

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the
City of Kenosha, Wisconsin)
Kenosha, Wisconsin

BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

Table of Contents

	PAGE
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Fund Net Position	13
Statements of Cash Flows	14
Notes to Basic Financial Statements	15
Required Supplemental Information	
Schedule of OPEB Funding Progress	41
Supplemental Schedules	
Combining Schedule of Net Position	42
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position	43
Water Unit	
Schedule of Capital Assets	44
Debt Repayment Schedule - Series 2008 - Water System Revenue Bonds	45
Debt Repayment Schedule - Series 1999 - Advance from Municipality	46
Schedules of Operating Revenues and Expenses	47
Water Tax Equivalent Calculation Schedules	50
Sewerage Unit	
Schedule of Capital Assets	51
Debt Repayment Schedule - Series 1993 - Clean Water Fund Loan	52
Debt Repayment Schedule - Series 2000 - Clean Water Fund Loan	53
Debt Repayment Schedule - Series 1999 - Advance from Municipality	54
Schedules of Operating Revenues and Expenses	55
Household Hazardous Waste Unit	
Schedule of Capital Assets	57

Independent Auditors' Report

Board of Water Commissioners
City of Kenosha Water Utility
Kenosha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the Kenosha Water Utility, as of and for the year ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the entity's basic 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 entity'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 entity'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 the Kenosha Water Utility as of December 31, 2012 and 2011, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1, the financial statements present only the Kenosha Water Utility and do not purport to, and do not, present fairly the financial position of the City of Kenosha, Wisconsin, as of December 31, 2012 and 2011 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 11, and the schedule of OPEB Funding Status on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kenosha Water Utility's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Racine, Wisconsin
April 25, 2013

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis of the Kenosha Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2012 and 2011. This information should be read in conjunction with the financial statements.

2012 Financial Highlights

The Utility's combined net position increased to \$164.5 million from \$161.1 million. Events that had significant impact on the financial statements were:

- Operating revenues increased \$509,668 or 2.1% from 2011. The higher revenues were due primarily to an increase in water service revenues by residential and commercial customers and sales to other municipalities.
- Operating expenses decreased \$853,951 or 4.5% from 2011. The majority of the decrease was attributable to a 15.6% decrease in customer accounting and collecting, administrative and general expenses
- Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$189,543 or 8.6% to \$2,392,969 in 2012 from \$2,203,426 in 2011.
- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$0.3 million (not including assessments and impact fees).

2011 Financial Highlights

The Utility's combined net position increased to \$161.1 million from \$158.0 million. Events that had significant impact on the financial statements were:

- Construction projects completed in 2011 included water and sewer main projects totaling \$0.9 million and completion of the installation of a dewatering centrifuge at the Wastewater Treatment Plant (\$0.6 million).
- The Sewerage Unit continued modifications to and installation of heating system equipment (\$0.5 million) to gain greater efficiencies in digester methane gas use.
- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$0.8 million (not including assessments and impact fees).
- The Utility purchased the City's deferred sanitary sewer charges for approximately \$0.5 million.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements.

The **statement of net position** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net position presents information on all of the Utility's assets and liabilities, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets) and the obligations to Utility creditors (liabilities). Over time, increases and decreases in net position is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **supplementary schedules** provide more detail than the preceding statements. A Schedule of Capital Assets is provided for the Water, Sewerage, and Household Hazardous Waste units. Detailed debt repayment schedules are provided for all debt issues. Detailed operating revenue and expense schedules are provided as well as the water tax equivalent calculation.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Organization and Business

The Kenosha Water Utility's mission is:

"Providing and Protecting Kenosha's Greatest Natural Resource – *Water*"

The Kenosha Water Utility (KWU) provides water and wastewater service to more than 100,000 persons in the greater Kenosha area, including the City of Kenosha, Village of Pleasant Prairie, Town of Somers and Village of Bristol. The Kenosha Water Utility also provides a monthly household hazardous waste collection service for City of Kenosha residents.

The Kenosha Water Utility is a municipally-owned, fiscally-independent public utility organized under authority of Section 66.0805 of the Wisconsin State Statutes and Chapter XXXII of the City of Kenosha Code of General Ordinances. The Utility is an enterprise fund of the City of Kenosha and is solely financed by service charges operating like a private business entity. The Utility has no taxing power and receives no tax revenues from the City of Kenosha. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, developers, federal and state grants and loans, bond sales, and Utility revenues.

The Board of Water Commissioners is composed of six aldermen appointed under authority of Section 1.06H of the City of Kenosha Code of General Ordinances. The powers and duties of the Board of Water Commissioners include establishing policy, adopting rules and regulations, adopting an annual budget, establishing rates and fees, and approving contracts and agreements. The management and operation of the Water Utility is under the direction of the General Manager who is appointed by the Board of Water Commissioners.

Surface water from Lake Michigan has been Kenosha's source of water since 1894. Lake Michigan water is valued for both its quality and quantity. The Utility provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection, and other purposes. The wastewater treatment plant provides primary and secondary treatment with disinfection in accordance with permits from the State of Wisconsin Department of Natural Resources. The treated wastewater is discharged to Lake Michigan and the solids are transported to a landfill. Both plants are in compliance with all state and federal regulations. The Household Hazardous Waste program was established in 1992 and provides for a monthly drop-off service to city residential customers; wastes are disposed of by licensed waste haulers.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as a reasonable level of unrestricted net assets. Management feels that the current financial condition, technical support staff capabilities and operating and expansion plans will meet anticipated customer needs.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statements and associated notes.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Summary of Net Position

	<u>December 31</u>			<u>Variance of 2012 to 2011</u>	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Increase (decrease)</u>	
				<u>Dollars</u>	<u>%</u>
Capital assets:					
Net plant in service	\$151,755,112	\$155,276,066	\$156,963,149	\$ (3,520,954)	(2.3) %
Construction in progress	1,930,433	1,301,602	1,179,368	628,831	48.3
Other capital assets	1,351,791	1,366,281	1,380,765	(14,490)	(1.1)
Current, restricted and other assets	<u>32,864,664</u>	<u>30,490,789</u>	<u>30,892,309</u>	<u>2,373,875</u>	<u>7.8</u>
Total assets	<u>187,902,000</u>	<u>188,434,738</u>	<u>190,415,591</u>	<u>(532,738)</u>	<u>(0.3)</u>
Current liabilities	6,572,148	7,903,246	8,712,123	(1,331,098)	(16.8)
Long-term liabilities	<u>16,853,092</u>	<u>19,443,950</u>	<u>23,665,625</u>	<u>(2,590,858)</u>	<u>(13.3)</u>
Total liabilities	<u>23,425,240</u>	<u>27,347,196</u>	<u>32,377,748</u>	<u>(3,921,956)</u>	<u>(14.3)</u>
Net position:					
Invested in capital assets, net of related debt	140,640,532	139,483,260	135,957,045	1,157,272	0.8
Restricted for debt service	8,812,751	10,499,162	9,367,228	(1,686,411)	(16.1)
Unrestricted	<u>15,023,477</u>	<u>11,105,120</u>	<u>12,713,570</u>	<u>3,918,357</u>	<u>35.3</u>
Total net position	<u>\$164,476,760</u>	<u>\$161,087,542</u>	<u>\$158,037,843</u>	<u>\$ 3,389,218</u>	<u>2.1 %</u>

In 2012, total net position increased \$3.39 million or 2.1%. This is due to combined net income of the water, sewerage, and household hazardous waste units of \$3.08 million and capital contributions of \$0.31 million. Capital contributions consisted of approximately \$0.2 million of donated infrastructure and approximately \$0.1 million in assessments and impact fees.

In 2011, total net position increased \$3.05 million or 1.9%. This is due to combined net income of the water, sewerage, and household hazardous waste units of \$1.7 million and capital contributions of \$1.3 million. Capital contributions consisted of approximately \$0.8 million of donated infrastructure and approximately \$0.5 million in assessments and impact fees.

In 2012, total assets decreased \$0.5 million or 0.3%. Capital assets decreased \$0.1 million; accumulated depreciation increased \$2.8 million for a net decrease of \$2.9 million. Current, restricted and other assets increased \$2.4 million or 7.8%.

In 2011, total assets decreased \$2.0 million or 1.0%. Capital assets increased \$2.6 million; accumulated depreciation increased \$4.2 million for a net decrease of \$1.6 million. Current, restricted and other assets decreased \$0.4 million or 1.3%.

The Water, Sewerage, and Household Hazardous Waste units are self-supporting divisions. Net assets of one division are not permanently used by other divisions.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Summary of Revenues, Expenses and Changes in Fund Net Position

	Year ended December 31			Variance of 2012 to 2011 Increase (decrease)	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Dollars</u>	<u>%</u>
Revenues:					
Water service revenues	\$ 10,410,002	\$ 9,957,558	\$ 9,886,698	\$ 452,444	4.5 %
Sewerage service revenues	10,338,727	10,332,550	10,247,726	6,177	0.1
Household Hazardous Waste revenues	167,169	167,072	166,619	97	0.1
Other revenues	3,374,291	3,323,341	3,260,430	50,950	1.5
Total operating revenues	<u>24,290,189</u>	<u>23,780,521</u>	<u>23,561,473</u>	<u>509,668</u>	<u>2.1</u>
Expenses:					
Operating and maintenance, before depreciation and taxes					
Water operations	3,971,251	4,104,668	3,763,035	(133,417)	(3.3)
Sewerage operations	5,103,930	5,213,610	5,464,413	(109,680)	(2.1)
Household Hazardous Waste	151,589	140,708	135,740	10,881	7.7
Depreciation	4,949,110	4,842,481	4,807,622	106,629	2.2
Customer accounting and collecting, administrative and general					
	<u>3,933,751</u>	<u>4,662,115</u>	<u>4,213,953</u>	<u>(728,364)</u>	<u>(15.6)</u>
Total operating expenses	<u>18,109,631</u>	<u>18,963,582</u>	<u>18,384,763</u>	<u>(853,951)</u>	<u>(4.5)</u>
Operating income	<u>6,180,558</u>	<u>4,816,939</u>	<u>5,176,710</u>	<u>1,363,619</u>	<u>28.3</u>
Nonoperating revenues	175,478	156,126	146,354	19,352	12.4
Nonoperating expenses	<u>(881,849)</u>	<u>(1,034,855)</u>	<u>(1,318,314)</u>	<u>(153,006)</u>	<u>(14.8)</u>
Increase in net position, before capital contributions and transfers	<u>5,474,187</u>	<u>3,938,210</u>	<u>4,004,750</u>	<u>1,535,977</u>	<u>39.0</u>
Capital contributions:					
Assessments and impact fees	98,700	554,290	468,033	(455,590)	(82.2)
Donated by developers	209,300	760,625	216,771	(551,325)	(72.5)
Transfers out	<u>(2,392,969)</u>	<u>(2,203,426)</u>	<u>(2,058,043)</u>	<u>(189,543)</u>	<u>8.6</u>
Increase in net position	3,389,218	3,049,699	2,631,511	339,519	11.1
Net position at beginning of year	<u>161,087,542</u>	<u>158,037,843</u>	<u>155,406,332</u>	<u>3,049,699</u>	<u>1.9</u>
Net position at end of year	<u>\$ 164,476,760</u>	<u>\$ 161,087,542</u>	<u>\$ 158,037,843</u>	<u>\$ 3,389,218</u>	<u>2.1 %</u>

Revenues from operations fall into four general categories: water service, sewerage service, household hazardous waste and other charges. Other charges include penalty fees and charges for miscellaneous billed services

The number of metered customers increased less than 0.1% during 2012. Water consumption increased 5.8%. Water services revenue increased approximately \$452,000 or 4.5%. Sewerage service revenues increased approximately \$6,000 or 0.1%. The increase in revenue is attributable to increased water consumption.

Operating expenses decreased 4.5% or approximately \$854,000 during 2012. Water Unit operating expenses decreased 4.0% or \$341,000. Sewerage Unit operating expenses decreased 5.1% or \$524,000. Operating expenses increased approximately \$11,000 or 8.0% in the Household Hazardous Waste Unit. Customer accounting and collecting, administrative and general expenses for all units decreased approximately \$728,000 or 15.6%.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating income for 2012 increased 28.3% or approximately \$1.4 million. Nonoperating revenues increased 12.4% or approximately \$19,000. Nonoperating expenses decreased 14.8% or \$153,000 due to decreases in interest expense and amortization on long-term debt.

The number of metered customers increased 0.1% during 2011. Water consumption increased 0.6%. Water services revenue increased approximately \$71,000 or 0.7%. Sewerage service revenues increased approximately \$85,000 or 0.8%. The increase in revenue is attributable to increased consumption.

Operating expenses increased 3.1% or \$581,110 during 2011. Water Unit operating expenses increased 9.1% or \$341,633. Sewerage Unit operating expenses decreased 4.6% or \$250,803. Operating expenses increased \$4,968 or 3.7% in the Household Hazardous Waste Unit. Customer accounting and collecting, administrative and general expenses for all units increased \$450,453 or 10.2%.

Operating income for 2011 decreased 6.9% or \$359,771. Nonoperating revenues increased 6.7% or \$9,772 due to a decrease in interest earned on investments. Nonoperating expenses decreased 21.5% or \$283,459 due to decreases in interest expense and amortization on long-term debt.

For 2012, the increase in net position of \$3,389,218 was \$339,519 more than the previous year's increase of \$3,049,699 or an increase of 11.1%. This was attributable to an increase in operation revenues and a decrease in operating and nonoperating expenses. The increase in net position attributable to the Water Unit was \$1,134,443; the amount attributable to the Sewerage Unit was \$2,223,436. The Household Hazardous Waste Unit accounted for the remaining \$31,339.

For 2011, the increase in net position of \$3,049,699 was \$418,188 more than the previous year's increase of \$2,631,511 or an increase of 15.9%. This was attributable to an increase in capital contributions. The increase in net position attributable to the Water Unit was \$857,118; the amount attributable to the Sewerage Unit was \$2,149,697. The Household Hazardous Waste Unit accounted for the remaining \$42,884.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

Changes in Capital Assets

	<u>Balance Jan. 1, 2012</u>	<u>Additions/ reclass- ifications</u>	<u>Deletions/ reclass- ifications</u>	<u>Balance Dec. 31, 2012</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,478	\$ -	\$ -	\$ 2,151,478
Construction in progress	<u>1,301,602</u>	<u>1,224,503</u>	<u>595,672</u>	<u>1,930,433</u>
Total capital assets not being depreciated	<u>3,453,080</u>	<u>1,224,503</u>	<u>595,672</u>	<u>4,081,911</u>
Capital assets being depreciated:				
Revenue producing and service equipment:				
Wastewater collection system	1,376,423	56,118	15,367	1,417,174
Production pumping	4,457,802	45,849	37,600	4,466,051
Collection system pumping	9,046,216	-	-	9,046,216
Production purification	15,121,134	-	-	15,121,134
Wastewater treatment and disposal	<u>21,273,165</u>	<u>198,808</u>	<u>1,736,913</u>	<u>19,735,060</u>
Total revenue producing and service equipment	<u>51,274,740</u>	<u>300,775</u>	<u>1,789,880</u>	<u>49,785,635</u>
Buildings and structures:				
Production intake	3,384,069	41,208	-	3,425,277
Wastewater collection system	75,431,099	74,608	-	75,505,707
Production pumping	3,834,131	-	-	3,834,131
Collection system pumping	11,454,468	-	-	11,454,468
Production purification	8,374,424	72,462	-	8,446,886
Wastewater treatment and disposal	8,341,941	-	12,735	8,329,206
Transmission and distribution	70,523,385	479,354	250,960	70,751,779
General plant	<u>1,941,079</u>	<u>69,042</u>	<u>25,411</u>	<u>1,984,710</u>
Total buildings and structures	<u>183,284,596</u>	<u>736,674</u>	<u>289,106</u>	<u>183,732,164</u>
Office furnishings, shop equipment and other:				
General equipment	6,966,472	435,315	117,535	7,284,252
Engineering equipment	<u>528,173</u>	<u>1,195</u>	<u>12,892</u>	<u>516,476</u>
Total office furnishings, shop equipment and other	<u>7,494,645</u>	<u>436,510</u>	<u>130,427</u>	<u>7,800,728</u>
Total capital assets being depreciated	<u>242,053,981</u>	<u>1,473,959</u>	<u>2,209,413</u>	<u>241,318,527</u>
Total accumulated depreciation	<u>87,563,112</u>	<u>4,949,110</u>	<u>2,149,120</u>	<u>90,363,102</u>
Total capital assets being depreciated, net	<u>154,490,869</u>	<u>(3,475,151)</u>	<u>60,293</u>	<u>150,955,425</u>
Total capital assets, net	<u>\$ 157,943,949</u>	<u>\$ (2,250,648)</u>	<u>\$ 655,965</u>	<u>\$ 155,037,336</u>

The Utility had combined investment in capital assets of \$245.4 million at the end of 2012. Of that amount, construction in progress and leasehold improvements totaled \$1.9 million. Accumulated depreciation totaled \$90.4 million resulting in a net book value of \$155.0 million. In 2012, the Utility recorded combined depreciation expense of \$4.9 million.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

More detailed information about capital assets may be found in the supplemental information section report – Schedule of Capital Assets – for the Water, Sewerage, and Hazardous Waste Units as well as in Note 4 to the financial statements.

Long-Term Debt

The Utility had \$17.0 million in long-term term debt outstanding as of December 31, 2012. Of this amount, approximately \$2.5 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$4.1 million or 19.7% due to scheduled debt payments.

The Utility had \$21.2 million in long-term term debt outstanding as of December 31, 2011. Of this amount, approximately \$4.1 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$5.2 million or 19.8% due to scheduled debt payments.

The Utility carries an AA rating from Standard & Poor's Ratings Services and a rating of Aa2 from Moody's Investor Service for its water revenue bonds; the Clean Water Fund loans are not rated. Detailed debt schedules may be found in the supplementary information section as well as note 5 to the audited financial statements.

Long-Term Debt Activity

	Balance			Balance	Due Within
	Jan. 1, 2012	Additions	Deletions	Dec. 31, 2012	One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 3,302,166	\$ -	\$ 2,169,831	\$ 1,132,335	\$ 461,212
Revenue bonds	17,445,000	-	1,900,000	15,545,000	1,975,000
Bond premium	454,775	-	98,412	356,363	-
Advance from City of Kenosha	621,854	-	66,438	555,416	69,095
Worker's compensation accrued liability	224,444	-	114,228	110,216	-
Other post employment benefits	1,042,965	351,566	238,000	1,156,531	-
Accrued compensated absences	489,015	33,841	20,318	502,538	-
	<u>\$ 23,580,219</u>	<u>\$ 385,407</u>	<u>\$ 4,607,227</u>	<u>\$ 19,358,399</u>	<u>\$ 2,505,307</u>

	Balance			Balance	Due Within
	Jan. 1, 2011	Additions	Deletions	Dec. 31, 2011	One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 5,389,158	\$ -	\$ 2,086,992	\$ 3,302,166	\$ 2,169,831
Revenue bonds	20,470,000	-	3,025,000	17,445,000	1,900,000
Bond premium	561,420	-	106,645	454,775	-
Advance from City of Kenosha	688,292	-	66,438	621,854	66,438
Worker's compensation accrued liability	397,478	-	173,034	224,444	-
Other post employment benefits	789,553	253,412	-	1,042,965	-
Accrued compensated absences	548,154	-	59,139	489,015	-
	<u>\$ 28,844,055</u>	<u>\$ 253,412</u>	<u>\$ 5,517,248</u>	<u>\$ 23,580,219</u>	<u>\$ 4,136,269</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and the Utility's Future

The utility filed an application for a water rate increase with the Public Service Commission of Wisconsin seeking an average 4.25% rate of return. The increase is necessitated by increased operational costs, primarily chemicals, power, payment in lieu of taxes (PILOT) and equipment maintenance. Additionally, the rate increase is needed to fund future water main replacement projects and tank painting.

There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use.

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Kenosha Water Utility, Director of Business Services, 4401 Green Bay Road, Kenosha, Wisconsin 53144.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
Statements of Net Position
December 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 9,188,157	\$ 5,018,144
Restricted cash - Storm Water Utility collections	315,030	290,987
Restricted Investments	11,137,900	12,845,000
Accounts receivable	4,525,584	4,591,733
Unbilled revenue	2,248,153	2,287,485
Inventories	456,875	416,507
Other current assets	87,175	93,744
Total current assets	27,958,874	25,543,600
Noncurrent assets:		
Other assets		
Special Assessments	99,070	130,523
Deferred charges	4,785,189	4,789,189
Unamortized debt issue costs	21,531	27,477
Capital assets:		
Capital assets not being depreciated:		
Land and land improvements	2,151,478	2,151,478
Construction in progress	1,930,433	1,301,602
Capital assets being depreciated:		
Revenue producing and service equipment	49,785,635	51,274,740
Buildings and structures	183,732,164	183,284,596
Office furnishings, shop equipment, and other	7,800,728	7,494,645
Less accumulated depreciation	(90,363,102)	(87,563,112)
Total capital assets, net of accumulated depreciation	155,037,336	157,943,949
Total noncurrent assets	159,943,126	162,891,138
Total assets	187,902,000	188,434,738
Liabilities		
Current liabilities:		
Accounts payable	548,699	423,033
Accrued liabilities	66,149	86,838
Accrued property taxes	2,392,969	2,203,426
Current portion of long-term obligations	2,436,212	4,069,831
Current portion of advance from City of Kenosha	69,095	66,438
Due to City of Kenosha	677,291	700,162
Due to City of Kenosha - Storm Water Utility collections	315,030	290,987
Other deferred credits	66,703	62,531
Total current liabilities	6,572,148	7,903,246
Noncurrent liabilities:		
Long-term portion of accrued compensated absences	502,538	489,015
Worker's compensation accrued liability	110,216	224,444
Other postemployment benefits	1,156,531	1,042,965
Advance from City of Kenosha	486,321	555,416
Revenue bonds payable	13,926,363	15,999,775
Clean Water Fund loans	671,123	1,132,335
Total noncurrent liabilities	16,853,092	19,443,950
Total liabilities	23,425,240	27,347,196
Net Position		
Invested in capital assets, net of related debt	140,640,532	139,483,260
Restricted	8,812,751	10,499,162
Unrestricted	15,023,477	11,105,120
Total net position	\$ 164,476,760	\$ 161,087,542

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Statements of Revenues, Expenses and Changes in Fund Net Position
 Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Charges for services	\$ 20,915,898	\$ 20,457,180
Miscellaneous	3,374,291	3,323,341
Total operating revenues	<u>24,290,189</u>	<u>23,780,521</u>
Operating expenses:		
General and administrative	3,933,751	4,662,115
Operations and maintenance	9,226,770	9,458,986
Depreciation	4,949,110	4,842,481
Total operating expenses	<u>18,109,631</u>	<u>18,963,582</u>
Operating income	<u>6,180,558</u>	<u>4,816,939</u>
Nonoperating revenues (expenses):		
Investment income	60,555	62,223
Interest expense	(881,849)	(1,034,855)
Miscellaneous	114,923	93,903
Total nonoperating revenue (expenses)	<u>(706,371)</u>	<u>(878,729)</u>
Increase in net position before capital contributions and transfers	5,474,187	3,938,210
Capital contributions	308,000	1,314,915
Transfers out	<u>(2,392,969)</u>	<u>(2,203,426)</u>
Increase in net position	3,389,218	3,049,699
Net position at beginning of year	<u>161,087,542</u>	<u>158,037,843</u>
Net position at end of year	<u>\$ 164,476,760</u>	<u>\$ 161,087,542</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers	\$ 24,617,781	\$ 24,108,472
Payments to suppliers	(9,108,032)	(9,295,335)
Payments to employees	(4,142,625)	(4,864,231)
Net cash provided by operating activities	11,367,124	9,948,906
Cash flows from noncapital financing activities:		
Advances paid to other funds	(66,438)	(66,438)
Interest paid on noncapital debt	(29,332)	(31,574)
Miscellaneous receipts (expenses)	22,456	(6,298)
Transfer to City of Kenosha	(2,203,426)	(2,058,043)
Net cash used in noncapital financing activities	(2,276,740)	(2,162,353)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,794,790)	(2,003,345)
Special assessments collected (purchased)	42,838	(689,815)
Proceeds on disposal of capital assets	32,199	18,550
Principal paid on capital debt	(4,069,831)	(5,111,992)
Interest paid on capital debt	(873,207)	(1,049,215)
Net cash used in capital and related financing activities	(6,662,791)	(8,835,817)
Cash flows from investing activities:		
Sale of investments	5,896,000	7,500,000
Purchase of investments	(4,188,900)	(9,586,000)
Interest and dividends received	59,363	66,149
Net cash provided by (used in) investing activities	1,766,463	(2,019,851)
Net increase (decrease) in cash and cash equivalents	4,194,056	(3,069,115)
Cash and cash equivalents – beginning of year	5,309,131	8,378,246
Cash and cash equivalents – end of year	\$ 9,503,187	\$ 5,309,131
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 9,188,157	\$ 5,018,144
Restricted cash and cash equivalents	315,030	290,987
Total cash and cash equivalents	\$ 9,503,187	\$ 5,309,131
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,180,558	\$ 4,816,939
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,949,110	4,842,481
Loss on disposal of capital assets	28,097	36,562
Changes in assets and liabilities:		
Accounts receivable	66,149	(12,577)
Unbilled revenues	39,332	120,340
Inventories	(40,368)	(6,746)
Other current assets	375	(3,167)
Accounts payable	125,666	(60,113)
Compensated absences	13,523	(59,139)
Worker's compensation accrued liability	(114,228)	(173,034)
Other post employment benefits	113,566	253,412
Payable to City of Kenosha	1,172	176,795
Other deferred credits	4,172	17,153
Total adjustments	5,186,566	5,131,967
Net cash provided by operating activities	\$ 11,367,124	\$ 9,948,906
Contributions of capital assets from developers, including assessments and impact fees	\$ 308,000	\$ 1,314,915

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

Nature of Business

The City of Kenosha Water Utility (Utility) is an enterprise fund of the City of Kenosha, Wisconsin (City) and is comprised of three units: Water, Sewerage, and Household Hazardous Waste. The Utility is governed by the City of Kenosha Board of Water Commissioners (Board) consisting of six members appointed by the Mayor of the City of Kenosha.

These financial statements present only the City of Kenosha Water Utility and are not intended to present the financial position and results of operations of the City of Kenosha, Wisconsin in conformity with accounting principles generally accepted in the United States of America.

The Water Unit operates, maintains, and constructs the City's water system. Services are financed primarily by user charges. The Water Unit charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSCW). Accounting records of the Water Unit are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The Sewerage Unit operates, maintains, and constructs the City's sewage collection and treatment system. Services are financed primarily by user charges. Service rates and rules are established by the Board.

The Household Hazardous Waste Unit collects, stores, and disposes of residential household hazardous waste. Services are financed primarily by user charges. Service rates and rules are established by the Board.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting policies of the Utility conform to U.S. generally accepted accounting principles (GAAP) for enterprise funds as formulated by the Governmental Accounting Standards Board. The accounts of the Utility, which are organized as an enterprise fund, are used to account for the Utility's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Utility maintains its records on the full accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Utility receives value without directly giving equal value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Utility on a reimbursement basis.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents, are considered to have original maturities of three months or less from the date of purchase.

Receivables/Payables

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

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

Materials and Supplies

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

Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as certain resources set aside for their repayment, system renewal and replacement, depreciation and taxes, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. In addition, amounts collected for the Storm Water Utility, which are due to the City, are considered restricted.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

Other Current Assets

Other current assets include the current portion of special assessments receivable, interest receivable and prepaid expenses.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

Investments

Investment of Utility funds is restricted by Wisconsin Statutes to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association authorized to transact business in the state which matures 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 or the University of Wisconsin Hospitals and Clinics Authority.
- Bonds or securities issued or guaranteed by the federal government.
- The Wisconsin 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.

Investments are reported 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 report investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Special Assessments and Deferred Charges

Deferred charges represent assessments that have been levied upon properties within the City that are not currently connected to the Utility system. In addition, this balance includes assessments levied on properties outside the boundaries of the City which are not collectible until and unless the property connects to the Utility system or is attached to the City. Amounts reported as special assessments represent amounts levied that are currently payable.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the Utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost or the fair market value at the time of contribution to the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase is reflected in the capitalized value of utility plant constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Useful life (years)
Water unit:	
Production intake	50-75
Production pumping	25-50
Production purification	18-50
Transmission and distribution	20-108
General equipment	5-17
Sewerage unit:	
Collection system	25-100
Collection system pumping	19-40
Treatment and disposal	23-43
Engineering equipment	5-17
General equipment	5-40
Household hazardous waste unit:	
Structures and improvements	25
Equipment	12

Compensated Absences

Vacation

The Utility compensates all employees upon termination for unused vacation earned in the current year. Employees may carry-over up to two weeks of unused vacation into the next calendar year to be used by March 31 of that year; any unused vacation carry-over not used by March 31 is forfeited.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

Compensated Absences (continued)

Sick Leave

Utility employees are entitled to sick leave at a rate of one day per month of full-time service. Sick leave is paid upon normal retirement or disability up to a maximum of 66 days. Terminated employees are not compensated for unused sick leave. The statements of net position of the Water and Sewerage Units contain a liability for estimated accrued sick leave and associated fringe benefits.

Equity Classifications

The difference between all other elements in a statement of financial position is net position. Net position is displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unspent related debt proceeds or deferred inflows of resources is excluded from the calculation of net investment in capital assets.
- b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted net position - The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Long-term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Long-term debt is reported net of any premium or discount. Issuance costs are reported as deferred charges and amortized over the life of the bonds using the effective interest method.

Charges for Services

Billings for water and sewerage services are issued monthly to high-consumption users and bi-monthly to all other customers. Hazardous waste charges are billed bi-monthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The Utility has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including billing for water, sewerage, and hazardous waste services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as grants and contributions. Investment income is also classified as nonoperating.

Taxes

The Water Unit records an annual payment in lieu of taxes (PILOT) based on the value of its plant and materials and supplies inventory using the current assessment ratio and local and school portion of the mill rate. Municipal utilities are exempt from federal and state income taxes. A portion of the payment is allocated to the Sewerage Unit. The payment is recorded as a transfer out to the City's General Fund.

Use of Estimates

The preparation of the basic 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, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2009, the GASB issued an accounting standard regarding OPEB measurements by agent employers and agent multiple-employer plans. The standard addresses issues related to the use of the alternative measurement method and the frequency and timing of measurement by employers that participate in agent multiple-employer other postemployment benefit plans. The Utility implemented the requirements of this standard beginning for the year ended December 31, 2012.

In June 2010, the GASB issued an accounting standard regarding financial reporting for financial instruments. The standard provides financial reporting guidance of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2011.

In November 2010, the GASB issued an accounting standard regarding accounting and financial reporting for service concession arrangements. The standard provides accounting and reporting guidance by establishing recognition, measurement, and disclosure requirements for service concession arrangements for both transferors and governmental operators, requiring governments to account for and report service concession arrangements in the same manner. The Utility implemented the requirements of this standard for the year ended December 31, 2012.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (continued)

In November 2010, the GASB issued an accounting standard which amended previous guidance related to the definition of the reporting entity. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2013.

In December 2010, the GASB issued an accounting standard regarding codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. The standards will improve financial reporting by contributing to efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will result in a more consistent application of applicable guidance in financial statements of state and local governments. The Utility implemented the requirements of this standard for the year ended December 31, 2012.

In June 2011, the GASB issued an accounting standard regarding financial reporting of deferred outflows of resources, deferred inflows of resources, and net position. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Utility implemented the requirements of this standard for the year ended December 31, 2012.

In June 2011, the GASB issued an accounting standard regarding derivative instruments application of hedge accounting termination provisions. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Utility implemented the requirements of this standard for the year ended December 31, 2012.

In March 2012, the GASB issued an accounting standard regarding financial reporting of deferred outflows of resources, deferred inflows of resources, and net position. The objective of this statement is to clarify the reporting of certain items previously reported as assets and liabilities. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2013.

In March 2012, the GASB issued an accounting standard which contains technical corrections for previously issued standards to resolve conflicting guidance. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2013.

In June 2012, the GASB issued an accounting standard which establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2014.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (continued)

In June 2012, the GASB issued an accounting standard that replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2015.

In January 2013, the GASB issued an accounting standard that establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2014.

(2) Cash and Investments

The Utility, as an enterprise fund of the City, maintains separate cash and investment accounts at the same financial institutions utilized by the City. A summary of cash and investments as of December 31, 2012 and 2011 are as follows:

	2012	2011
Petty cash	\$ 1,700	\$ 1,700
Demand deposits	2,001,487	1,307,431
Certificates of deposit	18,637,900	16,845,000
Total cash, cash equivalents and investments	\$ 20,641,087	\$ 18,154,131
Reconciliation to the financial statement:		
Current assets:		
Cash and cash equivalents	\$ 9,188,157	\$ 5,018,144
Restricted cash - Storm Water Utility collections	315,030	290,987
Restricted Investments	11,137,900	12,845,000
Total cash, cash equivalents and investments	\$ 20,641,087	\$ 18,154,131

Investment Policy

The Utility's investments are made in accordance with the Utility's investment policy which is similar to the City of Kenosha's investment policies and the Wisconsin Statutes. A summary of authorized investments is included in Note 1.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(2) Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned. Deposits in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for interest-bearing accounts and unlimited coverage for non-interest bearing accounts. Deposits are also insured for \$400,000 by the State Deposit Guarantee Fund. The investment policies require collateralization of deposits at financial institutions when the total amount of such deposits exceeds the combined insured limit of \$500,000. Federal depository insurance and the State of Wisconsin Guarantee Fund insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the Utility alone. As of January 1, 2013, FDIC coverage was changed to \$250,000 for demand deposits and \$250,000 for time and savings deposits.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Utility. The Utility does not have a formal policy addressing this type of investment risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. As of December 31, 2012 and 2011, the Utility's investments were certificates of deposit with maturities of less than one year.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(3) Restricted Assets

Restricted assets have been established in accordance with the requirements of debt agreements and City policies as follows:

	2012		
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Total</u>
Restricted for Debt Service			
Debt service account	\$ -	\$ 520,000	\$ 520,000
Special redemption account	2,690,000	-	2,690,000
Reserve account	<u>2,259,000</u>	<u>-</u>	<u>2,259,000</u>
	4,949,000	520,000	5,469,000
Restricted for renewal and replacement	-	1,440,900	1,440,900
Restricted for taxes	2,228,000	-	2,228,000
Restricted for depreciation	1,000,000	1,000,000	2,000,000
Restricted for Storm Water Utility collections due to the City of Kenosha	<u>-</u>	<u>315,030</u>	<u>315,030</u>
Total restricted assets	<u>\$ 8,177,000</u>	<u>\$ 3,275,930</u>	<u>\$ 11,452,930</u>
Restricted cash and cash equivalents	\$ -	\$ 315,030	\$ 315,030
Restricted investments	<u>8,177,000</u>	<u>2,960,900</u>	<u>11,137,900</u>
Total restricted assets	<u>\$ 8,177,000</u>	<u>\$ 3,275,930</u>	<u>\$ 11,452,930</u>
	2011		
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Total</u>
Restricted for Debt Service			
Debt service account	\$ -	\$ 2,252,000	\$ 2,252,000
Special redemption account	2,690,000	-	2,690,000
Reserve account	<u>2,259,000</u>	<u>-</u>	<u>2,259,000</u>
	4,949,000	2,252,000	7,201,000
Restricted for renewal and replacement	-	1,441,000	1,441,000
Restricted for taxes	2,203,000	-	2,203,000
Restricted for depreciation	1,000,000	1,000,000	2,000,000
Restricted for Storm Water Utility collections due to the City of Kenosha	<u>-</u>	<u>290,987</u>	<u>290,987</u>
Total restricted assets	<u>\$ 8,152,000</u>	<u>\$ 4,983,987</u>	<u>\$ 13,135,987</u>
Restricted cash and cash equivalents	\$ -	\$ 290,987	\$ 290,987
Restricted investments	<u>8,152,000</u>	<u>4,693,000</u>	<u>12,845,000</u>
Total restricted assets	<u>\$ 8,152,000</u>	<u>\$ 4,983,987</u>	<u>\$ 13,135,987</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(4) Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,478	\$ -	\$ -	\$ 2,151,478
Construction in progress	1,301,602	1,224,503	595,672	1,930,433
Total capital assets not being depreciated	<u>3,453,080</u>	<u>1,224,503</u>	<u>595,672</u>	<u>4,081,911</u>
Capital assets being depreciated:				
Revenue producing and service equipment	51,274,740	300,775	1,789,880	49,785,635
Buildings and structures	183,284,596	736,674	289,106	183,732,164
Office furnishings, shop equipment, and other	7,494,645	436,510	130,427	7,800,728
Total capital assets being depreciated	<u>242,053,981</u>	<u>1,473,959</u>	<u>2,209,413</u>	<u>241,318,527</u>
Less accumulated depreciation:				
Revenue producing and service equipment	37,061,581	1,977,526	1,789,880	37,249,227
Buildings and structures	46,447,831	2,656,543	257,083	48,847,291
Office furnishings, shop equipment, and other	4,053,700	315,041	102,157	4,266,584
Total accumulated depreciation	<u>87,563,112</u>	<u>4,949,110</u>	<u>2,149,120</u>	<u>90,363,102</u>
Total capital assets being depreciated, net	<u>154,490,869</u>	<u>(3,475,151)</u>	<u>60,293</u>	<u>150,955,425</u>
Total capital assets, net	<u>\$ 157,943,949</u>	<u>\$ (2,250,648)</u>	<u>\$ 655,965</u>	<u>\$ 155,037,336</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(4) Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,478	\$ -	\$ -	\$ 2,151,478
Construction in progress	1,179,368	2,008,149	1,885,915	1,301,602
Total capital assets not being depreciated	<u>3,330,846</u>	<u>2,008,149</u>	<u>1,885,915</u>	<u>3,453,080</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,452,999	927,580	105,839	51,274,740
Buildings and structures	181,596,832	2,153,312	465,548	183,284,596
Office furnishings, shop equipment, and other	7,542,794	115,134	163,283	7,494,645
Total capital assets being depreciated	<u>239,592,625</u>	<u>3,196,026</u>	<u>734,670</u>	<u>242,053,981</u>
Less accumulated depreciation:				
Revenue producing and service equipment	35,278,140	1,889,280	105,839	37,061,581
Buildings and structures	44,253,323	2,642,630	448,122	46,447,831
Office furnishings, shop equipment, and other	3,868,726	310,571	125,597	4,053,700
Total accumulated depreciation	<u>83,400,189</u>	<u>4,842,481</u>	<u>679,558</u>	<u>87,563,112</u>
Total capital assets being depreciated, net	<u>156,192,436</u>	<u>(1,646,455)</u>	<u>55,112</u>	<u>154,490,869</u>
Total capital assets, net	<u>\$ 159,523,282</u>	<u>\$ 361,694</u>	<u>\$ 1,941,027</u>	<u>\$ 157,943,949</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(5) Long-term Debt

Long-term debt activity for the year ended December 31, 2012 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>	<u>Due within one year</u>
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 1,725,757	\$ -	\$ 1,725,757	\$ -	\$ -
Series 1993	4.02%	738,956	-	362,206	376,750	376,750
Series 2000	3.17%	837,453	-	81,868	755,585	84,462
Revenue Bonds:						
Series 2008	3.25-5.00%	17,445,000	-	1,900,000	15,545,000	1,975,000
		<u>20,747,166</u>	<u>-</u>	<u>4,069,831</u>	<u>16,677,335</u>	<u>2,436,212</u>
Less: unamortized (discount) premium and refunding bond losses		454,775	-	98,412	356,363	-
Advance from Municipality:						
1999 agreement	4.74-6.00%	621,854	-	66,438	555,416	69,095
Worker's compensation accrued liability	N/A	224,444	-	114,228	110,216	-
Other post employment benefits	N/A	1,042,965	351,566	238,000	1,156,531	-
Accrued Compensated Absences	N/A	489,015	33,841	20,318	502,538	-
Total		<u>\$23,580,219</u>	<u>\$ 385,407</u>	<u>\$ 4,607,227</u>	<u>\$19,358,399</u>	<u>\$ 2,505,307</u>

Long-term debt activity for the year ended December 31, 2011 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>	<u>Due within one year</u>
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 3,385,170	\$ -	\$ 1,659,413	\$ 1,725,757	\$ 1,725,757
Series 1993	4.02%	1,087,182	-	348,226	738,956	362,206
Series 2000	3.17%	916,806	-	79,353	837,453	81,868
Revenue Bonds:						
Series 2003	1.60-4.55%	1,175,000	-	1,175,000	-	-
Series 2008	3.25-5.00%	19,295,000	-	1,850,000	17,445,000	1,900,000
		<u>25,859,158</u>	<u>-</u>	<u>5,111,992</u>	<u>20,747,166</u>	<u>4,069,831</u>
Less: unamortized discount (premium) and refunding bond losses		561,420	-	106,645	454,775	-
Advance from Municipality:						
1999 agreement	4.74-6.00%	688,292	-	66,438	621,854	66,438
Worker's compensation accrued liability	N/A	397,478	-	173,034	224,444	-
Other post employment benefits	N/A	789,553	400,412	147,000	1,042,965	-
Accrued Compensated Absences	N/A	548,154	574,187	633,326	489,015	-
Total		<u>\$28,844,055</u>	<u>\$ 974,599</u>	<u>\$ 6,238,435</u>	<u>\$23,580,219</u>	<u>\$ 4,136,269</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(5) Long-term Debt (Continued)

State of Wisconsin Department of Natural Resources Clean Water Fund Loan (CWFL)

Clean Water Fund loans are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Sewerage Unit Clean Water Fund debt is payable from revenues of the sewerage system; however, upon default, the City's transportation aids or shared revenue may be reduced. The municipal ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established:

- Renewal and replacement - Utilities receiving federal or state construction grant funds from the EPA or the Wisconsin Fund are required by Wis. Admin. Code NR 128.13 and CFR 35.2005, Federal Register, to establish and fund a "replacement account" for mechanical equipment. Each grantee must review its facility and estimate its future expenditures for equipment replacement that will be necessary to maintain the facility's capacity throughout its design life of 20 years. Withdrawals are made as major mechanical equipment is repaired or replaced.

- Debt Service account - Used to deposit monthly one-sixth and one-twelfth of the Next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.

Revenue Bonds

Revenue bond debt is payable from revenues derived by the Utility. Revenue bonds are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Such ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established for the Water and Sewerage units:

- Special redemption account - Used to deposit monthly one-sixth and one-twelfth of the next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount is on deposit.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(5) Long-term Debt (Continued)

Revenue Bonds (continued)

- | | | |
|-------------------------|---|---|
| Reserve account | - | Used to make interest or principal payments when amounts are not available in the special redemption account, remedy deficiencies in any of the other accounts, or retire bonds in advance of maturity. |
| Renewal and replacement | - | Used for the payment of repairs, replacements, new construction, and expansion on or additions to the system. |
| Tax equivalent account | - | Used to fund the annual tax equivalent paid to the City. |
| Depreciation account | - | Used for the payment of extraordinary repairs or replacements and to remedy any deficiencies in the special redemption account. |

Advance from Municipality

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue, and makes principal and interest payments to the City. During 2009, the City refunded the 1999 general obligation refunding bonds which resulted in an increase in annual principal payments and a reduction in annual interest payments due for the remaining life of the bonds. The Utility recorded its share of the increase in principal due as a charge to the current year's pension expense.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(5) Long-term Debt (Continued)

Principal and Interest Payments

Long-term debt principal and interest requirements to maturity as of December 31, 2012 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2013	\$ 2,009,257	\$ 496,050	\$ 2,505,307	\$ 728,931	\$ 43,676	\$ 772,607
2014	2,115,575	123,316	2,238,891	628,740	31,928	660,668
2015	2,201,892	127,417	2,329,309	543,954	27,510	571,464
2016	2,288,210	131,607	2,419,817	455,569	22,800	478,369
2017	2,390,845	137,225	2,528,070	360,141	17,701	377,842
2018-2020	4,814,596	396,761	5,211,357	241,650	20,223	261,873
	<u>\$ 15,820,375</u>	<u>\$ 1,412,376</u>	<u>\$ 17,232,751</u>	<u>\$ 2,958,985</u>	<u>\$ 163,838</u>	<u>\$ 3,122,823</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(6) Net Position

The components of net position are shown below:

	2012			<u>Total</u>
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	
Invested in capital assets, net of related debt				
Capital assets, net of accumulated depreciation	\$ 77,644,917	\$ 77,327,202	\$ 65,217	\$ 155,037,336
Outstanding long-term debt	(15,545,000)	(1,132,335)	-	(16,677,335)
Debt not related to capital assets	2,280,531	-	-	2,280,531
	<u>64,380,448</u>	<u>76,194,867</u>	<u>65,217</u>	<u>140,640,532</u>
Restricted				
Restricted for renewal and replacement	-	1,440,900	-	1,440,900
Restricted for taxes	2,228,000	-	-	2,228,000
Restricted for depreciation	1,000,000	1,000,000	-	2,000,000
Restricted for debt service	4,949,000	520,000	-	5,469,000
Restricted for Storm Water Utility collections	-	315,030	-	315,030
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(315,030)	-	(315,030)
Accrued interest payable	(59,637)	(6,512)	-	(66,149)
Long-term debt reserve	(2,259,000)	-	-	(2,259,000)
	<u>5,858,363</u>	<u>2,954,388</u>	<u>-</u>	<u>8,812,751</u>
Unrestricted	<u>(478,010)</u>	<u>15,190,683</u>	<u>310,804</u>	<u>15,023,477</u>
Total net position	<u>\$ 69,760,801</u>	<u>\$ 94,339,938</u>	<u>\$ 376,021</u>	<u>\$ 164,476,760</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(6) Net Position (Continued)

	2011			<u>Total</u>
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	
Invested in capital assets, net of related debt				
Capital assets, net of accumulated depreciation	\$ 79,380,336	\$ 78,548,931	\$ 14,682	\$ 157,943,949
Outstanding long-term debt	(17,445,000)	(3,302,166)	-	(20,747,166)
Debt not related to capital assets	2,286,477	-	-	2,286,477
	<u>64,221,813</u>	<u>75,246,765</u>	<u>14,682</u>	<u>139,483,260</u>
Restricted				
Restricted for renewal and replacement	-	1,441,000	-	1,441,000
Restricted for taxes	2,203,000	-	-	2,203,000
Restricted for depreciation	1,000,000	1,000,000	-	2,000,000
Restricted for debt service	4,949,000	2,252,000	-	7,201,000
Restricted for Storm Water Utility collections	-	290,987	-	290,987
Liabilities payable from restricted assets				-
Storm Water Utility collections	-	(290,987)	-	(290,987)
Accrued interest payable	(65,971)	(20,867)	-	(86,838)
Long-term debt	(2,259,000)	-	-	(2,259,000)
	<u>5,827,029</u>	<u>4,672,133</u>	<u>-</u>	<u>10,499,162</u>
Unrestricted	<u>(1,422,484)</u>	<u>12,197,604</u>	<u>330,000</u>	<u>11,105,120</u>
Total net position	<u>\$ 68,626,358</u>	<u>\$ 92,116,502</u>	<u>\$ 344,682</u>	<u>\$ 161,087,542</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012 and 2011

(7) Employees' Retirement System

All eligible Utility employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 1,200 hours per year (600 hours if hired before July 1, 2011) are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 5.9% (6.5% for 2011 and 6.2% for 2010) of their salary to the plan. Employers generally made these contributions to the plan on behalf of employees prior to 2011. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. As of August 1, 2011, the Utility no longer made the employee required contribution for non-represented employees; the Utility contributed 5.8% of the required 11.6% contribution to the System. As of January 1, 2012, the Utility no longer makes the employee required contribution for any employee; the Utility contributed 5.9% of the required 11.8% contribution to the System. Total Utility payroll, covered payroll, and contributions for 2012, 2011, and 2010 are as follows:

	Year ended December 31,		
	2012	2011	2010
Total Utility payroll	\$ 4,501,815	\$ 4,818,847	\$ 4,733,667
Total covered employee payroll	4,461,416	4,618,426	4,614,870
Total required contributions - employer	263,678	489,812	507,956
Total required contributions - employee	263,678	-	-
Total required contributions (%)	5.9%	5.8% - 11.6%	11.0%

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

(8) Risk Management

The Utility is exposed to various risks of loss related to theft of, damage to, or destruction of assets, torts, errors and omissions, workers' compensation, and health care of its employees. The Utility purchases commercial insurance to insure its assets and protect against liability claims. Settled liability and property damage claims have not exceeded the commercial insurance coverage in the last five years. The Utility, in conjunction with the City, is self insured for workers' compensation and health insurance. The City purchases stop loss insurance to limit risk exposures.

For liability and errors and omissions insurance, the City, including the Utility, is a participant in the Wisconsin Municipal Insurance Commission (WMIC). The WMIC is an intergovernmental cooperation commission created by contract under Section 66.0301 of the Wisconsin Statutes in August 1987 for the purpose of facilitating the organization, establishment, and capitalization of the Cities and Villages Mutual Insurance Company (CVMIC) and has approximately 45 municipalities as members. CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. CVMIC provides liability and worker's compensation insurance coverage. Separately issued financial statements for CVMIC may be obtained from CVMIC at 9898 W. Bluemound Road, Wauwatosa, WI 53226-4319.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(8) Risk Management (Continued)

For liability and errors and omissions insurance claims, the uninsured risk of loss is \$125,000 per incident and \$500,000 in the aggregate for a policy year.

The participation of the City, and its related funding for capitalization, is accounted in an internal service fund in the financial statements of the City. See the City's financial statements for additional information on the City's participation in the public entity risk pools as a whole.

(9) Basis for Existing Rates

Water Unit

On December 22, 2009, the PSCW authorized a rate increase effective December 31, 2009. The new rates were approved using the Simplified Rate Case Process which allows a 3.8% increase in rates for general service, public fire protection and wholesale service. The revenue increase combined with the Utility's prior year's net operating income did not exceed an overall rate of return of 7.4%, the Commission's overall rate of return applicable to a municipally owned water utility.

Sewerage Unit

On October 27, 2008, the Board of Water Commissioners approved a rate adjustment for sewerage service, industrial waste discharge permit and miscellaneous services that was placed into effect December 31, 2008.

Household Hazardous Waste Unit

Rates were approved by the Board of Water Commissioners on November 27, 2006, and placed into effect January 1, 2007.

(10) Commitments and Contingencies

At December 31, 2012, the Utility had outstanding purchase commitments for contracts of approximately \$13,480 which is for wastewater treatment equipment improvements.

At December 31, 2011, the Utility had outstanding purchase commitments for contracts of approximately \$352,009 which is for wastewater treatment plant structures and improvements.

From time to time, the Utility becomes a party to 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 attorney that the likelihood is remote that any such claim or proceedings will have a material adverse effect on the Utility's financial position or results of operations.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(11) Other Postemployment Benefits

The Utility participates in a single-employer defined benefit health care plan (“the Retiree Health Plan”) administered by the City of Kenosha. The plan provides health insurance benefits for eligible retirees, their spouses and eligible dependents through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through personnel policy guidelines or past practice and state that eligible retirees, their spouses and eligible dependents receive healthcare insurance based on the following criteria:

- Regularly appointed full-time employee’s retiring under the provisions of the Wisconsin Retirement System (WRS) with greater than or equal to fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree’s sixtieth birthday, for a maximum of five years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.
- Regularly appointed full-time employee’s retiring under the provisions of the WRS with greater than or equal to eight years of service but less than fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree’s sixty-second birthday, for a maximum of three years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.

The Retiree Health Plan does not issue a publicly available financial report.

Benefit provisions are established through personnel policies and generally result in the employer paying 100% of the health care costs – less plan deductibles and co-pays – as outlined above. Benefit provisions may be amended through changes in personnel policy guidelines by action of the City’s Common Council. There is no contribution requirement since the Utility pays 100% of health care costs less plan deductibles and co-pays. For fiscal 2012 and 2011, the Utility contributed \$238,000 and \$147,000 to the plan, respectively.

The Utility’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB interpretations. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(11) Other Postemployment Benefits (Continued)

The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation for the year ended December 31, 2012:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Annual required contribution	\$ 190,635	\$ 180,251	\$ 370,886
Interest on net OPEB obligation	17,423	16,473	33,896
Adjustment to annual required contribution	<u>(27,353)</u>	<u>(25,863)</u>	<u>(53,216)</u>
Annual OPEB cost	180,705	170,861	351,566
Contributions made	<u>(122,332)</u>	<u>(115,668)</u>	<u>(238,000)</u>
Increase in net OPEB obligation	58,373	55,193	113,566
Net OPEB obligation, beginning of year	<u>536,083</u>	<u>506,882</u>	<u>1,042,965</u>
Net OPEB obligation, end of year	<u><u>\$ 594,456</u></u>	<u><u>\$ 562,075</u></u>	<u><u>\$ 1,156,531</u></u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(11) Other Postemployment Benefits (Continued)

The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation for the year ended December 31, 2011:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Annual required contribution	\$ 212,145	\$ 200,589	\$ 412,734
Interest on net OPEB obligation	16,233	15,349	31,582
Adjustment to annual required contribution	<u>(22,567)</u>	<u>(21,337)</u>	<u>(43,904)</u>
Annual OPEB cost	205,811	194,601	400,412
Contributions made	<u>(75,558)</u>	<u>(71,442)</u>	<u>(147,000)</u>
Increase in net OPEB obligation	130,253	123,159	253,412
Net OPEB obligation, beginning of year	<u>405,830</u>	<u>383,723</u>	<u>789,553</u>
Net OPEB obligation, end of year	<u><u>\$ 536,083</u></u>	<u><u>\$ 506,882</u></u>	<u><u>\$ 1,042,965</u></u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(11) Other Postemployment Benefits (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Year ended December 31, 2012			
Annual OPEB cost	\$ 180,705	\$ 170,861	\$ 351,566
Percentage of annual OPEB cost contributed	67.70%	67.70%	67.70%
Net OPEB obligation	\$ 594,456	\$ 562,075	\$ 1,156,531
Year ended December 31, 2011			
Annual OPEB cost	\$ 205,811	\$ 194,601	\$ 400,412
Percentage of annual OPEB cost contributed	36.71%	36.71%	36.71%
Net OPEB obligation	\$ 536,083	\$ 506,882	\$ 1,042,965
Year ended December 31, 2010			
Annual OPEB cost	\$ 198,896	\$ 188,061	\$ 386,957
Percentage of annual OPEB cost contributed	32.30%	32.30%	32.30%
Net OPEB obligation	\$ 405,830	\$ 383,723	\$ 789,553

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2012 and 2011

(11) Other Postemployment Benefits (Continued)

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, was as follows:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Actuarial accrued liability (AAL)	\$ 2,049,072	\$ 1,937,450	\$ 3,986,522
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,049,072</u>	<u>\$ 1,937,450</u>	<u>\$ 3,986,522</u>
Funded ratio (actuarial value of plan assets / AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 2,293,168	\$ 2,168,248	\$ 4,461,416
UAAL as a percent of covered payroll	89.36%	89.36%	89.36%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.25% investment rate of return and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 4.7% after 2080. The unfunded actuarial accrued liability is being amortized over 30 years from the valuation date in level dollar payments.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011

(12) Subsequent Events

Management evaluated subsequent events through April 25, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to April 25, 2013, that provide additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2012.

On April 15, 2013, a contract was awarded to A.W. Oakes & Son, Inc. by the Board of Water Commissioners for 8" and 12" water main relay in the amount of \$247,487. On April 19, 2013, the Board awarded a contract to SH+E Group U.S., Inc. in the amount of \$6,700,000 for an "Energy -Optimized Resource Recovery System" at the Wastewater Treatment Plant.

This information is an integral part of the accompanying financial statements.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF OPEB FUNDING PROGRESS
 December 31, 2012 and 2011

	Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Accrued Actuarial Liability (b)	(UAAL) Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010	12/31/2010	\$ -	\$ 4,303,992	\$ 4,303,992	0.00%	\$ 4,614,870	93.26%
12/31/2011	12/31/2010	-	4,303,992	4,303,992	0.00%	4,618,426	93.19%
12/31/2012	12/31/2012	-	3,986,522	3,986,522	0.00%	4,461,416	89.36%

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
Combining Schedule of Net Position
December 31, 2012

Assets	Water unit	Sewerage unit	Household hazardous waste unit	Total
Current assets:				
Cash and cash equivalents	\$ 2,566,102	\$ 6,371,710	\$ 250,345	\$ 9,188,157
Restricted cash - Storm Water Utility collections	-	315,030	-	315,030
Restricted investments	8,177,000	2,960,900	-	11,137,900
Accounts receivable	2,026,414	2,451,653	47,517	4,525,584
Unbilled revenue	1,241,087	986,112	20,954	2,248,153
Inventories	405,936	50,939	-	456,875
Other current assets	81,002	6,173	-	87,175
Total current assets	14,497,541	13,142,517	318,816	27,958,874
Noncurrent assets:				
Advance to Water Unit	-	5,000,000	-	5,000,000
Other assets				
Special assessments	58,230	40,840	-	99,070
Deferred charges	2,761,462	2,023,727	-	4,785,189
Unamortized debt issue costs	21,531	-	-	21,531
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	879,272	1,272,206	-	2,151,478
Construction in progress	255,886	1,674,547	-	1,930,433
Capital assets being depreciated:				
Revenue producing and service equipment	19,587,185	30,198,450	-	49,785,635
Buildings and structures	86,458,073	97,197,693	76,398	183,732,164
Office furnishings, shop equipment, and other	2,889,456	4,910,440	832	7,800,728
Less accumulated depreciation	(32,424,955)	(57,926,134)	(12,013)	(90,363,102)
Total capital assets, net of accumulated depreciation	77,644,917	77,327,202	65,217	155,037,336
Total noncurrent assets	80,486,140	84,391,769	65,217	164,943,126
Total assets	94,983,681	97,534,286	384,033	192,902,000
Liabilities				
Current liabilities:				
Accounts payable	239,222	301,687	7,790	548,699
Accrued liabilities	59,637	6,512	-	66,149
Accrued property taxes	2,392,969	-	-	2,392,969
Current portion of long-term obligations	1,975,000	461,212	-	2,436,212
Current portion of advance from City of Kenosha	34,257	34,838	-	69,095
Due to City of Kenosha	347,223	329,846	222	677,291
Due to City of Kenosha - Storm Water Utility collections	-	315,030	-	315,030
Other deferred credits	41,614	25,089	-	66,703
Total current liabilities	5,089,922	1,474,214	8,012	6,572,148
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	314,370	188,168	-	502,538
Worker's compensation accrued liability	56,651	53,565	-	110,216
Other postemployment benefits	594,456	562,075	-	1,156,531
Advance from City of Kenosha	241,118	245,203	-	486,321
Advance from Sewerage Unit	5,000,000	-	-	5,000,000
Revenue bonds payable (net of unamortized discounts)	13,926,363	-	-	13,926,363
Clean Water Fund loans	-	671,123	-	671,123
Total noncurrent liabilities	20,132,958	1,720,134	-	21,853,092
Total liabilities	25,222,880	3,194,348	8,012	28,425,240
Net Position				
Invested in capital assets, net of related debt	64,380,448	76,194,867	65,217	140,640,532
Restricted for debt service	5,858,363	2,954,388	-	8,812,751
Unrestricted	(478,010)	15,190,683	310,804	15,023,477
Total net position	\$ 69,760,801	\$ 94,339,938	\$ 376,021	\$ 164,476,760

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
 Year ended December 31, 2012

	<u>Water unit</u>	<u>Sewerage unit</u>	<u>Household hazardous waste unit</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 10,410,002	\$ 10,338,727	\$ 167,169	\$ 20,915,898
Miscellaneous	1,940,751	1,637,107	18,167	3,596,025
Total operating revenues	<u>12,350,753</u>	<u>11,975,834</u>	<u>185,336</u>	<u>24,511,923</u>
Operating expenses:				
General and administrative	1,784,378	2,371,107	-	4,155,485
Operations and maintenance	3,971,251	5,103,930	151,589	9,226,770
Depreciation	2,411,511	2,535,038	2,561	4,949,110
Total operating expenses	<u>8,167,140</u>	<u>10,010,075</u>	<u>154,150</u>	<u>18,331,365</u>
Operating income	<u>4,183,613</u>	<u>1,965,759</u>	<u>31,186</u>	<u>6,180,558</u>
Nonoperating revenues (expenses):				
Investment income	41,044	194,358	153	235,555
Interest expense	(974,571)	(82,278)	-	(1,056,849)
Miscellaneous	98,312	16,611	-	114,923
Total nonoperating revenue (expenses)	<u>(835,215)</u>	<u>128,691</u>	<u>153</u>	<u>(706,371)</u>
Increase in net position before capital contributions and transfers	3,348,398	2,094,450	31,339	5,474,187
Capital contributions	125,319	182,681	-	308,000
Transfers out	(2,339,274)	(53,695)	-	(2,392,969)
Increase in net position	1,134,443	2,223,436	31,339	3,389,218
Net position at beginning of year	<u>68,626,358</u>	<u>92,116,502</u>	<u>344,682</u>	<u>161,087,542</u>
Net position at end of year	<u>\$ 69,760,801</u>	<u>\$ 94,339,938</u>	<u>\$ 376,021</u>	<u>\$ 164,476,760</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit
Schedule of Capital Assets
Year ended December 31, 2012

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets not being depreciated:				
Land and land improvements	\$ 879,272	\$ -	\$ -	\$ 879,272
Construction in progress	281,390	324,753	350,257	255,886
Total capital assets not being depreciated	<u>1,160,662</u>	<u>324,753</u>	<u>350,257</u>	<u>1,135,158</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,578,936	45,849	37,600	19,587,185
Buildings and structures	86,116,009	593,024	250,960	86,458,073
Office furnishings, shop equipment, and other	2,873,983	95,695	80,222	2,889,456
Total capital assets being depreciated	<u>108,568,928</u>	<u>734,568</u>	<u>368,782</u>	<u>108,934,714</u>
Less accumulated depreciation:				
Revenue producing and service equipment	9,719,109	921,468	37,600	10,602,977
Buildings and structures	18,697,769	1,330,402	219,456	19,808,715
Office furnishings, shop equipment, and other	1,932,376	159,641	78,754	2,013,263
Total accumulated depreciation	<u>30,349,254</u>	<u>2,411,511</u>	<u>335,810</u>	<u>32,424,955</u>
Total capital assets being depreciated, net	<u>78,219,674</u>	<u>(1,676,943)</u>	<u>32,972</u>	<u>76,509,759</u>
Total capital assets, net	<u>\$ 79,380,336</u>	<u>\$ (1,352,190)</u>	<u>\$ 383,229</u>	<u>\$ 77,644,917</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 2008 - Water System Revenue Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>December 1</u>	<u>June 1</u>	<u>December 1</u>	
2013	\$ 1,975,000	\$ 357,825	\$ 357,825	\$ 2,690,650
2014	2,080,000	308,450	308,450	2,696,900
2015	2,165,000	266,850	266,850	2,698,700
2016	2,250,000	223,550	223,550	2,697,100
2017	2,350,000	176,875	176,875	2,703,750
2018	4,725,000	118,125	118,125	4,961,250
Totals	<u>\$ 15,545,000</u>	<u>\$ 1,451,675</u>	<u>\$ 1,451,675</u>	<u>\$ 18,448,350</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 1999 - Advance from Municipality

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>	
2013	\$ 34,257	\$ 6,983	\$ 6,298	\$ 47,538
2014	35,575	6,298	5,542	47,415
2015	36,892	5,542	4,712	47,146
2016	38,210	4,712	3,757	46,679
2017	40,845	3,757	2,634	47,236
2018	43,480	2,634	1,383	47,497
2019	46,116	1,383	-	47,499
Totals	<u>\$ 275,375</u>	<u>\$ 31,309</u>	<u>\$ 24,326</u>	<u>\$ 331,010</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,476,062	\$ 5,200,624
Commercial	2,393,157	2,307,729
Industrial	484,689	515,691
Public	258,544	257,463
Irrigation	4,722	2,843
Total metered sales	8,617,174	8,284,350
Flat rate sales to general customers	6,555	5,971
Private fire protection	153,011	151,235
Public fire protection	1,117,126	1,118,682
Sales to other municipalities	1,786,273	1,667,237
Total sales of water	11,680,139	11,227,475
Penalties	148,055	156,315
Allocated services	121,362	120,538
Other	401,197	370,226
Total operating revenues	12,350,753	11,874,554
Operating expenses:		
Source of supply:		
Maintenance of lake intake	-	1,655
Miscellaneous	9,625	125
Total source of supply	9,625	1,780
Power and pumping:		
Operations:		
Supervision and engineering	103,219	126,428
Fuel and power purchased	858,007	863,655
Pumping labor and supplies	108,110	107,959
Miscellaneous	4,407	7,538
Maintenance:		
Structures and improvements	14,312	38,044
Power production equipment	1,000	3,391
Pumping equipment	59,108	82,360
Total power and pumping	1,148,163	1,229,375

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2012 and 2011

	2012	2011
Water treatment:		
Operations:		
Supervision and engineering	\$ 53,497	\$ 58,934
Labor and supplies	243,162	260,740
Lead testing program	622	3,049
Chemicals	189,715	160,826
Structures and improvements	74,425	38,057
Treatment equipment	444,086	462,865
Miscellaneous	21,722	21,232
Total water treatment	1,027,229	1,005,703
Transmission and distribution:		
Operations:		
Supervision and engineering	140,679	114,923
Transmission and distribution lines	36,782	26,281
Meters	71,337	70,499
Customer installation	15,921	2,259
Labor and equipment	487,665	527,403
Maintenance:		
Supervision and engineering	26,498	31,164
Distribution reservoirs and standpipes	25,075	54,294
Mains	757,585	699,612
Services	136,840	241,503
Meters	54,937	47,896
Hydrants	32,915	51,976
Total transmission and distribution	1,786,234	1,867,810
Total operations and maintenance	3,971,251	4,104,668
General and administrative:		
Customer accounting and collecting:		
Meter reading	58,403	67,638
Customer records and collection	350,786	347,448
Total customer accounting and collecting	409,189	415,086

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2012 and 2011

	2012	2011
Administrative:		
Executive and general office	\$ 163,363	\$ 178,701
Office supplies	61,118	34,887
Outside services	137,947	114,207
Casualty and property insurance	54,234	56,610
Employee benefits and insurance	908,870	1,146,189
Miscellaneous	27,534	35,003
Regulatory commission	22,123	14,124
Total administrative	1,375,189	1,579,721
Total general and administrative	1,784,378	1,994,807
Depreciation	2,411,511	2,408,725
Total operating expenses	8,167,140	8,508,200
Operating income	\$ 4,183,613	\$ 3,366,354

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Water Unit
 Water Tax Equivalent Calculation Schedules
 Years ended December 31, 2012 and 2011

Local property taxes due to the City of Kenosha for the years ended December 31, 2012 and 2011 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	<u>2012</u>	<u>2011</u>
Gross book value – January 1:		
Plant and equipment	\$ 110,355,148	\$ 108,918,995
Materials and supplies	379,171	367,519
Total gross book value	110,734,319	109,286,514
Less plant outside municipal boundaries	(6,285,803)	(6,288,663)
Assessable plant	104,448,516	102,997,851
Assessment ratio	0.950157	1.000678
Assessed value of property	99,242,489	103,067,685
Local and school share of tax rate (per thousand)	24.112341	21.378433
Computed tax equivalent (floor = \$1,033,306)	<u>\$ 2,392,969</u>	<u>\$ 2,203,426</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Sewerage Unit
 Schedule of Capital Assets
 Year ended December 31, 2012

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets not being depreciated:				
Land and land improvements	\$ 1,272,206	\$ -	\$ -	\$ 1,272,206
Construction in progress	1,020,212	899,750	245,415	1,674,547
Total capital assets not being depreciated	<u>2,292,418</u>	<u>899,750</u>	<u>245,415</u>	<u>2,946,753</u>
Capital assets being depreciated:				
Revenue producing and service equipment	31,695,804	254,926	1,752,280	30,198,450
Buildings and structures	97,120,393	90,035	12,735	97,197,693
Office furnishings, shop equipment, and other	4,619,830	340,815	50,205	4,910,440
Total capital assets being depreciated	<u>133,436,027</u>	<u>685,776</u>	<u>1,815,220</u>	<u>132,306,583</u>
Less accumulated depreciation:				
Revenue producing and service equipment	27,342,472	1,056,058	1,752,280	26,646,250
Buildings and structures	27,716,334	1,323,649	12,735	29,027,248
Office furnishings, shop equipment, and other	2,120,708	155,331	23,403	2,252,636
Total accumulated depreciation	<u>57,179,514</u>	<u>2,535,038</u>	<u>1,788,418</u>	<u>57,926,134</u>
Total capital assets being depreciated, net	<u>76,256,513</u>	<u>(1,849,262)</u>	<u>26,802</u>	<u>74,380,449</u>
Total capital assets, net	<u>\$ 78,548,931</u>	<u>\$ (949,512)</u>	<u>\$ 272,217</u>	<u>\$ 77,327,202</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Sewerage Unit
 Debt Repayment Schedule
 Series 1993 - Clean Water Fund Loan

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2013	\$ 376,750	\$ 7,564	\$ -	\$ 384,314
Totals	<u>\$ 376,750</u>	<u>\$ 7,564</u>	<u>\$ -</u>	<u>\$ 384,314</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 2000 - Clean Water Fund Loan

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2013	\$ 84,462	\$ 11,972	\$ 10,634	\$ 107,068
2014	87,139	10,634	9,253	107,026
2015	89,900	9,253	7,829	106,982
2016	92,749	7,829	6,359	106,937
2017	95,688	6,359	4,843	106,890
2018	98,721	4,843	3,279	106,843
2019	101,849	3,279	1,665	106,793
2020	105,077	1,665	-	106,742
Totals	<u>\$ 755,585</u>	<u>\$ 55,834</u>	<u>\$ 43,862</u>	<u>\$ 855,281</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 1999 - Advance from Municipality

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>	
2013	\$ 34,838	\$ 7,101	\$ 6,405	\$ 48,344
2014	36,177	6,405	5,636	48,218
2015	37,517	5,636	4,792	47,945
2016	38,858	4,792	3,820	47,470
2017	41,537	3,821	2,678	48,036
2018	44,217	2,678	1,407	48,302
2019	46,897	1,407	-	48,304
Totals	<u>\$ 280,041</u>	<u>\$ 31,840</u>	<u>\$ 24,738</u>	<u>\$ 336,619</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Sewerage Unit

Schedules of Operating Revenues and Expenses
 Years ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 4,473,990	\$ 4,442,398
Commercial	2,276,773	2,251,874
Industrial	1,026,084	1,002,689
Public	224,496	235,536
Total sales to general customers	8,001,343	7,932,497
Sales to other municipalities	2,337,384	2,400,053
Industrial waste monitoring	90,749	98,075
Engineering services	1,105,602	1,112,130
Waste haulers	226,102	184,137
Penalties	133,273	144,262
Other	81,381	72,746
Total operating revenues	11,975,834	11,943,900
Operating expenses:		
Wastewater treatment:		
Operations:		
Supervision and labor	396,168	353,658
Chemicals	558,308	470,037
Power	715,418	760,072
Sludge handling	431,862	417,379
Maintenance:		
Supervision and labor	169,122	241,454
Treatment equipment	312,726	260,497
Structures and improvements	102,283	115,490
Transportation expense	68,405	82,031
Total wastewater treatment	2,754,292	2,700,618
Collection system:		
Collection	384,996	496,694
Equalization basin and pump station	53,114	52,604
Cleaning and inspection	460,930	412,280
Lift station equipment	132,634	167,466
Monitoring equipment	2,988	1,295
Total collection system	1,034,662	1,130,339
Laboratory operations:		
Labor and supplies	257,457	270,447
Industrial waste monitoring	68,701	63,573
Total laboratory operations	326,158	334,020
Engineering services	988,818	1,048,633
Total operation and maintenance	5,103,930	5,213,610

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Sewerage Unit
 Schedules of Operating Revenues and Expenses
 Years ended December 31, 2012 and 2011

	2012	2011
General and administrative:		
Customer accounting and collecting:		
Meter reading	\$ 58,403	\$ 67,638
Customer records and collection	311,468	309,558
Total customer accounting and collecting	369,871	377,196
Administrative:		
Salaries	223,306	259,252
Outside services	329,153	350,322
Office supplies	45,929	41,706
Accidents and damages	26,443	195,851
Insurance and employee benefits	1,019,377	1,315,219
Meter operation	357,028	351,117
Total administrative	2,001,236	2,513,467
Total general and administrative	2,371,107	2,890,663
Depreciation	2,535,038	2,431,759
Total operating expenses	10,010,075	10,536,032
Operating income	\$ 1,965,759	\$ 1,407,868

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Household Hazardous Waste Unit
 Schedule of Capital Assets
 Year ended December 31, 2012

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets being depreciated:				
Buildings and structures	\$ 48,194	\$ 53,615	\$ 25,411	\$ 76,398
Office furnishings, shop equipment, and other	832	-	-	832
Total capital assets being depreciated	<u>49,026</u>	<u>53,615</u>	<u>25,411</u>	<u>77,230</u>
Less accumulated depreciation:				
Buildings and structures	33,728	2,492	24,892	11,328
Office furnishings, shop equipment, and other	616	69	-	685
Total accumulated depreciation	<u>34,344</u>	<u>2,561</u>	<u>24,892</u>	<u>12,013</u>
Total capital assets, net	<u><u>\$ 14,682</u></u>	<u><u>\$ 51,054</u></u>	<u><u>\$ 519</u></u>	<u><u>\$ 65,217</u></u>