

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

BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

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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, an enterprise fund of the City of Kenosha, as of and for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 1, the financial statements present only the 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, 2015 and 2014 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.

As discussed in Note 13 to the financial statements, in 2015, Kenosha Water Utility adopted new accounting guidance, GASB Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. As a result of the implementation, Kenosha Water Utility reported a restatement for the change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 12, the schedule of OPEB Funding Status on page 48, and the Pension Schedules on page 49 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kenosha Water Utility's basic financial statements. The supplementary schedules on pages 50 – 64 as 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 supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate 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 supplementary schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Racine, Wisconsin
April 27, 2016

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, 2015 and 2014. This information should be read in conjunction with the financial statements.

2015 Financial Highlights

The Utility's combined net position increased to \$183.1 million from \$174.8 million. Events that had significant impact on the financial statements were:

- An increase in water rates was approved by the Public Service Commission of Wisconsin effective for water service on and after June 1, 2015. The increase was approved using the Simplified Rate Case method which authorizes a 3.0% increase in rates for utilities earning less than a 5.9% rate of return on average net rate base during the previous calendar year (the Kenosha Water Utility earned a 3.06% rate of return in 2014). In addition, the Board of Water Commissioners authorized a 3.0% sewage rate increase also effective for sewer service on or after June 1, 2015.
- Operating revenues increased more than \$0.9 million or 3.7% from 2014 while operating expenses increased almost \$0.2 million or 1.0% from 2014. This resulted in an increase of \$0.75 million or 15.4% in operating income over 2014.
- The energy optimized resource recovery project at the wastewater plant neared completion in 2015. Almost \$9.8 million was expended during the year with a target completion date in the spring of 2016.
- The Utility accepted donated water and sewer main, water services and hydrants from several developers valued at \$2.9 million.

2014 Financial Highlights

The Utility's combined net position increased to \$174.8 million from \$167.8 million. Events that had significant impact on the financial statements were:

- The Utility collected a full year of increased revenue that resulted from an increase in water rates approved by the Public Service Commission of Wisconsin effective August 1, 2013. The rates were designed to provide the utility with a 4.25% return on average net rate base.
- Operating revenues increased more than \$1.1 million or 4.6% from 2013. This increase was due to an increase in the rate charged for water sold and increased revenue from private fire protection, engineering services and wastehaulers.
- Operating expenses increased more than \$1.3 million or 7.1% from 2013. The increase was a combination of increases in both the water unit and sewerage unit operation and maintenance expense. The majority of the increase resulted from increased cost of water main and service maintenance caused by unseasonably cold weather during the months of February and March, payment to affected properties of a sewer backup, increased maintenance expenses at the water treatment plant, equalization basin and pump station and sewerage lift stations, increased cost of natural gas at the water treatment plant and increased cost of electricity for the sewerage lift stations caused by increased pumping.
- Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality decreased \$181,337 or 7.1% to \$2,362,495 in 2014 from \$2,543,832 in 2013.

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, notes to the financial statements, required supplementary information and supplementary schedules.

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, deferred outflows of resources, and liabilities, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets), unamortized portion of changes in net pension asset (liability) 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 **required supplementary schedules**, provide more details regarding the funding status and progress of the Other Post Employment Benefit and Pension plans.

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.

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, Village and 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 wastehaulers.

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.

Condensed Summary of Net Position

	December 31			Variance of 2015 to 2014 Increase (decrease)	
	2015	2014	2013	Dollars	%
Capital assets:					
Net plant in service	\$ 146,163,795	\$ 145,564,269	\$ 147,895,291	\$ 599,526	0.4 %
Construction in progress	13,852,603	4,282,085	3,649,059	9,570,518	223.5
Other capital assets	1,071,606	1,071,606	1,351,792	-	0.0
Current, restricted and other assets	<u>38,475,648</u>	<u>44,741,265</u>	<u>36,066,083</u>	<u>(6,265,617)</u>	<u>(14.0)</u>
Total assets	<u>199,563,652</u>	<u>195,659,225</u>	<u>188,962,225</u>	<u>3,904,427</u>	<u>2.0</u>
Deferred outflow of resources:					
Deferred pension resources	<u>1,120,133</u>	<u>-</u>	<u>-</u>	<u>1,120,133</u>	<u>100.0</u>
Current liabilities	7,376,628	8,589,211	6,475,549	(1,212,583)	(14.1)
Long-term liabilities	<u>10,228,345</u>	<u>12,263,822</u>	<u>14,646,211</u>	<u>(2,035,477)</u>	<u>(16.6)</u>
Total liabilities	<u>17,604,973</u>	<u>20,853,033</u>	<u>21,121,760</u>	<u>(3,248,060)</u>	<u>(15.6)</u>
Net position:					
Net investment in capital assets (restated)	153,528,920	141,103,976	140,915,020	12,424,944	8.8
Restricted for debt service	8,998,095	8,962,441	8,755,047	35,654	0.4
Restricted for pension	1,191,602	-	-	1,191,602	100.0
Unrestricted	<u>19,360,195</u>	<u>24,739,775</u>	<u>18,170,398</u>	<u>(5,379,580)</u>	<u>(21.7)</u>
Total net position	<u>\$ 183,078,812</u>	<u>\$ 174,806,192</u>	<u>\$ 167,840,465</u>	<u>\$ 8,272,620</u>	<u>4.7 %</u>

In 2015, total net position increased \$8.27 million or 4.7%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$2.8 million, a decrease of 56.3% from 2014, and capital contributions of \$3.16 million. Capital contributions consisted of approximately \$2.98 million of donated infrastructure and approximately \$180,000 in assessments and impact fees. The prior period adjustment to account for the Utility's share of the net pension asset accounted for the remainder of the increase in net position for 2015.

In 2014, total net position increased \$6.96 million or 4.2%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$6.4 million, an increase of 222.2% from 2013, and capital contributions of \$540,000. Capital contributions consisted solely of assessments and impact fees.

In 2015, total assets increased \$3.9 million or 2.0%. Capital assets increased \$4.9 million and construction in progress increased \$9.6 million; accumulated depreciation increased \$4.3 million for a net increase of \$10.2 million. Current, restricted and other assets decreased \$6.3 million or 14.0%.

In 2014, total assets increased \$6.7 million or 3.5%. Capital assets increased \$1.9 million; accumulated depreciation increased \$3.9 million for a net decrease of \$2.0 million. Current, restricted and other assets increased \$8.7 million or 24.1%.

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

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

	Year ended December 31			Variance of 2015 to 2014 Increase (decrease)	
	2015	2014	2013	Dollars	%
Revenues:					
Water service revenues	\$ 11,783,417	\$ 11,059,130	\$ 10,371,644	\$ 724,287	6.5 %
Sewerage service revenues	10,248,301	10,105,706	10,099,447	142,595	1.4
Household Hazardous Waste revenues	167,353	167,327	167,378	26	0.0
Other revenues	<u>4,088,006</u>	<u>4,005,756</u>	<u>3,588,974</u>	<u>82,250</u>	<u>2.1</u>
Total operating revenues	<u>26,287,077</u>	<u>25,337,919</u>	<u>24,227,443</u>	<u>949,158</u>	<u>3.7</u>
Expenses:					
Operating and maintenance, before depreciation and taxes					
Water operations	4,390,161	4,999,894	4,048,429	(609,733)	(12.2)
Sewerage operations	6,404,149	6,083,323	5,737,729	320,826	5.3
Household Hazardous Waste	171,308	158,713	153,346	12,595	7.9
Loss on sale of property	-	211,185	-	(211,185)	(100.0)
Depreciation	4,979,775	4,868,817	4,932,332	110,958	2.3
Customer accounting and collecting, administrative and general	<u>4,713,398</u>	<u>4,139,912</u>	<u>4,225,216</u>	<u>573,486</u>	<u>13.9</u>
Total operating expenses	<u>20,658,791</u>	<u>20,461,844</u>	<u>19,097,052</u>	<u>196,947</u>	<u>1.0</u>
Operating income	<u>5,628,286</u>	<u>4,876,075</u>	<u>5,130,391</u>	<u>752,211</u>	<u>15.4</u>
Nonoperating revenues	123,425	117,788	167,824	5,637	4.8
Performance bond recoveries	-	4,444,574	-	(4,444,574)	(100.0)
Nonoperating expenses	<u>(562,935)</u>	<u>(652,513)</u>	<u>(760,720)</u>	<u>(89,578)</u>	<u>(13.7)</u>
Increase in net position, before capital contributions and transfers	<u>5,188,776</u>	<u>8,785,924</u>	<u>4,537,495</u>	<u>(3,597,148)</u>	<u>(40.9)</u>
Capital contributions:					
Assessments and impact fees	182,695	542,298	1,391,573	(359,603)	(66.3)
Donated by developers	2,978,139	-	-	2,978,139	100.0
Transfers out	<u>(2,363,371)</u>	<u>(2,362,495)</u>	<u>(2,543,832)</u>	<u>(876)</u>	<u>0.0</u>
Increase in net position	5,986,239	6,965,727	3,385,236	(979,488)	(14.1)
Net position at beginning of year	174,806,192	167,840,465	164,455,229	6,965,727	4.2
Prior period adjustment	<u>2,286,381</u>	<u>-</u>	<u>-</u>	<u>2,286,381</u>	<u>100.0</u>
Net position at end of year	<u>\$ 183,078,812</u>	<u>\$ 174,806,192</u>	<u>\$ 167,840,465</u>	<u>\$ 8,272,620</u>	<u>4.7 %</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 0.1% during 2015. Water consumption increased 6.7%. Water service revenues increased approximately \$724,000 or 6.5%. Sewerage service revenues increased approximately \$142,000 or 1.4%. The increase in water service revenues is attributable to seven month's revenue at increased rates and increased water consumption.

Operating expenses increased 1.0% or approximately \$197,000 during 2015. Water Unit operating expenses decreased 12.2% or \$609,000 due to decreased costs for water main and service repairs, electricity and natural gas for pumping, aluminum sulfate used for water treatment and water treatment equipment maintenance. Sewerage Unit operating expenses increased 5.3% or \$321,000 mainly due to increased maintenance expenses at the wastewater treatment plant for equipment, structures and improvements. Operating expenses increased approximately \$12,000 or 7.9% in the Household Hazardous Waste Unit due mainly to increased allocated and administrative expenses. Customer accounting and collecting,

administrative and general expenses for all units increased approximately \$573,000 or 13.9% while depreciation expense for all units increased approximately \$111,000 or 2.3%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in wages and benefits.

Operating income for 2015 increased 15.4% or approximately \$752,000. Nonoperating revenues increased 4.8% or approximately \$5,600; nonoperating expenses decreased 13.7% or approximately \$89,000 due to decreases in interest expense and amortization on long-term debt.

The number of metered customers increased less than 0.1% during 2014. Water consumption decreased 0.7%. Water service revenues increased approximately \$687,000 or 6.6%. Sewerage service revenues increased approximately \$6,000 or 0.1%. The increase in water service revenues is attributable to a full year's revenue at increased rates.

Operating expenses increased 7.1% or approximately \$1.36 million during 2014. Water Unit operating expenses increased 23.5% or \$951,000 due to increased costs for water main and service repairs caused by unseasonably cold weather during February and March and increased costs for natural gas and water treatment equipment maintenance. Sewerage Unit operating expenses increased 6.0% or \$346,000 mainly due to the cost of damage claims for a sewer backup and increases in collection system maintenance expenses. Operating expenses increased approximately \$5,000 or 3.5% in the Household Hazardous Waste Unit due mainly to increased wages and benefits and cost of disposal. Customer accounting and collecting, administrative and general expenses for all units decreased approximately \$85,000 or 2.0% while depreciation expense for all units decreased approximately \$63,000 or 1.3%.

The decrease in customer accounting and collecting, administrative and general expenses is mainly due to a decrease of 93.9% in regulatory commission expense; the remaining expenses in administrative and general expense increased approximately \$102,000 or 7.1% due to increases in wages and benefits and outside services expense.

Operating income for 2014 decreased 5.0% or approximately \$254,000. Nonoperating revenues decreased 29.8% or approximately \$50,000 due to decreased investment income. Nonoperating expenses decreased 14.2% or \$108,000 due to decreases in interest expense and amortization on long-term debt.

For 2015, the increase in net position of \$5,986,239 was \$979,488 less than the previous year's increase of \$6,965,727 or a decrease of 14.1%. This is attributable to the one time receipt in 2014 of \$4.4 million for the performance bond recovery netted against increases in operating revenues, expenses and assessments, impact fees and infrastructure donations by developers of \$949,000, \$197,000 and \$2,618,000, respectively. The increase in net position attributable to the Water Unit was \$3,511,186; the amount attributable to the Sewerage Unit was \$2,463,750. The Household Hazardous Waste Unit accounted for the remaining \$11,303.

For 2014, the increase in net position of \$6,965,727 was \$3,580,491 more than the previous year's increase of \$3,385,236 or an increase of 4.2%. This was attributable to an increase in operating revenues and receipt of a performance bond recovery of more than \$4.4 million. The increase in net position attributable to the Water Unit was \$632,081; the amount attributable to the Sewerage Unit was \$6,309,628. The Household Hazardous Waste Unit accounted for the remaining \$24,018.

Capital Assets and Debt Administration

Capital Assets Changes in Capital Assets

	<u>Balance</u> <u>Jan. 1, 2015</u>	<u>Additions/</u> <u>reclass-</u> <u>ifications</u>	<u>Deletions/</u> <u>reclass-</u> <u>ifications</u>	<u>Balance</u> <u>Dec. 31, 2015</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,150,778	\$ 531	\$ -	\$ 2,151,309
Construction in progress	<u>4,282,085</u>	<u>11,562,031</u>	<u>1,991,513</u>	<u>13,852,603</u>
Total capital assets not being depreciated	<u>6,432,863</u>	<u>11,562,562</u>	<u>1,991,513</u>	<u>16,003,912</u>
Capital assets being depreciated:				
Revenue producing and service equipment:				
Wastewater collection system	1,354,783	-	1,980	1,352,803
Production pumping	4,464,536	291,184	170,293	4,585,427
Collection system pumping	9,099,496	188,069	-	9,287,565
Production purification	15,152,056	-	-	15,152,056
Wastewater treatment and disposal	<u>20,181,354</u>	<u>61,396</u>	<u>53,464</u>	<u>20,189,286</u>
Total revenue producing and service equipment	<u>50,252,225</u>	<u>540,649</u>	<u>225,737</u>	<u>50,567,137</u>
Buildings and structures:				
Production intake	3,425,277	-	-	3,425,277
Wastewater collection system	75,555,205	1,363,481	959	76,917,727
Production pumping	3,775,411	-	-	3,775,411
Collection system pumping	11,454,468	-	-	11,454,468
Production purification	8,450,031	-	-	8,450,031
Wastewater treatment and disposal	8,335,141	-	105,077	8,230,064
Transmission and distribution	71,510,573	3,253,150	129,455	74,634,268
General plant	<u>2,166,768</u>	<u>26,096</u>	<u>-</u>	<u>2,192,864</u>
Total buildings and structures	<u>184,672,874</u>	<u>4,642,727</u>	<u>235,491</u>	<u>189,080,110</u>
Office furnishings, shop equipment and other:				
General equipment	7,771,803	451,346	177,827	8,045,322
Engineering equipment	<u>658,364</u>	<u>1,736</u>	<u>123,432</u>	<u>536,668</u>
Total office furnishings, shop equipment and other	<u>8,430,167</u>	<u>453,082</u>	<u>301,259</u>	<u>8,581,990</u>
Total capital assets being depreciated	<u>243,355,266</u>	<u>5,636,458</u>	<u>762,487</u>	<u>248,229,237</u>
Total accumulated depreciation	<u>98,870,169</u>	<u>4,979,775</u>	<u>704,799</u>	<u>103,145,145</u>
Total capital assets being depreciated, net	<u>144,485,097</u>	<u>656,683</u>	<u>57,688</u>	<u>145,084,092</u>
Total capital assets, net	<u>\$ 150,917,960</u>	<u>\$ 12,219,245</u>	<u>\$ 2,049,201</u>	<u>\$ 161,088,004</u>

The Utility had combined investment in capital assets of \$264.2 million at the end of 2015. Of that amount, construction in progress totaled \$13.8 million; the energy optimized resource recovery project at the wastewater treatment plant accounted for \$11.5 million of the construction in progress total. Accumulated depreciation totaled approximately \$103.1 million resulting in a net book value of \$145.1 million. In 2015, the Utility recorded combined depreciation expense of approximately \$5.0 million. 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 \$9.9 million in long-term term debt outstanding as of December 31, 2015. Of this amount, approximately \$2.34 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.3 million or 18.9% due to scheduled debt payments.

The Utility had \$12.3 million in long-term term debt outstanding as of December 31, 2014. Of this amount, approximately \$2.25 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.2 million or 15.5% 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 supplemental information section as well as note 5 to the audited financial statements.

Long-Term Debt Activity

	Balance Jan. 1, 2015	Additions	Deletions	Balance Dec. 31, 2015	Due Within One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 583,984	\$ -	\$ 89,900	\$ 494,084	\$ 92,749
Revenue bonds	11,490,000	-	2,165,000	9,325,000	2,250,000
Bond premium	191,273	-	65,977	125,296	-
Advance from City of Kenosha	414,570	-	74,411	340,159	77,067
Worker's compensation accrued liability	35,000	355,086	-	390,086	-
Other post employment benefits	1,360,317	264,111	170,000	1,454,428	-
Accrued compensated absences	581,434	77,290	69,673	589,051	69,943
	<u>\$ 14,656,578</u>	<u>\$ 696,487</u>	<u>\$ 2,634,961</u>	<u>\$ 12,718,104</u>	<u>\$ 2,489,759</u>

	Balance Jan. 1, 2014	Additions	Deletions	Balance Dec. 31, 2014	Due Within One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 671,123	\$ -	\$ 87,139	\$ 583,984	\$ 89,900
Revenue bonds	13,570,000	-	2,080,000	11,490,000	2,165,000
Bond premium	267,712	-	76,439	191,273	-
Advance from City of Kenosha	486,322	-	71,752	414,570	74,410
Worker's compensation accrued liability	122,559	-	87,559	35,000	-
Other post employment benefits	1,256,918	258,399	155,000	1,360,317	-
Accrued compensated absences	549,225	104,151	71,942	581,434	63,446
	<u>\$ 16,923,859</u>	<u>\$ 362,550</u>	<u>\$ 2,629,831</u>	<u>\$ 14,656,578</u>	<u>\$ 2,392,756</u>

Economic Factors and the Utility's Future

The Utility applied for and received approval from the Public Service Commission of Wisconsin for a 3% water rate increase effective June 1, 2015, using the Simplified Rate Case method. In order to generate sufficient revenues to replace aging infrastructure and to continue to supply a safe water supply to our customers, the Utility may apply for another Simplified Rate Case increase when it is next allowed by the PSC in early 2017.

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, investors 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)

Statements of Net Position

December 31, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 12,074,157	\$ 5,401,028
Investments	-	13,700,000
Restricted cash and cash equivalents	8,485,000	-
Restricted cash - Storm Water Utility collections	317,013	312,967
Restricted Investments	2,812,964	11,270,000
Accounts receivable	4,632,405	5,112,924
Unbilled revenue	2,691,850	2,552,571
Inventories	499,301	476,583
Other current assets	84,595	112,347
Total current assets	<u>31,597,285</u>	<u>38,938,420</u>
Noncurrent assets:		
Other assets		
Special Assessments	4,370	64,757
Unbilled assessments	5,682,391	5,738,088
Restricted pension asset - Wisconsin Retirement System	1,191,602	-
Capital assets:		
Capital assets not being depreciated:		
Land and land improvements	2,151,309	2,150,778
Construction in progress	13,852,603	4,282,085
Capital assets being depreciated:		
Revenue producing and service equipment	50,567,137	50,252,225
Buildings and structures	189,080,110	184,672,874
Office furnishings, shop equipment, and other	8,581,990	8,430,167
Less accumulated depreciation	<u>(103,145,145)</u>	<u>(98,870,169)</u>
Total capital assets, net of accumulated depreciation	<u>161,088,004</u>	<u>150,917,960</u>
Total noncurrent assets	<u>167,966,367</u>	<u>156,720,805</u>
Total assets	<u>199,563,652</u>	<u>195,659,225</u>
Deferred Outflow of Resources		
Deferred pension resources	<u>1,120,133</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	772,442	565,731
Accrued liabilities	39,845	47,559
Accrued property taxes	2,363,371	2,362,495
Current portion of accrued compensated absences	69,943	63,446
Current portion of long-term obligations	2,342,749	2,254,900
Current portion of advance from City of Kenosha	77,067	74,410
Due to City of Kenosha	1,324,987	2,015,513
Due to City of Kenosha - Storm Water Utility collections	317,013	312,967
Other current liabilities	69,211	892,190
Total current liabilities	<u>7,376,628</u>	<u>8,589,211</u>
Noncurrent liabilities:		
Long-term portion of accrued compensated absences	519,108	517,988
Worker's compensation accrued liability	390,086	35,000
Other postemployment benefits	1,454,428	1,360,317
Advance from City of Kenosha	263,092	340,160
Revenue bonds payable	7,200,296	9,516,273
Clean Water Fund loans	401,335	494,084
Total noncurrent liabilities	<u>10,228,345</u>	<u>12,263,822</u>
Total liabilities	<u>17,604,973</u>	<u>20,853,033</u>
Net Position		
Net investment in capital assets	153,528,920	141,103,976
Restricted for debt service	8,998,095	8,962,441
Restricted for pension	1,191,602	-
Unrestricted	19,360,195	24,739,775
Total net position	<u>\$ 183,078,812</u>	<u>\$ 174,806,192</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)

Statements of Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Charges for services	\$ 22,199,071	\$ 21,332,163
Miscellaneous	4,088,006	4,005,756
Total operating revenues	<u>26,287,077</u>	<u>25,337,919</u>
Operating expenses:		
General and administrative	4,713,398	4,139,912
Operations and maintenance	10,965,618	11,241,930
Loss on sale of equipment	-	211,185
Depreciation	4,979,775	4,868,817
Total operating expenses	<u>20,658,791</u>	<u>20,461,844</u>
Operating income	<u>5,628,286</u>	<u>4,876,075</u>
Nonoperating revenues (expenses):		
Investment income	25,574	26,753
Interest expense	(562,935)	(652,513)
Performance bond recoveries	-	4,444,574
Miscellaneous	97,851	91,035
Total nonoperating revenue (expenses)	<u>(439,510)</u>	<u>3,909,849</u>
Increase in net position before capital contributions and transfers	5,188,776	8,785,924
Capital contributions	3,160,834	542,298
Transfers out	<u>(2,363,371)</u>	<u>(2,362,495)</u>
Increase in net position	5,986,239	6,965,727
Net position at beginning of year	174,806,192	167,840,465
Prior period adjustment	<u>2,286,381</u>	<u>-</u>
Net position at beginning of year (restated)	177,092,573	167,840,465
Net position at end of year	<u>\$ 183,078,812</u>	<u>\$ 174,806,192</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)

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	\$ 26,637,414	\$ 24,667,028
Payments to suppliers	(11,477,271)	(9,421,560)
Payments to employees	(4,281,938)	(4,091,863)
Net cash provided by operating activities	10,878,205	11,153,605
Cash flows from noncapital financing activities:		
Payment on advances from other funds	(74,411)	(71,752)
Interest paid on noncapital debt	(20,682)	(23,881)
Miscellaneous receipts	31,875	14,597
Transfer to City of Kenosha	(2,362,495)	(2,543,832)
Net cash used in noncapital financing activities	(2,425,713)	(2,624,868)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(12,228,275)	(3,078,240)
Special assessments collected (purchased)	123,815	85,152
Impact fees and contributions collected	181,601	410,444
Customer deposits for construction	(812,552)	368,137
Proceeds on disposal of capital assets	56,427	108,275
Proceeds from performance bond recovery	-	4,444,574
Principal paid on capital debt	(2,254,900)	(2,167,139)
Interest paid on capital debt	(549,968)	(636,025)
Net cash used in capital and related financing activities	(15,483,852)	(464,822)
Cash flows from investing activities:		
Sale of investments	22,160,000	2,600,000
Purchase of investments	(2,964)	(16,500,000)
Interest and dividends received	36,496	15,756
Net cash provided by (used in) investing activities	22,193,532	(13,884,244)
Net increase (decrease) in cash and cash equivalents	15,162,172	(5,820,329)
Cash and cash equivalents – beginning of year	5,713,995	11,534,324
Cash and cash equivalents – end of year	\$ 20,876,167	\$ 5,713,995
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 12,074,157	\$ 5,401,028
Restricted cash and cash equivalents	8,802,013	312,967
Total cash and cash equivalents	\$ 20,876,170	\$ 5,713,995
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,628,286	\$ 4,876,075
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,979,775	4,868,817
Loss on disposal of capital assets	1,261	211,185
Changes in assets and liabilities:		
Accounts receivable	480,519	(723,435)
Unbilled revenues	(139,279)	70,784
Inventories	(22,718)	1,221
Other current assets	9,097	(18,238)
Accounts payable	206,711	328,703
Compensated absences	7,617	32,209
Worker's compensation accrued liability	355,086	(87,559)
Other post employment benefits	94,111	103,399
Pension benefits	(25,354)	-
Payable to City of Kenosha	(686,480)	1,490,444
Other current liabilities	(10,427)	-
Total adjustments	5,249,919	6,277,530
Net cash provided by operating activities	\$ 10,878,205	\$ 11,153,605
Noncash investing, capital, and financing activities:		
Contributions of capital assets from developers, including assessments and impact fees	\$ 2,979,233	\$ 131,855

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, 2015 and 2014

(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, 2015 and 2014

(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.

The Pension Asset – Wisconsin Retirement System represents the Utility's proportionate share of the overfunded status of the Wisconsin Retirement System. These assets are held by the Wisconsin Retirement System in trust and their use is limited to the settlement of pension related obligations.

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, 2015 and 2014

(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. Adjustments necessary to report investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Special Assessments and Unbilled Assessments

Unbilled assessments represent assessments that have been levied upon properties within the City that are not currently connected to the Utility system. This balance also 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, 2015 and 2014

(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 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 plant and equipment	5-17
Sewerage unit:	
Collection system	20-100
Collection system pumping	20-50
Treatment and disposal	15-50
Engineering equipment	5-17
General plant and equipment	5-50
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 June 30 of that year; any unused vacation carry-over not used by June 30 is forfeited.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

(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 balance sheets 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. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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 expenses in the year incurred.

Pensions

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

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (Continued)

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 bimonthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

Classification of Revenues

The Utility has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses arise from activities that have the characteristics of exchange transactions, including providing water, sewerage, and hazardous waste services. Nonoperating revenues and expenses arise from activities that have the characteristics of nonexchange transactions, such as those related grants and contributions. Investment activities are 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 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 implemented 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, 2015 and 2014

(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 implemented 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 implemented the requirements of this standard beginning with the year ending December 31, 2014.

In November 2013, the GASB issued an accounting standard that amends Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this standard will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual basis financial statements and nonemployer contributing entities. The Utility implemented the requirements of this standard beginning with the year ended December 31, 2015.

In February 2015, the GASB issued an account standard that address accounting and financial reporting issues related to fair value measurements. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2016.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes accounting and financial reporting standards for defined benefit pensions that are not with in the scope of GASB Statements 67 and 68. The Statement also clarifies certain provisions of Statement 67 and 68. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2016.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which* establishes new accounting and financial reporting requirements for government pension plans whose employees are provided with OPEB. This Statement replaces Statements No. 43, 57 and 25. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2017.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes new accounting and financial reporting requirements for the OPEB provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of OPEB plans, including methods and assumptions to be used for defined benefit OPEB. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2018.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies the hierarchy of GAAP as it relates to the governmental entities. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2016.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*, which establishes reporting requirements for governments that enter into tax abatement agreements. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2016.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which amends the scope and applicability of GASB Statement 68 to exclude certain pensions provided through cost-sharing multiple employer defined benefit pension plans. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2016.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which address how certain state and local government external investment pools and participants in external investment pools may measure and report their investments. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2016.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, which adds additional criterion regarding the blending of certain component units. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2017.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which establishes recognition and measurement guidance for irrevocable split-interest agreements. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2017.

CITY OF KENOSHA WATER UTILITY
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(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68 and No. 73*, which addresses certain issues related to presentation and classification of certain financial items and selection of assumptions related to Pensions covered under GASB Statements No. 67, No. 68 and No. 73. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2017.

(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, 2015 and 2014 are as follows:

	2015	2014
Petty cash	\$ 1,700	\$ 1,700
Demand deposits	1,889,470	1,712,295
Certificates of deposit	21,797,964	28,970,000
Total cash, cash equivalents and investments	\$ 23,689,134	\$ 30,683,995
Reconciliation to the financial statement:		
Current assets:		
Cash and cash equivalents	\$ 12,074,157	\$ 5,401,028
Investments	-	13,700,000
Restricted Cash	8,485,000	-
Restricted cash - Storm Water Utility collections	317,013	312,967
Restricted Investments	2,812,964	11,270,000
Total cash, cash equivalents and investments	\$ 23,689,134	\$ 30,683,995

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.

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 of governmental entities held by an official custodian in banks located in the same state as the governmental entity are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per financial institution. Deposits are also insured

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(2) Cash and Investments (Continued)

Custodial Credit Risk (Continued)

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 insured limits. 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. The Utility invests in various certificate of deposits held at multiple banks. The balance at each bank is below the FDIC limits noted above, resulting in all balances being fully insured at December 31, 2015 and 2014.

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, 2015 and 2014, the Utility's investments were certificates of deposit with maturities of less than one year. The Utility does not have a formal policy addressing this type of investment risk.

(3) Restricted Assets

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

	2015			
	Water Unit	Sewer Unit	Household Hazardous Waste Unit	Total
Restricted for Debt Service				
Debt service account	\$ -	\$ 110,000	\$ -	\$ 110,000
Special redemption account	2,702,964	-	-	2,702,964
Reserve account	2,260,000	-	-	2,260,000
	<u>4,962,964</u>	<u>110,000</u>	<u>-</u>	<u>5,072,964</u>
Restricted for renewal and replacement	-	1,725,000	-	1,725,000
Restricted for taxes	2,500,000	-	-	2,500,000
Restricted for depreciation	1,000,000	1,000,000	-	2,000,000
Restricted for Storm Water Utility collections due to the City of Kenosha	-	317,013	-	317,013
Restricted for pension	590,010	595,717	5,875	1,191,602
Total restricted assets	<u>\$ 9,052,974</u>	<u>\$ 3,747,730</u>	<u>\$ 5,875</u>	<u>\$ 12,806,579</u>
Restricted cash and cash equivalents	\$ 5,760,000	\$ 3,042,013	\$ -	\$ 8,802,013
Restricted investments	2,702,964	110,000	-	2,812,964
Restricted pension asset	590,010	595,717	5,875	1,191,602
Total restricted assets	<u>\$ 9,052,974</u>	<u>\$ 3,747,730</u>	<u>\$ 5,875</u>	<u>\$ 12,806,579</u>

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(3) Restricted Assets (Continued)

	2014		
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Total</u>
Restricted for Debt Service			
Debt service account	\$ -	\$ 110,000	\$ 110,000
Special redemption account	2,700,000	-	2,700,000
Reserve account	2,260,000	-	2,260,000
	<u>4,960,000</u>	<u>110,000</u>	<u>5,070,000</u>
Restricted for renewal and replacement	-	1,700,000	1,700,000
Restricted for taxes	2,500,000	-	2,500,000
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>312,967</u>	<u>312,967</u>
Total restricted assets	<u>\$ 8,460,000</u>	<u>\$ 3,122,967</u>	<u>\$ 11,582,967</u>
Restricted cash and cash equivalents	\$ -	\$ 312,967	\$ 312,967
Restricted investments	<u>8,460,000</u>	<u>2,810,000</u>	<u>11,270,000</u>
Total restricted assets	<u>\$ 8,460,000</u>	<u>\$ 3,122,967</u>	<u>\$ 11,582,967</u>

CITY OF KENOSHA WATER UTILITY
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(4) Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital assets not being depreciated:				
Land and land improvements	\$ 2,150,778	\$ 531	\$ -	\$ 2,151,309
Construction in progress	4,282,085	11,562,031	1,991,513	13,852,603
Total capital assets not being depreciated	<u>6,432,863</u>	<u>11,562,562</u>	<u>1,991,513</u>	<u>16,003,912</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,252,225	540,649	225,737	50,567,137
Buildings and structures	184,672,874	4,642,727	235,491	189,080,110
Office furnishings, shop equipment, and other	<u>8,430,167</u>	<u>453,082</u>	<u>301,259</u>	<u>8,581,990</u>
Total capital assets being depreciated	<u>243,355,266</u>	<u>5,636,458</u>	<u>762,487</u>	<u>248,229,237</u>
Less accumulated depreciation:				
Revenue producing and service equipment	39,958,521	1,727,612	225,737	41,460,396
Buildings and structures	54,239,749	2,854,432	201,235	56,892,946
Office furnishings, shop equipment, and other	<u>4,671,899</u>	<u>397,731</u>	<u>277,827</u>	<u>4,791,803</u>
Total accumulated depreciation	<u>98,870,169</u>	<u>4,979,775</u>	<u>704,799</u>	<u>103,145,145</u>
Total capital assets being depreciated, net	<u>144,485,097</u>	<u>656,683</u>	<u>57,688</u>	<u>145,084,092</u>
Total capital assets, net	<u>\$ 150,917,960</u>	<u>\$ 12,219,245</u>	<u>\$ 2,049,201</u>	<u>\$ 161,088,004</u>

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 December 31, 2015 and 2014

(4) Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Capital assets not being depreciated:				
Land and land improvements	\$ 2,150,778	\$ -	\$ -	\$ 2,150,778
Construction in progress	3,649,059	2,104,002	1,470,976	4,282,085
Total capital assets not being depreciated	<u>5,799,837</u>	<u>2,104,002</u>	<u>1,470,976</u>	<u>6,432,863</u>
Capital assets being depreciated:				
Revenue producing and service equipment	49,861,426	1,060,801	670,002	50,252,225
Buildings and structures	184,426,121	438,612	191,859	184,672,874
Office furnishings, shop equipment, and other	<u>7,763,938</u>	<u>1,077,655</u>	<u>411,426</u>	<u>8,430,167</u>
Total capital assets being depreciated	<u>242,051,485</u>	<u>2,577,068</u>	<u>1,273,287</u>	<u>243,355,266</u>
Less accumulated depreciation:				
Revenue producing and service equipment	38,970,867	1,657,656	670,002	39,958,521
Buildings and structures	51,575,868	2,821,201	157,320	54,239,749
Office furnishings, shop equipment, and other	<u>4,408,445</u>	<u>389,960</u>	<u>126,506</u>	<u>4,671,899</u>
Total accumulated depreciation	<u>94,955,180</u>	<u>4,868,817</u>	<u>953,828</u>	<u>98,870,169</u>
Total capital assets being depreciated, net	<u>147,096,305</u>	<u>(2,291,749)</u>	<u>319,459</u>	<u>144,485,097</u>
Total capital assets, net	<u>\$ 152,896,142</u>	<u>\$ (187,747)</u>	<u>\$ 1,790,435</u>	<u>\$ 150,917,960</u>

CITY OF KENOSHA WATER UTILITY
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NOTES TO BASIC FINANCIAL STATEMENTS
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(5) Long-term Debt

Long-term debt activity for the year ended December 31, 2015 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>	<u>Due within one year</u>
State of Wisconsin Clean Water Loan Funds:						
Series 2000	3.17%	\$ 583,984	-	\$ 89,900	\$ 494,084	\$ 92,749
Revenue Bonds:						
Series 2008	3.25-5.00%	11,490,000	-	2,165,000	9,325,000	2,250,000
		<u>12,073,984</u>	<u>-</u>	<u>2,254,900</u>	<u>9,819,084</u>	<u>2,342,749</u>
Less: unamortized (discount) premium and refunding bond losses						
		191,273	-	65,977	125,296	-
Advance from Municipality:						
1999 agreement	4.74-6.00%	414,570	-	74,411	340,159	77,067
Worker's compensation accrued liability	N/A	35,000	355,086	-	390,086	-
Other post employment benefits	N/A	1,360,317	264,111	170,000	1,454,428	-
Accrued Compensated Absences	N/A	581,434	77,290	69,673	589,051	69,943
Total		<u>\$ 14,656,578</u>	<u>\$ 696,487</u>	<u>\$ 2,634,961</u>	<u>\$ 12,718,104</u>	<u>\$ 2,489,759</u>

Long-term debt activity for the year ended December 31, 2014 was as follows:

<u>Issue</u>	<u>Interest rate</u>	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2014</u>	<u>Due within one year</u>
State of Wisconsin Clean Water Loan Funds:						
Series 2000	3.17%	\$ 671,123	-	\$ 87,139	\$ 583,984	\$ 89,900
Revenue Bonds:						
Series 2008	3.25-5.00%	13,570,000	-	2,080,000	11,490,000	2,165,000
		<u>14,241,123</u>	<u>-</u>	<u>2,167,139</u>	<u>12,073,984</u>	<u>2,254,900</u>
Less: unamortized (discount) premium and refunding bond losses						
		267,712	-	76,439	191,273	-
Advance from Municipality:						
1999 agreement	4.74-6.00%	486,322	-	71,752	414,570	74,410
Worker's compensation accrued liability	N/A	122,559	-	87,559	35,000	-
Other post employment benefits	N/A	1,256,918	258,399	155,000	1,360,317	-
Accrued Compensated Absences	N/A	549,225	104,151	71,942	581,434	63,446
Total		<u>\$ 16,923,859</u>	<u>\$ 362,550</u>	<u>\$ 2,629,831</u>	<u>\$ 14,656,578</u>	<u>\$ 2,392,756</u>

CITY OF KENOSHA WATER UTILITY
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NOTES TO BASIC FINANCIAL STATEMENTS
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(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.

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 NOTES TO BASIC FINANCIAL STATEMENTS
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(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 year of the change's pension expense.

Principal and Interest Payments

Long-term debt principal and interest requirements to maturity as of December 31, 2015 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2016	2,288,210	131,606	2,419,816	455,569	22,800	478,369
2017	2,390,845	137,225	2,528,070	360,141	17,701	377,842
2018	4,768,480	142,938	4,911,418	240,267	12,206	252,473
2019	46,116	148,746	194,862	1,383	6,351	7,734
2020	-	105,077	105,077	-	1,665	1,665
	<u>\$ 9,493,651</u>	<u>\$ 665,592</u>	<u>\$ 10,159,243</u>	<u>\$ 1,057,360</u>	<u>\$ 60,723</u>	<u>\$ 1,118,083</u>

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

The components of net position are shown below:

	2015			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Net investment in capital assets				
Investment in capital assets	\$ 76,238,253	\$ 84,788,435	\$ 61,316	\$ 161,088,004
Outstanding long-term debt	(9,325,000)	(494,084)	-	(9,819,084)
Debt not related to capital assets	2,260,000	-	-	2,260,000
	<u>69,173,253</u>	<u>84,294,351</u>	<u>61,316</u>	<u>153,528,920</u>
Restricted				
Restricted for renewal and replacement	-	1,725,000	-	1,725,000
Restricted for taxes	2,500,000	-	-	2,500,000
Restricted for depreciation	1,000,000	1,000,000	-	2,000,000
Restricted for debt service	4,962,964	110,000	-	5,072,964
Restricted for Storm Water Utility collections	-	317,013	-	317,013
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(317,013)	-	(317,013)
Accrued interest payable	(37,259)	(2,610)	-	(39,869)
Long-term debt	(2,260,000)	-	-	(2,260,000)
	<u>6,165,705</u>	<u>2,832,390</u>	<u>-</u>	<u>8,998,095</u>
Retricted for pension	<u>590,010</u>	<u>595,717</u>	<u>5,875</u>	<u>1,191,602</u>
Unrestricted	<u>(239,632)</u>	<u>19,215,257</u>	<u>384,570</u>	<u>19,360,195</u>
Total net position	<u>\$ 75,689,336</u>	<u>\$106,937,715</u>	<u>\$ 451,761</u>	<u>\$ 183,078,812</u>

CITY OF KENOSHA WATER UTILITY
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 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(6) Net Position (Continued)

	2014			<u>Total</u>
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	
Net investment in capital assets				
Investment in capital assets	\$ 75,007,963	\$ 75,851,030	\$ 58,967	\$ 150,917,960
Outstanding long-term debt	(11,490,000)	(583,984)	-	(12,073,984)
Debt not related to capital assets	<u>2,260,000</u>	<u>-</u>	<u>-</u>	<u>2,260,000</u>
	<u>65,777,963</u>	<u>75,267,046</u>	<u>58,967</u>	<u>141,103,976</u>
Restricted				
Restricted for renewal and replacement	-	1,700,000	-	1,700,000
Restricted for taxes	2,500,000	-	-	2,500,000
Restricted for depreciation	1,000,000	1,000,000	-	2,000,000
Restricted for debt service	4,960,000	110,000	-	5,070,000
Restricted for Storm Water Utility collections	-	312,967	-	312,967
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(312,967)	-	(312,967)
Accrued interest payable	(44,475)	(3,084)	-	(47,559)
Long-term debt	<u>(2,260,000)</u>	<u>-</u>	<u>-</u>	<u>(2,260,000)</u>
	<u>6,155,525</u>	<u>2,806,916</u>	<u>-</u>	<u>8,962,441</u>
Unrestricted	<u>(887,417)</u>	<u>25,256,973</u>	<u>370,219</u>	<u>24,739,775</u>
Total net position	<u>\$ 71,046,071</u>	<u>\$ 103,330,935</u>	<u>\$ 429,186</u>	<u>\$ 174,806,192</u>

CITY OF KENOSHA WATER UTILITY
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NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

(7) Pensions

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

General Information about the Pension Plan

Plan description

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

Vesting

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

Benefits provided

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

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

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

The WRS also provides death and disability benefits for employees.

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 December 31, 2015 and 2014

(7) Pensions (continued)

Post-Retirement Adjustments

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7.0%
2006	0.8	3.0
2007	3.0	10.0
2008	6.6	0.0
2009	(2.1)	(42.0)
2010	(1.3)	22.0
2011	(1.2)	11.0
2012	(7.0)	(7.0)
2013	(9.6)	9.0
2014	4.7	25.0

Contributions

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

The Kenosha Water Utility participates in the Plan as part of the City of Kenosha. The City has determined that Kenosha Water Utility's allocation of the City's proportional share of participation in the Pension, to be 9.92%, for the year ended December 31, 2015.

During the reporting period, the WRS recognized contributions from the City of Kenosha including \$348,556 of contributions from the Kenosha Water.

CITY OF KENOSHA WATER UTILITY
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(7) **Pensions** (continued)

Contribution rates as of December 31, 2015 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%
Protective with Social Security	6.8%	9.5%
Protective without Social Security	6.8%	13.1%

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

At December 31, 2015, the Utility reported an asset of \$1,191,602 for its allocation of the City of Kenosha's proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013, rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. The Utility's allocation of the City's proportion was determined by the City. At December 31, 2014, the Utility's allocated proportion was 0.04851257%, which was a decrease of 0.0063963% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$321,945.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(7) Pensions (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 172,745	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	577,031	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,059	-
Employer contributions subsequent to the measurement date	347,298	-
Total	\$ 1,120,133	\$ -

\$348,556 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2015	\$ 151,759	\$ -
2016	151,759	-
2017	151,759	-
2018	151,759	-
2019	151,759	-
Thereafter	14,040	-

CITY OF KENOSHA WATER UTILITY
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 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(7) Pensions (continued)

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

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset):	December 31, 2014
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases	
Inflation:	3.2%
Seniority/Merit:	0.2% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

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

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

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(7) Pensions (continued)

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

<u>Asset Class</u>	<u>Long-Term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	5.3%	21.0%
International Equities	5.7	23.0
Fixed Income	1.7	36.0
Inflation Sensitive Assets	2.3	20.0
Real Estate	5.2	7.0
Private Equity/Debt	0.9	7.0
Multi-Asset	3.9	6.0
Cash	0.9	(20.0)

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

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(7) Pensions (continued)

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Water Utility's allocation of the City's proportionate share of the net pension liability (asset)	\$ 3,361,719	\$ (1,191,602)	\$ (4,787,625)

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

Payables to the pension plan

The Utility's share of the City's payable to WRS as of December 31, 2015, was \$34,050.

(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 forty-six 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
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NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015 and 2014

(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 April 20, 2015, the PSCW authorized a rate increase effective June 1, 2015. The new rates were approved using the Simplified Rate Case Process which allowed a 3.0% 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 5.9%, the Commission's overall rate of return applicable to a municipally owned water utility.

Sewerage Unit

On November 17, 2014, the Board of Water Commissioners approved a rate adjustment for sewerage service, industrial waste discharge permit and miscellaneous services that was placed into effect June 1, 2015.

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, 2015, the Utility had outstanding purchase commitments for contracts of approximately \$232,824 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$348,000 for painting the washwater elevated storage tank at the water treatment plant and \$77,413 for water main construction.

At December 31, 2014, the Utility had outstanding purchase commitments for contracts of approximately \$9,312,957 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$116,585 for water and sewer main construction and \$56,850 for water booster station backup generator installations.

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, 2015 and 2014

(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 2015 and 2014, the Utility contributed \$170,000 and \$155,000 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, 2015 and 2014

(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, 2015:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Annual required contribution	\$ 157,259	\$ 133,423	\$ 290,682
Interest on net OPEB obligation	22,078	18,732	40,810
Adjustment to annual required contribution	<u>(36,453)</u>	<u>(30,928)</u>	<u>(67,381)</u>
Annual OPEB cost	142,884	121,227	264,111
Contributions made	<u>(91,970)</u>	<u>(78,030)</u>	<u>(170,000)</u>
Increase in net OPEB obligation	50,914	43,197	94,111
Net OPEB obligation, beginning of year	<u>704,789</u>	<u>655,528</u>	<u>1,360,317</u>
Net OPEB obligation, end of year	<u>\$ 755,703</u>	<u>\$ 698,725</u>	<u>\$ 1,454,428</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(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, 2014:

	Water Unit	Sewerage Unit	Total
Annual required contribution	\$ 151,661	\$ 131,289	\$ 282,950
Interest on net OPEB obligation	20,211	17,497	37,708
Adjustment to annual required contribution	<u>(33,371)</u>	<u>(28,888)</u>	<u>(62,259)</u>
Annual OPEB cost	138,501	119,898	258,399
Contributions made	<u>(83,080)</u>	<u>(71,920)</u>	<u>(155,000)</u>
Increase in net OPEB obligation	55,421	47,978	103,399
Net OPEB obligation, beginning of year	<u>649,368</u>	<u>607,550</u>	<u>1,256,918</u>
Net OPEB obligation, end of year	<u><u>\$ 704,789</u></u>	<u><u>\$ 655,528</u></u>	<u><u>\$ 1,360,317</u></u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(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 were as follows:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Year ended December 31, 2015			
Annual OPEB cost	\$ 142,884	\$ 121,227	\$ 264,111
Percentage of annual OPEB cost contributed	64.37%	64.37%	64.37%
Net OPEB obligation	\$ 755,703	\$ 698,725	\$1,454,428
Year ended December 31, 2014			
Annual OPEB cost	\$ 138,501	\$ 119,898	\$ 258,399
Percentage of annual OPEB cost contributed	59.98%	59.98%	59.98%
Net OPEB obligation	\$ 704,789	\$ 655,528	\$1,360,317
Year ended December 31, 2013			
Annual OPEB cost	\$ 195,491	\$ 161,896	\$ 357,387
Percentage of annual OPEB cost contributed	71.91%	71.91%	71.91%
Net OPEB obligation	\$ 649,368	\$ 607,550	\$1,256,918

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2015 and 2014

(11) Other Postemployment Benefits (Continued)

The funded status of the plan as of December 31, 2014, the most recent actuarial valuation date, was as follows:

	Water Unit	Sewerage Unit	Total
Actuarial accrued liability (AAL)	\$ 1,525,847	\$ 1,294,573	\$ 2,820,420
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,525,847</u>	<u>\$ 1,294,573</u>	<u>\$ 2,820,420</u>
Funded ratio (actuarial value of plan assets / AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 2,478,495	\$ 2,502,498	\$ 4,980,993

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 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.00% investment rate of return and an annual healthcare cost trend rate of 5.5% initially, reduced by decrements to an ultimate rate of 4.4% after 2080. The unfunded actuarial accrued liability is being amortized over 30 years from the valuation date on an open basis 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, 2015 and 2014

(12) Subsequent Events

On April 4, 2016, a contract was awarded to A.W. Oakes & Son, Inc. by the Board of Water Commissioners for water main relays in the amount of \$419,315.50.

On April 4, 2016, a contract was awarded to L.C. United Painting Company by the Board of Water Commissioners for the painting of the 60th Street west ground storage tank in the amount of \$306,000.

(13) Restatement

The Utility adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* as of January 1, 2015. The standard revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. As a result, the Utility’s beginning of the year net position has been restated as follows:

	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Ending net position, December 31, 2014, as previously reported	\$ 71,046,071	\$ 103,330,935	\$ 429,186	\$ 174,806,192
Restatement to record beginning of the year deferred outflow for contributions made after the measurement date	172,584	174,254	1,718	348,556
Restatement to record beginning of the year WRS pension asset	<u>959,495</u>	<u>968,776</u>	<u>9,554</u>	<u>1,937,825</u>
Net position, January 1, 2015, as restated	<u>\$ 72,178,150</u>	<u>\$ 104,473,965</u>	<u>\$ 440,458</u>	<u>\$ 177,092,573</u>

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 SUPPLEMENTARY INFORMATION

SCHEDULE OF OPEB FUNDING PROGRESS

December 31, 2015 and 2014

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	\$ -	\$ 4,303,992	\$ 4,303,992	0.00%	\$ 4,614,870	93.26%
12/31/2012	\$ -	\$ 3,986,522	\$ 3,986,522	0.00%	\$ 4,461,416	89.36%
12/31/2014	\$ -	\$ 2,820,420	\$ 2,820,420	0.00%	\$ 4,980,993	56.62%

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

SCHEDULE OF UTILITY'S ALLOCATION OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY (ASSET)
 Wisconsin Retirement System
 Last 10 Fiscal Years*

	2015
Utility's allocation of the City of Kenosha's proportion of the net pension liability (asset)	0.04851257%
Utility's allocation of the City of Kenosha's proportionate share of the net pension liability (asset)	\$ (1,191,602)
Utility's covered - employee payroll	\$ 4,980,993
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

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

SCHEDULE OF KENOSHA WATER UTILITY CONTRIBUTIONS
 Wisconsin Retirement System
 Last 10 Fiscal Years*

	2015
Contractually required contributions	\$ 348,556
Contributions in relation to the contractually required contributions	\$ (348,556)
Contribution deficiency (excess)	\$ -
Utility's covered - employee payroll	\$ 4,980,993
Contributions as a percentage of covered - employee payroll	7.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 For the year ended December 31, 2015

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

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

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

Combining Schedule of Net Position

December 31, 2015

Assets	Water unit	Sewerage unit	Household hazardous waste unit	Total
Current assets:				
Cash and cash equivalents	\$ 1,632,970	\$ 10,114,717	\$ 326,470	\$ 12,074,157
Investments	-	-	-	-
Restricted cash equivalents	5,760,000	2,725,000	-	8,485,000
Restricted cash - Storm Water Utility collections	-	317,013	-	317,013
Restricted investments	2,702,964	110,000	-	2,812,964
Accounts receivable	2,295,357	2,290,440	46,608	4,632,405
Unbilled revenue	1,596,863	1,074,036	20,951	2,691,850
Inventories	443,622	55,679	-	499,301
Other current assets	79,706	4,889	-	84,595
Total current assets	<u>14,511,482</u>	<u>16,691,774</u>	<u>394,029</u>	<u>31,597,285</u>
Noncurrent assets:				
Advance to Water Unit	-	5,000,000	-	5,000,000
Other assets				
Special assessments	1,037	3,333	-	4,370
Unbilled assessments	3,033,073	2,649,318	-	5,682,391
Restricted pension asset - Wisconsin Retirement System	590,010	595,717	5,875	1,191,602
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	878,572	1,272,737	-	2,151,309
Construction in progress	1,664,033	12,183,157	5,413	13,852,603
Capital assets being depreciated:				
Revenue producing and service equipment	19,737,483	30,829,654	-	50,567,137
Buildings and structures	90,284,987	98,718,725	76,398	189,080,110
Office furnishings, shop equipment, and other	3,657,661	4,923,497	832	8,581,990
Less accumulated depreciation	(39,984,483)	(63,139,335)	(21,327)	(103,145,145)
Total capital assets, net of accumulated depreciation	<u>76,238,253</u>	<u>84,788,435</u>	<u>61,316</u>	<u>161,088,004</u>
Total noncurrent assets	<u>79,862,373</u>	<u>93,036,803</u>	<u>67,191</u>	<u>172,966,367</u>
Total assets	<u>\$ 94,373,855</u>	<u>\$ 109,728,577</u>	<u>\$ 461,220</u>	<u>\$ 204,563,652</u>
Deferred Outflow of Resources				
Deferred pension resources	\$ 554,623	\$ 559,988	\$ 5,522	\$ 1,120,133
Liabilities				
Current liabilities:				
Accounts payable	\$ 179,699	\$ 579,813	\$ 12,930	\$ 772,442
Accrued liabilities	37,235	2,610	-	39,845
Accrued property taxes	2,363,371	-	-	2,363,371
Current portion of accrued compensated absences	33,580	36,363	-	69,943
Current portion of long-term obligations	2,250,000	92,749	-	2,342,749
Current portion of advance from City of Kenosha	38,210	38,857	-	77,067
Due to City of Kenosha	660,725	662,211	2,051	1,324,987
Due to City of Kenosha - Storm Water Utility collections	-	317,013	-	317,013
Other current liabilities	26,079	43,132	-	69,211
Total current liabilities	<u>5,588,899</u>	<u>1,772,748</u>	<u>14,981</u>	<u>7,376,628</u>
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	326,844	192,264	-	519,108
Worker's compensation accrued liability	236,959	153,127	-	390,086
Other postemployment benefits	755,703	698,725	-	1,454,428
Advance from City of Kenosha	130,441	132,651	-	263,092
Advance from Sewerage Unit	5,000,000	-	-	5,000,000
Revenue bonds payable (net of unamortized discounts)	7,200,296	-	-	7,200,296
Clean Water Fund loans	-	401,335	-	401,335
Total noncurrent liabilities	<u>13,650,243</u>	<u>1,578,102</u>	<u>-</u>	<u>15,228,345</u>
Total liabilities	<u>19,239,142</u>	<u>3,350,850</u>	<u>14,981</u>	<u>22,604,973</u>
Net Position				
Net investment in capital assets	69,173,253	84,294,351	61,316	153,528,920
Restricted for debt service	6,165,705	2,832,390	-	8,998,095
Restricted for pension	590,010	595,717	5,875	1,191,602
Unrestricted	(239,632)	19,215,257	384,570	19,360,195
Total net position	<u>\$ 75,689,336</u>	<u>\$ 106,937,715</u>	<u>\$ 451,761</u>	<u>\$ 183,078,812</u>

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

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year ended December 31, 2015

	<u>Water unit</u>	<u>Sewerage unit</u>	<u>Household hazardous waste unit</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 11,783,417	\$ 10,248,301	\$ 167,353	\$ 22,199,071
Miscellaneous	2,262,596	2,007,899	18,120	4,288,615
Total operating revenues	<u>14,046,013</u>	<u>12,256,200</u>	<u>185,473</u>	<u>26,487,686</u>
Operating expenses:				
General and administrative	2,471,204	2,442,803	-	4,914,007
Operations and maintenance	4,390,161	6,404,149	171,308	10,965,618
Depreciation	2,776,244	2,200,467	3,064	4,979,775
Total operating expenses	<u>9,637,609</u>	<u>11,047,419</u>	<u>174,372</u>	<u>20,859,400</u>
Operating income	<u>4,408,404</u>	<u>1,208,781</u>	<u>11,101</u>	<u>5,628,286</u>
Nonoperating revenues (expenses):				
Investment income	12,356	188,016	202	200,574
Interest expense	(711,322)	(26,613)	-	(737,935)
Miscellaneous	68,722	29,129	-	97,851
Total nonoperating revenue (expenses)	<u>(630,244)</u>	<u>190,532</u>	<u>202</u>	<u>(439,510)</u>
Increase in net position before capital contributions and transfers	3,778,160	1,399,313	11,303	5,188,776
Capital contributions	2,043,766	1,117,068	-	3,160,834
Transfers out	<u>(2,310,740)</u>	<u>(52,631)</u>	<u>-</u>	<u>(2,363,371)</u>
Increase in net position	3,511,186	2,463,750	11,303	5,986,239
Net position at beginning of year	71,046,071	103,330,935	429,186	174,806,192
Prior period adjustment	1,132,079	1,143,030	11,272	2,286,381
Net position at beginning of year (restated)	72,178,150	104,473,965	440,458	177,092,573
Net position at end of year	<u>\$ 75,689,336</u>	<u>\$ 106,937,715</u>	<u>\$ 451,761</u>	<u>\$ 183,078,812</u>

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

Schedule of Capital Assets
Water Unit

Year ended December 31, 2015

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital assets not being depreciated:				
Land and land improvements	\$ 878,572	\$ -	\$ -	\$ 878,572
Construction in progress	1,488,353	1,508,558	1,332,878	1,664,033
Total capital assets not being depreciated	<u>2,366,925</u>	<u>1,508,558</u>	<u>1,332,878</u>	<u>2,542,605</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,616,592	291,184	170,293	19,737,483
Buildings and structures	87,161,292	3,253,150	129,455	90,284,987
Office furnishings, shop equipment, and other	3,442,560	333,274	118,173	3,657,661
Total capital assets being depreciated	<u>110,220,444</u>	<u>3,877,608</u>	<u>417,921</u>	<u>113,680,131</u>
Less accumulated depreciation:				
Revenue producing and service equipment	12,679,143	1,029,297	170,293	13,538,147
Buildings and structures	22,605,530	1,552,040	95,199	24,062,371
Office furnishings, shop equipment, and other	2,294,733	194,907	105,675	2,383,965
Total accumulated depreciation	<u>37,579,406</u>	<u>2,776,244</u>	<u>371,167</u>	<u>39,984,483</u>
Total capital assets being depreciated, net	<u>72,641,038</u>	<u>1,101,364</u>	<u>46,754</u>	<u>73,695,648</u>
Total capital assets, net	<u>\$ 75,007,963</u>	<u>\$ 2,609,922</u>	<u>\$ 1,379,632</u>	<u>\$ 76,238,253</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>	
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>9,325,000</u>	\$ <u>518,550</u>	\$ <u>518,550</u>	\$ <u>10,362,100</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>	
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>168,651</u>	\$ <u>12,486</u>	\$ <u>7,774</u>	\$ <u>188,911</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, 2015 and 2014

	2015	2014
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,738,762	\$ 5,588,167
Commercial	2,667,754	2,606,107
Industrial	858,005	836,947
Public	299,690	285,807
Irrigation	4,752	4,233
Total metered sales	9,568,963	9,321,261
Flat rate sales to general customers	9,457	10,992
Private fire protection	165,072	149,898
Public fire protection	1,325,246	1,293,947
Sales to other municipalities	2,204,997	1,726,877
Total sales of water	13,273,735	12,502,975
Penalties	166,821	172,875
Allocated services	142,906	142,968
Other	462,551	368,901
Total operating revenues	14,046,013	13,187,719
Operating expenses:		
Source of supply:		
Maintenance of lake intake	-	331
Miscellaneous	22,177	30,875
Total source of supply	22,177	31,206
Power and pumping:		
Operations:		
Supervision and engineering	115,176	109,814
Fuel and power purchased	779,772	863,868
Pumping labor and supplies	111,002	116,584
Miscellaneous	5,569	8,281
Maintenance:		
Structures and improvements	24,195	34,418
Power production equipment	4,120	67,128
Pumping equipment	86,599	81,397
Total power and pumping	1,126,433	1,281,490

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, 2015 and 2014

	2015	2014
Water treatment:		
Operations:		
Supervision and engineering	\$ 56,307	\$ 53,017
Labor and supplies	286,874	258,935
Lead testing program	-	1,889
Chemicals	135,171	149,217
Structures and improvements	91,496	86,739
Treatment equipment	523,797	522,855
Miscellaneous	34,420	49,055
Total water treatment	1,128,065	1,121,707
Transmission and distribution:		
Operations:		
Supervision and engineering	71,275	143,955
Transmission and distribution lines	49,456	57,574
Meters	63,180	69,795
Customer installation	35,107	38,392
Labor and equipment	534,367	488,431
Maintenance:		
Supervision and engineering	21,401	23,250
Distribution reservoirs and standpipes	105,171	35,876
Mains	874,461	1,294,151
Services	256,472	326,184
Meters	46,336	45,285
Hydrants	56,260	42,598
Total transmission and distribution	2,113,486	2,565,491
Total operations and maintenance	4,390,161	4,999,894
General and administrative:		
Customer accounting and collecting:		
Meter reading	60,249	71,768
Customer records and collection	306,358	331,435
Total customer accounting and collecting	366,607	403,203

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Administrative:		
Executive and general office	\$ 202,966	\$ 172,466
Office supplies	38,091	24,488
Outside services	189,100	185,104
Casualty and property insurance	78,190	73,365
Employee benefits and insurance	1,557,454	1,064,991
Miscellaneous	26,152	27,258
Regulatory commission	12,644	12,019
Total administrative	<u>2,104,597</u>	<u>1,559,691</u>
Total general and administrative	2,471,204	1,962,894
Depreciation	<u>2,776,244</u>	<u>2,738,808</u>
Total operating expenses	<u>9,637,609</u>	<u>9,701,596</u>
Operating income	<u>\$ 4,408,404</u>	<u>\$ 3,486,123</u>

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, 2015 and 2014

Local property taxes due to the City of Kenosha for the years ended December 31, 2015 and 2014 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	<u>2015</u>	<u>2014</u>
Gross book value – January 1:		
Plant and equipment	\$ 113,212,927	\$ 111,373,551
Materials and supplies	436,530	434,851
Total gross book value	<u>113,649,457</u>	<u>111,808,402</u>
Less plant outside municipal boundaries	<u>(6,451,929)</u>	<u>(6,508,423)</u>
Assessable plant	107,197,528	105,299,979
Assessment ratio	<u>0.962109</u>	<u>0.981709</u>
Assessed value of property	103,135,706	103,373,937
Local and school share of tax rate (per thousand)	<u>22.915162</u>	<u>22.853870</u>
Computed tax equivalent (floor = \$1,033,306)	<u>\$ 2,363,371</u>	<u>\$ 2,362,495</u>

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

Schedule of Capital Assets
Sewerage Unit

Year ended December 31, 2015

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,272,206	\$ 531	\$ -	\$ 1,272,737
Construction in progress	2,793,732	10,048,060	658,635	12,183,157
Total capital assets not being depreciated	<u>4,065,938</u>	<u>10,048,591</u>	<u>658,635</u>	<u>13,455,894</u>
Capital assets being depreciated:				
Revenue producing and service equipment	30,635,633	249,465	55,444	30,829,654
Buildings and structures	97,435,184	1,389,577	106,036	98,718,725
Office furnishings, shop equipment, and other	4,986,775	119,808	183,086	4,923,497
Total capital assets being depreciated	<u>133,057,592</u>	<u>1,758,850</u>	<u>344,566</u>	<u>134,471,876</u>
Less accumulated depreciation:				
Revenue producing and service equipment	27,279,377	698,315	55,444	27,922,248
Buildings and structures	31,616,781	1,299,336	106,036	32,810,081
Office furnishings, shop equipment, and other	2,376,342	202,816	172,152	2,407,006
Total accumulated depreciation	<u>61,272,500</u>	<u>2,200,467</u>	<u>333,632</u>	<u>63,139,335</u>
Total capital assets being depreciated, net	<u>71,785,092</u>	<u>(441,617)</u>	<u>10,934</u>	<u>71,332,541</u>
Total capital assets, net	\$ <u><u>75,851,030</u></u>	\$ <u><u>9,606,974</u></u>	\$ <u><u>669,569</u></u>	\$ <u><u>84,788,435</u></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>	
2016	92,749	7,829	6,359	106,937
2017	95,688	6,359	4,843	106,890
2018	98,721	4,843	3,278	106,842
2019	101,849	3,279	1,665	106,793
2020	105,077	1,665	-	106,742
Totals	\$ <u>494,084</u> \$	\$ <u>23,975</u> \$	\$ <u>16,145</u> \$	\$ <u>534,204</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>	
2016	38,857	4,792	3,820	47,469
2017	41,537	3,820	2,679	48,036
2018	44,217	2,678	1,407	48,302
2019	46,897	1,407	-	48,304
Totals	\$ <u>171,508</u>	\$ <u>12,697</u>	\$ <u>7,906</u>	\$ <u>192,111</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, 2015 and 2014

	2015	2014
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 4,365,422	\$ 4,298,136
Commercial	2,241,532	2,177,289
Industrial	1,034,706	1,001,044
Public	206,191	205,673
Total sales to general customers	7,847,851	7,682,142
Sales to other municipalities	2,400,450	2,423,564
Industrial waste monitoring	100,071	82,156
Engineering services	1,427,361	1,471,849
Waste haulers	263,869	278,933
Penalties	130,463	138,871
Other	86,135	86,606
Total operating revenues	12,256,200	12,164,121
Operating expenses:		
Wastewater treatment:		
Operations:		
Supervision and labor	410,829	394,734
Chemicals	462,481	528,964
Power	655,439	622,675
Sludge handling	434,498	439,717
Maintenance:		
Supervision and labor	278,673	202,086
Treatment equipment	759,305	541,051
Structures and improvements	241,957	106,163
Transportation expense	100,404	88,615
Total wastewater treatment	3,343,586	2,924,005
Collection system:		
Collection	518,617	570,291
Equalization basin and pump station	110,955	139,231
Cleaning and inspection	440,609	477,346
Lift station equipment	240,307	200,281
Monitoring equipment	9,884	7,934
Total collection system	1,320,372	1,395,083
Laboratory operations:		
Labor and supplies	282,134	274,756
Industrial waste monitoring	65,228	58,823
Total laboratory operations	347,362	333,579
Engineering services	1,392,829	1,430,656
Total operation and maintenance	6,404,149	6,083,323

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, 2015 and 2014

	2015	2014
General and administrative:		
Customer accounting and collecting:		
Meter reading	\$ 60,249	\$ 71,768
Customer records and collection	280,162	308,041
Total customer accounting and collecting	340,411	379,809
Administrative:		
Salaries	272,703	219,998
Outside services	290,718	300,310
Office supplies	38,629	42,367
Accidents and damages	143,692	(2,563)
Insurance and employee benefits	1,033,694	1,111,080
Meter operation	322,956	325,645
Total administrative	2,102,392	1,996,837
Total general and administrative	2,442,803	2,376,646
Loss on sale of equipment	-	211,185
Depreciation	2,200,467	2,126,884
Total operating expenses	11,047,419	10,798,038
Operating income	\$ 1,208,781	\$ 1,366,083

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

Schedule of Capital Assets
Household Hazardous Waste Unit
Year ended December 31, 2015

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 5,413	\$ -	\$ 5,413
Total capital assets not being depreciated	<u>-</u>	<u>5,413</u>	<u>-</u>	<u>5,413</u>
Capital assets being depreciated:				
Buildings and structures	76,398	-	-	76,398
Office furnishings, shop equipment, and other	832	-	-	832
Total capital assets being depreciated	<u>77,230</u>	<u>-</u>	<u>-</u>	<u>77,230</u>
Less accumulated depreciation:				
Buildings and structures	17,439	3,056	-	20,495
Office furnishings, shop equipment, and other	824	8	-	832
Total accumulated depreciation	<u>18,263</u>	<u>3,064</u>	<u>-</u>	<u>21,327</u>
Total capital assets, net	<u>\$ 58,967</u>	<u>\$ 2,349</u>	<u>\$ -</u>	<u>\$ 61,316</u>