

YORKVILLE SEWER UTILITY DISTRICT #1

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

YORKVILLE SEWER UTILITY DISTRICT #1

TABLE OF CONTENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

	<u>Page</u>
<u>Independent Auditor's Report</u>	1 -2
<u>Financial Statements</u>	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 11
<u>Supplemental Information</u>	
Schedule of Sewer Operating Revenues and Expenses	13



Patrick W. Romenesko, S.C.
CERTIFIED PUBLIC ACCOUNTANT

1001 Host Drive • P.O. Box 508 • Lake Geneva, Wisconsin 53147
Telephone 262/248-0220 • Facsimile 262/248-8429

Independent Auditor's Report

The Board of Commissioners
Yorkville Sewer Utility District #1
Racine County, Wisconsin

I have audited the accompanying financial statements of the Yorkville Sewer Utility District #1, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Yorkville Sewer Utility District #1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Yorkville Sewer Utility District #1 as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the enterprise fund and do not purport to, and do not present fairly the financial position of the Town of Yorkville as of December 31, 2016 and 2015, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Yorkville Sewer Utility District #1 basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the of the basic financial statements.

This supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Patrick W. Romenesko, S.C.

PATRICK W. ROMENESKO, S.C.
CERTIFIED PUBLIC ACCOUNTANT

Lake Geneva, Wisconsin
April 17, 2017

YORKVILLE SEWER UTILITY DISTRICT #1
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>		
	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash and working funds	\$ 327,609	\$ 249,583
Customer accounts receivable	99,043	97,295
Receivable from municipality	1,035	1,452
Total Current Assets	<u>427,687</u>	<u>348,330</u>
<u>Restricted Assets</u>		
Equipment replacement fund	<u>22,398</u>	<u>18,781</u>
<u>Capital Assets</u>		
Utility plant	1,944,873	1,942,152
Less: Accumulated depreciation	<u>(716,170)</u>	<u>(694,618)</u>
Net Capital Assets	<u>1,228,703</u>	<u>1,247,534</u>
Total Assets	<u>1,678,788</u>	<u>1,614,645</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	23,126	17,019
Due to water utility	-	217
Accrued wages	3,442	4,107
Total Current Liabilities	<u>26,568</u>	<u>21,343</u>
<u>NET POSITION</u>		
<u>Net Position</u>		
Invested in capital assets	1,228,703	1,247,534
Restricted for equipment replacement fund	22,398	18,781
Unrestricted	<u>401,119</u>	<u>326,987</u>
Total Net Position	<u>\$ 1,652,220</u>	<u>\$ 1,593,302</u>

See accompanying notes to financial statements.

YORKVILLE SEWER UTILITY DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating Revenues	\$ 378,140	\$ 309,907
<u>Operating Expenses</u>		
Operation and maintenance expenses	297,726	309,872
Depreciation expense	25,552	28,557
Taxes	3,192	3,354
Total Operating Expenses	326,470	341,783
Operating Income (Loss)	51,670	(31,876)
<u>Nonoperating Revenue</u>		
Investment income	1,248	373
Net Income (Loss) Before Contributions	52,918	(31,503)
Capital Contributions	6,000	-
Changes in Net Position	58,918	(31,503)
Net Position - Beginning of Year	1,593,302	1,624,805
Net Position - End of Year	\$ 1,652,220	\$ 1,593,302

See accompanying notes to financial statements.

Two page statements of cash flows follow.

YORKVILLE SEWER UTILITY DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities</u>		
Receipts from customers	\$ 376,392	\$ 277,552
Receipts from municipality	1,452	10,247
Payments to suppliers	(251,503)	(264,655)
Payments to municipality	(1,035)	(1,452)
Payments to employees	(44,190)	(44,754)
Net Cash Provided by (Used for) Operating Activities	<u>81,116</u>	<u>(23,062)</u>
<u>Cash Flows From Capital And Related Financing Activities</u>		
Acquisition and construction of utility plant	(6,721)	-
Capital contributions	6,000	-
Net Cash Used for Capital and Related Financing Activities	<u>(721)</u>	<u>-</u>
<u>Cash Flows From Investing Activities</u>		
Investment income	<u>1,248</u>	<u>373</u>
Net Increase (Decrease) in Cash and Cash Equivalents	81,643	(22,689)
Cash and Cash Equivalents - Beginning of Year	<u>268,364</u>	<u>291,053</u>
Cash and Cash Equivalents - End of Year	<u>\$ 350,007</u>	<u>\$ 268,364</u>

See accompanying notes to financial statements.

YORKVILLE SEWER UTILITY DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<u>Reconciliation of Operating Loss to Net Cash</u>		
<u>Used for Operating Activities</u>		
Operating income (loss)	\$ 51,670	\$ (31,876)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	25,552	28,557
Changes in current assets and current liabilities:		
Accounts receivable	(1,748)	(32,355)
Receivable from municipality	417	8,795
Accounts payable	6,107	3,371
Due to water utility	(217)	-
Accrued wages	(665)	446
Net Cash Provided by (Used for) Operating Activities	81,116	(23,062)
 <u>Reconciliation of Cash and Cash Equivalents to</u>		
<u>Statements of Net Position</u>		
Cash and working funds reported in current assets	327,609	249,583
Cash and investments reported in restricted assets	22,398	18,781
Cash and Cash Equivalents - End of Year	\$ 350,007	\$ 268,364

See accompanying notes to financial statements.

YORKVILLE SEWER UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

The Yorkville Sewer Utility District #1 (the utility) provides sewer service to properties within its service area and is managed by a commission consisting of the members of the Town of Yorkville board of supervisors along with two members of the general public. As a component unit of the Town of Yorkville, the commission is not required to include Management's Discussion and Analysis in its financial statements.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting standards generally accepted in the United States of America, as set forth by the Governmental Accounting Standards Board.

Cash and Investments

Cash includes amounts in demand deposits and the Wisconsin local government investment pool. Cash is stated at cost which substantially equals fair value. Generally accepted accounting principles require all deposits and investments with remaining maturities at the date of purchase of one year or less at amortized cost. All other investments are to be reported at fair value. The utility has reported its investments at cost inasmuch as it has determined that the cost basis of its investments is not materially different from fair value. For purposes of the statement of cash flows, cash equivalents are temporary cash investments with a maturity of three months or less at the date of purchase.

Capital Assets

Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overheads, and an allowance for the cost of funds used during construction, when significant. The utility defines capital assets as items with an initial, aggregate cost of more than \$500 and an estimated life of at least three years. The cost of renewals and improvements relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs. Depreciation expense was equivalent to 1.33 percent of average depreciable plant for 2016. Depreciation expense was \$25,552 for 2016 and \$28,557 for 2015.

Accounts Receivable

No provision for uncollectible accounts receivable has been made in the accompanying financial statements because the utility has the right by law to place delinquent sewer bills on the tax roll.

Note 1 - Summary of Significant Accounting Policies - Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Sewer revenues are recorded based on actual service rendered; billings are made to customers on a quarterly basis. Unbilled sewer service at year end is not material and has not been recognized as revenue and receivables in the accompanying financial statements.

Operating and Nonoperating Revenues

The utility reports revenues as operating and nonoperating. Operating revenues are those directly associated with the billed sale of sewer service to its customers. Nonoperating revenues include all other revenues not fitting the definition of operating. For the utility, nonoperating revenues represent investment earnings.

Income Tax

Municipal utilities are exempt from federal and state income taxes.

Note 2 - Cash and Investments

Investments of utility funds are restricted by state statutes. Permitted investments for the utility include any of the following:

(1) Time deposits maturing within three years in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to do business in Wisconsin. (2) Bonds or securities issued or guaranteed by the federal government and its agencies. (3) The Wisconsin Local Government Investment Pool and Wisconsin Investment Trust. (4) Bonds or securities of any county, city, drainage district, technical college district, local exposition district, local professional baseball park district, city, town, or school district of the state and the University of Wisconsin Hospitals and Clinics Authority. (5) Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by a nationally recognized rating agency or if that security is senior to, or on parity with, a security of the same issuer which has such a rating. (6) Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities. (7) Securities of open-end management companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds or securities issued by the federal government or a commission, board or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds and securities.

Note 2 - Cash and Investments - Continued

The utility's cash and investments at December 31, 2016 consisted of the following:

	<u>Carrying Amount</u>	<u>Amounts Deposited</u>	<u>Uninsured Deposits</u>
Checking account	\$ 5,619	<u>\$ 19,337</u>	<u>\$ - - -</u>
State Local Government Investment Pool	<u>344,388</u>		
Total	<u>\$ 350,007</u>		

The cash and investments are recorded in the sewer utility as follows:

Cash and working fund	\$ 327,609
Restricted cash	<u>22,398</u>
Total	<u>\$ 350,007</u>

Utility deposits are insured by the FDIC for up to \$250,000 for time and savings deposits (including interest-bearing NOW accounts), and an additional \$250,000 of FDIC insurance is available for demand (non-interest bearing checking accounts) for each bank used. All utility deposits are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses of the pool may not be significant to individual municipalities.

For all investments shown, the fair value at the balance sheet date is substantially the same as the carrying value. The difference between the amounts reported as bank deposits and the carrying amounts above is due to the effect of outstanding checks and deposits in transit on the utility's cash balances.

The utility addresses the following risks related to its cash and investments:

Custodial Credit Risk

Custodial credit risk represents the risk that in the event of a financial institution failure, the utility's deposits may not be recovered. At December 31, 2016, all of the utility's bank deposits were covered by FDIC insurance and, therefore, minimized its exposure to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the investment. The town has deposits in the Local Government Investment Pool which is not rated, however, consists of investments in federal government securities.

Interest Rate Risk

The district does not have formal policies related to interest rate risk, the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2016 the town's investment in the Local Government Investment Pool (LGIP) had a fair value balance of \$344,388. The LGIP had a weighted average maturity of 61 days at December 31, 2016.

Note 2 - Cash and Investments - Continued

The Local Government Investment Pool (LGIP) is an investment fund managed by the State of Wisconsin Investment Board. The LGIP accepts deposits from governmental units within the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity and a reasonable rate of return. The LGIP is regulated by sections 25.14 and 25.17 of the Wisconsin Statutes and is not a SEC registered investment. The yield of the LGIP changes daily and its participants may invest or withdraw any or all amounts at par value at any time. The LGIP balance reported in the financial statements at December 31, 2016 is \$344,388 at cost basis. The fair value of the LGIP investment at December 31, 2016 did not materially differ from its cost basis. A surety bond issued by Financial Security, Inc. insures the investments of the LGIP. This bond provides unlimited coverage on all of the LGIP's investments except U.S. Government and agency securities.

The utility does not have a formal investment policy.

Note 3 - Restricted Cash

Cash and investments for specific purposes are designated by the utility or required by bond ordinance or grant agreement. Cash and investments have been restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Equipment replacement fund	<u>\$ 22,398</u>	<u>\$ 18,781</u>

Note 4 - Utility Plant

The following summarizes the capital assets and accumulated depreciation at December 31, 2016 and 2015.

<u>2016</u>	<u>Balance</u> <u>12/31/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/16</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 18,119	\$ ---	\$ ---	\$ 18,119
Capital assets, being depreciated:				
Plant and lift station	1,702,096	6,721	(4,000)	1,704,817
Equipment	216,775	---	---	216,775
Office equipment	5,162	---	---	5,162
Total capital assets being depreciated	1,924,033	6,721	(4,000)	1,926,754
Less: accumulated depreciation	<u>(694,618)</u>	<u>(25,552)</u>	<u>4,000</u>	<u>(716,170)</u>
Total capital assets, being depreciated, net	<u>1,229,415</u>	<u>(18,831)</u>	<u>---</u>	<u>1,210,584</u>
Net Capital Assets	<u>\$ 1,247,534</u>	<u>\$ (18,831)</u>	<u>\$ ---</u>	<u>\$ 1,228,703</u>

Note 4 - Utility Plant - Continued

2015	Balance 12/31/14	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated:				
Land and land rights	\$ 18,119	\$ ---	\$ ---	\$ 18,119
Capital assets, being depreciated:				
Plant and lift station	1,702,096	---	---	1,702,096
Equipment	216,775	---	---	216,775
Office equipment	5,162	---	---	5,162
Total capital assets being depreciated	1,924,033	---	---	1,924,033
Less: accumulated depreciation	(666,061)	(28,557)	---	(694,618)
Total capital assets, being depreciated, net	1,257,972	(28,557)	---	1,229,415
Net Capital Assets	\$ 1,276,091	\$ (28,557)	\$ ---	\$ 1,247,534

Note 5 - Risk Management

The utility has purchased commercial insurance policies for various risks of loss related to litigation, theft, damage or destruction of assets, errors or omissions, injuries to employees, or acts of God. Payments of premiums for these policies are recorded as expenditures or expenses in the various funds of the utility. There were no settlements that exceeded insurance coverage in any of the past three years.

Note 6 - Subsequent Events

Management has evaluated the need for disclosure or recording of transactions resulting from subsequent events through April 20, 2017, the date the financial statements were available to be issued; and concluded there were no matters to be disclosed.

SUPPLEMENTAL INFORMATION

YORKVILLE SEWER UTILITY DISTRICT #1
SCHEDULE OF WATER OPERATING REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues</u>		
Residential sales	\$ 46,860	\$ 40,470
Commercial sales	328,544	267,985
Total Sales	<u>375,404</u>	<u>308,455</u>
Forfeited discounts	2,736	1,452
Total Operating Revenues	<u>378,140</u>	<u>309,907</u>
<u>Operating Expenses</u>		
Plant Operation and Maintenance Expenses:		
Salaries and wages	41,323	43,476
Supplies and expenses	996	4,412
Chemicals	23,764	14,000
Truck expense	728	346
Utilities	20,477	20,546
Repairs of buildings and grounds	-	1,007
Repairs of equipment	15,964	22,031
Repairs of sewer plant	16,352	21,667
Sludge hauling	48,325	51,775
Total Plant Operation and Maintenance Expenses	<u>167,929</u>	<u>179,260</u>
Administrative and General Expense:		
Commissioners' salaries	400	375
Insurance expense	4,337	4,731
Legal and accounting	6,631	6,860
Office supplies and expense	32,038	31,279
Engineering services	42,853	36,251
Outside services - sewer monitoring/planning	83	29
Outside services - phosphorus study	-	7,009
Lab testing	41,472	40,671
Certification fees and education	1,983	3,407
Total Administrative and General Expense	<u>129,797</u>	<u>130,612</u>
Total Operation and Maintenance Expenses	297,726	309,872
Depreciation expense	25,552	28,557
Taxes	3,192	3,354
Total Operating Expenses	<u>326,470</u>	<u>341,783</u>
Operating Income (Loss)	<u>\$ 51,670</u>	<u>\$ (31,876)</u>