



RACINE WATER UTILITY
Racine, Wisconsin

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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Independent Auditor's Report

Board of Commissioners
Racine Water Utility
Racine, Wisconsin

We have audited the accompanying statements of net assets of the Racine Water Utility, an enterprise fund of the City of Racine, as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the summary of significant accounting policies, the financial statements present only the Racine Water Utility and do not purport to, and do not, present fairly the financial position of the City of Racine, Wisconsin, as of December 31, 2005 and 2004, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Racine Water Utility as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Racine, Wisconsin
March 21, 2006

**RACINE WATER UTILITY
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004**

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,890,579	\$ 1,768,776
Investments	2,473,955	8,279,720
Accounts receivable, less allowance for doubtful accounts of \$70,000 in 2005 and \$80,000 in 2004	3,010,366	2,372,381
Delinquent billings receivable-tax roll	1,025,262	959,067
Due from other funds	1,822,721	2,264,691
Inventories	267,221	246,609
Prepaid expenses	4,084	7,445
Accrued interest receivable	<u>8,554</u>	<u>6,726</u>
Total current assets	<u>10,502,742</u>	<u>15,905,415</u>
RESTRICTED ASSETS (Note 2)		
Cash and cash equivalents	3,657,810	5,425,791
Investments	17,291,294	23,401,924
Intergovernmental receivable	-	2,338,373
Accrued interest receivable	<u>111,588</u>	<u>68,048</u>
Total restricted assets	<u>21,060,692</u>	<u>31,234,136</u>
CAPITAL ASSETS (Note 3)		
Utility plant in service	112,298,470	105,062,537
Less accumulated depreciation	<u>24,833,988</u>	<u>22,937,884</u>
Net depreciated value	87,464,482	82,124,653
Construction-in-progress	<u>24,036,507</u>	<u>14,786,688</u>
Total capital assets	<u>111,500,989</u>	<u>96,911,341</u>
OTHER ASSETS		
Unamortized bond issue costs	426,175	457,356
Special assessment certificate	<u>5,894</u>	<u>11,788</u>
Total other assets	<u>432,069</u>	<u>469,144</u>
TOTAL ASSETS	<u>\$ 143,496,492</u>	<u>\$144,520,036</u>

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,831,974	\$ 1,278,499
Due to other funds	3,867,948	2,661,233
Advances from other funds	23,480	21,719
Accrued liabilities	<u>357,696</u>	<u>247,543</u>
Total current liabilities	<u>7,081,098</u>	<u>4,208,994</u>
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest - bonds	682,559	596,401
Current portion of long-term debt (Note 4)	<u>3,159,259</u>	<u>18,314,686</u>
Total current liabilities payable from restricted assets	<u>3,841,818</u>	<u>18,911,087</u>
 LONG-TERM LIABILITIES		
Accrued compensated absences	477,868	429,860
Long-term debt (Note 4)	58,970,156	53,271,632
Advances from other funds	930,395	953,875
Unamortized bond premium	<u>796,119</u>	<u>840,435</u>
Total long-term liabilities	<u>61,174,538</u>	<u>55,495,802</u>
Total liabilities	<u>72,097,454</u>	<u>78,615,883</u>
 NET ASSETS		
Invested in capital assets, net of related debt	65,728,041	50,567,797
Restricted	3,890,613	2,681,131
Unrestricted	<u>1,780,384</u>	<u>12,655,225</u>
Total net assets	<u>71,399,038</u>	<u>65,904,153</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$143,496,492</u>	 <u>\$144,520,036</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**RACINE WATER UTILITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES	<u>\$ 14,747,898</u>	<u>\$ 13,689,286</u>
OPERATING EXPENSES		
Operation and maintenance	8,078,059	7,406,687
Depreciation	2,389,922	2,298,308
Taxes	<u>236,527</u>	<u>216,020</u>
Total operating expenses	<u>10,704,508</u>	<u>9,921,015</u>
OPERATING INCOME	<u>4,043,390</u>	<u>3,768,271</u>
NONOPERATING REVENUE (EXPENSE)		
Investment income	693,824	372,238
Interest expense	(1,940,210)	(1,714,845)
Amortization of bond discount	(75,968)	(74,717)
Other income	<u>7,411</u>	<u>7,770</u>
Total nonoperating revenue (expense)	<u>(1,314,943)</u>	<u>(1,409,554)</u>
Net income before capital contributions and transfers	2,728,447	2,358,717
CAPITAL CONTRIBUTIONS		
Residential equivalent connection fees	1,432,170	521,427
Capital grants	1,135,727	2,338,373
Developer donations	<u>2,026,888</u>	<u>1,705,030</u>
Total capital contributions	<u>4,594,785</u>	<u>4,564,830</u>
TRANSFERS OUT	<u>(1,828,347)</u>	<u>(1,649,101)</u>
CHANGE IN NET ASSETS	5,494,885	5,274,447
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>65,904,153</u>	<u>60,629,706</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 71,399,038</u>	<u>\$ 65,904,153</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**RACINE WATER UTILITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 14,485,688	\$ 14,020,619
Payments to suppliers	(4,779,597)	(5,095,958)
Payments to employees	<u>(2,806,596)</u>	<u>(2,640,625)</u>
Net cash provided by operating activities	<u>6,899,495</u>	<u>6,284,036</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from other funds	(21,719)	(12,044)
Transfers out	<u>(1,828,347)</u>	<u>(1,649,101)</u>
Net cash used in capital and related financing activities	<u>(1,850,066)</u>	<u>(1,661,145)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of utility plant	(12,787,216)	(18,247,896)
Principal paid on long-term debt	(18,314,686)	(11,145,033)
Proceeds from issuance of long-term debt	8,783,885	28,239,063
Proceeds from long-term debt premiums	-	845,876
Bond issue costs	-	(395,550)
Interest paid on long-term debt	(1,856,122)	(1,541,034)
Proceeds from connection charges	1,432,170	521,427
Capital grants	<u>3,474,100</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(19,267,869)</u>	<u>(1,723,147)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(46,565,387)	(55,192,584)
Proceeds on redemption of investments	58,481,782	54,141,092
Investment income received	<u>655,867</u>	<u>350,448</u>
Net cash provided by (used in) investing activities	<u>12,572,262</u>	<u>(701,044)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,646,178)	2,198,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,194,567</u>	<u>4,995,867</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,548,389</u>	<u>\$ 7,194,567</u>
CASH AND CASH EQUIVALENTS END OF YEAR:		
Unrestricted	\$ 1,890,579	\$ 1,768,776
Restricted	<u>3,657,810</u>	<u>5,425,791</u>
Total	<u>\$ 5,548,389</u>	<u>\$ 7,194,567</u>

**RACINE WATER UTILITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 4,043,390	\$ 3,768,271
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,389,922	2,298,308
Bad debt expense	-	56,107
Effects of changes in operating assets and liabilities:		
Accounts receivable	(704,180)	(254,055)
Prepaid expenses	3,361	40,551
Due from other funds	441,970	529,281
Inventories	(20,612)	(38,637)
Other assets	(7,241)	30,899
Compensated absences	48,008	28,733
Accounts payable	(611,991)	(172,003)
Accrued liabilities	110,153	38,030
Due to other funds	<u>1,206,715</u>	<u>(41,449)</u>
Net cash provided by operating activities	<u>\$ 6,899,495</u>	<u>\$ 6,284,036</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Estimated cost of utility plant installed or financed by developers or customers were \$2,026,888 and \$2,226,458 in 2005 and 2004, respectively.

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

RACINE WATER UTILITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

The Racine Water Utility is an Enterprise Fund of the City of Racine. These financial statements present the financial position, results of operations and cash flows of the Racine Water Utility only and do not include transactions of any other City funds. The Racine Water Utility provides retail water service to the City of Racine, Villages of Elmwood Park and North Bay and the Village of Mount Pleasant. Wholesale service is provided to the Village of Sturtevant. The North Park Sanitary Utility and Town of Caledonia Water Utility No.1, both in the Town of Caledonia, are also provided wholesale water service by the Racine Water Utility. The Utility has the responsibility to determine and levy water user charges in order to apportion all operation and maintenance expenses and debt service charges in its service territory.

The Utility is managed by seven Commissioners. Rates are established and approved by the Public Service Commission of Wisconsin as needed. Retail customers are billed based on readings from individual meters. Wholesale customers are billed based on master meter readings. The Utility has the authority to finance its operations through the use of a user charge, or the sale of revenue or general obligation bonds.

The accounting policies of the Racine Water Utility conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

BASIS OF ACCOUNTING

The Utility prepares its financial statements in accordance with generally accepted accounting principles for enterprise funds as formulated by the Government Accounting Standards Board. The financial statements reflect the full accrual method of accounting whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. The Utility applies all applicable Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principle Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989 unless they conflict Government Accounting Standards Board (GASB) pronouncements. The Utility has elected not to follow the FASB and APB Standards issued after December 1, 1989.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include any highly liquid investments purchased with a maturity of three months or less.

**RACINE WATER UTILITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004**

INVESTMENTS

Investments are stated at fair value. Fair value is determined by quoted market prices.

ACCOUNTS RECEIVABLE

Accounts receivable is composed of charges to customers for water services and receivables for sundry bill charges that cannot be attached to the property. The year-end balance includes unpaid charges and a year-end estimate of receivables that will be billed in the first quarter of the subsequent year.

Customer accounts receivable are stated at invoice plus accrued interest. Unpaid accounts over twenty days bear interest at 1% per month. Sundry bill charges bear no interest.

Interest continues to accrue on customer delinquent accounts until it is placed in the tax roll at which time a 10% penalty is assessed to the account. Payments to an accounts receivable are applied to specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of sundry bill charges that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

INVENTORIES

Inventories of materials and supplies are stated at average cost.

OPERATIONS

Metered water sales to consumers are billed at rates approved by the Public Service Commission. The customers, with exception to industrial, are billed every three months for services rendered. Industrial customers are billed monthly. The month billed is dependent on the billing district in which the customer resides. All delinquent water accounts receivable balances less than \$7,500 at the time of the property tax lien date are placed on the customer's tax bill and collected through the normal tax collection process.

The Utility distinguishes 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 Utility are charges to customers for sales and services. Operating expenses for the Utility 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.

**RACINE WATER UTILITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004**

OPERATIONS (CONTINUED)

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

UTILITY PLANT

Utility plant is recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. Utility plant is defined by the Utility as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Costs of depreciable property retired are charged to accumulated depreciation. Maintenance and repair costs are charged to operations as incurred and renewals and improvements are added to the asset accounts.

DEPRECIATION

The provision for depreciation, shown in the financial statements, results from the application of composite rates developed by the Public Service Commission to the fixed asset balances except for vehicles and power equipment which are depreciated on a per unit basis.

TAX EQUIVALENT

The tax equivalent is computed in accordance with the provisions of the Wisconsin Administrative Code as required by the Public Service Commission of Wisconsin.

COMPENSATED ABSENCES

Vacation pay is recorded as expense when paid. Vacation pay is earned on a monthly basis during the calendar year and is forfeited if not taken by the end of the year. Sick leave is earned at a rate of one day per month. Unused sick pay is allowed to accumulate to 156 working days. In general, upon death, pension, retirement or total disability, an employee is entitled to a sum equal to 50% of total sick leave accumulated up to a maximum of 140 days. Accumulated sick leave earned but not taken and any salary related benefits thereon has been reported as accrued compensated absences.

BOND ISSUE COSTS

Bond issue costs composed of bond discounts and fees are amortized on a straight-line basis over the term of the related bonds.

BOND PREMIUMS

Bond premiums are amortized on a straight-line method over the term of the related bonds.

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

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 1 - DEPOSITS AND INVESTMENTS

The Utility had the following deposits and investments as of December 31, 2005 and 2004.

	2005	2004
Cash	\$ 1,400	\$ 1,400
Demand deposits	5,546,989	7,193,167
U.S. Government agency securities	19,765,249	31,681,644
	\$ 25,313,638	\$ 38,876,211

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Utility will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Utility does not have a formal policy addressing this type of deposit risk.

As of December 31, 2005 and 2004, the Utility's carrying value of the deposits was \$5,546,989 and \$7,193,167, as compared to bank balances of \$5,826,842 and \$8,214,336, respectively. Of the bank balances at December 31, 2005 and 2004, \$100,000, was covered by federal depository insurance. The remaining balances at December 31, 2005 and 2004 were collateralized by securities held by the bank or its correspondent bank but not in the Utility's name.

Investment Policy

The Utility has not adopted a formal investment policy; however, the Utility invests in accordance with Wisconsin State Statutes. Under state statute, investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association;
- Bonds or securities of any county, city, drainage Utility, vocational, technical, and adult education (VTAE) Utility, village, town or school Utility of the state;
- Bonds or securities issued or guaranteed by the federal government; and
- The state local government investment pool.

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Utility will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utility does not have a formal policy addressing this type of investment risk.

As of December 31, 2005 and 2004, the Utility's carrying value of the investments were \$19,765,249 and \$31,681,644 for 2005 and 2004, respectively. Of the investment balances at December 31, 2005 and 2004, all amounts were collateralized by securities are held by an agent in the Utility's name.

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 1 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that, an issuer or other counterparty to an investment will not fulfill its obligations to the Utility. The Utility does not have a formal policy addressing this type of investment risk.

The Utility invests solely in U.S. government agency obligations. These types of investments are explicitly guaranteed by the U.S. government and are not considered subjected to credit risk. As of December 31, 2005 and 2004, the Utility had \$19,765,249 and \$31,681,644, respectively, in these types of investments.

Concentration of Credit Risk

Concentration of credit risk refers to risk of loss attributed to the Utility investment in a single issuer. The Utility does not have a formal policy addressing this type of investment risk. As of December 31, 2005 and 2004, the Utility invests solely in U.S. government agency securities which are not considered subject to credit risk.

Interest Rate Risk

Interest rate risk is the risk that, changes in interest rates will adversely affect the fair value of an investment. The Utility does not have a formal policy addressing this type of investment risk. As of December 31, 2005 and 2004, the Utility had the following investments and maturities.

2005		
Type of Investment	Fair Value	Average Maturities
U.S. Government agency securities	\$ 19,765,249	180 days
2004		
Type of Investment	Fair Value	Average Maturities
U.S. Government agency securities	\$ 31,881,644	180 days

NOTE 2 - RESTRICTED ASSETS

A summary of restricted assets is as follows:

	<u>2005</u>	<u>2004</u>
Cash and investments:		
Improvement fund	\$ 12,946,313	\$ 21,847,577
Bond reserve fund	3,653,818	3,712,759
Redemption fund	3,068,775	2,279,428
Depreciation fund	783,369	791,000
Connection charges	496,829	196,951
Total cash and investments	<u>\$ 20,949,104</u>	<u>\$ 28,827,715</u>

RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 2 - RESTRICTED ASSETS (CONTINUED)

Accrued interest receivable:		
Improvement fund	\$ 52,987	\$ 43,298
Bond reserve fund	29,286	14,597
Redemption fund	27,063	8,721
Depreciation fund	<u>2,252</u>	<u>1,432</u>
Total accrued interest receivable	<u>111,588</u>	<u>68,048</u>
Total	<u>\$ 21,060,692</u>	<u>\$ 28,895,763</u>

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 and 2004 was as follows:

	<u>2005</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,973,172	\$ -	\$ -	\$ 2,973,172
Construction in progress	<u>14,786,688</u>	<u>16,923,386</u>	<u>7,673,567</u>	<u>24,036,507</u>
Total capital assets not being depreciated	<u>17,759,860</u>	<u>16,923,386</u>	<u>7,673,567</u>	<u>27,009,679</u>
Capital assets being depreciated:				
Buildings and system	21,675,619	1,078,872	-	22,754,491
Improvements other than buildings	59,819,102	6,150,634	(453,382)	65,516,354
Machinery and equipment	<u>20,594,644</u>	<u>634,000</u>	<u>(174,191)</u>	<u>21,054,453</u>
Total capital assets being depreciated	<u>102,089,365</u>	<u>7,863,506</u>	<u>(627,573)</u>	<u>109,325,298</u>
Less accumulated depreciation for:				
Buildings and system	(4,271,452)	(575,077)	-	(4,846,529)
Improvements other than buildings	(9,638,608)	(1,021,419)	453,382	(10,206,645)
Machinery and equipment	<u>(9,027,824)</u>	<u>(927,181)</u>	<u>174,191</u>	<u>(9,780,814)</u>
Total accumulated depreciation	<u>(22,937,884)</u>	<u>(2,523,677)</u>	<u>627,573</u>	<u>(24,833,988)</u>
Total capital assets being depreciated, net	<u>79,151,481</u>	<u>5,339,829</u>	<u>-</u>	<u>84,491,310</u>
Capital assets, net	<u>\$ 96,911,341</u>	<u>\$ 22,263,215</u>	<u>\$ 7,673,567</u>	<u>\$ 111,500,989</u>

RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 3 - CAPITAL ASSETS (CONTINUED)

	2004			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 1,105,813	\$ 1,867,359	\$ -	\$ 2,973,172
Construction in progress	<u>2,291,053</u>	<u>16,250,381</u>	<u>(3,754,746)</u>	<u>14,786,688</u>
Total capital assets not being depreciated	<u>3,396,866</u>	<u>18,117,740</u>	<u>(3,754,746)</u>	<u>17,759,860</u>
Capital assets being depreciated:				
Buildings and system	21,101,370	574,249	-	21,675,619
Improvements other than buildings	54,346,430	5,655,937	(183,265)	59,819,102
Machinery and equipment	<u>20,485,553</u>	<u>383,632</u>	<u>(274,541)</u>	<u>20,594,644</u>
Total capital assets being depreciated	<u>95,933,353</u>	<u>6,613,818</u>	<u>(457,806)</u>	<u>102,089,365</u>
Less accumulated depreciation for:				
Buildings and system	(3,718,585)	(552,867)	-	(4,271,452)
Improvements other than buildings	(8,877,589)	(937,296)	176,277	(9,638,608)
Machinery and equipment	<u>(8,350,548)</u>	<u>(909,492)</u>	<u>232,216</u>	<u>(9,027,824)</u>
Total accumulated depreciation	<u>(20,946,722)</u>	<u>(2,399,655)</u>	<u>408,493</u>	<u>(22,937,884)</u>
Total capital assets being depreciated, net	<u>74,986,631</u>	<u>4,214,163</u>	<u>(49,313)</u>	<u>79,151,481</u>
Capital assets, net	<u>\$ 78,383,497</u>	<u>\$ 22,331,903</u>	<u>\$ (3,804,059)</u>	<u>\$ 96,911,341</u>

NOTE 4 - LONG-TERM DEBT

Long-term obligations activity payable for the years ended December 31, 2005 and 2004 was as follows:

	2005				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
General obligation debt:					
Bonds payable	\$ 56,305,000	\$ -	\$ 17,745,000	\$ 38,560,000	\$ 1,944,900
Safe Drinking Water Fund loans	15,598,880	8,783,885	569,686	23,813,079	1,214,359
Add (subtract) deferred amounts for refundings	<u>(317,562)</u>	<u>-</u>	<u>(73,898)</u>	<u>(243,664)</u>	<u>-</u>
Total general obligation debt	71,586,318	8,783,885	18,240,788	62,129,415	3,159,259
Compensated absences	429,860	48,008	-	477,868	-
Advances from other funds	<u>975,594</u>	<u>-</u>	<u>21,719</u>	<u>953,875</u>	<u>23,480</u>
Total long-term liabilities	<u>\$ 72,991,772</u>	<u>\$ 8,831,893</u>	<u>\$ 18,262,507</u>	<u>\$ 63,561,158</u>	<u>\$ 3,182,739</u>

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation debt:					
Bonds payable	\$ 44,755,000	\$ 22,140,000	\$ 10,590,000	\$ 56,305,000	\$ 17,745,000
Safe Drinking Water loans	10,054,850	6,099,063	555,033	15,598,880	569,686
Add (subtract) deferred amounts for refundings	(408,162)	-	(90,600)	(317,562)	-
Total general obligation debt	54,401,688	28,239,063	11,054,433	71,586,318	18,314,686
Compensated absences	401,127	28,733	-	429,860	-
Advance from other funds	987,638	-	12,044	975,594	21,719
 Total long-term liabilities	<u>\$ 55,790,453</u>	<u>\$ 28,267,796</u>	<u>\$ 11,066,477</u>	<u>\$ 72,991,772</u>	<u>\$ 18,336,405</u>

General obligation debt payable at December 31, 2005 and 2004 is comprised of the following:

	2005				
	Date of Issue	Final Maturity	Interest Range	Original Indebtedness	Balance 12/31/05
Revenue Bonds					
Mortgage Revenue Bonds	02/01/95	09/01/07	5.90-6.60%	\$ 5,000,000	\$ 355,000
Mortgage Revenue Refunding Bonds	04/15/01	09/01/15	4.00-5.375%	6,235,000	5,500,000
Mortgage Revenue Bonds	10/01/01	09/01/21	3.50-5.25%	11,460,000	10,565,000
Safe Drinking Water Loan	02/10/99	05/01/18	2.640%	12,594,655	8,930,131
Mortgage Revenue Bonds	11/01/04	09/01/24	2.50-5.00%	22,140,000	22,140,000
Safe Drinking Water Loan	12/22/04	05/01/24	2.365%	14,882,948	14,882,948
 Total long-term debt				<u>\$ 72,312,603</u>	<u>\$ 62,373,079</u>

	2004				
	Date of Issue	Final Maturity	Interest Range	Original Indebtedness	Balance 12/31/04
Revenue Bonds					
Mortgage Revenue Bonds	05/01/93	09/01/05	5.05-5.5%	\$ 2,075,000	\$ 170,000
Mortgage Revenue Bonds	02/01/95	09/01/07	6.00-6.20%	5,000,000	525,000
Mortgage Revenue Refunding Bonds	04/15/01	09/01/15	4.00-5.375%	6,235,000	5,795,000
Mortgage Revenue Bonds	10/01/01	09/01/21	3.50-5.25%	11,460,000	11,010,000
Safe Drinking Water Loan	02/10/99	05/01/18	2.640%	12,594,655	9,499,817
Mortgage Revenue Bonds	11/07/03	01/25/05	2.125%	26,200,000	16,665,000
Safe Water Drinking Loan	12/22/04	05/01/24	2.365%	6,099,063	6,099,063
Mortgage Revenue Bonds	11/01/04	09/01/24	2.50-5.00%	22,140,000	22,140,000
 Total long-term debt				<u>\$ 91,803,718</u>	<u>\$ 71,903,880</u>

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for general obligation debt is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,159,259	\$ 2,326,384	\$ 5,485,643
2007	3,254,584	2,229,692	5,484,276
2008	3,355,669	2,120,858	5,476,527
2009	3,477,533	2,010,883	5,488,416
2010	3,260,195	1,895,884	5,156,079
2011-2015	17,995,274	7,651,182	25,646,456
2016-2020	16,896,092	4,163,189	21,059,281
2021-2025	<u>10,974,473</u>	<u>995,169</u>	<u>11,969,642</u>
Total	<u>\$ 62,373,079</u>	<u>\$ 23,393,241</u>	<u>\$ 85,766,320</u>

In prior years, the Utility defeased certain mortgage revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased rates and bonds are not included in the Utility's financial statements. At December 31, 2005, \$3,385,000 of bonds outstanding are considered defeased. The bonds are callable from September 1, 2003 to September 1, 2007.

Deferred amounts on refunding arise from the difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt. The deferred amount is amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deduction from debt payable. Amortization for 2005 and 2004 was \$73,898 and \$90,600, respectively.

Long-term debt covenants require the establishment of the following accounts and allocation of revenues as set forth below:

<u>Account</u>	<u>Allocation</u>	<u>Nature of Authorized Expenditures</u>
Operations and Maintenance Fund	Monthly allocation of an amount equal to the estimated current expenses for the current and succeeding month.	Reasonable and proper operation and maintenance of the utility.
Redemption Fund	Amounts equal to 1/6 of the next bond interest installment and 1/12 of the principal due during the next bond year.	Pay maturing principal and interest on bonds.
Reserve Fund	Amount equal to lesser of maximum principal and interest due in any one bond year or 125% of average annual debt service on any outstanding bonds.	Pay principal and interest at any time when there are insufficient funds in the redemption fund.
Depreciation Fund	Monthly allocation of 12% of each months revenue, with a maximum funding of \$800,000.	Pay for system replacement.

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Surplus Fund Any amounts remaining after required ---
transfers are made.

These funds have been established and transfers have been made in accordance with bond provisions.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM

The Water Utility participates in the Wisconsin Retirement System (“WRS”) as part of the City of Racine Group of employees. The Utility’s contributions were \$320,109 and \$282,690 for 2005 and 2004, respectively. Information regarding the plan can be found in the City of Racine combined financial statements for the years ended December 31, 2005 and 2004. Information related solely to the Water Utility is not available from WRS.

NOTE 6 - RELATED PARTY TRANSACTIONS

During 2005 and 2004, the Utility had the following transactions with affiliated entities.

	2005		
	Due from (to)	Transfer to	Revenue (Expense)
City of Racine			
Due from City of Racine	\$ 1,239,199		
Due to City of Racine	(2,378,706)		
Delinquent billings receivable - tax roll	906,172		
Advance from City of Racine - total	(953,875)		
Engineering charges			\$ 14,805
Fire protection charge			1,220,180
Payment in lieu of taxes		\$ (1,628,347)	
Operating transfer		(200,000)	
Purchases			(73,916)
Rent expense			(21,281)
Permit charges			(30,375)
City service charges			(71,684)
Racine Wastewater Utility			
Due from Wastewater Utility	\$ 583,522		
Due to Wastewater Utility	(1,489,242)		
Engineering charges			\$ 18,956
Purchase of services			(828,984)

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

	2004		
	Due from (to)	Transfer to	Revenue (Expense)
City of Racine			
Due from City of Racine	\$ 1,658,085		
Due to City of Racine	(1,577,819)		
Delinquent billings receivable - tax roll	859,639		
Advance from City of Racine - total	(975,594)		
Engineering charges			\$ 38,547
Fire protection charge			1,220,551
Payment in lieu of taxes		\$ (1,449,101)	
Operating transfer		(200,000)	
Purchases			(53,758)
Rent expense			(20,700)
Permit charges			(26,400)
City service charges			(69,596)
Racine Wastewater Utility			
Due from Wastewater Utility	\$ 606,606		
Due to Wastewater Utility	(1,083,414)		
Engineering charges			\$ 13,105
Purchase of services			(567,493)

Interfund Advances

The following repayment schedule has been established for advances made to the Racine Water Utility for the Utility's percentage of the pension liability.

2006	\$ 72,767
2007	74,023
2008	75,366
2009	76,552
2010	78,053
2011-2024	<u>1,156,246</u>
Subtotal	1,533,007
Amount representing interest	<u>(579,132)</u>
	953,875
Current portion	23,480
Long-term portion	<u>\$ 930,395</u>

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 7 - RISK MANAGEMENT

The Utility is exposed to various risks of losses including general liability, property and casualty, workers' compensation, and employee health and accident. The Utility is involved in an intergovernmental insurance commission for general liability and auto insurance. There is a \$175,000 self-insured retention for each occurrence with this agreement. The Utility purchases commercial insurance for property and casualty claims.

The Utility participates in the City of Racine self-insurance plan for employee health insurance benefits. The plan is responsible for a specified amount of covered claims. Claims in excess of that amount are covered by purchased insurance. At December 31, 2005 and 2004, the Utility has accrued a liability of \$83,000 to cover future claims.

In the ordinary course of conducting business, the Utility occasionally becomes involved in legal proceedings relating to contracts, environmental issues, or other matters. While any proceeding or litigation has an element of uncertainty, management of the Utility believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Utility.

NOTE 8 - CAPITALIZED INTEREST

The Utility capitalizes interest on the financing of major asset additions. Total interest costs capitalized as utility plant net of investment earnings was \$407,337 and \$135,255 in 2005 and 2004, respectively. Total interest costs incurred were \$2,347,547 and \$1,850,100 in 2005 and 2004, respectively.

NOTE 9 - COMMITMENTS

During the year, the Utility entered into contract agreements with various companies to perform professional services and construction activities. At December 31, 2005, contracts with these entities totaled \$25,956,241 of which \$18,783,284 was paid and \$7,172,957 is committed for future services and construction activities to be performed.

NOTE 10 - MAJOR CUSTOMERS

One major customer accounted for 21% of gross sales aggregating \$3,022,948 and 22% of gross sales aggregating \$3,115,130 in 2005 and 2004, respectively. Total accounts receivable from this customer totaled \$311,485 and \$191,821, respectively.

**RACINE WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004**

NOTE 11 - NET ASSETS

The following is the detail of capital assets, net of related debt and restricted net assets.

	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt:		
Capital assets, net of accumulated depreciation	\$111,500,989	\$ 96,911,341
Less long-term debt outstanding	(62,373,079)	(71,903,880)
Plus debt restricted assets	<u>16,600,131</u>	<u>25,560,336</u>
Total invested in capital assets, net of related debt	<u>\$ 65,728,041</u>	<u>\$ 50,567,797</u>
Restricted net assets:		
Redemption fund	\$ 2,979,499	\$ 2,288,149
Depreciation fund	785,621	792,432
Connection charges	<u>808,052</u>	<u>196,951</u>
Total restricted net assets	4,573,172	3,277,532
Less: accrued interest payable from restricted assets	<u>682,559</u>	<u>596,401</u>
Restricted net assets	<u>\$ 3,890,613</u>	<u>\$ 2,681,131</u>

NOTE 12 - INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT

The Racine Water Utility entered into an intergovernmental retail water service agreement with the City of Racine and Village of Mount Pleasant. The agreement was reached to provide an equitable allocation of the cost expansion of existing and future water service facilities, which are necessary to continue providing high quality, reliable water service, and allow for future growth needs. Projects designed to serve future growth are funded through the water rates, contract connection charges and contract front-foot charges for new mains installed in the City and Village that will directly and substantially serve future growth and development. Costs to remedy existing deficiencies in the water system would be recovered through the water sales.

The residential equivalent connection (REC) fees are deposited in an interest-bearing segregated account and are restricted to pay for future growth costs. REC fees are recorded as revenue when received.

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

SUPPLEMENTAL INFORMATION

**RACINE WATER UTILITY
SCHEDULES OF OPERATING INCOME
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Sales of water:		
Metered sales to general customers:		
Residential	\$ 5,361,952	\$ 4,755,205
Commercial	1,790,534	1,692,435
Industrial	4,104,303	3,942,324
Public authorities	<u>325,186</u>	<u>316,628</u>
Total metered sales	<u>11,581,975</u>	<u>10,706,592</u>
Unmetered sales	90,081	56,250
Private fire protection	207,262	208,472
Public fire protection	1,305,030	1,293,651
Sales for resale	<u>1,147,501</u>	<u>1,020,471</u>
Total sales of water	<u>2,749,874</u>	<u>2,578,844</u>
Other operating revenues:		
Forfeited discounts	218,548	195,782
Miscellaneous service revenues	65,871	85,924
Other water revenues	<u>131,630</u>	<u>122,144</u>
Total other operating revenues	<u>416,049</u>	<u>403,850</u>
Total operating revenues	<u>14,747,898</u>	<u>13,689,286</u>
 OPERATING EXPENSES		
Operation and maintenance expenses:		
Personnel services	2,854,604	2,669,358
Contractual services	2,725,383	2,359,385
Materials and supplies	701,168	617,466
Administrative and general	<u>1,796,904</u>	<u>1,760,478</u>
Total operation and maintenance expenses	8,078,059	7,406,687
Depreciation	2,389,922	2,298,308
Taxes	<u>236,527</u>	<u>216,020</u>
Total operating expenses	<u>10,704,508</u>	<u>9,921,015</u>
 OPERATING INCOME	 <u>\$ 4,043,390</u>	 <u>\$ 3,768,271</u>

**RACINE WATER UTILITY
SCHEDULES OF OPERATING EXPENSES
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
OPERATING EXPENSES		
Personnel services	\$ 2,854,604	\$ 2,669,358
Contractual services		
Equipment maintenance	70,099	63,443
Building maintenance	91,097	50,466
Vehicle maintenance	22,107	12,209
Telephone	16,632	19,573
Natural gas	155,262	150,228
Electric services	594,784	560,460
Water and wastewater services	882,880	620,249
Auto hire	7,028	6,811
Street repairs	286,805	276,510
Main maintenance	16,849	16,772
Meter maintenance	3,200	3,025
Professional services	289,866	368,481
Computer maintenance	51,104	78,415
Water storage maintenance	<u>237,670</u>	<u>132,743</u>
Total contractual services	<u>2,725,383</u>	<u>2,359,385</u>
Materials and supplies		
Operational chemicals	275,100	216,782
Pipe and fittings	44,476	56,123
Meter parts	3,231	2,926
Gasoline and diesel fuel	66,904	47,907
Office supplies	24,166	23,363
Custodial supplies	11,727	9,102
Laboratory supplies	23,351	20,187
Equipment supplies	45,420	40,594
Building supplies	59,240	48,930
Construction and meter supplies	38,615	43,777
Street repair supplies	64,125	62,942
Postage	24,422	22,297
Safety supplies	14,255	16,549
Computer supplies	<u>6,136</u>	<u>5,987</u>
Total materials and supplies	<u>701,168</u>	<u>617,466</u>
Administrative and general		
Property and liability insurance	122,738	67,157
Workers compensation insurance	147,263	108,695
Health insurance	1,012,763	1,131,755
Life insurance	21,099	16,406
Wisconsin retirement	320,109	282,690
Education	29,986	30,933
Dues, publications, and travel	28,301	14,439
Office rent	21,593	21,003
Stormwater fees	4,532	-
PSC expenses	88,520	31,293
Bad debt expense	<u>-</u>	<u>56,107</u>
Total administrative and general expenses	<u>1,796,904</u>	<u>1,760,478</u>
Total operating expense	<u>\$ 8,078,059</u>	<u>\$ 7,406,687</u>

RACINE WATER UTILITY
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION
Year Ended December 31, 2005

	Utility Plant				Accumulated Depreciation			
	Balance		Balance		Balance		Retirements	
	Jan. 1, 2005	Additions	Retirements	Dec. 31, 2005	Jan. 1, 2005	Additions	(Salvage)	Dec. 31, 2005
Source of supply								
Intakes	\$ 2,519,376	\$ -	\$ -	\$ 2,519,376	\$ 943,551	\$ 57,945	\$ -	\$ 1,001,496
Supply mains	36,217	-	-	36,217	36,217	-	-	36,217
Pumping								
Structures and improvements	1,644,474	1,001,862	-	2,646,336	660,727	60,071	-	720,798
Power production equipment	2,314,943	-	-	2,314,943	774,019	101,857	-	875,876
Electric pumping equipment	5,581,265	270,425	-	5,851,690	2,423,416	251,525	-	2,674,941
Water treatment								
Land	1,088,698	-	-	1,088,698	-	-	-	-
Structures and improvements	19,294,276	77,010	-	19,371,286	3,171,708	483,319	-	3,655,027
Treatment equipment	9,226,911	64,521	4,760	9,286,672	3,558,939	249,933	4,760	3,804,112
Transmission and distribution								
Land	1,884,474	-	-	1,884,474	-	-	-	-
Reservoirs and stand pipes	1,959,489	-	-	1,959,489	1,159,456	31,352	-	1,190,808
Transmission and distribution mains and valves	45,171,439	4,525,965	359,785	49,337,619	5,364,690	566,366	359,786	5,571,270
Services	3,051,638	819,766	2,634	3,868,770	1,002,895	76,125	2,633	1,076,387
Meters	3,477,836	211,929	52,785	3,636,980	564,474	233,326	52,785	745,015
Hydrants	3,603,107	592,974	38,178	4,157,903	567,322	56,308	38,178	585,452
General plant								
Structures and improvements	736,869	-	-	736,869	439,017	31,686	-	470,703
Office furniture and equipment	146,601	-	4,644	141,957	81,388	8,368	4,644	85,112
Computers	850,035	28,460	29,339	849,156	831,741	46,754	29,339	849,156
Transportation equipment	896,845	99,878	64,036	932,687	659,592	145,880	64,036	741,436
Tools shop and garage equipment	574,075	67,848	4,493	637,430	313,707	38,899	4,493	348,113
Power operated equipment	686,321	88,775	-	775,096	216,452	62,110	-	278,562
Communications equipment	221,957	14,093	61,123	174,927	117,597	16,471	61,123	72,945
Laboratory equipment	95,691	-	5,796	89,895	50,976	5,382	5,796	50,562
TOTAL	\$ 105,062,537	\$ 7,863,506	\$ 627,573	\$ 112,298,470	\$ 22,937,884	\$ 2,523,677	\$ 627,573	\$ 24,833,988