

**CITY OF MARINETTE WATER AND
WASTEWATER UTILITIES**

FINANCIAL STATEMENTS

DECEMBER 31, 2014

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Marinette Water and Wastewater Utilities
Marinette, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Marinette Water and Wastewater Utilities of the City of Marinette, Wisconsin ("the Utilities") as of and for the year ended December 31, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider internal control relevant to the Utilities' 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 Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A, the financial statements present only the City of Marinette Water and Wastewater Utilities of the City of Marinette, Wisconsin, and do not purport to, and do not present fairly the financial position of the City of Marinette, Wisconsin, as of December 31, 2014 and the changes in its financial position or its cash flows for the year 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Utilities' financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Financial Information

We have previously audited the City of Marinette Water and Wastewater Utilities of the City of Marinette, Wisconsin's 2013 financial statements, and our report dated July 11, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
Green Bay, Wisconsin
May 22, 2015

FINANCIAL STATEMENTS

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Combining Statement of Net Position
December 31, 2014
(With summarized financial information as of December 31, 2013)

	Water Utility	Wastewater Utility	Totals	
			2014	2013
ASSETS				
Current Assets				
Cash and investments	\$ -	\$ 847,392	\$ 847,392	\$ 725,301
Accounts receivable	537,755	200,416	738,171	570,788
Special assessments receivable	94,144	-	94,144	97,253
Due from other funds	-	254,377	254,377	161,319
Inventories	30,511	-	30,511	31,183
Other assets	2,340	-	2,340	2,340
Total Current Assets	<u>664,750</u>	<u>1,302,185</u>	<u>1,966,935</u>	<u>1,588,184</u>
Restricted Assets				
Cash and investments	1,672,294	3,341,022	5,013,316	4,130,596
Net Capital Assets	<u>37,776,978</u>	<u>15,009,032</u>	<u>52,786,010</u>	<u>53,241,699</u>
TOTAL ASSETS	<u>40,114,022</u>	<u>19,652,239</u>	<u>59,766,261</u>	<u>58,960,479</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on advance refunding	<u>131,612</u>	<u>-</u>	<u>131,612</u>	<u>153,547</u>
LIABILITIES				
Current Liabilities				
Accounts payable	19,373	20,953	40,326	160,980
Accrued payroll	18,108	11,467	29,575	35,889
Accrued expenses	253,760	-	253,760	253,760
Accrued interest	61,877	2,768	64,645	74,077
Due to municipality	2,472,344	107,729	2,580,073	2,439,453
Due to other funds	254,377	-	254,377	161,319
Total Current Liabilities	<u>3,079,839</u>	<u>142,917</u>	<u>3,222,756</u>	<u>3,125,478</u>
Noncurrent Liabilities				
Due within one year	871,311	63,706	935,017	1,162,741
Due in more than one year	14,124,928	713,250	14,838,178	14,092,087
Total Noncurrent Liabilities	<u>14,996,239</u>	<u>776,956</u>	<u>15,773,195</u>	<u>15,254,828</u>
TOTAL LIABILITIES	<u>18,076,078</u>	<u>919,873</u>	<u>18,995,951</u>	<u>18,380,306</u>
NET POSITION				
Net investment in capital assets	22,921,504	14,299,729	37,221,233	38,174,181
Restricted				
Bond retirement	1,672,294	-	1,672,294	794,603
Plant replacement	-	3,341,022	3,341,022	3,335,993
Unrestricted (deficit)	<u>(2,424,242)</u>	<u>1,091,615</u>	<u>(1,332,627)</u>	<u>(1,571,057)</u>
TOTAL NET POSITION	<u>\$ 22,169,556</u>	<u>\$ 18,732,366</u>	<u>\$ 40,901,922</u>	<u>\$ 40,733,720</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	Water Utility	Wastewater Utility	Totals	
			2014	2013
Operating Revenues				
Charges for services	\$ 3,783,915	\$ 1,668,878	\$ 5,452,793	\$ 5,273,374
Other	74,148	62,890	137,038	55,749
Total Operating Revenues	3,858,063	1,731,768	5,589,831	5,329,123
Operating Expenses				
Source of supply	70,906	-	70,906	32,075
Pumping	188,918	-	188,918	213,863
Water treatment	363,772	-	363,772	439,823
Collection	-	240,756	240,756	340,126
Treatment and disposal system	-	469,433	469,433	555,301
Transmission and distribution	714,768	-	714,768	556,805
Customer accounts	48,154	-	48,154	98,247
Administrative and general	418,378	377,055	795,433	1,077,288
Total Operation and Maintenance	1,804,896	1,087,244	2,892,140	3,313,528
Depreciation	1,273,596	835,519	2,109,115	2,135,527
Taxes	34,703	-	34,703	50,122
Total Operating Expenses	3,113,195	1,922,763	5,035,958	5,499,177
Operating Income (Loss)	744,868	(190,995)	553,873	(170,054)
Nonoperating Revenues (Expenses)				
Interest revenue (loss)	2,349	6,431	8,780	(11,366)
Interest and fiscal charges	(586,106)	(17,268)	(603,374)	(439,388)
Total Nonoperating Revenues (Expenses)	(583,757)	(10,837)	(594,594)	(450,754)
Net Income (Loss) Before Transfers and Capital Contributions	161,111	(201,832)	(40,721)	(620,808)
Transfers	(798,367)	-	(798,367)	(810,227)
Net Income	(637,256)	(201,832)	(839,088)	(1,431,035)
Capital Contributions	581,500	231,376	812,876	200,586
Change in Net Position	(55,756)	29,544	(26,212)	(1,230,449)
Net Position - January 1	22,030,898	18,702,822	40,733,720	(689,724)
Prior period adjustment	194,414	-	194,414	-
Net Position - January 1, restated	22,225,312	18,702,822	40,928,134	41,964,169
Net Position - December 31	\$ 22,169,556	\$ 18,732,366	\$ 40,901,922	\$ 40,733,720

The notes to the financial statements are an integral part of this statement.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Combining Statement of Cash Flows
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	Water Utility	Wastewater Utility	Totals	
			2014	2013
Cash Flows from Operating Activities				
Cash received from customers	\$ 3,693,563	\$ 1,619,787	\$ 5,313,350	\$ 5,269,887
Cash paid to suppliers	(1,255,789)	(658,386)	(1,914,175)	(1,680,632)
Cash paid to employees	(800,084)	(419,907)	(1,219,991)	(1,544,789)
Other operating income	74,148	62,890	137,038	55,749
Net Cash Provided by Operating Activities	1,711,838	604,384	2,316,222	2,100,215
Cash Flows from Noncapital Financing Activities				
Transfers and advances	(569,164)	(88,583)	(657,747)	207,643
Cash Flows from Capital and Related Financing Activities				
Net acquisition of capital assets	(940,208)	(546,744)	(1,486,952)	(1,183,572)
Proceeds of debt	2,850,000	-	2,850,000	799,538
Premium received	109,992	-	109,992	-
Principal paid on revenue bonds	(2,290,508)	(62,232)	(2,352,740)	(1,094,520)
Interest paid on revenue bonds	(448,977)	(17,512)	(466,489)	(419,822)
Bond issuance costs paid	(132,240)	-	(132,240)	-
Capital contributions	584,609	231,376	815,985	252,239
Net Cash Used by Capital and Related Financing Activities	(267,332)	(395,112)	(662,444)	(1,646,137)
Cash Flows from Investing Activities				
Interest received on investments	2,349	6,431	8,780	(5,813)
Increase in Cash and Cash Equivalents	877,691	127,120	1,004,811	655,908
Cash and Cash Equivalents - January 1	794,603	4,061,294	4,855,897	4,199,989
Cash and Cash Equivalents - December 31	\$ 1,672,294	\$ 4,188,414	\$ 5,860,708	\$ 4,855,897
Reconciliation of cash and cash equivalents to the combining statement of net position:				
Unrestricted cash and investments	\$ -	\$ 847,392	\$ 847,392	\$ 725,301
Restricted cash and investments	1,672,294	3,341,022	5,013,316	4,130,596
Total Cash and Cash Equivalents	\$ 1,672,294	\$ 4,188,414	\$ 5,860,708	\$ 4,855,897
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 744,868	\$ (190,995)	\$ 553,873	\$ (170,054)
Adjustments to reconcile operating income (loss) to net cash provided by operations				
Depreciation	1,273,596	835,519	2,109,115	2,135,527
Depreciation charged to operating accounts	27,940	-	27,940	28,049
Changes in assets and liabilities				
Accounts receivable	(118,292)	(49,091)	(167,383)	(31,536)
Inventories	672	-	672	(6,999)
Accounts payable	(132,452)	11,798	(120,654)	106,473
Accrued payroll	(6,291)	(23)	(6,314)	24,274
Accrued expenses	-	-	-	20,965
Compensated absences	(78,203)	(2,824)	(81,027)	(6,484)
Net Cash Provided by Operating Activities	\$ 1,711,838	\$ 604,384	\$ 2,316,222	\$ 2,100,215

The notes to the financial statements are an integral part of this statement.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Marinette Water and Wastewater Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 Utilities are described below:

1. Nature of Business

The City of Marinette Water and Wastewater Utilities are proprietary funds of the City of Marinette, Wisconsin. Marinette Water and Wastewater Utilities (Utilities) and the Marinette Water and Wastewater Commission (Commission) were created by the City of Marinette (Municipality) ordinances in 1937. In 1989, the Commission was replaced by the Marinette Water and Wastewater Utilities Board which operated until 1996 at which time the Commission was re-established. The Commission provides nonpartisan management for the Utilities pursuant to Chapter 66 of the Wisconsin Statutes and consists of seven members (2 council and 5 citizen) appointed by the mayor for three year, nonconcurrent terms.

The water utility encompasses all water supply, treatment and distribution within the municipality and certain areas of the Town of Peshtigo. The Utility is regulated by the Public Service Commission of Wisconsin (PSCW).

The wastewater utility provides wastewater collection and treatment service to properties within the municipality. The Commission is responsible for establishing rates and service rules for its wastewater services.

2. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows and inflows of resources, fund equity, revenues and expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Financial transactions of the Utilities and the results thereof are presented in the financial statements as follows:

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The measurement focus and basis of accounting used for Utilities funds follows:

PROPRIETARY FUNDS

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred outflows and inflows of resources associated with the operation of these funds are included on the statement of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Enterprise fund service receivables are recorded at year-end. All capital assets are capitalized at historical cost and depreciated over their useful lives.

4. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments with a maturity of three months or less (including restricted assets) are considered to be cash equivalents.

5. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the combining statement of net position.

6. Inventories

Inventories are recorded at cost which approximates market, using the first-in first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual inventory items are consumed rather than when purchased.

7. Prepaid Items

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

8. Capital Assets

Capital assets of the Utilities are valued at either historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

PROPRIETARY FUND CAPITAL ASSETS

Capital assets of the proprietary funds are recorded as an asset of the proprietary fund that maintains and utilizes the capital asset. Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25 - 50 years
Improvements other than buildings	25 - 100 years
Machinery and equipment	3 - 10 years

Net interest costs during construction periods are capitalized for capital assets acquired by the issuance of long-term debt. No interest was capitalized during 2014. Major additions and betterments are capitalized while expenditures for maintenance and repairs that do not add to the value of the asset or materially extend asset lives are charged to operations as incurred.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Utilities only have one item that qualifies for reporting in this category. It is the deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Utilities currently do not have any items that qualify for reporting in this category.

10. Compensated Absences

Sick Leave – Utility employees can accumulate one day of paid sick leave for each month of continuous employment with the Utility, subject to a maximum of 100 days of sick leave. Upon termination, all accumulated sick leave is forfeited, except upon retirement or death. A retiring employee shall be paid $\frac{3}{4}$ of accumulated sick leave at the employee's base hourly rate of pay at the time of retirement. Accumulated sick leave is eligible only to employees hired on or before 1/1/2014.

Vacation - Utility employees are granted vacation in varying amounts based on length of service with the utility. Vacation that is earned in the current year but not used may be carried over to the following year. A maximum of 5 days can be carried over. Vacation that is carried over must be used by May 1 of the following year.

11. Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the current period.

12. Interfund Transactions

During the course of normal operations, the Utilities have various transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. Transactions between governmental and proprietary funds are usually recorded as revenues and either expenditures or expenses of the respective funds.

13. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended December 31, 2013 from which the summarized information was derived.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE B - CASH AND INVESTMENTS

The Utilities maintain various cash and investment accounts. Each fund's portion of these accounts is displayed in the financial statements as "Cash and Investments."

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

The carrying amount of the Utilities' cash and investments totaled \$5,860,708 on December 31, 2014 as summarized below:

Petty cash funds	\$	410
Deposits with financial institutions		1,949,717
Investments		3,910,581
	\$	<u>5,860,708</u>

Reconciliation to the basic financial statements

Basic financial statements		
Cash and investments	\$	847,392
Restricted cash and investments		5,013,316
	\$	<u>5,860,708</u>

Deposits and investments of the Utilities are subject to various risks. Presented below is a discussion of the specific risks and the Utilities' policy related to the risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The Utilities do not have an additional custodial credit risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of December 31, 2014, \$1,357,564 of the Utilities' deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

On December 31, 2014, the Utilities held repurchase agreement investments of \$784,950 of which the underlying securities are held by the investment's counterparty, not in the name of the Utilities.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE B - CASH AND INVESTMENTS (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The Utilities do not have an additional credit risk policy. Presented below is the actual rating as of year-end for each investment type.

Investment Type	Amount	Exempt From Disclosure	AAA	Aa	Not Rated
Federal Home Loan Bank	\$ 199,100	\$ -	\$ 199,100	\$ -	\$ -
Federated Prime Obligations mutual fund	2,926,531	-	2,926,531	-	-
Totals	\$ 3,125,631	\$ -	\$ 3,125,631	\$ -	\$ -

Concentration of Credit Risk

The investment policy of the Utilities contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Utilities' investments are as follows:

Issuer	Investment Type	Reported Amount	Percent of Total
Farmers & Merchants Bank & Trust	Repurchase agreements	\$ 784,950	20%
Federal Home Loan Bank	Mortgage backed security	199,100	5%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Utilities do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Utilities' investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Utilities' investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Repurchase agreements	\$ 784,950	\$ 784,950	\$ -	\$ -	\$ -
Federal Home Loan Bank	199,100	-	-	199,100	-
Federated Prime Obligations mutual fund	2,926,531	2,926,531	-	-	-
Totals	\$ 3,910,581	\$ 3,711,481	\$ -	\$ 199,100	\$ -

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE B - CASH AND INVESTMENTS (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Utilities' investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments	Fair Value at Year End
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.	<u>\$ 199,100</u>

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2014 consisted of cash and investments of \$5,013,316 held for the following purposes:

	Water Utility	Wastewater Utility
Bond redemption account	\$ 1,387,314	\$ -
Bond reserve account	284,980	-
Replacement account	-	3,341,022
Total restricted cash and investments	<u>\$ 1,672,294</u>	<u>\$ 3,341,022</u>

Redemption: Used to segregate resources accumulated for debt service payments over the next 12 months.

Reserve: Used to report resources set aside to make up potential future deficiencies in the redemption account.

Replacement: Used for significant wastewater treatment mechanical equipment replacement.

NOTE D - CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2014:

	Water Utility	Wastewater Utility
Land and land rights	\$ 619,406	\$ 20,100
Structures and improvements	11,657,276	6,159,433
Improvements other than buildings	23,861,792	17,976,176
Machinery and equipment	9,510,765	8,566,942
Total Gross Capital Assets	<u>45,649,239</u>	<u>32,722,651</u>
Less: Accumulated depreciation	7,872,261	17,713,619
Net Capital Assets	<u>\$ 37,776,978</u>	<u>\$ 15,009,032</u>

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE E - BASIS FOR EXISTING RATES

Current water rates, as authorized by the Public Service Commission of Wisconsin, were placed into effect by the Utility on June 10, 2010 and are designed to provide a 5.00% return on rate base. Current wastewater rates, as authorized by the Marinette City Council, were placed in effect on June 10, 2010. The Public Service Commission has subsequently authorized new water rates expected to be placed into effect in May, 2015.

NOTE F - UNAMORTIZED LOSS ON ADVANCE REFUNDING

The water utility recognized a book loss of \$329,025 on the 2004 advance refunding. This is shown as deferred outflows of resources and is being amortized over the life of the new refunding debt. The balance of the deferred outflow of outflows of resources at December 31, 2014 is \$131,612.

NOTE G - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the Utilities for the year ended December 31, 2014:

	Outstanding 1/1/14	Issued	Retired	Outstanding 12/31/14	Due Within One Year
Revenue bonds	\$ 15,067,517	\$ 2,850,000	\$ 2,352,740	\$ 15,564,777	\$ 935,017
Compensated absences	187,310	-	81,027	106,283	-
Premium on debt	-	109,992	7,857	102,135	-
Long-term obligations	<u>\$ 15,254,827</u>	<u>\$ 2,959,992</u>	<u>\$ 2,441,624</u>	<u>\$ 15,773,195</u>	<u>\$ 935,017</u>

Revenue Bonds

Revenue bond debt service requirements are financed from operations of the enterprise funds. Revenue bonds outstanding on December 31, 2014 totaled \$15,564,777 and were composed of the following issues:

Wastewater Treatment Plant

\$1,254,553 State of Wisconsin Clean Water Fund Loan \$1,151,786 drawn;
\$62,233 to \$78,620 due annually through 2024; interest 2.365%

\$ 709,303

Water Utility

\$3,875,190 issued during 2003 and 2004 on a State of Wisconsin safe drinking water loan; \$213,512 to \$258,163 due annually through 2022; interest 2.75%

1,881,856

\$1,151,786 State of Wisconsin safe drinking water loan issued 2005 and 2006;

\$64,414 to \$77,659 due annually through 2023; interest 2.365%

637,707

\$10,871,073 issued during 2009-2013 on a State of Wisconsin safe drinking water loan;

\$523,386 to \$756,682 due annually through 2029; interest 2.668%

9,500,911

\$2,850,000 Waterworks System Revenue Bonds issued 1/7/14;

\$70,000 to \$545,000 due annually through 2027; interest 3% to 4%

2,835,000

14,855,474

Total Revenue Bonds

\$ 15,564,777

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE G - LONG-TERM OBLIGATIONS (Continued)

Annual principal and interest maturities of the above outstanding enterprise fund revenue bonds, as of December 31, 2014 are shown below:

Year Ended December 31	Water Utility		Wastewater		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 871,311	\$ 416,888	\$ 63,706	\$ 16,022	\$ 935,017	\$ 432,910
2016	892,671	393,144	65,211	14,497	957,882	407,641
2017	914,599	368,822	66,754	12,937	981,353	381,759
2018	937,113	343,907	68,332	11,339	1,005,445	355,246
2019	965,229	318,309	69,948	9,704	1,035,177	328,013
2020-2024	5,207,735	171,992	375,352	22,608	5,583,087	194,600
2025-2029	5,066,816	336,719	-	-	5,066,816	336,719
	<u>\$ 14,855,474</u>	<u>\$ 2,349,781</u>	<u>\$ 709,303</u>	<u>\$ 87,107</u>	<u>\$ 15,564,777</u>	<u>\$ 2,436,888</u>

The Utilities have pledged future customer revenues, net of specified operating expenses, to repay the wastewater and water system revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used by the Utilities. The bonds are payable solely from customer net revenues and are payable as detailed above. The total principal and interest remaining to be paid on the wastewater bonds is \$796,410 and total principal and interest to be paid on the water bonds is \$17,205,255. Principal and interest paid for the current year and total customer net revenues were \$2,819,229 and \$2,662,988, respectively.

NOTE H - EMPLOYEE RETIREMENT PLAN

Substantially all employees are participants in the State of Wisconsin Retirement System, a multiple-employer public employee retirement system. The employer and employee contribution rate for 2014 was 14.0% of covered employees' salaries, half of which was financed by the Utilities with the other half financed by employees. The Utilities' 2014 contribution was \$59,704.

The State of Wisconsin Retirement System plan is administered for the Utilities by the City of Marinette. Other information on retirement commitments appears in the City's December 31, 2014 financial statements.

NOTE I - FUND EQUITY

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets - Amount of capital assets, net of accumulated depreciation and capital related deferred outflows of resources, less outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
2. Restricted net position - Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2014

NOTE I - FUND EQUITY (Continued)

Net position reported on the statement of net position at December 31, 2014 include the following:

Net investment in capital assets	
Land and land rights	\$ 639,506
Structures and improvements	17,816,709
Improvements other than buildings	41,837,968
Machinery and equipment	18,077,707
Less: Accumulated depreciation	(25,585,880)
Less: Related long-term debt outstanding	(15,564,777)
Net investment in capital assets	<u>37,221,233</u>
Restricted	
Bond retirement	1,672,294
Plant replacement	3,341,022
Total Restricted	<u>5,013,316</u>
Unrestricted (deficit)	<u>(1,332,627)</u>
Total Net Position	<u>\$ 40,901,922</u>

NOTE J - RISK MANAGEMENT

The Utilities have purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures or expenses in various funds of the Utilities. Settlements have not exceeded insurance coverage for each of the past three years. There have also been no significant changes in insurance coverage from the prior year.

NOTE K - CONTINGENT LIABILITIES

The Utilities has identified the following item as a potential liability not recorded on the financial statements:

From time to time, the Utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and the Utilities' Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utilities' financial position or results of operations.

NOTE L - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the statement of net position will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Utility is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending December 31, 2015.

SUPPLEMENTARY INFORMATION

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Net Position
Water Utility
December 31, 2014
(With summarized financial information as of December 31, 2013)

	2014	2013
ASSETS		
Current Assets		
Accounts receivable	\$ 537,755	\$ 419,463
Special assessments receivable	94,144	97,253
Inventories	30,511	31,183
Other assets	2,340	2,340
Total Current Assets	<u>664,750</u>	<u>550,239</u>
Restricted Assets		
Cash and investments	<u>1,672,294</u>	<u>794,603</u>
Capital Assets		
Land and land rights	619,406	619,406
Structures and improvements	11,657,276	11,983,483
Improvements other than buildings	23,861,792	22,931,683
Machinery and equipment	9,510,765	9,254,122
Gross Capital Assets	45,649,239	44,788,694
Accumulated depreciation	(7,872,261)	(6,844,802)
Total Net Capital Assets	<u>37,776,978</u>	<u>37,943,892</u>
TOTAL ASSETS	<u>40,114,022</u>	<u>39,288,734</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	<u>131,612</u>	<u>153,547</u>
LIABILITIES		
Current Liabilities		
Accounts payable	19,373	151,825
Accrued payroll	18,108	24,399
Accrued expenses	253,760	253,760
Accrued interest	61,877	71,066
Due to municipality	2,472,344	2,336,199
Due to sewer utility	254,377	161,319
Total Current Liabilities	<u>3,079,839</u>	<u>2,998,568</u>
Noncurrent Liabilities		
Due within one year	871,311	1,100,508
Due in more than one year	14,124,928	13,312,307
Total Noncurrent Liabilities	<u>14,996,239</u>	<u>14,412,815</u>
TOTAL LIABILITIES	<u>18,076,078</u>	<u>17,411,383</u>
NET POSITION		
Net investment in capital assets	22,921,504	23,647,910
Restricted		
Bond retirement	1,672,294	794,603
Unrestricted (deficit)	(2,424,242)	(2,411,615)
TOTAL NET POSITION	<u>\$ 22,169,556</u>	<u>\$ 22,030,898</u>

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Statement of Revenues, Expenses and Changes in Net Position

Water Utility

For the Year Ended December 31, 2014

(With summarized financial information for the year ended December 31, 2013)

	2014	2013
Operating Revenues		
Unmetered sales	\$ 23,613	\$ 2,248
Metered sales		
Residential	1,183,903	1,181,605
Commercial	478,863	485,093
Industrial	997,459	966,549
Multifamily Residential	9,223	-
Private fire protection	64,185	59,067
Public fire protection	891,170	711,066
Other sales to public authorities	135,499	154,308
Forfeited discounts	16,528	10,927
Other	57,620	37,624
Total Operating Revenues	3,858,063	3,608,487
Operating Expenses		
Source of Supply		
Operation labor and expenses	59,809	15,827
Miscellaneous expenses	582	5,436
Maintenance of structures and improvements	10,515	10,812
Total Source of Supply	70,906	32,075
Pumping		
Power purchased for pumping	108,693	147,320
Pumping labor and expenses	16,859	20,782
Miscellaneous expenses	38,693	30,773
Maintenance of structures and improvements	7,952	4,925
Maintenance of pumping equipment	16,721	10,063
Total Pumping	188,918	213,863
Water Treatment		
Chemicals	125,287	157,314
Operation labor and expenses	170,829	199,901
Miscellaneous expenses	46,122	56,106
Maintenance of structures and improvements	10,024	13,216
Maintenance of water treatment equipment	11,510	13,286
Total Water Treatment	363,772	439,823
Transmission and Distribution		
Storage facilities expenses	9,439	9,831
Transmission and distribution lines expenses	60,244	54,162
Meter expenses	1,809	7,198
Customer installations expenses	73,726	28,671
Miscellaneous expenses	12,588	21,495
Maintenance of distribution reservoirs and standpipes	288,414	283,334
Maintenance of transmission and distribution mains	165,292	67,826
Maintenance of services	93,003	70,130
Maintenance of meters	704	1,977
Maintenance of hydrants	9,549	12,181
Total Transmission and Distribution	714,768	556,805

(Continued)

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Revenues, Expenses and Changes in Net Position (Continued)
Water Utility
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	2014	2013
Customer Accounts		
Meter reading expenses	1,332	2,465
Customer records and collection expenses	38,832	94,677
Uncollectible accounts	(276)	356
Miscellaneous customer accounts expenses	8,266	749
Total Customer Accounts	48,154	98,247
Administrative and General		
Administrative and general salaries	60,538	146,470
Office supplies and expenses	50,258	36,892
Outside services employed	42,725	41,995
Property insurance	29,514	11,964
Injuries and damages	-	5,522
Employee pensions and benefits	192,273	320,654
Regulatory commission expense	13,210	-
Miscellaneous general expenses	12,841	4,638
Maintenance of general plant	17,019	4,630
Total Administrative and General	418,378	572,765
Depreciation	1,273,596	1,303,132
Taxes	34,703	50,122
Total Operating Expenses	3,113,195	3,266,832
Operating Income	744,868	341,655
Nonoperating Revenues (Expenses)		
Interest revenue	2,349	(1,078)
Interest and fiscal charges	(586,106)	(420,660)
Total Nonoperating Revenues (Expenses)	(583,757)	(421,738)
Net Income (Loss) Before Transfers and Capital Contributions	161,111	(80,083)
Transfers	(798,367)	(810,227)
Net Income	(637,256)	(890,310)
Capital Contributions	581,500	200,586
Change in Net Position	(55,756)	(689,724)
Net Position - January 1	22,030,898	23,410,346
Prior period adjustment	194,414	-
Net Position - January 1	22,225,312	22,720,622
Net Position - December 31	\$ 22,169,556	\$ 22,030,898

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Cash Flows
Water Utility
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,693,563	\$ 3,516,252
Cash paid to suppliers	(1,255,789)	(769,846)
Cash paid to employees	(800,084)	(1,041,636)
Other operating income	74,148	48,551
Net Cash Provided by Operating Activities	<u>1,711,838</u>	<u>1,753,321</u>
Cash Flows from Noncapital Financing Activities		
Transfers and advances	<u>(569,164)</u>	<u>(69,000)</u>
Cash Flows from Capital and Related Financing Activities		
Net acquisition of capital assets	(940,208)	(902,169)
Proceeds of debt	2,850,000	799,538
Premium received	109,992	-
Principal paid on revenue bonds	(2,290,508)	(1,033,725)
Interest paid on revenue bonds	(448,977)	(400,857)
Bond issuance costs paid	(132,240)	-
Capital contributions	<u>584,609</u>	<u>252,239</u>
Net Cash Used by Capital and Related Financing Activities	<u>(267,332)</u>	<u>(1,284,974)</u>
Cash Flows from Investing Activities		
Interest received on investments	<u>2,349</u>	<u>(132)</u>
Increase in Cash and Cash Equivalents	877,691	399,215
Cash and Cash Equivalents - January 1	<u>794,603</u>	<u>395,388</u>
Cash and Cash Equivalents - December 31	<u>\$ 1,672,294</u>	<u>\$ 794,603</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Restricted cash and investments	<u>\$ 1,672,294</u>	<u>\$ 794,603</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 744,868	\$ 341,655
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,273,596	1,303,132
Depreciation charged to operating accounts	27,940	28,049
Changes in assets and liabilities		
Accounts receivable	(118,292)	(71,733)
Inventories	672	(6,999)
Accounts payable	(132,452)	129,667
Accrued payroll	(6,291)	18,789
Accrued expenses	-	20,965
Compensated absences	(78,203)	(10,204)
Net Cash Provided by Operating Activities	<u>\$ 1,711,838</u>	<u>\$ 1,753,321</u>

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Net Position
Wastewater Utility
December 31, 2014
(With summarized financial information as of December 31, 2013)

	2014	2013
ASSETS		
Current Assets		
Cash and investments	\$ 847,392	\$ 725,301
Accounts receivable	200,416	151,325
Due from water utility	254,377	161,319
Total Current Assets	<u>1,302,185</u>	<u>1,037,945</u>
Restricted Assets		
Cash and investments	3,341,022	3,335,993
Capital Assets		
Land and land rights	20,100	20,100
Structures and improvements	6,159,433	6,159,433
Improvements other than buildings	17,976,176	17,597,747
Machinery and equipment	8,566,942	8,566,942
Gross Capital Assets	<u>32,722,651</u>	<u>32,344,222</u>
Accumulated depreciation	(17,713,619)	(17,046,415)
Total Capital Assets	<u>15,009,032</u>	<u>15,297,807</u>
TOTAL ASSETS	<u>19,652,239</u>	<u>19,671,745</u>
LIABILITIES		
Current Liabilities		
Accounts payable	20,953	9,155
Accrued payroll	11,467	11,490
Accrued interest	2,768	3,011
Due to municipality	107,729	103,254
Total Current Liabilities	<u>142,917</u>	<u>126,910</u>
Noncurrent Liabilities		
Due within one year	63,706	62,233
Due in more than one year	713,250	779,780
Total Noncurrent Liabilities	<u>776,956</u>	<u>842,013</u>
TOTAL LIABILITIES	<u>919,873</u>	<u>968,923</u>
NET POSITION		
Net investment in capital assets	14,299,729	14,526,271
Restricted		
Plant replacement	3,341,022	3,335,993
Unrestricted	1,091,615	840,558
TOTAL NET POSITION	<u>\$ 18,732,366</u>	<u>\$ 18,702,822</u>

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Revenues, Expenses and Changes in Net Position
Wastewater Utility

For the Year Ended December 31, 2014

(With summarized financial information for the year ended December 31, 2013)

	2014	2013
Operating Revenues		
Measured service		
Residential	\$ 913,326	\$ 889,511
Commercial	340,806	347,683
Industrial	266,579	276,833
Revenues from public authorities	148,167	199,411
Total charges for services	<u>1,668,878</u>	<u>1,713,438</u>
Forfeited discounts	9,454	7,198
Miscellaneous operating revenues	53,436	-
Total Operating Revenues	<u>1,731,768</u>	<u>1,720,636</u>
Operating Expenses		
Maintenance of buildings and grounds	57,207	38,114
Maintenance of treatment equipment	131,574	173,182
Collection system operations	185,905	275,626
Lift stations	54,851	64,500
Treatment plant operations	268,830	284,923
General and administrative	377,055	504,523
Sludge management	11,822	59,082
Depreciation	835,519	832,395
Total Operating Expenses	<u>1,922,763</u>	<u>2,232,345</u>
Operating Loss	<u>(190,995)</u>	<u>(511,709)</u>
Nonoperating Revenues (Expenses)		
Interest revenue	6,431	(10,288)
Interest and fiscal charges	(17,268)	(18,728)
Total Nonoperating Revenues (Expenses)	<u>(10,837)</u>	<u>(29,016)</u>
Net Loss	(201,832)	(540,725)
Capital Contributions	<u>231,376</u>	<u>-</u>
Change in Net Position	29,544	(540,725)
Net Position - January 1	<u>18,702,822</u>	<u>19,243,547</u>
Net Position - December 31	<u>\$ 18,732,366</u>	<u>\$ 18,702,822</u>

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Cash Flows
Wastewater Utility
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,619,787	\$ 1,753,635
Cash paid to suppliers	(658,386)	(910,786)
Cash paid to employees	(419,907)	(503,153)
Other operating income	62,890	7,198
Net Cash Provided by Operating Activities	604,384	346,894
Cash Flows from Noncapital Financing Activities		
Transfers and advances	(88,583)	276,643
Cash Flows from Capital and Related Financing Activities		
Net acquisition of capital assets	(546,744)	(281,403)
Principal paid on revenue bonds	(62,232)	(60,795)
Interest paid on revenue bonds	(17,512)	(18,965)
Capital contributions	231,376	-
Net Cash Used by Capital and Related Financing Activities	(395,112)	(361,163)
Cash Flows from Investing Activities		
Interest received on investments	6,431	(5,681)
Increase in Cash and Cash Equivalents	127,120	256,693
Cash and Cash Equivalents - January 1	4,061,294	3,804,601
Cash and Cash Equivalents - December 31	\$ 4,188,414	\$ 4,061,294
Reconciliation of cash and cash equivalents to the statement of net position:		
Unrestricted cash and investments	\$ 847,392	\$ 725,301
Restricted cash and investments	3,341,022	3,335,993
Total Cash and Cash Equivalents	\$ 4,188,414	\$ 4,061,294
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (190,995)	\$ (511,709)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	835,519	832,395
Changes in assets and liabilities		
Accounts receivable	(49,091)	40,197
Accounts payable	11,798	(23,194)
Accrued payroll	(23)	5,485
Compensated absences	(2,824)	3,720
Net Cash Provided by Operating Activities	\$ 604,384	\$ 346,894