

**CITY OF MARINETTE WATER AND
WASTEWATER UTILITIES**

FINANCIAL STATEMENTS

DECEMBER 31, 2015

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
December 31, 2015

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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, 2015, 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Marinette Water and Wastewater Utilities as of December 31, 2015, 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 Matters

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, 2015 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 opinions are not modified with respect to this matter.

As discussed in Note L, the Utilities implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. Our opinions are 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 schedules relating to pensions on pages 20 and 21 be presented to supplement the financial statements. Such information, although not 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 response 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.

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 financial statements. Such missing 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. Our opinions on the financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' basic 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 financial statements. Such 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 supplementary information is fairly stated, in all material respects, in relation to the 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 2014 financial statements, and our report dated May 22, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
Green Bay, Wisconsin
June 2, 2016

FINANCIAL STATEMENTS

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Combining Statement of Net Position
December 31, 2015
(With summarized financial information as of December 31, 2014)

| | Water Utility | Wastewater Utility | Totals | |
|---|----------------------|-----------------------|----------------------|----------------------|
| | | | 2015 | 2014 |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and investments | \$ 361,555 | \$ 1,392,937 | \$ 1,754,492 | \$ 847,392 |
| Accounts receivable | 565,632 | 175,741 | 741,373 | 738,171 |
| Special assessments receivable | 34,083 | - | 34,083 | 94,144 |
| Due from municipality | - | - | - | 254,377 |
| Inventories | 35,565 | - | 35,565 | 30,511 |
| Prepaid items | 587 | - | 587 | - |
| Other assets | 2,340 | - | 2,340 | 2,340 |
| Total Current Assets | 999,762 | 1,568,678 | 2,568,440 | 1,966,935 |
| Restricted Assets | | | | |
| Cash and investments | 1,768,403 | 3,281,084 | 5,049,487 | 5,013,316 |
| Other Assets | | | | |
| Net pension asset | 84,813 | 41,770 | 126,583 | - |
| Net Capital Assets | 36,860,016 | 14,364,322 | 51,224,338 | 52,786,010 |
| TOTAL ASSETS | 39,712,994 | 19,255,854 | 58,968,848 | 59,766,261 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows related to pension | 90,667 | 43,728 | 134,395 | - |
| Unamortized loss on advance refunding | 109,677 | - | 109,677 | 131,612 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 200,344 | 43,728 | 244,072 | 131,612 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable | 40,240 | 45,757 | 85,997 | 294,062 |
| Accrued payroll | 22,127 | 15,072 | 37,199 | 29,599 |
| Accrued interest | 83,479 | 2,519 | 85,998 | 64,645 |
| Due to municipality | - | 101,635 | 101,635 | 2,580,073 |
| Due to other funds | - | - | - | 254,377 |
| Total Current Liabilities | 145,846 | 164,983 | 310,829 | 3,222,756 |
| Noncurrent Liabilities | | | | |
| Due within one year | 1,172,696 | 65,211 | 1,237,907 | 933,544 |
| Due in more than one year | 15,797,499 | 647,784 | 16,445,283 | 14,839,651 |
| Total Noncurrent Liabilities | 16,970,195 | 712,995 | 17,683,190 | 15,773,195 |
| TOTAL LIABILITIES | 17,116,041 | 877,978 | 17,994,019 | 18,995,951 |
| NET POSITION | | | | |
| Net investment in capital assets | 19,933,333 | 13,718,724 | 33,652,057 | 37,119,098 |
| Restricted | | | | |
| Pension benefits | 175,480 | 85,498 | 260,978 | - |
| Bond retirement | 1,768,403 | - | 1,768,403 | 1,677,323 |
| Plant replacement | - | 3,281,084 | 3,281,084 | 3,335,993 |
| Unrestricted (deficit) | 920,081 | 1,336,298 | 2,256,379 | (1,230,492) |
| TOTAL NET POSITION | \$ 22,797,297 | \$ 18,421,604 | \$ 41,218,901 | \$ 40,901,922 |

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, 2015
(With summarized financial information for the year ended December 31, 2014)

| | Water Utility | Wastewater Utility | Totals | |
|---|----------------------|-----------------------|----------------------|----------------------|
| | | | 2015 | 2014 |
| Operating Revenues | | | | |
| Charges for services | \$ 4,478,249 | \$ 1,681,508 | \$ 6,159,757 | \$ 5,452,793 |
| Other | 72,270 | 30,223 | 102,493 | 137,038 |
| Total Operating Revenues | 4,550,519 | 1,711,731 | 6,262,250 | 5,589,831 |
| Operating Expenses | | | | |
| Source of supply | 74,062 | - | 74,062 | 70,906 |
| Pumping | 170,910 | - | 170,910 | 188,918 |
| Water treatment | 432,232 | - | 432,232 | 363,772 |
| Collection | - | 258,526 | 258,526 | 240,756 |
| Treatment and disposal system | - | 493,545 | 493,545 | 469,433 |
| Transmission and distribution | 611,416 | - | 611,416 | 714,768 |
| Customer accounts | 73,305 | - | 73,305 | 47,899 |
| Administrative and general | 340,126 | 510,899 | 851,025 | 795,688 |
| Total Operation and Maintenance | 1,702,051 | 1,262,970 | 2,965,021 | 2,892,140 |
| Depreciation | 1,234,227 | 838,317 | 2,072,544 | 2,109,115 |
| Taxes | 36,965 | - | 36,965 | 34,703 |
| Total Operating Expenses | 2,973,243 | 2,101,287 | 5,074,530 | 5,035,958 |
| Operating Income (Loss) | 1,577,276 | (389,556) | 1,187,720 | 553,873 |
| Nonoperating Revenues (Expenses) | | | | |
| Interest revenue | 1,145 | 10,692 | 11,837 | 8,780 |
| Interest and fiscal charges | (554,014) | (15,773) | (569,787) | (603,374) |
| Miscellaneous nonoperating revenues | 201,412 | - | 201,412 | - |
| Total Nonoperating Revenues (Expenses) | (351,457) | (5,081) | (356,538) | (594,594) |
| Net Income (Loss) Before Transfers and Capital Contributions | 1,225,819 | (394,637) | 831,182 | (40,721) |
| Transfers | (768,386) | - | (768,386) | (798,367) |
| Net Income (Loss) | 457,433 | (394,637) | 62,796 | (839,088) |
| Capital Contributions | - | - | - | 812,876 |
| Change in Net Position | 457,433 | (394,637) | 62,796 | (26,212) |
| Net Position - January 1, as originally reported | 22,169,556 | 18,732,366 | 40,901,922 | 40,733,720 |
| Prior period adjustment | - | - | - | 194,414 |
| Cumulative effect of change in accounting principle | 170,308 | 83,875 | 254,183 | - |
| Net Position - January 1, restated | 22,339,864 | 18,816,241 | 41,156,105 | 40,928,134 |
| Net Position - December 31 | \$ 22,797,297 | \$ 18,421,604 | \$ 41,218,901 | \$ 40,901,922 |

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, 2015
(With summarized financial information for the year ended December 31, 2014)

| | Water Utility | Wastewater Utility | Totals | |
|--|---------------------|-----------------------|---------------------|---------------------|
| | | | 2015 | 2014 |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 4,477,692 | \$ 1,706,183 | \$ 6,183,875 | \$ 5,313,350 |
| Cash paid to suppliers | (994,697) | (799,747) | (1,794,444) | (1,914,175) |
| Cash paid to employees | (725,364) | (436,693) | (1,162,057) | (1,219,991) |
| Other operating income | 72,270 | 30,223 | 102,493 | 137,038 |
| Net Cash Provided by Operating Activities | 2,829,901 | 499,966 | 3,329,867 | 2,316,222 |
| Cash Flows from Noncapital Financing Activities | | | | |
| Transfers and advances | (3,495,107) | 248,283 | (3,246,824) | (657,747) |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Net acquisition of capital assets | (344,585) | (193,607) | (538,192) | (1,486,952) |
| Proceeds of debt | 2,830,000 | - | 2,830,000 | 2,850,000 |
| Premium received | 18,966 | - | 18,966 | 109,992 |
| Principal paid on revenue bonds | (871,312) | (63,705) | (935,017) | (2,352,740) |
| Interest paid on revenue bonds | (416,887) | (16,022) | (432,909) | (466,489) |
| Bond issuance costs paid | (102,170) | - | (102,170) | (132,240) |
| Capital contributions | 7,713 | - | 7,713 | 815,985 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 1,121,725 | (273,334) | 848,391 | (662,444) |
| Cash Flows from Investing Activities | | | | |
| Interest received on investments | 1,145 | 10,692 | 11,837 | 8,780 |
| Increase in Cash and Cash Equivalents | 457,664 | 485,607 | 943,271 | 1,004,811 |
| Cash and Cash Equivalents - January 1 | 1,672,294 | 4,188,414 | 5,860,708 | 4,855,897 |
| Cash and Cash Equivalents - December 31 | \$ 2,129,958 | \$ 4,674,021 | \$ 6,803,979 | \$ 5,860,708 |
| Reconciliation of cash and cash equivalents to the combining statement of net position: | | | | |
| Unrestricted cash and investments | \$ 361,555 | \$ 1,392,937 | \$ 1,754,492 | \$ 847,392 |
| Restricted cash and investments | 1,768,403 | 3,281,084 | 5,049,487 | 5,013,316 |
| Total Cash and Cash Equivalents | \$ 2,129,958 | \$ 4,674,021 | \$ 6,803,979 | \$ 5,860,708 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | |
| Operating income (loss) | \$ 1,577,276 | \$ (389,556) | \$ 1,187,720 | \$ 553,873 |
| Adjustments to reconcile operating income (loss) to net cash provided by operations | | | | |
| Depreciation | 1,234,227 | 838,317 | 2,072,544 | 2,109,115 |
| Depreciation charged to operating accounts | 27,320 | - | 27,320 | 27,940 |
| Changes in pension related assets and deferred outflows | (5,172) | (1,623) | (6,795) | - |
| Changes in assets and liabilities | | | | |
| Accounts receivable | (27,877) | 24,675 | (3,202) | (167,383) |
| Inventories | (5,054) | - | (5,054) | 672 |
| Prepaid items | (587) | - | (587) | - |
| Accounts payable | 20,867 | 24,828 | 45,695 | (120,654) |
| Accrued payroll | 4,019 | 3,581 | 7,600 | (6,314) |
| Compensated absences | 4,882 | (256) | 4,626 | (81,027) |
| Net Cash Provided by Operating Activities | \$ 2,829,901 | \$ 499,966 | \$ 3,329,867 | \$ 2,316,222 |

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, 2015

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, 2015

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. Depreciation of all exhaustible capital assets 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 2015. 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.

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 have two items that qualify for reporting in this category. The first item 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. The second item is related to the Utilities' proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Pensions

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

13. Use of Estimates

The 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

14. 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.

15. 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, 2014 from which the summarized information was derived.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

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 \$6,803,979 on December 31, 2015 as summarized below:

| | |
|--|---------------------|
| Petty cash funds | \$ 410 |
| Deposits with financial institutions | 1,020,190 |
| Investments | 5,783,379 |
| | <u>\$ 6,803,979</u> |
| Reconciliation to the financial statements | |
| Financial statements | |
| Cash and investments | \$ 1,754,492 |
| Restricted cash and investments | 5,049,487 |
| | <u>\$ 6,803,979</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, 2015, the Utilities' deposits with financial institutions are pooled with other City deposits. Federal and state depository insurance limits are not separately determined for Utilities. No amounts were collateralized.

On December 31, 2015, the Utilities held repurchase agreement investments of \$2,465,008 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, 2015

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 |
|---|--------------|------------------------|--------------|------|-----------|
| Federated Prime Obligations mutual fund | \$ 3,318,371 | \$ - | \$ 3,318,371 | \$ - | \$ - |

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 | \$ 2,465,008 | \$ 2,465,008 | \$ - | \$ - | \$ - |
| Federated Prime Obligations mutual fund | 3,318,371 | 3,318,371 | - | - | - |
| Totals | \$ 5,783,379 | \$ 5,783,379 | \$ - | \$ - | \$ - |

NOTE C - RESTRICTED ASSETS

Restricted assets on December 31, 2015 consisted of cash and investments of \$5,049,487 held for the following purposes:

| | Water Utility | Wastewater Utility |
|--|---------------------|---------------------|
| Bond redemption account | \$ 1,209,665 | \$ - |
| Bond reserve account | 558,738 | - |
| Replacement account | - | 3,281,084 |
| Total restricted cash and investments | \$ 1,768,403 | \$ 3,281,084 |

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.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE D - CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2015:

| | 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 | 24,137,417 | 18,157,391 |
| Machinery and equipment | 9,510,765 | 8,566,942 |
| Total Gross Capital Assets | 45,924,864 | 32,903,866 |
| Less: Accumulated depreciation | 9,064,848 | 18,539,544 |
| Net Capital Assets | <u>\$ 36,860,016</u> | <u>\$ 14,364,322</u> |

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 April 9, 2015 and are designed to provide a 5.50% return on rate base. Current wastewater rates, as authorized by the Marinette City Council, were placed in effect on June 10, 2010.

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 resources at December 31, 2015 is \$109,677.

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, 2015:

| | Outstanding 1/1/15 | Issued | Retired | Outstanding 12/31/15 | Due Within One Year |
|-----------------------|-----------------------|---------------------|-------------------|-------------------------|------------------------|
| Revenue bonds | \$ 15,564,777 | \$ 2,830,000 | \$ 935,017 | \$ 17,459,760 | \$ 1,227,882 |
| Compensated absences | 106,283 | 4,626 | - | 110,909 | - |
| Premium on debt | 102,135 | 18,966 | 8,580 | 112,521 | 10,025 |
| Long-term obligations | <u>\$ 15,773,195</u> | <u>\$ 2,853,592</u> | <u>\$ 943,597</u> | <u>\$ 17,683,190</u> | <u>\$ 1,237,907</u> |

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE G - LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds

Revenue bond debt service requirements are financed from operations of the enterprise funds. Revenue bonds outstanding on December 31, 2015 totaled \$17,459,760 and were composed of the following issues:

Wastewater Treatment Plant

\$1,254,553 State of Wisconsin Clean Water Fund Loan \$1,151,786 drawn;
 \$65,211 to \$78,620 due annually through 2024; interest 2.365% \$ 645,598

Water Utility

\$3,875,190 issued during 2003 and 2004 on a State of Wisconsin safe drinking water loan; \$219,383 to \$258,163 due annually through 2022; interest 2.75% 1,668,344
 \$1,151,786 State of Wisconsin safe drinking water loan issued 2005 and 2006; \$65,937 to \$77,659 due annually through 2023; interest 2.365% 573,292
 \$10,871,073 issued during 2009-2013 on a State of Wisconsin safe drinking water loan; \$537,351 to \$756,682 due annually through 2029; interest 2.668% 8,977,526
 \$2,850,000 Waterworks System Revenue Bonds issued 1/7/14; \$70,000 to \$545,000 due annually through 2027; interest 3% to 4% 2,765,000
 \$2,830,000 Waterworks System Revenue Bonds issued 8/26/15; \$270,000 to \$350,000 due annually through 2024; interest 2.25% to 3.125% 2,830,000
16,814,162

Total Revenue Bonds

\$ 17,459,760

Annual principal and interest maturities of the above outstanding enterprise fund revenue bonds, as of December 31, 2015 are shown below:

| Year Ended December 31 | Water Utility | | Wastewater | | Totals | |
|---------------------------|----------------------|---------------------|-------------------|------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 1,162,671 | \$ 457,829 | \$ 65,211 | \$ 14,497 | \$ 1,227,882 | \$ 472,326 |
| 2017 | 1,204,599 | 432,097 | 66,754 | 12,937 | 1,271,353 | 445,034 |
| 2018 | 1,237,113 | 400,545 | 68,332 | 11,339 | 1,305,445 | 411,884 |
| 2019 | 1,270,229 | 368,140 | 69,948 | 9,704 | 1,340,177 | 377,844 |
| 2020 | 1,303,961 | 334,787 | 71,603 | 8,030 | 1,375,564 | 342,817 |
| 2021-2025 | 6,704,814 | 1,099,264 | 303,750 | 14,578 | 7,008,564 | 1,113,842 |
| 2026-2029 | 3,930,775 | 200,075 | - | - | 3,930,775 | 200,075 |
| | <u>\$ 16,814,162</u> | <u>\$ 3,292,737</u> | <u>\$ 645,598</u> | <u>\$ 71,085</u> | <u>\$ 17,459,760</u> | <u>\$ 3,363,822</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 \$716,683 and total principal and interest to be paid on the water bonds is \$20,106,899. Principal and interest paid for the current year and total customer net revenues for the Water Utility were \$1,288,200 and \$2,811,503, respectively. Principal and interest paid for the current year and total customer net revenues for the Wastewater Utility were \$79,727 and \$448,761, respectively.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE H - EMPLOYEE RETIREMENT PLAN

The Utilities participate in the Wisconsin Retirement System (WRS) through its fiscal agent, the City of Marinette. As a result, required contributions of the Utilities are included with the City's WRS contributions. The Utilities implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, resulting in the Utilities' proportionate share of the net pension asset and corresponding deferred outflows of the City of Marinette being reported in the Utilities' financial statements.

a. Plan Description

The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

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

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

The WRS also provides death and disability benefits for employees.

b. Post-Retirement Adjustments

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

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE H - EMPLOYEE RETIREMENT PLAN (Continued)

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

c. Contributions

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

During the reporting period, the WRS recognized \$46,528 in contributions from the Utilities.

Contribution rates as of December 31, 2015 are:

| Employee Category | Employee | Employer |
|------------------------------------|----------|----------|
| General | 6.8% | 6.8% |
| Executives & Elected Officials | 7.7% | 7.7% |
| Protective with Social Security | 6.8% | 9.5% |
| Protective without Social Security | 6.8% | 13.1% |

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

At December 31, 2015, the Utilities reported an asset of \$126,583 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utilities' proportion of the net pension asset was based on the Utilities' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the Utilities' proportion was .00515354%, which was a decrease of .00011368% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the Utilities recognized pension expense of \$50,303.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE H - EMPLOYEE RETIREMENT PLAN (Continued)

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

| | Deferred Outflows of Resources |
|---|-----------------------------------|
| Differences between expected and actual experience | \$ 18,350 |
| Net differences between projected and actual earnings on pension plan investments | 61,297 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,758 |
| Employer contributions subsequent to the measurement date | 51,990 |
| Total | \$ 134,395 |

\$51,990 reported as deferred outflows related to pension resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

| Year ended December 31 | Deferred Outflows of Resources |
|---------------------------|-----------------------------------|
| 2015 | \$ 20,137 |
| 2016 | 20,137 |
| 2017 | 20,137 |
| 2018 | 20,137 |
| 2019 | 1,857 |

e. Actuarial Assumption

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

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

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

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

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE H - EMPLOYEE RETIREMENT PLAN (Continued)

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

| Asset Class | Long-Term Real Rate of Return | Target Allocation |
|----------------------------|-------------------------------|-------------------|
| US Equities | 5.3% | 21% |
| International Equities | 5.7% | 23% |
| Fixed Income | 1.7% | 36% |
| Inflation Sensitive Assets | 2.3% | 20% |
| Real Estate | 4.2% | 7% |
| Private Equity/Debt | 6.9% | 7% |
| Multi-Asset | 3.9% | 6% |
| Cash | 0.9% | -20% |

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

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

| | 1% Decrease to Discount Rate (6.2%) | Current Discount Rate (7.2%) | 1% Increase to Discount Rate (8.2%) |
|---|-------------------------------------|------------------------------|-------------------------------------|
| Utilities' proportionate share of net pension asset (liability) | \$ (357,119) | \$ 126,583 | \$ 508,595 |

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

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

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.

Net position reported on the statement of net position at December 31, 2015 consists of the following:

| | |
|---|----------------------|
| Net investment in capital assets | |
| Land and land rights | \$ 639,506 |
| Structures and improvements | 17,816,709 |
| Improvements other than buildings | 42,294,808 |
| Machinery and equipment | 18,077,707 |
| Less: Accumulated depreciation | (27,604,392) |
| Less: Related long-term debt outstanding, including premium on debt | (17,572,281) |
| Net investment in capital assets | <u>33,652,057</u> |
| Restricted | |
| Pension benefits | 260,978 |
| Bond retirement | 1,768,403 |
| Plant replacement | 3,281,084 |
| Total Restricted | <u>5,310,465</u> |
| Unrestricted | <u>2,256,379</u> |
| Total Net Position | <u>\$ 41,218,901</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

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 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.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Financial Statements

December 31, 2015

NOTE L - CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES

The Utilities have adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, which revised and established new financial reporting requirements for governments that provide their employees with pension benefits. The new standards recognize pension costs as employment services are provided, rather than when the pensions are funded. The cumulative effect of this change is summarized below:

| | Business-type Activities | | |
|---|--------------------------|------------------|-------------------|
| | Water Utility | Sewer Utility | Total |
| Net Pension Asset | \$ 139,133 | \$ 68,522 | \$ 207,655 |
| Deferred Outflows of Resources | 31,175 | 15,353 | 46,528 |
| Total Cumulative Effect of Change in Accounting Principle | <u>\$ 170,308</u> | <u>\$ 83,875</u> | <u>\$ 254,183</u> |

NOTE M - UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also requires disclosures about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Utilities are currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Schedule of Proportionate Share of the Net Pension Asset
Wisconsin Retirement System
Last 10 Fiscal Years*

| | 2015 |
|--|-------------|
| Proportion of the net pension asset | 0.00515354% |
| Proportionate share of the net pension asset | \$ 126,583 |
| Covered-employee payroll | \$ 664,686 |
| Plan fiduciary net position as a percentage of the total pension asset | 102.74% |

* The amounts presented for each fiscal year were determined as of the calendar year-end of the prior year.

See Notes to Required Supplementary Information.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Schedule of Contributions
Wisconsin Retirement System
Last 10 Fiscal Years*

| | 2015 |
|---|------------|
| Contractually required contributions | \$ 46,528 |
| Contributions in relation to the contractually required contributions | \$ 46,528 |
| Contribution deficiency (excess) | \$ - |
| Covered-employee payroll | \$ 664,686 |
| Contributions as a percentage of covered-employee payroll | 7.00% |

* The amounts presented for each fiscal year were determined as of the calendar year-end of the prior year.

See Notes to Required Supplementary Information.

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES

Notes to Required Supplementary Information

December 31, 2015

NOTE A - GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 68 AND 71

The Utilities implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – *An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* for the fiscal year ended December 31, 2015. Information for prior years is not available.

NOTE B - WISCONSIN RETIREMENT SYSTEM

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

SUPPLEMENTARY INFORMATION

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Net Position
Water Utility
December 31, 2015
(With summarized financial information as of December 31, 2014)

| | 2015 | 2014 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and investments | \$ 361,555 | \$ - |
| Accounts receivable | 565,632 | 537,755 |
| Special assessments receivable | 34,083 | 94,144 |
| Inventories | 35,565 | 30,511 |
| Prepaid items | 587 | - |
| Other assets | 2,340 | 2,340 |
| Total Current Assets | <u>999,762</u> | <u>664,750</u> |
| Restricted Assets | | |
| Cash and investments | 1,768,403 | 1,672,294 |
| Other Assets | | |
| Net pension asset | 84,813 | - |
| Capital Assets | | |
| Land and land rights | 619,406 | 619,406 |
| Structures and improvements | 11,657,276 | 11,657,276 |
| Improvements other than buildings | 24,137,417 | 23,861,792 |
| Machinery and equipment | 9,510,765 | 9,510,765 |
| Gross Capital Assets | <u>45,924,864</u> | <u>45,649,239</u> |
| Accumulated depreciation | <u>(9,064,848)</u> | <u>(7,872,261)</u> |
| Total Net Capital Assets | <u>36,860,016</u> | <u>37,776,978</u> |
| TOTAL ASSETS | <u>39,712,994</u> | <u>40,114,022</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pension | 90,667 | - |
| Unamortized loss on advance refunding | 109,677 | 131,612 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>200,344</u> | <u>131,612</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 40,240 | 273,133 |
| Accrued payroll | 22,127 | 18,108 |
| Accrued interest | 83,479 | 61,877 |
| Due to municipality | - | 2,472,344 |
| Due to sewer utility | - | 254,377 |
| Total Current Liabilities | <u>145,846</u> | <u>3,079,839</u> |
| Noncurrent Liabilities | | |
| Due within one year | 1,172,696 | 871,311 |
| Due in more than one year | 15,797,499 | 14,124,928 |
| Total Noncurrent Liabilities | <u>16,970,195</u> | <u>14,996,239</u> |
| TOTAL LIABILITIES | <u>17,116,041</u> | <u>18,076,078</u> |
| NET POSITION | | |
| Net investment in capital assets | 19,933,333 | 22,819,369 |
| Restricted | | |
| Pension benefits | 175,480 | - |
| Bond retirement | 1,768,403 | 1,672,294 |
| Unrestricted (deficit) | 920,081 | (2,322,107) |
| TOTAL NET POSITION | <u>\$ 22,797,297</u> | <u>\$ 22,169,556</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, 2015
(With summarized financial information for the year ended December 31, 2014)

| | 2015 | 2014 |
|---|------------------|------------------|
| Operating Revenues | | |
| Unmetered sales | \$ 24,075 | \$ 23,613 |
| Metered sales | | |
| Residential | 1,413,625 | 1,183,903 |
| Commercial | 572,500 | 478,863 |
| Industrial | 1,111,684 | 997,459 |
| Multifamily residential | 16,676 | 9,223 |
| Private fire protection | 102,053 | 64,185 |
| Public fire protection | 1,013,152 | 891,170 |
| Other sales to public authorities | 224,484 | 135,499 |
| Forfeited discounts | 20,101 | 16,528 |
| Other | 52,169 | 57,620 |
| Total Operating Revenues | <u>4,550,519</u> | <u>3,858,063</u> |
| Operating Expenses | | |
| Source of Supply | | |
| Operation labor and expenses | 61,980 | 59,809 |
| Miscellaneous expenses | 2,152 | 582 |
| Maintenance of structures and improvements | 9,930 | 10,515 |
| Total Source of Supply | <u>74,062</u> | <u>70,906</u> |
| Pumping | | |
| Power purchased for pumping | 93,988 | 108,693 |
| Pumping labor and expenses | 20,398 | 16,859 |
| Miscellaneous expenses | 31,404 | 38,693 |
| Maintenance of structures and improvements | 12,947 | 7,952 |
| Maintenance of pumping equipment | 12,173 | 16,721 |
| Total Pumping | <u>170,910</u> | <u>188,918</u> |
| Water Treatment | | |
| Chemicals | 139,988 | 125,266 |
| Operation labor and expenses | 211,766 | 170,850 |
| Miscellaneous expenses | 33,417 | 46,122 |
| Maintenance of structures and improvements | 14,547 | 10,024 |
| Maintenance of water treatment equipment | 32,514 | 11,510 |
| Total Water Treatment | <u>432,232</u> | <u>363,772</u> |
| Transmission and Distribution | | |
| Storage facilities expenses | 11,032 | 9,439 |
| Transmission and distribution lines expenses | 53,162 | 60,244 |
| Meter expenses | 518 | 1,809 |
| Customer installations expenses | 53,911 | 73,726 |
| Miscellaneous expenses | 17,718 | 12,588 |
| Maintenance of distribution reservoirs and standpipes | 277,338 | 288,414 |
| Maintenance of transmission and distribution mains | 80,861 | 165,292 |
| Maintenance of services | 87,192 | 93,003 |
| Maintenance of meters | 1,936 | 704 |
| Maintenance of hydrants | 27,748 | 9,549 |
| Total Transmission and Distribution | <u>611,416</u> | <u>714,768</u> |

(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, 2015
(With summarized financial information for the year ended December 31, 2014)

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Customer Accounts | | |
| Meter reading expenses | 2,723 | 1,332 |
| Customer records and collection expenses | 62,209 | 38,577 |
| Uncollectible accounts | 393 | (276) |
| Miscellaneous customer accounts expenses | 7,980 | 8,266 |
| Total Customer Accounts | <u>73,305</u> | <u>47,899</u> |
| Administrative and General | | |
| Administrative and general salaries | 59,585 | 60,538 |
| Office supplies and expenses | 20,472 | 50,258 |
| Outside services employed | 22,565 | 42,725 |
| Property insurance | 23,937 | 29,514 |
| Employee pensions and benefits | 167,925 | 192,273 |
| Regulatory commission expense | 10,421 | 13,210 |
| Miscellaneous general expenses | 17,130 | 13,096 |
| Maintenance of general plant | 18,091 | 17,019 |
| Total Administrative and General | <u>340,126</u> | <u>418,633</u> |
| Depreciation | 1,234,227 | 1,273,596 |
| Taxes | 36,965 | 34,703 |
| Total Operating Expenses | <u>2,973,243</u> | <u>3,113,195</u> |
| Operating Income | <u>1,577,276</u> | <u>744,868</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest revenue | 1,145 | 2,349 |
| Interest and fiscal charges | (554,014) | (586,106) |
| Miscellaneous nonoperating revenues | 201,412 | - |
| Total Nonoperating Revenues (Expenses) | <u>(351,457)</u> | <u>(583,757)</u> |
| Net Income Before Transfers and Capital Contributions | 1,225,819 | 161,111 |
| Transfers | <u>(768,386)</u> | <u>(798,367)</u> |
| Net Income (Loss) | 457,433 | (637,256) |
| Capital Contributions | <u>-</u> | <u>581,500</u> |
| Change in Net Position | <u>457,433</u> | <u>(55,756)</u> |
| Net Position - January 1, as originally reported | 22,169,556 | 22,030,898 |
| Prior period adjustment | - | 194,414 |
| Cumulative effect of change in accounting principle | <u>170,308</u> | <u>-</u> |
| Net Position - January 1, as restated | <u>22,339,864</u> | <u>22,225,312</u> |
| Net Position - December 31 | <u>\$ 22,797,297</u> | <u>\$ 22,169,556</u> |

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Cash Flows
Water Utility
For the Year Ended December 31, 2015
(With summarized financial information for the year ended December 31, 2014)

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash received from customers | \$ 4,477,692 | \$ 3,693,563 |
| Cash paid to suppliers | (994,697) | (1,255,789) |
| Cash paid to employees | (725,364) | (800,084) |
| Other operating income | 72,270 | 74,148 |
| Net Cash Provided by Operating Activities | <u>2,829,901</u> | <u>1,711,838</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Transfers and advances | <u>(3,495,107)</u> | <u>(569,164)</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Net acquisition of capital assets | (344,585) | (940,208) |
| Proceeds of debt | 2,830,000 | 2,850,000 |
| Premium received | 18,966 | 109,992 |
| Principal paid on revenue bonds | (871,312) | (2,290,508) |
| Interest paid on revenue bonds | (416,887) | (448,977) |
| Bond issuance costs paid | (102,170) | (132,240) |
| Capital contributions | 7,713 | 584,609 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>1,121,725</u> | <u>(267,332)</u> |
| Cash Flows from Investing Activities | | |
| Interest received on investments | <u>1,145</u> | <u>2,349</u> |
| Increase in Cash and Cash Equivalents | 457,664 | 877,691 |
| Cash and Cash Equivalents - January 1 | <u>1,672,294</u> | <u>794,603</u> |
| Cash and Cash Equivalents - December 31 | <u>\$ 2,129,958</u> | <u>\$ 1,672,294</u> |
| Reconciliation of cash and cash equivalents to the statement of net position: | | |
| Unrestricted cash and investments | \$ 361,555 | \$ - |
| Restricted cash and investments | 1,768,403 | 1,672,294 |
| Total Cash and Cash Equivalents | <u>\$ 2,129,958</u> | <u>\$ 1,672,294</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 1,577,276 | \$ 744,868 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 1,234,227 | 1,273,596 |
| Depreciation charged to operating accounts | 27,320 | 27,940 |
| Changes in pension related assets and deferred outflows | (5,172) | - |
| Changes in assets and liabilities | | |
| Accounts receivable | (27,877) | (118,292) |
| Inventories | (5,054) | 672 |
| Prepaid items | (587) | - |
| Accounts payable | 20,867 | (132,452) |
| Accrued payroll | 4,019 | (6,291) |
| Compensated absences | 4,882 | (78,203) |
| Net Cash Provided by Operating Activities | <u>\$ 2,829,901</u> | <u>\$ 1,711,838</u> |

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Net Position
Wastewater Utility
December 31, 2015
(With summarized financial information as of December 31, 2014)

| | 2015 | 2014 |
|---------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and investments | \$ 1,392,937 | \$ 847,392 |
| Accounts receivable | 175,741 | 200,416 |
| Due from municipality | - | 254,377 |
| Total Current Assets | <u>1,568,678</u> | <u>1,302,185</u> |
| Restricted Assets | | |
| Cash and investments | 3,281,084 | 3,341,022 |
| Other Assets | | |
| Net pension asset | 41,770 | - |
| Capital Assets | | |
| Land and land rights | 20,100 | 20,100 |
| Structures and improvements | 6,159,433 | 6,159,433 |
| Improvements other than buildings | 18,157,391 | 17,976,176 |
| Machinery and equipment | 8,566,942 | 8,566,942 |
| Gross Capital Assets | <u>32,903,866</u> | <u>32,722,651</u> |
| Accumulated depreciation | <u>(18,539,544)</u> | <u>(17,713,619)</u> |
| Total Capital Assets | <u>14,364,322</u> | <u>15,009,032</u> |
| TOTAL ASSETS | <u>19,255,854</u> | <u>19,652,239</u> |
| | | |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pension | <u>43,728</u> | <u>-</u> |
| | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 45,757 | 20,929 |
| Accrued payroll | 15,072 | 11,491 |
| Accrued interest | 2,519 | 2,768 |
| Due to municipality | 101,635 | 107,729 |
| Total Current Liabilities | <u>164,983</u> | <u>142,917</u> |
| Noncurrent Liabilities | | |
| Due within one year | 65,211 | 62,233 |
| Due in more than one year | 647,784 | 714,723 |
| Total Noncurrent Liabilities | <u>712,995</u> | <u>776,956</u> |
| TOTAL LIABILITIES | <u>877,978</u> | <u>919,873</u> |
| | | |
| NET POSITION | | |
| Net investment in capital assets | 13,718,724 | 14,299,729 |
| Restricted | | |
| Pension benefits | 85,498 | - |
| Bond retirement | - | 5,029 |
| Plant replacement | 3,281,084 | 3,335,993 |
| Unrestricted | <u>1,336,298</u> | <u>1,091,615</u> |
| TOTAL NET POSITION | <u>\$ 18,421,604</u> | <u>\$ 18,732,366</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, 2015

(With summarized financial information for the year ended December 31, 2014)

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Measured service | | |
| Residential | \$ 874,645 | \$ 913,326 |
| Commercial | 331,635 | 340,806 |
| Industrial | 300,894 | 266,579 |
| Revenues from public authorities | 174,334 | 148,167 |
| Total charges for services | <u>1,681,508</u> | <u>1,668,878</u> |
| Forfeited discounts | 8,226 | 9,454 |
| Miscellaneous operating revenues | 21,997 | 53,436 |
| Total Operating Revenues | <u>1,711,731</u> | <u>1,731,768</u> |
| Operating Expenses | | |
| Maintenance of buildings and grounds | 20,772 | 57,207 |
| Maintenance of treatment equipment | 32,879 | 131,574 |
| Collection system operations | 223,086 | 185,905 |
| Lift stations | 35,440 | 54,851 |
| Treatment plant operations | 331,570 | 268,830 |
| General and administrative | 510,899 | 377,055 |
| Sludge management | 108,324 | 11,822 |
| Depreciation | 838,317 | 835,519 |
| Total Operating Expenses | <u>2,101,287</u> | <u>1,922,763</u> |
| Operating Loss | <u>(389,556)</u> | <u>(190,995)</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest revenue | 10,692 | 6,431 |
| Interest and fiscal charges | (15,773) | (17,268) |
| Total Nonoperating Revenues (Expenses) | <u>(5,081)</u> | <u>(10,837)</u> |
| Net Loss | (394,637) | (201,832) |
| Capital Contributions | - | 231,376 |
| Change in Net Position | <u>(394,637)</u> | <u>29,544</u> |
| Net Position - January 1, as originally reported | 18,732,366 | 18,702,822 |
| Cumulative effect of change in accounting principle | 83,875 | - |
| Net Position - January 1, as restated | <u>18,816,241</u> | <u>18,702,822</u> |
| Net Position - December 31 | <u>\$ 18,421,604</u> | <u>\$ 18,732,366</u> |

CITY OF MARINETTE WATER AND WASTEWATER UTILITIES
Statement of Cash Flows
Wastewater Utility
For the Year Ended December 31, 2015
(With summarized financial information for the year ended December 31, 2014)

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash received from customers | \$ 1,706,183 | \$ 1,619,787 |
| Cash paid to suppliers | (799,747) | (658,386) |
| Cash paid to employees | (436,693) | (419,907) |
| Other operating income | 30,223 | 62,890 |
| Net Cash Provided by Operating Activities | <u>499,966</u> | <u>604,384</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Transfers and advances | <u>248,283</u> | <u>(88,583)</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Net acquisition of capital assets | (193,607) | (546,744) |
| Principal paid on revenue bonds | (63,705) | (62,232) |
| Interest paid on revenue bonds | (16,022) | (17,512) |
| Capital contributions | - | 231,376 |
| Net Cash Used by Capital and Related Financing Activities | <u>(273,334)</u> | <u>(395,112)</u> |
| Cash Flows from Investing Activities | | |
| Interest received on investments | <u>10,692</u> | <u>6,431</u> |
| Increase in Cash and Cash Equivalents | 485,607 | 127,120 |
| Cash and Cash Equivalents - January 1 | <u>4,188,414</u> | <u>4,061,294</u> |
| Cash and Cash Equivalents - December 31 | <u>\$ 4,674,021</u> | <u>\$ 4,188,414</u> |
| Reconciliation of cash and cash equivalents to the statement of net position: | | |
| Unrestricted cash and investments | \$ 1,392,937 | \$ 847,392 |
| Restricted cash and investments | 3,281,084 | 3,341,022 |
| Total Cash and Cash Equivalents | <u>\$ 4,674,021</u> | <u>\$ 4,188,414</u> |
| Reconciliation of Operating Loss to Net Cash Provided by Operating Activities | | |
| Operating loss | \$ (389,556) | \$ (190,995) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Depreciation | 838,317 | 835,519 |
| Changes in pension related assets and deferred outflows | (1,623) | - |
| Changes in assets and liabilities | | |
| Accounts receivable | 24,675 | (49,091) |
| Accounts payable | 24,828 | 11,798 |
| Accrued payroll | 3,581 | (23) |
| Compensated absences | (256) | (2,824) |
| Net Cash Provided by Operating Activities | <u>\$ 499,966</u> | <u>\$ 604,384</u> |