

YORKVILLE WATER UTILITY DISTRICT #1

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

YORKVILLE WATER UTILITY DISTRICT #1

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December 31, 2016 and 2015

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Patrick W. Romenesko, S.C.
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

The Board of Commissioners
Yorkville Water Utility District #1
Racine County, Wisconsin

I have audited the accompanying financial statements of the Yorkville Water Utility District #1, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Yorkville Water Utility District #1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Yorkville Water Utility District #1 as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the enterprise fund and do not purport to, and do not present fairly the financial position of the Town of Yorkville as of December 31, 2016 and 2015, and the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Yorkville Water Utility District #1 basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the of the basic financial statements.

This supplemental information is the responsibility of management and was derived from and relate 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



PATRICK W. ROMENESKO, S.C.
CERTIFIED PUBLIC ACCOUNTANT

Lake Geneva, Wisconsin
April 20, 2017

YORKVILLE WATER UTILITY DISTRICT #1
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
<u>Current Assets</u>		
Cash and working funds	\$ 609,848	\$ 547,792
Customer accounts receivable	23,937	24,425
Receivable from municipality	91,950	91,325
Receivable from sewer utility	-	217
Materials and supplies	4,986	4,986
	730,721	668,745
<u>Restricted Assets</u>		
Water tower maintenance savings	132,896	112,397
<u>Capital Assets</u>		
Utility plant	2,741,836	2,738,001
Less: Accumulated depreciation	(698,798)	(646,795)
	2,043,038	2,091,206
	2,906,655	2,872,348

LIABILITIES

<u>Current Liabilities</u>		
Accounts payable	3,855	10,630
Accrued wages	2,250	2,556
Taxes accrued	17,715	17,715
Other deferred credits	14,652	14,652
	38,472	45,553

NET POSITION

<u>Net Position</u>		
Invested in capital assets, net of related debt	2,043,038	2,091,206
Restricted for plant maintenance	132,896	112,397
Unrestricted	692,249	623,192
	\$ 2,868,183	\$ 2,826,795

See accompanying notes to financial statements.

YORKVILLE WATER UTILITY DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating Revenues	\$ 203,739	\$ 199,840
<u>Operating Expenses</u>		
Operation and maintenance expenses	121,466	90,383
Depreciation expense	56,153	55,803
Taxes	19,983	20,054
Total Operating Expenses	197,602	166,240
Operating Income	6,137	33,600
<u>Nonoperating Revenue</u>		
Income from utility plant leased to others	32,479	32,479
Investment income	2,772	789
Total nonoperating Revenue	35,251	33,268
Changes in Net Position	41,388	66,868
Net Position - Beginning of Year	2,826,795	2,759,927
Net Position - End of Year	\$ 2,868,183	\$ 2,826,795

See accompanying notes to financial statements.

Two page statements of cash flows follow.

YORKVILLE WATER UTILITY DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<u>Cash Flows From Operating Activities</u>		
Receipts from customers	\$ 204,227	\$ 196,965
Receipts from plant leased to others	32,479	32,479
Receipts from municipality	91,542	94,198
Payments to suppliers	(121,825)	(77,195)
Payments to municipality	(91,950)	(91,325)
Payments to employees	(26,705)	(27,728)
Net Cash Provided by Operating Activities	87,768	127,394
<u>Cash Flows From Capital And Related Financing Activities</u>		
Acquisition and construction of utility plant	(7,985)	(34,792)
<u>Cash Flows From Investing Activities</u>		
Investment income	2,772	789
Net Increase in Cash and Cash Equivalents	82,555	93,391
Cash and Cash Equivalents - Beginning of Year	660,189	566,798
Cash and Cash Equivalents - End of Year	\$ 742,744	\$ 660,189

See accompanying notes to financial statements.

YORKVILLE WATER UTILITY DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities</u>		
Operating income	\$ 6,137	\$ 33,600
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	56,153	55,803
Income from utility plant leased to others	32,479	32,479
Changes in current assets and current liabilities:		
Accounts receivable	488	(2,875)
Receivable from municipality	(408)	2,873
Materials and supplies inventory	-	(1,128)
Accounts payable	(6,775)	6,848
Accrued wages	(306)	420
Other deferred credits	-	(626)
Net Cash Provided by Operating Activities	87,768	127,394
<u>Reconciliation of Cash and Cash Equivalents to Statements of Net Position</u>		
Cash and working funds reported in current assets	609,848	547,792
Cash and investments reported in restricted assets	132,896	112,397
Cash and Cash Equivalents - End of Year	\$ 742,744	\$ 660,189

See accompanying notes to financial statements.

YORKVILLE WATER UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1 - Summary of Significant Accounting Policies

Regulated Municipal Utility

The Yorkville Water Utility District #1 (the utility) operates under service rules which are established by the Public Service Commission of Wisconsin. Rates charged are regulated by the Commission. The accounting records of the utility are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission.

Nature of Operations

The Yorkville Water Utility District #1 provides water service to properties within its service area and is managed by a commission consisting of the members of the Town of Yorkville board of supervisors along with two members of the general public. As a component unit of the Town of Yorkville, the commission is not required to include Management's Discussion and Analysis in its financial statements.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting standards generally accepted in the United States of America, as set forth by the Governmental Accounting Standards Board.

Cash and Investments

Cash includes amounts in demand deposits and the Wisconsin local government investment pool. Cash is stated at cost which substantially equals fair value. Generally accepted accounting principles require all deposits and investments with remaining maturities at the date of purchase of one year or less at amortized cost. All other investments are to be reported at fair value. The utility has reported its investments at cost inasmuch as it has determined that the cost basis of its investments is not materially different from fair value. For purposes of the statement of cash flows, cash equivalents are temporary cash investments with a maturity of three months or less at the date of purchase.

Capital Assets

Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overheads, and an allowance for the cost of funds used during construction, when significant. The utility defines capital assets as items with an initial, aggregate cost of more than \$500 (except for water meters) and an estimated useful life of at least three years. The cost of renewals and improvements relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies - Continued

Depreciation

The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs. The rates used were approved by the Public Service Commission. Depreciation expense was calculated using various rates of average depreciable plant. Depreciation expense on the water plant was \$56,153 for 2016 and \$55,803 for 2015.

Accounts Receivable

No provision for uncollectible accounts receivable has been made in the accompanying financial statements because the utility has the right by law to place delinquent water bills on the tax roll.

Inventories

Inventories are valued at the lower of cost or market and are generally used for construction and for operation and maintenance work. The first-in, first-out method is used for determining the cost of inventory.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Water revenues are recorded based on actual service rendered; billings are made to customers on a quarterly basis. Unbilled water service at year end is not material and has not been recognized as revenue and receivables in the accompanying financial statements.

Operating and Nonoperating Revenues

The utility reports revenues as operating and nonoperating. Operating revenues are those directly associated with the billed sale of water service to its customers. Nonoperating revenues include all other revenues not fitting the definition of operating. For the utility, nonoperating revenues represent investment earnings and income from utility plant leased to others.

Income Tax

Municipal utilities are exempt from federal and state income taxes.

Note 2 - Cash and Investments

Investments of utility funds are restricted by state statutes. Permitted investments for the utility include any of the following:

(1) Time deposits maturing within three years in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to do business in Wisconsin. (2) Bonds or securities issued or guaranteed by the federal government and its agencies. (3) The Wisconsin Local Government Investment Pool and Wisconsin Investment Trust. (4) Bonds or securities of any county, city, drainage district, technical college district, local exposition district, local professional baseball park district, city, town, or school district of the state and the University of Wisconsin Hospitals and Clinics Authority. (5) Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by a nationally recognized rating agency or if that security is senior to, or on parity with, a security of the same issuer which has such a rating. (6) Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities. (7) Securities of open-end management companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds or securities issued by the federal government or a commission, board or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds and securities.

The utility's cash and investments at December 31, 2016 consisted of the following:

	<u>Carrying Amount</u>	<u>Amounts Deposited</u>	<u>Uninsured Deposits</u>
Checking account	\$ 5,693	<u>\$ 5,849</u>	<u>\$ - - -</u>
State Local Government Investment Pool	<u>737,051</u>		
Total	<u>\$ 742,744</u>		

The cash and investments are recorded in the statement of net position as follows:

Cash and working fund	\$ 609,848
Restricted cash	<u>132,896</u>
Total	<u>\$ 742,744</u>

Utility deposits are insured by the FDIC for up to \$250,000 for time and savings deposits (including interest-bearing NOW accounts), and an additional \$250,000 of FDIC insurance is available for demand (non-interest bearing checking accounts) for each bank used. All utility deposits are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses of the pool may not be significant to individual municipalities.

Note 2 - Cash and Investments - Continued

For all investments shown, the fair value at the balance sheet date is substantially the same as the carrying value. The difference between the amounts reported as bank deposits and the carrying amounts above is due to the effect of outstanding checks and deposits in transit on the utility's cash balances.

The utility addresses the following risks related to its cash and investments:

Custodial Credit Risk

Custodial credit risk represents the risk that in the event of a financial institution failure, the utility's deposits may not be recovered. At December 31, 2016, all of the utility's bank deposits were covered by FDIC insurance and, therefore, minimized its exposure to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the investment. The utility has deposits in the Local Government Investment Pool which is not rated, however, consists of investments in federal government securities.

Interest Rate Risk

The utility does not have formal policies related to interest rate risk, the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2016 the town's investment in the Local Government Investment Pool (LGIP) had a fair value balance of \$737,051. The LGIP had a weighted average maturity of 61 days at December 31, 2016.

The Local Government Investment Pool (LGIP) is an investment fund managed by the State of Wisconsin Investment Board. The LGIP accepts deposits from governmental units within the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity and a reasonable rate of return. The LGIP is regulated by sections 25.14 and 25.17 of the Wisconsin Statutes and is not a SEC registered investment. The yield of the LGIP changes daily and its participants may invest or withdraw any or all amounts at par value at any time. The LGIP balance reported in the financial statements at December 31, 2016 is \$737,051 at cost basis. The fair value of the LGIP investment at December 31, 2016 did not materially differ from its cost basis. A surety bond issued by Financial Security, Inc. insures the investments of the LGIP. This bond provides unlimited coverage on all of the LGIP's investments except U.S. Government and agency securities.

The utility does not have a formal investment policy.

Note 3 - Restricted Cash

Cash and investments have been restricted by the utility for the following purposes:

	<u>2016</u>	<u>2015</u>
Water tower maintenance fund	<u>\$ 132,896</u>	<u>\$ 112,397</u>

Note 4 - Capital Assets

The following summarizes the capital assets and accumulated depreciation at December 31, 2016 and 2015.

	Balance 12/31/15	Increases	Decreases	Balance 12/31/16
<u>2016</u>				
Capital assets, not being depreciated:				
Land and land rights	\$ 10,000	\$ ---	\$ ---	\$ 10,000
Capital assets, being depreciated:				
Pumping plant	353,889	---	---	353,889
Water treatment plant	3,060	---	---	3,060
Transmission and distribution plant	2,314,334	4,595	(2,450)	2,316,479
General plant	56,718	3,390	(1,700)	58,408
Total capital assets being depreciated	2,728,001	7,985	(4,150)	2,731,836
Less: accumulated depreciation	(646,795)	(56,153)	4,150	(698,798)
Total capital assets, being depreciated, net	2,081,206	(48,168)	---	2,033,038
Net Capital Assets	<u>\$ 2,091,206</u>	<u>\$ (48,168)</u>	<u>\$ ---</u>	<u>\$ 2,043,038</u>
	Balance 12/31/14	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated:				
Land and land rights	\$ 10,000	\$ ---	\$ ---	\$ 10,000
Capital assets, being depreciated:				
Pumping plant	353,889	---	---	353,889
Water treatment plant	3,060	---	---	3,060
Transmission and distribution plant	2,294,842	34,792	(15,300)	2,314,334
General plant	56,718	---	---	56,718
Total capital assets being depreciated	2,708,509	34,792	(15,300)	2,728,001
Less: accumulated depreciation	(606,292)	(55,803)	15,300	(646,795)
Total capital assets, being depreciated, net	2,102,217	(21,011)	---	2,081,206
Net Capital Assets	<u>\$ 2,112,217</u>	<u>\$ (21,011)</u>	<u>\$ ---</u>	<u>\$ 2,091,206</u>

Note 5 - Risk Management

The utility has purchased commercial insurance policies for various risks of loss related to litigation, 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 the various funds of the utility. There were no settlements that exceeded insurance coverage in any of the past three years.

Note 6 - Regulated Water User Rates

Rates currently charged for water service as of December 31, 2016 were authorized by the Wisconsin Public Service Commission on February 24, 1998.

Note 7 - Subsequent Events

Management has evaluated the need for disclosure or recording of transactions resulting from subsequent events through April 20, 2017, the date the financial statements were available to be issued; and concluded there were no matters to be disclosed.

SUPPLEMENTAL INFORMATION

YORKVILLE WATER UTILITY DISTRICT #1
WATER UTILITY PLANT
DECEMBER 31, 2016

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/16</u>
<u>Pumping Plant</u>				
Structures and improvements	\$ 151,712	\$ -	\$ -	\$ 151,712
Electric pumping equipment	199,651	-	-	199,651
Miscellaneous equipment	2,526	-	-	2,526
Total Pumping Plant	<u>353,889</u>	<u>-</u>	<u>-</u>	<u>353,889</u>
<u>Water Treatment Plant</u>				
Water treatment equipment	3,060	-	-	3,060
Total Water Treatment Plant	<u>3,060</u>	<u>-</u>	<u>-</u>	<u>3,060</u>
<u>Transmission and Distribution Plant</u>				
Land and land rights	10,000	-	-	10,000
Distribution reservoirs and standpipes	759,665	-	-	759,665
Transmission and distribution mains	1,265,221	-	-	1,265,221
Services	98,507	-	-	98,507
Meters	32,170	4,595	2,450	34,315
Hydrants	158,771	-	-	158,771
Total Transmission and Distribution Plant	<u>2,324,334</u>	<u>4,595</u>	<u>2,450</u>	<u>2,326,479</u>
<u>General Plant</u>				
Office furniture and equipment	1,413	-	-	1,413
SCADA equipment	23,855	-	-	23,855
Computer equipment	9,900	-	-	9,900
Other general equipment	21,550	3,390	1,700	23,240
Total General Plant	<u>56,718</u>	<u>3,390</u>	<u>1,700</u>	<u>58,408</u>
Total Water Utility Plant	<u><u>\$ 2,738,001</u></u>	<u><u>\$ 7,985</u></u>	<u><u>\$ 4,150</u></u>	<u><u>\$ 2,741,836</u></u>

YORKVILLE WATER UTILITY DISTRICT #1
SCHEDULE OF WATER OPERATING REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues</u>		
Unmetered sales	\$ 29	\$ -
Commercial metered sales	96,012	93,708
Public fire protection	91,950	91,950
Sales to irrigation customers	<u>15,732</u>	<u>14,142</u>
Total Sales	203,723	199,800
Forfeited discounts	<u>16</u>	<u>40</u>
Total Operating Revenues	<u>203,739</u>	<u>199,840</u>
<u>Operating Expenses</u>		
Plant Operation and Maintenance Expenses:		
Salaries and wages	25,277	27,744
Power purchased for pumping	16,744	18,053
Chemicals	3,524	1,221
Supplies and expenses	4,535	3,722
Repairs of water plant	27,378	7,803
Transportation expense	<u>752</u>	<u>345</u>
Total Plant Operation and Maintenance Expenses	<u>78,210</u>	<u>58,888</u>
Administrative and General Expense:		
Administrative and general salaries	400	375
Office supplies and expenses	4,836	4,785
Outside services employed	33,591	22,107
Miscellaneous	200	-
Insurance expense	<u>4,229</u>	<u>4,228</u>
Total Administrative and General Expense	<u>43,256</u>	<u>31,495</u>
Total Operation and Maintenance Expenses	121,466	90,383
Depreciation expense	56,153	55,803
Taxes	<u>19,983</u>	<u>20,054</u>
Total Operating Expenses	<u>197,602</u>	<u>166,240</u>
Operating Income	<u>\$ 6,137</u>	<u>\$ 33,600</u>