	1,006,087	-	1,006,087
Total Capital Assets Being Depreciated	5,647,098	1,259,000	200,349	6,705,749
Total Capital Assets	5,660,211	1,259,000	200,349	6,718,862
Less: Accumulated depreciation				
Source of supply	(27,071)	(1,497)	-	(28,568)
Pumping	(517,733)	(31,691)	4,294	(545,130)
Water treatment	(13,193)	(1,682)	-	(14,875)
Transmission and distribution	(947,775)	(78,820)	201,812	(824,783)
General	(503,636)	(43,382)	1,759	(545,259)
Completed construction not classified	-	(8,693)	-	(8,693)
Total Accumulated Depreciation	(2,009,408)	(165,765)	207,865	(1,967,308)
Net Capital Assets	\$ 3,650,803			\$ 4,751,554

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

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, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

A summary of changes in sewer capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
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	121,580	10,487	4,752	127,315
Treatment and disposal	6,549,386	7,068	3,196	6,553,258
General	1,036,938	8,840	28,736	1,017,042
Total Capital Assets Being Depreciated	7,730,626	26,395	36,684	7,720,337
Total Capital Assets	7,752,389	26,395	36,684	7,742,100
Less: Accumulated depreciation				
Collecting system	(2,508)	(295)	-	(2,803)
Collecting system pumping	(102,587)	(5,869)	4,752	(103,704)
Treatment and disposal	(4,391,247)	(197,164)	3,196	(4,585,215)
General	(604,898)	(49,398)	28,736	(625,560)
Total Accumulated Depreciation	(5,101,240)	(252,726)	36,684	(5,317,282)
Net Capital Assets	\$ 2,651,149			\$ 2,424,818

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility (cont.)

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, 2017 and 2016

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
11/6/2012	Capital improvements and refinancing capital improvement debt	11/01/2028	0.50 - 3.00%	\$ 3,255,000	\$ 2,035,000
3/27/2013	Refinance capital improvement debt	5/01/2032	2.63	1,384,900	1,149,495
12/30/2013	Refinance capital improvement debt	11/01/2022	0.80 - 3.20	950,000	575,000
11/15/16	Capital improvements debt	11/01/2036	1.25 - 3.25	1,310,000	1,285,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
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	560,459	72,015	632,474
2023 - 2027	1,066,030	242,837	1,308,867
2028 - 2032	873,736	113,192	986,928
2033 - 2036	335,000	27,877	362,877
Totals	<u>\$ 5,044,495</u>	<u>\$ 857,602</u>	<u>\$ 5,902,097</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 2017 and 2016 were \$638,202 and \$593,235, respectively. Total customer net revenues as defined for the same periods were \$1,177,075 and \$1,285,000. Annual principal and interest payments are expected to require 23% of net revenues on average.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	<u>1/1/17</u> Balance	<u>Additions</u>	<u>Reductions</u>	<u>12/31/17</u> Balance	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 5,561,392	\$ -	\$ 516,897	\$ 5,044,495	\$ 533,522
Accrued sick leave	71,924	19,977	13,919	77,982	-
Customer advances for construction	10,177	-	10,177	-	-
Unamortized debt discount	(19,305)	-	(2,124)	(17,181)	-
Net pension liability	<u>56,119</u>	<u>-</u>	<u>29,739</u>	<u>26,380</u>	<u>-</u>
Totals	<u>\$ 5,680,307</u>	<u>\$ 19,977</u>	<u>\$ 568,608</u>	<u>\$ 5,131,676</u>	<u>\$ 533,522</u>

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

	<u>1/1/16</u> Balance	<u>Additions</u>	<u>Reductions</u>	<u>12/31/16</u> Balance	<u>Due Within</u> <u>One Year</u>
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)	-
Net pension liability	<u>-</u>	<u>56,119</u>	<u>-</u>	<u>56,119</u>	<u>-</u>
Totals	<u>\$ 4,817,091</u>	<u>\$ 1,375,388</u>	<u>\$ 512,172</u>	<u>\$ 5,680,307</u>	<u>\$ 516,897</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, 2017 and 2016

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Insurance (cont.)

The utility is covered under the following insurance policies at December 31, 2017:

Type	Coverage	Expiration
<i>Tricor, Inc.</i>		
General Liability	\$ 5,000,000	1/1/18
Automobile	5,000,000	1/1/18
Workers Compensation	500,000	1/1/18

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 2017 and 2016 as follows:

	2017	2016
Operating revenues	\$ 5,365,628	\$ 5,638,329
Investment income	16,378	10,819
Miscellaneous nonoperating income	12,899	11,208
Less: Operation and maintenance expenses	(4,217,830)	(4,378,140)
Net Defined Earnings	\$ 1,177,075	\$ 1,282,216
Minimum Required Earnings per Resolution:		
Current year's revenue bond debt service	\$ 638,202	\$ 593,235
Coverage factor	1.25	1.25
Minimum Required Earnings	\$ 797,753	\$ 741,544
Actual Debt Coverage	1.84	2.16

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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 2017 and 2016:

	Customers		Sales (000 kWh)	
	2017	2016	2017	2016
Residential	1,541	1,545	12,433	12,909
General	259	254	4,060	4,300
Small power	14	14	3,856	3,820
Large power	10	11	13,866	15,995
Street and highway lighting	2	2	286	304
Totals	<u>1,826</u>	<u>1,826</u>	<u>34,501</u>	<u>37,328</u>

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2017 and 2016:

	Customers		Sales (000 gals)	
	2017	2016	2017	2016
Residential	1,105	1,098	44,808	44,967
Multifamily residential	23	23	6,024	5,852
Commercial	111	108	9,831	10,436
Industrial	11	12	13,245	12,556
Public authority	15	15	2,662	2,755
Wholesale	1	1	2,325	2,590
Interdepartmental	6	6	1,664	1,717
Totals	<u>1,272</u>	<u>1,263</u>	<u>80,559</u>	<u>80,873</u>

Number of Customers and Billed Volumes - Sewer

The utility has the following number of customers and billed volumes for 2017 and 2016:

	Customers		Sales (000 gals)	
	2017	2016	2017	2016
Residential	1,082	1,083	43,772	44,050
Multifamily residential	120	119	13,927	14,136
Commercial	10	10	24,895	36,691
Industrial	12	12	1,828	1,974
Public authority	1	1	7,235	6,770
Totals	<u>1,225</u>	<u>1,225</u>	<u>91,657</u>	<u>103,621</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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>2017</u>	<u>2016</u>
Construction work in progress	\$ 10,997	\$ 8,049
Plant in service	21,586,122	20,132,273
Accumulated depreciation	<u>(10,872,747)</u>	<u>(10,627,233)</u>
Sub-Totals	<u>10,724,372</u>	<u>9,513,089</u>
Less: Capital related debt		
Current portion of capital related long-term debt	533,522	516,897
Long-term portion of capital related long-term debt	4,510,973	5,044,495
Unamortized debt discount	(17,181)	(19,305)
Unamortized loss on advanced refunding	<u>(62,745)</u>	<u>(75,717)</u>
Sub-Totals	<u>4,964,569</u>	<u>5,466,370</u>
Add: Unspent debt proceeds		
Construction funds	<u>1,132,484</u>	<u>1,731,734</u>
Total Net Investment in Capital Assets	<u>\$ 6,892,287</u>	<u>\$ 5,778,453</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

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, 2017 and 2016

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
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
2016	0.5	(5)

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. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. 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 \$32,463 and \$32,949 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2017 and December 31, 2016 are:

	2017		2016	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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, 2017, the utility reported a liability (asset) of \$26,380 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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, 2016, the City of Waterloo's proportion was 0.01247212%, which was a decrease of 0.00019207% from its proportion measured as of December 31, 2015.

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 0.012664190%, which was a decrease of 0.00020291% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2017, and 2016 the utility recognized pension expense of \$62,818 and \$66,913.

At December 31, 2017, 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	\$ 11,202	\$ 91,614
Changes in assumption	30,457	-
Net differences between project and actual earnings on pension plan	149,651	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,478	-
Employer contributions subsequent to the measurement date	34,611	-
Total	\$ 228,399	\$ 91,614

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>32,463</u>	<u>-</u>
Total	<u>\$ 312,775</u>	<u>\$ 118,101</u>

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date reported in the tables above will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31

2018	\$ 41,266
2019	41,266
2020	28,333
2021	(8,758)
2022	67
Thereafter	<u>-</u>
Total	<u>\$ 102,174</u>

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Actuarial assumptions. The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Actuarial valuation date	December 31, 2015	December 31, 2014
Measurement date of net pension liability (asset)	December 31, 2016	December 31, 2015
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	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 used in the December 31, 2015 actuarial valuation are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Actuarial assumptions used in the December 31, 2014 actuarial valuation 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, 2017 and 2016

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 as of December 31, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	45%	8.3%	5.4%
Fixed Income	24.5	37	4.24	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

WATERLOO WATER AND LIGHT COMMISSION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2016 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S. Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2017 and December 31, 2016. 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 3.78% in 2017 and 3.56% in 2016. 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, 2017 and 2016

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, 2017 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)	\$ 347,041	\$ 26,380	\$ (220,544)

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)

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, 2017 and 2016

NOTE 9 - COMMITMENTS AND CONTINGENCIES (cont.)

Long-Term Contracts - WPPI Energy (cont.)

In 2015 and 2016, all but two of WPPI Energy members ratified an extension to their existing contracts. The new contract expires at midnight on December 31, 2055. The contract for the remaining members expires on December 31, 2037.

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 \$388 million as of December 31, 2017.

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 17% and 16% of operating revenues in 2017 and 2016, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

WATERLOO WATER AND LIGHT COMMISSION

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

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
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%
12/31/17	0.01247212%	26,380	477,397	5.53%	99.12%

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

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/15	\$ 32,949	\$ 32,949	\$ -	\$ 470,700	7.00%
12/31/16	32,463	32,463	-	477,397	6.80%
12/31/17	36,754	36,754	-	428,922	8.57%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2017

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, 2017

	Balance 1/1/17	Additions	Retirements	Adjustments	Balance 12/31/17
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	317,027	15,276	2,210	(145)	329,948
Overhead conductors and devices	371,622	89,466	5,674	-	455,414
Underground conduit	13,222	-	-	-	13,222
Underground conductors and devices	663,842	304,361	84,243	(1,181)	882,779
Line transformers	693,957	9,395	-	-	703,352
Services	402,445	5,897	750	(68)	407,524
Meters	242,634	321	1,950	-	241,005
Street lighting and signal systems	365,483	115	19,584	-	346,014
Total Distribution	<u>4,092,798</u>	<u>424,831</u>	<u>114,411</u>	<u>(1,394)</u>	<u>4,401,824</u>
GENERAL					
Land and land rights	150,790	-	-	-	150,790
Structures and improvements	1,850,802	-	-	-	1,850,802
Office furniture and equipment	12,265	-	-	-	12,265
Computer equipment	12,842	-	-	-	12,842
Transportation equipment	425,084	14,002	-	-	439,086
Stores equipment	13,603	-	-	-	13,603
Tools, shop and garage equipment	61,130	-	8,928	-	52,202
Laboratory equipment	9,080	-	-	-	9,080
Power-operated equipment	82,099	-	-	-	82,099
Communication equipment	5,681	-	-	-	5,681
Miscellaneous equipment	3,499	-	-	-	3,499
Total General	<u>2,626,875</u>	<u>14,002</u>	<u>8,928</u>	<u>-</u>	<u>2,631,949</u>
COMPLETED CONSTRUCTION NOT CLASSIFIED					
	<u>-</u>	<u>91,388</u>	<u>-</u>	<u>-</u>	<u>91,388</u>
TOTAL ELECTRIC UTILITY PLANT	<u>\$ 6,719,673</u>	<u>\$ 530,221</u>	<u>\$ 123,339</u>	<u>\$ (1,394)</u>	<u>\$ 7,125,161</u>

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
SOURCE OF SUPPLY				
Land and land rights	\$ 2,012	\$ -	\$ -	\$ 2,012
Wells and springs	19,761	-	-	19,761
Supply mains	51,335	-	-	51,335
Total Source of Supply	<u>73,108</u>	<u>-</u>	<u>-</u>	<u>73,108</u>
PUMPING				
Structures and improvements	666,671	-	-	666,671
Electric pumping equipment	234,863	4,490	4,294	235,059
Other pumping equipment	2,086	-	-	2,086
Total Pumping	<u>903,620</u>	<u>4,490</u>	<u>4,294</u>	<u>903,816</u>
WATER TREATMENT				
Water treatment equipment	<u>28,035</u>	<u>-</u>	<u>-</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	2,568,849	157,650	170,207	2,556,292
Services	503,098	17,138	7,475	512,761
Meters	368,719	34,397	14,286	388,830
Hydrants	335,015	25,236	2,329	357,922
Total Transmission and Distribution	<u>3,860,784</u>	<u>234,421</u>	<u>194,297</u>	<u>3,900,908</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	9,456	-	-	9,456
Transportation equipment	37,657	14,002	-	51,659
Stores equipment	7,433	-	-	7,433
Tools, shop and garage equipment	28,703	-	1,759	26,944
Laboratory equipment	2,042	-	-	2,042
Power-operated equipment	55,637	-	-	55,637
Communication equipment	342	-	-	342
SCADA equipment	278,955	-	-	278,955
Miscellaneous equipment	1,115	-	-	1,115
Total General	<u>794,664</u>	<u>14,002</u>	<u>1,759</u>	<u>806,907</u>
COMPLETED CONSTRUCTION NOT CLASSIFIED	<u>-</u>	<u>1,006,087</u>	<u>-</u>	<u>1,006,087</u>
TOTAL WATER UTILITY PLANT	<u>\$ 5,660,211</u>	<u>\$ 1,259,000</u>	<u>\$ 200,350</u>	<u>\$ 6,718,861</u>

WATERLOO WATER AND LIGHT COMMISSION

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
COLLECTING SYSTEM				
Force mains	\$ 22,722	\$ -	\$ -	\$ 22,722
COLLECTING SYSTEM PUMPING				
Pump station equipment	107,238	-	-	107,238
Electric pumping equipment	14,342	10,487	4,752	20,077
Total Collecting System Pumping	121,580	10,487	4,752	127,315
TREATMENT AND DISPOSAL				
Land and land rights	400	-	-	400
Structures and improvements	3,440,003	-	-	3,440,003
Preliminary treatment equipment	345,734	-	-	345,734
Primary treatment equipment	63,473	-	-	63,473
Secondary treatment equipment	1,100,096	7,068	3,196	1,103,968
Advanced treatment equipment	269,230	-	-	269,230
Sludge treatment and disposal equipment	690,869	-	-	690,869
Plant site piping	348,047	-	-	348,047
Flow metering and monitoring equipment	34,284	-	-	34,284
Other treatment and disposal equipment	257,650	-	-	257,650
Total Treatment and Disposal	6,549,786	7,068	3,196	6,553,658
GENERAL				
Land and land rights	21,363	-	-	21,363
Structures and improvements	578,567	-	-	578,567
Office furniture and equipment	3,740	-	-	3,740
Computer equipment	10,549	-	-	10,549
Transportation equipment	90,135	-	25,895	64,240
Communication equipment	178,348	3,040	-	181,388
Other general equipment	175,599	5,800	2,841	178,558
Total General	1,058,301	8,840	28,736	1,038,405
TOTAL SEWER UTILITY PLANT	\$ 7,752,389	\$ 26,395	\$ 36,684	\$ 7,742,100

WATERLOO WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of Electricity		
Residential	\$ 1,368,367	\$ 1,381,323
Rural	127,482	133,426
General service	422,885	433,643
Small power	345,681	333,888
Large power	1,447,531	1,628,710
Public street and highway lighting	66,467	69,795
Interdepartmental	95,740	96,080
Total Sales of Electricity	3,874,153	4,076,865
Other Operating Revenues		
Forfeited discounts	7,460	7,744
Miscellaneous service revenues	1,960	1,760
Rent from electric property	2,171	2,209
Other	425	431
Total Operating Revenues	3,886,169	4,089,009
 OPERATING EXPENSES		
Operation and Maintenance		
Other Power Supply		
Purchased power	3,022,645	3,221,430
Distribution		
Station	35,085	22,238
Overhead line	21,977	14,195
Underground line	19,168	9,283
Street lighting and signal system	18,320	12,719
Meter	3,179	10,121
Customer installations	2,214	2,462
Miscellaneous	11,811	8,088
Maintenance		
Supervision and engineering	21,268	22,849
Overhead lines	28,690	18,325
Underground lines	612	-
Meters	-	576
Total Distribution	162,324	120,856
Customer Accounts		
Meter reading	10,526	10,726
Customer records and collection	39,491	41,433
Total Customer Accounts	50,017	52,159
Sales		
Advertising	1,212	1,830

WATERLOO WATER AND LIGHT COMMISSION

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 40,460	\$ 29,771
Office supplies	24,752	22,289
Administrative expenses transferred	(29,014)	(23,956)
Outside services employed	11,200	24,843
Property insurance	10,053	9,815
Employee pensions and benefits	96,187	100,305
Regulatory commission	9,794	23
Miscellaneous	41,428	43,404
Transportation	(1,219)	6,317
Maintenance	22,786	29,311
Total Administrative and General	226,427	242,122
Taxes	24,905	24,497
Total Operation and Maintenance	3,487,530	3,662,894
Depreciation	180,987	183,088
Total Operating Expenses	3,668,517	3,845,982
 OPERATING INCOME	 \$ 217,652	 \$ 243,027

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 288,336	\$ 289,584
Commercial	79,154	80,042
Industrial	47,480	45,748
Public authorities	14,121	14,359
Interdepartmental	7,767	7,963
Service to other systems	8,421	9,282
Total Metered Sales	445,279	446,978
Private fire protection	6,904	6,900
Public fire protection	170,874	170,722
Total Sales of Water	623,057	624,600
Other Operating Revenues		
Forfeited discounts	2,664	3,133
Miscellaneous service revenue	80	-
Other	12,506	12,411
Total Operating Revenues	638,307	640,144
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	9,516	13,594
Operation labor	7,975	10,818
Total Source of Supply	17,491	24,412
Pumping		
Fuel or purchased power for pumping	16,144	14,821
Pumping labor	20,526	15,148
Miscellaneous	1,524	2,004
Maintenance		
Structures and improvements	35	903
Pumping equipment	2,036	296
Total Pumping	40,265	33,172
Water Treatment		
Chemicals	4,033	4,172
Operation labor	24,626	17,316
Maintenance		
Water treatment equipment	722	1,472
Total Water Treatment	29,381	22,960

WATERLOO WATER AND LIGHT COMMISSION

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Storage facilities	\$ 562	\$ 12,728
Transmission and distribution lines	3,070	3,722
Meters	1,773	710
Customer installations	858	844
Miscellaneous	568	886
Maintenance		
Mains	16,577	13,901
Services	22,597	14,616
Hydrants	562	722
Total Transmission and Distribution	46,567	48,129
Customer Accounts		
Meter reading	2,605	2,808
Accounting and collecting labor	15,800	14,748
Total Customer Accounts	18,405	17,556
Administrative and General		
Salaries	17,019	17,123
Office supplies	12,435	10,679
Administrative expenses transferred	-	(3,795)
Outside services employed	14,906	11,341
Property insurance	5,210	7,589
Employee pensions and benefits	54,552	67,469
Miscellaneous	6,915	7,326
Maintenance	8,422	10,766
Total Administrative and General	119,459	128,498
Taxes	7,386	7,110
Total Operation and Maintenance	278,954	281,837
Depreciation	150,522	137,318
Total Operating Expenses	429,476	419,155
OPERATING INCOME	\$ 208,831	\$ 220,989

WATERLOO WATER AND LIGHT COMMISSION

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 411,713	\$ 398,182
Commercial	108,232	104,063
Industrial	263,113	346,757
Public authorities	13,040	14,005
Service to other systems	<u>43,032</u>	<u>43,731</u>
Total Sewer Revenues	<u>839,130</u>	<u>906,738</u>
Other Operating Revenues		
Forfeited discounts	<u>2,022</u>	<u>2,438</u>
Total Operating Revenues	<u>841,152</u>	<u>909,176</u>
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	80,905	71,853
Power and fuel for pumping	74,501	67,784
Chlorine	319	304
Phosphorous removal chemicals	19,664	26,101
Sludge conditioning chemicals	8,622	11,221
Other operating supplies	<u>39,131</u>	<u>40,749</u>
Total Operation	<u>223,142</u>	<u>218,012</u>
Maintenance		
Collection system	14,538	9,623
Treatment and disposal plant equipment	19,842	25,809
General plant structures and equipment	<u>11,758</u>	<u>13,902</u>
Total Maintenance	<u>46,138</u>	<u>49,334</u>
Customer Accounts		
Accounting and collecting	14,975	16,685
Meter Reading	<u>670</u>	<u>390</u>
Total Customer Accounts	<u>15,645</u>	<u>17,075</u>
Administrative and General		
Salaries	28,122	17,823
Office supplies	15,786	14,359
Outside services employed	19,809	25,164
Insurance	9,276	3,323
Employees pensions and benefits	64,829	59,323
Miscellaneous	<u>13,979</u>	<u>15,581</u>
Total Administrative and General	<u>151,801</u>	<u>135,573</u>
Taxes	<u>14,620</u>	<u>13,415</u>
Total Operation and Maintenance	<u>451,346</u>	<u>433,409</u>
Depreciation	<u>253,270</u>	<u>262,512</u>
Total Operating Expenses	<u>704,616</u>	<u>695,921</u>
 OPERATING INCOME	 <u>\$ 136,536</u>	 <u>\$ 213,255</u>

WATERLOO WATER AND LIGHT COMMISSION

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2017 and 2016

	Electric		Water	
	2017	2016	2017	2016
Utility Financed Plant in Service				
Beginning of year	\$ 5,934,715	\$ 5,709,212	\$ 4,315,768	\$ 4,243,640
End of year	<u>6,342,612</u>	<u>5,934,715</u>	<u>5,374,418</u>	<u>4,315,768</u>
Average	<u>6,138,664</u>	<u>5,821,964</u>	<u>4,845,093</u>	<u>4,279,704</u>
Utility Financed Accumulated				
Depreciation				
Beginning of year	(3,095,730)	(2,942,682)	(1,501,259)	(1,404,061)
End of year	<u>(3,124,322)</u>	<u>(3,095,730)</u>	<u>(1,593,850)</u>	<u>(1,501,259)</u>
Average	<u>(3,110,026)</u>	<u>(3,019,206)</u>	<u>(1,547,555)</u>	<u>(1,452,660)</u>
Materials and Supplies				
Beginning of year	77,966	73,194	23,997	26,459
End of year	<u>87,634</u>	<u>77,966</u>	<u>28,365</u>	<u>23,997</u>
Average	<u>82,800</u>	<u>75,580</u>	<u>26,181</u>	<u>25,228</u>
Regulatory Liability				
Beginning of year	(72,800)	(83,200)	(58,916)	(67,332)
End of year	<u>(62,400)</u>	<u>(72,800)</u>	<u>(50,500)</u>	<u>(58,916)</u>
Average	<u>(67,600)</u>	<u>(78,000)</u>	<u>(54,708)</u>	<u>(63,124)</u>
 AVERAGE NET RATE BASE	 <u>\$ 3,043,838</u>	 <u>\$ 2,800,338</u>	 <u>\$ 3,269,011</u>	 <u>\$ 2,789,148</u>
 OPERATING INCOME - REGULATORY BASIS	 <u>\$ 117,673</u>	 <u>\$ 159,147</u>	 <u>\$ 135,464</u>	 <u>\$ 154,484</u>
 RATE OF RETURN (PERCENT)	 <u>3.87</u>	 <u>5.68</u>	 <u>4.14</u>	 <u>5.54</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.