



**RACINE WASTEWATER UTILITY**  
**Racine, Wisconsin**

**FINANCIAL STATEMENTS**  
**December 31, 2005 and 2004**



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## Independent Auditor's Report

Board of Commissioners  
Racine Wastewater Utility  
Racine, Wisconsin

We have audited the accompanying statements of net assets of the Racine Wastewater Utility, an enterprise fund of the City of Racine, as of and for the years ended 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 opinion.

As discussed in the summary of significant accounting policies, the financial statements present only the Racine Wastewater 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 Wastewater 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.

The Racine Wastewater Utility has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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

**ASSETS**

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,552,977	\$ 2,204,417
Investments	3,957,785	5,470,320
Interest receivable	8,871	5,766
Accounts receivable, less allowance for doubtful accounts of \$1,000 in 2005 and 2004:		
Consumers	1,955,118	1,625,103
Other	1,002,958	842,934
Delinquent billings receivable - tax roll	1,109,536	993,935
Inventories	46,919	28,798
Due from other funds	<u>1,935,289</u>	<u>1,524,523</u>
Total current assets	<u>12,569,453</u>	<u>12,695,796</u>
 <b>RESTRICTED ASSETS (Note 2)</b>		
Cash and cash equivalents	43,080	67,204
Investments	5,331,156	5,892,115
Interest receivable	38,962	22,919
Plant capacity receivable, current portion	2,807,518	331,672
Interest receivable- plant capacity	170,921	-
Plant capacity receivable, long-term portion	<u>44,088,425</u>	<u>-</u>
Total restricted assets	<u>52,480,062</u>	<u>6,313,910</u>
 <b>CAPITAL ASSETS (Note 3)</b>		
Utility plant in service	143,944,128	87,996,299
Less accumulated depreciation	<u>37,538,477</u>	<u>34,123,876</u>
Net depreciated value	106,405,651	53,872,423
Construction in progress	<u>361,200</u>	<u>53,246,672</u>
Total capital assets	<u>106,766,851</u>	<u>107,119,095</u>
 <b>OTHER ASSETS</b>		
Due from other funds	2,288,332	2,008,144
Deferred debt expense	<u>92,278</u>	<u>105,696</u>
Total other assets	<u>2,380,610</u>	<u>2,113,840</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 174,196,976</u>	 <u>\$ 128,242,641</u>

## LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 232,795	\$ 2,125,963
Due to other funds	624,509	670,705
Advances from other funds, current portion	21,000	19,425
Accrued compensated absences, current portion	31,310	31,647
Accrued liabilities	<u>283,004</u>	<u>173,589</u>
Total current liabilities	<u>1,192,618</u>	<u>3,021,329</u>
 <b>CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued interest payable	393,722	397,653
Current portion of long-term debt (Note 4)	4,376,358	4,076,782
Deferred capacity revenue, current portion	<u>1,043,940</u>	<u>564,710</u>
Total current liabilities - payable from restricted assets	<u>5,814,020</u>	<u>5,039,145</u>
 <b>LONG-TERM LIABILITIES</b>		
Accrued compensated absences, long-term portion	385,103	389,054
Advances from other funds, long-term portion	832,125	853,125
Long-term debt (Note 4)	78,873,687	79,404,222
Deferred capacity revenue, long-term portion	<u>46,977,334</u>	<u>-</u>
Total long-term liabilities	<u>127,068,249</u>	<u>80,646,401</u>
Total liabilities	<u>134,074,887</u>	<u>88,706,875</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	27,317,586	27,659,003
Restricted	4,592,311	5,139,651
Unrestricted	<u>8,212,192</u>	<u>6,737,112</u>
Total net assets	<u>40,122,089</u>	<u>39,535,766</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>		
	<u>\$ 174,196,976</u>	<u>\$ 128,242,641</u>

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

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

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>	\$ 12,319,347	\$ 11,210,650
<b>OPERATING EXPENSES</b>		
Operation and maintenance	6,786,385	6,933,665
Depreciation	3,858,542	2,037,535
Taxes	<u>182,272</u>	<u>173,403</u>
Total operating expenses	<u>10,827,199</u>	<u>9,144,603</u>
<b>OPERATING INCOME</b>	<u>1,492,148</u>	<u>2,066,047</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Investment earnings	374,663	160,857
Interest expense	(2,163,637)	(1,572,745)
Intergovernmental interest reimbursement	1,239,921	1,173,354
Plant capacity income	1,043,941	-
Bond issuance costs	(13,417)	(13,161)
Gain (loss) on disposal of fixed assets	71,555	(138,039)
Miscellaneous income	<u>174,204</u>	<u>194,331</u>
Total non-operating revenues (expenses)	<u>727,230</u>	<u>(195,403)</u>
Income before transfer	2,219,378	1,870,644
<b>TRANSFER OUT</b>	<u>(1,633,055)</u>	<u>(1,642,300)</u>
<b>CHANGE IN NET ASSETS</b>	586,323	228,344
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>39,535,766</u>	<u>39,307,422</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 40,122,089</u>	<u>\$ 39,535,766</u>

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

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

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 11,183,502	\$ 10,870,245
Payments to suppliers	(6,450,504)	(7,120,449)
Payments to employees	(2,338,438)	(2,263,888)
	<u>2,394,560</u>	<u>1,485,908</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out	(1,633,055)	(1,642,300)
Advances from other funds	(19,425)	(11,994)
Miscellaneous receipts	174,204	194,331
	<u>(1,478,276)</u>	<u>(1,459,963)</u>
Net cash used in noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of utility plant	(3,589,276)	(21,590,740)
Principal paid on long-term debt	(4,152,828)	(1,583,012)
Proceeds from sale of equipment	154,533	-
Proceeds from issuance of long-term debt	3,921,869	21,390,468
Interest paid on long-term debt	(2,123,010)	(1,424,242)
Interest paid on pension obligation	(44,558)	(48,035)
Intergovernmental interest reimbursement	1,239,921	1,173,354
Proceeds for plant capacity	1,572,492	-
	<u>(3,020,857)</u>	<u>(2,082,207)</u>
Net cash used in capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(30,145,240)	(35,281,857)
Proceeds on redemption of investments	32,218,734	36,588,688
Investment income received	355,515	141,420
	<u>2,429,009</u>	<u>1,448,251</u>
Net cash provided by investing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	324,436	(608,011)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,271,621</u>	<u>2,879,632</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,596,057</u>	<u>\$ 2,271,621</u>

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

	<u>2005</u>	<u>2004</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,492,148	\$ 2,066,047
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,858,542	2,037,535
Effects of changes in operating assets and liabilities:		
Accounts receivable	(444,889)	(514,326)
Inventories	(18,121)	(5,276)
Due from other funds	(690,956)	173,921
Prepaid expenses and other assets	1	30,970
Compensated absences	(4,288)	3,358
Advances from municipalities	32,070	491,882
Accounts payable	(1,893,167)	(2,818,621)
Accrued liabilities	109,415	22,416
Advances from other funds	(46,195)	(1,998)
	<u>\$ 2,394,560</u>	<u>\$ 1,485,908</u>
Net cash provided by operating activities	<u>\$ 2,394,560</u>	<u>\$ 1,485,908</u>

**NON CASH ACTIVITIES**

During 2004, the Utility refinanced \$1,480,000 of long-term debt.

Cash and cash equivalents are presented in the financial statements as follows:

	<u>2005</u>	<u>2004</u>
Unrestricted	\$2,552,977	\$2,204,417
Restricted	43,080	67,204
	<u>\$2,596,057</u>	<u>\$2,271,621</u>

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



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

The Racine Wastewater 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 City of Racine Wastewater Utility only and do not include transactions of any other City Funds. The Racine Wastewater Utility provides sewer service to the territory which includes the corporate limits of the City of Racine, Village of Mount Pleasant, Village of North Bay, Village of Elmwood Park, Village of Sturtevant, and Town of Caledonia. The Utility has the responsibility to determine and levy sewer user charges in order to apportion all operation and maintenance expenses and debt service charges in its service territory.

The Utility is managed by eleven Commissioners. Rates are established through the budget process on an annual basis to recover operating expenses after giving effect to prior year surpluses or deficits. The rates are billed to the municipal entities in proportion to each user's contribution to total wastewater flow and loading into the treatment system. 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 accompanying financial statements have been prepared in accordance with the reporting model defined by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accounting policies of the Racine Wastewater Utility conform to generally accepted accounting principles as applicable to governments. The following is a summary of 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 Principles 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 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.

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

**CASH EQUIVALENTS**

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

**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 sewer 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 the 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 the lower of cost or market with cost determined on a first in, first out (FIFO) basis.

**OPERATIONS**

Metered service sales to customers are billed at rates determined by the Utility Commissioners. Most customers, with exception of industrial, are billed every three months for services rendered. Industrial customers are billed monthly. The month billed is dependent on the district in which the customer resides. All delinquent water and wastewater 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 collection process.

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

**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. 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 was computed under the straight-line method over the estimated service lives of the assets.

**DEFERRED DEBT EXPENSE**

Included in other assets are costs of unamortized bond debt discount associated with Refunding Revenue Bonds and are being amortized over the life of the bonds.

**COMPENSATED ABSENCES**

Vacation 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, retirement or total disability, an employee is entitled to a sum equal to 50% of total such 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.

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

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

**NOTE 1 - CASH AND INVESTMENTS**

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

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ 2,596,057	\$ 2,271,621
U.S. Government agency securities	<u>9,288,941</u>	<u>11,362,435</u>
	<u>\$ 11,884,998</u>	<u>\$ 13,634,056</u>

**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 \$2,596,057 and \$2,271,621, as compared to bank balances of \$2,763,649 and \$2,922,082, 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 \$9,288,941 and \$11,362,435 for 2005 and 2004, respectively. Of the investment balances at December 31, 2005 and 2004, all amounts were covered by securities are held by an agent in the Utility's name.

**RACINE WASTEWATER 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 \$9,288,941 and \$11,362,435, 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:		
Bond redemption fund	\$ 1,023,233	\$ 1,553,633
DNR replacement fund	2,945,480	2,972,022
Depreciation fund	979,191	988,730
Reserve fund	426,332	444,934
Total cash and investments	\$ 5,374,236	\$ 5,959,319
Accrued interest receivable:		
Bond redemption fund	\$ 8,221	\$ 6,462
DNR replacement fund	27,926	14,667
Depreciation fund	2,815	1,790
Total accrued interest receivable	38,962	22,919
<b>Total</b>	<b>\$ 5,413,198</b>	<b>\$ 5,982,238</b>

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

**NOTE 3 - CAPITAL ASSETS**

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

	2005			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 81,950	\$ 18,000	\$ -	\$ 99,950
Construction in progress	<u>53,246,672</u>	<u>5,662,295</u>	<u>(58,547,767)</u>	<u>361,200</u>
Total capital assets not being depreciated	<u>53,328,622</u>	<u>5,680,295</u>	<u>(58,547,767)</u>	<u>461,150</u>
Capital assets being depreciated:				
Buildings and system	40,611,758	34,798,425	(1,800)	75,408,383
Improvements other than buildings	21,989,583	242,086	-	22,231,669
Machinery and equipment	<u>25,313,008</u>	<u>21,416,238</u>	<u>(525,120)</u>	<u>46,204,126</u>
Total capital assets being depreciated	<u>87,914,349</u>	<u>56,456,749</u>	<u>(526,920)</u>	<u>143,844,178</u>
Less accumulated depreciation for:				
Buildings and system	(16,724,712)	(1,606,904)	1,800	(18,329,816)
Improvements other than buildings	(9,846,713)	(167,630)	-	(10,014,343)
Machinery and equipment	<u>(7,552,451)</u>	<u>(2,084,008)</u>	<u>442,141</u>	<u>(9,194,318)</u>
Total accumulated depreciation	<u>(34,123,876)</u>	<u>(3,858,542)</u>	<u>443,941</u>	<u>(37,538,477)</u>
Total capital assets being depreciated, net	<u>53,790,473</u>	<u>52,598,207</u>	<u>(82,979)</u>	<u>106,305,701</u>
Capital assets, net	<u>\$107,119,095</u>	<u>\$ 58,278,502</u>	<u>\$(58,630,746)</u>	<u>\$ 106,766,851</u>

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

**NOTE 3 - CAPITAL ASSETS (CONTINUED)**

	2004			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 81,950	\$ -	\$ -	\$ 81,950
Construction in progress	<u>46,213,308</u>	<u>20,466,439</u>	<u>(13,433,075)</u>	<u>53,246,672</u>
Total capital assets not being depreciated	<u>46,295,258</u>	<u>20,466,439</u>	<u>(13,433,075)</u>	<u>53,328,622</u>
Capital assets being depreciated:				
Buildings and system	32,411,104	8,261,389	(60,735)	40,611,758
Improvements other than buildings	20,106,033	1,883,550	-	21,989,583
Machinery and equipment	<u>23,685,304</u>	<u>3,265,635</u>	<u>(1,637,931)</u>	<u>25,313,008</u>
Total capital assets being depreciated	<u>76,202,441</u>	<u>13,410,574</u>	<u>(1,698,666)</u>	<u>87,914,349</u>
Less accumulated depreciation for:				
Buildings and system	(15,827,983)	(946,326)	49,597	16,724,712
Improvements other than buildings	(9,687,937)	(158,776)	-	9,846,713
Machinery and equipment	<u>(8,131,048)</u>	<u>(932,433)</u>	<u>1,511,030</u>	<u>7,552,451</u>
Total accumulated depreciation	<u>(33,646,968)</u>	<u>(2,037,535)</u>	<u>1,560,627</u>	<u>34,123,876</u>
 Total capital assets being depreciated, net	<u>42,555,473</u>	<u>11,373,039</u>	<u>(138,039)</u>	<u>53,790,473</u>
 Capital assets, net	<u>\$ 88,850,731</u>	<u>\$ 31,389,478</u>	<u>\$(13,571,114)</u>	<u>\$ 107,119,095</u>

**NOTE 4 - LONG-TERM DEBT**

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

	2005				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation debt:					
Bonds payable	\$ 1,420,000	\$ -	\$ 390,000	\$ 1,030,000	\$ 405,000
Cleanwater Fund loans	<u>82,061,004</u>	<u>3,921,869</u>	<u>3,762,828</u>	<u>82,220,045</u>	<u>3,971,358</u>
Total general obligation debt	83,481,004	3,921,869	4,152,828	83,250,045	4,376,358
Compensated absences	420,701	-	4,288	416,413	31,310
Advance from other funds	<u>872,550</u>	<u>-</u>	<u>19,425</u>	<u>853,125</u>	<u>21,000</u>
 Total long-term liabilities	<u>\$ 84,744,255</u>	<u>\$ 3,921,869</u>	<u>\$ 4,176,541</u>	<u>\$ 84,519,583</u>	<u>\$ 4,428,668</u>

**RACINE WASTEWATER 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	\$ 1,850,000	\$ 1,420,000	\$ 1,850,000	\$ 1,420,000	\$ 390,000
Cleanwater Fund loans	<u>61,823,548</u>	<u>21,390,468</u>	<u>1,153,012</u>	<u>82,061,004</u>	<u>3,686,782</u>
Total general obligation debt	63,673,548	22,810,468	3,003,012	83,481,004	4,076,782
Compensated absences	417,343	16,423	13,065	420,701	34,068
Advance from other funds	<u>884,545</u>	-	<u>11,994</u>	<u>872,550</u>	<u>19,425</u>
 Total long-term liabilities	<u>\$ 64,975,436</u>	<u>\$ 22,826,891</u>	<u>\$ 3,028,071</u>	<u>\$ 84,774,255</u>	<u>\$ 4,130,275</u>

	2005				
	Date of Issue	Final Maturity	Interest Range	Original Indebtedness	Balance 12/31/05
<b>Revenue Bonds</b>					
Cleanwater Fund loans	11/01/94	05/01/13	3.190%	\$ 2,701,745	\$ 1,335,693
Cleanwater Fund loans	03/26/97	05/01/16	2.998%	1,158,993	748,614
Cleanwater Fund loans	05/27/98	05/01/18	2.640%	854,147	604,261
Cleanwater Fund loans	10/29/99	05/01/19	2.640%	797,249	605,381
Cleanwater Fund loans	09/27/00	05/01/20	2.970%	805,113	645,646
Cleanwater Fund loans	04/10/02	05/01/21	2.750%	4,073,012	3,583,482
Cleanwater Fund loans	12/22/04	05/01/21	2.860%	17,943,748	16,503,389
Cleanwater Fund loans	11/27/02	05/01/22	2.867%	60,724,848	58,193,579
Refunding Revenue Bond	11/05/04	12/15/08	2.5-3.0%	<u>1,420,000</u>	<u>1,030,000</u>
 Total long-term debt				<u>\$ 90,478,855</u>	<u>\$ 83,250,045</u>

	2004				
	Date of Issue	Final Maturity	Interest Range	Original Indebtedness	Balance 12/31/04
<b>Revenue Bonds</b>					
Cleanwater Fund loans	11/01/94	05/01/13	3.190%	\$ 2,701,745	\$ 1,480,278
Cleanwater Fund loans	03/26/97	05/01/16	2.998%	1,158,993	805,369
Cleanwater Fund loans	05/27/98	05/01/18	2.640%	854,147	642,809
Cleanwater Fund loans	10/29/99	05/01/19	2.640%	797,249	640,751
Cleanwater Fund loans	09/27/00	05/01/20	2.970%	805,113	679,433
Cleanwater Fund loans	04/10/02	05/01/21	2.750%	4,073,012	3,759,943
Cleanwater Fund loans	07/24/02	05/01/21	2.860%	17,761,692	17,067,386
Cleanwater Fund loans	11/27/02	05/01/22	2.867%	56,985,035	56,985,035
Refunding Revenue Bond	11/05/04	12/15/08	2.5-3.0%	<u>1,420,000</u>	<u>1,420,000</u>
 Total long-term debt				<u>\$ 86,556,986</u>	<u>\$ 83,481,004</u>



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

**NOTE 4 - LONG-TERM DEBT (CONTINUED)**

At December 31, 2005, the Utility had \$84,246,903 of the 2002 State of Wisconsin Clean Water fund loans available for use in construction of the wastewater utility plant of which \$82,741,608 was drawn down at this date and is included in long-term debt net of repayments at interest rates ranging between 2.50% and 3.19%.

The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,376,358	\$ 2,326,982	\$ 6,703,340
2007	4,500,373	2,201,204	6,701,577
2008	4,412,664	2,069,779	6,482,443
2009	4,323,325	1,941,085	6,264,410
2010	4,447,452	1,815,175	6,262,627
Next five years	23,837,910	7,069,230	30,907,140
Next five years	26,319,964	3,490,300	29,810,264
Next five years	<u>11,031,999</u>	<u>314,235</u>	<u>11,346,234</u>
<b>Total</b>	<b><u>\$ 83,250,045</u></b>	<b><u>\$ 21,227,990</u></b>	<b><u>\$104,478,035</u></b>

The 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.
Depreciation Fund	Monthly allocation of \$15,000 of each month's revenue, with a maximum \$1,000,000	Pay for equipment replacement.
Surplus Fund	Any amounts remaining after required transfers are made.	---
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 shall be insufficient funds in the redemption fund.
DNR Replacement Fund	Allocation funds equal to the depreciation expense amounts for assets with lives equal to or less than 20 years.	Accumulated funds for equipment replacement.

These Funds have been properly established and transfers have been made in accordance with the bond provisions.

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

**NOTE 5 - DEBT DEFEASANCE**

On November 5, 2004, the City of Racine issued \$1,420,000 in Wastewater Utility Refunding Revenue Bonds with an average interest rate of 2.75% to advance refund \$1,480,000 of 1993 Wastewater Refunding Revenue Bonds with an average rate of 5.74%. The net proceeds of \$1,422,125 (after payment of \$19,610 in underwriting fees, insurance, and other issue costs) plus an additional \$66,125 of Debt Service Reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, this portion of the 1993 bonds have been removed from long-term debt.

The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$37,963. This difference reported in the accompanying financial statements as deferred debt expense, is being charged to operations through the year 2008 using the straight-line method. The Utility completed the advance refunding to reduce its total debt service payments over the next 15 years by \$164,347 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$87,721.

At December 31, 2005, \$1,090,000 of outstanding mortgage revenue bonds are considered defeased.

**NOTE 6 - 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 if related debt:		
Capital assets, net of accumulated depreciation	\$ 106,766,851	\$107,119,095
Less long-term debt outstanding	<u>(79,449,265)</u>	<u>(79,460,092)</u>
Total invested in capital assets net of related debt	<u>\$ 27,317,586</u>	<u>\$ 27,659,003</u>
Restricted net assets:		
Bond redemption fund	\$ 1,030,621	\$ 1,560,095
DNR replacement fund	2,973,406	2,986,689
Depreciation fund	<u>982,006</u>	<u>990,520</u>
Total restricted net assets	4,986,033	5,537,304
Less: accrued interest payable from restricted assets	<u>393,722</u>	<u>397,653</u>
Restricted net assets	<u>\$ 4,592,311</u>	<u>\$ 5,139,651</u>

Excluded from invested in capital assets, net of related debt, is \$3,373,615 of revenue bonds that relates to financing of special projects that the Utility performs for the City of Racine. This amount is not used to finance Utility purchases of capital assets. Also excluded are reserve fund assets which were borrowed.



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

**NOTE 8 - RELATED PARTY TRANSACTIONS (CONTINUED)**

**Interfund Advances**

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

2006	\$ 65,081
2007	66,204
2008	67,406
2009	68,466
2010	69,809
2011-2024	<u>1,034,122</u>
Subtotal	1,371,088
Amount representing interest	<u>(517,963)</u>
	853,125
Current portion	<u>21,000</u>
Long-term portion	<u>\$ 832,125</u>

**NOTE 9 - 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 \$47,000 and \$39,000 respectively, 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 proceedings 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.

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

**NOTE 10 - INTERGOVERNMENTAL SANITARY SEWER SERVICE AGREEMENT**

The Racine Wastewater Utility entered into an intergovernmental sanitary sewer service agreement with the surrounding local municipalities. The agreement was reached to provide for an equitable allocation of the cost of the expansion of the existing sewer service facilities, which were necessary to continue providing high quality, reliable sewer service, and allow for future growth needs. The agreement allocates treatment capacity to each of the participating municipalities based on their future estimated usage. In return for such treatment capacity allocations each participating municipality is required to pay the Racine Wastewater Utility its proportionate share of the capital cost of improvements to be made.

The municipalities agreed to participate in a loan from the Clean Water Fund to pay for their share of the capital costs. As such, the agreement calls for each municipality to timely pay to the Racine Wastewater Utility its proportionate share of debt and any related debt service costs on a payment schedule approved by the Racine Wastewater Utility.

In 2005, the plant expansion was complete and the accounts receivable and deferred revenue were recognized for the plant capacity allocated to the participating municipalities in the amount of \$49,065,215.

Interest payments under the agreement are recorded as revenue when due. Principal payments are recorded as reductions of the accounts receivable - capacity rights account. The deferred revenue will be amortized on a straight-line basis over the term of the agreement. The capacity revenue recognized was \$1,043,941 for the year ended December 31, 2005.

The agreement also calls for revenue sharing payments to be made between participating municipalities based on current year's municipal budgets and the prior year's municipal populations and equalized valuations. The agreement requires the Racine Wastewater Utility to collect revenue sharing payments from the contributing municipalities and distribute them to recipient municipalities.

The agreement also requires the Racine Wastewater Utility to make payments from its reserve accounts to the City of Racine with respect to the Racine Public Library, Racine Zoo, and the Charles A Wustum Museum of Fine Arts which were determined to be regional cultural services and facilities which benefit the outlying parties. These payments in the amount of \$973,055 and \$982,300 for 2005 and 2004, respectively, are reported as transfers to other funds in the statement of revenues, expenses and changes in fund net assets.

**NOTE 11 - INFILTRATION/INFLOW REMOVAL AGREEMENT**

In 1994, the Utility entered into an agreement with the City of Racine to periodically replace the manholes and upgrade other structures to promote infiltration/inflow removal in the City of Racine. As part of the agreement, the Utility paid the construction cost for the manhole replacement and upgrades and was allowed to place a special charge on the bills of City residents to recover its costs. At December 31, 2005 and 2004, the Utility had unrecovered cost of \$2,710,642 and \$2,428,459, respectively, which was reported as due from the City of Racine.

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

**NOTE 12 - LEASES**

The Utility leases a parcel of land from the Racine Commercial Airport Corporation. The lease, which is for 50 years expiring in 2052, is classified as an operating lease. Lease payments are the greater of \$35,000 adjusted annually for inflation or half of the property taxes levied on the Airport's real property. Rent expense for the lease was \$39,533 and \$36,473 in 2005 and 2004, respectively.

Future minimum payments for the next five years under the lease:

2006	\$ 35,000
2007	35,000
2008	35,000
2009	35,000
2010	35,000
Thereafter	<u>1,435,000</u>
<b>Total</b>	<b><u>\$ 1,610,000</u></b>

**NOTE 13 - MAJOR CUSTOMERS**

One major customer accounted for 13% of gross sales aggregating \$1,599,100 and 15% of gross sales aggregating \$1,728,162 in 2005 and 2004, respectively.

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

**SUPPLEMENTAL INFORMATION**

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

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>		
Measured service to general customers:		
Residential	\$ 4,672,648	\$ 4,062,625
Commercial	1,772,055	1,512,639
Industrial	774,636	626,014
Municipal	3,750,430	3,974,034
Public authorities	<u>1,117,359</u>	<u>815,097</u>
Total measured service to general customers	12,087,128	10,990,409
Other operating revenues:		
Forfeited discounts	194,005	178,819
Other sewer revenues	<u>38,214</u>	<u>41,422</u>
Total operating revenues	<u>12,319,347</u>	<u>11,210,650</u>
 <b>OPERATING EXPENSES</b>		
Operation and maintenance expenses:		
Personnel services	2,334,150	2,267,246
Contractual services	2,211,051	2,273,790
Materials and supplies services	437,899	421,541
Customer account expenses	480,216	494,407
Administrative and general	<u>1,323,069</u>	<u>1,476,681</u>
Total operation and maintenance expenses	6,786,385	6,933,665
Depreciation	3,858,542	2,037,535
Taxes	<u>182,272</u>	<u>173,403</u>
Total operating expenses	<u>10,827,199</u>	<u>9,144,603</u>
 <b>OPERATING INCOME</b>	 <u>\$ 1,492,148</u>	 <u>\$ 2,066,047</u>



**RACINE WASTEWATER UTILITY  
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES  
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
<b>Personnel services</b>		
Salaries and wages	\$ 2,202,254	\$ 2,119,781
Overtime	102,246	102,406
Extra help	<u>29,650</u>	<u>45,059</u>
Total personnel services	<u>2,334,150</u>	<u>2,267,246</u>
<b>Contractual services</b>		
Professional services	269,439	223,976
Equipment repairs	181,726	145,030
Building repairs	9,449	2,068
Vehicle repairs	8,072	13,835
Telephone	9,538	11,853
Natural gas service	383,507	489,254
Electric services	524,650	518,225
Water and wastewater service	120,807	100,055
Sewer system repairs	17,573	19,658
Interceptor maintenance	61,449	32,587
Sludge and grit disposal	<u>624,841</u>	<u>717,249</u>
Total contractual services	<u>2,211,051</u>	<u>2,273,790</u>
<b>Material and supplies</b>		
Office supplies	11,317	12,537
Gasoline and diesel	20,875	16,443
Lubricants	16,349	16,984
Janitorial supplies	17,303	9,377
Operating chemicals	250,709	267,630
Plant and system supplies	68,771	45,846
Sewer maintenance supplies	1,330	3,894
Laboratory supplies	40,882	39,213
Computer supplies	<u>10,363</u>	<u>9,617</u>
Total material and supplies	<u>437,899</u>	<u>421,541</u>

**RACINE WASTEWATER UTILITY  
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES  
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Customer account expense</b>		
Meter operations	\$ 80,856	\$ 73,368
Meter maintenance	29,211	31,641
Meter reading	59,397	58,684
Customer records and collections	128,824	129,979
Depreciation on meters	92,471	90,076
Real estate tax on meters	23,586	24,735
Return on meter investment	<u>65,871</u>	<u>85,924</u>
Total customer account expense	<u>480,216</u>	<u>494,407</u>
<b>Administrative and general</b>		
Dues, publications and subscriptions	29,743	26,316
Property and liability insurance	79,862	86,018
Workers compensation insurance	89,854	73,373
Office rent	21,281	20,699
Wisconsin retirement	236,528	219,703
Medical expenses	553,907	760,667
Life insurance	17,657	14,900
Safety programs	2,586	3,399
City departmental charges	66,067	64,143
DNR permit fee	164,367	166,289
Airport lease	39,533	36,473
Training programs	11,100	4,701
Stormwater fees	<u>10,584</u>	<u>-</u>
Total administrative and general	<u>1,323,069</u>	<u>1,476,681</u>
<b>TOTAL OPERATION AND MAINTENANCE EXPENSE</b>	<u>\$ 6,786,385</u>	<u>\$ 6,933,665</u>

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

	Utility Plant				Accumulated Depreciation			
	Balance	Additions	Retirements	Balance	Additions	Retirements	Balance	
	Jan. 1, 2005	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2005	Dec. 31, 2005	
<b>Collection system</b>								
Structures and improvements	\$ 12,007,412	\$ 676,138	\$ -	\$ 12,683,550	\$ 249,251	\$ -	\$ 1,523,240	
Interceptor mains and accessories	21,950,690	242,086	-	22,192,776	165,823	-	9,998,367	
<b>Collections system pumping installation</b>								
Pumping equipment	7,658,656	286,888	-	7,945,544	368,018	-	3,015,425	
Flow metering and monitoring equipment	484,390	411,983	7,398	888,975	56,181	2,312	195,212	
<b>Treatment system</b>								
Pre-treatment equipment	30,396	2,416,568	-	2,446,964	115,409	-	145,377	
Treatment equipment	13,302,290	7,547,279	118,108	20,731,461	747,818	100,180	3,424,586	
Sludge treatment and disposal equipment	75,262	8,916,927	3,992	8,988,197	491,090	3,992	559,243	
<b>General plant</b>								
Land	81,950	18,000	-	99,950	-	-	-	
Structures and improvements	28,643,238	34,122,287	1,800	62,763,725	1,359,460	1,800	16,822,553	
Transportation equipment	393,524	420,978	132,162	682,340	67,419	94,662	173,797	
Other general equipment	3,204,806	932,017	220,794	3,916,029	179,723	210,722	1,543,108	
Office furniture and equipment	163,685	483,598	42,666	604,617	58,350	30,273	137,569	
<b>TOTAL</b>	<u>\$ 87,996,299</u>	<u>\$ 56,474,749</u>	<u>\$ 526,920</u>	<u>\$ 143,944,128</u>	<u>\$ 3,858,542</u>	<u>\$ 443,941</u>	<u>\$ 37,538,477</u>	