

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

**BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005**

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Independent Auditor's Report

Board of Water Commissioners
City of Kenosha, Water Utility
Kenosha, Wisconsin

We have audited the accompanying statement of net assets of the City of Kenosha Water Utility, and enterprise fund of the City of Kenosha, as of December 31, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Kenosha, Water Utility as of December 31, 2005 were audited by other auditors whose report dated August 10, 2006, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the Note 1, the financial statements present only the City of Kenosha, Water Utility and do not purport to, and do not, present fairly the financial position of the City of Kenosha, Wisconsin, as of December 31, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Kenosha, Water Utility as of December 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 15 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole. The water tax equivalent calculation schedules listed on page 40 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Clifton Henderson LLP

Racine, Wisconsin
April 30, 2007

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

Management's Discussion and Analysis

The management discussion and analysis of the Kenosha Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2006 and 2005. This information should be read in conjunction with the financial statements.

2006 Financial Highlights

The Utility's combined net assets increased to \$139.4 million from \$134.1 million. Events that had significant impact on the financial statements were:

- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$0.9 and \$1.2 million (not including assessments and impact fees), respectively.
- Construction in progress decreased by \$1.9 million. Projects that were completed during the year included water main replacements (\$2.3 million) and the Strawberry Creek sewage lift station and force main (\$1.1 million). Construction in progress added during the year included water and sewer mains (\$0.7 million), continued construction of an elevated tank west of I-94 (\$0.6 million) and water and sewer buildings and improvements (\$0.3 million).

2005 Financial Highlights

The Utility's combined net assets increased from \$125.7 million to \$134.1 million. Events that had significant impact on the financial statements were:

- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$2.5 and \$1.9 million (not including assessments and impact fees), respectively.
- Several water main projects were completed by the Utility during the year valued at approximately \$0.9 million.
- Construction in progress increased by \$3.0 million. Projects included water main replacements (\$1.8 million), an elevated tank west of I-94 (\$0.6 million), and the Strawberry Creek sewage lift station (\$0.6 million).

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

CITY OF KENOSHA WATER UTILITY
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The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The **statement of net assets** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net assets presents information on all of the Utility's assets and liabilities, with the difference reported as net assets. This statement provides information about the nature and amount of investments in resources (assets) and the obligations to Utility creditors (liabilities). Over time, increases and decreases in net assets is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in net assets** presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **supplemental schedules** provide more detail than the preceding schedules. A Schedule of Capital Assets is provided for the Water, Sewerage, and Household Hazardous Waste units. Detailed debt repayment schedules are provided for all debt issues. Detailed operating revenue and expense statements are provided as well as the water tax equivalent calculation.

Summary of Organization and Business

The Kenosha Water Utility's mission is:

"Providing and Protecting Kenosha's Greatest Natural Resource – *Water*"

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The Kenosha Water Utility (KWU) provides water and wastewater service to more than 100,000 persons in the greater Kenosha area, including the City of Kenosha, Village of Pleasant Prairie, Town of Somers and Town of Bristol. The Kenosha Water Utility also provides a monthly household hazardous waste collection service for City of Kenosha residents.

The Kenosha Water Utility is a municipally-owned, fiscally-independent public utility organized under authority of Section 66.0805 of the Wisconsin State Statutes and Chapter XXXII of the City of Kenosha Code of General Ordinances. The Utility is an enterprise fund of the City of Kenosha and is solely financed by service charges operating like a private business entity. The Utility has no taxing power and receives no tax revenues from the City of Kenosha. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, developers, Federal and State grants and loans, bond sales, and Utility revenues.

The Board of Water Commissioners is composed of six aldermen appointed under authority of Section 1.06H of the City of Kenosha Code of General Ordinances. The powers and duties of the Board of Water Commissioners include establishing policy, adopting rules and regulations, adopting an annual budget, establishing rates and fees, and approving contracts and agreements. The management and operation of the Water Utility is under the direction of the General Manager who is appointed by the Board of Water Commissioners.

Surface water from Lake Michigan has been Kenosha's source of water since 1894. Lake Michigan water is valued for both its quality and quantity. The Utility provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection, and other purposes. The wastewater treatment plant provides primary and secondary treatment with disinfection in accordance with permits from the State of Wisconsin Department of Natural Resources. The treated wastewater is discharged to Lake Michigan and the solids are transported to a landfill. Both plants are in compliance with all State and Federal regulations. The Household Hazardous Waste program was established in 1992 and provides for a monthly drop-off service to city residential customers. Wastes are disposed of by licensed waste haulers.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as a reasonable level of unrestricted net assets. Management feels that the current financial condition, technical support staff capabilities and operating and expansion plans will meet anticipated customer needs.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statements and associated notes. Certain amounts from prior years have been reclassified or restated; see notes 10 and 11 of the audited financial statements.

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Condensed Summary of Net Assets

	<u>December 31</u>			<u>Variance of 2006 to 2005</u>	
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Dollars</u>	<u>%</u>
Capital assets:				Increase (decrease)	
Net plant in service	\$ 154,848,287	\$ 151,353,988	\$ 149,607,910	\$ 3,494,299	2.3 %
Construction in progress	2,930,684	4,854,778	1,853,380	(1,924,094)	(39.6)
Other capital assets	938,256	952,743	967,230	(14,487)	(1.5)
Current, restricted and other assets	<u>27,767,945</u>	<u>27,647,820</u>	<u>28,505,518</u>	<u>120,125</u>	<u>0.4</u>
Total assets	<u>186,485,172</u>	<u>184,809,329</u>	<u>180,934,038</u>	<u>1,675,843</u>	<u>0.9</u>
Current liabilities	7,873,908	7,196,402	7,741,573	677,506	9.4
Long-term liabilities	<u>39,166,444</u>	<u>43,419,053</u>	<u>47,459,285</u>	<u>(4,252,609)</u>	<u>(9.8)</u>
Total liabilities	<u>47,040,352</u>	<u>50,615,455</u>	<u>55,200,858</u>	<u>(3,575,103)</u>	<u>(7.1)</u>
Net assets:					
Invested in capital assets, net of related debt	116,636,952	111,035,801	102,427,573	5,601,151	5.0
Restricted for debt service	9,930,622	10,714,980	11,217,890	(784,358)	(7.3)
Unrestricted	<u>12,877,246</u>	<u>12,443,093</u>	<u>12,087,717</u>	<u>434,153</u>	<u>3.5</u>
Total net assets	<u>\$ 139,444,820</u>	<u>\$ 134,193,874</u>	<u>\$ 125,733,180</u>	<u>\$ 5,250,946</u>	<u>3.9 %</u>

In 2006, total net assets increased \$5.2 million or 3.9%. This was due to combined net income of the water, sewerage and household hazardous waste units of \$2.1 million and capital contributions of \$3.1 million. Capital contributions consisted of approximately \$2.1 million of infrastructure donated by developers and \$1.0 million in assessments and impact fees.

In 2005, total net assets increased \$8.4 million or 6.7%. This was due to combined net income of the water, sewerage and household hazardous waste units of \$3.3 million and capital contributions of \$5.1 million. Approximately \$4.4 million of the capital contributions was donated by developers and the remaining \$0.7 consisted of assessments and impact fees.

In 2006, total assets increased \$1.7 million or 0.9%. Capital assets increased \$5.7 million; accumulated depreciation increased \$4.2 million for a net increased of approximately \$1.5 million. Plant in service increased \$7.6 million due mainly to infrastructure donated by developers, water main installation and replacements and completion of the Strawberry Creek sewage lift station and force main. Construction in progress decreased \$1.9 million; major projects completed included water main replacements and the Strawberry Creek sewage lift station and force main. Projects not yet completed include an elevated water storage tank west of Highway I-94, water and sewer main replacements and water and sewer buildings and improvements. Total liabilities decreased \$3.5 million due to scheduled long-term debt payments of \$4.2 million and an increase in both payments due to the City of Kenosha of approximately \$0.5 million and the current portion of long-term debt of \$0.2 million.

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In 2005, total assets increased \$3.8 million or 2.1%. Capital assets increased \$8.5 million and accumulated depreciation increased \$3.8 million for a net increase of \$4.7 million. Plant in service increased \$5.5 million due to completion of water main replacement projects and infrastructure donated by developers. Construction in progress increased \$3.0 million; major projects included a sewage lift station at Strawberry Creek, an elevated water storage tank west of Highway I-94 and water main replacement projects. Total liabilities decreased \$4.6 million or 8.3% due to scheduled long-term debt payments.

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

CITY OF KENOSHA WATER UTILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

Condensed Summary of Revenues, Expenses and Changes in Fund Net Assets
Year ended December 31

	2006	2005	2004	Variance of 2006 to 2005	
				Dollars	%
Revenues:				Increase (decrease)	
Water service revenues	\$ 9,371,377	\$ 9,980,429	\$ 8,263,133	\$ (609,052)	(6.1) %
Sewerage service revenues	9,060,556	9,463,720	9,439,829	(403,164)	(4.3)
Household Hazardous Waste revenues	110,233	95,218	93,788	15,015	15.8
Other revenues	<u>3,073,752</u>	<u>3,039,516</u>	<u>2,829,173</u>	<u>34,236</u>	<u>1.1</u>
Total operating revenues	<u>21,615,918</u>	<u>22,578,883</u>	<u>20,625,923</u>	<u>(962,965)</u>	<u>(4.3)</u>
Expenses:					
Operating and maintenance, before depreciation and taxes					
Water operations	3,342,274	3,357,811	2,986,024	(15,537)	(0.5)
Sewerage operations	4,484,342	4,507,119	4,220,783	(22,777)	(0.5)
Household Hazardous Waste	130,050	102,564	91,259	27,486	26.8
Depreciation	4,653,234	4,583,688	4,525,694	69,546	1.5
Customer accounting and collecting, administrative and general	<u>4,155,284</u>	<u>3,561,821</u>	<u>3,362,610</u>	<u>593,463</u>	<u>16.7</u>
Total operating expenses	<u>16,765,184</u>	<u>16,113,003</u>	<u>15,186,370</u>	<u>652,181</u>	<u>4.0</u>
Operating income	<u>4,850,734</u>	<u>6,465,880</u>	<u>5,439,553</u>	<u>(1,615,146)</u>	<u>(25.0)</u>
Nonoperating revenues	1,009,837	784,679	456,195	225,158	28.7
Nonoperating expenses	<u>2,199,629</u>	<u>2,377,970</u>	<u>2,793,683</u>	<u>(178,341)</u>	<u>(7.5)</u>
Increase in net assets, before capital contributions and transfers	<u>3,660,942</u>	<u>4,872,589</u>	<u>3,102,065</u>	<u>(1,211,647)</u>	<u>(24.9)</u>
Capital contributions:					
Assessments and impact fees	1,023,480	649,658	210,644	373,822	57.5
Donated by developers	2,091,068	4,412,190	1,678,139	(2,321,122)	100.0
Transfers out	<u>(1,524,544)</u>	<u>(1,473,743)</u>	<u>(1,514,650)</u>	<u>50,801</u>	<u>3.4</u>
Increase in net assets	5,250,946	8,460,694	3,476,198	(3,209,748)	(37.9)
Net assets at beginning of year	<u>134,193,874</u>	<u>125,733,180</u>	<u>122,256,982</u>	<u>8,460,694</u>	<u>6.7</u>
Net assets at end of year	<u>\$ 139,444,820</u>	<u>\$ 134,193,874</u>	<u>\$ 125,733,180</u>	<u>\$ 5,250,946</u>	<u>3.9 %</u>

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Revenues from operations fall into four general categories: water service, sewerage service, household hazardous waste and other charges. Other charges include penalty fees and charges for miscellaneous billed services. A sewer rate increase was approved by the Board of Water Commissioners on October 30, 2006. The rate increase, effective January 1, 2007, for an average customer in each class is 9.1% for residential customers, 10.1% for commercial customers, 10.4% for industrial customers, and 10.3% for public authority customers. Wholesale rates to the Town of Somers, Village of Pleasant Prairie, and Town of Bristol increased 12.8%, 11.9% and 11.3%, respectively. Also, rates for hauled waste (landfills, septic and holding tank waste, and other hauled waste) increased an average of 28.0%. Rates for water and household hazardous waste remained unchanged during 2006.

A water rate increase was implemented for service beginning after December 31, 2004. The rate increase for an average customer in each class was 10% for residential customers, 9% for commercial customers, 20% for industrial customers, and 10% for public authority customers. Additionally, wholesale rates to the Village of Pleasant Prairie, Town of Somers and Town of Bristol increased 23%, 21%, and 15%, respectively. Public fire protection rates increased 3% for all customer classes in total.

The number of metered customers increased 1.2% during 2006. Water consumption decreased 8.7% due to a more normal amount of precipitation during the spring and summer months of 2006 compared to the dry conditions during the summer of 2005. Water service revenues decreased approximately \$610,000 or 6.1%; sewer service revenues decreased \$403,000 or 4.3% due to decreased consumption. Operating expenses during 2006 increased \$652,000 or 4.0% due mainly to increased employee benefit and insurance costs. Both water and sewer operations expenses decreased 0.5%.

Operating income for 2006 decreased \$1.6 million or 25.0%. Nonoperating revenues increased \$225,158 or 28.7% due to increased interest rates on investments during 2006. Nonoperating expenses decreased \$178,341 mainly due to decreased interest on long-term debt.

In 2005, the number of metered customers increased 1.6%. Water consumption increased 6.4% due to dry weather conditions that persisted throughout the summer months. Water Unit revenues increased \$1.7 million or 20.8%. Other revenues increased 7.7% primarily due to an increase in engineering services revenue.

Operating expenses increased 6.1% or \$926,030 during 2005. Water Unit operating expenses increased 12.5% or \$371,787 due to increased costs for tank painting, engineering services and purchased fuel. Sewerage Unit operating expenses increased 6.8% or \$282,462 due to increased engineering services, utilities and chemical costs. Administrative costs increased 5.9% or \$198,482 due to increased outside services for a sewer flow study and engineering allocations.

Operating income increased 19.1% or \$1,026,281 for 2005. Nonoperating revenue increased 72.0% or \$328,484 due to higher interest rates resulting in increased investment income. Nonoperating expenses decreased 14.9% or \$415,713. Interest expense and amortization of long-term debt decreased \$146,365. In addition, 2004 expenses included a loss of \$272,264 on the disposal of capital assets.

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For 2006, the increase in net assets of \$5,250,946 was \$3,209,748 less than the previous year's increase of \$8,460,694 or a decrease of 37.9%. This was mainly attributable to a decrease in operating income of \$1.6 million and a decrease in infrastructure donated by developers during 2006 of \$2.3 million. Increases in investment income and assessments and impact fees account for the balance of the decrease. The increase in net assets attributable to the Water unit was \$2,682,269; the amount attributable to the Sewerage unit was \$2,584,181. The Household hazardous waste unit recorded a deficit of \$15,504 for 2006.

The increase in net assets of \$8,460,694 was \$4,984,496 higher than the previous year's increase of \$3,476,198 by 143.4%. The Water unit portion was \$4,850,288, the Sewerage unit portion was \$3,614,712, and a decrease of \$4,306 attributable to the Household hazardous waste unit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets and Debt Administration

Capital Assets

Changes in Capital Assets

	<u>Balance Jan. 1, 2006</u>	<u>Additions/ reclass- ifications</u>	<u>Deletions/ reclass- ifications</u>	<u>Balance Dec. 31, 2006</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,645,473	\$ -	\$ -	\$ 1,645,473
Construction in progress	4,854,778	3,051,394	4,975,488	2,930,684
Total capital assets not being depreciated	<u>6,500,251</u>	<u>3,051,394</u>	<u>4,975,488</u>	<u>4,576,157</u>
Capital assets being depreciated:				
Revenue producing and service equipment:				
Wastewater collection system	1,193,061	3,725	-	1,196,786
Production pumping	4,422,098	-	-	4,422,098
Collection system pumping	8,576,711	563,406	44,366	9,095,751
Production purification	15,065,122	21,787	12,500	15,074,409
Wastewater treatment and disposal	20,933,342	91,167	32,712	20,991,797
Total revenue producing and service equipment	<u>50,190,334</u>	<u>680,085</u>	<u>89,578</u>	<u>50,780,841</u>
Buildings and structures:				
Production intake	3,384,069	-	-	3,384,069
Wastewater collection system	67,110,463	1,461,320	17,926	68,553,857
Production pumping	3,857,464	-	-	3,857,464
Collection system pumping	11,128,573	319,797	-	11,448,370
Production purification	8,176,645	12,045	-	8,188,690
Wastewater treatment and disposal	7,994,915	8,296	1,373	8,001,838
Transmission and distribution	55,169,113	4,932,025	254,942	59,846,196
General plant	1,690,329	106,703	10,408	1,786,624
Total buildings and structures	<u>158,511,571</u>	<u>6,840,186</u>	<u>284,649</u>	<u>165,067,108</u>
Office furnishings, shop equipment and other:				
General equipment	5,812,449	636,772	77,287	6,371,934
Engineering equipment	760,245	35,030	33,694	761,581
Total office furnishings, shop equipment and other	<u>6,572,694</u>	<u>671,802</u>	<u>110,981</u>	<u>7,133,515</u>
Total capital assets being depreciated	<u>215,274,599</u>	<u>8,192,073</u>	<u>485,208</u>	<u>222,981,464</u>
Total accumulated depreciation	<u>64,613,341</u>	<u>4,653,234</u>	<u>426,181</u>	<u>68,840,394</u>
Total capital assets being depreciated, net	<u>150,661,258</u>	<u>3,538,839</u>	<u>59,027</u>	<u>154,141,070</u>
Total capital assets, net	<u>\$ 157,161,509</u>	<u>\$ 6,590,233</u>	<u>\$ 5,034,515</u>	<u>\$ 158,717,227</u>

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The Utility had combined investment in capital assets of \$224.6 million at the end of 2006. In addition, construction in progress and leasehold improvements totaled \$2.9 million. Accumulated depreciation totaled \$68.8 million resulting in a net book value of \$158.7 million. In 2006, the Utility recorded combined depreciation expense of \$4.6 million. More detailed information about capital assets can be found in the supplemental information section report – Schedule of Capital Assets – for the Water, Sewerage, and Hazardous Waste Units as well as in note 3 to the financial statements.

In 2006, the Utility accepted and recorded the donation of water and sewer infrastructure from developers of approximately \$2.1 million. Water infrastructure, including mains, hydrants, and services totaled approximately \$0.9 million. Sanitary sewer infrastructure for sanitary sewer mains totaled approximately \$1.2 million. This includes costs for construction inspection and as-built review prior to acceptance in addition to contractor's construction costs. The following subdivisions were included:

Subdivision/Area	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Horizons at Whitecaps	\$ 536,369	\$ 690,483	\$ 1,226,852
Walnut Grove	348,732	397,780	746,512
Cavanaugh Court	<u>102,547</u>	<u>80,713</u>	<u>183,260</u>
	<u>\$ 987,648</u>	<u>\$ 1,168,976</u>	<u>\$ 2,156,624</u>

Other significant additions include water main projects completed by the Utility during the year of \$3,435,768 and sewer main and collection infrastructure projects totaling \$1,091,837.

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Long-Term Debt

The Utility had \$43.0 million in long-term debt outstanding as of December 31, 2006. Of this amount, approximately \$4.4 million is due within one year (see note 4 to the audited financial statements regarding the classification of revenue bond debt). Outstanding debt decreased \$4.1 million or 8.7% due to scheduled debt payments. Detailed debt schedules can be found in the supplemental information section as well as note 4 to the audited financial statements.

At December 31, 2005 the Utility had \$47.1 million in long-term debt outstanding. Of this amount, approximately \$4.2 million is due within one year (see note 4 to the audited financial statements regarding the classification of revenue bond debt). Outstanding debt decreased \$3.9 million, or 7.7%, due to scheduled debt payments. Detailed debt schedules can be found in the supplemental information section as well as note 4 to the audited financial statements.

Long-Term Debt Activity

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>	<u>Due Within One Year</u>
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 14,688,237	\$ -	\$ 1,717,950	\$ 12,970,287	\$ 1,786,118
Revenue bonds	32,035,000	-	2,455,000	29,580,000	2,550,000
Less: bond discounts and advance refunding losses	(485,140)	-	(109,135)	(376,005)	-
Advance from Municipality	906,738	-	40,925	865,813	43,583
	<u>\$ 47,144,835</u>	<u>\$ -</u>	<u>\$ 4,104,740</u>	<u>\$ 43,040,095</u>	<u>\$ 4,379,701</u>

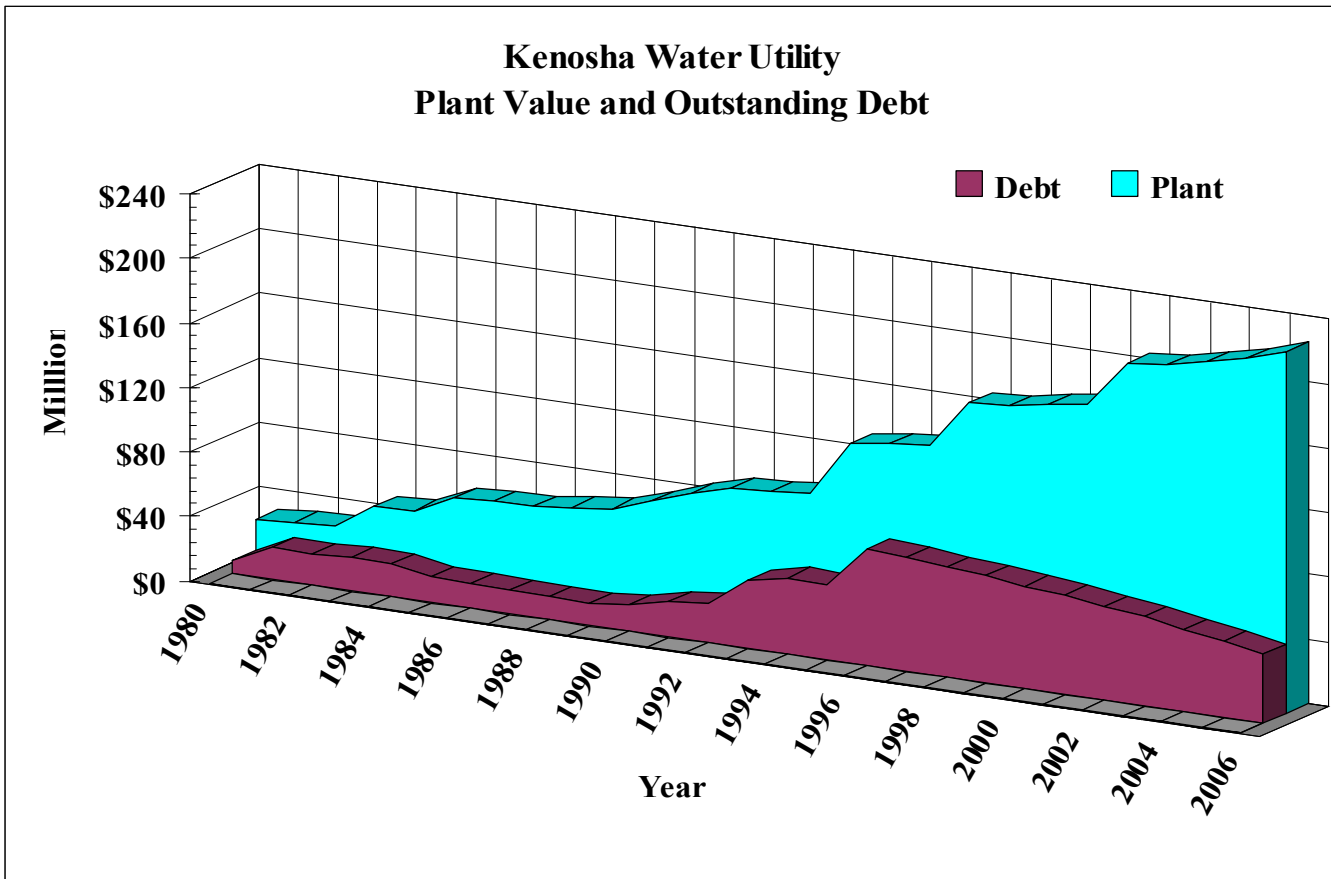
	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2005</u>	<u>Due Within One Year</u>
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 16,340,623	\$ -	\$ 1,652,386	\$ 14,688,237	\$ 1,717,950
Revenue bonds	34,405,000	-	2,370,000	32,035,000	2,455,000
Less: bond discounts and advance refunding losses	(611,261)	-	(126,121)	(485,140)	-
Advance from Municipality	945,537	-	38,799	906,738	40,925
	<u>\$ 51,079,899</u>	<u>\$ -</u>	<u>\$ 3,935,064</u>	<u>\$ 47,144,835</u>	<u>\$ 4,213,875</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

Economic Factors and the Utility's Future

The Utility has, in the past, acquired debt to fund major plant and infrastructure additions. The Utility has also, when advantageous, refunded outstanding debt to gain future economic benefits. In 1981, the Utility issued Sewer Revenue bonds – subsequently refunded in 1983, 1985, 1993 and 2003 – to fund a major expansion of the Wastewater Treatment plant as reflected in the increase in plant value in 1983 and 1985. The Utility next issued debt – State of Wisconsin Clean Water Fund loans – in 1992 and 1993 to finance another major addition of Sewerage unit infrastructure as reflected in another large increase in plant value in 1995. The Water unit issued bond anticipation notes in 1996 which were refunded with Water Revenue bonds in 1998 to finance a major expansion of the water treatment plant which is reflected in the large increase in plant value in 1998.

As plant value has continued to increase after 1998, the outstanding debt has continued to decrease due to scheduled long-term debt payments. Although the Utility continues to finance additions to water and sewer plant and infrastructure, the implementation of developer's agreements since 1991 has continued to increase the Utility's plant value without a major outlay of capital. The 2005 management's discussion and analysis report highlighted the economic benefits to the Utility of developer's agreements.



CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Kenosha Water Utility, Director of Business Services, 4401 Green Bay Road, Kenosha, Wisconsin 53144.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
STATEMENTS OF NET ASSETS
December 31, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 5,795,337	\$ 5,363,056
Restricted cash and cash equivalents	4,900,000	-
Investments	1,630,275	1,563,792
Accounts receivable	3,781,596	3,469,711
Unbilled revenue	2,184,337	2,169,862
Inventories	407,765	388,675
Other current assets	252,285	228,948
Total current assets	<u>18,951,595</u>	<u>13,184,044</u>
Noncurrent assets		
Investments	3,281,185	3,159,202
Restricted investments	5,329,393	11,043,979
Other assets	205,772	260,595
Capital assets		
Capital assets not being depreciated:		
Land and land improvements	1,645,473	1,645,473
Construction in progress	2,930,684	4,854,778
Capital assets being depreciated:		
Revenue producing and service equipment	50,780,841	50,190,334
Buildings and structures	165,067,108	158,511,571
Office furnishings, shop equipment, and other	7,133,515	6,572,694
Less accumulated depreciation	(68,840,394)	(64,613,341)
Total capital assets, net of accumulated depreciation	<u>158,717,227</u>	<u>157,161,509</u>
Total noncurrent assets	<u>167,533,577</u>	<u>171,625,285</u>
Total assets	<u>186,485,172</u>	<u>184,809,329</u>

LIABILITIES

Current liabilities		
Accounts payable	719,760	729,675
Accrued liabilities	298,885	329,003
Accrued property taxes	1,524,544	1,473,743
Current portion of long-term obligations	4,336,118	4,172,950
Due to City of Kenosha	975,968	483,588
Other deferred credits	18,633	7,443
Total current liabilities	<u>7,873,908</u>	<u>7,196,402</u>
Noncurrent liabilities		
Long-term portion of accrued compensated absences	484,395	447,876
Worker's compensation accrued liability	21,655	40,217
Advance from City of Kenosha	822,230	865,813
Revenue bonds payable	26,653,995	29,094,860
Clean Water Fund loans	11,184,169	12,970,287
Total noncurrent liabilities	<u>39,166,444</u>	<u>43,419,053</u>
Total liabilities	<u>47,040,352</u>	<u>50,615,455</u>

NET ASSETS

Invested in capital assets, net of related debt	116,636,952	111,035,801
Restricted for debt service	9,930,622	10,714,980
Unrestricted	12,877,246	12,443,093
Total net assets	<u>\$ 139,444,820</u>	<u>\$ 134,193,874</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 18,542,166	\$ 19,539,367
Miscellaneous	3,073,752	3,039,516
Total operating revenues	<u>21,615,918</u>	<u>22,578,883</u>
Operating expenses:		
General and administrative	4,155,284	3,561,821
Operations and maintenance	7,956,666	7,967,494
Depreciation	4,653,234	4,583,688
Total operating expenses	<u>16,765,184</u>	<u>16,113,003</u>
Operating income	<u>4,850,734</u>	<u>6,465,880</u>
Nonoperating revenues (expenses):		
Investment income	1,009,837	784,679
Interest expense	(2,093,680)	(2,253,461)
Miscellaneous	(105,949)	(124,509)
Total nonoperating revenue (expenses)	<u>(1,189,792)</u>	<u>(1,593,291)</u>
Increase in net assets before capital contributions and transfers	3,660,942	4,872,589
Capital contributions	3,114,548	5,061,848
Transfers out	<u>(1,524,544)</u>	<u>(1,473,743)</u>
Increase in net assets	5,250,946	8,460,694
Net assets at beginning of year	<u>134,193,874</u>	<u>125,733,180</u>
Net assets at end of year	<u>\$ 139,444,820</u>	<u>\$ 134,193,874</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 21,321,044	\$ 22,296,234
Payments to suppliers	(7,482,101)	(8,590,770)
Payments to employees	(4,137,327)	(3,514,298)
Net cash provided by operating activities	<u>9,701,616</u>	<u>10,191,166</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to City of Kenosha	(1,473,743)	(1,482,144)
Net cash used in noncapital financing activities	<u>(1,473,743)</u>	<u>(1,482,144)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,153,431)	(4,307,105)
Proceeds on disposal of capital assets	59,027	52,276
Principal paid on capital debt	(4,107,397)	(3,937,191)
Interest paid on capital debt	(2,123,799)	(2,279,671)
Net cash used in capital and related financing activities	<u>(9,325,600)</u>	<u>(10,471,691)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	5,526,120	-
Purchase of investments	-	(1,152,371)
Interest and dividends received	903,888	660,170
Net cash provided by (used in) investing activities	<u>6,430,008</u>	<u>(492,201)</u>
Net increase (decrease) in cash and cash equivalents	5,332,281	(2,254,870)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,363,056</u>	<u>7,650,432</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,695,337</u>	<u>\$ 5,395,562</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and cash equivalents	\$ 5,795,337	\$ 5,363,056
Restricted cash and cash equivalents	4,900,000	-
Total cash and cash equivalents	<u>\$ 10,695,337</u>	<u>\$ 5,363,056</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 4,850,734	\$ 6,465,880
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,653,234	4,583,688
Changes in assets and liabilities:		
Accounts receivable	(311,885)	(281,170)
Unbilled revenues	(14,475)	(36,942)
Inventories	(19,090)	5,342
Other current assets	(23,337)	(47,777)
Other assets	54,823	83,240
Accounts payable	(9,915)	(407,222)
Compensated absences	36,519	49,657
Worker's compensation accrued liability	(18,562)	(2,134)
Payable to City of Kenosha	492,380	(204,112)
Other deferred credits	11,190	(17,284)
Total adjustments	<u>4,850,882</u>	<u>3,725,286</u>
Net cash provided by operating activities	<u>\$ 9,701,616</u>	<u>\$ 10,191,166</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributions of capital assets from developers, including assessments and impact fees	<u>\$ 3,114,548</u>	<u>\$ 5,061,848</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

Nature of Business

The City of Kenosha, Wisconsin Water Utility (Utility) is an enterprise fund of the City of Kenosha, Wisconsin (City) and is comprised of three units: Water, Sewerage, and Household Hazardous Waste. The Utility is governed by the City of Kenosha Board of Water Commissioners (Board) consisting of six members appointed by the Mayor the City of Kenosha.

These financial statements present only the City of Kenosha Water Utility and are not intended to present the financial position and results of operations of the City of Kenosha, Wisconsin in conformity with accounting principles generally accepted in the United States of America.

The Water Unit operates, maintains, and constructs the City's water system. Services are financed primarily by user charges. The Water Unit charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSCW). Accounting records of the Water Unit are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The Sewerage Unit operates, maintains, and constructs the City's sewage collection and treatment system. Services are financed primarily by user charges. Service rates and rules are established by the Board.

The Household Hazardous Waste Unit collects, stores, and disposes of residential household hazardous waste. This unit began operation on May 1, 1992, with services financed primarily by user charges. Service rates and rules are established by the Board.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting policies of the Utility conform to U.S. generally accepted accounting principles (GAAP) for enterprise funds as formulated by the Governmental Accounting Standards Board. The accounts of the Utility, which are organized as an enterprise fund, are used to account for the Utility's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Utility maintains its records on the full accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

Nonexchange transactions, in which the Utility receives value without directly giving equal value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Utility on a reimbursement basis.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Utility also has the option of following subsequent private-sector guidance, subject to this same limitation. The Utility has elected not to follow subsequent private-sector guidance as it relates to its operations.

Cash and Cash Equivalents

Cash and cash equivalents are considered to have original maturities of three months or less from the date of purchase.

Receivables/Payables

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

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

Materials and Supplies

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

Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

Investments

Investment of Utility funds is restricted by Wisconsin Statutes to:

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

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

Capital Assets

Capital assets are defined by the Utility as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are recorded at cost or the fair market value at the time of contribution to the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase is reflected in the capitalized value of utility plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets are depreciated using the straight-line method over the following useful lives:

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

	Useful life (years)
Water unit:	
Production intake	50-75
Production pumping	25-50
Production purification	31-50
Transmission and distribution	20-108
General equipment	7-17
Sewerage unit:	
Collection system	25-100
Collection system pumping	19-40
Treatment and disposal	23-43
Engineering equipment	7-17
General equipment	7-40
Household hazardous waste unit:	
Structures and improvements	25
Equipment	12

Compensated Absences

Vacation

The Utility compensates all employees upon termination for unused vacation earned in the current year. No liability for unpaid vacation benefits has been recorded on the balance sheet as vacations are forfeited if not used in the calendar year earned.

Sick Leave

Utility employees are entitled to sick leave at a rate of one day per month of full-time service. Sick leave is paid upon normal retirement or disability up to a maximum of 66 days. Terminated employees are not compensated for unused sick leave. The balance sheets of the Water and Sewerage Units contain a liability for estimated accrued sick leave and associated fringe benefits.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

Long-term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Bond liabilities are reported net of any premium or discount. Issuance costs are reported as deferred charges and amortized over the life of the bonds using the effective interest method.

Charges for Services

Billings for water and sewerage services are issued monthly to high-consumption users and bimonthly to all other customers. Hazardous waste charges are billed bimonthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

Classification of Revenues

The Utility has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including billing for water and sewerage services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as grants and contributions. Investment income is also classified as nonoperating.

Taxes

The Water Unit records an annual payment in lieu of taxes (PILOT) expense based on the value of its plant and materials and supplies inventory using the current assessment ratio and local and school portion of the mill rate. Municipal utilities are exempt from federal and state income taxes.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

New Accounting Pronouncements

The Utility implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, during the year ended December 31, 2005. The implementation of this standard resulted in specific disclosures for credit risk, concentration of credit risk, interest rate risk, and foreign currency risk of deposits and investments.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

The Utility implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, during the year ended December 31, 2005. This Statement establishes accounting and financial reporting standards for impairment of capital assets. No changes were made to the reported value of capital assets based on the Utility's implementation of this pronouncement.

In December, 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies the definition of legally enforceable legislation. The Utility has implemented Statement No. 46 beginning with the year ended December 31, 2006.

In June, 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers who participate in a defined benefit "other post-employment benefit plan." The Utility will implement this Statement No. 45 beginning with the year ending December 31, 2007.

(2) Cash and Investments

The Utility, as an enterprise fund of the City, maintains separate cash and investment accounts at the same financial institutions utilized by the City. A summary of cash and investments as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Petty cash	\$ 1,300	\$ 1,300
Demand deposits	2,494,037	1,861,756
Certificates of deposit	18,440,853	19,266,973
Total	<u>\$ 20,936,190</u>	<u>\$ 21,130,029</u>
Current assets:		
Cash and cash equivalents	\$ 5,795,337	\$ 5,363,056
Restricted cash and cash equivalents	4,900,000	-
Investments	1,630,275	1,563,792
Noncurrent assets:		
Investments	3,281,185	3,159,202
Restricted investments	5,329,393	11,043,979
Total	<u>\$ 20,936,190</u>	<u>\$ 21,130,029</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(2) Cash and Investments (Continued)

Investment Policy

The Utility's investments are made in accordance with the utility's investment policy which is similar to the City of Kenosha's investment policies and the Wisconsin Statutes. A summary of authorized investments is included in note 1.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned. Cash and investments in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest-bearing accounts and \$100,000 for non-interest bearing accounts. Deposits and investments are also insured for \$400,000 by the State Deposit Guarantee Fund (SDGF). The City of Kenosha's investment policies require collateralization of deposits at financial institutions when the total amount of such deposits exceeds the combined insured limit of \$500,000. Federal depository insurance and the State of Wisconsin Guarantee Fund insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the Utility alone.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. As of December 31, 2006 and 2005, the Utility's investments were certificates of deposit with maturities of less than one year.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(3) Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land and land improvements	\$ 1,645,473	\$ -	\$ -	\$ 1,645,473
Construction in progress	4,854,778	3,051,394	4,975,488	2,930,684
Total capital assets not being depreciated	<u>6,500,251</u>	<u>3,051,394</u>	<u>4,975,488</u>	<u>4,576,157</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,190,334	680,085	89,578	50,780,841
Buildings and structures	158,511,571	6,840,186	284,649	165,067,108
Office furnishings, shop equipment, and other	6,572,694	671,802	110,981	7,133,515
Total capital assets being depreciated	<u>215,274,599</u>	<u>8,192,073</u>	<u>485,208</u>	<u>222,981,464</u>
Less accumulated depreciation:				
Revenue producing and service equipment	27,156,732	1,883,412	89,578	28,950,566
Buildings and structures	33,765,865	2,373,827	267,820	35,871,872
Office furnishings, shop equipment, and other	3,690,744	395,995	68,783	4,017,956
Total accumulated depreciation	<u>64,613,341</u>	<u>4,653,234</u>	<u>426,181</u>	<u>68,840,394</u>
Total capital assets being depreciated, net	<u>150,661,258</u>	<u>3,538,839</u>	<u>59,027</u>	<u>154,141,070</u>
Total capital assets, net	<u>\$ 157,161,509</u>	<u>\$ 6,590,233</u>	<u>\$ 5,034,515</u>	<u>\$ 158,717,227</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(3) Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,645,473	\$ -	\$ -	\$ 1,645,473
Construction in progress	<u>1,853,380</u>	<u>4,541,407</u>	<u>1,540,009</u>	<u>4,854,778</u>
Total capital assets not being depreciated	<u>3,498,853</u>	<u>4,541,407</u>	<u>1,540,009</u>	<u>6,500,251</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,295,427	207,552	312,645	50,190,334
Buildings and structures	152,958,006	5,818,207	264,642	158,511,571
Office furnishings, shop equipment, and other	<u>6,445,884</u>	<u>341,796</u>	<u>214,986</u>	<u>6,572,694</u>
Total capital assets being depreciated	<u>209,699,317</u>	<u>6,367,555</u>	<u>792,273</u>	<u>215,274,599</u>
Less accumulated depreciation:				
Revenue producing and service equipment	25,569,119	1,900,259	312,646	27,156,732
Buildings and structures	31,719,729	2,295,889	249,753	33,765,865
Office furnishings, shop equipment, and other	<u>3,480,802</u>	<u>387,540</u>	<u>177,598</u>	<u>3,690,744</u>
Total accumulated depreciation	<u>60,769,650</u>	<u>4,583,688</u>	<u>739,997</u>	<u>64,613,341</u>
Total capital assets being depreciated, net	<u>148,929,667</u>	<u>1,783,867</u>	<u>52,276</u>	<u>150,661,258</u>
Total capital assets, net	<u>\$ 152,428,520</u>	<u>\$ 6,325,274</u>	<u>\$ 1,592,285</u>	<u>\$ 157,161,509</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(4) Long-term Debt

Long-term debt activity for the year ended December 31, 2006 was as follows:

Issue	Interest rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 10,772,997	\$ -	\$ 1,364,048	\$ 9,408,949	\$ 1,418,582
Series 1993	4.02%	2,636,768	-	286,010	2,350,758	297,493
Series 2000	3.17%	1,278,472	-	67,892	1,210,580	70,043
Revenue Bonds:						
Series 1998	4.50-5.25%	25,335,000	-	1,430,000	23,905,000	1,500,000
Series 2003	1.60-4.55%	6,700,000	-	1,025,000	5,675,000	1,050,000
Less: unamortized discount and refunding bond losses		(485,140)	-	(109,135)	(376,005)	-
Advance from Municipality: 1999 agreement		906,738	-	40,925	865,813	43,583
Total		<u>\$ 47,144,835</u>	<u>\$ -</u>	<u>\$ 4,104,740</u>	<u>\$ 43,040,095</u>	<u>\$ 4,379,701</u>

Long-term debt activity for the year ended December 31, 2005 was as follows:

Issue	Interest rate	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 12,084,607	\$ -	\$ 1,311,610	\$ 10,772,997	\$ 1,364,048
Series 1993	4.02%	2,911,738	-	274,970	2,636,768	286,010
Series 2000	3.17%	1,344,278	-	65,806	1,278,472	67,892
Revenue Bonds:						
Series 1998	4.50-5.25%	26,705,000	-	1,370,000	25,335,000	1,430,000
Series 2003	1.60-4.55%	7,700,000	-	1,000,000	6,700,000	1,025,000
Less: unamortized discount and refunding bond losses		(611,261)	-	(126,121)	(485,140)	-
Advance from Municipality: 1999 agreement		945,537	-	38,799	906,738	40,925
Total		<u>\$ 51,079,899</u>	<u>\$ -</u>	<u>\$ 3,935,064</u>	<u>\$ 47,144,835</u>	<u>\$ 4,213,875</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(4) Long-term Debt (Continued)

State of Wisconsin Department of Natural Resources Clean Water Fund Loan (CWFL)

Issuance of Clean Water Fund loans are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Sewerage Unit Clean Water Fund debt is payable from revenues of the sewerage system; however, upon default, the City's transportation aids or shared revenue may be reduced. The municipal ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established:

Renewal and Replacement	Utilities receiving federal or state construction grant funds from the EPA or the Wisconsin Fund are required by Wis. Admin. Code NR 128.13 and CFR 35.2005, Federal Register, to establish and fund a "replacement account" for mechanical equipment. Each grantee must review its facility and estimate its future expenditures for equipment replacement that will be necessary to maintain the facility's capacity throughout its design life of 20 year. Withdrawals are made as major mechanical equipment is repaired or replaced.
Debt Service Account	Used to deposit monthly one-sixth and one-twelfth of the next installment of the 1992, 1993, and 2000 series loan interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(4) Long-term Debt (Continued)

Revenue Bonds

Revenue bond debt is payable from revenues derived by the Utility. Issuance of the revenue bonds is authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Such ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established for the Water and Sewerage units:

Special Redemption Account	Used to deposit monthly one-sixth and one-twelfth of the next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.
Reserve Account	Used to make interest or principal payments when amounts are not available in the special redemption account, remedy deficiencies in any of the other accounts, or retire bonds in advance of maturity.
Tax Equivalent Account	Used for the payment of repairs, replacements, new construction, and expansion on or additions to the system.
Depreciation Account	Used for the payment of extraordinary repairs or replacements and to remedy any deficiencies in the special redemption account.

Advance from Municipality

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue, and makes principal and interest payments to the City.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(4) Long-term Debt (Continued)

Principal and Interest Payments

Long-term debt principal and interest requirements to maturity as of December 31, 2006 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2007	\$ 1,521,608	\$ 2,858,093	\$ 4,379,701	\$ 1,243,963	\$ 712,038	\$ 1,956,001
2008	1,597,926	2,980,313	4,578,239	1,163,798	601,696	1,765,494
2009	1,684,507	3,105,616	4,790,123	1,079,589	481,337	1,560,926
2010	1,766,088	3,233,850	4,999,938	999,058	352,106	1,351,164
2011	1,852,933	3,290,398	5,143,331	912,820	216,442	1,129,262
2012-2016	10,746,023	3,074,752	13,820,775	3,066,482	245,598	3,312,080
2017-2020	5,165,185	538,808	5,703,993	410,814	41,284	452,098
	<u>\$ 24,334,270</u>	<u>\$ 19,081,830</u>	<u>\$ 43,416,100</u>	<u>\$ 8,876,524</u>	<u>\$ 2,650,501</u>	<u>\$ 11,527,025</u>

(5) Employees' Retirement System

All eligible Utility employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.9% for 2006 (5.8% for 2005) of their salary to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Total Utility payroll, covered payroll, and contributions for 2006, 2005, and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
Total Utility payroll	\$ 4,308,681	\$ 4,158,550	\$ 3,892,594
Total covered employee payroll	4,287,949	4,134,114	3,775,708
Total required contributions	445,962	421,785	370,024
Total required contributions %	10.4%	10.2%	9.8%

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

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(6) Risk Management

The Utility is exposed to various risks of loss related to theft of, damage to, or destruction of assets, torts, errors and omissions, workers' compensation, and health care of its employees. The Utility purchases commercial insurance to insure its assets and protect against liability claims. Settled liability and property damage claims have not exceeded the commercial insurance coverage in the last five years. The Utility, in conjunction with the City, is self insured for workers' compensation and health insurance. The City purchases stop loss insurance to limit risk exposures. For liability and errors and omissions insurance, the City, including the Utility, is a participant in the Wisconsin Municipal Insurance Commission (WMIC).

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.0301 of the Wisconsin Statutes in August 1987 for the purpose of facilitating the organization, establishment, and capitalization of the Cities and Villages Mutual Insurance Company (CVMIC) and has approximately 40 municipalities as members. CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. CVMIC provides liability insurance coverage to the municipalities which comprise the membership of WMIC.

For liability and errors and omissions insurance claims, the uninsured risk of loss is \$125,000 per incident and \$500,000 in the aggregate for a policy year. Settled claims have not exceeded the CVMIC coverage in any of the past six years.

The participation of the City, and its related funding for capitalization, is accounted in an internal service fund in the general purpose financial statements of the City. See the City's general purpose financial statements for additional information on the City's participation in the public entity risk pools as a whole. Separately issued financial statements for CVMIC and WMIC may be obtained from CVMIC at 1250 South Sunnyslope Road, Brookfield, WI 53005-7025.

(7) Basis for Existing Rates

Water Unit

Rates were approved by the PSCW on December 14, 2004, and placed into effect by the Utility for service after December 31, 2004. Rates were designed to provide a 6.00% return on rate base, based on Utility plant in service and operating revenue and expenses at that time.

Sewerage Unit

Sewerage rates were approved by the Board and placed into effect on January 1, 1995.

On October 30, 2006, the Board of Water Commissioners approved a rate increase and was placed into effect on January 1, 2007.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(7) Basis for Existing Rates (Continued)

Household Hazardous Waste Unit

Rates were approved by the Board on August 13, 1991 and placed into effect May 1, 1992.

(8) Commitments and Contingencies

At December 31, 2006, the Utility had outstanding purchase commitments for contracts of approximately \$126,925 of which approximately \$21,000 is for water unit structures and improvements, \$81,519 is for water main construction, \$22,478 is for sewerage unit structures and improvements and \$1,928 is for sewerage collection system construction.

From time to time, the Utility becomes party to claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Utility's attorney that the likelihood is remote that any such claim or proceedings will have a material adverse effect on the Utility's financial position or results of operations.

(9) Subsequent Events

On February 5, 2007, a contract was awarded to Porta Painting for paint removal by wet sandblast method in the utility tunnels and digester rooms in the amount of \$76,775. On February 28, 2007, contracts were awarded to ITG Solutions, Inc. and Electrical Contractors of Wisconsin, Inc. for security system equipment and installation at the Water Production plant and storage tank sites in the amount of \$98,092 and \$65,918, respectively.

On January 17, 2007, the Utility was awarded a grant through the State of Wisconsin Office of Justice Assistance in the amount of \$119,255. The grant is to be used for security system equipment and installation at the Water Production plant and storage tank sites.

(10) Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

(11) Restatement

The 2005 financial statements have been restated to remove the Wisconsin Retirement System (WRS) deferred charge recorded by the Water Utility as an offset to its share of the City's general obligation debt incurred in 1999 to pay off the City's Wisconsin Retirement System unfunded pension liability. The WRS deferred charge was being amortized over 20 years. Net assets at the end of the year for the years ended December 31, 2004 and 2005 are restated as follows:

Net assets, January 1, 2005, as previously reported	\$ 126,524,732
Eliminated WRS deferred charge	<u>(791,552)</u>
Net assets, January 1, 2005, as restated	125,733,180
Increase in net assets for the year ended	
December 31, 2005, as previously reported	8,416,552
Add back WRS deferred charge amortization	<u>44,142</u>
Net assets, December 31, 2005, as restated	<u>\$ 134,193,874</u>

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL SCHEDULES

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
COMBINING SCHEDULE OF NET ASSETS
December 31, 2006

ASSETS	Water Unit	Sewerage Unit	Household Hazardous Waste Unit	Total
Current assets:				
Cash and cash equivalents	\$ 938,861	\$ 4,793,468	\$ 63,008	\$ 5,795,337
Restricted cash and cash equivalents	2,900,000	2,000,000	-	4,900,000
Investments	-	1,630,275	-	1,630,275
Accounts receivable	1,617,162	2,130,357	34,077	3,781,596
Unbilled revenue	1,179,499	984,313	20,525	2,184,337
Inventories	368,495	39,270	-	407,765
Other current assets	94,304	157,981	-	252,285
Total current assets	<u>7,098,321</u>	<u>11,735,664</u>	<u>117,610</u>	<u>18,951,595</u>
Noncurrent assets:				
Investments	-	3,281,185	-	3,281,185
Restricted investments	1,125,867	4,203,526	-	5,329,393
Other assets	141,712	64,060	-	205,772
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	379,257	1,266,216	-	1,645,473
Construction in progress	2,241,740	688,944	-	2,930,684
Capital assets being depreciated:				
Revenue producing and service equipment	19,496,507	31,284,334	-	50,780,841
Buildings and structures	75,276,419	89,742,495	48,194	165,067,108
Office furnishings, shop equipment, and other	2,778,929	4,353,174	1,412	7,133,515
Less accumulated depreciation	<u>(20,817,041)</u>	<u>(47,998,584)</u>	<u>(24,769)</u>	<u>(68,840,394)</u>
Total capital assets, net of accumulated depreciation	<u>79,355,811</u>	<u>79,336,579</u>	<u>24,837</u>	<u>158,717,227</u>
Total noncurrent assets	<u>80,623,390</u>	<u>86,885,350</u>	<u>24,837</u>	<u>167,533,577</u>
Total assets	<u>87,721,711</u>	<u>98,621,014</u>	<u>142,447</u>	<u>186,485,172</u>
LIABILITIES				
Current liabilities:				
Accounts payable	521,670	190,269	7,821	719,760
Accrued liabilities	101,346	197,539	-	298,885
Accrued property taxes	1,524,544	-	-	1,524,544
Current portion of long-term obligations	1,500,000	2,836,118	-	4,336,118
Due to City of Kenosha	377,668	598,109	191	975,968
Other deferred credits	18,633	-	-	18,633
Total current liabilities	<u>4,043,861</u>	<u>3,822,035</u>	<u>8,012</u>	<u>7,873,908</u>
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	262,866	221,529	-	484,395
Worker's compensation accrued liability	8,987	12,668	-	21,655
Advance from City of Kenosha	407,662	414,568	-	822,230
Revenue bonds payable (net of unamortized discounts)	22,177,034	4,476,961	-	26,653,995
Clean Water Fund loan	-	11,184,169	-	11,184,169
Total noncurrent liabilities	<u>22,856,549</u>	<u>16,309,895</u>	<u>-</u>	<u>39,166,444</u>
Total liabilities	<u>26,900,410</u>	<u>20,131,930</u>	<u>8,012</u>	<u>47,040,352</u>
NET ASSETS				
Invested in capital assets, net of related debt	55,758,223	60,853,892	24,837	116,636,952
Restricted for debt service	3,924,634	6,005,988	-	9,930,622
Unrestricted	1,138,444	11,629,204	109,598	12,877,246
Total net assets	<u>\$ 60,821,301</u>	<u>\$ 78,489,084</u>	<u>\$ 134,435</u>	<u>\$ 139,444,820</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year ended December 31, 2006

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 9,371,377	\$ 9,060,556	\$ 110,233	\$ 18,542,166
Miscellaneous	1,605,903	1,465,200	2,649	3,073,752
Total operating revenues	<u>10,977,280</u>	<u>10,525,756</u>	<u>112,882</u>	<u>21,615,918</u>
Operating expenses:				
General and administrative	1,715,737	2,439,547	-	4,155,284
Operations and maintenance	3,342,274	4,484,342	130,050	7,956,666
Depreciation	1,964,592	2,686,597	2,045	4,653,234
Total operating expenses	<u>7,022,603</u>	<u>9,610,486</u>	<u>132,095</u>	<u>16,765,184</u>
Operating income (loss)	<u>3,954,677</u>	<u>915,270</u>	<u>(19,213)</u>	<u>4,850,734</u>
Nonoperating revenues (expenses):				
Investment income	344,493	661,635	3,709	1,009,837
Interest expense	(1,305,922)	(787,758)	-	(2,093,680)
Miscellaneous	(47,232)	(58,717)	-	(105,949)
Total nonoperating revenue (expenses)	<u>(1,008,661)</u>	<u>(184,840)</u>	<u>3,709</u>	<u>(1,189,792)</u>
Increase (decrease) in net assets before capital contributions and transfers	2,946,016	730,430	(15,504)	3,660,942
Capital contributions	1,228,528	1,886,020	-	3,114,548
Transfers out	(1,492,275)	(32,269)	-	(1,524,544)
Increase (decrease) in net assets	2,682,269	2,584,181	(15,504)	5,250,946
Net assets at beginning of year	58,139,032	75,904,903	149,939	134,193,874
Net assets at end of year	<u>\$ 60,821,301</u>	<u>\$ 78,489,084</u>	<u>\$ 134,435</u>	<u>\$ 139,444,820</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
SCHEDULE OF CAPITAL ASSETS
WATER UNIT
Year ended December 31, 2006

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land and land improvements	\$ 379,257	\$ -	\$ -	\$ 379,257
Construction in progress	3,329,032	2,571,976	3,659,268	2,241,740
Total capital assets not being depreciated	<u>3,708,289</u>	<u>2,571,976</u>	<u>3,659,268</u>	<u>2,620,997</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,487,220	21,787	12,500	19,496,507
Buildings and structures	70,587,291	4,944,070	254,942	75,276,419
Office furnishings, shop equipment, and other	2,386,805	418,838	26,714	2,778,929
Total capital assets being depreciated	<u>92,461,316</u>	<u>5,384,695</u>	<u>294,156</u>	<u>97,551,855</u>
Less accumulated depreciation:				
Revenue producing and service equipment	4,912,567	639,443	12,500	5,539,510
Buildings and structures	12,600,780	1,142,067	238,113	13,504,734
Office furnishings, shop equipment, and other	1,614,973	183,082	25,258	1,772,797
Total accumulated depreciation	<u>19,128,320</u>	<u>1,964,592</u>	<u>275,871</u>	<u>20,817,041</u>
Total capital assets being depreciated, net	<u>73,332,996</u>	<u>3,420,103</u>	<u>18,285</u>	<u>76,734,814</u>
Total capital assets, net	<u>\$ 77,041,285</u>	<u>\$ 5,992,079</u>	<u>\$ 3,677,553</u>	<u>\$ 79,355,811</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
DEBT REPAYMENT SCHEDULE
SERIES 1998 - WATER SYSTEM REVENUE BONDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>December 1</u>	<u>June 1</u>	<u>December 1</u>	
2007	\$ 1,500,000	\$ 607,398	\$ 607,398	\$ 2,714,796
2008	1,575,000	568,024	568,024	2,711,048
2009	1,660,000	526,680	526,680	2,713,360
2010	1,740,000	487,255	487,255	2,714,510
2011	1,825,000	445,060	445,060	2,715,120
2012	1,910,000	400,348	400,348	2,710,696
2013	2,005,000	352,598	352,598	2,710,196
2014	2,110,000	301,470	301,470	2,712,940
2015	2,220,000	247,665	247,665	2,715,330
2016	2,330,000	190,778	190,778	2,711,556
2017	2,450,000	130,780	130,780	2,711,560
2018	2,580,000	67,080	67,080	2,714,160
Totals	<u>\$ 23,905,000</u>	<u>\$ 4,325,136</u>	<u>\$ 4,325,136</u>	<u>\$ 32,555,272</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
DEBT REPAYMENT SCHEDULE
SERIES 1999 - ADVANCE FROM MUNICIPALITY

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>	
2007	\$ 21,608	\$ 14,926	\$ 14,241	\$ 50,775
2008	22,926	14,241	13,509	50,676
2009	24,507	13,509	12,720	50,736
2010	26,088	12,720	11,828	50,636
2011	27,933	11,828	10,872	50,633
2012	29,778	10,872	9,854	50,504
2013	31,886	9,854	8,763	50,503
2014	33,994	8,763	7,601	50,358
2015	36,365	7,601	6,288	50,254
2016	39,000	6,288	4,880	50,168
2017	41,899	4,880	3,367	50,146
2018	45,061	3,367	1,740	50,168
2019	48,225	1,740	-	49,965
Totals	<u>\$ 429,270</u>	<u>\$ 120,589</u>	<u>\$ 105,663</u>	<u>\$ 655,522</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,033,461	\$ 5,375,054
Commercial	2,265,268	2,409,104
Industrial	458,161	464,169
Public	228,082	263,749
Irrigation	3,212	4,167
Total metered sales	7,988,184	8,516,243
Flat rate sales to general customers	17,647	20,345
Private fire protection	129,041	123,346
Public fire protection	1,033,158	1,017,282
Sales to other municipalities	1,365,546	1,443,841
Total sales of water	10,533,576	11,121,057
Penalties	101,228	87,594
Allocated services	107,352	101,922
Other	235,124	204,929
Total operating revenues	10,977,280	11,515,502
Operating expenses:		
Source of supply:		
Maintenance of lake intake	-	2,500
Power and pumping:		
Operations:		
Supervision and engineering	53,490	41,883
Fuel and power purchased	695,289	652,607
Pumping labor and supplies	95,271	95,575
Leased land	5,650	5,400
Miscellaneous	6,997	6,141
Maintenance:		
Structures and improvements	37,085	22,053
Power production equipment	9,284	4,720
Pumping equipment	74,926	50,245
Total power and pumping	977,992	878,624

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Water treatment:		
Operations:		
Supervision and engineering	\$ 85,623	\$ 78,659
Labor and supplies	228,823	222,431
Lead testing program	95	1,485
Chemicals	71,342	62,696
Structures and improvements	60,258	23,146
Treatment equipment	340,949	350,977
Miscellaneous	14,883	18,964
Total water treatment	<u>801,973</u>	<u>758,358</u>
Transmission and distribution:		
Operations:		
Supervision and engineering	51,723	58,305
Transmission and distribution lines	53,140	59,224
Meters	64,532	46,251
Customer installation	3,929	7,911
Labor and equipment	511,307	402,609
Maintenance:		
Supervision and engineering	31,725	26,256
Distribution reservoirs and standpipes	34,071	410,256
Mains	522,427	464,899
Services	201,021	178,094
Meters	43,727	39,722
Hydrants	44,707	26,521
Total transmission and distribution	<u>1,562,309</u>	<u>1,720,048</u>
Total operations and maintenance	<u>3,342,274</u>	<u>3,359,530</u>
General and administrative:		
Customer accounting and collecting:		
Meter reading	52,429	51,048
Customer records and collection	238,503	217,214
Total customer accounting and collecting	<u>290,932</u>	<u>268,262</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Administrative:		
Executive and general office	\$ 147,169	\$ 145,458
Office supplies	26,999	25,552
Outside services	139,474	102,083
Casualty and property insurance	63,671	72,197
Employee benefits and insurance	1,005,276	754,886
Miscellaneous	31,495	19,001
Regulatory commission	10,721	8,102
Total administrative	<u>1,424,805</u>	<u>1,127,279</u>
Total general and administrative	1,715,737	1,395,541
Depreciation	<u>1,964,592</u>	<u>1,903,539</u>
Total operating expenses	<u>7,022,603</u>	<u>6,658,610</u>
Operating income	<u>\$ 3,954,677</u>	<u>\$ 4,856,892</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
WATER UNIT
WATER TAX EQUIVALENT CALCULATION SCHEDULES
Years ended December 31, 2006 and 2005

Local property taxes due to the City of Kenosha for the years ended December 31, 2006 and 2005 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	<u>2006</u>	<u>2005</u>
Gross book value – January 1:		
Plant and equipment	\$ 96,795,163	\$ 90,932,420
Materials and supplies	<u>354,374</u>	<u>366,095</u>
Total gross book value	97,149,537	91,298,515
Less plant outside municipal boundaries	<u>(5,812,976)</u>	<u>(5,780,425)</u>
Assessable plant	91,336,561	85,518,090
Assessment ratio	<u>0.996614</u>	<u>0.939460</u>
Assessed value of property	91,027,295	80,340,810
Local and school share of tax rate (per thousand)	<u>16.748208</u>	<u>18.343644</u>
Computed tax equivalent (floor = \$1,033,306)	<u>\$ 1,524,544</u>	<u>\$ 1,473,743</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
SCHEDULE OF CAPITAL ASSETS
SEWERAGE UNIT
Year ended December 31, 2006

	<u>Balance</u> <u>January 1,</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2006</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,266,216	\$ -	\$ -	\$ 1,266,216
Construction in progress	1,525,746	479,418	1,316,220	688,944
Total capital assets not being depreciated	<u>2,791,962</u>	<u>479,418</u>	<u>1,316,220</u>	<u>1,955,160</u>
Capital assets being depreciated:				
Revenue producing and service equipment	30,703,114	658,298	77,078	31,284,334
Buildings and structures	87,876,086	1,896,116	29,707	89,742,495
Office furnishings, shop equipment, and other	<u>4,184,477</u>	<u>252,964</u>	<u>84,267</u>	<u>4,353,174</u>
Total capital assets being depreciated	<u>122,763,677</u>	<u>2,807,378</u>	<u>191,052</u>	<u>125,380,003</u>
Less accumulated depreciation:				
Revenue producing and service equipment	22,244,165	1,243,969	77,078	23,411,056
Buildings and structures	21,142,923	1,229,833	29,707	22,343,049
Office furnishings, shop equipment, and other	<u>2,075,209</u>	<u>212,795</u>	<u>43,525</u>	<u>2,244,479</u>
Total accumulated depreciation	<u>45,462,297</u>	<u>2,686,597</u>	<u>150,310</u>	<u>47,998,584</u>
Total capital assets being depreciated, net	<u>77,301,380</u>	<u>120,781</u>	<u>40,742</u>	<u>77,381,419</u>
Total capital assets, net	<u>\$ 80,093,342</u>	<u>\$ 600,199</u>	<u>\$ 1,356,962</u>	<u>\$ 79,336,579</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
DEBT REPAYMENT SCHEDULE
SERIES 1992 – CLEAN WATER FUND LOAN

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2007	\$ 1,418,582	\$ 188,085	\$ 159,727	\$ 1,766,394
2008	1,475,297	159,727	130,236	1,765,260
2009	1,534,280	130,236	99,566	1,764,082
2010	1,595,620	99,566	67,670	1,762,856
2011	1,659,413	67,670	34,498	1,761,581
2012	1,725,757	34,498	-	1,760,255
Totals	<u>\$ 9,408,949</u>	<u>\$ 679,782</u>	<u>\$ 491,697</u>	<u>\$ 10,580,428</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
DEBT REPAYMENT SCHEDULE
SERIES 1993 – CEAN WATER FUND LOAN

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2007	\$ 297,493	\$ 47,191	\$ 41,219	\$ 385,903
2008	309,438	41,219	35,007	385,664
2009	321,861	35,007	28,546	385,414
2010	334,784	28,546	21,825	385,155
2011	348,226	21,825	14,836	384,887
2012	362,206	14,836	7,564	384,606
2013	376,750	7,564	-	384,314
Totals	<u>\$ 2,350,758</u>	<u>\$ 196,188</u>	<u>\$ 148,997</u>	<u>\$ 2,695,943</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
DEBT REPAYMENT SCHEDULE
SERIES 2000 – CLEAN WATER FUND LOAN

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>		
2007	\$ 70,043	\$ 19,182	\$ 18,072	\$ 107,297	
2008	72,263	18,072	16,927	107,262	
2009	74,553	16,927	15,745	107,225	
2010	76,915	15,746	14,527	107,188	
2011	79,353	14,527	13,269	107,149	
2012	81,868	13,269	11,972	107,109	
2013	84,462	11,972	10,634	107,068	
2014	87,139	10,634	9,253	107,026	
2015	89,900	9,253	7,829	106,982	
2016	92,749	7,829	6,359	106,937	
2017	95,688	6,359	4,843	106,890	
2018	98,721	4,843	3,279	106,843	
2019	101,849	3,279	1,665	106,793	
2020	105,077	1,665	-	106,742	
Totals	<u>\$ 1,210,580</u>	<u>\$ 153,557</u>	<u>\$ 134,374</u>	<u>\$ 1,498,511</u>	

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
DEBT REPAYMENT SCHEDULE
SERIES 2003 – SEWERAGE REVENUE BONDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>January 1</u>	<u>January 1</u>	<u>July 1</u>	
2007	\$ 1,050,000	\$ 112,719	\$ 96,181	\$ 1,258,900
2008	1,100,000	96,181	76,106	1,272,287
2009	1,150,000	76,106	52,531	1,278,637
2010	1,200,000	52,531	26,731	1,279,262
2011	1,175,000	26,731	-	1,201,731
Totals	<u>\$ 5,675,000</u>	<u>\$ 364,268</u>	<u>\$ 251,549</u>	<u>\$ 6,290,817</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
DEBT REPAYMENT SCHEDULE
SERIES 1999 – ADVANCE FROM MUNICIPALITY

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>		
2007	\$ 21,975	\$ 15,179	\$ 14,483	\$ 51,637	
2008	23,315	14,483	13,738	51,536	
2009	24,922	13,738	12,935	51,595	
2010	26,531	12,935	12,029	51,495	
2011	28,406	12,029	11,057	51,492	
2012	30,282	11,057	10,021	51,360	
2013	32,426	10,021	8,912	51,359	
2014	34,570	8,912	7,729	51,211	
2015	36,982	7,729	6,394	51,105	
2016	39,661	6,394	4,963	51,018	
2017	42,609	4,963	3,424	50,996	
2018	45,825	3,424	1,770	51,019	
2019	49,039	1,770	-	50,809	
Totals	<u>\$ 436,543</u>	<u>\$ 122,634</u>	<u>\$ 107,455</u>	<u>\$ 666,632</u>	

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 4,212,200	\$ 4,184,260
Commercial	2,152,388	2,229,923
Industrial	770,530	1,085,845
Public	178,280	195,290
	<hr/>	<hr/>
Total sales to general customers	7,313,398	7,695,318
Sales to other municipalities	1,747,158	1,768,402
Industrial waste monitoring	84,560	88,836
Engineering services	1,039,750	1,056,972
Waste haulers	213,407	203,757
Penalties	97,782	89,158
Other	29,701	65,644
	<hr/>	<hr/>
Total operating revenues	10,525,756	10,968,087
Operating expenses:		
Wastewater treatment:		
Operations:		
Supervision and labor	400,477	400,243
Chemicals	468,029	459,694
Power	408,669	504,424
Sludge handling	341,887	396,251
Maintenance:		
Supervision and labor	229,507	229,740
Treatment equipment	300,229	318,939
Structures and improvements	88,644	76,585
Transportation expense	52,967	63,204
	<hr/>	<hr/>
Total wastewater treatment	2,290,409	2,449,080
Collection system:		
Collection	354,746	335,527
Equalization basin and pump station	33,549	38,377
Cleaning and inspection	281,534	256,613
Lift station equipment	120,714	97,419
Monitoring equipment	5,408	1,904
	<hr/>	<hr/>
Total collection system	795,951	729,840
Laboratory operations:		
Labor and supplies	252,527	237,756
Industrial waste monitoring	75,582	81,943
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Total laboratory operations	328,109	319,699
Engineering services	1,069,873	994,013
	<hr/>	<hr/>
Total operation and maintenance	4,484,342	4,492,632

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SEWERAGE UNIT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
General and administrative:		
Customer accounting and collecting:		
Meter reading	\$ 52,429	\$ 51,048
Customer records and collection	<u>203,507</u>	<u>183,294</u>
Total customer accounting and collecting	<u>255,936</u>	<u>234,342</u>
Administrative:		
Salaries	242,139	192,601
Outside services	373,992	511,132
Office supplies	30,215	32,064
Accidents and damages	2,897	24,924
Insurance and employee benefits	1,223,826	899,713
Meter operation	<u>310,542</u>	<u>304,564</u>
Total administrative	<u>2,183,611</u>	<u>1,964,998</u>
Total general and administrative	<u>2,439,547</u>	<u>2,199,340</u>
Depreciation	<u>2,686,597</u>	<u>2,692,591</u>
Total operating expenses	<u>9,610,486</u>	<u>9,384,563</u>
Operating income	<u>\$ 915,270</u>	<u>\$ 1,583,524</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
SCHEDULE OF CAPITAL ASSETS
HOUSEHOLD HAZARDOUS WASTE UNIT
Year ended December 31, 2006

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets being depreciated:				
Buildings and structures	\$ 48,194	\$ -	\$ -	\$ 48,194
Office furnishings, shop equipment, and other	<u>1,412</u>	<u>-</u>	<u>-</u>	<u>1,412</u>
Total capital assets being depreciated	<u>49,606</u>	<u>-</u>	<u>-</u>	<u>49,606</u>
Less accumulated depreciation:				
Buildings and structures	22,162	1,927	-	24,089
Office furnishings, shop equipment, and other	<u>562</u>	<u>118</u>	<u>-</u>	<u>680</u>
Total accumulated depreciation	<u>22,724</u>	<u>2,045</u>	<u>-</u>	<u>24,769</u>
Total capital assets, net	<u>\$ 26,882</u>	<u>\$ (2,045)</u>	<u>\$ -</u>	<u>\$ 24,837</u>