

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
Milwaukee County, Wisconsin**

**FINANCIAL STATEMENTS
December 31, 2011 and 2010**

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Independent Auditor's Report

Common Council
Wauwatosa Water Utility
Milwaukee County, Wisconsin

We have audited the accompanying basic financial statements of Wauwatosa Water Utility, a proprietary - enterprise fund of the City of Wauwatosa, Wisconsin as of and for the years ended December 31, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of Wauwatosa Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Wauwatosa Water Utility and do not purport to, and do not, present fairly the financial position of the City of Wauwatosa, Wisconsin, as of December 31, 2011 and 2010, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wauwatosa Water Utility as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wauwatosa Water Utility has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wauwatosa Water Utility's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Clifton Larson Allen LLP

Milwaukee, Wisconsin
June 20, 2012

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010**

	ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 2,556,529	2,167,738
Accounts receivable - net		1,768,470	1,630,066
Due from City of Wauwatosa		355,384	345,099
Inventories		160,097	173,300
Prepayments		6,879	5,161
Restricted assets:			
Cash and cash equivalents			
Special Redemption Funds		<u>3,022,580</u>	<u>648,352</u>
Total Current Assets		<u>7,869,939</u>	<u>4,969,716</u>
NON-CURRENT ASSETS			
Restricted assets:			
Cash and cash equivalents			
Special Redemption Fund		807,549	809,867
Water System Improvement Fund		3,375,016	6,745,968
Non-Utility property		2,684	2,684
Other assets:			
Deferred charges		59,663	39,590
Unamortized maintenance costs		207,469	260,916
Utility Plant:			
Construction in progress		11,595	28,531
Plant in service		42,561,755	38,749,575
Accumulated depreciation		<u>(12,857,399)</u>	<u>(12,282,760)</u>
Total Non-Current Assets		<u>34,168,332</u>	<u>34,354,371</u>
 Total Assets		 <u>42,038,271</u>	 <u>39,324,087</u>

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

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATEMENTS OF NET ASSETS (Continued)
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
LIABILITIES		
CURRENT LIABILITIES		
Current portion of refunding bond	\$ 21,110	\$ 19,191
Accounts payable	196,274	332,809
Accrued payroll	46,266	79,010
Due to City of Wauwatosa	771,425	672,944
Customer deposits	5,894	5,897
Accrued interest payable	4,496	5,688
Other accrued liabilities	84,381	100,939
Liabilities payable from restricted assets:		
Accounts payable - construction account	340,511	486,476
Current portion of bonds payable	2,825,000	1,450,000
Accrued interest payable	<u>207,262</u>	<u>149,205</u>
Total Current Liabilities	<u>4,502,619</u>	<u>3,302,159</u>
NON-CURRENT LIABILITIES		
Bonds payable	9,838,676	10,228,621
Refunding bond	<u>320,058</u>	<u>341,168</u>
Total Non-Current Liabilities	<u>10,158,734</u>	<u>10,569,789</u>
 Total Liabilities	 <u>14,661,353</u>	 <u>13,871,948</u>
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	22,484,750	21,925,674
Restricted	415,318	499,147
Unrestricted	<u>4,476,850</u>	<u>3,027,318</u>
TOTAL NET ASSETS	<u>\$ 27,376,918</u>	<u>\$ 25,452,139</u>

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

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for services and sales	\$ 6,391,066	\$ 6,023,918
Other operating revenues	255,931	244,601
Total Operating Revenues	<u>6,646,997</u>	<u>6,268,519</u>
OPERATING EXPENSES		
Operation and maintenance	4,675,421	4,763,054
Depreciation	642,565	609,841
Taxes	88,268	93,775
Total Operating Expenses	<u>5,406,254</u>	<u>5,466,670</u>
Operating Income	<u>1,240,743</u>	<u>801,849</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	14,614	13,944
Interest on long term debt	(421,928)	(262,558)
Amortization of debt discount, premium and expenses	3,431	597
Total Non-Operating Revenues (Expenses)	<u>(403,883)</u>	<u>(248,017)</u>
Income Before Capital Contributions and Transfers	836,860	553,832
CAPITAL CONTRIBUTIONS	437,822	3,856
TRANSFERS		
Capital assets	1,291,923	342,931
Tax equivalent	<u>(641,826)</u>	<u>(599,927)</u>
CHANGE IN NET ASSETS	1,924,779	300,692
NET ASSETS - BEGINNING OF YEAR	<u>25,452,139</u>	<u>25,151,447</u>
NET ASSETS - END OF YEAR	<u>\$ 27,376,918</u>	<u>\$ 25,452,139</u>

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

WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 6,520,901	\$ 6,296,435
Payments to suppliers	(3,602,746)	(3,713,947)
Payments to employees	<u>(1,194,881)</u>	<u>(1,274,295)</u>
Net Cash Provided by Operating Activities	<u>1,723,274</u>	<u>1,308,193</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital debt	2,400,000	360,359
Premium on noncapital debt	42,035	-
Principal paid on noncapital debt	(19,191)	(369,613)
Interest paid on noncapital debt	(13,651)	(28,981)
Issuance costs paid on noncapital debt	(23,662)	-
Transfers to other funds	<u>(611,820)</u>	<u>(566,993)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,773,711</u>	<u>(605,228)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,320,438)	(980,893)
Proceeds from capital debt	-	7,829,820
Principal paid on capital debt	(1,450,000)	(275,000)
Issuance costs paid on capital debt	-	(40,192)
Interest paid on capital debt	<u>(351,412)</u>	<u>(197,875)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(4,121,850)</u>	<u>6,335,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	<u>14,614</u>	<u>13,944</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(610,251)	7,052,769
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,371,925</u>	<u>3,319,156</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,761,674</u>	<u>\$ 10,371,925</u>

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

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,240,743	\$ 801,849
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	642,565	609,841
Depreciation charged to other accounts	34,343	33,542
Tax equivalent charged to Sewer Utility	12,308	11,893
Payment of capitalized maintenance costs	(15,583)	(331,356)
Amortization of maintenance costs	69,070	70,440
Loss on disposal of capital assets	6,705	3,271
(Increase) Decrease:		
Accounts receivable - other	(138,404)	16,023
Due from other funds	(10,285)	(2,751)
Inventories	13,203	2,589
Prepayments	(1,718)	965
Increase (Decrease):		
Accounts payable	(136,535)	54,270
Accrued payroll	(32,744)	16,524
Customers deposits	(3)	1,897
Other accrued liabilities	(16,558)	(1,041)
Due to other funds	56,167	20,237
Total adjustments	<u>482,531</u>	<u>506,344</u>
Net Cash Provided by Operating Activities	<u>\$ 1,723,274</u>	<u>\$ 1,308,193</u>
Noncash investing, capital and financing activities:		
Capital additions contributed:		
City of Wauwatosa	\$ 1,291,923	\$ 342,931
Developers	<u>437,822</u>	<u>3,856</u>
Total Capital Additions Contributed	<u>\$ 1,729,745</u>	<u>\$ 346,787</u>
Reconciliation of cash and cash equivalents to the statement of net assets - proprietary funds:		
Unrestricted cash and cash equivalents	\$ 2,556,529	\$ 2,167,738
Restricted cash and cash equivalents:		
Special redemption funds		
Bond reserve fund	807,549	809,867
Bond principal and interest fund	3,022,580	648,352
Waterworks system improvement fund	<u>3,375,016</u>	<u>6,745,968</u>
Cash and Cash Equivalents End of Year	<u>\$ 9,761,674</u>	<u>\$ 10,371,925</u>

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

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Wauwatosa Water Utility (utility) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the utility are described below.

Reporting Entity and Nature of Business

Wauwatosa Water Utility is an enterprise fund of the City of Wauwatosa (municipality). The utility accounts for the cost of operations on a continuing basis and is managed by the city council. The utility provides water service to properties within the municipality.

The utility charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSC). The accounting records of the utility are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission.

Measurement Focus, Basis of Accounting and Basis of Presentation

The term measurement focus is used to denote what is being measured and reported in the utility's operating statement. The utility is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the utility is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the utility's operating statement. The utility uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

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

Use of Estimates

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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, the utility considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between two willing parties. Fair values are based on quoted market prices. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Receivables/Payables

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

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

Restricted Assets

The various revenue bond resolutions require segregation of the proceeds of the bond issue and the creation and continual funding of several accounts from operating revenue as described below:

1. Waterworks System Operation and Maintenance Fund

A monthly amount equal to the estimated current expenses for such month and for the following two months.

2. Waterworks System Special Redemption Fund - Principal and Interest

A monthly amount equal to one-sixth (1/6) of the next installment of interest coming due and an amount equal to one-twelfth (1/12) of the installment of principal of the bonds coming due on the next succeeding principal payment date.

3. Waterworks System Special Redemption Fund - Reserve

A monthly amount equal to the total Reserve Account requirements divided by twelve until the amount accumulated in the Reserve Account totals 125% of the average debt service on the outstanding bonds.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity (continued)

Restricted Assets (continued)

4. Waterworks System Improvement Fund

Unspent bond proceeds that must be used to purchase capital assets.

5. Waterworks System Surplus Fund

Any amount remaining after the above monthly transfers have been completed.

Restricted net assets represent Special Redemption Fund - Principal and Interest restricted assets less accrued interest payable from those assets.

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.

Capital Assets

Capital assets are defined by the utility as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Utility plant is recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred on borrowed funds during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. Utility plant in service is depreciated using the straight-line method over the following useful lives:

	Years
Buildings and improvements	31
Improvements other than buildings - utilities distribution system	18-77
Machinery and equipment	4-23

Unamortized Maintenance Costs

Water tower painting costs are capitalized and amortized over five years in accordance with guidelines prescribed by the Public Service Commission of Wisconsin.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity (continued)

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 effective interest method. The bond discounts and issuance costs are reported as deferred charges.

Revenues and Expenses

Revenues and Expenses

The utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing water service to properties within the municipality. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for the utility include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Operating Revenues

Utility billings are rendered and recorded quarterly based on metered usage at rates approved by the Public Service Commission of Wisconsin. The utility accrues revenues from the last meter reading date to December 31.

Taxes

Municipal utilities are exempt from federal and state income taxes. Taxes included in the financial statements are social security taxes and the Public Service Commission remainder assessment.

Capital Contributions

Capital contributions represent certain assets that have been contributed by utility customers.

Transfers

The utility records an annual payment in lieu of taxes (tax equivalent) transfer based on the value of its plant and the current assessment ratio and local and school portion of the property tax mill rate. The municipality has also contributed certain capital assets which are reported as transfers.

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NOTE 2 - CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

Cash, cash equivalents and temporary investment balances are comprised of the following:

	<u>2011</u>	<u>2010</u>
Cash, cash equivalents and temporary investments		
Demand deposits - interest bearing	\$ 1,458,676	\$ 279,474
Investment in Wisconsin Local Government Investment Pool	<u>8,302,998</u>	<u>10,092,451</u>
Total	<u>\$ 9,761,674</u>	<u>\$ 10,371,925</u>
Cash, cash equivalents and temporary investments		
Unrestricted	\$ 2,556,529	\$ 2,167,738
Restricted	<u>7,205,145</u>	<u>8,204,187</u>
Total	<u>\$ 9,761,674</u>	<u>\$ 10,371,925</u>

The utility invests its funds in accordance with the provisions of the Wisconsin Statutes 66.0603 and 67.11(2). The utility does not have an investment policy regarding custodial credit risk, credit risk or interest rate risk. For deposits, custodial credit risk is the risk that in the event of financial institution failure, the utility's deposits may not be returned to the utility.

The utility, a Proprietary - Enterprise Fund of the City of Wauwatosa, maintains separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the State Guarantee Fund insurance apply to the City of Wauwatosa as an individual municipality and, accordingly, the amount of insured funds is not determinable for the utility, a Proprietary - Enterprise Fund of the City of Wauwatosa.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2011 and 2010, the fair value of the utility's share of the LGIP assets was substantially equal to the amount reported above.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The utility is exposed to credit risk through its investment in LGIP, which is not rated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The utility is exposed to interest rate risk through its participation in the LGIP which has a weighted average maturity of 97 days.

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NOTE 3 - RESTRICTED ASSETS

Restricted assets were comprised of the following restricted funds at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents		
Special Redemption Funds		
Bond Reserve Fund	\$ 807,549	\$ 809,867
Bond Principal and Interest Fund	<u>3,022,580</u>	<u>648,352</u>
Total Special Redemption Funds	3,830,129	1,458,219
Waterworks System Improvement Fund	<u>3,375,016</u>	<u>6,745,968</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 7,205,145</u>	 <u>\$ 8,204,187</u>

NOTE 4 - DEFINED BENEFIT PENSION PLAN

All eligible Wauwatosa Water Utility employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 1,200 hours a year (600 hours if hired before July 1, 2011) are eligible to participate in the System. Covered employees are required to contribute 5.8% of their salary to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The total required contributions for the years ended December 31, 2011 and 2010 were \$129,412 and \$115,686 respectively. In 2011, this amount consisted of 23,490 of payroll from employees and 105,922 of payroll from the employer. The 2010 amount consists of 6.2% of payroll from employees, paid by the employer on the employees' behalf, and 4.8% of payroll from the employer. Total contributions for the year ended December 31, 2009 were \$112,302. All payments made were equal to the required contributions for 2009, 2010 and 2011.

Employees who retire at or after age 65 are entitled to receive retirement benefits. Employees may retire at age 55 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final Average Earnings is the average of the employee's three highest year's earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 through June 30, 2011 are immediately vested. For participants employed after July 1, 2011, five years of creditable service is required for eligibility.

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NOTE 4 - DEFINED BENEFIT PENSION PLAN (continued)

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

In January 2005, the municipality issued debt and retired the pension liability. In 2010 this debt was refinanced. The terms of the current debt include interest ranging from 1.75-5.0% with payments of principal and interest from 2010 to 2024.

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 and 2010 is as follows:

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2011</u>
Capital assets, not being depreciated				
Land and land rights	\$ 81,404	\$ -	\$ -	\$ 81,404
Construction in progress	28,531	11,595	28,531	11,595
Total Capital Assets not being depreciated	<u>109,935</u>	<u>11,595</u>	<u>28,531</u>	<u>92,999</u>
Capital assets being depreciated				
Source of supply	914,038	-	-	914,038
Pumping	1,662,023	-	-	1,662,023
Water treatment	11,171	-	-	11,171
Transmission and distribution	35,488,616	3,921,154	108,974	39,300,796
General	592,323	-	-	592,323
Total Capital Assets being depreciated	<u>38,668,171</u>	<u>3,921,154</u>	<u>108,974</u>	<u>42,480,351</u>
Total Capital Assets	38,778,106	3,932,749	137,505	42,573,350
Less: Accumulated depreciation	<u>(12,282,760)</u>	<u>(676,908)</u>	<u>102,269</u>	<u>(12,857,399)</u>
Net Utility Plant	<u>\$ 26,495,346</u>	<u>\$ 3,255,841</u>	<u>\$ (35,236)</u>	<u>\$ 29,715,951</u>

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NOTE 5 - CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>12/31/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2010</u>
Capital assets, not being depreciated				
Land and land rights	\$ 81,404	\$ -	\$ -	\$ 81,404
Construction in progress	35,947	28,531	35,947	28,531
Total Capital Assets not being depreciated	<u>117,351</u>	<u>28,531</u>	<u>35,947</u>	<u>109,935</u>
Capital assets being depreciated				
Source of supply	914,038	-	-	914,038
Pumping	1,630,621	31,402	-	1,662,023
Water treatment	11,171	-	-	11,171
Transmission and distribution	33,784,567	1,772,885	68,836	35,488,616
General	575,038	17,285	-	592,323
Total Capital Assets being depreciated	<u>36,915,435</u>	<u>1,821,572</u>	<u>68,836</u>	<u>38,668,171</u>
Total Capital Assets	37,032,786	1,850,103	104,783	38,778,106
Less: Accumulated depreciation	<u>(11,704,942)</u>	<u>(643,383)</u>	<u>65,565</u>	<u>(12,282,760)</u>
Net Utility Plant	<u>\$ 25,327,844</u>	<u>\$ 1,206,720</u>	<u>\$ (39,218)</u>	<u>\$ 26,495,346</u>

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6 - LONG-TERM DEBT

A. The utility's long-term debt activity for the years ended December 31, 2011 and 2010 is as follows:

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2011</u>	<u>Due Within One Year</u>
Waterworks system revenue bonds	\$ 11,600,000	\$ 2,400,000	\$ 1,450,000	\$ 12,550,000	\$ 2,825,000
General obligation refunding bonds	360,359	-	19,191	341,168	21,110
Unamortized bond premium	78,621	42,035	6,980	113,676	-
	<u>\$ 12,038,980</u>	<u>\$ 2,442,035</u>	<u>\$ 1,476,171</u>	<u>\$ 13,004,844</u>	<u>\$ 2,846,110</u>

	<u>Balance 12/31/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2010</u>	<u>Due Within One Year</u>
Waterworks system revenue bonds	\$ 4,125,000	\$ 7,750,000	\$ 275,000	\$ 11,600,000	\$ 1,450,000
State trust fund loan	369,613	-	369,613	-	-
General obligation refunding bonds	-	360,359	-	360,359	19,191
Unamortized bond premium	-	79,820	1,199	78,621	-
	<u>\$ 4,494,613</u>	<u>\$ 8,190,179</u>	<u>\$ 645,812</u>	<u>\$ 12,038,980</u>	<u>\$ 1,469,191</u>

B. Details of long-term debt outstanding at December 31, 2011 are as follows:

<u>Type</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance 12/31/2010</u>
Waterworks system revenue bonds	7/15/02	2.5-5.75	1/1/03-22	1/1&7/1	\$ 4,000,000	\$ 2,600,000
	10/25/10	3.0-4.0	1/1/11-29	1/1&7/1	7,750,000	7,550,000
	11/29/11	2.0-3.0	1/1/13-22	1/1&7/1	2,400,000	2,400,000
General obligation refunding bonds	08/03/10	1.75-5.0	3/1/11-24	3/1&9/1	360,359	341,168
						12,891,168
						(2,846,110)
Less: Current portion of long-term debt						113,676
Add: Premium on long-term debt						<u>\$ 10,158,734</u>

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
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December 31, 2011 and 2010**

NOTE 6 - LONG-TERM DEBT (continued)

C. The utility has \$12,550,000 Waterworks System Revenue Bonds outstanding at December 31, 2011. The bonds are not general obligations of the City of Wauwatosa and are payable from the income and revenues derived from the operation of the system. The utility has established separate funds, as described in Note 1, to account for the allocation of the utility's gross revenues in compliance with the debt resolutions.

D. Annual principal and interest payments to maturity on long-term debt payable are as follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Outstanding 12/31</u>
2011				\$ 12,891,168
2012	\$ 2,846,110	\$ 379,979	\$ 3,226,089	10,045,058
2013	446,536	326,572	773,108	9,598,522
2014	446,963	315,382	762,345	9,151,559
2015	472,602	303,761	776,363	8,678,957
2016	473,455	291,764	765,219	8,205,502
2017-2021	2,708,696	1,229,738	3,938,434	5,496,806
2022-2026	3,246,806	730,530	3,977,336	2,250,000
2027-2029	<u>2,250,000</u>	<u>135,187</u>	<u>2,385,187</u>	-
	<u>\$ 12,891,168</u>	<u>\$ 3,712,913</u>	<u>\$ 16,604,081</u>	

Current Refunding

On November 29, 2011, the utility issued \$2,400,000 of Waterworks System Refunding Revenue Bonds. The proceeds of the bonds along with \$175,000 of available utility cash are to be used to retire the remaining \$2,600,000 balance of the 2002 Waterworks System Revenue Bonds on January 1, 2012. The debt service requirements on the old debt balance totaled \$3,168,350. The debt service requirements on the new debt balance totaled \$2,762,806. The economic gain on the refunding using a 2.59% effective interest rate was \$367,512.

NOTE 7 - NET ASSETS

Generally accepted accounting principles requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**WAUWATOSA WATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 7 - NET ASSETS (continued)

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by the law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

NOTE 8 - REGULATORY AGENCY

The Public Service Commission of Wisconsin (PSC) regulates rates charged to customers and other practices of the utility. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles which vary in some respects from the accounting practices prescribed or permitted by the PSC. The more significant of these differences are reflected below:

	<u>2011</u>	<u>2010</u>
Net assets as shown in accompanying financial statements	\$ 27,376,918	\$ 25,452,139
Accrued vacation liability	76,997	86,120
General obligation refunding bonds - WRS	316,992	344,507
Deferred credit	<u>(1,466,400)</u>	<u>(1,588,600)</u>
Retained earnings as reported on PSC reports	<u>\$ 26,304,507</u>	<u>\$ 24,294,166</u>
Net income before capital contributions and transfers as shown in accompanying financial statements	\$ 836,860	\$ 553,832
General obligation refunding bonds - WRS	(27,515)	(11,792)
Change in accrued vacation liability	(9,123)	(1,768)
Interfund transfer - tax equivalent	(641,826)	(599,927)
Amortization of deferred credit	122,200	122,200
Customer contributions	<u>437,822</u>	<u>3,856</u>
Net income as reported on PSC reports	<u>\$ 718,418</u>	<u>\$ 66,401</u>

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
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NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 9 - ANTENNA LEASE AGREEMENTS

The utility has lease agreements with cellular phone companies to lease utility water towers as sites for cellular antennas. The initial term of the leases were five years with the right to extend the leases for four additional five year terms. All leases have been extended for five additional years. All leases have an automatic extension until at least the year 2019.

Rental income from rental of the water towers reported in other water revenues amounted to \$169,731 and \$158,014 for the years ended December 31, 2011 and 2010, respectively.

Future minimum rentals related to these leases and expected future extensions are as follows:

2012	\$ 173,249
2013	173,979
2014	175,366
2015	197,536
2016	211,991
2017-2019	<u>645,762</u>
	<u>\$ 1,577,883</u>

NOTE 10 - RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; unemployment compensation claims; and environmental damage for which the utility purchases commercial insurance. There has been no reduction in insurance coverage from coverage in the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years. The City of Wauwatosa is self-insured for employee health claims. The municipality accounts for the self insurance activities in an internal service fund which charges a premium equivalency charge to the utility.

NOTE 11 - RATE INCREASE

Effective December 6, 2010, the utility was granted authority from the Public Service Commission of Wisconsin to increase water rates as a result of a simplified rate case proceeding. The effect of this rate increase will raise average water bills by 3.0% and provide additional revenues of approximately \$183,151.

Effective March 22, 2011, the utility was granted authority from the Public Service Commission of Wisconsin to change water rates as a result of the pass through increase from Milwaukee Water Works resulting from their conventional rate increase. The effect of this rate change, depending on consumption, will impact average water bills between -2.39% and 18.75% and provide additional revenues of approximately \$22,198.

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 12 - COMMITMENTS AND CONTINGENCIES

From time to time, the utility becomes involved in legal actions and claims, most of which normally occur in governmental utility operations. These legal actions and claims are generally defended by various insurance carriers, since claims brought against the utility are generally covered by insurance policies. In the opinion of management, any legal actions and claims, and any other proceedings known to exist at December 31, 2011, are not likely to have a material adverse impact on the utility's financial position.

NOTE 13 - SUBSEQUENT EVENTS

Management evaluated subsequent events through June 20, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to June 20, 2012 that provide additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2011.

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

SUPPLEMENTARY INFORMATION

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
OPERATING REVENUES AND EXPENSES
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales of Water		
Metered sales to general customers:		
Residential	\$ 3,296,468	\$ 3,235,338
Commercial	1,577,292	1,471,743
Industrial	<u>397,896</u>	<u>231,352</u>
Total Metered Sales to General Customers	5,271,656	4,938,433
Public authorities	159,029	125,981
Unmetered sales to general customers	2,268	1,890
Private fire protection service	95,343	94,363
Public fire protection service	<u>862,770</u>	<u>863,251</u>
Total Sales of Water	<u>6,391,066</u>	<u>6,023,918</u>
Other Operating Revenues		
Forfeited discounts	73,515	71,587
Water utility rentals	169,731	158,014
Other water revenues	<u>12,685</u>	<u>15,000</u>
Total Other Operating Revenues	<u>255,931</u>	<u>244,601</u>
Total Operating Revenues	<u>6,646,997</u>	<u>6,268,519</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Source of Supply Expenses		
Purchased water	2,272,973	2,159,538
Miscellaneous expenses	<u>158</u>	<u>170</u>
Total Source of Supply Expenses	<u>2,273,131</u>	<u>2,159,708</u>
Pumping Expenses		
Power purchased	122,595	107,184
Labor and expenses	212,933	215,823
Miscellaneous expenses	5,085	4,398
Maintenance:		
Structures and improvements	6,961	2,157
Power production equipment	877	4,633
Pumping equipment	<u>18,016</u>	<u>15,456</u>
Total Pumping Expenses	<u>366,467</u>	<u>349,651</u>
Water Treatment Expenses		
Labor and expenses	<u>6,020</u>	<u>2,176</u>

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
OPERATING REVENUES AND EXPENSES (Continued)
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES (continued)		
Operation and Maintenance Expenses (continued)		
Transmission and Distribution Expenses		
Storage facilities	\$ 3,650	\$ 3,375
Transmission and distribution lines expense	104,858	171,803
Meter expenses	37,349	35,922
Customer installation expenses	22,680	21,016
Miscellaneous expenses	11,152	13,608
Rent	16,516	15,651
Maintenance:		
Distribution reservoirs and standpipes	69,070	70,440
Transmission and distribution mains	583,010	521,532
Services	141,377	147,515
Meters	81,017	87,718
Hydrants	60,863	108,205
Total Transmission and Distribution Expenses	<u>1,131,542</u>	<u>1,196,785</u>
Customer Account Expenses		
Meter reading expenses	31,031	31,696
Customer records and collection expenses	48,589	46,849
Total Customer Account Expenses	<u>79,620</u>	<u>78,545</u>
Administrative and General Expenses		
Administrative and general salaries	232,020	295,753
Office supplies and expense	17,082	20,354
Outside services employed	139,675	161,555
Property insurance	6,461	3,362
Injuries and damages	40,678	36,634
Employees insurance premiums	278,732	319,109
Employees pension fund	80,087	115,686
Miscellaneous general expenses	3,193	3,495
Rent	20,112	20,184
Maintenance of general plant	601	57
Total Administrative and General Expenses	<u>818,641</u>	<u>976,189</u>
Total Operation and Maintenance Expenses	4,675,421	4,763,054
Depreciation expense	642,565	609,841
Taxes	88,268	93,775
Total Operating Expenses	<u>5,406,254</u>	<u>5,466,670</u>
OPERATING INCOME	<u>\$ 1,240,743</u>	<u>\$ 801,849</u>

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
ANALYSIS OF UTILITY PLANT IN SERVICE
Year Ended December 31, 2011**

	Utility Plant in Service				Depreciation Rate	Accumulated Depreciation			
	Balance 12/31/2010	Additions	Disposals	Balance 12/31/2011		Balance 12/31/2010	Provision	Disposals	Balance 12/31/2011
SOURCE OF SUPPLY									
Land and land rights	\$ 46,395	\$ -	\$ -	\$ 46,395	-%	\$ -	\$ -	\$ -	\$ -
Supply mains	914,038	-	-	914,038	1.80	370,063	16,453	-	386,516
PUMPING PLANT									
Structures and improvements	789,794	-	-	789,794	3.20	453,822	25,273	-	479,095
Other power production equipment	188,965	-	-	188,965	4.40	164,570	8,314	-	172,884
Electric pumping equipment	683,264	-	-	683,264	4.40	683,264	-	-	683,264
WATER TREATMENT PLANT									
Equipment	11,171	-	-	11,171	6.00	11,171	-	-	11,171
TRANSMISSION AND DISTRIBUTION MAINS									
Land and land rights	35,009	-	-	35,009	-	-	-	-	-
Reservoirs	2,276,650	93,367	-	2,370,017	1.90	1,244,564	43,404	-	1,287,968
Transmission and distribution mains	25,120,658	3,285,613	47,139	28,359,132	1.30	4,666,566	331,133	47,139	4,950,560
Services	3,949,322	313,654	10,815	4,252,161	2.90	2,109,965	115,283	10,815	2,214,433
Meters	1,465,852	19,686	13,783	1,471,755	5.50	1,431,314	42,967	13,783	1,460,498
Hydrants	2,676,134	208,834	37,237	2,847,731	2.20	821,270	59,246	30,532	849,984
GENERAL PLANT									
Office furniture and equipment	10,068	-	-	10,068	5.80	10,068	-	-	10,068
Computer equipment	96,630	-	-	96,630	26.70	96,630	-	-	96,630
Stores equipment	2,728	-	-	2,728	5.80	2,728	-	-	2,728
Tools and shop equipment	257,117	-	-	257,117	5.80	146,311	14,913	-	161,224
Communication equipment	225,780	-	-	225,780	9.20	70,454	19,922	-	90,376
Total Utility Plant in Service	\$ 38,749,575	\$ 3,921,154	\$ 108,974	\$ 42,561,755		\$ 12,282,760	676,908	\$ 102,269	\$ 12,857,399
Less:									
Amount charged to operation and maintenance expenses							14,913		
Amount allocated to City Sewer Fund							19,430		
Depreciation Expense							<u>\$ 642,565</u>		

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
SUMMARY OF LONG-TERM DEBT
Year Ended December 31, 2011**

	Date of Loan	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31/2010	Additions	Payments	Balance Outstanding 12/31/2011	Interest Expense 2011	Principal Due 2012
Waterworks System Revenue Bonds											
Series 1998	6/1/98	4.85-5.6	1/1/99-18	1/1&7/1	\$ 2,000,000	\$ 1,050,000	\$ -	\$ 1,050,000	\$ -	\$ -	\$ -
Series 2002	7/15/02	2.5-5.75	1/1/03-22	1/1&7/1	4,000,000	2,800,000	-	200,000	2,600,000	135,225	2,600,000
Series 2010	10/25/10	3.0-4.0	1/1/11-29	1/1&7/1	7,750,000	7,750,000	-	200,000	7,550,000	269,188	225,000
Series 2011	11/29/11	2.0-3.0	1/1/13-22	1/1&7/1	2,400,000	-	2,400,000	-	2,400,000	5,056	-
General Obligation Refunding bonds	8/03/10	1.75-5.0	3/1/11-24	3/1&9/1	360,359	360,359	-	19,191	341,168	12,459	21,110
						<u>\$ 11,960,359</u>	<u>\$ 2,400,000</u>	<u>\$ 1,469,191</u>	<u>\$ 12,891,168</u>	<u>\$ 421,928</u>	<u>\$ 2,846,110</u>

**ANNUAL PRINCIPAL AND INTEREST PAYMENTS
TO MATURITY ON LONG-TERM DEBT
December 31, 2010**

Year	Principal	Interest	Total	Balance Outstanding 12/31
2011				\$ 12,891,168
2012	\$ 2,846,110	\$ 379,979	\$ 3,226,089	10,045,058
2013	446,536	326,572	773,108	9,598,522
2014	446,963	315,382	762,345	9,151,559
2015	472,602	303,761	776,363	8,678,957
2016	473,455	291,764	765,219	8,205,502
2017	499,521	279,297	778,818	7,705,981
2018	525,588	264,514	790,102	7,180,393
2019	551,654	246,997	798,651	6,628,739
2020	552,720	228,558	781,278	6,076,019
2021	579,213	210,372	789,585	5,496,806
2022	605,705	190,714	796,419	4,891,101
2023	632,198	169,437	801,635	4,258,903
2024	658,903	147,877	806,780	3,600,000
2025	650,000	123,876	773,876	2,950,000
2026	700,000	98,626	798,626	2,250,000
2027	725,000	73,687	798,687	1,525,000
2028	750,000	46,000	796,000	775,000
2029	775,000	15,500	790,500	-
	<u>\$ 12,891,168</u>	<u>\$ 3,712,913</u>	<u>\$ 16,604,081</u>	

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
SCHEDULE OF INSURANCE IN FORCE
December 31, 2011**

<u>Type of Coverage</u>	<u>Insurer</u>	<u>Expiration Date</u>	<u>Amount</u>
Fire and Extended Coverage	Local Government Property Insurance Fund	3/12/12	\$ 107,434,363
Contractors Equipment	Local Government Property Insurance Fund	3/12/12	1,547,928
Monies and Securities	Local Government Property Insurance Fund	3/12/12	35,000
Boiler	Zurich American Insurance Company	1/1/12	100,000,000
Employment Practices	RSUI Indemnity Company	1/1/12	1,000,000
Workers Compensation and Employer's Liability	Safety National Casualty	1/1/12	Statutory 1,000,000
Comprehensive General Liability	Cities and Villages Mutual Insurance Company	1/1/12	5,000,000 each occurrence
Excess Liability	Darwin National Assurance Company	1/1/12	8,000,000 each occurrence
Motor Vehicle	Max Specialty Insurance Company	1/1/12	14,491,281
Public Employee Blanket Dishonesty	Liberty/Ohio	7/12/12	100,000

This schedule is prepared from policies and is intended only as a descriptive summary; no expression of opinion as to the adequacy of coverage is intended. The coverages indicated above are those of the City of Wauwatosa, of which the Wauwatosa Water Utility is a Proprietary Fund.

**WAUWATOSA WATER UTILITY
A PROPRIETARY - ENTERPRISE FUND OF THE
CITY OF WAUWATOSA, WISCONSIN
STATISTICAL INFORMATION
Years Ended December 31, 2011 and 2010**

WATER UTILITY CONNECTIONS AT DECEMBER 31

	<u>Number of Connections</u>	
	<u>2011</u>	<u>2010</u>
Type of Customer		
Residential	14,358	14,359
Commercial	1,082	1,082
Public authority	37	37
Industrial	<u>26</u>	<u>27</u>
	<u>15,503</u>	<u>15,505</u>

**WATER USAGE IN 2011 AND 2010 AS BASIS
FOR WATER CHARGES**

	<u>Thousand Gallons (000 omitted)</u>	
	<u>2011</u>	<u>2010</u>
Type of Customer		
Residential	852,123	820,649
Commercial	493,361	503,274
Public authority	49,428	40,141
Industrial	<u>146,753</u>	<u>95,025</u>
	<u>1,541,665</u>	<u>1,459,089</u>