

MEMORANDUM

DATE: May 14, 2015

TO: Daniel Duchniak, General Manager

FROM: Donna Scholl, CPA
Administrative Services Manager

RE: Audited Financial Statements

A representative from Baker Tilly will be here on May 21st to present to the Commission the Audited Financial Statements and the Management Letter.

Again this year, the report states that the financial statements fairly represent the financial activities and position of the Utility.

I look forward to listening to their presentation and will be happy to address any questions that might arise.

WAUKESHA WATER UTILITY

Waukesha, Wisconsin

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2014

WAUKESHA WATER UTILITY

TABLE OF CONTENTS

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Internal Control Over Financial Reporting	2
Other Communications to Those Charged with Governance	
Two Way Communication Regarding Your Audit	3 – 4
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	5 – 6
Required Communications by the Auditor to Those Charged with Governance	7 – 10
Management Representations	

**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Commissioners
Waukesha Water Utility Commission
Waukesha, WI

In planning and performing our audit of the financial statements of Waukesha Water Utility as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Waukesha Water Utility's internal control to be a material weakness:

> Internal Control Over Financial Reporting

This communication is intended solely for the information and use of management, the commission, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 11, 2015

INTERNAL CONTROL OVER FINANCIAL REPORTING

Auditing standards require that we perform procedures to obtain an understanding of your utility and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the utility's year-end financial reporting process and preparation of your financial statements.

Properly designed systems of internal control provides your organization with the ability to process and record monthly and year end transactions and prepare annual financial reports.

Our audit includes a review and evaluation of the utility's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout and at the end of the year.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements including footnotes are prepared.
- > Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare financial statements.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.
- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the utility commission has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal or state awards?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the utility concerning:

- a. The utility's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

CURRENT YEAR RECOMMENDATIONS

RESTRICTED CASH

The utility is required to maintain certain segregated investment accounts in relation to the outstanding revenue bond resolution covenants. As of December 31, 2014 both the reserve and redemption accounts appear to be overfunded as a result of recent refundings of old revenue bonds and an increased use of general obligation bonds. We recommend that management work with the utility's bond advisor to determine the current required balance in each account and the commission considers the appropriate classification of any excess funds as designated or unrestricted.

CYBER RISK

Information security is a growing concern for many organizations and is no longer considered to be strictly an Information Technology (IT) issue. If your government is the victim of a security breach, the impacts can be financial, operational, and reputational. Cyber risk should be a high priority and evaluated on a regular basis.

Security breaches can come in a number of forms, which are constantly evolving with advances in and increased use of technology. It is important for governments to assess what types of information they have that would be vulnerable to cyber-attack. Does your organization process, collect, and/or store personal information about employees or customers? Information related to social security numbers, bank accounts, addresses, medical information, birth dates, and credit cards is common for governments. It is important to take inventory of all of the personal information that flows through your systems in order to properly secure your data.

Certain types of personal information are required to be protected in prescribed ways. If you are required to comply with the Health Insurance Portability and Accountability Act (HIPAA) or Payment Card Industry Data Security Standards (PCI DSS), there should be a designated individual within management that should be familiar with and oversee compliance in these areas.

Outsourcing portions of your data processing can remove personal information from your system; however, outsourcing does not remove your responsibility for oversight of this data. If customer or employee data is hacked while with the third-party vendor, your organization can still be responsible. Certain vendors have a Statement on Standards for Attestation Engagements 16 report (SSAE 16 report) that provide you with information about that vendor's internal controls, including data security, and an independent assessment on whether those controls are effective. In addition, any vendors providing PCI DSS services for your organization should be able to provide a certificate of compliance annually upon request. There should be a designated individual within management that is responsible for monitoring information with a third-party service provider at least annually.

Finally, we recommend that you have an incident response plan developed and practiced so that you are prepared in the event of a data breach.

GASB 67 AND 68

The Wisconsin Department of Employee Trust Funds sent an Employer Bulletin ("Bulletin") to all Wisconsin Retirement System Employers related to the new GASB pension reporting requirements. The Bulletin was dated December 1, 2014 (Vol.31, No. 16).

As noted in the Bulletin, GASB 67 affects the Wisconsin Retirement System ("WRS" or "the Plan") for its year ended December 31, 2014. GASB 68 affects the employers participating in the Plan. GASB 68 will affect your organization as of December 31, 2015.

CURRENT YEAR RECOMMENDATIONS (cont.)

GASB 67 AND 68 (cont.)

WRS has represented that it will provide general information necessary for employers to implement GASB 68. There will be a significant impact on your financial statements including:

- > Your organization's proportionate share of the WRS' net pension asset or liability will be reported in your full-accrual funds for the first time.
- > The net pension asset or liability should be allocated to the full-accrual funds that are expected to make payments toward this liability.
- > The footnote disclosures will have significant changes.

We are available to assist you with the implementation of this new standard.

WISCONSIN ACT 274 IMPLEMENTATION

During 2013 the Wisconsin legislature passed Act 274 which revised the law applicable to residential tenants' delinquent utility charges. This legislation preserved the ability of municipal utilities to use the tax roll for collecting delinquent utility charges; however, there are some new requirements that the utility will need to comply with in order to utilize this collection method for residential tenant accounts. The requirements include additional disclosures and notifications to property owners (landlords). At this time, management should consider if the billing system can be used to enhance the efficiency of these notifications as well as the data required for amounts ultimately transferred to the tax roll. Additional information on this legislation can be found at http://www.lwm-info.org/vertical/sites/%7B92F7D640-E25A-4317-90AD-4976378A8F8D%7D/uploads/2013_Wisconsin_Act_274_FAQ_Packet.pdf.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Commissioners
Waukesha Water Utility Commission
Waukesha, WI

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Waukesha Water Utility for the year ended December 31, 2014, and have issued our report thereon dated May 11, 2015. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the commission of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have an obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters.

To the Commissioners
Waukesha Water Utility Commission

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Waukesha Water Utility are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Waukesha Water Utility during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of other post employment benefits is calculated based upon information provided by actuaries contracted by the city. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of unbilled revenues for January billings is based on the actual 2015 billings. Unbilled revenue related to 2015 February and March billings are based on 2014 billings. We evaluated the key factors and assumptions used to develop the unbilled revenue estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

There were no such misstatements identified.

To the Commissioners
Waukesha Water Utility Commission

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. That letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Waukesha Water Utility that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Waukesha Water Utility for the year ended December 31, 2014, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Waukesha Water Utility in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Waukesha Water Utility other than audit services provided in connection with the audit of the current year's financial statements and the following nonaudit services which in our judgment do not impair our independence.

- > Financial statement preparation

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Waukesha Water Utility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Commissioners
Waukesha Water Utility Commission

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

RESTRICTION ON USE

This information is intended solely for the use of those charged with governance and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 11, 2015

MANAGEMENT REPRESENTATIONS



Waukesha Water Utility

SERVING WAUKESHA SINCE 1886

115 DELAFIELD STREET
WAUKESHA, WI 53188-3615

Telephone: (262) 521-5272 • Fax: (262) 521-5265 • E-mail: contactus@waukesha-water.com

May 11, 2015

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Waukesha Water Utility as of December 31, 2014 and 2013 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Waukesha Water Utility and the respective changes in financial position and cash flows, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the utility required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
9. Guarantees, whether written or oral, under which the utility is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
14. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
15. There are no known related parties or related party relationships and transactions of which we are aware.

Other

16. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
17. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
18. We have a process to track the status of audit findings and recommendations.

19. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

20. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

21. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

a. Financial statement preparation

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

22. The Waukesha Water Utility has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

23. The Waukesha Water Utility has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

24. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

25. The Waukesha Water Utility has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

26. Provisions for uncollectible receivables have been properly identified and recorded.

27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

28. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

29. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

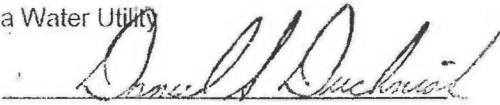
30. Tax-exempt bonds issued have retained their tax-exempt status.

31. We have appropriately disclosed the Waukesha Water Utility's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
32. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
33. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
34. We assume responsibility for, and agree with, the findings of specialists in evaluating the other postemployment benefit and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

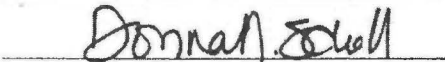
Sincerely,

Waukesha Water Utility

Signed:



Signed:



WAUKESHA WATER UTILITY

An Enterprise Fund of the
City of Waukesha, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

WAUKESHA WATER UTILITY

An Enterprise Fund of the City of Waukesha, Wisconsin

TABLE OF CONTENTS

As of and for the Years Ended December 31, 2014 and 2013

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 8
Financial Statements	
Statements of Net Position	9 - 10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 33
Required Supplementary Information	
Schedule of Funding Progress - Other Postemployment Benefits	34
Supplemental Information	
Utility Plant	35
Operating Revenues and Expenses	36 - 37

INDEPENDENT AUDITORS' REPORT

To the Utility Commission
Waukesha Water Utility
Waukesha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Waukesha Water Utility, an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waukesha Water Utility'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 Waukesha Water Utility'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 Waukesha Water Utility as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Utility Commission
Waukesha Water Utility

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Waukesha Water Utility enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2014 and 2013 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental utility plant, and operating revenues and expenses schedules as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental utility plant, and operating revenues and expenses schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

The management of Waukesha Water Utility (Utility) offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2014 and 2013. You are invited to read this narrative in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total net position increased by \$1,172,000 to \$70,605,000 in 2014, an increase of 1.69%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.
- ❖ Operating revenues, generated mostly by rate payers, in 2014 decreased by \$176,000 or 1.57%. Conservation programs and weather conditions have contributed to the decreased water usage.
- ❖ Operating expenses increased by \$570,000 or 7.94% as a result of the harsh 2013-2014 winter conditions. A record number of frozen services required repair in the first few months of 2014.
- ❖ Year-end Cash and Equivalents increased by \$5,186,000 in 2014 due to two things; an increase in cash from operating activities and from a borrowing that was yet to be spent on capital related activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Utility is a self-supporting entity and an enterprise fund of the City of Waukesha (municipality). The Utility provides water services to properties within the municipality and also provides water services to certain areas outside the municipality. The Utility also provides metering and billing services for the City's Sewer Department.

The Utility is managed by a Commission. The Water Utility operates under service rules and rates that are established by the PSCW. Accounting records for the Utility are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW and in accordance with the Governmental Accounting Standards Board.

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.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Utility report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility's user charges are sufficient.

See accompanying independent Auditor's Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and 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.

UTILITY FINANCIAL ANALYSIS

An analysis of the Utility's financial position begins with a review of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. These two statements report the Utility's net assets and changes therein. The Utility's net assets (the difference between assets and liabilities) are key to measuring the financial health of the Utility. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that financial position could also be affected by other non-financial factors including economic conditions, population growth and new regulations. The Utility's overall financial position has improved for the years ended December 31, 2014 and 2013.

NET POSITION

A summary of the Utility's *Statement of Net Position* is presented below in Table 1.

Table 1
Condensed Statement of Net Position
2014, 2013, and 2012
(000's)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v. 2013</u>		<u>2013 v. 2012</u>	
				Change		Change	
Current Assets	\$ 18,997	\$15,379	\$ 8,500	\$3,618	23.53 %	\$6,879	80.93 %
Net Capital Assets	75,526	73,729	71,131	\$1,797	2.44	2,598	3.65
Other Noncurrent Assets	<u>6,833</u>	<u>5,555</u>	<u>7,979</u>	<u>1,278</u>	<u>23.01</u>	<u>(2,424)</u>	<u>(30.38)</u>
Total Assets	\$101,356	\$94,663	\$87,610	6,693	7.07	7,053	8.05
Deferred Outflows of Resources	549	596	-	(47)	(7.89)	596	-
Long Term Debt Outstanding	23,466	18,842	14,745	4,624	24.54	4,097	27.79
Other Liabilities	<u>7,834</u>	<u>6,984</u>	<u>5,828</u>	<u>850</u>	<u>12.17</u>	<u>1,156</u>	<u>19.84</u>
Total Liabilities	31,300	25,826	20,573	5,474	21.20	5,253	25.53
Net Investment in Capital Assets	55,083	56,478	60,861	(1,395)	(2.47)	(4,383)	(7.20)
Restricted Assets	608	406	303	202	49.75	103	33.99
Unrestricted Assets	<u>14,914</u>	<u>12,549</u>	<u>5,873</u>	<u>2,365</u>	<u>18.85</u>	<u>6,676</u>	<u>113.67</u>
Total Net Position	<u>\$ 70,605</u>	<u>\$69,433</u>	<u>\$67,037</u>	<u>\$1,172</u>	1.69 %	<u>\$2,396</u>	3.57 %

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

As shown in Table 1, total net position increased by \$1,172,000 to \$70,605,000 in 2014, an increase of 1.69%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.

Total net position increased by \$2,396,000 to \$69,433,000 in 2013, an increase of 3.57%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.

The restricted portion of the net position includes accounts that are limited by bond covenants.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The specific nature or source of changes in net assets becomes more evident in the Utility's *Statements of Revenues, Expenses and Changes in Net Position* as shown in Table 2. This statement provides an indication of the Utility's financial health.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position
2014, 2013, and 2012
(000's)

	2014	2013	2012	2014 v. 2013 Change		2013 v. 2012 Change	
Operating Revenues	\$ 11,014	\$ 11,190	\$ 10,550	(176)	(1.57) %	\$ 640	6.07 %
Non-operating Revenues	178	182	53	(4)	(2.20)	129	243.40
Total Revenues	11,192	11,372	10,603	(180)	(1.58)	769	7.25
Depreciation Expense	2,234	2,157	2,113	77	3.57	44	2.08
Other Operating Expense	5,513	5,021	4,718	492	9.80	303	6.42
Non-operating Expense	775	756	538	19	2.51	218	40.52
Total Expense	8,522	7,934	7,369	588	7.41	565	7.67
Income before Capital Contributions and Transfers	2,670	3,438	3,234	(768)	(22.34)	204	6.31
Capital Contributions	291	646	253	(355)	(54.95)	393	155.34
Capital Contributions - Municipal	1	4	60	(3)	(75.00)	(56)	(93.33)
Transfers - Tax Equivalent	(1,790)	(1,692)	(1,662)	(98)	5.79	(30)	1.81
Changes in Net Assets	1,172	2,396	1,885	(1,224)	(51.09)	511	27.11
Beginning Net Assets	69,433	67,037	65,152	2,396	3.57	1,885	2.89
Ending Net Assets	\$ 70,605	\$ 69,433	\$ 67,037	1,172	1.69 %	2,396	3.57 %

Operating revenues in 2014 decreased by \$176,000 or 1.57%. The residential conservation program and the cooler, wetter summer were the main factors for the decrease. Non-operating revenues have remained fairly constant in 2014 when compared to 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

Operating revenues in 2013 increased by \$640,000 or 6.07%. An increase in rates was granted by the PSCW effective July 11, 2012 and it was in affect for the full year of 2013. Non-operating revenues increased by \$129,000 due primarily to a cell tower lease termination fee and more capitalized interest being recognized as revenue.

Depreciation expense in 2014 increased by \$77,000 with the addition of capital assets. Other operating expenses increased by 9.8% as a result of the record number of frozen services and the harsh winter weather conditions. Non-operating expenses increased 2.51% due to debt interest costs.

Depreciation expense in 2013 increased by \$44,000 because of additions to depreciable assets. Other operating expenses increased by 6.42% as a result of overall inflation and a full year of amortized costs associated with preliminary studies of an alternate water supply. Non-operating expenses increased because of the costs associated with debt issuance.

Capital contributions decreased in 2014 by \$355,000 or 54.95 % due to fewer developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$98,000.

Capital contributions increased in 2013 by \$393,000 or 155.94 % due to several developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$30,000.

CASH FLOWS

The *Statement of Cash Flows*, illustrated in Table 3, reports the cash provided and used by operating activities, as well as other cash sources and uses derived from financing and investment activities.

Table 3
Condensed Statement of Cash Flows
2014, 2013, and 2012
(000's)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v. 2013</u>		<u>2013 v. 2012</u>	
				Change		Change	
Cash Flows From:							
Operating Activities	\$ 6,811	\$ 7,453	\$ 5,925	\$ (642)	(8.61) %	\$ 1,528	25.79 %
Paid to Municipality - Tax Equivalent	(1,692)	(1,662)	(1,359)	(30)	1.81	(303)	22.30
Capital and Related Financing Activities	33	(1,437)	(61)	1,470	(102.30)	(1,376)	2,255.74
Investing Activities	<u>34</u>	<u>25</u>	<u>18</u>	<u>9</u>	<u>36.00</u>	<u>7</u>	<u>38.89</u>
Net Change in Cash and Equivalents	5,186	4,379	4,523	807	18.43	(144)	(3.18)
Cash and Equivalents Beginning of Year	<u>13,269</u>	<u>8,890</u>	<u>4,367</u>	<u>4,379</u>	<u>49.26</u>	<u>4,523</u>	<u>103.57</u>
Cash and Equivalents End of Year	<u>\$ 18,455</u>	<u>\$ 13,269</u>	<u>\$ 8,890</u>	<u>\$ 5,186</u>	<u>39.08 %</u>	<u>\$ 4,379</u>	<u>49.26 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

Year-end Cash and Equivalents increased by \$5,186,000 in 2014 due to two things; an increase in cash from operating activities and from a borrowing that was yet to be spent on capital related activity.

Year-end Cash and Equivalents increased by \$4,379,000 in 2013 due to two things; an increase in cash from operating activities and from a borrowing that was yet to be spent on capital related activity.

CAPITAL ASSETS

Table 4 summarizes the Utility's capital assets. Please refer to the *Notes to Financial Statements*, particularly the *Capital Assets* section of *Note 1 – Summary of Significant Accounting Policies* and *Note 5 – Changes in Capital Assets*, for further detail of the Utility's capital assets.

Table 4
Capital Assets
2014, 2013, and 2012
(000's)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v. 2013</u>		<u>2013 v. 2012</u>	
				Change		Change	
Land & Land Rights	\$ 1,001	\$ 458	\$ 458	\$ 543	118.56 %	-	0.00 %
Intangible	149	121	99	28	23.14	22	22.22
Source of Supply	2,592	2,592	2,628	-	-	(36)	(1.37)
Pumping	9,610	9,818	9,831	(208)	(2.12)	(13)	-0.13
Water Treatment	5,214	5,205	5,251	9	0.17	(46)	-0.88
Transmission and							
Distribution	78,211	73,198	71,419	5,013	6.85	1,779	2.49
General	<u>5,841</u>	<u>5,445</u>	<u>5,332</u>	<u>396</u>	<u>7.27</u>	<u>113</u>	<u>2.12</u>
Total Capital Assets	\$ 102,618	\$ 96,837	\$ 95,018	5,781	5.97	1,819	1.91
Accumulated Depreciation	(27,470)	(26,174)	(24,629)	(1,296)	4.95	(1,545)	6.27
Construction in Progress	<u>378</u>	<u>3,066</u>	<u>742</u>	<u>(2,688)</u>	<u>(87.67)</u>	<u>2,324</u>	<u>313.21</u>
Net Capital Assets	<u>\$ 75,526</u>	<u>\$ 73,729</u>	<u>\$ 71,131</u>	<u>\$ 1,797</u>	<u>2.44 %</u>	<u>\$ 2,598</u>	<u>3.65 %</u>

The Utility's capital assets increased by \$5.78 million, or 5.97%, in 2014. Developer contributions accounted for \$291,000. The balance is due to projects financed by the Utility and put into service (including those transferred out of construction in progress) and \$1.19 million in assets were retired.

The Utility's capital assets increased by \$1.8 million, or 1.91%, in 2013. Increases in developer contributions accounted for \$394,000. The balance is due to projects financed by the Utility and put into service (including those transferred out of construction in progress), while \$860,000 in assets were retired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

LONG-TERM DEBT

The Utility had revenue bonds of \$3.81 million and \$4.44 million (excluding the Safe Drinking Water Loan) outstanding as of December 31, 2014 and 2013, respectively. These issues were for various construction projects that involved five wells, upgraded treatment facilities, and a larger tower. A Safe Drinking Water Loan was secured by a revenue bond in 2013 with an outstanding balance of \$1.07 million as of December 31, 2014. This loan was used to finance a capital improvement project necessary to secure an alternate source of water. General Obligation debt of \$4,600,000 in 2014 and \$10,085,000 in 2013 was issued by the City on behalf of the Utility. The 2014 issue was used to fund capital replacement and the search for an alternate source of supply. The 2013 issue was used to retire and advance refund revenue bonds, fund capital replacement and the search for an alternate source of supply.

Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aaa" to the Utility's most recent issue of revenue bonds. For further detail, please refer to *Note 6 – Long Term Obligations* in the *Notes for Financial Statements*.

ECONOMIC FACTORS AND FUTURE PLANNING

The Utility's service area is located in southeast Wisconsin. Waukesha County is the third largest county in the State. The service area was experiencing a commercial and residential boom prior to the economic down turn in late 2008. The economy began to stabilize in 2012 and has continued to improve since.

The Utility maintains a five year financial plan that focuses on identifying and implementing improvements. This plan coordinates with the City of Waukesha's Master Plan. Rate structures are reviewed on a consistent basis to ensure that customers are provided with high quality water, in the amounts they need and at a fair price. An inclining rate structure has been implemented in order to promote conservation.

Declining water levels and water quality, coupled with increasing water demand, have created the need to investigate alternative water sources. The current water supply situation is not critical. However, it is apparent that the long term solution will require an unprecedented investment in infrastructure.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Donna Scholl, Administrative Services Manager, Waukesha Water Utility, 115 Delafield Street, Waukesha, Wisconsin 53188-3615, by phone at (262) 409-4420, or by email dscholl@waukesha-water.com.

WAUKESHA WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2014 and 2013

	ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS			
Cash and investments		\$ 8,320,515	\$ 5,140,016
Other special accounts		4,981,498	4,846,094
Restricted Assets			
Redemption account		652,350	456,688
Customer accounts receivable		3,058,744	3,037,341
Unbilled revenues		1,444,773	1,446,588
Other accounts receivable		15,064	13,820
Materials and supplies		347,229	306,060
Prepayments		127,208	87,107
Conservation programs		<u>49,873</u>	<u>45,147</u>
Total Current Assets		<u>18,997,254</u>	<u>15,378,861</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		800,859	800,578
Capital improvement account		3,699,660	2,025,327
Other Assets			
Preliminary survey and investigation		2,332,895	2,729,400
Capital Assets			
Plant in service		102,617,495	96,837,270
Accumulated depreciation		(27,470,095)	(26,174,465)
Construction work in progress		<u>378,184</u>	<u>3,066,298</u>
Total Noncurrent Assets		<u>82,358,998</u>	<u>79,284,408</u>
 Total Assets		 <u>101,356,252</u>	 <u>94,663,269</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on advance refunding		<u>549,232</u>	<u>595,975</u>

WAUKESHA WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Sales of water	\$ 10,526,998	\$ 10,719,322
Other	<u>487,460</u>	<u>470,348</u>
Total Operating Revenues	<u>11,014,458</u>	<u>11,189,670</u>
OPERATING EXPENSES		
Operation and maintenance	5,513,371	5,020,548
Depreciation	<u>2,234,140</u>	<u>2,157,197</u>
Total Operating Expenses	<u>7,747,511</u>	<u>7,177,745</u>
OPERATING INCOME	<u>3,266,947</u>	<u>4,011,925</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	34,495	24,973
Income from merchandising and jobbing	2,628	2,607
Other nonoperating revenues	4,630	81,396
Interest expense	(765,220)	(590,077)
Interest charged to construction	135,797	73,450
Amortization of premium	133,766	85,941
Amortization of loss on advance refunding	(46,743)	(31,162)
Miscellaneous expenses	-	(64)
Debt issuance costs	<u>(96,526)</u>	<u>(220,881)</u>
Total Nonoperating Revenues (Expenses)	<u>(597,173)</u>	<u>(573,817)</u>
Income Before Contributions and Transfers	2,669,774	3,438,108
CAPITAL CONTRIBUTIONS	290,922	646,412
CAPITAL CONTRIBUTIONS - MUNICIPAL	1,453	4,414
TRANSFERS - TAX EQUIVALENT	<u>(1,790,232)</u>	<u>(1,692,265)</u>
CHANGE IN NET POSITION	1,171,917	2,396,669
NET POSITION - Beginning of Year	<u>69,433,467</u>	<u>67,036,798</u>
NET POSITION - END OF YEAR	<u><u>\$ 70,605,384</u></u>	<u><u>\$ 69,433,467</u></u>

See accompanying notes to the financial statements.

WAUKESHA WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 11,223,159	\$ 11,560,807
Paid to suppliers for goods and services	(2,792,253)	(2,414,233)
Paid to employees for operating payroll	(1,620,062)	(1,693,112)
Net Cash Flows From Operating Activities	<u>6,810,844</u>	<u>7,453,462</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	<u>(1,692,265)</u>	<u>(1,662,142)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,638,202)	(5,772,137)
Cost of removal of capital assets	(107,389)	(13,805)
Salvage on retirement of plant	167,884	66,531
Capital contributions received	405,311	665,851
Restricted funds used for refunding	-	(595,834)
Premium on new debt	289,918	53,627
Debt retired	(5,723,767)	(1,025,000)
Interest paid	(651,214)	(546,756)
Proceeds from debt issue	10,387,090	5,755,512
Debt issuance costs	<u>(96,526)</u>	<u>(24,900)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>33,105</u>	<u>(1,436,911)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>34,495</u>	<u>24,973</u>
Net Change in Cash and Cash Equivalents	5,186,179	4,379,382
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>13,268,703</u>	<u>8,889,321</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 18,454,882</u></u>	<u><u>\$ 13,268,703</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	<u>\$ 28,239</u>	<u>\$ 21,863</u>
Refunding bonds issued	<u>\$ -</u>	<u>\$ 10,085,000</u>
Premium on refunding bonds net of interest (\$63,041) and issuance costs (\$158,038)	<u>\$ -</u>	<u>\$ 556,303</u>
Long-term debt refunded	<u>\$ -</u>	<u>\$ 10,610,000</u>
Interest charged to construction	<u>\$ 135,797</u>	<u>\$ 73,450</u>
Debt issuance costs written off	<u>\$ -</u>	<u>\$ 37,943</u>

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 3,266,947	\$ 4,011,925
Nonoperating revenue (expense)	7,258	83,939
Noncash items in operating income		
Depreciation	2,234,140	2,157,197
Depreciation charged to clearing and other utilities	188,751	195,044
Other post-employment benefit obligation	126,546	121,965
Amortization of preliminary survey and investigation	832,086	711,117
Changes in assets, deferred outflows and liabilities		
Customer accounts receivable	(19,588)	65,512
Materials and supplies	(41,169)	7,396
Prepayments	(40,101)	25,815
Conservation programs	(4,726)	(6,382)
Accounts payable	95,764	2,442
Customer deposits	32,280	65,349
Other current liabilities	2,049	(3,796)
Due to sewer utility	<u>130,607</u>	<u>15,939</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ 6,810,844</u></u>	<u><u>\$ 7,453,462</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 8,320,515	\$ 5,140,016
Redemption account	652,350	456,688
Reserve account	800,859	800,578
Depreciation account	3,699,660	2,025,327
Other special accounts	<u>4,981,498</u>	<u>4,846,094</u>
CASH AND CASH EQUIVALENTS	<u><u>\$ 18,454,882</u></u>	<u><u>\$ 13,268,703</u></u>

See accompanying notes to the financial statements.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Waukesha Water Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utility are described below.

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Waukesha (municipality). The utility is managed by a utility commission. The utility provides water service to properties within the municipality.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

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

Deposits and Investments

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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

Deposits and Investments (cont.)

Investment of utility funds is restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- > Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The local government investment pool.
- > Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- > Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- > Repurchase agreements with public depositories, with certain conditions.

The utility has adopted an investment policy. That policy follows the state statute for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

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

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

Materials and Supplies

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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

Restricted Assets

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

Conservation Programs

The balance represents the net of amounts spent on PSCW approved programs less the amount authorized in customer rates. The difference is carried from year to year and will be factored into future water rate cases.

Other Special Accounts

This account consists of investments set aside for various capital projects and payment of the utility tax equivalent as follows:

	<u>2014</u>	<u>2013</u>
Technology replacement account	\$ -	\$ 2,445
Equipment replacement account	2,643,500	3,160,912
Tax equivalent reserve	<u>2,337,998</u>	<u>1,682,737</u>
Totals	<u>\$ 4,981,498</u>	<u>\$ 4,846,094</u>

Prepayments

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance is being amortized over a four year period per PSCW instruction. The utility amortized \$832,086 and \$711,117 in 2014 and 2013, respectively.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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

Capital Assets

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$3,500 and an estimated useful life in excess of three years.

Capital assets of the utility are recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Water Plant	
Source of supply	34 - 55
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34

Deferred Outflow of Resources

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

Accrued Vacation Leave

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

Other Post-Employment Benefits

The utility provides postemployment health insurance benefits to all eligible employees. Eligibility is based on hire date. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. See note 9.

Customer Advances for Construction

The balance represents fees collected for future capital improvements. The fees may be refundable based on rules filed with the PSCW or statutory requirements.

Customer Deposits

This account represents amounts deposited with the utilities by customers as security for payments of bills.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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

Long-Term Obligations

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

REVENUES AND EXPENSES

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

Charges for Services

Billings are rendered and recorded monthly based on metered usage. The utility accrues revenues from the last billing dates through December 31.

Current water rates were approved by the PSCW effective July 11, 2012.

Capital Contributions

Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial reporting for Nonexchange Financial Guarantees*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2014	2013	
Checking, savings, and sweep	\$ 4,907,545	\$ 3,970,422	Custodial credit risk
Local Government Investment Pool	13,546,275	9,297,514	Credit risk
Petty cash	<u>1,062</u>	<u>767</u>	
Totals	<u>\$ 18,454,882</u>	<u>\$ 13,268,703</u>	

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

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

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

In addition, the utility has collateral or depository insurance agreements in the amount of \$5,482,508 and \$4,938,568 at December 31, 2014 and 2013 respectively.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

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

	2014		2013	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 5,212,582	\$ 4,054,092	\$ 3,365,381	\$ 3,092,710
Chase Bank	<u>853,452</u>	<u>853,452</u>	<u>877,712</u>	<u>877,712</u>
Totals	<u>\$ 6,066,034</u>	<u>\$ 4,907,544</u>	<u>\$ 4,243,093</u>	<u>\$ 3,970,422</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The utility held investments in the Local Government Investment Pool which is an external pool that is not rated. The utility's investment policy does not address this risk.

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2014 and 2013:

Due To	Due From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,790,232	Tax equivalent	\$ 1,692,265	Tax equivalent
Sewer Utility	Water Utility	1,986,614	Amounts billed for sewer utility	1,856,007	Amounts billed for sewer utility

The following is a schedule of transfer balances for the years ending December 31, 2014 and 2013:

To	From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,790,232	Tax equivalent	\$ 1,692,265	Tax equivalent

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Capital Improvement - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years ended December 31, 2014 and 2013

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position

The following calculation supports the amount of restricted net position:

	2014	2013
Restricted Assets		
Redemption account	\$ 652,350	\$ 456,688
Reserve account	800,859	800,578
Capital improvement account	<u>3,699,660</u>	<u>2,025,327</u>
Total Restricted Assets	<u>5,152,869</u>	<u>3,282,593</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	(800,859)	(800,578)
Capital improvement fund (construction account)	<u>(3,699,660)</u>	<u>(2,025,327)</u>
Total Restricted Assets Not Funded by Revenues	<u>(4,500,519)</u>	<u>(2,825,905)</u>
Current Liabilities Payable From Restricted Assets	<u>(44,244)</u>	<u>(50,874)</u>
Total Restricted Net Position as Calculated	<u>\$ 608,106</u>	<u>\$ 405,814</u>

The purpose of the restricted net position is as follows:

	2014	2013
Debt service	<u>\$ 608,106</u>	<u>\$ 405,814</u>

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 457,678	\$ 542,969	-	\$ 1,000,647
Intangible	<u>120,939</u>	<u>28,239</u>	-	<u>149,178</u>
Total Capital Assets Not Being Depreciated	<u>578,617</u>	<u>571,208</u>	-	<u>1,149,825</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets being depreciated				
Source of supply	\$ 2,591,773	\$ -	\$ -	\$ 2,591,773
Pumping	9,817,795	373,000	581,188	9,609,607
Water treatment	5,204,910	20,700	11,951	5,213,659
Transmission and distribution	73,198,804	5,517,351	504,813	78,211,342
General	5,445,371	485,722	89,804	5,841,289
Total Capital Assets Being Depreciated	96,258,653	6,396,773	1,187,756	101,467,670
Total Capital Assets	96,837,270	6,967,981	1,187,756	102,617,495
Less: Accumulated depreciation				
Source of supply	(1,369,495)	(63,236)	-	(1,432,731)
Pumping	(3,047,262)	(467,843)	615,831	(2,899,274)
Water treatment	(1,312,695)	(208,281)	11,951	(1,509,025)
Transmission and distribution	(16,764,519)	(1,439,461)	577,560	(17,626,420)
General	(3,680,494)	(411,955)	89,804	(4,002,645)
Total Accumulated Depreciation	(26,174,465)	(2,590,776)	1,295,146	(27,470,095)
Construction in progress	3,066,298	6,677,060	9,365,174	378,184
Net Capital Assets	\$ 73,729,103			\$ 75,525,584

A summary of changes in capital assets for 2013 follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated				
Land and land rights	\$ 457,678	\$ -	\$ -	\$ 457,678
Intangible	99,076	21,863	-	120,939
Total Capital Assets Not Being Depreciated	556,754	21,863	-	578,617
Capital assets being depreciated				
Source of supply	2,628,576	-	36,803	2,591,773
Pumping	9,830,780	141,198	154,183	9,817,795
Water treatment	5,250,969	11,792	57,851	5,204,910
Transmission and distribution	71,418,874	2,159,189	379,259	73,198,804
General	5,332,028	344,494	231,151	5,445,371
Total Capital Assets Being Depreciated	94,461,227	2,656,673	859,247	96,258,653
Total Capital Assets	95,017,981	2,678,536	859,247	96,837,270

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Less: Accumulated depreciation				
Source of supply	\$ (1,342,528)	\$ (63,770)	\$ 36,803	\$ (1,369,495)
Pumping	(2,825,742)	(377,623)	156,103	(3,047,262)
Water treatment	(1,161,215)	(209,331)	57,851	(1,312,695)
Transmission and distribution	(15,771,865)	(1,383,799)	391,145	(16,764,519)
General	(3,527,395)	(384,250)	231,151	(3,680,494)
Total Accumulated Depreciation	(24,628,745)	(2,418,773)	873,053	(26,174,465)
Construction in progress	741,625	5,087,017	2,762,344	3,066,298
Net Capital Assets	<u>\$ 71,130,861</u>			<u>\$ 73,729,103</u>

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/14
6/1/2001	Refund the 1994 and 1995 Bonds	10/1/2015	4.00-4.88%	\$ 4,405,000	\$ -
4/15/2006	Capital improvements	10/1/2026	4.00-5.00	7,865,000	655,000
4/22/2008	Capital improvements	10/1/2022	3.00-4.375	4,945,000	3,155,000
5/7/2013	Capital improvements	5/1/2033	1.925	1,117,601	1,073,834

The 2010 bonds were refinanced in 2013.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds (cont.)

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 707,347	\$ 183,409	\$ 890,756
2016	738,258	153,739	891,997
2017	419,187	123,476	542,663
2018	435,134	106,795	541,929
2019	451,099	89,458	540,557
2020-2024	1,575,635	181,182	1,756,817
2025-2029	297,706	39,519	337,225
2030-2033	<u>259,468</u>	<u>10,110</u>	<u>269,578</u>
Totals	<u>\$ 4,883,834</u>	<u>\$ 887,688</u>	<u>\$ 5,771,522</u>

All utility revenues are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2014 and 2013 were \$884,337 and \$955,547, respectively. Total customer gross revenues as defined for the same periods were \$11,048,953 and \$11,214,643. Annual principal and interest payments are expected to require 3% of gross revenues on average.

General Obligation Debt

The following general obligation notes have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/14</u>
5/7/2013	Note Anticipation Notes - capital improvements	7/1/2014	2.00%	\$ 4,700,000	\$ -
5/7/2013	2013 G.O. Refunding Bonds	10/01/2032	2.00 - 4.00	10,085,000	9,320,000
4/8/2014	2014 G.O Refunding Bonds	10/01/2033	2.00 - 4.25	4,600,000	4,600,000
4/8/2014	Note Anticipation Notes - capital improvements	7/1/2015	2.00	5,725,000	5,725,000

The 2013 note anticipation notes were refinanced in 2014.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

General obligation notes debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2015	\$ 6,080,000	\$ 708,976	\$ 6,788,976
2016	100,000	481,079	581,079
2017	-	479,079	479,079
2018	225,000	479,079	704,079
2019	735,000	474,579	1,209,579
2020-2024	5,420,000	1,972,899	7,392,899
2025-2029	4,475,000	925,144	5,400,144
2030-2033	2,610,000	231,388	2,841,388
Totals	<u>\$ 19,645,000</u>	<u>\$ 5,752,223</u>	<u>\$ 25,397,223</u>

While the 2014 note anticipation notes are due July 1, 2015 it is the utility's intent to refinance these notes. As such they have been presented as noncurrent in the statement of net position.

Long-Term Obligations Summary

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

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Revenue bonds	\$ 5,495,512	\$ 62,089	\$ 673,767	\$ 4,883,834	\$ 707,347
General obligation debt	14,370,000	10,325,000	5,050,000	19,645,000	355,000
Customer advances for construction	118,228	260,647	118,228	260,647	-
Unamortized premium on debt	806,802	289,918	133,765	962,955	-
Other post- employment benefits	<u>807,535</u>	<u>275,309</u>	<u>148,763</u>	<u>934,081</u>	<u>-</u>
Totals	<u>\$ 21,598,077</u>	<u>\$ 11,212,963</u>	<u>\$ 6,124,523</u>	<u>\$ 26,686,517</u>	<u>\$ 1,062,347</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary (cont.)

Long-term obligation activity for the year ended December 31, 2013 is as follows:

	<u>12/31/12 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 10,360,000	\$ 1,055,512	\$ 5,920,000	\$ 5,495,512	\$ 673,767
General obligation debt	5,300,000	14,785,000	5,715,000	14,370,000	350,000
Customer advances for construction	115,680	118,228	115,680	118,228	-
Unamortized premium on debt	61,734	873,634	128,566	806,802	-
Other post- employment benefits	<u>685,570</u>	<u>263,454</u>	<u>141,489</u>	<u>807,535</u>	<u>-</u>
Totals	<u>\$ 16,522,984</u>	<u>\$ 17,095,828</u>	<u>\$ 12,020,735</u>	<u>\$ 21,598,077</u>	<u>\$ 1,023,767</u>

Refunding

On May 7, 2013, bonds in the amount of \$10,085,000 were issued with an average interest rate of 3.0 % to refund \$970,000 of outstanding 2001 revenue bonds, \$4,340,000 of outstanding 2006 revenue bonds, and \$5,300,000 of outstanding note anticipation notes, with average interest rates of 4.88%, 4.75%, and 1.38%, respectively. The net proceeds were used to pay off the 2001 revenue bonds and the 2014 note anticipation notes, and to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the 2006 revenue bonds. As a result, that portion of the 2006 revenue bonds are considered defeased and the liability for that portion of the 2006 revenue bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$14,248,482 from 2013 through 2026. The cash flow requirements on the new bonds are \$15,424,175 from 2013 through 2032. The advance refunding resulted in an economic gain of \$207,434.

The 2001 revenue bonds and the 2014 note anticipation notes were callable May 17, 2013. The 2006 revenue bonds are callable on October 1, 2016. At December 31, 2014, \$4,340,000 of bonds outstanding are considered defeased.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the revenue bonds:

Insurance

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

The utility is covered under the following insurance policies at December 31, 2014:

Type	Coverage	Expiration
General Liability	\$ 1,000,000 each occurrence	7/1/15
General Liability	3,000,000 each occurrence and aggregate	7/1/15
Automobile	1,000,000	7/1/15
Umbrella Liability	10,000,000 aggregate	7/1/15
Workers Compensation	500,000	7/1/15

Debt Coverage

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.25 times the subsequent year debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2014 and 2013 as follows:

	2014	2013
Operating revenues	\$ 11,014,458	\$ 11,189,670
Investment income	34,495	24,973
Less: Operation and maintenance expenses	(5,513,371)	(5,020,548)
Net Defined Earnings	<u>\$ 5,535,582</u>	<u>\$ 6,194,095</u>
Minimum Required Earnings per Resolution:		
2006 revenue bonds subsequent year debt service	\$ 350,238	\$ 350,488
2008 revenue bonds subsequent year debt service	472,956	470,144
2013 SDWL revenue bonds subsequent year debt service	<u>67,562</u>	<u>63,493</u>
Subtotal	890,756	884,125
Coverage factor	<u>1.25</u>	<u>1.25</u>
Minimum Required Earnings	<u>\$ 1,113,445</u>	<u>\$ 1,105,156</u>
Actual Debt Coverage	<u>6.21</u>	<u>7.01</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2014 and 2013:

	Customers		Sales (000 gals)	
	2014	2013	2014	2013
Residential	17,479	17,398	949,014	980,206
Commercial	2,174	2,165	780,973	786,721
Industrial	146	146	270,877	266,539
Public authority	120	121	92,618	92,507
Totals	<u>19,919</u>	<u>19,830</u>	<u>2,093,482</u>	<u>2,125,973</u>

NOTE 7 - NET POSITION

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 7 - NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	2014	2013
Plant in service	\$ 102,617,495	\$ 96,837,270
Accumulated depreciation	(27,470,095)	(26,174,465)
Construction work in progress	378,184	3,066,298
Sub-Totals	<u>75,525,584</u>	<u>73,729,103</u>
Less: Capital related debt		
Current portion of capital related long-term debt	1,062,347	1,023,767
Long-term portion of capital related long-term debt	23,466,487	18,841,745
Unamortized loss on advance refunding	(549,232)	(595,975)
Unamortized debt premium	962,955	806,802
Sub-Totals	<u>24,942,557</u>	<u>20,076,339</u>
Add: Unspent debt proceeds		
Construction funds	3,699,660	2,025,327
Reserve from borrowing	800,859	800,578
Sub-Totals	<u>4,500,519</u>	<u>2,825,905</u>
Total Net Investment in Capital Assets	<u>\$ 55,083,546</u>	<u>\$ 56,478,669</u>

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

All eligible employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. 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 and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category 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. Contribution rates for 2014 and 2013 are:

	Employees	Employer
2014 General category	7.0%	7.0%
2013 General category	6.65%	6.65%

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

	Year Ended December 31		
	2014	2013	2012
Total Covered Employee Payroll	\$ 1,956,957	\$ 1,983,988	\$ 1,993,125
Total Required Contributions	\$ 273,974	\$ 263,870	\$ 235,189
Total Required Contributions	14.0%	13.3%	11.8%

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Health Care Benefits

Plan Description - The utility offers postemployment medical benefits for retirees and their dependents that retired with 20 years of service and were hired and were on the payroll as of January 1, 1994. The portion of the premiums paid by the utility will be in accordance with the utility policy language governing premium payment in effect for active employees. Employees hired after January 1, 1994 can choose to stay on the utility's' policy on their own expense until they reached age 65. The current benefit structure is determined by the commission through contract negotiations.

Annual OPEB Cost and Net OPEB Obligation – The annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB 45. The ARC represent 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 over a period not to exceed thirty years. The following table shows the component of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB Obligation.

	2014	2013
Annual required contribution	\$ 263,454	\$ 263,545
Interest on net OPEB obligation	28,192	-
Adjustment to annual required contribution	(29,963)	-
Annual OPEB cost	261,683	263,545
Contributions made	(135,137)	(141,580)
Increase in net OPEB obligation	126,546	121,965
Net OPEB Obligation - Beginning of Year	807,535	685,570
Net OPEB Obligation - End of Year	\$ 934,081	\$ 807,535

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2014 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 261,683	52%	\$ 934,081
2013	263,545	54	807,535
2012	301,146	37	685,570

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 3,971,519
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 3,971,519</u></u>
Funded ratio (actuarial value of plan assets/AAL)	-%
Covered payroll (active plan members)	\$ 1,956,957
UAAL as a percentage of covered payroll	203%

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.

Actuarial Methods and Assumptions - Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as 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 of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit method was used in the 2013 actuarial valuation. The actuarial assumptions included a rate of 4% to discount expected liabilities of the valuation date. The initial healthcare trend rate for 2014 was 4.5%, for 2015 and 2016 was 7.5%, after which the healthcare trend rates decreases by 0.5% every two years down to 5.5%. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The initial amortization period was 30 years.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 10 - COMMITMENTS AND CONTINGENCIES

From time to time, the utility is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings, except as noted, will have a material adverse effect on the utility's financial position or results of operation.

On April 12, 1992, the state of Wisconsin commenced a legal action against the utility entitled State of Wisconsin, Department of Natural Resources vs. City of Waukesha Water Utility. Case No. 91-CV-1027 Circuit Court, Waukesha County, Wisconsin. case number 92-2530, Court of Appeals and Supreme Court of the State of Wisconsin. In that case the State has requested judgment against the Utility for (1) an injunction requiring the Utility to bring its water supply system into compliance with Wisconsin Administrative Code No 109.50(1); (2) the forfeitures provided for in sections 144.99 Stats., for past violations of Wisconsin Administrative Code Sec. NR 109.50; (3) a penalty assessment pursuant to Sect. 165.87(2) (Stats.).

Although the Federal legislation underpinning EPA regulations of radionuclides has been renewed, the EPA has examined the 1996 amendments to the Safe Drinking Water Act and taken the position that the contaminant level (MCL) of 5 pCi/L of radium in drinking water for Ra 226 and Ra 228, combined. The EPA conducted a new rulemaking proceeding and published a Notice of Data Availability and concluded the rulemaking in 2000.

In December 2000, the EPA finalized its rule for radium 226 and 228. In response to this rule, the City of Waukesha, doing business as the City of Waukesha Water Utility, petitioned the United States Court of Appeals, District of Columbia Circuit, in Washington, D.C. to review the rule promulgated by the EPA. The case City of Waukesha, et al. v. EPA, 01-1028, was heard on November 20, 2002. On February 25, 2003 the United States Court of Appeals ruled in favor of the EPA. As such, the municipality terminated the legal process and began negotiation with the Wisconsin Department of Natural Resources (WDNR) to develop a consent order/compliance agreement to bring the water supply into compliance with the radium standard. The municipality entered into a consent order/compliance agreement with the WDNR on December 19, 2003, and immediately began working towards compliance.

The agreement required the utility to develop new shallow wells, install treatment at some of the existing wells and blend the non-compliant water with the compliant water to bring the water supply into compliance with the radium standards. The estimated cost of the improvements is approximately thirteen million five hundred thousand dollars (\$13,500,000). The utility is balancing the radium compliance projects with the other projects that will become part of the long term water supply strategy. While the utility continues to investigate the potential to develop a new water supply, the compliance strategy focuses on projects that will ultimately be part of the long term solution. This estimate consists of the initial capital expenditures, plus operation for 20 years, and is based on implementation of one of the two highest ranked water supply options identified in a 2001 engineering study of water supply alternatives. It is estimated that the new water supply will be available by June 30, 2018.

On September 22, 2008 the city of Waukesha was referred to the Department of Justice for Alleged Violations of Consent Order #2003-SEEE-107, by not meeting the December 8, 2006 timeline for providing drinking water that meets the Safe Drinking Water Standards for Radium. Since September 22, 2008, the Waukesha Water Utility has been working with its legal counsel and the City of Waukesha Attorney to negotiate a settlement with the Department of Justice.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

A settlement was successfully negotiated and was filed with the Clerk of Circuit Court in Waukesha County on March 30, 2009. The agreement required the City of Waukesha Water Utility to pay a judgment comprised of forfeitures and fees in the amount of fifty-five thousand (\$55,000). It also recognizes the efforts the utility has undertaken in regards to capital projects and water conservation. In addition, the utility is allowed to operate under strict operating conditions until June 30, 2018.

At that date, the city must be in complete compliance with all federal and state drinking water radionuclide standards which require that the radionuclide-compliant water can be provided in the event of failure of the system's largest well. This may be accomplished by some combination of obtaining a new source of compliant water and by treating for radionuclide-removal and/or new sources of water. If the city fails to meet the strict operating guidelines before final compliance is accomplished, the city will be required to discontinue the supply of non-radionuclide-compliant water to the distribution system and shall meet state and federal radionuclide standards within three (3) years of such failure.

As a solution to the radionuclide issue, the City of Waukesha is in the process of developing a new water supply. As a result of the investigation of water supply alternatives, the City of Waukesha has submitted an Application for Great Lakes Water with the WDNR. This application was updated in October 2013. The City is working with the WDNR through the approval process. The application requires the approval of all Great Lakes States, the utility anticipates that the process will be complete late 2015 or early in 2016.

NOTE 11 - SUBSEQUENT EVENTS

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

Debt Issue

The utility commission has authorized the issuance of note anticipation notes in 2015 not to exceed \$7,552,000.

Rate Adjustment

A 3% water rate increase was approved by the PSCW on March 25, 2015 effective April 24, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

WAUKESHA WATER UTILITY

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS For the Year Ended December 31, 2014

Fiscal Year-End Date	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2014	1/1/2013	\$ -	\$ 3,971,519	\$ 3,971,519	0%	\$ 1,956,957	203%
12/31/2013	1/1/2013	-	3,971,519	3,971,519	0%	1,983,988	200%
12/31/2012	1/1/2011	-	4,044,049	4,044,049	0%	1,993,125	203%
12/31/2011	1/1/2011	-	4,044,049	4,044,049	0%	1,918,375	211%
12/31/2010	1/1/2009	-	3,665,064	3,665,064	0%	1,847,000	198%
12/31/2009	1/1/2009	-	3,665,064	3,665,064	0%	1,891,000	194%

See independent auditors' report.

SUPPLEMENTAL INFORMATION

WAUKESHA WATER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2014

	Balance 1/1/14	Additions	Retirements	Adjustments	Balance 12/31/14
INTANGIBLE					
Miscellaneous intangible plant	\$ 120,939	\$ 28,239	\$ -	\$ -	\$ 149,178
SOURCE OF SUPPLY					
Land and land rights	205,415	434,299	-	-	639,714
Wells and springs	1,507,630	-	-	-	1,507,630
Supply mains	1,084,143	-	-	-	1,084,143
Total Source of Supply	2,797,188	434,299	-	-	3,231,487
PUMPING					
Land and land rights	181,670	-	-	-	181,670
Structures and improvements	4,558,614	15,203	6,353	(50,806)	4,516,658
Electric pumping equipment	5,259,181	408,603	574,835	-	5,092,949
Total Pumping	9,999,465	423,806	581,188	(50,806)	9,791,277
WATER TREATMENT					
Structures and improvements	2,785,249	2,970	2,486	-	2,785,733
Water treatment equipment	2,419,661	17,730	9,465	-	2,427,926
Total Water Treatment	5,204,910	20,700	11,951	-	5,213,659
TRANSMISSION AND DISTRIBUTION					
Land and land rights	2,203	107,880	-	-	110,083
Distribution reservoirs and standpipes	6,408,515	16,419	-	-	6,424,934
Transmission and distribution mains	46,759,314	4,336,428	186,737	-	50,909,005
Services	10,716,653	487,705	29,332	-	11,175,026
Meters	4,289,299	183,571	243,863	-	4,229,007
Hydrants	5,025,023	493,228	44,881	-	5,473,370
Total Transmission and Distribution	73,201,007	5,625,231	504,813	-	78,321,425
GENERAL					
Land and land rights	68,390	790	-	-	69,180
Structures and improvements	1,578,223	37,408	750	50,806	1,665,687
Office furniture and equipment	187,084	30,310	6,106	-	211,288
Computer equipment	950,852	147,713	500	-	1,098,065
Transportation equipment	890,752	-	-	-	890,752
Stores equipment	9,764	-	-	-	9,764
Tools, shop and garage equipment	399,608	19,406	5,270	-	413,744
Laboratory equipment	5,842	-	-	-	5,842
Power-operated equipment	510,922	74,394	-	-	585,316
Communication equipment	172,418	-	-	-	172,418
SCADA equipment	739,906	125,685	77,178	-	788,413
Total General	5,513,761	435,706	89,804	50,806	5,910,469
TOTAL WATER UTILITY PLANT	\$96,837,270	\$ 6,967,981	\$ 1,187,756	\$ -	\$102,617,495

WAUKESHA WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 4,573,905	\$ 4,757,943
Commercial	2,890,511	2,922,114
Industrial	847,297	835,670
Public authorities	<u>327,034</u>	<u>326,077</u>
Total Metered Sales	8,638,747	8,841,804
Private fire protection	177,702	175,103
Public fire protection	<u>1,710,549</u>	<u>1,702,415</u>
Total Sales of Water	<u>10,526,998</u>	<u>10,719,322</u>
Other Operating Revenues		
Forfeited discounts	129,699	134,673
Rents from water property	245,129	244,369
Other	<u>112,632</u>	<u>91,306</u>
Total Operating Revenues	<u>11,014,458</u>	<u>11,189,670</u>
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	1,404	1,393
Miscellaneous	4,742	2,851
Amortization of preliminary survey and investigation costs	832,086	711,117
Maintenance		
Supervision and engineering	5,681	3,864
Wells and springs	<u>2,055</u>	<u>157,766</u>
Total Source of Supply	<u>845,968</u>	<u>876,991</u>
Pumping		
Operation supervision and engineering	20,755	20,685
Fuel or purchased power for pumping	892,112	840,428
Pumping labor	39,715	40,466
Miscellaneous	49,453	60,065
Maintenance		
Supervision and engineering	7,249	6,894
Structures and improvements	18,262	14,547
Pumping equipment	<u>37,050</u>	<u>48,856</u>
Total Pumping	<u>1,064,596</u>	<u>1,031,941</u>
Water Treatment		
Operation supervision and engineering	2,420	6,091
Chemicals	143,597	144,980
Operation labor	189,076	174,178
Miscellaneous	340	(1,043)
Maintenance		
Supervision and engineering	6,577	6,090
Structures and improvements	41	238
Water treatment equipment	<u>19,937</u>	<u>32,300</u>
Total Water Treatment	<u>361,988</u>	<u>362,834</u>

WAUKESHA WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 33,912	\$ 62,722
Storage facilities	14,994	14,379
Transmission and distribution lines	128,613	99,770
Meters	59,386	82,505
Customer installations	81,112	65,271
Miscellaneous	127,476	109,294
Maintenance		
Supervision and engineering	20,997	26,088
Reservoirs and standpipes	1,620	17,197
Fire mains	269,687	256,981
Services	617,214	220,667
Meters	1,637	52
Hydrants	65,121	81,059
Miscellaneous	35,117	45,302
Total Transmission and Distribution	<u>1,456,886</u>	<u>1,081,287</u>
Customer Accounts		
Supervision	4,304	6,792
Meter reading	10,107	10,458
Accounting and collecting labor	110,519	103,437
Uncollectible accounts	(13,821)	47,744
Miscellaneous	3,797	5,668
Total Customer Accounts	<u>114,906</u>	<u>174,099</u>
Sales	<u>31,733</u>	<u>39,188</u>
Administrative and General		
Salaries	299,287	290,371
Office supplies	132,241	89,993
Outside services employed	138,731	39,407
Property insurance	69,744	64,979
Injuries and damages	18,542	23,315
Employee pensions and benefits	757,292	739,947
Regulatory commission	14,591	5,180
Miscellaneous	20,603	18,940
Maintenance	93,778	81,941
Total Administrative and General	<u>1,544,809</u>	<u>1,354,073</u>
Taxes	<u>92,485</u>	<u>100,135</u>
Total Operation and Maintenance	5,513,371	5,020,548
Depreciation	<u>2,234,140</u>	<u>2,157,197</u>
Total Operating Expenses	<u>7,747,511</u>	<u>7,177,745</u>
 OPERATING INCOME	 <u>\$ 3,266,947</u>	 <u>\$ 4,011,925</u>