

**RACINE WATER AND WASTEWATER UTILITIES**  
Racine, Wisconsin

**FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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## Independent Auditor's Report

Board of Commissioners  
Racine Water and Wastewater Utilities  
Racine, Wisconsin

We have audited the accompanying statements of net assets, the related statements of revenues, expenses and changes in net assets, and cash flows of the Racine Water and Wastewater Utilities, Enterprise Funds of the City of Racine, as of and for the years ended December 31, 2007 and 2006, which collectively comprise Racine Water and Wastewater Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' 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 Note 1, the financial statements present only the Racine Water and Wastewater Utilities and do not purport to, and do not, present fairly the financial position of the City of Racine, Wisconsin, as of December 31, 2007 and 2006, 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.

As discussed in Note 16, the Racine Water and Wastewater Utilities implemented the Governmental Accounting Standards Board (GASB) Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions* effective January 1, 2007.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Racine Water and Wastewater Utilities as of December 31, 2007 and 2006, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Racine Water and Wastewater Utilities have 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 as listed in the table of contents 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

July 14, 2008

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2007**

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 1,973,975	\$ 2,471,920	\$ 4,445,895
Investments	1,978,638	4,421,856	6,400,494
Accrued interest receivable	21,038	38,822	59,860
Accounts receivable, net			
Consumers	2,673,851	1,985,446	4,659,297
Other	364,096	1,139,815	1,503,911
Delinquent billings receivable - tax roll	1,345,997	1,438,883	2,784,880
Due from other funds	1,998,526	2,935,834	4,934,360
Inventories	253,449	48,338	301,787
Prepaid expenses	7,022	-	7,022
Total current assets	<u>10,616,592</u>	<u>14,480,914</u>	<u>25,097,506</u>
<b>RESTRICTED ASSETS</b>			
Cash and cash equivalents	4,037,476	108,849	4,146,325
Investments	13,283,668	6,668,014	19,951,682
Accrued interest receivable	141,750	77,997	219,747
Plant capacity receivable, current portion	-	3,187,848	3,187,848
Plant capacity receivable, long term portion	-	39,182,961	39,182,961
Total restricted assets	<u>17,462,894</u>	<u>49,225,669</u>	<u>66,688,563</u>
<b>CAPITAL ASSETS</b>			
Utility plant in service	158,963,798	144,589,697	303,553,495
Less: accumulated depreciation	<u>31,239,110</u>	<u>45,560,681</u>	<u>76,799,791</u>
Net depreciated value	127,724,688	99,029,016	226,753,704
Land	3,042,397	99,950	3,142,347
Construction in progress	<u>257,860</u>	<u>3,046,610</u>	<u>3,304,470</u>
Total capital assets	<u>131,024,945</u>	<u>102,175,576</u>	<u>233,200,521</u>
<b>OTHER ASSETS</b>			
Unamortized bond issue costs	<u>707,910</u>	<u>65,443</u>	<u>773,353</u>
Total assets	<u>159,812,341</u>	<u>165,947,602</u>	<u>325,759,943</u>

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2007**

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 260,929	\$ 440,558	\$ 701,487
Due to other funds	3,583,279	807,425	4,390,704
Advances from other funds, current portion	27,882	24,937	52,819
Accrued compensated absences, current portion	31,332	14,913	46,245
Accrued liabilities	<u>305,520</u>	<u>159,443</u>	<u>464,963</u>
Total current liabilities	<u>4,208,942</u>	<u>1,447,276</u>	<u>5,656,218</u>
<b>CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS</b>			
Accounts payable	605,131	-	605,131
Accrued interest payable	781,256	360,793	1,142,049
Long term debt, current portion	3,986,954	4,486,879	8,473,833
Deferred capacity revenue, current portion	<u>-</u>	<u>1,043,782</u>	<u>1,043,782</u>
Total current liabilities - payable from restricted assets	<u>5,373,341</u>	<u>5,891,454</u>	<u>11,264,795</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued compensated absences, long term portion	503,334	379,373	882,707
Other postemployment benefits	1,091,897	758,776	1,850,673
Advances from other funds, long term portion	876,978	784,351	1,661,329
Long term debt	65,707,317	71,253,282	136,960,599
Deferred capacity revenue, long-term portion	<u>-</u>	<u>44,889,611</u>	<u>44,889,611</u>
Total noncurrent liabilities	<u>68,179,526</u>	<u>118,065,393</u>	<u>186,244,919</u>
Total liabilities	<u>77,761,809</u>	<u>125,404,123</u>	<u>203,165,932</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	74,416,361	29,609,530	104,025,891
Restricted	4,399,172	6,494,066	10,893,238
Unrestricted	<u>3,234,999</u>	<u>4,439,883</u>	<u>7,674,882</u>
Total net assets	<u>\$ 82,050,532</u>	<u>\$ 40,543,479</u>	<u>\$ 122,594,011</u>

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2006**

	<b>Water Utility</b>	<b>Wastewater Utility</b>	<b>Total</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,201,300	\$ 1,991,093	\$ 4,192,393
Investments	2,566,834	5,033,700	7,600,534
Accrued interest receivable	5,338	22,845	28,183
Accounts receivable			
Consumers	2,588,808	1,957,135	4,545,943
Other	277,774	1,412,020	1,689,794
Delinquent billings receivable - tax roll	1,192,424	1,292,775	2,485,199
Due from other funds	1,874,097	1,846,188	3,720,285
Inventories	249,861	53,734	303,595
Prepaid Expenses	8,788	-	8,788
Total current assets	10,965,224	13,609,490	24,574,714
<b>RESTRICTED ASSETS</b>			
Cash and cash equivalents	1,182,858	41,984	1,224,842
Investments	8,313,725	6,774,054	15,087,779
Accrued interest receivable	79,851	52,006	131,857
Plant capacity receivable, current portion	-	2,235,930	2,235,930
Plant capacity receivable, long term portion	-	42,380,725	42,380,725
Total restricted assets	9,576,434	51,484,699	61,061,133
<b>CAPITAL ASSETS</b>			
Utility plant in service	145,019,023	144,660,103	289,679,126
Less: accumulated depreciation	27,681,085	41,598,184	69,279,269
Net depreciated value	117,337,938	103,061,919	220,399,857
Land	2,973,172	99,950	3,073,122
Construction in progress	182,355	144,448	326,803
Total capital assets	120,493,465	103,306,317	223,799,782
<b>OTHER ASSETS</b>			
Unamortized bond issue costs	399,187	78,861	478,048
Acquisition deposit	1,202,478	-	1,202,478
Due from other funds	-	1,733,428	1,733,428
Total other assets	1,601,665	1,812,289	3,413,954
 Total assets	 142,636,788	 170,212,795	 312,849,583

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2006**

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 354,011	\$ 276,638	\$ 630,649
Due to other funds	3,347,757	672,152	4,019,909
Advances from other funds, current portion	25,535	22,838	48,373
Accrued compensated absences, current portion	-	49,521	49,521
Accrued liabilities	<u>208,230</u>	<u>216,557</u>	<u>424,787</u>
Total current liabilities	<u>3,935,533</u>	<u>1,237,706</u>	<u>5,173,239</u>
<b>CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS</b>			
Accounts payable	1,730,855	-	1,730,855
Accrued interest payable	658,931	381,172	1,040,103
Long term debt, current portion	3,272,406	4,572,520	7,844,926
Deferred capacity revenue, current portion	<u>-</u>	<u>1,043,782</u>	<u>1,043,782</u>
Total current liabilities - payable from restricted assets	<u>5,662,192</u>	<u>5,997,474</u>	<u>11,659,666</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued compensated absences, long term portion	506,050	357,784	863,834
Advances from other funds, long term portion	904,861	809,288	1,714,149
Long term debt	57,393,535	75,740,161	133,133,696
Deferred capacity revenue, long-term portion	<u>-</u>	<u>45,933,552</u>	<u>45,933,552</u>
Total noncurrent liabilities	<u>58,804,446</u>	<u>122,840,785</u>	<u>181,645,231</u>
Total liabilities	<u>68,402,171</u>	<u>130,075,965</u>	<u>198,478,136</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	65,347,181	26,159,189	91,506,370
Restricted	3,980,215	6,486,872	10,467,087
Unrestricted	<u>4,907,221</u>	<u>7,490,769</u>	<u>12,397,990</u>
Total net assets	<u>\$ 74,234,617</u>	<u>\$ 40,136,830</u>	<u>\$ 114,371,447</u>

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



**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**Year Ended December 31, 2007**

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>OPERATING REVENUES</b>	\$ 16,023,944	\$ 12,875,883	\$ 28,899,827
<b>OPERATING EXPENSES</b>			
Operation and maintenance	10,426,901	8,053,123	18,480,024
Depreciation	3,842,588	4,385,937	8,228,525
Taxes	<u>288,297</u>	<u>190,749</u>	<u>479,046</u>
Total operating expenses	<u>14,557,786</u>	<u>12,629,809</u>	<u>27,187,595</u>
<b>OPERATING INCOME</b>	<u>1,466,158</u>	<u>246,074</u>	<u>1,712,232</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>			
Investment earnings	986,546	671,406	1,657,952
Interest expense	(2,579,174)	(2,179,590)	(4,758,764)
Intergovernmental interest reimbursement	-	1,252,624	1,252,624
Plant capacity income	-	1,043,941	1,043,941
Amortization of bond issuance costs	(57,958)	(13,417)	(71,375)
Loss on disposal of fixed assets	-	(1,041)	(1,041)
Household hazardous waste revenue	-	169,258	169,258
Household hazardous waste expense	-	(156,576)	(156,576)
Miscellaneous income	<u>4,680</u>	<u>7,572</u>	<u>12,252</u>
Total nonoperating revenues (expenses)	<u>(1,645,906)</u>	<u>794,177</u>	<u>(851,729)</u>
Income before capital contributions and transfers	<u>(179,748)</u>	<u>1,040,251</u>	<u>860,503</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Residential equivalent connection fees	1,283,752	-	1,283,752
Developer donations	<u>8,754,931</u>	<u>-</u>	<u>8,754,931</u>
Total capital contributions	<u>10,038,683</u>	<u>-</u>	<u>10,038,683</u>
<b>TRANSFERS OUT</b>	<u>(2,043,020)</u>	<u>(633,602)</u>	<u>(2,676,622)</u>
<b>CHANGE IN NET ASSETS</b>	7,815,915	406,649	8,222,564
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>74,234,617</u>	<u>40,136,830</u>	<u>114,371,447</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 82,050,532</u>	<u>\$ 40,543,479</u>	<u>\$ 122,594,011</u>

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**December 31, 2006**

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>OPERATING REVENUES</b>	\$ 15,692,460	\$ 12,669,681	\$ 28,362,141
<b>OPERATING EXPENSES</b>			
Operation and maintenance	8,659,966	7,216,623	15,876,589
Depreciation	3,102,169	4,376,589	7,478,758
Taxes	266,712	180,760	447,472
Total operating expenses	<u>12,028,847</u>	<u>11,773,972</u>	<u>23,802,819</u>
<b>OPERATING INCOME</b>	<u>3,663,613</u>	<u>895,709</u>	<u>4,559,322</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>			
Investment earnings	900,949	590,563	1,491,512
Interest expense	(2,362,400)	(2,287,743)	(4,650,143)
Intergovernmental interest reimbursement	-	1,302,535	1,302,535
Plant capacity income	-	1,043,941	1,043,941
Amortization of bond issuance costs	(58,515)	(13,417)	(71,932)
Gain on disposal of fixed assets	-	26,039	26,039
Household hazardous waste revenue	-	158,960	158,960
Household hazardous waste expense	-	(218,511)	(218,511)
Miscellaneous income	7,770	6,721	14,491
Total nonoperating revenues (expenses)	<u>(1,512,196)</u>	<u>609,088</u>	<u>(903,108)</u>
Income before capital contributions and transfers	<u>2,151,417</u>	<u>1,504,797</u>	<u>3,656,214</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Residential equivalent connection fees	1,333,704	-	1,333,704
Developer donations	<u>1,347,168</u>	<u>-</u>	<u>1,347,168</u>
Total capital contributions	<u>2,680,872</u>	<u>-</u>	<u>2,680,872</u>
<b>TRANSFERS OUT</b>	<u>(1,996,710)</u>	<u>(1,490,056)</u>	<u>(3,486,766)</u>
<b>CHANGE IN NET ASSETS</b>	2,835,579	14,741	2,850,320
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>71,399,038</u>	<u>40,122,089</u>	<u>111,521,127</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 74,234,617</u>	<u>\$ 40,136,830</u>	<u>\$ 114,371,447</u>

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
Year Ended December 31, 2007

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers and users	\$ 15,574,577	\$ 13,617,451	\$ 29,192,028
Paid to suppliers	(5,932,084)	(2,556,889)	(8,488,973)
Paid to employees	<u>(3,736,367)</u>	<u>(4,693,751)</u>	<u>(8,430,118)</u>
Net cash flows provided by operating activities	<u>5,906,126</u>	<u>6,366,811</u>	<u>12,272,937</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers out	(2,043,020)	(633,602)	(2,676,622)
Repayment of advances from other funds	(25,536)	(22,838)	(48,374)
Interest paid on advance from other funds	-	(43,367)	(43,367)
Household hazardous waste program	-	12,683	12,683
Miscellaneous receipts	<u>4,680</u>	<u>7,572</u>	<u>12,252</u>
Net cash flows used in noncapital financing activities	<u>(2,063,876)</u>	<u>(679,552)</u>	<u>(2,743,428)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of utility plant	(5,718,183)	(3,287,712)	(9,005,895)
Sale of capital assets	99,046	31,475	130,521
Long-term debt issued	11,981,471	-	11,981,471
Principal paid on long-term debt	(3,323,834)	(4,572,520)	(7,896,354)
Interest paid on long-term debt	(2,456,849)	(2,156,602)	(4,613,451)
REC and other fees	1,283,752	-	1,283,752
Bond issuance costs paid	392,440	-	392,440
Intergovernmental interest reimbursement	-	1,043,941	1,043,941
Plant capacity	<u>-</u>	<u>2,454,529</u>	<u>2,454,529</u>
Net cash flows provided by (used in) capital and related financing activities	<u>2,257,843</u>	<u>(6,486,889)</u>	<u>(4,229,046)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments purchased	(38,670,753)	(27,134,141)	(65,804,894)
Investments sold and matured	34,289,006	27,852,025	62,141,031
Investment income	<u>908,947</u>	<u>629,438</u>	<u>1,538,385</u>
Net cash flows provided by (used in) investing activities	<u>(3,472,800)</u>	<u>1,347,322</u>	<u>(2,125,478)</u>

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
Year Ended December 31, 2007

	<b>Water Utility</b>	<b>Wastewater Utility</b>	<b>Total</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,627,293	547,692	3,174,985
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,384,158</u>	<u>2,033,077</u>	<u>5,417,235</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,011,451</u>	<u>\$ 2,580,769</u>	<u>\$ 8,592,220</u>

Cash and cash equivalents are presented on the statements of net assets as follows:

Unrestricted	\$ 1,973,975	\$ 2,471,920	\$ 4,445,895
Restricted	<u>4,037,476</u>	<u>108,849</u>	<u>4,146,325</u>
Total	<u>\$ 6,011,451</u>	<u>\$ 2,580,769</u>	<u>\$ 8,592,220</u>

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating income	\$ 1,466,158	\$ 246,074	\$ 1,712,232
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Other postemployment benefits	1,091,897	758,776	1,850,673
Depreciation	3,958,400	4,385,937	8,344,337
Depreciation charged to other funds	(115,812)	-	(115,812)
Effects of changes in operating assets and liabilities:			
Accounts receivable	(324,938)	97,786	(227,152)
Inventories	(3,588)	5,396	1,808
Due from other funds	(124,429)	643,782	519,353
Prepaid expenses and other assets	815,816	-	815,816
Compensated absences	28,616	(13,019)	15,597
Accounts payable	(1,218,806)	163,920	(1,054,886)
Accrued liabilities	97,290	(57,114)	40,176
Due to other funds	<u>235,522</u>	<u>135,273</u>	<u>370,795</u>
Net cash flows provided by operating activities	<u>\$ 5,906,126</u>	<u>\$ 6,366,811</u>	<u>\$ 12,272,937</u>

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Estimated cost of Water Utility plant installed or financed by developers or customers were \$8,754,931.

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
Year Ended December 31, 2006

	<b>Water Utility</b>	<b>Wastewater Utility</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers and users	\$ 15,625,477	\$ 12,694,592	\$ 28,320,069
Paid to suppliers	(6,436,170)	(4,299,698)	(10,735,868)
Paid to employees	(3,425,930)	(3,088,571)	(6,514,501)
Net cash flows provided by operating activities	5,763,377	5,306,323	11,069,700
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers out	(1,996,710)	(1,490,056)	(3,486,766)
Advances from other funds	(23,479)	(20,999)	(44,478)
Interest paid on advance from other funds	(49,287)	(44,081)	(93,368)
Miscellaneous receipts	-	142,868	142,868
Net cash flows used in noncapital financing activities	(2,069,476)	(1,412,268)	(3,481,744)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of utility plant	(11,182,089)	(926,462)	(12,108,551)
Acquisition deposit	(1,202,478)	-	(1,202,478)
Received from sale of capital assets	-	36,447	36,447
Principal paid on long-term debt	(3,159,259)	(4,376,358)	(7,535,617)
Proceeds from issuance of long-term debt	868,140	1,438,994	2,307,134
Interest paid on long-term debt	(2,336,742)	(2,256,212)	(4,592,954)
Proceeds from REC and other fees	1,333,704	-	1,333,704
Intergovernmental interest reimbursement	-	1,302,535	1,302,535
Proceeds from plant capacity	-	2,279,288	2,279,288
Net cash flows used in capital and related financing activities	(15,678,724)	(2,501,768)	(18,180,492)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments purchased	(38,961,846)	(40,889,569)	(79,851,415)
Investments sold and matured	47,846,536	38,370,757	86,217,293
Investment income	935,902	563,545	1,499,447
Net cash flows provided by (used in) investing activities	9,820,592	(1,955,267)	7,865,325

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**STATEMENTS OF CASH FLOWS**  
Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(2,164,231)	(562,980)	(2,727,211)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,548,389</u>	<u>2,596,057</u>	<u>8,144,446</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,384,158</u>	<u>\$ 2,033,077</u>	<u>\$ 5,417,235</u>

Cash and cash equivalents are presented on the statements of net assets as follows:

Unrestricted	\$ 2,201,300	\$ 1,991,093	\$ 4,192,393
Restricted	<u>1,182,858</u>	<u>41,984</u>	<u>1,224,842</u>
Total	<u>\$ 3,384,158</u>	<u>\$ 2,033,077</u>	<u>\$ 5,417,235</u>

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating income	\$ 3,663,613	\$ 700,011	\$ 4,363,624
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,209,360	4,376,589	7,585,949
Depreciation charged to other funds	(107,191)	-	(107,191)
Bad debt expense	31,093	-	31,093
Non operating revenue	7,770	-	7,770
Effects of changes in operating assets and liabilities:			
Accounts receivable	(54,471)	(423,397)	(477,868)
Inventories	17,360	(6,815)	10,545
Due from other funds	(51,375)	644,005	592,630
Prepaid expenses and other assets	(4,703)	-	(4,703)
Compensated absences	28,182	(9,109)	19,073
Accounts payable	(312,498)	43,844	(268,654)
Accrued liabilities	(149,466)	(66,447)	(215,913)
Due to other funds	(520,191)	47,642	(472,549)
Other assets	<u>5,894</u>	<u>-</u>	<u>5,894</u>
Net cash flows from operating activities	<u>\$ 5,763,377</u>	<u>\$ 5,306,323</u>	<u>\$ 11,069,700</u>

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Estimated cost of utility plant installed or financed by developers or customers were \$1,347,168.

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

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Racine Water and Wastewater Utilities are Enterprise Funds of the City of Racine. These financial statements present the financial position, results of operations, and cash flows of the City of Racine Water and Wastewater Utilities only and do not include transactions of any other City Funds.

The 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 Village of Caledonia. The Wastewater Utility is managed by eleven Commissioners. Rates are established through the budget process on an annual basis to recover operating expenses, debt service and replacement charges, 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 Water Utility provides retail water service to the City of Racine, Villages of Elmwood Park, Mount Pleasant, North Bay and Sturtevant. Wholesale service is provided to the Village of Caledonia. The Water Utility is managed by seven Commissioners. Rates are established and approved by the Public Service Commission of Wisconsin. Retail customers are billed based on readings from individual meters. Wholesale customers are billed based on master meter readings.

The Utilities share common members of the respective Commissions. In addition, the Utilities share common management and administrative personnel and functions. The significant accounting principles and policies utilized by the Utilities are described below.

**Basis of Accounting**

The Utilities prepare their financial statements in accordance with accounting principles generally accepted in the United States of America as formulated by the Government Accounting Standards Board (GASB). The Utilities are reported as governmental enterprise funds. Enterprise funds are used to account for activities which are financed and operated in a manner similar to a private business enterprise. Accordingly, the financial statements reflect the full accrual basis of accounting whereby revenues are recognized when earned and expenses, including depreciation, are recorded as when incurred.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities that Use Proprietary Fund Accounting*, the Utilities apply all applicable private-sector standards of accounting (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 to the extent that they do not conflict with or contradict guidance of the Government Accounting Standards Board. The Utilities have elected not to follow the private-sector standards issued after November 30, 1989.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Equivalents**

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

**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 value is determined by quoted market prices. No investments are reported at amortized cost.

**Accounts Receivable**

Accounts receivable is composed of charges to customers for water and sewer services and 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 amounts billed plus accrued interest. Unpaid accounts over twenty days bear interest at 1% per month. 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 bills identified on the customer's remittance advice or, if unspecified, to the earliest unpaid bills.

The Utilities have the right under Wisconsin Statutes to place delinquent bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Sundry bill charges bear no interest. 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 collectability 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.



**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

**Interfund Transactions**

Transactions between the Utilities and other funds of the City of Racine that are representative of lending/borrowing arrangements are reported as advance to/from other funds. All other balances between the Utilities and other funds of the City are reported as due to/from other funds.

**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.

**Operations**

Metered service to sewer customers are billed at rates determined by the Utility Commissioners. Metered service sales to water customers are billed at rates determined by the Public Service Commission. 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 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.

**Capital Assets**

Capital assets are generally defined by the Utilities as assets with an initial, individual cost of more than \$1,000 and estimated useful life in excess of five years.

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, net of interest earned on the invested debt proceeds over the same period.

The Wastewater Utility capital assets in service are depreciated using the straight - line method over useful lives as follows:

Interceptors	100
Lift station structures	50
Treatment equipment	14 - 27
Other structures	40
Other equipment	5 - 22

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

The Water Utility capital assets in service are depreciated using composite rates developed by the Public Service Commission to the capital asset balances except for vehicles and power equipment which are depreciated on a per unit basis.

The Water Utility capital assets in service are depreciated using composite rates developed by the Public Service Commission to the capital asset balances except for vehicles and power equipment which are depreciated on a per unit basis.

Intakes	43
Structures	23 - 40
Membrane filtration	10
Standpipes	63
Mains, services and hydrants	45 - 83
Meters	16
Equipment	7 - 37

**Long-Term Obligations**

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, which ever is shorter.

**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 have been reported as accrued compensated absences.

**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 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.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Transfers**

As described in Note 8, the Wastewater Utility collects revenue sharing payments. Transfers include payments made 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 under the terms of the intergovernmental sanitary sewer service agreement.

Water Utility transfers include the payments in lieu of taxes to the municipality.

**Equity Classifications**

Equity is classified as net assets and displayed in three components.

- a. Invested in capital assets, net of related debt - 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 less any unspent debt proceeds.
- b. Restricted net assets - consists of net assets with constraints placed on their use by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Comparative Data**

Certain amounts presented in the prior year data have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported net assets or results of operations.

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The Utilities had the following deposits and investments as of December 31, 2007.

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Petty cash	\$ 1,250	\$ -	\$ 1,250
Demand deposits	6,010,201	2,580,769	8,590,970
U.S. Government Agency Securities	<u>15,262,306</u>	<u>11,089,870</u>	<u>26,352,176</u>
 Total cash, cash equivalents and Investments	 <u>\$ 21,273,757</u>	 <u>\$ 13,670,639</u>	 <u>\$ 34,944,396</u>
 Reconciliation to the financial statements:			
Cash and cash equivalents			
Unrestricted	\$ 1,973,975	\$ 2,471,920	\$ 4,445,895
Restricted	<u>4,037,476</u>	<u>108,849</u>	<u>4,146,325</u>
Total cash and cash equivalents	<u>6,011,451</u>	<u>2,580,769</u>	<u>8,592,220</u>
Investments			
Unrestricted	1,978,638	4,421,856	6,400,494
Restricted	<u>13,283,668</u>	<u>6,668,014</u>	<u>19,951,682</u>
Total investments	<u>15,262,306</u>	<u>11,089,870</u>	<u>26,352,176</u>
 Total cash, cash equivalents and Investments	 <u>\$ 21,273,757</u>	 <u>\$ 13,670,639</u>	 <u>\$ 34,944,396</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

The Utilities had the following deposits and investments as of December 31, 2006.

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Petty cash	\$ 1,400	\$ -	\$ 1,400
Demand deposits	3,382,758	2,033,077	5,415,835
Certificates of deposit	100,000	100,000	200,000
U.S. Government Agency Securities	<u>10,780,559</u>	<u>11,707,754</u>	<u>22,488,313</u>
 Total cash, cash equivalents and Investments	 <u>\$ 14,264,717</u>	 <u>\$ 13,840,831</u>	 <u>\$ 28,105,548</u>
 Reconciliation to the financial statements:			
Cash and cash equivalents			
Unrestricted	\$ 2,201,300	\$ 1,991,093	\$ 4,192,393
Restricted	<u>1,182,858</u>	<u>41,984</u>	<u>1,224,842</u>
Total cash and cash equivalents	<u>3,384,158</u>	<u>2,033,077</u>	<u>5,417,235</u>
Investments			
Unrestricted	2,566,834	5,033,700	7,600,534
Restricted	<u>8,313,725</u>	<u>6,774,054</u>	<u>15,087,779</u>
Total investments	<u>10,880,559</u>	<u>11,807,754</u>	<u>22,688,313</u>
 Total cash, cash equivalents and Investments	 <u>\$ 14,264,717</u>	 <u>\$ 13,840,831</u>	 <u>\$ 28,105,548</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual entities. This coverage has not been considered for custodial credit risk below.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Investment Policy**

The Utilities have not adopted a formal investment policy; however, the Utilities invest 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 district, utility, village, town or school district of the state;
- Bonds or securities issued or guaranteed by the Federal government;
- The state 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.

**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 Utilities 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, 2007 and 2006, the Water Utility's carrying value of the deposits was \$6,010,201 and \$3,382,758 as compared to bank balances of \$6,442,392, and \$3,778,798, respectively. Of the bank balances at December 31, 2007 and 2006, \$100,000, was covered by federal depository insurance. The remaining balances at December 31, 2007 and 2006 were collateralized by securities held by the bank or its correspondent bank but not in the Utility's name.

As of December 31, 2007 and 2006, the Wastewater Utility's carrying value of the deposits was \$2,580,769 and \$2,033,077 as compared to bank balances of \$2,865,021 and \$2,198,225, respectively. Of the bank balances at December 31, 2007 and 2006, \$100,000, was covered by federal depository insurance. The remaining balances at December 31, 2007 and 2006 were collateralized by securities held by the bank or its correspondent bank but not in the Utility's name.

**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 Utilities will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal policy addressing this type of investment risk.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

As of December 31, 2007 and 2006, the Water Utility's carrying value of the investments were \$15,262,306 and \$10,880,559 for 2007 and 2006, respectively. Of the investment balances at December 31, 2007 and 2006, \$100,000, was covered by federal depository insurance. The remaining balances at December 31, 2007 and 2006 were collateralized by securities held by an agent in the Utility's name.

As of December 31, 2007 and 2006, the Wastewater Utility's carrying value of the investments were \$11,089,870 and \$11,807,754 for 2007 and 2006, respectively. Of the investment balances at December 31, 2007 and 2006, \$100,000, was covered by federal depository insurance. The remaining balances at December 31, 2007 and 2006 were collateralized by securities held by an agent in the Utility's name.

**Credit Risk**

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

The Water 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, 2007 and 2006, the Utility had \$15,262,306 and \$10,780,559, respectively, in these types of investments.

The Wastewater 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, 2007 and 2006, the Utility had \$11,089,870 and \$11,707,754, respectively, in these types of investments.

**Concentration of Credit Risk**

Concentration of credit risk refers to risk of loss attributed to the investment in a single issuer. The Utilities do not have a formal policy addressing this type of investment risk. As of December 31, 2007 and 2006, the Utilities invest solely in U.S. government agency securities which are not considered subject to credit risk.

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk**

Interest rate risk is the risk that, changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal policy addressing this type of investment risk.

As of December 31, 2007 and 2006, the Utilities had the following investments and maturities.

<b>2007</b>		
<u>Type of Investment</u>	<u>Fair Value</u>	<u>Average Maturities</u>
U.S. Government agency securities	\$ 26,252,176	180 days
<b>2006</b>		
<u>Type of Investment</u>	<u>Fair Value</u>	<u>Average Maturities</u>
U.S. Government agency securities	\$ 22,488,313	180 days
Certificate of Deposit	200,000	8 months

**NOTE 3 - RESTRICTED ASSETS**

Certain proceeds of the Utilities' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. In addition, certain funds have been set aside for equipment replacement or capital improvement in accordance with the bond resolutions or City resolutions. The following accounts are reported as restricted assets:

Bond redemption fund - Used to segregate resources accumulated for debt service payments over the next twelve months.

Reserve fund - Used to report resources set aside to make up potential future deficiencies in the redemption account.

Depreciation fund - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account

Replacement fund - As a condition of receiving state and federal funds for wastewater plant construction, the Wastewater Utility has established an account for replacement of certain mechanical equipment.

Impact fund - Residential equivalent connections and other fees - Used to report resources set aside to fund future projects designed to serve future growth of the Water Utility.

Improvement fund - Used to report funds set aside for capital improvements.



**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

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

In addition to the above funds, plant capacity receivables have been reported as restricted assets. As described in Note 8, municipalities participating in the intergovernmental sanitary sewer service agreement pay proportionate shares of certain debt of the Wastewater Utility, which have been recorded as receivable and deferred revenue.

The Utilities had the following deposits and investments as of December 31, 2007.

	Water Utility	Wastewater Utility	Total
Cash, cash equivalents, and investments			
Bond redemption	\$ 3,023,083	\$ 2,659,910	\$ 5,682,993
Reserve fund	4,594,067	216,827	4,810,894
Depreciation fund	784,554	963,397	1,747,951
Replacement fund	-	2,936,730	2,936,730
Impact fund	1,282,353	-	1,282,353
Improvement fund	7,637,087	-	7,637,087
	17,321,144	6,776,864	24,098,008
Accrued interest receivable			
Bond redemption	23,156	20,171	43,327
Reserve fund	66,933	5,655	72,588
Depreciation fund	349	25,127	25,476
Replacement fund	-	27,043	27,043
Impact fund	-	-	-
Improvement fund	51,312	-	51,312
	141,750	77,996	219,746
Plant capacity receivable	-	42,370,809	42,370,809
Total restricted assets	17,462,894	49,225,669	66,688,563
Reconciliation to restricted net assets			
Plant capacity receivable reported as deferred revenue	-	(42,370,809)	(42,370,809)
Accrued interest payable	(781,256)	(360,794)	(1,142,050)
Unexpended debt proceeds and related interest	(7,688,399)	-	(7,688,399)
Bond reserve fund financed by bond proceeds	(4,594,067)	-	(4,594,067)
Restricted net assets	\$ 4,399,172	\$ 6,494,066	\$ 10,893,238

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

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

The Utilities had the following deposits and investments as of December 31, 2006.

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Cash, cash equivalents, and investments			
Bond redemption	\$ 3,061,885	\$ 2,490,428	\$ 5,552,313
Reserve fund	3,610,406	424,643	4,035,049
Depreciation fund	780,885	976,087	1,756,972
Replacement fund	-	2,924,880	2,924,880
Impact fund	718,137	-	718,137
Improvement fund	<u>1,325,270</u>	<u>-</u>	<u>1,325,270</u>
	<u>9,496,583</u>	<u>6,816,038</u>	<u>16,312,621</u>
Accrued interest receivable			
Bond redemption	39,091	14,224	53,315
Reserve fund	37,765	752	38,517
Depreciation fund	1,383	1,728	3,111
Replacement fund	-	35,302	35,302
Impact fund	-	-	-
Improvement fund	<u>1,612</u>	<u>-</u>	<u>1,612</u>
	<u>79,851</u>	<u>52,006</u>	<u>131,857</u>
Plant capacity receivable	<u>-</u>	<u>44,616,655</u>	<u>44,616,655</u>
Total restricted assets	9,576,434	51,484,699	61,061,133
Reconciliation to restricted net assets			
Plant capacity receivable reported as deferred revenue	-	(44,616,655)	(44,616,655)
Accrued interest payable	(658,931)	(381,172)	(1,040,103)
Unexpended debt proceeds and related interest	(1,326,882)	-	(1,326,882)
Bond redemption fund financed by bond proceeds	<u>(3,610,406)</u>	<u>-</u>	<u>(3,610,406)</u>
Restricted net assets	<u>\$ 3,980,215</u>	<u>\$ 6,486,872</u>	<u>\$ 10,467,087</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the Utilities for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Utility</b>				
Capital assets not being depreciated				
Land	\$ 2,973,172	\$ 69,225	\$ -	\$ 3,042,397
Construction in progress	182,355	8,604,864	8,529,359	257,860
Total capital assets not being depreciated	<u>3,155,527</u>	<u>8,674,089</u>	<u>8,529,359</u>	<u>3,300,257</u>
Capital assets being depreciated				
Buildings and system	38,624,235	393,706	43,577	38,974,364
Improvements other than buildings	74,055,747	13,206,522	163,640	87,098,629
Machinery and equipment	32,339,041	843,968	292,204	32,890,805
Total capital assets being depreciated	<u>145,019,023</u>	<u>14,444,196</u>	<u>499,421</u>	<u>158,963,798</u>
Accumulated depreciation				
Buildings and system	5,638,694	544,358	43,577	6,139,475
Improvements other than buildings	11,210,436	1,310,441	163,640	12,357,237
Machinery and equipment	10,831,955	2,202,647	292,204	12,742,398
Total accumulated depreciation	<u>27,681,085</u>	<u>4,057,446</u>	<u>499,421</u>	<u>31,239,110</u>
Total capital assets being depreciated, net	<u>117,337,938</u>	<u>10,386,750</u>	<u>-</u>	<u>127,724,688</u>
Total capital assets	<u>120,493,465</u>	<u>19,060,839</u>	<u>8,529,359</u>	<u>131,024,945</u>
<b>Wastewater Utility</b>				
Capital assets not being depreciated				
Land	99,950	-	-	99,950
Construction in progress	144,448	3,281,836	379,674	3,046,610
Total capital assets not being depreciated	<u>244,398</u>	<u>3,281,836</u>	<u>379,674</u>	<u>3,146,560</u>
Capital assets being depreciated				
Buildings and system	75,408,383	108,328	25,170	75,491,541
Improvements other than buildings	22,231,669	-	-	22,231,669
Machinery and equipment	47,020,051	277,222	430,786	46,866,487
Total capital assets being depreciated	<u>144,660,103</u>	<u>385,550</u>	<u>455,956</u>	<u>144,589,697</u>
Accumulated depreciation				
Buildings and system	20,154,744	1,825,774	18,258	21,962,260
Improvements other than buildings	10,183,183	168,840	-	10,352,023
Machinery and equipment	11,260,257	2,391,323	405,182	13,246,398
Total accumulated depreciation	<u>41,598,184</u>	<u>4,385,937</u>	<u>423,440</u>	<u>45,560,681</u>
Total capital assets being depreciated, net	<u>103,061,919</u>	<u>(4,000,387)</u>	<u>32,516</u>	<u>99,029,016</u>
Total capital assets	<u>103,306,317</u>	<u>(718,551)</u>	<u>412,190</u>	<u>102,175,576</u>
	<u>\$ 223,799,782</u>	<u>\$ 18,342,288</u>	<u>\$ 8,941,549</u>	<u>\$ 233,200,521</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Water Utility</u></b>				
Capital assets not being depreciated				
Land	\$ 2,973,172	\$ -	\$ -	\$ 2,973,172
Construction in progress	24,036,507	14,203,249	38,057,401	182,355
Total capital assets not being depreciated	<u>27,009,679</u>	<u>14,203,249</u>	<u>38,057,401</u>	<u>3,155,527</u>
Capital assets being depreciated				
Buildings and system	22,754,491	15,869,744	-	38,624,235
Improvements other than buildings	65,516,354	8,662,089	122,696	74,055,747
Machinery and equipment	21,054,453	11,616,322	331,734	32,339,041
Total capital assets being depreciated	<u>109,325,298</u>	<u>36,148,155</u>	<u>454,430</u>	<u>145,019,023</u>
Accumulated depreciation				
Buildings and system	4,846,529	792,165	-	5,638,694
Improvements other than buildings	10,206,645	1,126,487	122,696	11,210,436
Machinery and equipment	9,780,814	1,382,875	331,734	10,831,955
Total accumulated depreciation	<u>24,833,988</u>	<u>3,301,527</u>	<u>454,430</u>	<u>27,681,085</u>
Total capital assets being depreciated, net	<u>84,491,310</u>	<u>32,846,628</u>	<u>-</u>	<u>117,337,938</u>
Total capital assets	<u>111,500,989</u>	<u>47,049,877</u>	<u>38,057,401</u>	<u>120,493,465</u>
<b><u>Wastewater Utility</u></b>				
Capital assets not being depreciated				
Land	99,950	-	-	99,950
Construction in progress	361,201	1,273,751	1,490,504	144,448
Total capital assets not being depreciated	<u>461,151</u>	<u>1,273,751</u>	<u>1,490,504</u>	<u>244,398</u>
Capital assets being depreciated				
Buildings and system	75,408,383	-	-	75,408,383
Improvements other than buildings	22,231,669	-	-	22,231,669
Machinery and equipment	46,204,126	1,143,215	327,290	47,020,051
Total capital assets being depreciated	<u>143,844,178</u>	<u>1,143,215</u>	<u>327,290</u>	<u>144,660,103</u>
Accumulated depreciation				
Buildings and system	18,329,816	1,824,928	-	20,154,744
Improvements other than buildings	10,014,343	168,840	-	10,183,183
Machinery and equipment	9,194,318	2,382,821	316,882	11,260,257
Total accumulated depreciation	<u>37,538,477</u>	<u>4,376,589</u>	<u>316,882</u>	<u>41,598,184</u>
Total capital assets being depreciated, net	<u>106,305,701</u>	<u>(3,233,374)</u>	<u>10,408</u>	<u>103,061,919</u>
Total capital assets	<u>106,766,852</u>	<u>(1,959,623)</u>	<u>1,500,912</u>	<u>103,306,317</u>
	<u>\$ 218,267,841</u>	<u>\$ 45,090,254</u>	<u>\$ 39,558,313</u>	<u>\$ 223,799,782</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 5 - LONG-TERM LIABILITIES**

Long-term debt activity for the years ended December 31, 2007 and 2006 was as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<b>Water Utility</b>					
<b>Long-term Debt</b>					
Revenue bonds	\$ 36,615,000	\$ 18,980,000	\$ 9,520,000	\$ 46,075,000	\$ 2,505,000
Safe Drinking Water Fund Loans	23,466,960	581,612	1,283,834	22,764,738	1,344,040
Clean Water Fund Loans	-	-	-	-	-
	<u>60,081,960</u>	<u>19,561,612</u>	<u>10,803,834</u>	<u>68,839,738</u>	<u>3,849,040</u>
<b>Deferred amounts</b>					
Discounts or premiums	753,470	604,703	66,672	1,291,501	72,885
Refunding gains or losses	(169,489)	(374,712)	(107,233)	(436,968)	65,029
Total long-term debt	<u>60,665,941</u>	<u>19,791,603</u>	<u>10,763,273</u>	<u>69,694,271</u>	<u>3,986,954</u>
Advances from other funds	930,396	-	25,536	904,860	27,882
Other postemployment benefits	-	1,091,897	-	1,091,897	-
Compensated absences	<u>506,050</u>	<u>28,616</u>	<u>-</u>	<u>534,666</u>	<u>31,332</u>
Total long-term liabilities	<u>\$ 62,102,387</u>	<u>\$ 20,912,116</u>	<u>\$ 10,788,809</u>	<u>\$ 72,225,694</u>	<u>\$ 4,046,168</u>
<b>Wastewater Utility</b>					
<b>Long-term Debt</b>					
Revenue bonds	\$ 625,000	\$ -	\$ 415,000	\$ 210,000	\$ 210,000
Safe Drinking Water Fund Loans	-	-	-	-	-
Clean Water Fund Loans	79,687,681	-	4,157,520	75,530,161	4,276,879
	<u>80,312,681</u>	<u>-</u>	<u>4,572,520</u>	<u>75,740,161</u>	<u>4,486,879</u>
<b>Deferred amounts</b>					
Discounts or premiums	-	-	-	-	-
Refunding gains or losses	-	-	-	-	-
Total long-term debt	<u>80,312,681</u>	<u>-</u>	<u>4,572,520</u>	<u>75,740,161</u>	<u>4,486,879</u>
Advances from other funds	832,126	-	22,838	809,288	24,937
Other postemployment benefits	-	758,776	-	758,776	-
Compensated absences	<u>407,305</u>	<u>36,502</u>	<u>49,521</u>	<u>394,286</u>	<u>14,913</u>
Total long-term liabilities	<u>\$ 81,552,112</u>	<u>\$ 795,278</u>	<u>\$ 4,644,879</u>	<u>\$ 77,702,511</u>	<u>\$ 4,526,729</u>

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<b>Water Utility</b>					
Long-term Debt					
Revenue bonds	\$ 38,560,000	\$ -	\$ 1,945,000	\$ 36,615,000	\$ 2,010,000
Safe Drinking Water Fund Loans	23,813,079	868,140	1,214,259	23,466,960	1,283,834
Clean Water Fund Loans	-	-	-	-	-
	<u>62,373,079</u>	<u>868,140</u>	<u>3,159,259</u>	<u>60,081,960</u>	<u>3,293,834</u>
Deferred amounts					
Discounts or premiums	796,119	-	42,649	753,470	42,649
Refunding gains or losses	(243,664)	-	(74,175)	(169,489)	(64,077)
Total long-term debt	<u>62,925,534</u>	<u>868,140</u>	<u>3,127,733</u>	<u>60,665,941</u>	<u>3,272,406</u>
Advances from other funds	953,875	-	23,479	930,396	25,535
Compensated absences	<u>477,868</u>	<u>28,182</u>	<u>-</u>	<u>506,050</u>	<u>-</u>
Total long-term liabilities	<u>\$ 64,357,277</u>	<u>\$ 896,322</u>	<u>\$ 3,151,212</u>	<u>\$ 62,102,387</u>	<u>\$ 3,297,941</u>
<b>Wastewater Utility</b>					
Long-term Debt					
Revenue bonds	\$ 1,030,000	\$ -	\$ 405,000	\$ 625,000	\$ 415,000
Safe Drinking Water Fund Loans	-	-	-	-	-
Clean Water Fund Loans	<u>82,220,045</u>	<u>1,438,994</u>	<u>3,971,358</u>	<u>79,687,681</u>	<u>4,157,520</u>
	<u>83,250,045</u>	<u>1,438,994</u>	<u>4,376,358</u>	<u>80,312,681</u>	<u>4,572,520</u>
Deferred amounts					
Discounts or premiums	-	-	-	-	-
Refunding gains or losses	-	-	-	-	-
Total long-term debt	<u>83,250,045</u>	<u>1,438,994</u>	<u>4,376,358</u>	<u>80,312,681</u>	<u>4,572,520</u>
Advances from other funds	853,125	-	20,999	832,126	22,838
Compensated absences	<u>416,413</u>	<u>28,007</u>	<u>37,115</u>	<u>407,305</u>	<u>49,521</u>
Total long-term liabilities	<u>\$ 84,519,583</u>	<u>\$ 1,467,001</u>	<u>\$ 4,434,472</u>	<u>\$ 81,552,112</u>	<u>\$ 4,644,879</u>

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

The following issues are outstanding as of December 31, 2007 and 2006:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/2007	Balance 12/31/2006
<b>Water Utility</b>						
Mortgage Revenue Bonds	9/1/1995	9/1/2007	4.00 - 4.5%	\$ 5,000,000	\$ -	\$ 180,000
Mortgage Revenue Refunding Bonds	4/15/2001	9/1/2015	4.00 - 5.375%	6,235,000	4,485,000	5,005,000
Mortgage Revenue Bonds	10/1/2001	9/1/2011	4.00 - 4.5%	11,460,000	2,140,000	10,100,000
Safe Drinking Water Loan	2/10/1999	5/1/2018	2.640%	12,594,655	7,745,242	8,345,405
Mortgage Revenue Bonds	11/1/2004	9/1/2024	2.50 - 5.00%	22,140,000	20,500,000	21,330,000
Safe Drinking Water Loan	12/22/2004	5/1/2024	2.365%	14,882,948	15,019,496	15,121,555
Mortgage Revenue Bonds	4/2/2007	9/1/2021	4.00 - 4.75%	18,980,000	18,950,000	-
Total Water Utility					<u>\$ 68,839,738</u>	<u>\$ 60,081,960</u>
<b>Wastewater Utility</b>						
Clean Water Fund loans	11/1/1994	5/1/2013	3.190%	\$ 2,701,745	\$ 1,032,538	\$ 1,186,495
Clean Water Fund loans	3/26/1997	5/1/2016	2.998%	1,158,993	629,951	690,159
Clean Water Fund loans	5/27/1998	5/1/2018	2.640%	854,147	524,085	564,696
Clean Water Fund loans	10/29/1999	5/1/2019	2.640%	797,249	531,816	569,077
Clean Water Fund loans	9/27/2000	5/1/2020	2.970%	805,113	575,031	610,855
Clean Water Fund loans	4/10/2002	5/1/2021	2.750%	4,073,012	3,215,868	3,402,168
Clean Water Fund loans	12/22/2004	5/1/2021	2.860%	17,943,748	15,118,039	15,916,427
Clean Water Fund loans	11/27/2002	5/1/2022	2.867%	60,724,848	53,902,833	56,747,804
Refunding Revenue Bond	11/5/2004	12/15/2008	2.5-3.0%	1,420,000	210,000	625,000
Total Waste Water Utility					<u>\$ 75,740,161</u>	<u>\$ 80,312,681</u>

The debt service requirements for all debt outstanding as of December 31, 2007 is as follows:

Year	Water Utility			Wastewater Utility		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 3,849,040	\$ 2,602,056	\$ 6,451,096	\$ 4,486,879	\$ 2,107,891	\$ 6,594,770
2009	3,992,520	2,473,445	6,465,965	4,399,666	1,977,039	6,376,705
2010	3,796,837	2,338,972	6,135,809	4,525,981	1,849,210	6,375,191
2011	3,912,012	2,206,138	6,118,150	4,655,926	1,717,099	6,373,025
2012	4,058,065	2,065,834	6,123,899	4,789,604	1,581,500	6,371,104
2013-2017	21,303,470	8,036,965	29,340,435	25,205,922	5,784,727	30,990,649
2018-2022	19,315,809	4,017,607	23,333,416	27,676,183	1,997,057	29,673,240
2023-2026	8,611,985	666,846	9,278,831	-	-	-
Total	<u>\$ 68,839,738</u>	<u>\$ 24,407,863</u>	<u>\$ 93,247,601</u>	<u>\$ 75,740,161</u>	<u>\$ 17,014,523</u>	<u>\$ 92,754,684</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The Utilities believes they are in compliance with all significant limitations, restrictions, including federal arbitrage regulations.

On April 2, 2007, the Water Utility issued \$18.98 million of Waterworks System Mortgage Revenue Bonds with an average interest rate of 4.48%. A portion of the bonds, \$7.695 million, was issued to advance refund \$7.48 million of outstanding 2001 Waterworks System Mortgage Revenue Bonds with an average interest rate of 5.09%. The net proceeds of \$7.835 million (after payment of underwriting fees and other issuance costs) were used to purchase U.S. Government securities which have been placed in an irrevocable trust to provide for all future debt service payments on the 2001 bonds. As a result, the 2001 bonds are considered defeased and the liability for those bonds has been removed from the Utility financial statements.

Although the advance refunding resulted in the recognition of an accounting loss of \$374,712 for the year ended December 31, 2007, the Utility reduced its total debt service over the next 15 years by \$274,073 and obtained an economic gain (the difference between the present values of the debt service payments on the old debt and the new debt) of \$208,311.

**NOTE 6 - NET ASSETS**

Net assets for the year ended December 31, 2007 are as follows:

	Water Utility	Wastewater Utility
Invested in capital assets net of related debt		
Capital assets, net of accumulated depreciation	\$ 131,024,945	\$ 102,175,577
Capital related long-term debt outstanding	<u>(56,608,584)</u>	<u>(72,566,047)</u>
	<u>74,416,361</u>	<u>29,609,530</u>
Restricted		
Debt service	2,331,916	2,541,769
Depreciation fund	784,903	988,524
DNR equipment replacement fund	-	2,963,773
Impact fund	<u>1,282,353</u>	<u>-</u>
	<u>4,399,172</u>	<u>6,494,066</u>
Unrestricted	<u>3,234,999</u>	<u>4,439,883</u>
Total Net Assets	<u>\$ 82,050,532</u>	<u>\$ 40,543,479</u>



**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 6 - NET ASSETS (CONTINUED)**

Net assets for the year ended December 31, 2006 are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Invested in capital assets net of related debt		
Capital assets, net of accumulated depreciation	\$ 120,493,465	\$ 103,306,317
Capital related long-term debt outstanding	<u>(55,146,284)</u>	<u>(77,147,128)</u>
	<u>65,347,181</u>	<u>26,159,189</u>
 Restricted		
Debt service	2,479,810	2,548,875
Depreciation fund	782,268	977,815
DNR equipment replacement fund	-	2,960,182
Impact fund	<u>718,137</u>	<u>-</u>
	<u>3,980,215</u>	<u>6,486,872</u>
 Unrestricted	<u>4,907,221</u>	<u>7,490,769</u>
 Total Net Assets	<u>\$ 74,234,617</u>	<u>\$ 40,136,830</u>

Excluded from invested in capital assets, net of related debt, is \$2,951,633 and \$3,165,553 of revenue bonds that relates to financing of special projects that the Wastewater Utility performs for the City of Racine for 2007 and 2006, respectively. These amounts are not used to finance Utility purchases of capital assets. Also excluded are reserve fund assets which were borrowed of \$222,481 and \$425,395, respectively.

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEM**

The Utilities participate in the Wisconsin Retirement System ("WRS") as part of the City of Racine. Wastewater Utility contributions were \$259,944 and \$249,921 for 2007 and 2006, respectively. Water Utility contributions were \$369,893 and \$346,015 for 2007 and 2006, respectively. Information regarding the plan can be found in the City of Racine financial statements for the years ended December 31, 2007 and 2006. Information related solely to the Utilities is not available.

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 8 - INTERFUND RECEIVABLES/PAYABLES**

The Utilities had the following interfund receivables and payables with affiliated entities as of December 31, 2007 as follows:

	<u>Water Utility</u>	<u>Waste Water Utility</u>
Due from City of Racine	\$ 1,293,282	\$ 1,392,243
Due from Wastewater Utility	705,244	-
Due from Water Utility	-	1,543,591
	<u>1,998,526</u>	<u>2,935,834</u>
Delinquent billings receivable - taxroll	<u>1,165,350</u>	<u>1,434,816</u>
Total due from other funds	<u>\$ 3,163,876</u>	<u>\$ 4,370,650</u>
Due to City of Racine	\$ 2,039,688	\$ 102,181
Due to Wastewater Utility	1,543,591	-
Due to Water Utility	-	705,244
	<u>-</u>	<u>705,244</u>
Total due to other funds	<u>\$ 3,583,279</u>	<u>\$ 807,425</u>

The Utilities had the following interfund receivables and payables with affiliated entities as of December 31, 2006 as follows:

	<u>Water Utility</u>	<u>Waste Water Utility</u>
Due from City of Racine	\$ 1,259,100	\$ 2,190,100
Due from Wastewater Utility	614,997	-
Due from Water Utility	-	1,389,516
	<u>1,874,097</u>	<u>3,579,616</u>
Delinquent billings receivable - taxroll	<u>1,056,460</u>	<u>1,289,607</u>
Total due from other funds	<u>\$ 2,930,557</u>	<u>\$ 4,869,223</u>
Due to City of Racine	\$ 1,958,241	\$ 57,155
Due to Wastewater Utility	1,389,516	-
Due to Water Utility	-	614,997
	<u>-</u>	<u>614,997</u>
Total due to other funds	<u>\$ 3,347,757</u>	<u>\$ 672,152</u>

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 8 - INTERFUND RECEIVABLES/PAYABLES (CONTINUED)**

In addition to the above amounts, the Utilities have recorded an advance from the City of Racine related to the financing of pension liability. The following repayment schedule has been established for advances made to the Utilities for the their percentage of the pension liability.

	<u>Water Utility</u>	<u>Wastewater Utility</u>
2008	\$ 75,366	\$ 67,406
2009	76,552	68,466
2010	78,053	69,809
2011	79,256	70,885
2012	80,885	72,342
2013 - 2017	426,885	381,797
2018 - 2022	469,604	420,004
2023	<u>99,615</u>	<u>89,094</u>
	1,386,216	1,239,803
Less amount representing interest	<u>481,356</u>	<u>430,515</u>
	904,860	809,288
Current portion	<u>27,882</u>	<u>24,937</u>
Long-term portion	<u>\$ 876,978</u>	<u>\$ 784,351</u>

**NOTE 9 - RISK MANAGEMENT**

The Utilities are exposed to various risks of losses including general liability, property and casualty, workers' compensation, and employee health and accident. The Utilities are 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 Utilities purchase commercial insurance for property and casualty claims.

The Utilities participate 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, 2007 and 2006, the Wastewater Utility has accrued a liability of \$ 54,000 and \$ 69,000 respectively, to cover future claims. At December 31, 2007 and 2006, the Water Utility has accrued a liability of \$164,000 and \$86,000, respectively, to cover future claims.

In the ordinary course of conducting business, the Utilities occasionally become 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 Utilities believe that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Utilities.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

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

The 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 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 Wastewater Utility its proportionate share of debt and any related debt service costs on a payment schedule approved by the Wastewater Utility.

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 years ended December 31, 2007 and 2006.

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 Wastewater Utility to collect revenue sharing payments from the contributing municipalities and distribute them to recipient municipalities.

The agreement also requires the 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 \$609,736 and \$812,650 for 2007 and 2006, respectively, are reported as transfers to other funds in the statement of revenues, expenses and changes in fund net assets.

**NOTE 11 - INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT**

The Water Utility entered into an intergovernmental retail water service agreement with the City of Racine, the Village of Sturtevant 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.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 11 - INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT (CONTINUED)**

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. The REC fee activity for year ended December 31, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 718,137	\$ 496,829
Receipts		
REC fees	995,963	1,178,527
Front foot fees	290,267	152,130
Interest and valuation adjustment	506,286	49,140
	<u>1,792,516</u>	<u>1,379,797</u>
Disbursements	<u>(1,228,300)</u>	<u>(1,158,489)</u>
Ending balance	<u>\$ 1,282,353</u>	<u>\$ 718,137</u>

**NOTE 12 - COMMITMENTS**

During the year, the Water Utility entered into contract agreements with various companies to perform professional services and construction activities. At December 31, 2007, contracts with these entities totaled \$20,503,090 of which \$19,897,960 was paid and \$605,130 is committed for future services and construction activities to be performed.

During the year, the Wastewater Utility entered into contract agreements with various companies to perform professional services and construction activities. At December 31, 2007, contracts with these entities totaled \$3,389,451 of which \$2,852,386 was paid and \$537,065 is committed for future services and construction activities to be performed.

**NOTE 13 - INFILTRATION/INFLOW REMOVAL AGREEMENT**

In 1994, the Wastewater 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, 2007 and 2006 the Wastewater Utility had unrecovered cost of \$1,363,367 and \$2,171,304, respectively, which was reported as due from the City of Racine.

**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 14 - LEASES**

The Wastewater 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 \$39,833 and \$39,062 in 2007 and 2006, respectively.

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

2008	\$	35,000
2009		35,000
2010		35,000
2011		35,000
2012		35,000
Thereafter		<u>1,365,000</u>
	<u>\$</u>	<u>1,540,000</u>

**NOTE 15 - MAJOR CUSTOMERS**

One major customer accounted for 16% of Wastewater Utility gross sales aggregating \$2,044,417 and 15% of gross sales aggregating \$1,860,447 in 2007 and 2006, respectively. Total accounts receivable from this customer totaled \$542,629 and \$690,609, respectively.

One major customer accounted for 24.3% of Water Utility gross sales aggregating \$3,871,067 and 25.2% of gross sales aggregating \$3,941,468 in 2007 and 2006, respectively. Total accounts receivable from this customer totaled \$966 and \$236,575, respectively.

**NOTE 16 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43 – *Financial Reporting for Post Employment Benefit Plans other than Pension Plans*. In June 2004, the GASB issued Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*. The City of Racine was required to implement these statements effective January 1, 2007, and accordingly, the Utilities, as component units of the City were also required to implement these statements.

These statements establish standards for the measurement, recognition, and display of postemployment benefits (OPEB) expense and related liabilities, note disclosures, and required supplementary information in the financial reports of local government employers.

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 16 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

The Water and Wastewater Utilities participate in a single-employer defined benefit health care and life benefit plan ("the Retiree Health Plan") administered by the City of Racine. The plan provides health insurance benefits for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements or personnel policy guidelines, or past practice and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates. The Retiree Health Plan does not issue a publicly available financial report.

The benefits vary depending upon the age and years of service of the retiree. Benefit provisions are established through collective bargaining agreements and generally result in the employer paying 100% of the health care costs for employees who retire with a combination of age and years of service between 75 and 80 years. The employer also pays 100% of Medicare premiums for those individuals. Life insurance premiums are paid to age 65 for those who retire prior to age 65 and who meet the age and years of service criteria above. In 2006 various groups of retirees began paying an estimated portion of the health care premiums. Required contributions range from 0%-5% based on labor negotiations and retirement date.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the City and the unions. Personnel policy guidelines and may be amended by action of the City's Common Council. The employer makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The amount of the employer's contribution ranges from 95-100% based on the employee's year of retirement and bargaining unit. For fiscal year 2007, the Water and Wastewater Utilities contributed \$462,587 and \$321,458 to the plan, respectively. Eligible plan member contributions vary based on the specific collective bargaining agreement. Plan member contributions range from 0-5% of their premium costs.

The Water and Wastewater Utility's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to plan, and changes in the net OPEB obligation:

**RACINE WATER AND WASTEWATER UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007 and 2006**

**NOTE 16 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 were as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Annual required contribution	\$ 1,554,484	\$ 1,080,234	\$ 2,634,718
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	1,554,484	1,080,234	2,634,718
Contributions made	462,587	321,458	784,045
Increase in net OPEB obligation	1,091,897	758,776	1,850,673
Net OPEB obligation, beginning of year	-	-	-
Net OPEB obligation, end of year	<u>\$ 1,091,897</u>	<u>\$ 758,776</u>	<u>\$ 1,850,673</u>
	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Year ended December 31, 2007			
Annual OPEB cost	\$ 1,554,484	\$ 1,080,234	\$ 2,634,718
Percentage of annual OPEB cost contributed	29.80%	29.80%	29.80%
Net OPEB obligation	\$ 1,091,897	\$ 758,776	\$ 1,850,673
Year ended December 31, 2006			
Annual OPEB cost	N/A	N/A	N/A
Percentage of annual OPEB cost contributed	N/A	N/A	N/A
Net OPEB	N/A	N/A	N/A
Year ended December 31, 2005			
Annual OPEB cost	N/A	N/A	N/A
Percentage of annual OPEB cost contributed	N/A	N/A	N/A
Net OPEB	N/A	N/A	N/A

The funded status of the plan as of December 31, 2007, the most recent actuarial valuation date, was as follows:



**RACINE WATER AND WASTEWATER UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

**NOTE 16 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

The funded status of the plan as of December 31, 2007, the most recent actuarial valuation date, was as follows:

	Water Utility	Wastewater Utility	Total
Actuarial accrued liability (AAL)	\$ 23,159,133	\$ 16,093,635	\$ 39,252,768
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability	<u>\$ 23,159,133</u>	<u>\$ 16,093,635</u>	<u>\$ 39,252,768</u>
Funded ratio (actuarial value of plan assets / AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	3,607,255	2,556,891	6,164,146
UAAL as a percent of covered payroll	642.02%	629.42%	636.79%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return and an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 4% after 2017. The unfunded actuarial accrued liability is being amortized over 30 years.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**RACINE WATER AND WASTEWATER UTILITIES**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress**  
**Year Ended December 31, 2007**

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>(AAL) Accrued Actuarial Liability (b)</u>	<u>(UAAL) Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
Water Utility							
	12/31/2005	N/A	N/A	N/A	N/A	N/A	N/A
	12/31/2006	N/A	N/A	N/A	N/A	N/A	N/A
	12/31/2007	12/31/2007 \$	-	\$ 23,159,133	\$ 23,159,133	29.80%	\$ 3,607,255 642.02%
Wastewater Utility							
	12/31/2005	N/A	N/A	N/A	N/A	N/A	N/A
	12/31/2006	N/A	N/A	N/A	N/A	N/A	N/A
	12/31/2007	12/31/2007 \$	-	\$ 16,093,635	\$ 16,093,635	29.80%	\$ 2,556,891 629.42%

**SUPPLEMENTAL INFORMATION**

**RACINE WATER AND WASTEWATER UTILITIES**  
**SCHEDULES OF OPERATING INCOME**  
**WATER UTILITY**  
**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Sales of water:		
Metered sales to general customers:		
Residential	\$ 5,734,814	\$ 5,549,981
Commercial	2,031,680	2,002,598
Industrial	4,636,389	4,418,653
Public authorities	<u>565,961</u>	<u>412,886</u>
Total metered sales	12,968,844	12,384,118
Unmetered sales	84,852	69,804
Private fire protection	224,427	235,647
Public fire protection	1,298,751	1,324,412
Sales for resale	<u>933,876</u>	<u>1,202,211</u>
Total sales of water	<u>15,510,750</u>	<u>15,216,192</u>
Other operating revenues:		
Forfeited discounts	277,494	259,988
Miscellaneous service revenues	47,775	65,423
Search revenues	20,760	26,760
Other water revenues	<u>167,165</u>	<u>124,097</u>
Total other operating revenues	<u>513,194</u>	<u>476,268</u>
Total operating revenues	<u>16,023,944</u>	<u>15,692,460</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance expenses:		
Personnel services	3,204,083	2,958,631
Contractual services	3,401,403	3,093,112
Materials and supplies	817,466	727,047
Administrative and general	<u>3,003,949</u>	<u>1,881,176</u>
Total operation and maintenance expenses	10,426,901	8,659,966
Depreciation	3,842,588	3,102,169
Taxes	<u>288,297</u>	<u>266,712</u>
Total operating expenses	<u>14,557,786</u>	<u>12,028,847</u>
<b>OPERATING INCOME</b>	<u>\$ 1,466,158</u>	<u>\$ 3,663,613</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES**  
**WATER UTILITY**  
**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Personnel services	\$ 3,204,083	\$ 2,958,631
Contractual services		
Equipment maintenance	123,821	124,009
Building Maintenance	70,519	87,684
Vehicle maintenance	29,829	33,635
Telephone	17,940	20,185
Natural gas	195,974	197,211
Electric services	715,013	689,134
Water and wastewater services	1,090,734	934,205
Auto hire	4,062	7,365
Street repairs	296,158	318,737
Main Maintenance	101,834	115,176
Meter maintenance	788	1,363
Professional services	320,244	307,873
Computer maintenance	48,349	49,794
Water storage maintenance	386,138	206,741
Total contractual services	<u>3,401,403</u>	<u>3,093,112</u>
Materials and supplies		
Operational chemicals	328,730	262,643
Pipe and fittings	30,403	78,123
Meter parts	9,295	7,449
Gasoline and diesel fuel	95,302	72,881
Office supplies	20,229	25,274
Custodial supplies	12,292	10,323
Laboratory supplies	28,011	24,817
Equipment supplies	57,523	56,778
Building supplies	29,961	38,287
Construction and meter supplies	54,312	34,193
Street repair supplies	95,033	70,469
Postage	26,819	23,842
Safety supplies	18,867	16,071
Computer supplies	10,689	5,897
Total materials and supplies	<u>817,466</u>	<u>727,047</u>

**RACINE WATER AND WASTEWATER UTILITIES**  
**SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES**  
**WATER UTILITY**  
**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Administrative and general		
Property and liability insurance	\$ 55,704	\$ 84,654
Workers compensation insurance	241,901	198,064
Health insurance	2,176,628	1,081,096
Life insurance	20,559	19,688
Wisconsin retirement	369,893	346,015
Training programs	66,066	35,475
Dues, publications, and travel	19,015	24,970
Office rent	23,373	22,611
Stormwater fees	5,242	4,211
PSC expenses	25,568	33,299
Bad debt expense	-	31,093
Total administrative and general expenses	<u>3,003,949</u>	<u>1,881,176</u>
Total operation and maintenance expense	<u>\$ 10,426,901</u>	<u>\$ 8,659,966</u>

**RACINE WATER AND WASTEWATER UTILITIES  
SCHEDULES OF OPERATING INCOME  
WASTEWATER UTILITY  
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Metered sales to general customers:		
Residential	\$ 3,892,305	\$ 4,104,432
Commercial	1,741,365	1,766,532
Industrial	660,531	633,475
Municipal	4,733,116	4,525,786
Public authorities	<u>1,379,342</u>	<u>1,175,263</u>
Total metered sales	12,406,659	12,205,488
 Other operating revenues:		
Forfeited discounts	239,727	227,504
Other sewer revenues	<u>229,497</u>	<u>236,689</u>
 Total operating revenues	<u>12,875,883</u>	<u>12,669,681</u>
 <b>OPERATING EXPENSES</b>		
Operation and maintenance expenses:		
Personnel services	2,426,323	2,408,264
Contractual services	2,257,944	2,241,043
Materials and supplies expense	518,234	478,462
Customer account expenses	485,090	462,115
Administrative and general	<u>2,365,532</u>	<u>1,626,739</u>
Total operation and maintenance expenses	8,053,123	7,216,623
Depreciation	4,385,937	4,376,589
Taxes	<u>190,749</u>	<u>180,760</u>
 Total operating expenses	<u>12,629,809</u>	<u>11,773,972</u>
 <b>OPERATING INCOME</b>	 <u>\$ 246,074</u>	 <u>\$ 895,709</u>



**RACINE WATER AND WASTEWATER UTILITIES  
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES  
WASTEWATER UTILITY**

**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Personnel Services	\$ 2,426,323	\$ 2,408,264
Contractual Services		
Equipment maintenance	262,190	208,820
Building maintenance	10,474	6,013
Vehicle maintenance	7,967	4,893
Telephone	9,453	10,350
Natural gas	269,822	353,537
Electric services	701,917	655,231
Water and wastewater service	157,326	166,121
Sewer system repairs	31,570	13,599
Interceptor maintenance	37,206	41,943
Professional services	138,713	142,496
Sludge and grit disposal	631,306	638,040
Total contractual services	<u>2,257,944</u>	<u>2,241,043</u>
Material and Supplies		
Operating chemicals	305,546	292,505
Gasoline and diesel	27,260	26,219
Office supplies	14,302	12,523
Custodial supplies	12,800	10,702
Laboratory supplies	42,764	42,410
Plant and system supplies	69,934	58,585
Sewer maintenance supplies	4,977	3,852
Lubricants	22,336	17,601
Computer supplies	18,315	14,065
Total material and supplies	<u>518,234</u>	<u>478,462</u>
Customer account expense		
Meter operations	127,536	100,421
Meter maintenance	26,660	25,891
Meter reading	52,184	57,187
Customer records and collections	130,769	116,883
Depreciation on meters	100,166	96,310
Return on meter investment	47,775	65,423
Total customer account expense	<u>485,090</u>	<u>462,115</u>

**RACINE WATER AND WASTEWATER UTILITIES  
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES  
WASTEWATER UTILITY  
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Administrative and general		
Property and liability insurance	\$ 66,544	\$ 70,780
Workers compensation insurance	70,613	71,956
Life insurance	19,069	18,469
Wisconsin retirement	259,944	249,921
Dues, publications and subscriptions	32,599	34,933
Office rent	23,042	22,290
Stormwater fees	18,525	16,852
Medical expenses	1,604,736	862,548
Safety programs	3,699	3,177
City departmental charges	70,090	68,049
DNR permit fee	151,178	157,758
Airport lease	39,833	39,062
Training programs	5,660	10,944
Total administrative and general	<u>2,365,532</u>	<u>1,626,739</u>
 Total operation and maintenance expense	 <u>\$ 8,053,123</u>	 <u>\$ 7,216,623</u>