

# **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, 2015 and 2014

# **WATERLOO WATER AND LIGHT COMMISSION**

An Enterprise Fund of the City of Waterloo, Wisconsin

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As of and for the Years Ended December 31, 2015 and 2014

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**INDEPENDENT AUDITORS' REPORT**

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of Waterloo Water and Light Commission, an enterprise fund of the City of Waterloo, Wisconsin, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Utility Commission  
Waterloo Water and Light Commission

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Waterloo Water and Light Commission enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Waterloo, Wisconsin, as of December 31, 2015 and 2014 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, Waterloo Water and Light Commission adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. 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.



Madison, Wisconsin  
March 31, 2016

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# WATERLOO WATER AND LIGHT COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2015 and 2014

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, 2015 and 2014. You are invited to read this narrative in conjunction with the utility's financial statements.

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### **FINANCIAL HIGHLIGHTS**

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The following summarizes the operating results of each utility.

#### ***ELECTRIC UTILITY EARNINGS***

Operating income increased from \$243,000 in 2014 to \$297,000 in 2015. Revenues decreased 2% as a result of a decrease in sales volume. Operating expenses decreased compared to the prior year by 3%. The rate of return increased from 4.60% to 6.83% in 2015.

#### ***WATER UTILITY EARNINGS***

The water utility had an operating income of \$227,000 in 2015 compared to \$153,000 in 2014. Operating revenues increased by 4% compared to the previous year partially as a result of the rate increase implemented midway through 2015. The rate of return increased from 2.24% to 4.94% in 2015.

#### ***SEWER UTILITY EARNINGS***

The sewer utility had an operating income in 2015 of \$231,000 compared to \$145,000 in 2014. Operating revenues increase by 7% due to higher usage in 2015 compared to 2014.

#### ***DEBT COVERAGE***

The actual combined debt coverage for 2015 was 2.30 which exceeds the requirement of 1.25.

#### ***OTHER ITEMS***

The utility implemented GASB Statement No. 68 in 2015, establishing a net pension asset and deferred outflows related to the pension on the Utility's Statement of Net Position.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

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## **OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT**

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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 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.
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## **UTILITY FINANCIAL ANALYSIS**

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

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### CONDENSED STATEMENTS OF NET POSITION

	2013	2014	2015
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Unrestricted Cash and Investments	\$ 333,603	\$ 405,427	\$ 872,252
Customer Accounts Receivable	623,740	672,997	617,733
Restricted and Designated Assets	2,792,076	1,740,688	1,879,552
Other Assets and Deferred Outflows	266,809	353,954	343,561
Net Electric Plant	3,399,112	3,259,104	3,152,768
Net Water Plant	3,850,306	3,827,894	3,702,094
Net Sewer Plant	3,312,008	3,122,673	2,875,263
Total Assets and Deferred Outflows	<u>14,577,654</u>	<u>13,382,737</u>	<u>13,443,223</u>
<b>LIABILITIES</b>			
Long-Term Liabilities	5,675,207	5,366,867	4,997,336
Other Liabilities	<u>2,085,843</u>	<u>1,165,559</u>	<u>1,133,520</u>
Total Liabilities	<u>7,761,050</u>	<u>6,532,426</u>	<u>6,130,856</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,755,398	5,616,118	5,605,742
Restricted for:			
Debt Service	503,419	531,095	495,755
Equipment Replacement	662,355	669,815	755,795
Pension Asset	-	-	89,024
Unrestricted	<u>(104,568)</u>	<u>33,283</u>	<u>366,051</u>
<b>TOTAL NET POSITION</b>	<u>\$ 6,816,604</u>	<u>\$ 6,850,311</u>	<u>\$ 7,312,367</u>

Most categories remained relatively stable in 2015 and 2014. As stated on page 3, the utility implemented GASB Statement No. 68 in 2015, establishing the net pension asset shown as restricted net position above.

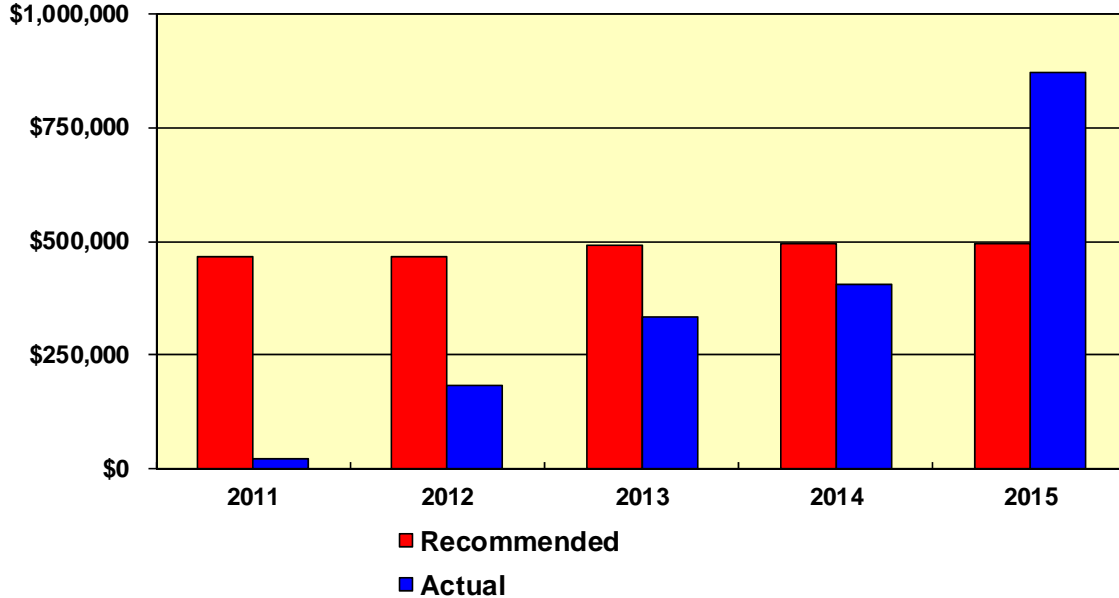


# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### UNRESTRICTED FUNDS ON HAND



**Unrestricted Funds on Hand  
Actual vs. Recommended  
2011 - 2014**

	2011	2012	2013	2014	2015
Minimum Funding Benchmark 1 Months Billings	<u>\$ 467,774</u>	<u>\$ 467,774</u>	<u>\$ 490,979</u>	<u>\$ 495,399</u>	<u>\$ 493,651</u>
Actual Funds on Hand	<u>\$ 22,301</u>	<u>\$ 181,582</u>	<u>\$ 333,603</u>	<u>\$ 405,427</u>	<u>\$ 872,252</u>
Months Billings on Hand	<u>0.0</u>	<u>0.39</u>	<u>0.68</u>	<u>0.82</u>	<u>1.77</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 has had an increase in cash reserves in 2014 and 2015. The utility took out new debt in 2012 and 2013 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, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### *Condensed Statements of Revenues, Expenses and Changes in Net Position*

	2013	2014	2015
<b>OPERATING REVENUES</b>			
Electric	\$ 4,364,759	\$ 4,447,285	\$ 4,337,317
Water	571,759	615,514	643,039
Sewer	955,232	881,990	943,460
Total Operating Revenues	5,891,750	5,944,789	5,923,816
<b>OPERATING EXPENSES</b>			
Electric			
Operation and Maintenance	3,969,211	4,027,334	3,857,042
Depreciation	178,936	176,877	182,854
Total Electric	4,148,147	4,204,211	4,039,896
Water			
Operation and Maintenance	411,398	326,444	275,645
Depreciation	135,403	136,566	140,203
Total Water	546,801	463,010	415,848
Sewer			
Operation and Maintenance	431,540	463,780	450,498
Depreciation	237,572	273,517	262,392
Total Sewer	669,112	737,297	712,890
Total Operating Expenses	5,364,060	5,404,518	5,168,634
<b>OPERATING INCOME</b>			
Electric	216,612	243,074	297,421
Water	24,958	152,504	227,191
Sewer	286,120	144,693	230,570
Total Operating Income	527,690	540,271	755,182
<b>NON-OPERATING REVENUE</b>	11,871	11,330	10,858
<b>NON-OPERATING EXPENSES</b>	(265,298)	(125,373)	(116,624)
Income Before Contributions and Transfers	274,263	426,228	649,416
<b>CAPITAL CONTRIBUTIONS</b>	375,211	1,560	24,613
<b>OPERATING TRANSFER OUT</b>	(139,131)	(146,337)	(148,055)
<b>TRANSFERS - TAX EQUIVALENT</b>	(270,227)	(247,744)	(242,855)
<b>CHANGE IN NET POSITION</b>	\$ 240,116	\$ 33,707	\$ 283,119
Cumulative effect of a change in accounting principle	\$ -	\$ -	\$ 178,937

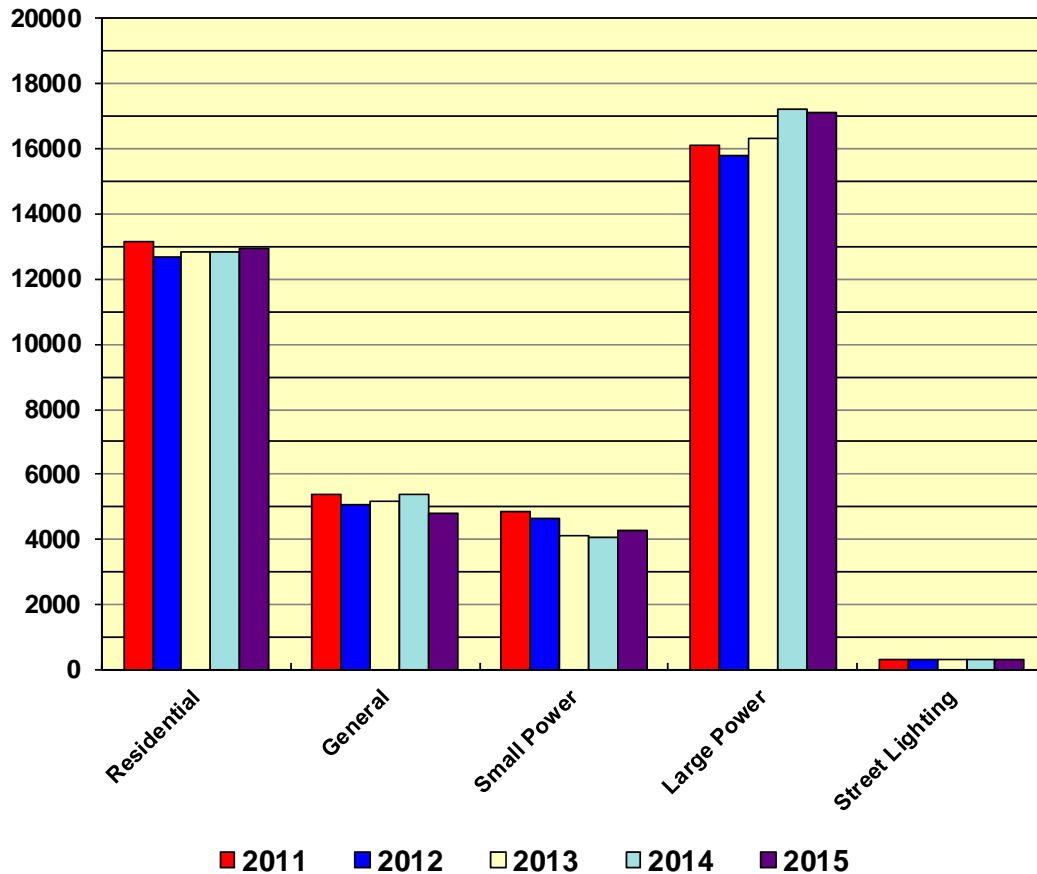
See Independent Auditors' Report

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### Electric Sales



### Electric Sales (000 kWh Sold)

	2011	2012	2013	2014	2015
Residential	13,170	12,672	12,829	12,846	12,962
General	5,362	5,048	5,162	5,383	4,831
Small Power	4,837	4,657	4,138	4,094	4,287
Large Power	16,112	15,790	16,337	17,219	17,088
Street Lighting	329	310	305	305	305
<b>Total</b>	<b>39,810</b>	<b>38,477</b>	<b>38,771</b>	<b>39,847</b>	<b>39,473</b>

Residential and small power had a slight increase in usage in 2015 while general and large power had a small decrease in usage. The fluctuations are due to weather patterns.

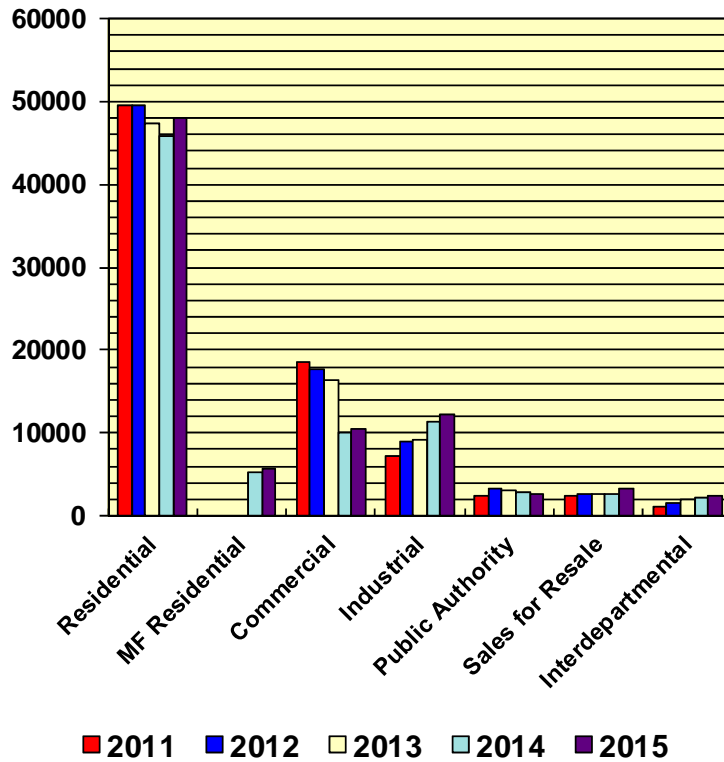
See Independent Auditors' Report

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### Water Sales



### Water Sales (000s Gallons Sold) By Customer Class

	2011	2012	2013	2014	2015
Residential	49,578	49,616	47,328	45,753	48,000
Multi-family Residential	-	-	-	5,168	5,582
Commercial	18,663	17,742	16,429	10,023	10,413
Industrial	7,202	9,002	9,115	11,288	12,194
Public Authority	2,429	3,378	3,082	2,787	2,571
Sales for Resale (Portland)	2,386	2,593	2,546	2,655	3,203
Interdepartmental	1,184	1,511	1,972	2,285	2,495
<b>Total</b>	<b>81,442</b>	<b>83,842</b>	<b>80,472</b>	<b>79,959</b>	<b>84,458</b>

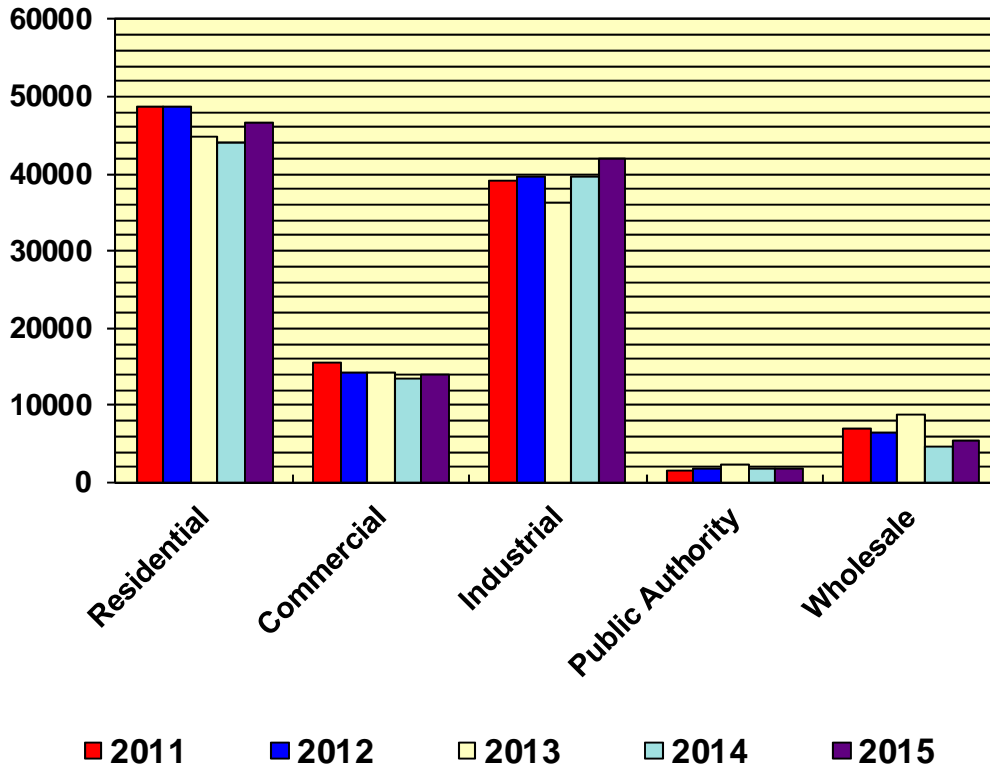
Prior to 2014, the Multi-family residential class was combined with the Commercial class. Water sales by customer class remained consistent with the prior year with slight increases and decrease due to yearly fluctuations. The large increase in Residential sales was due to additional customers in 2015.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### Sewer Sales



### Sewer Revenues (000s Gallons Billed) By Customer Class

	2011	2012	2013	2014	2015
Residential	48,795	48,730	44,868	44,150	46,674
Commercial	15,497	14,295	14,277	13,579	13,870
Industrial	39,076	39,727	36,178	39,675	41,946
Public Authority	1,676	1,915	2,248	1,896	1,901
Wholesale (Portland)	7,101	6,426	8,752	4,790	5,391
<b>Total</b>	<b>112,145</b>	<b>111,093</b>	<b>106,323</b>	<b>104,090</b>	<b>109,782</b>

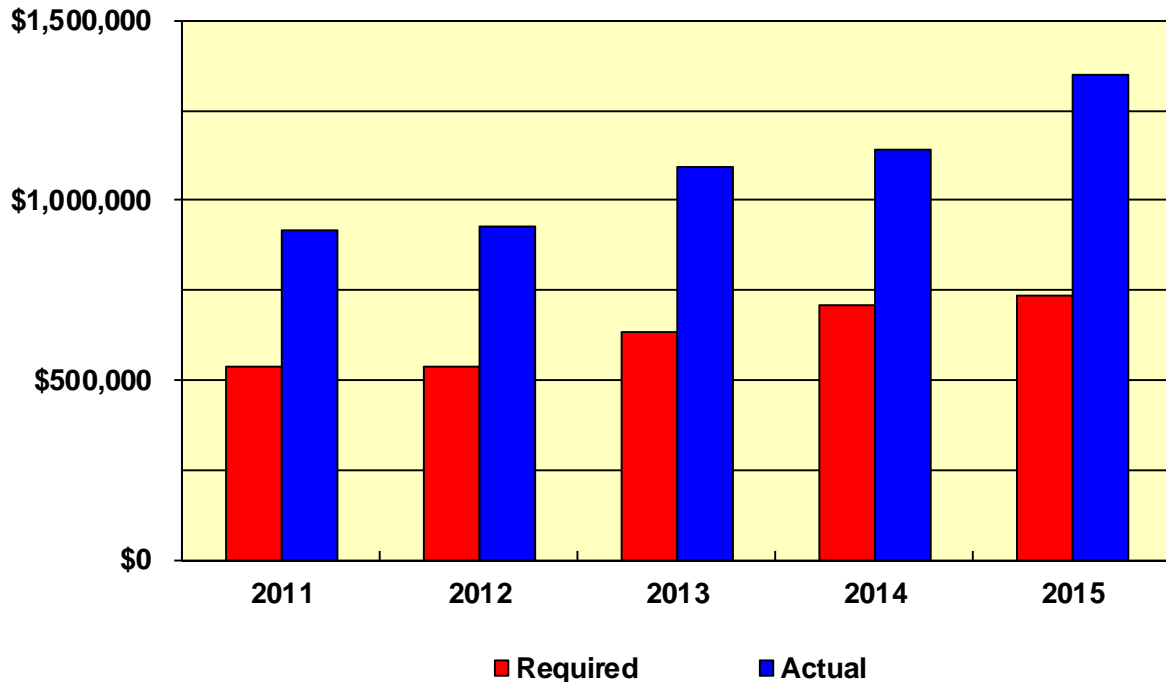
Since water revenues increase in 2015 it is expected that sewer sales would also increase due to normal fluctuations and additional customers.

# WATERLOO WATER AND LIGHT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Years Ended December 31, 2015 and 2014

## UTILITY FINANCIAL ANALYSIS (cont.)

### Debt Coverage



### Debt Coverage Actual vs. Required

	2011	2012	2013	2014	2015
Required Net Earnings	<u>\$ 536,713</u>	<u>\$ 539,598</u>	<u>\$ 634,610</u>	<u>\$ 708,079</u>	<u>\$ 733,240</u>
Actual Net Earnings	<u>\$ 913,878</u>	<u>\$ 929,521</u>	<u>\$ 1,091,472</u>	<u>\$ 1,138,561</u>	<u>\$ 1,351,489</u>
Times Coverage	<u>2.13</u>	<u>2.15</u>	<u>2.15</u>	<u>2.01</u>	<u>2.30</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, 2015 and 2014

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### Consolidated Statements of Cash Flows

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Cash Flow From:</b>			
Operating Activities	\$ 1,067,489	\$ 1,122,801	\$ 1,427,650
Investing Activities	50,204	16,865	(290,074)
Capital and Related Financing Activities			
Capital Improvements	(200,546)	(313,180)	(129,632)
Debt Service	(2,145,729)	(1,490,499)	(586,594)
Debt Issue	2,268,773	-	-
Contributions in aid of construction	-	-	43,353
Other Capital and Related Financing	370,798	866	400
Noncapital Financing Activities	<u>(373,828)</u>	<u>(309,768)</u>	<u>(247,744)</u>
Net Change in Cash and Cash Equivalents	1,037,161	(972,915)	217,359
Cash and Cash Equivalents - Beginning of the Year	<u>1,370,719</u>	<u>2,407,880</u>	<u>1,434,965</u>
<b>Cash and Cash Equivalents - End of the Year</b>	2,407,880	1,434,965	1,652,324
Long-Term Investments	<u>712,731</u>	<u>706,082</u>	<u>1,005,388</u>
<b>Total Cash and Investments</b>	<u>\$ 3,120,611</u>	<u>\$ 2,141,047</u>	<u>\$ 2,657,712</u>

Overall cash flows have been increasing due to increasing rates, debt issues, and contributions for capital projects. The increase in 2013 was the result of refunding the 2002 bonds and a decrease in capital projects compared to the prior year. Conversely, when the proceeds of the 2013 bonds were used to pay off the 2002 bonds in 2014, it resulted in a significant cash outflow.

Cash flows from operating activities increased during 2015 and 2014 as a result of rate increases.

Cash flows from investing activities result mainly from the purchase and sale of long-term investments and investment income. The increase in 2013 is the result of shifting funds that were previously invested in CDs to money markets in order to remain in compliance with the investment policy.

The cash flows from capital and related financing activities are related to new debt in 2013, debt payments, main replacement projects, and completing the upgrade of the sludge treatment equipment at the wastewater treatment plant.

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## CAPITAL ASSETS

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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, 2015 and 2014

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## **LONG-TERM DEBT**

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Details of the existing debt are included in Note 6.

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## **CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS**

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The utility continues to monitor the adequacy of retail rates. Electric and water rates increased in 2015. Increases in rates were designed to improve the utilities cash flow and rate of return and to meet debt coverage requirements.

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## **CONTACTING UTILITY'S FINANCIAL MANAGEMENT**

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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, 2015 and 2014

<b>ASSETS</b>	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 872,252	\$ 405,427
Restricted Assets		
Redemption account	102,491	127,755
Customer accounts receivable	617,733	672,997
Other accounts receivable	17,810	39,565
Due from municipality	21,718	84,560
Materials and supplies	<u>99,653</u>	<u>101,958</u>
Total Current Assets	<u>1,731,657</u>	<u>1,432,262</u>
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Reserve account	404,652	415,530
Replacement account	755,795	669,815
Construction account	522,522	522,520
Net pension asset	89,024	-
Interest receivable	5,068	5,068
Other Assets		
Preliminary survey and investigation	6,199	6,199
Property held for future use	20,011	20,011
Capital Assets		
Plant in service		
Electric	6,484,659	6,423,217
Water	5,588,083	5,597,717
Sewer	<u>7,729,555</u>	<u>7,729,429</u>
Total Plant in Service	<u>19,802,297</u>	<u>19,750,363</u>
Accumulated depreciation		
Electric	(3,341,150)	(3,172,114)
Water	(1,885,989)	(1,769,823)
Sewer	<u>(4,854,292)</u>	<u>(4,606,756)</u>
Total Accumulated Depreciation	<u>(10,081,431)</u>	<u>(9,548,693)</u>
Construction work in progress		
Electric	<u>9,259</u>	<u>8,001</u>
Total Construction Work in Progress	<u>9,259</u>	<u>8,001</u>
Total Noncurrent Assets	<u>11,533,396</u>	<u>11,848,814</u>
Total Assets	<u>13,265,053</u>	<u>13,281,076</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on advance refunding	88,689	101,661
Deferred outflows related to pension	<u>89,481</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>178,170</u>	<u>101,661</u>

<b>LIABILITIES</b>		<u>2015</u>	<u>2014</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 309,950	\$ 364,531
Due to other funds		269,862	277,585
Accrued vacation leave		37,248	16,392
Accrued liabilities		5,630	5,711
Commitment to Community		(940)	311
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		495,314	483,771
Accrued interest		<u>16,456</u>	<u>17,258</u>
Total Current Liabilities		<u>1,133,520</u>	<u>1,165,559</u>
<b>NONCURRENT LIABILITIES</b>			
Revenue bonds		4,251,392	4,746,707
Unamortized debt discount		(11,112)	(12,744)
Due to capital projects fund		675,559	527,505
Accrued sick leave		71,320	94,822
Customer advances for construction		10,177	10,177
Unearned revenues		<u>-</u>	<u>400</u>
Total Noncurrent Liabilities		<u>4,997,336</u>	<u>5,366,867</u>
Total Liabilities		<u>6,130,856</u>	<u>6,532,426</u>
<b>NET POSITION</b>			
Net investment in capital assets		5,605,742	5,616,118
Restricted for:			
Debt service		495,755	531,095
Equipment replacement		755,795	669,815
Pension asset		89,024	-
Unrestricted		<u>366,051</u>	<u>33,283</u>
<b>TOTAL NET POSITION</b>		<u>\$ 7,312,367</u>	<u>\$ 6,850,311</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, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
Electric		
Sales of electricity	\$ 4,324,605	\$ 4,432,936
Other	<u>12,712</u>	<u>14,349</u>
Total Electric	<u>4,337,317</u>	<u>4,447,285</u>
Water		
Sales of water	626,717	599,563
Other	<u>16,322</u>	<u>15,951</u>
Total Water	<u>643,039</u>	<u>615,514</u>
Sewer		
Treatment charges	940,508	878,921
Other	<u>2,952</u>	<u>3,069</u>
Total Sewer	<u>943,460</u>	<u>881,990</u>
Total Operating Revenues	<u>5,923,816</u>	<u>5,944,789</u>
<b>OPERATING EXPENSES</b>		
Electric		
Operation and maintenance	3,857,042	4,027,334
Depreciation	<u>182,854</u>	<u>176,877</u>
Total Electric	<u>4,039,896</u>	<u>4,204,211</u>
Water		
Operation and maintenance	275,645	326,444
Depreciation	<u>140,203</u>	<u>136,566</u>
Total Water	<u>415,848</u>	<u>463,010</u>
Sewer		
Operation and maintenance	450,498	463,780
Depreciation	<u>262,392</u>	<u>273,517</u>
Total Sewer	<u>712,890</u>	<u>737,297</u>
Total Operating Expenses	<u>5,168,634</u>	<u>5,404,518</u>
<b>OPERATING INCOME</b>		
Electric	297,421	243,074
Water	227,191	152,504
Sewer	<u>230,570</u>	<u>144,693</u>
Total Operating Income	<u>755,182</u>	<u>540,271</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	9,232	10,216
Income from merchandising and jobbing	1,626	1,114
Interest expense	(102,020)	(110,769)
Amortization of discount	<u>(14,604)</u>	<u>(14,604)</u>
Total Nonoperating Revenues (Expenses)	<u>(105,766)</u>	<u>(114,043)</u>
Income Before Contributions and Transfers	649,416	426,228
<b>CAPITAL CONTRIBUTIONS</b>	24,613	1,560
<b>TRANSFER IN (OUT)</b>	(148,055)	(146,337)
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>(242,855)</u>	<u>(247,744)</u>
<b>CHANGE IN NET POSITION</b>	283,119	33,707
NET POSITION - Beginning of Year	6,850,311	6,816,604
Cumulative effect of a change in accounting principle	<u>178,937</u>	<u>-</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 7,312,367</u>	<u>\$ 6,850,311</u>

See accompanying notes to the financial statements.

## WATERLOO WATER AND LIGHT COMMISSION

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

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 5,976,508	\$ 5,821,176
Received from municipality for services	68,404	64,204
Paid to suppliers for goods and services	(4,188,968)	(4,269,458)
Paid to employees for operating payroll	(428,294)	(493,121)
Net Cash Flows From Operating Activities	1,427,650	1,122,801
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(247,744)	(270,227)
Transfers to other funds	-	(39,541)
Net Cash Flows From Noncapital Financing Activities	(247,744)	(309,768)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(129,632)	(317,192)
Received from the sale of capital assets	-	12,712
Cost of removal of capital assets	-	(8,700)
Contributions in aid of construction	43,353	-
Special assessments received	400	866
Debt retired	(483,772)	(1,374,422)
Interest paid	(102,822)	(116,077)
Net Cash Flows From Capital and Related Financing Activities	(672,473)	(1,802,813)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(716,196)	(421,695)
Investments sold and matured	416,890	428,344
Investment income	9,232	10,216
Net Cash Flows From Investing Activities	(290,074)	16,865
<b>Net Change in Cash and Cash Equivalents</b>	217,359	(972,915)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,434,965	2,407,880
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,652,324	\$ 1,434,965
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Amortization	\$ 14,604	\$ 14,604
Debt proceeds received by city	\$ -	\$ 66,127
Transfers due to capital projects fund	\$ 148,054	\$ 106,796

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 755,182	\$ 540,271
Nonoperating revenue (expense)	1,626	1,114
Noncash items in operating income		
Depreciation	585,449	586,960
Depreciation charged to clearing and other utilities	23,328	26,589
Changes in assets, deferred outflows and liabilities		
Customer accounts receivable	55,264	(49,257)
Other accounts receivable	3,015	(19,974)
Due from other funds	62,842	8,708
Materials and supplies	2,305	(3,984)
Pension related deferrals and liabilities	(1,219)	-
Accounts payable	(54,581)	34,236
Due to other funds	(2,834)	(3,618)
Accrued liabilities	<u>(2,727)</u>	<u>1,756</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 1,427,650</u>	<u>\$ 1,122,801</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 872,252	\$ 405,427
Redemption account	102,491	127,755
Reserve account	404,652	415,530
Replacement account	755,795	669,815
Construction account	<u>522,522</u>	<u>522,520</u>
Total Cash and Investments	2,657,712	2,141,047
Less: Noncash equivalents	<u>(1,005,388)</u>	<u>(706,082)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,652,324</u>	<u>\$ 1,434,965</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, 2015 and 2014

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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.

GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 12.

# WATERLOO WATER AND LIGHT COMMISSION

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

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

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### *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)*

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION*

#### *Deposits and Investments*

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

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

#### *Receivables/Payables*

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

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

# WATERLOO WATER AND LIGHT COMMISSION

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

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

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

#### ***Materials and Supplies***

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

#### ***Restricted Assets***

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

#### ***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, 2015 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 fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, 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



# WATERLOO WATER AND LIGHT COMMISSION

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

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

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

#### **Capital Assets (cont.)**

	<u>Years</u>
Water Plant	
Source of supply	34 - 56
Pumping	23 - 31
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 34
Sewer Plant	
Collecting system pumping	20
Treatment and disposal	13 - 38
General	7 - 40

#### **Pensions**

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

#### **Deferred Outflow of Resources**

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

#### **Accrued Vacation and Sick Leave**

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

#### **Commitment to Community**

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

# WATERLOO WATER AND LIGHT COMMISSION

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

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

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

#### ***Long-Term Obligations***

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

#### ***REVENUES AND EXPENSES***

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

#### ***Charges for Services***

Billings are rendered and recorded monthly based on metered usage. The utility does not accrue revenues beyond billing dates.

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

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

Current sewer rates were approved by the utility commission effective January 3, 2013.

#### ***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.

# WATERLOO WATER AND LIGHT COMMISSION

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

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

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

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

### ***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.

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

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

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

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

In addition, the utility has collateral or depository insurance agreements in the amount of \$1,965,188 and \$2,261,158 at December 31, 2015 and 2014 respectively. As of December 31, 2015 the bank has also established a \$1,700,000 letter of credit with the city including the utility as the beneficiary.

### ***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.

## WATERLOO WATER AND LIGHT COMMISSION

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

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

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

#### Deposits (cont.)

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

	2015		2014	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Farmers & Merchants State Bank	\$ 2,071,686	\$ 2,056,975	\$ 2,153,243	\$ 2,141,047
Avestar Credit Union	600,737	600,737	-	-
Totals	<u>\$ 2,672,423</u>	<u>\$ 2,657,712</u>	<u>\$ 2,153,243</u>	<u>\$ 2,141,047</u>

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

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

Due To	Due From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
Utility	Tax Fund	\$ 21,718	Delinquent on tax roll	\$ 18,433	Delinquent on tax roll
Utility	General Fund	-		66,127	Clean Water Fund draw received by city
General Fund	Utility	269,862	Tax equivalent and garbage collections	277,585	Tax equivalent and garbage collections
Capital Projects Fund	Utility	675,559	Sewer collection system funding	527,505	Sewer collection system funding

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

To	From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
City	Utility	\$ 242,855	Tax equivalent	\$ 247,744	Tax equivalent
City	Utility	-		4,394	Labor for city project
Capital Projects Fund	Utility	148,055	Sewer collection system funding	141,943	Sewer collection system funding

# WATERLOO WATER AND LIGHT COMMISSION

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

## 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.

### *Restricted Net Position*

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

	2015	2014
Restricted Assets		
Redemption account	\$ 102,491	\$ 127,755
Reserve account	404,652	415,530
Replacement account	755,795	669,815
Construction account	522,522	522,520
Net pension asset	89,024	-
Interest receivable	5,068	5,068
Total Restricted Assets	1,879,552	1,740,688
Less: Restricted Assets Not Funded by Revenues		
Construction account	(522,522)	(522,520)
Current Liabilities Payable From Restricted Assets	(16,456)	(17,258)
Total Restricted Net Position as Calculated	\$ 1,340,574	\$ 1,200,910

The purpose of the restricted net position is as follows:

	2015	2014
Debt service	\$ 495,755	\$ 531,095
Equipment replacement	755,795	669,815
Pension asset	89,024	-
	\$ 1,340,574	\$ 1,200,910

## WATERLOO WATER AND LIGHT COMMISSION

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

### NOTE 5 - CHANGES IN CAPITAL ASSETS

#### *Electric Utility*

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

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

## WATERLOO WATER AND LIGHT COMMISSION

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

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

***Electric Utility*** (cont.)

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

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 151,730	\$ -	\$ -	\$ 151,730
Capital assets being depreciated				
Distribution	3,932,456	63,821	21,010	3,975,267
General	2,284,553	11,667	-	2,296,220
Total Capital Assets Being Depreciated	6,217,009	75,488	21,010	6,271,487
Total Capital Assets	6,368,739	75,488	21,010	6,423,217
Less: Accumulated depreciation				
Distribution	(2,219,773)	(124,633)	28,802	(2,315,604)
General	(795,199)	(61,311)	-	(856,510)
Total Accumulated Depreciation	(3,014,972)	(185,944)	28,802	(3,172,114)
Construction in progress	45,345	45,167	82,511	8,001
Net Capital Assets	\$ 3,399,112			\$ 3,259,104

## WATERLOO WATER AND LIGHT COMMISSION

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

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

#### *Water Utility*

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

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 13,113	\$ -	\$ -	\$ 13,113
Capital assets being depreciated				
Source of supply	71,096	-	-	71,096
Pumping	900,646	2,973	-	903,619
Water treatment	28,296	-	596	27,700
Transmission and distribution	3,790,382	21,619	25,469	3,786,532
General	794,184	1,254	9,415	786,023
Total Capital Assets Being Depreciated	5,584,604	25,846	35,480	5,574,970
Total Capital Assets	5,597,717	25,846	35,480	5,588,083
Less: Accumulated depreciation				
Source of supply	(24,077)	(1,497)	-	(25,574)
Pumping	(454,464)	(31,602)	-	(486,066)
Water treatment	(11,258)	(1,680)	596	(12,342)
Transmission and distribution	(846,622)	(76,584)	27,450	(895,756)
General	(433,402)	(42,264)	9,415	(466,251)
Total Accumulated Depreciation	(1,769,823)	(153,627)	37,461	(1,885,989)
Net Capital Assets	\$ 3,827,894			\$ 3,702,094



## WATERLOO WATER AND LIGHT COMMISSION

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

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

**Water Utility** (cont.)

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

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 13,113	\$ -	\$ -	\$ 13,113
Capital assets being depreciated				
Source of supply	71,096	-	-	71,096
Pumping	891,417	14,975	5,746	900,646
Water treatment	28,296	-	-	28,296
Transmission and distribution	3,693,126	121,223	23,967	3,790,382
General	789,348	5,601	765	794,184
Total Capital Assets Being Depreciated	5,473,283	141,799	30,478	5,584,604
Total Capital Assets	5,486,396	141,799	30,478	5,597,717
Less: Accumulated depreciation				
Source of supply	(22,580)	(1,497)	-	(24,077)
Pumping	(428,877)	(31,333)	5,746	(454,464)
Water treatment	(9,560)	(1,698)	-	(11,258)
Transmission and distribution	(783,912)	(87,216)	24,506	(846,622)
General	(391,161)	(43,006)	765	(433,402)
Total Accumulated Depreciation	(1,636,090)	(164,750)	31,017	(1,769,823)
Net Capital Assets	\$ 3,850,306			\$ 3,827,894

## WATERLOO WATER AND LIGHT COMMISSION

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

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

#### ***Sewer Utility***

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

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 21,763	\$ -	\$ -	\$ 21,763
Capital assets being depreciated				
Collecting system	22,722	-	-	22,722
Collecting system pumping	116,321	5,258	-	121,579
Treatment and disposal	6,533,255	6,991	12,124	6,528,122
General	1,035,368	1	-	1,035,369
Total Capital Assets Being Depreciated	7,707,666	12,250	12,124	7,707,792
Total Capital Assets	7,729,429	12,250	12,124	7,729,555
Less: Accumulated depreciation				
Collecting system	(1,918)	(295)	-	(2,213)
Collecting system pumping	(90,913)	(5,948)	-	(96,861)
Treatment and disposal	(3,994,898)	(205,308)	12,124	(4,188,082)
General	(519,027)	(48,109)	-	(567,136)
Total Accumulated Depreciation	(4,606,756)	(259,660)	12,124	(4,854,292)
Net Capital Assets	\$ 3,122,673			\$ 2,875,263

## WATERLOO WATER AND LIGHT COMMISSION

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

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

#### *Sewer Utility* (cont.)

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

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 21,763	\$ -	\$ -	\$ 21,763
Capital assets being depreciated				
Collecting system	22,722	-	-	22,722
Collecting system pumping	116,321	-	-	116,321
Treatment and disposal	4,858,307	1,736,854	61,906	6,533,255
General	1,012,071	23,297	-	1,035,368
Completed construction not classified	1,679,379	57,077	1,736,456	-
Total Capital Assets Being Depreciated	7,688,800	1,817,228	1,798,362	7,707,666
Total Capital Assets	7,710,563	1,817,228	1,798,362	7,729,429
Less: Accumulated depreciation				
Collecting system	(1,623)	(295)	-	(1,918)
Collecting system pumping	(85,450)	(5,463)	-	(90,913)
Treatment and disposal	(3,812,117)	(244,687)	61,906	(3,994,898)
General	(468,330)	(50,697)	-	(519,027)
Completed construction not classified	(31,035)	(31,381)	62,416	-
Total Accumulated Depreciation	(4,398,555)	(332,523)	124,322	(4,606,756)
Net Capital Assets	\$ 3,312,008			\$ 3,122,673

## WATERLOO WATER AND LIGHT COMMISSION

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

### NOTE 6 - LONG-TERM OBLIGATIONS

#### *Revenue Bonds*

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/15
11/6/2012	Capital improvements and refinancing capital improvement debt	11/01/2028	0.50 - 3.00%	3,255,000	2,680,000
3/27/2013	Refinance capital improvement debt	5/01/2032	2.63%	1,384,900	1,271,706
12/30/2013	Refinance capital improvement debt	11/01/2022	0.80 - 3.20%	950,000	795,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2016	\$ 495,314	\$ 97,921	\$ 593,235
2017	491,897	91,967	583,864
2018	508,522	84,831	593,353
2019	520,190	76,221	596,411
2020	516,901	66,402	583,303
2021-2025	1,426,787	182,132	1,608,919
2026-2030	606,831	62,946	669,777
2031-2032	<u>180,264</u>	<u>4,762</u>	<u>185,026</u>
Totals	<u>\$ 4,746,706</u>	<u>\$ 667,182</u>	<u>\$ 5,413,888</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2015 and 2014 were \$586,594 and \$566,463, respectively. Total customer net revenues as defined for the same periods were \$1,351,489 and \$1,138,561. Annual principal and interest payments are expected to require 24% of net revenues on average.

## WATERLOO WATER AND LIGHT COMMISSION

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

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

#### *Long-Term Obligations Summary*

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

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

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

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Revenue bonds	\$ 6,538,773	\$ 66,127	\$ 1,374,422	\$ 5,230,478	\$ 483,772
Accrued sick leave	94,346	21,030	20,554	94,822	-
Customer advances for construction	10,177	-	-	10,177	-
Unamortized debt discount	(14,376)	-	(1,632)	(12,744)	-
Unearned Revenues	-	400	-	400	-
<b>Totals</b>	<b><u>\$ 6,628,920</u></b>	<b><u>\$ 87,557</u></b>	<b><u>\$ 1,393,344</u></b>	<b><u>\$ 5,323,133</u></b>	<b><u>\$ 483,772</u></b>

#### ***Bond Covenant Disclosures***

The following information is provided in compliance with the resolution creating the 2012 and 2013 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, 2015 and 2014

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

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

##### **Insurance** (cont.)

The utility is covered under the following insurance policies at December 31, 2015:

Type	Coverage	Expiration
<i>Tricor, Inc.</i>		
General Liability	\$ 1,000,000	1/1/16
Automobile	1,000,000	1/1/16
Umbrella Liability	4,000,000	1/1/16
Workers Compensation	500,000	1/1/16

##### **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 2015 and 2014 as follows:

	2015	2014
Operating revenues	\$ 5,923,816	\$ 5,944,789
Investment income	9,232	10,216
Miscellaneous nonoperating income	1,626	1,114
Less: Operation and maintenance expenses	(4,583,185)	(4,817,558)
Net Defined Earnings	\$ 1,351,489	\$ 1,138,561
Minimum Required Earnings per Resolution:		
Current year's revenue bond debt service	\$ 586,594	\$ 566,463
Coverage factor	1.25	1.25
Minimum Required Earnings	\$ 733,243	\$ 708,079
Actual Debt Coverage	2.30	2.01

## WATERLOO WATER AND LIGHT COMMISSION

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

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

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

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

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

	Customers		Sales (000 kWh)	
	2015	2014	2015	2014
Residential	1,522	1,514	12,962	12,846
General	258	260	4,831	5,383
Small power	12	12	4,287	4,094
Large power	10	10	17,088	17,219
Street and highway lighting	2	2	305	305
Totals	<u>1,804</u>	<u>1,798</u>	<u>39,473</u>	<u>39,847</u>

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

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

	Customers		Sales (000 gals)	
	2015	2014	2015	2014
Residential	1,106	1,103	48,000	45,753
Multifamily residential	21	21	5,582	5,168
Commercial	111	112	10,413	10,023
Industrial	12	12	12,194	11,288
Public Authority	16	16	2,571	2,781
Wholesale	1	1	3,203	2,655
Interdepartmental	2	1	2,495	2,285
Totals	<u>1,269</u>	<u>1,266</u>	<u>84,458</u>	<u>79,953</u>

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

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

	Customers		Sales (000 gals)	
	2015	2014	2015	2014
Residential	1,083	1,081	46,674	44,150
Commercial	118	119	13,870	13,579
Industrial	10	10	41,946	39,675
Public authority	13	13	1,901	1,896
Wholesale	1	1	5,391	4,790
Totals	<u>1,225</u>	<u>1,224</u>	<u>109,782</u>	<u>104,090</u>

# WATERLOO WATER AND LIGHT COMMISSION

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2015 and 2014

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### NOTE 7 - NET POSITION

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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>2015</u>	<u>2014</u>
Total Construction Work in Progress	\$ 9,259	\$ 8,001
Plant in service	19,802,297	19,750,363
Accumulated depreciation	<u>(10,081,431)</u>	<u>(9,548,693)</u>
Sub-Totals	<u>9,730,125</u>	<u>10,209,671</u>
Less: Capital related debt		
Current portion of capital related long-term debt	495,314	483,771
Long-term portion of capital related long-term debt	4,251,392	4,746,707
Unamortized debt discount	(11,112)	(12,744)
Unamortized loss on advanced refunding	<u>(88,689)</u>	<u>(101,661)</u>
Sub-Totals	<u>4,646,905</u>	<u>5,116,073</u>
Add: Unspent debt proceeds		
Construction funds	<u>522,522</u>	<u>522,520</u>
Total Net Investment in Capital Assets	<u>\$ 5,605,742</u>	<u>\$ 5,616,118</u>



# WATERLOO WATER AND LIGHT COMMISSION

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

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## NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

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

### **General Information About the Pension Plan**

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

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

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

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

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

The WRS also provides death and disability benefits for employees.

## WATERLOO WATER AND LIGHT COMMISSION

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

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

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

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

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

During the reporting period, the WRS recognized \$34,450 in contributions from the utility.

Contribution rates as of December 31, 2015 are:

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

## WATERLOO WATER AND LIGHT COMMISSION

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

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

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

At December 31, 2015, the utility reported a liability (asset) of \$(89,024) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the City of Waterloo's proportion was .01287%, which was a decrease of .00014% from its proportion measured as of December 31, 2013.

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

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

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

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. \$32,949 is reported for the utility. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31	Deferred Outflow of Resources	Deferred Inflows of Resources
2016	\$ 13,838	\$ -
2017	13,838	-
2018	13,838	-
2019	13,837	-
2020	1,181	-
Thereafter	-	-
Total	\$ 56,532	\$ -

# WATERLOO WATER AND LIGHT COMMISSION

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

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

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

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

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

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

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

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

# WATERLOO WATER AND LIGHT COMMISSION

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

## **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

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

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Waterloo Water and Light Commission's proportionate share of the net position liability (asset)	\$ 251,153	\$ (89,024)	\$ (357,682)

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

### **Required Disclosures Under GASB No. 27**

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

	Year Ended December 31	
	2014	2013
Total Covered Employee Payroll	\$ 492,143	\$ 494,552
Total Required Contributions	\$ 34,450	\$ 32,888
Total Required Contributions	7%	6.65%

# WATERLOO WATER AND LIGHT COMMISSION

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

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## **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

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### ***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.

In 2002, all WPPI Energy members ratified a thirteen year extension to their original thirty-five year contracts. The new contract expires at midnight 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 \$437 million as of December 31, 2015.

### ***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.

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## **NOTE 10 - SIGNIFICANT CUSTOMERS**

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### ***Electric Utility***

The utility has one significant customer who was responsible for 16% and 19% of operating revenues in 2015 and 2014, respectively.

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## **NOTE 11 - SUBSEQUENT EVENTS**

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The utility evaluated subsequent events through the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

# WATERLOO WATER AND LIGHT COMMISSION

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

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## NOTE 12 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

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

### ***Electric Utility***

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

### ***Water Utility***

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

### ***Sewer Utility***

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**



## WATERLOO WATER AND LIGHT COMMISSION

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

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

	2015
City of Waterloo's proportion of the net pension liability (asset)	0.01286712%
Waterloo Water and Light Commission's proportionate share of the net pension liability (asset)	\$ (89,024)
Waterloo Water and Light Commission's covered employee payroll	\$ 427,580
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

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

### SCHEDULE OF CONTRIBUTIONS Wisconsin Retirement System Last 10 Fiscal Years\*

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

	2015
Contractually required contributions	\$ 34,450
Contributions in relation to the contractually required contributions	\$ 34,450
Contributions deficiency (excess)	\$ 0
Waterloo Water and Light Commission's covered-employee payroll	\$ 427,580
Contributions as a percentage of covered-employee payroll	7.00%

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

## **WATERLOO WATER AND LIGHT COMMISSION**

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

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*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, 2015

	Balance 1/1/15	Additions	Retirements	Adjustments	Balance 12/31/15
<b>DISTRIBUTION</b>					
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	288,459	18,420	3,500	1	303,380
Overhead conductors and devices	339,495	16,222	1,250	-	354,467
Underground conduit	13,222	-	-	-	13,222
Underground conductors and devices	633,222	19,991	-	(1,901)	651,312
Line transformers	677,895	18,664	2,732	(1)	693,826
Services	392,727	3,185	1,572	(118)	394,222
Meters	243,138	9,202	5,007	-	247,333
Street lighting and signal systems	365,483	-	-	1	365,484
Total Distribution	<u>3,976,207</u>	<u>85,684</u>	<u>14,061</u>	<u>(2,018)</u>	<u>4,045,812</u>
<b>GENERAL</b>					
Land and land rights	150,790	-	-	(1)	150,789
Structures and improvements	1,850,802	-	-	-	1,850,802
Office furniture and equipment	12,265	-	-	1	12,266
Computer equipment	17,317	-	-	1	17,318
Transportation equipment	243,820	-	7,511	1	236,310
Stores equipment	13,603	-	-	-	13,603
Tools, shop and garage equipment	61,784	1,250	1,904	(1)	61,129
Laboratory equipment	5,350	-	-	-	5,350
Power-operated equipment	82,099	-	-	1	82,100
Communication equipment	5,681	-	-	-	5,681
Miscellaneous equipment	3,499	-	-	-	3,499
Total General	<u>2,447,010</u>	<u>1,250</u>	<u>9,415</u>	<u>2</u>	<u>2,438,847</u>
TOTAL ELECTRIC UTILITY PLANT	<u>\$ 6,423,217</u>	<u>\$ 86,934</u>	<u>\$ 23,476</u>	<u>\$ (2,016)</u>	<u>\$ 6,484,659</u>

## WATERLOO WATER AND LIGHT COMMISSION

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

	Balance 1/1/15	Additions	Retirements	Adjustments	Balance 12/31/15
<b>SOURCE OF SUPPLY</b>					
Land and land rights	\$ 2,012	\$ -	\$ -	\$ -	\$ 2,012
Wells and springs	19,761	-	-	-	19,761
Supply mains	<u>51,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,335</u>
Total Source of Supply	<u>73,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,108</u>
<b>PUMPING</b>					
Structures and improvements	666,671	-	-	-	666,671
Electric pumping equipment	231,889	2,973	-	-	234,862
Other pumping equipment	<u>2,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,086</u>
Total Pumping	<u>900,646</u>	<u>2,973</u>	<u>-</u>	<u>-</u>	<u>903,619</u>
<b>WATER TREATMENT</b>					
Water treatment equipment	<u>28,296</u>	<u>-</u>	<u>596</u>	<u>-</u>	<u>27,700</u>
<b>TRANSMISSION AND DISTRIBUTION</b>					
Land and land rights	2,017	-	-	-	2,017
Distribution reservoirs and standpipes	83,086	-	-	-	83,086
Transmission and distribution mains	2,521,978	-	-	(1)	2,521,977
Services	503,098	-	-	-	503,098
Meters	374,314	9,734	25,248	-	358,800
Hydrants	<u>307,906</u>	<u>11,886</u>	<u>221</u>	<u>-</u>	<u>319,571</u>
Total Transmission and Distribution	<u>3,792,399</u>	<u>21,620</u>	<u>25,469</u>	<u>(1)</u>	<u>3,788,549</u>
<b>GENERAL</b>					
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	9,897	-	-	1	9,898
Transportation equipment	45,167	-	7,511	1	37,657
Stores equipment	7,433	-	-	-	7,433
Tools, shop and garage equipment	29,356	1,250	1,904	1	28,703
Laboratory equipment	2,042	-	-	-	2,042
Power-operated equipment	55,637	-	-	-	55,637
Communication equipment	342	-	-	1	343
SCADA equipment	278,955	-	-	-	278,955
Miscellaneous equipment	<u>1,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,115</u>
Total General	<u>803,268</u>	<u>1,250</u>	<u>9,415</u>	<u>4</u>	<u>795,107</u>
<b>TOTAL WATER UTILITY PLANT</b>	<u>\$ 5,597,717</u>	<u>\$ 25,843</u>	<u>\$ 35,480</u>	<u>\$ 3</u>	<u>\$ 5,588,083</u>

## WATERLOO WATER AND LIGHT COMMISSION

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

	Balance 12/31/14	Additions	Retirements	Adjustments	Balance 12/31/15
<b>COLLECTING SYSTEM</b>					
Force mains	\$ 22,722	\$ -	\$ -	\$ -	\$ 22,722
<b>COLLECTING SYSTEM PUMPING</b>					
Pump station equipment	101,979	5,259	-	(1)	107,237
Electric pumping equipment	14,342	-	-	-	14,342
Total Collecting System Pumping	<u>116,321</u>	<u>5,259</u>	<u>-</u>	<u>(1)</u>	<u>121,579</u>
<b>TREATMENT AND DISPOSAL</b>					
Land and land rights	400	-	-	-	400
Structures and improvements	3,436,478	3,525	-	(1)	3,440,002
Preliminary treatment equipment	342,739	-	-	(1)	342,738
Primary treatment equipment	63,473	-	-	-	63,473
Secondary treatment equipment	1,087,528	3,550	12,124	-	1,078,954
Advanced treatment equipment	269,230	-	-	-	269,230
Sludge treatment and disposal equipment	690,869	-	-	(1)	690,868
Plant site piping	348,047	-	-	-	348,047
Flow metering and monitoring equipment	33,716	3,445	-	(1)	37,160
Other treatment and disposal equipment	261,175	-	-	(3,525)	257,650
Total Treatment and Disposal	<u>6,533,655</u>	<u>10,520</u>	<u>12,124</u>	<u>(3,529)</u>	<u>6,528,522</u>
<b>GENERAL</b>					
Land and land rights	21,363	-	-	-	21,363
Structures and improvements	578,567	-	-	1	578,568
Office furniture and equipment	3,740	-	-	-	3,740
Computer equipment	9,650	-	-	-	9,650
Transportation equipment	90,135	-	-	-	90,135
Communication equipment	178,348	-	-	-	178,348
Other general equipment	174,928	-	-	-	174,928
Total General	<u>1,056,731</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1,056,732</u>
<b>TOTAL SEWER UTILITY PLANT</b>	<u>\$ 7,729,429</u>	<u>\$ 15,779</u>	<u>\$ 12,124</u>	<u>\$ (3,529)</u>	<u>\$ 7,729,555</u>

## WATERLOO WATER AND LIGHT COMMISSION

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

	2015	2014
<b>OPERATING REVENUES</b>		
Sales of Electricity		
Residential	\$ 1,384,983	\$ 1,363,948
Rural	141,074	136,993
General service	481,946	519,243
Small power	371,135	372,805
Large power	1,771,445	1,873,367
Public street and highway lighting	68,404	64,204
Interdepartmental	<u>105,618</u>	<u>102,376</u>
Total Sales of Electricity	<u>4,324,605</u>	<u>4,432,936</u>
Other Operating Revenues		
Forfeited discounts	9,429	10,283
Miscellaneous service revenues	551	1,291
Rent from electric property	2,289	2,349
Other	<u>443</u>	<u>426</u>
Total Operating Revenues	<u>4,337,317</u>	<u>4,447,285</u>
 <b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Other Power Supply		
Purchased power	<u>3,422,460</u>	<u>3,598,239</u>
Distribution		
Station	23,159	22,614
Overhead line	28,427	36,204
Underground line	7,995	12,890
Street lighting and signal system	7,210	5,803
Meter	5,519	3,772
Customer installations	64	37
Miscellaneous	14,479	15,782
Maintenance		
Supervision and engineering	24,499	18,428
Station equipment	-	129
Overhead lines	22,454	23,538
Underground lines	908	440
Street lighting and signal system	3,049	2,801
Meters	<u>1,492</u>	<u>1,123</u>
Total Distribution	<u>139,255</u>	<u>143,561</u>
Customer Accounts		
Meter reading	5,908	7,475
Customer records and collection	<u>27,009</u>	<u>26,979</u>
Total Customer Accounts	<u>32,917</u>	<u>34,454</u>
Sales		
Advertising	<u>3,942</u>	<u>2,709</u>

## WATERLOO WATER AND LIGHT COMMISSION

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

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	<u>2015</u>	<u>2014</u>
<b>OPERATING EXPENSES</b> (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 37,539	\$ 35,483
Office supplies	25,135	25,510
Administrative expenses transferred	(21,275)	(12,560)
Outside services employed	29,295	28,625
Property insurance	12,830	13,323
Employee pensions and benefits	82,159	61,135
Regulatory commission	567	3,620
Miscellaneous	36,452	22,651
Transportation	(116)	10,873
Maintenance	<u>32,538</u>	<u>36,503</u>
Total Administrative and General	<u>235,124</u>	<u>225,163</u>
Taxes	<u>23,344</u>	<u>23,208</u>
Total Operation and Maintenance	3,857,042	4,027,334
Depreciation	<u>182,854</u>	<u>176,877</u>
Total Operating Expenses	<u>4,039,896</u>	<u>4,204,211</u>
 OPERATING INCOME	 <u>\$ 297,421</u>	 <u>\$ 243,074</u>



# WATERLOO WATER AND LIGHT COMMISSION

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

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Sales of Water		
Metered		
Residential	\$ 295,131	\$ 283,594
Commercial	77,977	73,988
Industrial	43,794	36,142
Public authorities	13,713	14,255
Interdepartmental	10,352	9,457
Service to other systems	<u>11,096</u>	<u>9,230</u>
Total Metered Sales	452,063	426,666
Private fire protection	6,900	7,081
Public fire protection	<u>167,754</u>	<u>165,816</u>
Total Sales of Water	<u>626,717</u>	<u>599,563</u>
Other Operating Revenues		
Forfeited discounts	3,503	3,879
Other	<u>12,819</u>	<u>12,072</u>
Total Operating Revenues	<u>643,039</u>	<u>615,514</u>
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	19,184	16,946
Operation labor	<u>9,752</u>	<u>12,856</u>
Total Source of Supply	<u>28,936</u>	<u>29,802</u>
Pumping		
Fuel or purchased power for pumping	15,336	16,017
Pumping labor	17,009	19,452
Miscellaneous	2,380	4,046
Maintenance		
Structures and improvements	76	470
Pumping equipment	<u>1,082</u>	<u>1,928</u>
Total Pumping	<u>35,883</u>	<u>41,913</u>
Water Treatment		
Chemicals	5,182	4,959
Operation labor	17,907	22,812
Maintenance		
Water treatment equipment	<u>2,254</u>	<u>587</u>
Total Water Treatment	<u>25,343</u>	<u>28,358</u>

## WATERLOO WATER AND LIGHT COMMISSION

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

	2015	2014
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Storage facilities	\$ 681	\$ 1,049
Transmission and distribution lines	8,384	14,013
Meters	3,149	2,485
Customer installations	201	659
Miscellaneous	543	652
Maintenance		
Mains	10,585	32,347
Services	6,586	17,836
Meters	1,142	1,320
Hydrants	7,541	3,272
Total Transmission and Distribution	38,812	73,633
Customer Accounts		
Meter reading	1,277	1,419
Accounting and collecting labor	12,264	11,650
Total Customer Accounts	13,541	13,069
Administrative and General		
Salaries	23,027	20,388
Office supplies	12,009	12,667
Administrative expenses transferred	(3,997)	(6,273)
Outside services employed	14,913	14,349
Property insurance	10,169	9,831
Employee pensions and benefits	54,113	57,467
Regulatory commission	270	-
Miscellaneous	9,563	12,314
Maintenance	6,176	10,567
Total Administrative and General	126,243	131,310
Taxes	6,887	8,359
Total Operation and Maintenance	275,645	326,444
Depreciation	140,203	136,566
Total Operating Expenses	415,848	463,010
OPERATING INCOME	\$ 227,191	\$ 152,504

## WATERLOO WATER AND LIGHT COMMISSION

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

	2015	2014
<b>OPERATING REVENUES</b>		
Sewer Revenues		
Residential	\$ 409,585	\$ 392,971
Commercial	102,015	100,230
Industrial	380,201	390,341
Public authorities	13,620	13,611
Service to other systems	35,087	(18,232)
Total Sewer Revenues	940,508	878,921
Other Operating Revenues		
Forfeited discounts	2,754	2,992
Miscellaneous	198	77
Total Operating Revenues	943,460	881,990
 <b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Operation		
Supervision and labor	75,853	83,724
Power and fuel for pumping	75,737	72,753
Chlorine	311	-
Phosphorous removal chemicals	25,972	26,231
Sludge conditioning chemicals	16,924	14,104
Other operating supplies	44,559	54,894
Total Operation	239,356	251,706
Maintenance		
Collection system	8,502	8,624
Treatment and disposal plant equipment	38,553	41,518
General plant structures and equipment	14,081	23,438
Total Maintenance	61,136	73,580
Customer Accounts		
Accounting and collecting	12,186	11,983
Meter Reading	1,094	1,334
Total Customer Accounts	13,280	13,317
Administrative and General		
Salaries	16,253	12,792
Office supplies	17,092	16,835
Outside services employed	16,787	16,598
Insurance	3,357	3,813
Employees pensions and benefits	53,672	43,255
Miscellaneous	15,888	18,235
Total Administrative and General	123,049	111,528
Taxes	13,677	13,649
Total Operation and Maintenance	450,498	463,780
Depreciation	262,392	273,517
Total Operating Expenses	712,890	737,297
 OPERATING INCOME	 \$ 230,570	 \$ 144,693

## WATERLOO WATER AND LIGHT COMMISSION

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

	Electric		Water	
	2015	2014	2015	2014
Utility Financed Plant in Service				
Beginning of year	\$ 5,672,137	\$ 5,618,299	\$ 4,253,274	\$ 4,141,953
End of year	<u>5,709,212</u>	<u>5,672,137</u>	<u>4,243,640</u>	<u>4,253,274</u>
Average	<u>5,690,675</u>	<u>5,645,218</u>	<u>4,248,457</u>	<u>4,197,614</u>
Utility Financed Accumulated Depreciation				
Beginning of year	(2,797,463)	(2,663,900)	(1,314,131)	(1,206,631)
End of year	<u>(2,942,682)</u>	<u>(2,797,463)</u>	<u>(1,404,061)</u>	<u>(1,314,131)</u>
Average	<u>(2,870,073)</u>	<u>(2,730,682)</u>	<u>(1,359,096)</u>	<u>(1,260,381)</u>
Materials and Supplies				
Beginning of year	75,339	75,325	26,619	22,649
End of year	<u>73,194</u>	<u>75,339</u>	<u>26,459</u>	<u>26,619</u>
Average	<u>74,267</u>	<u>75,332</u>	<u>26,539</u>	<u>24,634</u>
Regulatory Liability				
Beginning of year	(93,600)	(104,000)	(75,750)	(84,166)
End of year	<u>(83,200)</u>	<u>(93,600)</u>	<u>(67,332)</u>	<u>(75,750)</u>
Average	<u>(88,400)</u>	<u>(98,800)</u>	<u>(71,541)</u>	<u>(79,958)</u>
 AVERAGE NET RATE BASE	 <u>\$ 2,806,469</u>	 <u>\$ 2,891,068</u>	 <u>\$ 2,844,359</u>	 <u>\$ 2,881,909</u>
 OPERATING INCOME - REGULATORY BASIS	 <u>\$ 191,545</u>	 <u>\$ 133,131</u>	 <u>\$ 140,510</u>	 <u>\$ 64,660</u>
 RATE OF RETURN (PERCENT)	 <u>6.83</u>	 <u>4.60</u>	 <u>4.94</u>	 <u>2.24</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.