

VERONA UTILITIES

Enterprise Funds of the
City of Verona, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2015 and 2014

VERONA UTILITIES

Enterprise Funds of the City of Verona, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the City Council
Verona Utilities
Verona, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Verona Utilities, enterprise funds of the City of Verona, Wisconsin, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Verona Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Verona Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Verona Utilities as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council
Verona Utilities

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Verona Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Verona, Wisconsin, as of December 31, 2015 and 2014 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in the Note 1, Verona Utilities have adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change is shown in the current year. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Verona Utilities has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information. We note the significant financial events of the Verona Utilities are included in the Management's Discussion and Analysis of the City of Verona's financial statements.

To the City Council
Verona Utilities

Supplementary Information

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

Baker Tilly Vinchow Krause, LLP

Madison, Wisconsin
Mah 18, 2016

WATER UTILITY

VERONA WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2015 and 2014

	ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and investments		\$ 2,453,892	\$ 2,700,400
Restricted Assets			
Redemption account		159,633	150,763
Customer accounts receivable		305,011	302,349
Other accounts receivable		15,916	16,374
Due from municipality		31,328	34,048
Materials and supplies		35,414	26,796
Prepayments		488	3,300
Due from other governments		<u>1,260</u>	<u>1,128</u>
Total Current Assets		<u>3,002,942</u>	<u>3,235,158</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		174,330	220,021
Depreciation account		377,760	377,760
Net pension asset		46,043	-
Other Assets			
Deferred special assessments receivable		2,312	2,312
Capital Assets			
Plant in service		37,631,280	35,785,873
Accumulated depreciation		(6,725,129)	(6,026,809)
Construction work in progress		<u>6,975</u>	<u>1,833</u>
Total Noncurrent Assets		<u>31,513,571</u>	<u>30,360,990</u>
Total Assets		<u>34,516,513</u>	<u>33,596,148</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on advance refunding		8,808	11,655
Deferred outflows related to pension		<u>46,219</u>	<u>-</u>
Total Deferred Outflows of Resources		<u>55,027</u>	<u>11,655</u>

LIABILITIES		<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES			
Accounts payable		\$ 56,261	\$ 58,077
Accrued wages		9,921	10,517
Accrued interest		15,353	16,632
Current portion of general obligation debt		76,600	91,600
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		266,862	250,299
Accrued interest		<u>3,963</u>	<u>4,755</u>
Total Current Liabilities		<u>428,960</u>	<u>431,880</u>
NONCURRENT LIABILITIES			
General obligation debt		1,473,650	1,550,250
Revenue bonds		905,002	1,171,864
Unamortized premium and discount		21,945	24,709
Accrued compensated absences		<u>46,289</u>	<u>41,865</u>
Total Noncurrent Liabilities		<u>2,446,886</u>	<u>2,788,688</u>
Total Liabilities		<u>2,875,846</u>	<u>3,220,568</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		<u>1,075</u>	<u>-</u>
NET POSITION			
Net investment in capital assets		28,177,875	26,683,830
Restricted for:			
Debt service		330,000	366,029
Depreciation		377,760	377,760
Pension		46,043	-
Unrestricted		<u>2,762,941</u>	<u>2,959,616</u>
TOTAL NET POSITION		<u><u>\$ 31,694,619</u></u>	<u><u>\$ 30,387,235</u></u>

See accompanying notes to the financial statements.

VERONA WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sales of water	\$ 1,695,016	\$ 1,704,259
Other	<u>180,802</u>	<u>183,961</u>
Total Operating Revenues	<u>1,875,818</u>	<u>1,888,220</u>
OPERATING EXPENSES		
Operation and maintenance	667,669	618,804
Depreciation	<u>763,188</u>	<u>730,352</u>
Total Operating Expenses	<u>1,430,857</u>	<u>1,349,156</u>
OPERATING INCOME	<u>444,961</u>	<u>539,064</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	5,109	6,710
Amortization of premium, discount, and loss on refunding	(83)	(326)
Interest expense	<u>(95,286)</u>	<u>(108,647)</u>
Total Nonoperating Revenues (Expenses)	<u>(90,260)</u>	<u>(102,263)</u>
Income Before Contributions and Transfers	354,701	436,801
CAPITAL CONTRIBUTIONS	1,387,727	896,489
CAPITAL CONTRIBUTIONS - MUNICIPAL	151,352	-
TRANSFERS - TAX EQUIVALENT	<u>(677,292)</u>	<u>(659,947)</u>
CHANGE IN NET POSITION	1,216,488	673,343
NET POSITION - Beginning of Year	30,387,235	29,713,892
Cumulative effect of a change in accounting principle	<u>90,896</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 31,694,619</u>	<u>\$ 30,387,235</u>

See accompanying notes to the financial statements.

VERONA WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,450,280	\$ 1,447,866
Received from municipality for services	464,096	464,096
Paid to suppliers for goods and services	(461,734)	(412,935)
Paid to employees for operating payroll	<u>(211,622)</u>	<u>(201,563)</u>
Net Cash Flows From Operating Activities	<u>1,241,020</u>	<u>1,297,464</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	<u>(677,292)</u>	<u>(659,947)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(541,017)	(881,277)
Salvage on retirement of plant	38,129	-
Capital contributions received	89,978	106,049
Debt retired	(341,899)	(340,365)
Interest paid	<u>(97,357)</u>	<u>(111,167)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(852,166)</u>	<u>(1,226,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>5,109</u>	<u>6,710</u>
Net Change in Cash and Cash Equivalents	(283,329)	(582,533)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>3,448,944</u>	<u>4,031,477</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,165,615</u>	<u>\$ 3,448,944</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	<u>\$ 1,298,207</u>	<u>\$ 830,785</u>
TIF financed additions to utility plant	<u>\$ 151,352</u>	<u>\$ -</u>

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 444,961	\$ 539,064
Noncash items in operating income		
Depreciation	763,188	730,352
Depreciation charged to clearing and other utilities	38,632	33,384
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Customer accounts receivable	(2,662)	(9,065)
Due from other funds and governments	2,588	(577)
Materials and supplies	(8,618)	(1,265)
Prepayments	2,812	(2,862)
Pension related deferrals and assets	(291)	-
Accounts payable	(3,418)	5,581
Other current liabilities	<u>3,828</u>	<u>2,852</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,241,020</u>	<u>\$ 1,297,464</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 2,453,892	\$ 2,700,400
Redemption account	159,633	150,763
Reserve account	174,330	220,021
Depreciation account	<u>377,760</u>	<u>377,760</u>
CASH AND CASH EQUIVALENTS	<u>\$ 3,165,615</u>	<u>\$ 3,448,944</u>

See accompanying notes to the financial statements.

SEWER UTILITY

VERONA SEWER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2015 and 2014

ASSETS	2015	2014
CURRENT ASSETS		
Cash and investments	\$ 1,204,921	\$ 1,204,690
Restricted Assets		
Redemption account	104,908	103,666
Customer accounts receivable	353,188	352,531
Other accounts receivable	26,148	113,319
Due from municipality	38,092	41,200
Prepayments	488	2,650
Due from other governments	1,597	1,487
Total Current Assets	1,729,342	1,819,543
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	164,107	196,919
Depreciation account	49,690	49,690
Replacement account	69,600	60,900
Net pension asset	17,826	-
Other Assets		
Unamortized capacity charge	-	123,971
Investment in interceptor	373,663	407,632
Deferred special assessments receivable	21,235	21,235
Capital Assets		
Plant in service	20,161,240	18,852,639
Accumulated depreciation	(4,196,553)	(3,874,798)
Construction work in progress	6,975	-
Total Noncurrent Assets	16,667,783	15,838,188
Total Assets	18,397,125	17,657,731
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	3,574	7,137
Deferred outflows related to pension	18,172	-
Total Deferred Outflows of Resources	21,746	7,137

LIABILITIES		<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES			
Accounts payable		\$ 257,893	\$ 213,955
Accrued wages		4,152	3,246
Accrued interest		1,083	1,227
Current portion of general obligation debt		125,200	113,100
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		173,137	169,701
Accrued interest		<u>3,912</u>	<u>4,673</u>
Total Current Liabilities		<u>565,377</u>	<u>505,902</u>
NONCURRENT LIABILITIES			
General obligation debt		40,002	165,202
Revenue bonds		929,997	1,103,134
Unamortized premium and discount		1,032	2,079
Accrued compensated absences		<u>41,988</u>	<u>36,208</u>
Total Noncurrent Liabilities		<u>1,013,019</u>	<u>1,306,623</u>
Total Liabilities		<u>1,578,396</u>	<u>1,812,525</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		<u>417</u>	<u>-</u>
NET POSITION			
Net investment in capital assets		14,705,868	13,431,762
Restricted for:			
Debt service		265,103	295,912
Equipment replacement		69,600	60,900
Depreciation		49,690	49,690
Pension		17,826	-
Unrestricted		<u>1,731,971</u>	<u>2,014,079</u>
TOTAL NET POSITION		<u>\$ 16,840,058</u>	<u>\$ 15,852,343</u>

See accompanying notes to the financial statements.

VERONA SEWER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Treatment charges	\$ 1,364,895	\$ 1,349,122
Other	<u>33,814</u>	<u>22,577</u>
Total Operating Revenues	<u>1,398,709</u>	<u>1,371,699</u>
OPERATING EXPENSES		
Operation and maintenance	1,285,019	1,164,588
Depreciation	341,819	320,905
Amortization	<u>157,941</u>	<u>157,940</u>
Total Operating Expenses	<u>1,784,779</u>	<u>1,643,433</u>
OPERATING LOSS	<u>(386,070)</u>	<u>(271,734)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,862	3,455
Amortization of premium, discount, and loss on refunding	(2,517)	(3,858)
Interest expense	<u>(57,278)</u>	<u>(67,813)</u>
Total Nonoperating Revenues (Expenses)	<u>(56,933)</u>	<u>(68,216)</u>
Loss Before Contributions	(443,003)	(339,950)
CAPITAL CONTRIBUTIONS	1,328,526	1,245,307
CAPITAL CONTRIBUTIONS - MUNICIPAL	<u>67,000</u>	<u>-</u>
CHANGE IN NET POSITION	952,523	905,357
NET POSITION - Beginning of Year	15,852,343	14,946,986
Cumulative effect of a change in accounting principle	<u>35,192</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 16,840,058</u>	<u>\$ 15,852,343</u>

See accompanying notes to the financial statements.

VERONA SEWER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,401,050	\$ 1,358,557
Paid to suppliers for goods and services	(1,124,650)	(1,049,099)
Paid to employees for operating payroll	(117,364)	(108,214)
Net Cash Flows From Operating Activities	<u>159,036</u>	<u>201,244</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(139,698)	(48,026)
Salvage on retirement of plant	38,129	-
Capital contributions received	258,016	250,420
Debt retired	(282,801)	(260,785)
Interest paid	(58,183)	(68,506)
Net Cash Flows From Capital and Related Financing Activities	<u>(184,537)</u>	<u>(126,897)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>2,862</u>	<u>3,455</u>
Net Change in Cash and Cash Equivalents	(22,639)	77,802
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,615,865</u>	<u>1,538,063</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,593,226</u>	<u>\$ 1,615,865</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	<u>\$ 1,157,681</u>	<u>\$ 1,096,524</u>
TIF financed additions to utility plant	<u>\$ 67,000</u>	<u>\$ -</u>

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (386,070)	\$ (271,734)
Noncash items in operating loss		
Depreciation	341,819	320,905
Amortization	157,941	157,940
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Customer accounts receivable	(657)	(12,748)
Due from other funds and governments	2,998	(394)
Prepayments	2,162	(2,212)
Pension related deferrals and assets	(389)	-
Accounts payable	34,546	10,355
Other current liabilities	<u>6,686</u>	<u>(868)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 159,036</u>	<u>\$ 201,244</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 1,204,921	\$ 1,204,690
Redemption account	104,908	103,666
Reserve account	164,107	196,919
Depreciation account	49,690	49,690
Replacement account	<u>69,600</u>	<u>60,900</u>
CASH AND CASH EQUIVALENTS	<u>\$ 1,593,226</u>	<u>\$ 1,615,865</u>

See accompanying notes to the financial statements.

STORMWATER UTILITY

VERONA STORMWATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2015 and 2014

	ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and investments		\$ 748,296	\$ 667,956
Customer accounts receivable		135,388	116,282
Other accounts receivable		10,081	-
Due from municipality		7,561	8,416
Prepayments		-	2,162
Due from other governments		<u>248</u>	<u>410</u>
Total Current Assets		<u>901,574</u>	<u>795,226</u>
NONCURRENT ASSETS			
Restricted Assets			
Net pension asset		13,508	-
Capital Assets			
Plant in service		26,748,522	25,793,622
Accumulated depreciation		<u>(4,230,480)</u>	<u>(3,885,569)</u>
Total Noncurrent Assets		<u>22,531,550</u>	<u>21,908,053</u>
Total Assets		<u>23,433,124</u>	<u>22,703,279</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on advance refunding		5,616	6,276
Deferred outflows related to pension		<u>15,308</u>	<u>-</u>
Total Deferred Outflows of Resources		<u>20,924</u>	<u>6,276</u>

LIABILITIES		<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES			
Accounts payable		\$ 9,715	\$ 5,084
Accrued wages		2,695	2,342
Accrued interest		6,574	7,067
Current portion of general obligation debt		<u>125,000</u>	<u>120,000</u>
Total Current Liabilities		<u>143,984</u>	<u>134,493</u>
NONCURRENT LIABILITIES			
General obligation debt		895,000	1,020,000
Unamortized premium and discount		17,543	21,593
Accrued compensated absences		<u>43,960</u>	<u>39,987</u>
Total Noncurrent Liabilities		<u>956,503</u>	<u>1,081,580</u>
 Total Liabilities		 <u>1,100,487</u>	 <u>1,216,073</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		316	-
Unamortized gain on refunding		<u>2,726</u>	<u>3,483</u>
 Total Deferred Inflows of Resources		 <u>3,042</u>	 <u>3,483</u>
NET POSITION			
Net investment in capital assets		21,483,389	20,749,253
Restricted for:			
Pension		13,508	-
Unrestricted		<u>853,622</u>	<u>740,746</u>
 TOTAL NET POSITION		 <u><u>\$ 22,350,519</u></u>	 <u><u>\$ 21,489,999</u></u>

See accompanying notes to the financial statements.

VERONA STORMWATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Charges for services	\$ 501,535	\$ 458,307
Other	17,427	2,137
Total Operating Revenues	518,962	460,444
OPERATING EXPENSES		
Operation and maintenance	233,572	216,594
Depreciation	344,911	335,757
Total Operating Expenses	578,483	552,351
OPERATING LOSS	(59,521)	(91,907)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,448	1,686
Amortization of premium, discount, and refunding	4,147	4,388
Interest expense	(26,292)	(28,851)
Total Nonoperating Revenues (Expenses)	(20,697)	(22,777)
Loss Before Contributions	(80,218)	(114,684)
CAPITAL CONTRIBUTIONS	638,412	687,703
CAPITAL CONTRIBUTIONS - MUNICIPAL	275,658	-
CHANGE IN NET POSITION	833,852	573,019
NET POSITION - Beginning of Year	21,489,999	20,916,980
Cumulative effect of a change in accounting principle	26,668	-
NET POSITION - END OF YEAR	\$ 22,350,519	\$ 21,489,999

See accompanying notes to the financial statements.

VERONA STORMWATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 490,792	\$ 459,760
Paid to suppliers for goods and services	(120,766)	(133,004)
Paid to employees for operating payroll	(103,519)	(83,691)
Net Cash Flows From Operating Activities	<u>266,507</u>	<u>243,065</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(40,830)	(18,248)
Capital contributions received	-	8,824
Debt retired	(120,000)	(115,000)
Interest paid	(26,785)	(30,516)
Net Cash Flows From Capital and Related Financing Activities	<u>(187,615)</u>	<u>(154,940)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>1,448</u>	<u>1,686</u>
Net Change in Cash and Cash Equivalents	80,340	89,811
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>667,956</u>	<u>578,145</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 748,296</u>	<u>\$ 667,956</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	<u>\$ 638,412</u>	<u>\$ 678,879</u>
TIF financed additions to utility plant	<u>\$ 275,658</u>	<u>\$ -</u>

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ (59,521)	\$ (91,907)
Noncash items in operating income		
Depreciation	344,911	335,757
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Customer accounts receivable	(19,106)	(384)
Other accounts receivable	(10,081)	-
Due from other funds and governments	1,017	(300)
Prepayments	2,162	(2,162)
Pension related deferrals and assets	(1,832)	-
Accounts payable	4,631	2,481
Other current liabilities	<u>4,326</u>	<u>(420)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 266,507</u>	<u>\$ 243,065</u>

See accompanying notes to the financial statements.

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

The utilities are separate enterprise funds of the City of Verona (municipality). The utilities are managed by a city council. The utilities provide water, sewer, and stormwater service to properties within the municipality. Sewer treatment services are provided per agreement by Madison Metropolitan Sewerage District.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The sewer and stormwater utilities operate under rules and rates established by the city council.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utilities's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utilities adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 13.

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

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

Deposits and Investments

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

Investment of the utilities' funds are restricted by state statutes. Investments are limited to:

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

The utilities have adopted an investment policy. That policy follows the state statute for allowable investments.

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

Receivables/Payables

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

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

Materials and Supplies

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

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

Restricted Assets

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

Sewer Unamortized Capacity Charge

This account represents a one-time connection fee, net of amortization paid to Madison Metropolitan Sewerage District in 1996. The connection fee is being amortized on the straight-line basis over a 20 year period to correspond with the term of the debt issued to fund the payment.

Sewer Investment in Interceptor

This account represents the costs incurred for an interceptor project entered into with Madison Metropolitan Sewerage District in 2007. The costs are being amortized on a straight-line basis over a 20 year period to correspond with the term of the debt issued to fund the payment.

Special Assessments

The balance of this account consists of amounts that will be assessed to property owners when specific property is annexed by the municipality or when vacant land is developed.

Capital Assets

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

	<u>Years</u>
Water Plant	
Source of supply	35
Pumping	23 - 32
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 35

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

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

Capital Assets (cont.)

	<u>Years</u>
Sewer Plant	
Collecting system	10 - 100
General	4 - 10
Stormwater Plant	
Detention Basins	75
General	4 - 75

Pensions

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

Deferred Outflow of Resources

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

Accrued Compensated Absences

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

Long-Term Obligations

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

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

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

REVENUES AND EXPENSES

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

Charges for Services

Billings are rendered and recorded quarterly based on metered usage. The utilities do not accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective July 1, 2011.

Current sewer rates were approved by the city council effective April 1, 2012.

Current stormwater rates were approved by the city council effective July 1, 2010.

Capital Contributions

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

Connection or Impact Fee

The water and sewer utilities charge new customers an impact fee and connection fee, respectively, to connect to the system. Fees collected are recorded as capital contributions on the statements of revenues, expenses, and changes in net position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2015	2014	
Checking and savings accounts	<u>\$ 5,507,137</u>	<u>\$ 5,732,765</u>	Custodial credit

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing).

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

The utilities may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utilities alone. Therefore, coverage for the utilities may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

In addition, the utilities and other funds of the city have collateral or depository insurance agreements in the amount of \$3,734,086 and \$4,160,873 at December 31, 2015 and 2014, respectively.

Custodial Credit Risk

Deposits

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

The utilities maintain certain deposits commingled with the municipality. The following is a summary of the utilities' total deposit balances at these institutions.

	2015		2014	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Checking and savings accounts	<u>\$ 5,507,137</u>	<u>\$ 5,507,137</u>	<u>\$ 5,732,765</u>	<u>\$ 5,732,765</u>

Investment Policy

The city's investment policy does not address this risk.

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2015 and 2014:

Due To	Due From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
Water Utility	General Fund	\$ 31,328	Delinquent bills on tax roll	\$ 34,048	Delinquent bills on tax roll
Sewer Utility	General Fund	38,092	Delinquent bills on tax roll	41,200	Delinquent bills on tax roll
Stormwater Utility	General Fund	7,561	Delinquent bills on tax roll	8,416	Delinquent bills on tax roll

The following is a schedule of transfer balances for the years ending December 31, 2015 and 2014:

To	From	2015		2014	
		Amount	Principal Purpose	Amount	Principal Purpose
General Fund	Water Utility	\$ 677,292	Tax equivalent	\$ 659,947	Tax equivalent

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

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

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

Replacement Account

As a condition of receiving state and federal funds for wastewater plant construction, the utilities have established an account for replacement of certain mechanical equipment.

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position

The following calculation supports the amount of water restricted net position:

	<u>2015</u>	<u>2014</u>
Restricted Assets		
Redemption account	\$ 159,633	\$ 150,763
Reserve account	174,330	220,021
Depreciation account	377,760	377,760
Net pension asset	<u>46,043</u>	<u>-</u>
Total Restricted Assets	<u>757,766</u>	<u>748,544</u>
 Current Liabilities Payable From Restricted Assets	 <u>(3,963)</u>	 <u>(4,755)</u>
 Total Restricted Net Position as Calculated	 <u>\$ 753,803</u>	 <u>\$ 743,789</u>

The purpose of the restricted net position is as follows:

	<u>2015</u>	<u>2014</u>
Debt service	\$ 330,000	\$ 366,029
Depreciation	377,760	377,760
Pension	<u>46,043</u>	<u>-</u>
 Totals	 <u>\$ 753,803</u>	 <u>\$ 743,789</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 4 - RESTRICTED ASSETS (cont.)

The following calculation supports the amount of sewer restricted net position:

	2015	2014
Restricted Assets		
Redemption account	\$ 104,908	\$ 103,666
Reserve account	164,107	196,919
Depreciation account	49,690	49,690
Replacement account	69,600	60,900
Net pension asset	17,826	-
Total Restricted Assets	406,131	411,175
Current Liabilities Payable From Restricted Assets	(3,912)	(4,673)
Total Restricted Net Position as Calculated	\$ 402,219	\$ 406,502

The purpose of the restricted net position is as follows:

	2015	2014
Debt service	\$ 265,103	\$ 295,912
Equipment replacement	69,600	60,900
Depreciation	49,690	49,690
Pension	17,826	-
Totals	\$ 402,219	\$ 406,502

The following calculation supports the amount of stormwater restricted net position:

	2015	2014
Restricted Assets		
Net pension asset	\$ 13,508	-

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 5 - CHANGES IN CAPITAL ASSETS

Water Utility

A summary of changes in water capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 65,089	\$ -	\$ -	\$ 65,089
Capital assets being depreciated				
Source of supply	886,061	-	-	886,061
Pumping	4,051,172	-	-	4,051,172
Water treatment	120,145	-	-	120,145
Transmission and distribution	29,722,297	1,914,209	90,684	31,545,822
General	941,109	72,827	50,945	962,991
Total Capital Assets Being Depreciated	<u>35,720,784</u>	<u>1,987,036</u>	<u>141,629</u>	<u>37,566,191</u>
Total Capital Assets	<u>35,785,873</u>	<u>1,987,036</u>	<u>141,629</u>	<u>37,631,280</u>
Less: Accumulated depreciation	<u>(6,026,809)</u>	<u>(839,949)</u>	<u>141,629</u>	<u>(6,725,129)</u>
Construction in progress	<u>1,833</u>	<u>6,975</u>	<u>1,833</u>	<u>6,975</u>
Net Capital Assets	<u>\$ 29,760,897</u>			<u>\$ 30,913,126</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

A summary of changes in water capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 65,089	\$ -	\$ -	\$ 65,089
Capital assets being depreciated				
Source of supply	886,061	-	-	886,061
Pumping	4,002,091	109,081	60,000	4,051,172
Water treatment	120,145	-	-	120,145
Transmission and distribution	28,342,772	1,504,796	125,271	29,722,297
General	896,625	69,928	25,444	941,109
Total Capital Assets Being Depreciated	34,247,694	1,683,805	210,715	35,720,784
Total Capital Assets	34,312,783	1,683,805	210,715	35,785,873
Less: Accumulated depreciation	(5,460,738)	(776,786)	210,715	(6,026,809)
Construction in progress	-	1,833	-	1,833
Net Capital Assets	\$ 28,852,045			\$ 29,760,897

Sewer Utility

A summary of changes in sewer capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets being depreciated				
Collecting system	\$ 17,702,669	\$ 1,294,640	\$ 11,814	\$ 18,985,495
Collecting system pumping	244,054	-	-	244,054
General	905,916	72,154	46,379	931,691
Total Capital Assets Being Depreciated	18,852,639	1,366,794	58,193	20,161,240
Less: Accumulated depreciation	(3,874,798)	(341,819)	20,064	(4,196,553)
Construction in progress	-	6,975	-	6,975
Net Capital Assets	\$ 14,977,841			\$ 15,971,662

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility (cont.)

A summary of changes in sewer capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets being depreciated				
Collecting system	\$ 16,829,651	\$ 876,277	\$ 3,259	\$ 17,702,669
Collecting system pumping	-	244,054	-	244,054
General	882,094	24,222	400	905,916
Total Capital Assets Being Depreciated	17,711,745	1,144,553	3,659	18,852,639
Less: Accumulated depreciation	(3,557,551)	(320,906)	3,659	(3,874,798)
Net Capital Assets	\$ 14,154,194			\$ 14,977,841

Stormwater Utility

A summary of changes in stormwater capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land and land rights	\$ 2,881,480	\$ -	\$ -	\$ 2,881,480
Intangible	112,000	-	-	112,000
Total Capital Assets Not Being Depreciated	2,993,480	-	-	2,993,480
Capital assets being depreciated				
Detention Basins	22,372,654	954,900	-	23,327,554
General	427,488	-	-	427,488
Total Capital Assets Being Depreciated	22,800,142	954,900	-	23,755,042
Total Capital Assets	25,793,622	954,900	-	26,748,522
Less: Accumulated depreciation	(3,885,569)	(344,911)	-	(4,230,480)
Net Capital Assets	\$ 21,908,053			\$ 22,518,042

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Stormwater Utility (cont.)

A summary of changes in stormwater capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated				
Land and land rights	\$ 2,881,480	\$ -	\$ -	\$ 2,881,480
Intangible	112,000	-	-	112,000
Total Capital Assets Not Being Depreciated	2,993,480	-	-	2,993,480
Capital assets being depreciated				
Detention Basins	21,675,527	697,127	-	22,372,654
General	427,488	-	-	427,488
Total Capital Assets Being Depreciated	22,103,015	697,127	-	22,800,142
Total Capital Assets	25,096,495	1,394,254	-	25,793,622
Less: Accumulated depreciation	(3,549,812)	(335,757)	-	(3,885,569)
Net Capital Assets	\$ 21,546,683			\$ 21,908,053

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds Water and Sewer

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/15
7/1/2003	Capital Projects	6/1/2016	1.60-3.75%	\$ 1,075,000	\$ 120,000
7/1/2006	Capital Projects	6/1/2026	4.10-4.50	1,615,000	1,089,998
7/1/2006	Refund Prior Debt	6/1/2020	4.10-4.50	1,100,000	605,000
3/1/2008	Capital Projects	6/1/2018	2.90-3.75	1,340,000	460,000

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds Water and Sewer (cont.)

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 440,000	\$ 85,988	\$ 525,988
2017	330,000	70,942	400,942
2018	345,000	57,520	402,520
2019	240,000	45,535	285,535
2020	245,000	35,167	280,167
2021 - 2025	550,000	92,022	642,022
2026	<u>124,998</u>	<u>2,813</u>	<u>127,811</u>
Totals	<u>\$ 2,274,998</u>	<u>\$ 389,987</u>	<u>\$ 2,664,985</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2015 and 2014 were \$522,486 and \$528,202, respectively. Total customer gross revenues as defined for the same periods were \$3,282,498 and \$3,259,919. Annual principal and interest payments are expected to require 7% of gross revenues on average.

General Obligation Debt - Water

The following general obligation bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/15</u>
8/1/2008	Capital projects	8/1/2028	4.00-4.60%	\$ 244,850	\$ 205,250
7/24/2012	Refund 2009 Build America Bonds	3/1/2029	2.00-3.00	1,205,000	1,070,000
6/26/2013	Refund 2010 Build America Bonds	4/1/2030	2.00-3.25	305,000	275,000

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Water (cont.)

General obligation bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 76,600	\$ 42,807	\$ 119,407
2017	85,750	40,518	126,268
2018	85,750	37,988	123,738
2019	90,750	35,356	126,106
2020	95,750	32,574	128,324
2021 - 2025	575,650	124,071	699,721
2026 - 2030	<u>540,000</u>	<u>36,061</u>	<u>576,061</u>
Totals	<u>\$ 1,550,250</u>	<u>\$ 349,375</u>	<u>\$ 1,899,625</u>

General Obligation Debt - Sewer

The following general obligation bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/15</u>
3/1/2004	Capital projects	6/1/2016	1.30-4.40%	\$ 947,850	\$ 85,200
7/24/2012	Refunding bonds	3/1/2017	3.00	80,000	80,002

General obligation bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 125,200	\$ 3,504	\$ 128,704
2017	<u>40,002</u>	<u>600</u>	<u>40,602</u>
Totals	<u>\$ 165,202</u>	<u>\$ 4,104</u>	<u>\$ 169,306</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Stormwater

The following general obligation bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/15
7/27/2011	Capital projects	6/1/2021	0.09-2.80%	\$ 560,000	\$ 350,000
7/24/2012	Capital projects	3/1/2022	2.00-3.00	315,000	215,000
7/24/2012	Refund 2009 Build America Bonds	3/1/2022	2.00-3.00	260,000	205,000
6/26/2013	Refund 2010 Build America Bonds	4/1/2030	2.00-3.25	275,000	250,000

General obligation bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2016	\$ 125,000	\$ 24,363	\$ 149,363
2017	125,000	21,451	146,451
2018	130,000	18,298	148,298
2019	135,000	14,843	149,843
2020	135,000	11,183	146,183
2021 - 2025	275,000	23,862	298,862
2026 - 2030	95,000	7,171	102,171
Totals	<u>\$ 1,020,000</u>	<u>\$ 121,171</u>	<u>\$ 1,141,171</u>

Long-Term Obligations Summary - Water

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Due Within One Year
Revenue bonds	\$ 1,422,163	\$ -	\$ 250,299	\$ 1,171,864	\$ 266,862
General obligation debt	1,641,850	-	91,600	1,550,250	76,600
Accrued compensated absences	41,865	16,124	11,700	46,289	-
Unamortized premium and discount	24,709	-	2,764	21,945	-
Totals	<u>\$ 3,130,587</u>	<u>\$ 16,124</u>	<u>\$ 356,363</u>	<u>\$ 2,790,348</u>	<u>\$ 343,462</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Water (cont.)

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

	<u>1/1/14</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 1,675,928	\$ -	\$ 253,765	\$ 1,422,163	\$ 250,299
General obligation debt	1,728,450	-	86,600	1,641,850	91,600
Accrued compensated absences	42,735	14,703	15,573	41,865	-
Unamortized premium and discount	<u>27,609</u>	<u>-</u>	<u>2,900</u>	<u>24,709</u>	<u>-</u>
Totals	<u>\$ 3,474,722</u>	<u>\$ 14,703</u>	<u>\$ 358,838</u>	<u>\$ 3,130,587</u>	<u>\$ 341,899</u>

Long-Term Obligations Summary - Sewer

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	<u>1/1/15</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 1,272,835	\$ -	\$ 169,701	\$ 1,103,134	\$ 173,137
General obligation debt	278,302	-	113,100	165,202	125,200
Accrued compensated absences	36,208	12,828	7,048	41,988	-
Unamortized premium and discount	<u>2,079</u>	<u>-</u>	<u>1,047</u>	<u>1,032</u>	<u>-</u>
Totals	<u>\$ 1,589,424</u>	<u>\$ 12,828</u>	<u>\$ 290,896</u>	<u>\$ 1,311,356</u>	<u>\$ 298,337</u>

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

	<u>1/1/14</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 1,429,070	\$ -	\$ 156,235	\$ 1,272,835	\$ 169,701
General obligation debt	382,852	-	104,550	278,302	113,100
Accrued compensated absences	37,504	11,496	12,792	36,208	-
Unamortized premium and discount	<u>2,778</u>	<u>-</u>	<u>699</u>	<u>2,079</u>	<u>-</u>
Totals	<u>\$ 1,852,204</u>	<u>\$ 11,496</u>	<u>\$ 274,276</u>	<u>\$ 1,589,424</u>	<u>\$ 282,801</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary Stormwater

Long-term obligation activity for the year ended December 31, 2015 is as follows:

	<u>1/1/15 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15 Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ 1,140,000	\$ -	\$ 120,000	\$ 1,020,000	\$ 125,000
Accrued compensated absences	39,987	12,200	8,227	43,960	-
Unamortized premium and discount	<u>21,593</u>	<u>-</u>	<u>4,050</u>	<u>17,543</u>	<u>-</u>
Totals	<u>\$ 1,201,580</u>	<u>\$ 12,200</u>	<u>\$ 132,277</u>	<u>\$ 1,081,503</u>	<u>\$ 125,000</u>

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

	<u>1/1/14 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14 Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ 1,255,000	\$ -	\$ 115,000	\$ 1,140,000	\$ 120,000
Accrued compensated absences	41,210	10,803	12,026	39,987	-
Unamortized premium and discount	<u>26,039</u>	<u>-</u>	<u>4,446</u>	<u>21,593</u>	<u>-</u>
Totals	<u>\$ 1,322,249</u>	<u>\$ 10,803</u>	<u>\$ 131,472</u>	<u>\$ 1,201,580</u>	<u>\$ 120,000</u>

Bond Covenant Disclosures

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

Insurance

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

The utilities are covered under the following insurance policies at December 31, 2015:

Type	Coverage	Expiration
<i>Cities and Villages Mutual Insurance Company</i>		
General Liability	\$ 5,000,000 Limit	1/1/2016
Automobile Liability	10,000,000 Per occurrence	1/1/2016
Excess Liability	5,000,000 Limit	1/1/2016
Workers Compensation- Bodily Injury Accident	100,000 Per accident	1/1/2016
Workers Compensation - Bodily injury by Disease	100,000 Each employee	1/1/2016
	500,000 Limit	1/1/2016
Employee Theft	2,000,000 Per Loss	1/1/2016
Forgery	2,000,000 Limit	1/1/2016
Employment Practice Liability Insurance	1,000,000 Limit	1/1/2016
Boiler and Machinery Coverage	100,000,000 Limit	1/1/2016
<i>Local Government Property Insurance Fund</i>		
Property Insurance	\$ 43,788,142 Limit	2/13/2016

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Debt Coverage

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

	2015	2014
Operating revenues	\$ 3,274,527	\$ 3,259,919
Investment income	7,971	10,165
Less: Operation and maintenance expenses	(1,952,688)	(1,783,392)
Net Defined Earnings	\$ 1,329,810	\$ 1,486,692
Minimum Required Earnings per Resolution:		
Debt service requirement	\$ 525,987	\$ 525,987
Coverage factor	1.25	1.25
Minimum Required Earnings	\$ 657,484	\$ 657,484
Actual Debt Coverage	2.53	2.83

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2015 and 2014:

	Customers		Sales (000 gals)	
	2015	2014	2015	2014
Residential	3,548	3,468	181,163	181,359
Multifamily residential	83	76	35,346	32,278
Commercial	906	884	109,179	108,628
Industrial	75	75	35,431	35,166
Public Authority	47	46	18,249	16,681
Totals	4,659	4,549	379,368	374,112

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Sewer

The utility has the following number of customers and billed volumes for 2015 and 2014:

	Customers		Sales (000 gals)	
	2015	2014	2015	2014
Residential	3,349	3,268	176,772	176,772
Multifamily residential	72	67	32,876	30,679
Commercial	817	806	87,549	87,322
Industrial	67	67	10,320	10,413
Public authority	34	34	12,678	11,751
Totals	<u>4,339</u>	<u>4,242</u>	<u>320,195</u>	<u>316,937</u>

NOTE 7 - NET POSITION

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

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

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

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

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 7 - NET POSITION (cont.)

The following calculation supports the water net investment in capital assets:

	2015	2014
Total Construction Work in Progress	\$ 6,975	\$ 1,833
Plant in service	37,631,280	35,785,873
Accumulated depreciation	<u>(6,725,129)</u>	<u>(6,026,809)</u>
Sub-Totals	<u>30,913,126</u>	<u>29,760,897</u>
Less: Capital related debt		
Current portion of capital related long-term debt	343,462	341,899
Long-term portion of capital related long-term debt	2,378,652	2,722,114
Unamortized premium and discount	21,945	24,709
Unamortized loss on advanced refunding	<u>(8,808)</u>	<u>(11,655)</u>
Sub-Totals	<u>2,735,251</u>	<u>3,077,067</u>
Total Net Investment in Capital Assets	<u>\$ 28,177,875</u>	<u>\$ 26,683,830</u>

The following calculation supports the sewer net investment in capital assets:

	2015	2014
Total Construction Work in Progress	\$ 6,975	\$ -
Plant in service	20,161,240	18,852,639
Accumulated depreciation	<u>(4,196,553)</u>	<u>(3,874,798)</u>
Sub-Totals	<u>15,971,662</u>	<u>14,977,841</u>
Less: Capital related debt		
Current portion of capital related long-term debt	298,337	282,801
Long-term portion of capital related long-term debt	969,999	1,268,336
Unamortized premium and discount	1,032	2,079
Unamortized loss on advance refunding	<u>(3,574)</u>	<u>(7,137)</u>
Sub-Totals	<u>1,265,794</u>	<u>1,546,079</u>
Total Net Investment in Capital Assets	<u>\$ 14,705,868</u>	<u>\$ 13,431,762</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 7 - NET POSITION (cont.)

The following calculation supports the stormwater net investment in capital assets:

	2015	2014
Plant in service	\$ 26,748,522	\$ 25,793,622
Accumulated depreciation	<u>(4,230,480)</u>	<u>(3,885,569)</u>
Sub-Totals	<u>22,518,042</u>	<u>21,908,053</u>
Less: Capital related debt		
Current portion of capital related long-term debt	125,000	120,000
Long-term portion of capital related long-term debt	895,000	1,020,000
Unamortized premium and discount	17,543	21,593
Unamortized gain on advance refunding	2,726	3,483
Unamortized loss on advance refunding	<u>(5,616)</u>	<u>(6,276)</u>
Sub-Totals	<u>1,034,653</u>	<u>1,158,800</u>
Total Net Investment in Capital Assets, Net of Related Debt	<u>\$ 21,483,389</u>	<u>\$ 20,749,253</u>

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

The utilities implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by WRS. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

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

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

The WRS also provides death and disability benefits for employees.

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

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

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

During the reporting period, the WRS recognized \$30,823 in contributions from the utilities.

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Contribution rates as of December 31, 2015 are:

	2015		2014	
	Employee	Employer	Employee	Employer
General (including teachers	6.8%	6.8%	7.0%	7.0%
Executives & Elected Officials	7.7%	7.7%	7.75%	7.75%
Protective with Social Security	6.8%	9.5%	7.0%	10.1%
Protective without Social Security	6.8%	13.1%	7.0%	13.7%

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

At December 31, 2015, the utilities reported a liability (asset) of \$(77,377) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities's proportion of the net pension liability (asset) was based on the utilities's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the City of Verona's proportion was .0365757%, which was an increase of .0006667% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the utilities recognized pension expense of \$27,728.

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

	Water Utility		Sewer Utility		Stormwater Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,675	\$ -	\$ 2,584	\$ -	\$ 1,958	\$ -
Changes in assumption	-	-	-	-	-	-
Net differences between project and actual earnings on pension plan	22,297	-	8,632	-	6,541	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,075	-	417	-	316
Employer contributions subsequent to the measurement date	17,247	-	6,956	-	6,809	-
Total	\$ 46,219	\$ 1,075	\$ 18,172	\$ 417	\$ 15,308	\$ 316

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. \$17,247, \$6,956, and \$6,809 are reported for the water, sewer, and stormwater utilities, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Water Utility</u>		<u>Sewer Utility</u>		<u>Stormwater Utility</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 7,096	\$ 245	\$ 2,747	\$ 95	\$ 2,082	\$ 72
2017	7,096	245	2,747	95	2,082	72
2018	7,096	245	2,747	95	2,082	72
2019	7,096	245	2,747	95	2,082	72
2020	588	95	228	37	171	28
Thereafter	-	-	-	-	-	-
Total	<u>\$ 28,972</u>	<u>\$ 1,075</u>	<u>\$ 11,216</u>	<u>\$ 417</u>	<u>\$ 8,499</u>	<u>\$ 316</u>

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

Actuarial valuation date	December 31, 2013
Measurement date of net pension liability (asset)	December 31, 2014
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.2%
Discount rate	7.2%
Salary increases	
Salary increases	3.2%
Salary increases	0.2% - 5.8%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%

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

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

<u>Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US Equities	5.3%	21.0%
International Equities	5.7	23.0
Fixed Income	1.7	36.0
Inflation Sensitive Assets	2.3	20.0
Real Estate	4.2	7.0
Private Equity/Debt	6.9	7.0
Multi-Asset	3.9	6.0
Cash	0.9	(20.0)

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2015 and 2014

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Water Utility's proportionate share of the net position liability (asset)	\$ 129,895	\$ (46,043)	\$ (184,992)
Sewer Utility's proportionate share of the net position liability (asset)	50,291	(17,826)	(71,622)
Stormwater Utility's proportionate share of the net position liability (asset)	38,109	(13,508)	(54,274)

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

Required Disclosures Under GASB No. 27

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

	Year Ended December 31	
	2014	2013
Total Covered Employee Payroll	\$ 440,329	\$ 421,620
Total Required Contributions	\$ 61,646	\$ 56,075
Total Required Contributions	14.0%	13.3%

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 10 - RISK MANAGEMENT

Wisconsin Municipal Mutual Insurance Company (WMMIC) Cities and Villages Mutual Insurance Company (CVMIC)

The WMMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment, and capitalization of the CVMIC, and has numerous municipalities as members.

The CVMIC is a municipal mutual insurance company established on September 14, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the municipalities which make up the membership of the WMIC.

Details of the plan are disclosed in the basic financial statements of the City of Verona for the years ended December 31, 2015 and 2014.

NOTE 11 - SIGNIFICANT CUSTOMERS

Stormwater Utility

The utility has one significant customer who was responsible for 11% of operating revenues in 2015.

NOTE 12 - SUBSEQUENT EVENTS

The utilities evaluated subsequent events through the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements. The water utility implemented new rates effective March 16, 2016.

NOTE 13 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utilities adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

Water Utility

Net pension liability (asset) January 1, 2014	\$	72,555
Deferred outflows January 1, 2014		<u>18,341</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>90,896</u>

Sewer Utility

Net pension liability (asset) January 1, 2014	\$	28,091
Deferred outflows January 1, 2014		<u>7,101</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>35,192</u>

VERONA UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 13 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (cont.)

Stormwater Utility

Net pension liability (asset) January 1, 2014	\$	21,287
Deferred outflows January 1, 2014		<u>5,381</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>26,668</u>

Additional information required for retroactive implementation was not provided by the pension plan.

REQUIRED SUPPLEMENTAL INFORMATION

VERONA UTILITIES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) Wisconsin Retirement System Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS. The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	<u>2015</u>
City of Verona's proportion of the net pension liability (asset)	.0365757
Verona Utilities's proportionate share of the net pension liability (asset)	\$ (77,377)
Verona Utilities's covered employee payroll	\$ 440,329
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

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

SCHEDULE OF CONTRIBUTIONS Wisconsin Retirement System Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS.

	<u>2015</u>
Contractually required contributions	\$ 31,012
Contributions in relation to the contractually required contributions	\$ 31,012
Contributions deficiency (excess)	\$ -
Verona Utilities's covered-employee payroll	\$ 456,059
Contributions as a percentage of covered-employee payroll	6.8%

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

VERONA UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2015

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS.

Changes of assumption: There were no changes in the assumptions.

S U P P L E M E N T A L I N F O R M A T I O N

VERONA UTILITIES

WATER UTILITY PLANT As of and for the Year Ended December 31, 2015

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
SOURCE OF SUPPLY				
Wells and springs	\$ 886,061	\$ -	\$ -	\$ 886,061
PUMPING				
Land and land rights	65,089	-	-	65,089
Structures and improvements	2,325,928	-	-	2,325,928
Electric pumping equipment	1,674,535	-	-	1,674,535
Other pumping equipment	50,709	-	-	50,709
Total Pumping	<u>4,116,261</u>	<u>-</u>	<u>-</u>	<u>4,116,261</u>
WATER TREATMENT				
Water treatment equipment	<u>120,145</u>	<u>-</u>	<u>-</u>	<u>120,145</u>
TRANSMISSION AND DISTRIBUTION				
Distribution reservoirs and standpipes	3,029,014	-	-	3,029,014
Transmission and distribution mains	20,619,657	1,297,274	13,323	21,903,608
Services	2,701,996	139,491	5,437	2,836,050
Meters	1,300,578	279,500	71,048	1,509,030
Hydrants	2,025,838	197,944	876	2,222,906
Other transmission and distribution plant	45,214	-	-	45,214
Total Transmission and Distribution	<u>29,722,297</u>	<u>1,914,209</u>	<u>90,684</u>	<u>31,545,822</u>
GENERAL				
Structures and improvements	451,000	-	-	451,000
Office furniture and equipment	8,156	-	-	8,156
Computer equipment	57,895	-	-	57,895
Transportation equipment	244,209	70,636	50,945	263,900
Tools, shop and garage equipment	35,835	2,191	-	38,026
Power-operated equipment	7,702	-	-	7,702
SCADA equipment	136,312	-	-	136,312
Total General	<u>941,109</u>	<u>72,827</u>	<u>50,945</u>	<u>962,991</u>
TOTAL WATER UTILITY PLANT	<u><u>\$35,785,873</u></u>	<u><u>\$ 1,987,036</u></u>	<u><u>\$ 141,629</u></u>	<u><u>\$37,631,280</u></u>

VERONA UTILITIES

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ 21,471	\$ 65,736
Metered		
Residential	638,269	636,781
Multifamily residential	90,393	82,869
Commercial	320,579	300,609
Industrial	65,482	65,410
Public authorities	47,812	44,990
Total Metered Sales	1,162,535	1,130,659
Private fire protection	46,914	43,768
Public fire protection	464,096	464,096
Total Sales of Water	1,695,016	1,704,259
Other Operating Revenues		
Forfeited discounts	6,738	7,945
Miscellaneous service revenue	70,916	54,114
Rents from water property	103,148	121,902
Total Operating Revenues	1,875,818	1,888,220
OPERATING EXPENSES		
Operation and Maintenance		
Pumping		
Operation supervision and engineering	11,221	9,800
Fuel or purchased power for pumping	73,671	85,314
Pumping labor	4,977	5,957
Maintenance		
Pumping equipment	14,056	14,175
Total Pumping	103,925	115,246
Water Treatment		
Operation supervision and engineering	10,877	9,811
Chemicals	14,846	14,183
Operation labor	16,946	15,477
Maintenance		
Water treatment equipment	15	2,594
Total Water Treatment	42,684	42,065
Transmission and Distribution		
Operation supervision and engineering	52,324	64,810
Transmission and distribution lines	30,730	29,490
Maintenance		
Reservoirs and standpipes	45,900	33,826
Mains	53,652	27,204
Services	22,350	9,199
Meters	38,507	26,450
Hydrants	4,192	6,730
Miscellaneous	2,686	118
Total Transmission and Distribution	250,341	197,827
Customer Accounts		
Meter reading	4,421	4,437
Accounting and collecting labor	8,706	9,171
Total Customer Accounts	13,127	13,608

VERONA UTILITIES

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 39,593	\$ 41,913
Office supplies	22,815	17,138
Outside services employed	84,559	89,395
Property insurance	12,000	11,106
Employee pensions and benefits	82,552	75,813
Miscellaneous	2,765	205
Maintenance	<u>3,610</u>	<u>2,608</u>
Total Administrative and General	<u>247,894</u>	<u>238,178</u>
Taxes	<u>9,698</u>	<u>11,880</u>
Total Operation and Maintenance	667,669	618,804
Depreciation	<u>763,188</u>	<u>730,352</u>
Total Operating Expenses	<u>1,430,857</u>	<u>1,349,156</u>
 OPERATING INCOME	 <u>\$ 444,961</u>	 <u>\$ 539,064</u>

VERONA UTILITIES

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2015 and 2014

	Water	
	2015	2014
Utility Financed Plant in Service		
Beginning of year	\$ 14,622,660	\$ 13,936,119
End of year	<u>15,184,759</u>	<u>14,622,660</u>
Average	<u>14,903,710</u>	<u>14,279,390</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(3,240,189)	(2,955,169)
End of year	<u>(3,611,928)</u>	<u>(3,240,189)</u>
Average	<u>(3,426,059)</u>	<u>(3,097,679)</u>
Materials and Supplies		
Beginning of year	26,796	25,531
End of year	<u>35,414</u>	<u>26,796</u>
Average	<u>31,105</u>	<u>26,164</u>
Regulatory Liability		
Beginning of year	(337,641)	(375,156)
End of year	<u>(300,126)</u>	<u>(337,641)</u>
Average	<u>(318,884)</u>	<u>(356,399)</u>
AVERAGE NET RATE BASE	<u>\$ 11,189,872</u>	<u>\$ 10,851,476</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 108,859</u>	<u>\$ 204,404</u>
RATE OF RETURN (PERCENT)	<u>0.97</u>	<u>1.88</u>
AUTHORIZED RATE OF RETURN (PERCENT)	<u>6.50</u>	<u>6.50</u>

This schedule is computed based on Public Service Commission of Wisconsin regulatory accounting which differs from accounting principles generally accepted in the United States of America due to GASB No. 34 as well as PSC order 05-US-105.

VERONA UTILITIES

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2015

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
COLLECTING SYSTEM				
Structures and improvements	\$ 450,000	\$ -	\$ -	\$ 450,000
Service connections	2,820,004	220,051	-	3,040,055
Collecting mains	14,326,821	1,074,589	11,814	15,389,596
Interceptor mains	104,723	-	-	104,723
Other collecting system equipment	1,121	-	-	1,121
Total Collecting System	<u>17,702,669</u>	<u>1,294,640</u>	<u>11,814</u>	<u>18,985,495</u>
COLLECTING SYSTEM PUMPING				
Receiving wells	172,621	-	-	172,621
Electric pumping equipment	71,433	-	-	71,433
Total Collecting System Pumping	<u>244,054</u>	<u>-</u>	<u>-</u>	<u>244,054</u>
GENERAL				
Office furniture and equipment	7,250	-	-	7,250
Computer equipment	61,923	3,318	-	65,241
Transportation equipment	324,079	68,836	46,379	346,536
Other general equipment	257,014	-	-	257,014
Other tangible property	255,650	-	-	255,650
Total General	<u>905,916</u>	<u>72,154</u>	<u>46,379</u>	<u>931,691</u>
TOTAL SEWER UTILITY PLANT	<u>\$18,852,639</u>	<u>\$ 1,366,794</u>	<u>\$ 58,193</u>	<u>\$20,161,240</u>

VERONA UTILITIES

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 784,649	\$ 783,163
Multifamily residential	119,254	111,483
Commercial	369,123	365,547
Industrial	40,324	40,448
Public authorities	<u>51,545</u>	<u>48,481</u>
Total Sewer Revenues	<u>1,364,895</u>	<u>1,349,122</u>
Other Operating Revenues		
Forfeited discounts	8,164	9,696
Miscellaneous	<u>25,650</u>	<u>12,881</u>
Total Operating Revenues	<u>1,398,709</u>	<u>1,371,699</u>
 OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	117,364	108,214
Treatment charges	878,134	805,934
Utilities	6,692	6,788
Other operating supplies	4,834	3,505
Joint metering costs	<u>38,632</u>	<u>33,384</u>
Total Operation	<u>1,045,656</u>	<u>957,825</u>
Maintenance		
General plant structures and equipment	<u>72,898</u>	<u>41,736</u>
Administrative and General		
Office supplies	7,249	7,027
Outside services employed	31,034	34,839
Insurance	8,500	7,781
Employees pensions and benefits	53,645	61,013
Miscellaneous	4,529	30
Rents	<u>40,146</u>	<u>34,780</u>
Total Administrative and General	<u>145,103</u>	<u>145,470</u>
Taxes	<u>21,362</u>	<u>19,557</u>
Total Operation and Maintenance	1,285,019	1,164,588
Depreciation	341,819	320,905
Amortization	<u>157,941</u>	<u>157,940</u>
Total Operating Expenses	<u>1,784,779</u>	<u>1,643,433</u>
 OPERATING LOSS	 <u>\$ (386,070)</u>	 <u>\$ (271,734)</u>

VERONA UTILITIES

STORM WATER UTILITY PLANT As of and for the Year Ended December 31, 2015

	Balance 1/1/15	Additions	Retirements	Balance 12/31/15
INTANGIBLE				
Miscellaneous intangible plant	\$ 112,000	\$ -	\$ -	\$ 112,000
STORMWATER PLANT				
Land and land rights	2,881,480	-	-	2,881,480
Detention basins	3,362,745	120,626	-	3,483,371
General stormwater plant	<u>19,009,909</u>	<u>834,274</u>	-	<u>19,844,183</u>
Total Stormwater Plant	<u>25,254,134</u>	<u>954,900</u>	-	<u>26,209,034</u>
GENERAL				
Computer equipment	529	-	-	529
Power-operated equipment	<u>426,959</u>	-	-	<u>426,959</u>
Total General	<u>427,488</u>	-	-	<u>427,488</u>
TOTAL STORMWATER UTILITY PLANT	<u>\$ 25,793,622</u>	<u>\$ 954,900</u>	<u>\$ -</u>	<u>\$ 26,748,522</u>

VERONA UTILITIES

STORM WATER OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Stormwater Revenues		
Residential	\$ 171,893	\$ 165,840
Multifamily residential	26,060	24,728
Small commercial and industrial	244,012	209,030
Public authorities	<u>59,570</u>	<u>58,709</u>
Total Charges for Services	<u>501,535</u>	<u>458,307</u>
Other Operating Revenues		
Forfeited discounts	1,753	2,014
Miscellaneous service revenues	<u>15,674</u>	<u>123</u>
Total Operating Revenues	<u>518,962</u>	<u>460,444</u>
OPERATING EXPENSES		
Operation and Maintenance		
Maintenance	<u>41,213</u>	<u>42,843</u>
Operation supplies	<u>20,741</u>	<u>9,278</u>
Administrative and General		
Salaries	103,519	83,691
Office Supplies	11,747	7,560
Outside services employed	22,462	35,589
Property insurance	800	644
Employee pensions and benefits	<u>25,624</u>	<u>30,638</u>
Total Administrative and General	<u>164,152</u>	<u>158,122</u>
Taxes	<u>7,466</u>	<u>6,351</u>
Total Operation and Maintenance	233,572	216,594
Depreciation	<u>344,911</u>	<u>335,757</u>
Total Operating Expenses	<u>578,483</u>	<u>552,351</u>
 OPERATING LOSS	 <u>\$ (59,521)</u>	 <u>\$ (91,907)</u>