

# **WAUKESHA WATER UTILITY**

An Enterprise Fund of the  
City of Waukesha, Wisconsin

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2019 and 2018



# WAUKESHA WATER UTILITY

An Enterprise Fund of the City of Waukesha, Wisconsin

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As of and for the years ended December 31, 2019 and 2018

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## INDEPENDENT AUDITORS' REPORT

To the Utility Commission  
Waukesha Water Utility  
Waukesha, Wisconsin

We have audited the accompanying financial statements of Waukesha Water Utility, an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2019 and 2018, and the related notes to the 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.

### ***Auditors' Responsibility***

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Waukesha Water Utility'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 Waukesha Water Utility's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waukesha Water Utility as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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 Waukesha Water Utility enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2019 and 2018 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplemental Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 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 supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
July 20, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018

The management of Waukesha Water Utility (Utility) offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2019 and 2018. You are invited to read this narrative in conjunction with the Utility's financial statements.

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### FINANCIAL HIGHLIGHTS

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- ❖ Total net position increased by \$343,000 to \$76,111,000 in 2019, an increase of .45%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.
  - ❖ Operating revenues, generated mostly by rate payers, decreased by \$113,000, or 0.95% in 2019. Conservation among all customer classes has contributed to the decrease in consumption.
  - ❖ Operation and maintenance expenses increased by \$728,000 or 14.32% in 2019. Maintenance and repair projects with pumping equipment and transmission and distribution contributed to the increase in expenses.
  - ❖ Year-end Cash and Equivalents increased by \$7,086,000 in 2019 as a result of proceeds from debt issues.
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### OVERVIEW OF THE FINANCIAL STATEMENTS

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The Utility is a self-supporting entity and an enterprise fund of the City of Waukesha (municipality). It provides water services to properties within the municipality and to certain areas outside the municipality. The Utility also provides metering and billing services for the City's Sewer Department.

The Utility is managed by a Commission. It operates under service rules and rates that are established by the PSCW. Accounting records for the Utility are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW and in accordance with the Governmental Accounting Standards Board (GASB).

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements.

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### REQUIRED FINANCIAL STATEMENTS

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The financial statements of the Utility report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Utility's assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility's user charges are sufficient.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2019 and 2018*

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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**UTILITY FINANCIAL ANALYSIS**

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An analysis of the Utility's financial position begins with a review of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. These two statements report the Utility's net assets and changes therein. The Utility's net assets (the difference between assets, deferred outflows, liabilities, and deferred inflows) are key to measuring the financial health of the Utility. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that financial position could also be affected by other non-financial factors including economic conditions, population growth and new regulations. The Utility's overall financial position has remained stable for the years ended December 31, 2019 and 2018.

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**NET POSITION**

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A summary of the Utility's *Statement of Net Position* is presented below in Table 1.

**Table 1**  
**Condensed Statement of Net Position**  
**2019, 2018, and 2017**  
**(000's)**

	2019	2018	2017	2019 v. 2018		2018 v. 2017	
				Change		Change	
Current Assets	\$ 43,497	\$ 35,842	\$ 30,354	\$ 7,655	21.36 %	\$ 5,488	18.08 %
Net Capital Assets	98,180	94,433	92,271	3,747	3.97	2,162	2.34
Other Noncurrent Assets	29,383	24,270	19,532	5,113	21.07	4,738	24.26
Total Assets	171,060	154,545	142,157	16,515	10.69	12,388	8.71
Deferred Outflows of Resources	2,707	1,130	1,287	1,577	139.56	(157)	(12.20)
Long Term Debt Outstanding	81,020	65,333	55,464	15,687	24.01	9,869	17.79
Other Liabilities	15,910	13,776	13,413	2,134	15.49	363	2.71
Total Liabilities	96,930	79,109	68,877	17,821	22.53	10,232	14.86
Deferred Inflows of Resources	726	798	364	(72)	(9.02)	434	119.23
Net Investment in Capital Assets	44,505	50,242	52,759	(5,737)	(11.42)	(2,517)	(4.77)
Restricted Net Position	761	752	565	9	1.20	187	33.10
Unrestricted Net Position	30,845	24,774	20,879	6,071	24.51	3,895	18.66
Total Net Position	<u>\$ 76,111</u>	<u>\$ 75,768</u>	<u>\$ 74,203</u>	<u>\$ 343</u>	0.45 %	<u>\$ 1,565</u>	2.11 %



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2019 and 2018*

As shown in Table 1, total net position increased by \$343,000 to \$76,111,000 in 2019, an increase of 0.45%. Revenues in excess of expenses and capital contributions account for the increase in net position.

Total net position increased by \$1,565,000 to \$75,768,000 in 2018. Revenues in excess of expenses and capital contributions account for the increase in net position.

The restricted portion of the net position includes accounts that are limited by bond covenants.

**REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The specific nature or source of changes in net assets becomes more evident in the Utility's *Statements of Revenues, Expenses and Changes in Net Position* as shown in Table 2. This statement provides an indication of the Utility's financial health.

**Table 2**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**2019, 2018, and 2017**  
**(000's)**

	2019	2018	2017	2019 v. 2018		2018 v. 2017	
				Change		Change	
Operating Revenues	\$ 11,728	\$ 11,841	\$ 11,020	\$ (113)	(0.95) %	\$ 821	7.45 %
Non-operating Revenues	749	718	345	31	4.32	373	108.12
Total Revenues	12,477	12,559	11,365	(82)	(0.65)	1,194	10.51
Depreciation Expense	2,620	2,541	2,473	79	3.11	68	2.75
Other Operating Expense	5,812	5,084	6,214	728	14.32	(1,130)	(18.18)
Non-operating Expense	1,965	1,811	1,826	154	8.50	(15)	(0.82)
Total Expense	10,397	9,436	10,513	961	10.18	(1,077)	(10.24)
Income before Capital Contributions and Transfers	2,080	3,123	852	(1,043)	(33.40)	2,271	266.55
Capital Contributions	308	279	639	29	10.39	(360)	(56.34)
Capital Contributions - Municipal	14	38	3	(24)	(63.16)	35	1,166.67
Transfers - Tax Equivalent	(2,059)	(1,875)	(1,794)	(184)	9.81	(81)	4.52
Changes in Net Assets	343	1,565	(300)	(1,222)	(78.08)	1,865	621.67
Beginning Net Assets	75,768	74,203	77,176	1,565	2.11	(2,973)	(3.85)
Cumulative Effect - Change in Accounting	-	-	(2,673)	-	-	2,673	100.00
Ending Net Assets	<u>\$ 76,111</u>	<u>\$ 75,768</u>	<u>\$ 74,203</u>	<u>\$ 343</u>	<u>0.45 %</u>	<u>\$ 1,565</u>	<u>2.11 %</u>

Operating revenues decreased in 2019 by \$113,000 as a result of continued conservation efforts in all customer classes. Non-operating revenues increased in 2019 by \$31,000, or 4.32%. An increase in investment income is the main factor for the increase.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2019 and 2018*

Operating revenues in 2018 increased by \$821,000 or 7.45%. A rate increase granted by the PSCW effective December 1, 2017 is the main factor for the increase. Non-operating revenues increased in 2018 by \$373,000 due to an increase in investment income and funds received from a settlement for early cell lease terminations.

Depreciation expense in 2019 increased by \$79,000 due to the addition of capital assets. Other operating expenses increased by \$728,000 or 14.32%. A tower painting, well pump repairs, and water main lining were some of the larger project expenses incurred in 2019. Non-operating expenses increased 8.5% due to debt interest expense.

Depreciation expense in 2018 increased by \$68,000 due to the addition of capital assets. Other operating expenses decreased by \$1,130,000 or 18.18%. Under the direction of the PSCW, additional one-time amortization costs related to the Great Water Alliance project inflated expenses in 2017. Non-operating expenses were consistent with the previous year and decreased only \$15,000.

Capital contributions increased in 2019 by \$29,000 or 10.39% due to developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$184,000.

Capital contributions decreased in 2018 by \$360,000 or 56.34% due to fewer developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$81,000.

In both 2019 and 2018, there was no cumulative effect of a change in accounting principle.

**CASH FLOWS**

The *Statement of Cash Flows*, illustrated in Table 3, reports the cash provided and used by operating activities, as well as other cash sources and uses derived from financing and investment activities.

**Table 3**  
**Condensed Statement of Cash Flows**  
**2019, 2018, and 2017**  
**(000's)**

	2019	2018	2017	2019 v. 2018 Change		2018 v. 2017 Change	
Cash Flows From:							
Operating Activities	\$ 7,772	\$ 7,917	\$ 6,380	\$ (145)	(1.83) %	\$ 1,537	24.09 %
Paid to Municipality - Tax Equivalent	(1,875)	(1,794)	(1,775)	(81)	4.52	(19)	1.07
Capital and Related Financing Activities	464	(4,617)	(7,639)	5,081	110.05	3,022	39.56
Investing Activities	725	495	293	230	46.46	202	68.94
Net Change in Cash and Equivalents	7,086	2,001	(2,741)	5,085	254.12	4,742	(173.00)
Cash and Equivalents Beginning of Year	29,855	27,854	30,595	2,001	7.18	(2,741)	(8.96)
Cash and Equivalents End of Year	<u>\$ 36,941</u>	<u>\$ 29,855</u>	<u>\$ 27,854</u>	<u>\$ 7,086</u>	<u>23.73 %</u>	<u>\$ 2,001</u>	<u>7.18 %</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2019 and 2018*

Year-end Cash and Equivalents increased by \$7,086,000 in 2019 with proceeds from debt issues.

Year-end Cash and Equivalents increased by \$2,001,000 in 2018 because of an increase in cash from operating activities and proceeds from debt issues.

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**CAPITAL ASSETS**

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Table 4 summarizes the Utility's capital assets. Please refer to the *Notes to Financial Statements*, particularly the *Capital Assets* section of *Note 1 – Summary of Significant Accounting Policies* and *Note 5 – Changes in Capital Assets*, for further detail of the Utility's capital assets.

**Table 4**  
**Capital Assets**  
**2019, 2018, and 2017**  
**(000's)**

	2019	2018	2017	2019 v. 2018 Change		2018 v. 2017 Change	
Land & Land Rights	\$ 566	\$ 566	\$ 566	\$ -	-	\$ -	-
Intangible	197	193	191	4	2.07	2	1.05
Source of Supply	2,592	2,592	2,592	-	-	-	-
Pumping	9,969	9,773	9,841	196	2.01	(68)	(0.69)
Water Treatment	5,245	5,245	5,242	-	-	3	0.06
Transmission and Distribution	108,472	103,357	99,113	5,115	4.95	4,244	4.28
General	6,079	6,034	5,977	45	0.75	57	0.95
<b>Total Capital Assets</b>	<b>133,120</b>	<b>127,759</b>	<b>123,522</b>	<b>5,361</b>	<b>4.20</b>	<b>4,238</b>	<b>3.43</b>
Accumulated Depreciation	(35,337)	(33,684)	(31,522)	(1,653)	4.91	(2,162)	6.86
Construction in Progress	397	357	272	40	11.20	85	31.25
<b>Net Capital Assets</b>	<b>\$ 98,180</b>	<b>\$ 94,432</b>	<b>\$ 92,272</b>	<b>\$ 3,748</b>	<b>3.97 %</b>	<b>\$ 2,161</b>	<b>2.34 %</b>

The Utility's capital assets increased by \$5.36 million, or 4.2% in 2019. Increases in developer contributions totaled \$308,000. The balance is due to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$1,074,000 in assets were retired.

The Utility's capital assets increased by \$4.24 million, or 3.43% in 2018. Increases in developer contributions totaled \$279,000. The balance is due to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$526,000 in assets were retired.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*Years Ended December 31, 2019 and 2018*

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**LONG-TERM DEBT**

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The Utility had revenue bonds of \$22.63 million and \$12.23 million (excluding the Safe Drinking Water Loan) outstanding as of December 31, 2019 and 2018, respectively. The 2018 outstanding revenue bond funded routine capital replacements and Great Water Alliance improvements and refinanced the revenue bonds outstanding in 2017. Safe Drinking Water Loans were secured by revenue bonds in 2013, 2018, and 2019 with an outstanding balance of \$12,676,000 and \$1,559,000 as of December 31, 2019 and 2018, respectively. These loans were used to finance capital improvement projects necessary to secure an alternate source of water. The Utility had General Obligation debt outstanding of \$45,715,000 in 2019 and \$51,545,000 in 2018. The debt originated from offerings issued in 2013, 2014, 2015, 2016, and 2017. The debt is funding routine capital replacements and Great Water Alliance improvements.

For further detail, please refer to *Note 6 – Long Term Obligations* in the *Notes for Financial Statements*.

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**ECONOMIC FACTORS AND FUTURE PLANNING**

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The Utility's service area is located in southeast Wisconsin. Waukesha County is the third largest county in the State. The service area was experiencing a commercial and residential boom prior to the economic down turn in late 2008. The economy began to stabilize in 2012 and has continued to improve since.

The Utility maintains a five year financial plan that focuses on identifying and implementing improvements. This plan coordinates with the City of Waukesha's Master Plan. Rate structures are reviewed on a consistent basis to ensure that customers are provided with high quality water, in the amounts they need and at a fair price. A residential inclining rate structure has been implemented in order to promote conservation.

Declining water levels and water quality, coupled with future water demand, have forced Waukesha to spend many years investigating an alternative water source. Through this investigation, Waukesha and the WDNR determined that Lake Michigan water was the most sustainable public water supply source. The Great Lakes-St. Lawrence River Basin Water Resources Council agreed, and unanimously approved Waukesha's application to borrow water from Lake Michigan on June 21, 2016. This long-term solution, known as the Great Water Alliance, will require an unprecedented investment in infrastructure over the next several years. The bulk of the related construction is expected to start in the summer of 2020.

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**CONTACTING UTILITY'S FINANCIAL MANAGEMENT**

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This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Joseph Ciurro, Administrative Services Manager, Waukesha Water Utility, 115 Delafield Street, P.O. 1648, Waukesha, Wisconsin 53187-1648, by phone at (262) 409-4420, or by email [jciurro@waukesha-water.com](mailto:jciurro@waukesha-water.com).

# WAUKESHA WATER UTILITY

## STATEMENTS OF NET POSITION As of December 31, 2019 and 2018

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 21,804,097	\$ 13,571,645
Other special accounts	14,239,966	15,871,306
Restricted Assets		
Redemption account	897,421	412,032
Receivables		
Accounts	4,131,379	3,782,907
Unbilled revenue	1,591,466	1,595,812
Other	37,226	54,889
Due from municipality	202,533	-
Due from sewer utility	38,648	-
Materials and supplies	390,977	400,692
Prepayments	163,502	153,160
Total Current Assets	43,497,215	35,842,443
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Net pension asset	-	403,235
Other Assets		
Preliminary survey and investigation	28,947,911	23,431,490
Property held for future use	435,090	435,090
Capital Assets		
Plant in service	133,120,396	127,760,128
Accumulated depreciation	(35,337,482)	(33,683,736)
Construction in progress	397,470	356,771
Total Noncurrent Assets	127,563,385	118,702,978
 Total Assets	 171,060,600	 154,545,421
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on advance refunding	315,517	362,260
Deferred outflow related to pensions	1,329,852	749,473
Deferred outflow related to other post-employment benefits	1,061,498	18,285
Total Deferred Outflows of Resources	2,706,867	1,130,018

See accompanying notes to financial statements.

	<u>2019</u>	<u>2018</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,447,927	\$ 3,538,323
Due to municipality	2,058,933	1,683,922
Due to sewer utility	3,686,231	1,160,419
Customer deposits	136,085	161,492
Conservation programs	40,602	20,702
Accrued wages	119,228	108,076
Accrued interest	331,814	360,332
Accrued vacation leave	226,840	249,469
Current portion of general obligation debt	1,280,000	995,000
Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	569,159	79,440
Accrued interest	<u>135,974</u>	<u>63,353</u>
Total Current Liabilities	<u>10,032,793</u>	<u>8,420,528</u>
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt		
General obligation debt	44,435,000	50,550,000
Revenue bonds	34,735,719	13,708,273
Unamortized premium on debt	1,919,482	2,260,747
Customer advances for construction	89,202	64,917
Other post-employment benefits	5,239,989	4,104,593
Net pension liability	<u>478,201</u>	<u>-</u>
Total Noncurrent Liabilities	<u>86,897,593</u>	<u>70,688,530</u>
Total Liabilities	<u>96,930,386</u>	<u>79,109,058</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow related to pensions	687,788	794,196
Deferred inflow related to other post-employment benefits	<u>38,447</u>	<u>3,627</u>
Total Deferred Outflows of Resources	<u>726,235</u>	<u>797,823</u>
<b>NET POSITION</b>		
Net investment in capital assets	44,504,451	50,242,462
Restricted for debt service	761,447	348,679
Restricted for pensions	-	403,235
Unrestricted net position	<u>30,844,948</u>	<u>24,774,182</u>
<b>TOTAL NET POSITION</b>	<u>\$ 76,110,846</u>	<u>\$ 75,768,558</u>

See accompanying notes to financial statements.

# WAUKESHA WATER UTILITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Sales of water	\$ 11,257,748	\$ 11,319,091
Other operating revenues	<u>470,335</u>	<u>522,201</u>
Total Operating Revenues	<u>11,728,083</u>	<u>11,841,292</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	5,812,090	5,084,030
Depreciation expense	<u>2,620,258</u>	<u>2,540,732</u>
Total Operating Expenses	<u>8,432,348</u>	<u>7,624,762</u>
<b>OPERATING INCOME</b>	<u>3,295,735</u>	<u>4,216,530</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	724,877	494,971
Income from merchandising and jobbing	6,254	6,330
Other nonoperating revenues	17,451	145,177
Interest expense	(2,151,198)	(1,890,666)
Interest charged to construction	-	71,226
Amortization of premium	341,265	310,201
Amortization of loss on advance refunding	(46,743)	(46,743)
Debt issuance costs	(27,530)	(99,442)
Lobbying expense	<u>(80,826)</u>	<u>(84,738)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,216,450)</u>	<u>(1,093,684)</u>
Income Before Transfers and Capital Contributions	<u>2,079,285</u>	<u>3,122,846</u>
<b>TRANSFERS AND CONTRIBUTIONS</b>		
Capital contributions	307,656	279,016
Capital contributions - Municipal	14,280	38,103
Transfers out - Tax equivalent	<u>(2,058,933)</u>	<u>(1,874,880)</u>
Total Transfers and Contributions	<u>(1,736,997)</u>	<u>(1,557,761)</u>
<b>CHANGE IN NET POSITION</b>	342,288	1,565,085
NET POSITION - Beginning of Year	<u>75,768,558</u>	<u>74,203,473</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 76,110,846</u>	<u>\$ 75,768,558</u>

See accompanying notes to financial statements.

# WAUKESHA WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 11,469,159	\$ 11,839,881
Paid to suppliers for goods and services	(1,819,342)	(2,067,143)
Paid to employees for operating payroll	(1,877,265)	(1,856,215)
Net Cash Flows From Operating Activities	7,772,552	7,916,523
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(1,874,880)	(1,793,628)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(13,059,205)	(12,806,851)
Cost of removal of capital assets	(134,891)	(43,580)
Salvage on retirement of plant	74,338	16,594
Capital contributions received	31,170	304,706
Proceeds from debt issue	21,596,605	12,908,806
Debt issuance costs	(27,530)	(99,442)
Debt retired	(5,909,440)	(3,040,135)
Interest paid	(2,107,095)	(1,857,143)
Net Cash Flows From Capital and Related Financing Activities	463,952	(4,617,045)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	724,877	494,971
<b>Net Change in Cash and Cash Equivalents</b>	7,086,501	2,000,821
CASH AND CASH EQUIVALENTS - Beginning of Year	29,854,983	27,854,162
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 36,941,484	\$ 29,854,983
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Municipal financed additions to utility plant	\$ 14,280	\$ 38,103
Interest charged to construction	\$ -	\$ 71,226
Contributed capital assets	\$ 307,656	\$ -

See accompanying notes to financial statements.



	2019	2018
<b>RECONCILIATION OF OPERATING INCOME</b>		
<b>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 3,295,735	\$ 4,216,530
Nonoperating revenue (expense)	(57,121)	66,769
Noncash items in operating income:		
Depreciation	2,620,258	2,540,732
Depreciation charged to clearing and other utilities	167,730	174,710
Other post-employment benefit obligation	127,003	179,492
Amortization of preliminary survey and investigation	591,491	591,491
Change in assets, deferred outflows, liabilities and deferred inflows		
Customer accounts receivable	(333,348)	(263,204)
Materials and supplies	9,715	13,106
Prepayments	(10,342)	(8,195)
Pension related deferrals and liabilities	194,649	35,252
Conservation programs	19,900	20,797
Accounts payable	(1,291,823)	1,904,509
Customer deposits	(25,407)	(26,788)
Accrued liabilities	(11,477)	24,891
Due from/to municipality/sewer	2,475,589	(1,553,569)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 7,772,552</b>	<b>\$ 7,916,523</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b>		
<b>STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 21,804,097	\$ 13,571,645
Redemption account	897,421	412,032
Other special accounts	14,239,966	15,871,306
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 36,941,484</b>	<b>\$ 29,854,983</b>

See accompanying notes to financial statements.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The financial statements of Waukesha Water Utility (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental 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**

The utility is a separate enterprise fund of the City of Waukesha (municipality). The utility is managed by a utility commission. The utility provides water service to properties within the municipality.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW).

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

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.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In March 2018, the GASB issued statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The utility adopted this statement effective January 1, 2019.

In June 2018, the GASB issued Statement No. 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement establishes requirements for interest cost incurred before the end of a construction period. The utility adopted this statement effective January 1, 2019.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

##### ***Deposits and Investments***

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)**

##### ***Deposits and Investments*** (cont.)

Investment of utility funds is restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- > Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The 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.

The utility has adopted an investment policy. That policy follows the state statute for allowable 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 values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year end.

##### ***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.

##### ***Materials and Supplies***

Materials and supplies are generally used for construction, operation, and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)*

##### ***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.

##### ***Conservation Programs***

The balance represents the net of amounts spent on PSCW approved programs less the amount authorized in customer rates. The difference is carried from year to year and will be factored into future water rate cases.

##### ***Other Special Accounts***

This account consists of investments set aside for various capital projects and payment of the utility tax equivalent as follows:

	<u>2019</u>	<u>2018</u>
Equipment replacement account	\$ 12,122,040	\$ 13,969,719
Tax equivalent account	<u>2,117,926</u>	<u>1,901,587</u>
	<u>\$ 14,239,966</u>	<u>\$ 15,871,306</u>

##### ***Prepayments***

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

##### ***Preliminary Survey and Investigation***

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project or is amortized over a useful life established by the PSCW. The utility amortized \$591,491 per year in 2019 and 2018.

##### ***Property Held for Future Use***

This balance represents the value of land not currently in service but held for future use in operations.

##### ***Capital Assets***

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$3,500 and an estimated useful life in excess of three years.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)**

##### **Capital Assets (cont.)**

Capital assets of the utility are recorded at cost or the estimated acquisition value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Water Plant	
Source of supply	34 - 55
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34

##### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

##### **Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the total OPEB liability and OPEB expense, the City of Waukesha OPEB Health Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from LRLIFs fiduciary net position have been determined on the same basis as they are reported by LRLIF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### **Deferred Outflow of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

##### **Accrued Vacation Leave**

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utility.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)***

##### ***Customer Advances for Construction***

The balance represents fees collected for future capital improvements. The fees may be refundable based on rules filed with the PSCW or statutory requirements.

##### ***Customer Deposits***

This account represents amounts deposited with the utility by customers as security for payments of bills.

##### ***Long-Term Obligations***

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

##### ***Deferred Inflows of Resources***

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### ***REVENUES AND EXPENSES***

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses for 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.

##### ***Charges for Services***

Billings are rendered and recorded monthly based on metered usage. The utility does accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective December 1, 2017.

##### ***Capital Contributions***

Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net position.

# WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS***

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus*, Statement No. 93, *Replacement of Interbank Offered Rates*, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87, which was postponed by one and a half years. When they become effective, application of these standards may restate portions of these financial statements.

### ***COMPARATIVE DATA***

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

## **NOTE 2 - DEPOSITS AND INVESTMENTS**

	Carrying Value as of December 31,		Risks
	2019	2018	
Checking, savings and sweep	\$ 3,882,840	\$ 5,011,350	Custodial credit
Local Government Investment Pool	33,057,960	24,842,449	Credit
Petty Cash	684	1,184	N/A
	\$ 36,941,484	\$ 29,854,983	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

In addition, the utility has collateral or depository insurance agreements in the amount of \$6,239,403 and \$5,435,543 at December 31, 2019 and 2018 respectively.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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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, 2019 and 2018, the fair value of the LGIP's assets were substantially equal to the utility's share.

The utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

#### ***Custodial Credit Risk***

##### **Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

The utility maintains certain deposits in the same institutions as the municipality. The following is a summary of the utility's total deposit balances at these institutions.

	2019		2018	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 3,494,097	\$ 3,401,818	\$ 4,734,556	\$ 4,528,024
Chase Bank	481,022	481,022	483,326	483,326
Totals	<u>\$ 3,975,119</u>	<u>\$ 3,882,840</u>	<u>\$ 5,217,882</u>	<u>\$ 5,011,350</u>

The utility's investment policy does not address this risk.

##### **Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility did not hold any investments with custodial credit risk at December 31, 2019 and 2018.

The utility's investment policy does not address this risk.



## WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

### **NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)**

***Credit Risk***

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

The utility held investments in the Local Government Investment Pool which is an external pool that is not rated.

The utility's investment policy does not address this risk.

### **NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a schedule of interfund balances for the years ending December 31, 2019 and 2018:

Due To	Due From	2019		2018	
		Amount	Principal Purpose	Amount	Principal Purpose
Water Utility	Municipality	\$ 202,533	Capital Projects	\$ -	N/A
Water Utility	Sewer Utility	38,648	Capital Projects	-	N/A
Municipality	Water Utility	2,058,933	Tax equivalent	1,683,922	Tax equivalent, net of \$190,958 owed by City - capital projects
Sewer Utility	Water Utility	3,686,231	Amounts billed for sewer utility	1,160,419	Amounts billed for sewer utility

The following is a schedule of transfer balances for the years ending December 31, 2019 and 2018:

To	From	2019		2018	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 2,058,933	Tax equivalent	\$ 1,874,880	Tax equivalent

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 4 - RESTRICTED ASSETS**

#### ***Restricted Accounts***

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

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

Net Pension Asset - Used to report the net pension asset balance since the balance must be used to fund employee benefits.

#### ***Restricted Net Position***

The following calculation supports the amount of restricted net position:

	2019	2018
Restricted Assets		
Redemption account	\$ 897,421	\$ 412,032
Net pension asset	-	403,235
Total Restricted Assets	897,421	815,267
Current Liabilities Payable From Restricted Assets	(135,974)	(63,353)
Total Restricted Net Position as Calculated	\$ 761,447	\$ 751,914

The purpose of the restricted net position is as follows:

	2019	2018
Restricted for debt service	\$ 761,447	\$ 348,679
Restricted for pensions	-	403,235
Totals	\$ 761,447	\$ 751,914

# WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

## **NOTE 5 - CHANGES IN CAPITAL ASSETS**

A summary of changes in water capital assets for 2019 follows:

	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	193,305	8,436	4,794	196,947
Total Capital Assets Not Being Depreciated	758,863	8,436	4,794	762,505
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,772,987	498,514	302,633	9,968,868
Water treatment	5,244,634	-	-	5,244,634
Transmission and distribution	103,357,370	5,620,563	506,183	108,471,750
General	6,034,501	306,444	260,079	6,080,866
Total Capital Assets Being Depreciated	127,001,265	6,425,521	1,068,895	132,357,891
Total Capital Assets	127,760,128	6,433,957	1,073,689	133,120,396
Less: Accumulated depreciation				
Source of supply	(1,685,675)	(63,235)	(29,211)	(1,719,699)
Pumping	(3,427,996)	(379,176)	(329,973)	(3,477,199)
Water treatment	(2,337,040)	(210,078)	-	(2,547,118)
Transmission and distribution	(22,234,881)	(1,897,038)	(589,318)	(23,542,601)
General	(3,998,144)	(312,799)	(260,078)	(4,050,865)
Total Accumulated Depreciation	(33,683,736)	(2,862,326)	(1,208,580)	(35,337,482)
Construction in progress	356,771	3,240,063	3,199,364	397,470
Net Capital Assets	\$ 94,433,163			\$ 98,180,384

## WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

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### NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

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A summary of changes in water capital assets for 2018 follows:

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	190,857	2,448	-	193,305
Total Capital Assets Not Being Depreciated	756,415	2,448	-	758,863
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,840,678	42,410	110,101	9,772,987
Water treatment	5,241,948	5,186	2,500	5,244,634
Transmission and distribution	99,112,617	4,596,551	351,798	103,357,370
General	5,977,027	119,430	61,956	6,034,501
Total Capital Assets Being Depreciated	122,764,043	4,763,577	526,355	127,001,265
Total Capital Assets	123,520,458	4,766,025	526,355	127,760,128
Less: Accumulated depreciation				
Source of supply	(1,622,439)	(63,236)	-	(1,685,675)
Pumping	(3,163,476)	(376,461)	(111,941)	(3,427,996)
Water treatment	(2,129,507)	(210,033)	(2,500)	(2,337,040)
Transmission and distribution	(20,807,557)	(1,820,863)	(393,539)	(22,234,881)
General	(3,798,656)	(261,444)	(61,956)	(3,998,144)
Total Accumulated Depreciation	(31,521,635)	(2,732,037)	(569,936)	(33,683,736)
Construction in progress	272,268	138,313	53,810	356,771
Net Capital Assets	\$ 92,271,091			\$ 94,433,163

## WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

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### NOTE 6 - LONG-TERM OBLIGATIONS

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#### *Long-Term Obligations Summary*

Long-term obligation activity for the year ended December 31, 2019 is as follows:

	1/1/19			12/31/19	Due Within
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>One Year</u>
General obligation debt	\$ 51,545,000	\$ -	\$ 5,830,000	\$ 45,715,000	\$ 1,280,000
Revenue debt – direct borrowings	13,787,713	21,596,605	79,440	35,304,878	569,159
Customer advances for construction	64,917	89,202	64,917	89,202	-
Unamortized premium on debt	2,260,747	-	341,265	1,919,482	-
Other post-employment benefits	4,104,593	1,303,825	168,429	5,239,989	-
Net pension liability	<u>-</u>	<u>478,201</u>	<u>-</u>	<u>478,201</u>	<u>-</u>
Totals	<u>\$ 71,762,970</u>	<u>\$ 23,467,833</u>	<u>\$ 6,484,051</u>	<u>\$ 88,746,752</u>	<u>\$ 1,849,159</u>

Long-term obligation activity for the year ended December 31, 2018 is as follows:

	1/1/18			12/31/18	Due Within
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>One Year</u>
General obligation debt	\$ 52,445,000	\$ -	\$ 900,000	\$ 51,545,000	\$ 995,000
Revenue debt – direct borrowings	3,019,042	12,908,806	2,140,135	13,787,713	79,440
Customer advances for construction	59,419	64,917	59,419	64,917	-
Unamortized premium on debt	2,570,948	-	310,201	2,260,747	-
Other post-employment benefits	3,910,443	331,264	137,114	4,104,593	-
Net pension liability	<u>120,942</u>	<u>-</u>	<u>120,942</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 62,125,794</u>	<u>\$ 13,304,987</u>	<u>\$ 3,667,811</u>	<u>\$ 71,762,970</u>	<u>\$ 1,074,440</u>

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the years ended December 31, 2019 and 2018

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### *General Obligation Debt*

The following general obligation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Balance 12/31/19
05/23/13	2013 G.O. Refunding Bonds	10/01/32	2.00% - 4.00%	\$ 10,085,000	\$ 8,360,000
04/08/14	2014 G.O. Refunding Bonds	10/01/33	2.00% - 4.25%	4,600,000	4,145,000
05/12/15	2015 G.O. Refunding Bonds	10/01/34	2.00% - 4.00%	5,415,000	5,155,000
05/10/16	2016 G.O. Refunding Bonds	10/01/35	3.00% - 4.00%	6,280,000	6,280,000
05/10/16	Note Anticipation Notes - capital improvements	05/10/16	3.00%	17,400,000	11,890,000
05/23/17	Note Anticipation Notes - capital improvements	05/23/17	3.00%	9,885,000	9,885,000
					<u>\$ 45,715,000</u>

General obligation debt service requirements to maturity follows:

	General Obligation Debt		
	Principal	Interest	Total
2020	\$ 1,280,000	\$ 1,545,004	\$ 2,825,004
2021	13,525,000	1,336,194	14,861,194
2022	11,580,000	954,319	12,534,319
2023	1,755,000	746,844	2,501,844
2024	1,820,000	680,094	2,500,094
2025 - 2029	8,140,000	2,373,694	10,513,694
2030 - 2034	7,075,000	889,388	7,964,388
2035	540,000	21,600	561,600
	<u>\$ 45,715,000</u>	<u>\$ 8,547,137</u>	<u>\$ 54,262,137</u>

# WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

## NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

### *Revenue Debt – Direct Placement*

The following directly placed revenue debt has been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Balance 12/31/19
05/07/13	Capital improvements	05/01/33	1.925%	\$ 1,117,601	\$ 827,808
06/27/18	Capital improvements	05/01/38	1.870%	679,774	651,433
03/27/19	Capital improvements	03/27/38	1.980%	8,863,261	8,863,261
12/11/19	Capital improvements	05/01/39	1.650%	2,333,343	<u>2,333,344</u>
	Sub-total (with debt service schedule)				12,675,846
04/02/18	Bond Anticipation Notes - cap. improve.	04/01/23	variable	32,800,000	<u>22,629,032</u>
	Totals				<u>\$ 35,304,878</u>

Revenue debt service requirements to maturity follows:

	Revenue Debt – Direct Placement		
	Principal	Interest	Total
2020	\$ 569,159	\$ 232,392	\$ 801,551
2021	580,040	225,684	805,724
2022	591,130	214,488	805,618
2023	602,432	203,077	805,509
2024	613,952	191,447	805,399
2025 - 2029	3,250,447	774,811	4,025,258
2030 - 2034	3,505,473	449,318	3,954,791
2035 - 2039	<u>2,963,213</u>	<u>119,548</u>	<u>3,082,761</u>
	<u>\$ 12,675,846</u>	<u>\$ 2,410,765</u>	<u>\$ 15,086,611</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2019 and 2018 were \$539,170 and \$547,400, respectively. Total customer gross revenues as defined for the same periods were \$12,452,960 and \$12,336,263. Annual principal and interest payments are expected to require 6% of gross revenues on average.

### Bond Anticipation Notes – variable rate

On April 2, 2018, the Water Utility issued \$32.8 million of Bond Anticipation Notes (BAN) to fund \$31.1 million of permitting and design costs for the Great Water Alliance project through 2019 and to refund \$1.7 million of 2008 revenue bonds, when the bonds become callable in 2018. The BAN is considered a draw-bond debt instrument where the Utility can be reimbursed for project costs as incurred. The BAN has a final maturity of April 1, 2023 and has a variable interest rate, reset monthly, tied to the 30-day LIBOR rate. At December 31, 2019, the amount drawn from this debt issue is \$22,629,032. The average interest rate from January 2018 through December 2018 is 2.5707%. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available loan amount at the average annual interest rate.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 6 - LONG-TERM OBLIGATIONS (cont.)**

**Revenue Debt – Direct Placement (cont.)**

Bond Anticipation Notes – variable rate (cont.)

Debt service requirements to maturity are as follows, using an interest rate of 2.5707%:

	Revenue BAN – Direct Placement		
	Principal	Interest	Total
2020	\$ -	\$ 536,668	\$ 536,668
2021	-	581,725	581,725
2022	-	581,725	581,725
2023	22,629,032	290,861	22,919,893
	\$ 22,629,032	\$ 1,990,979	\$ 24,620,011

**Bond Covenant Disclosures**

The following information is provided in compliance with the resolution creating the revenue bonds:

**Insurance**

The utility is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

The utility is covered under the following insurance policies at December 31, 2019:

Type	Coverage	Expiration
General Liability	\$ 10,000,000 Each occurrence	7/1/20
Automobile	10,000,000	7/1/20

**Default Provisions**

The utility's outstanding revenue debt noted previously contain provision that (1) any delinquent payments can be deducted from any state payments that are due to the City or a special charge may be added to the taxes apportioned to and levied upon the county in which the City is located and (2) in an event of default, outstanding amounts become immediately due and payable or the interest rate may be increased to the market interest rate and (3) any delinquent payments may be intercepted from the revenue of the water system.



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the years ended December 31, 2019 and 2018

### NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

#### **Bond Covenant Disclosures (cont.)**

##### **Debt Coverage**

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (net defined earnings) must exceed 1.10 times the subsequent year debt service in 2019 and 2018, respectively. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2019 and 2018 as follows:

	2019	2018
Operating revenues	\$ 11,728,083	\$ 11,841,292
Investment income	724,877	494,971
Income from merchandising and jobbing	6,254	6,330
Less: Operation and maintenance expenses	(5,812,090)	(5,084,030)
Net Defined Earnings	\$ 6,647,124	\$ 7,258,563
Minimum Required Earnings per Resolution:		
2013 SDWLP rev. bonds subsequent year debt service	\$ 67,517	\$ 67,526
2018 SDWLP rev. bonds subsequent year debt service	40,783	40,776
2019B SDWLP rev. bonds subsequent year debt service	560,423	-
2019E SDWLP rev. bonds subsequent year debt service	132,828	-
2018 revenue bond anticipation notes calculated debt service <sup>1</sup>	1,581,917	1,556,657
Subtotal	2,383,468	1,664,959
Coverage Factor	1.10	1.10
Minimum Required Earnings	\$ 2,621,815	\$ 1,831,455
Actual Debt Coverage	2.79	4.36

1 - Loan is a variable rate draw bond debt instrument with a total availability of \$32.8 million. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available loan amount at the average annual interest rate. Average interest rate for January - December 2018 is 2.5707%.

##### **Number of Customers and Billed Volumes - Water**

The utility has the following number of customers and billed volumes for 2019 and 2018:

	Customers		Sales (000 gals)	
	2019	2018	2019	2018
Residential	17,817	17,723	852,655	881,451
Multifamily residential	1,026	1,027	369,367	376,472
Commercial	1,263	1,258	334,727	338,426
Industrial	149	149	220,675	230,557
Public authority	118	116	65,914	67,339
Irrigation	137	133	2,879	4,447
Totals	20,510	20,406	1,846,217	1,898,692

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### NOTE 7 - NET POSITION

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

**Net investment in capital assets** - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**Restricted** - This component of net position consists of constraints placed on net position 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 law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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.

The following calculation supports the water net investment in capital assets:

	2019	2018
Construction in progress	\$ 397,470	\$ 356,771
Plant in service	133,120,396	127,760,128
Accumulated depreciation	(35,337,482)	(33,683,736)
Preliminary survey and investigation	28,947,911	23,040,499
Sub-Totals	127,128,295	117,473,662
 Less: Capital related debt		
Current portion of general obligation debt	1,280,000	995,000
Current portion of revenue bonds	569,159	79,440
General obligation debt	44,435,000	50,550,000
Revenue bonds	34,735,719	13,708,273
Unamortized loss on advance refunding	(315,516)	(362,260)
Unamortized premium on debt	1,919,482	2,260,747
Sub-Totals	82,623,844	67,231,200
Total Net Investment in Capital Assets	\$ 44,504,451	\$ 50,242,462

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

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#### **General Information About the Pension Plan**

**Plan description.** The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011 and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

**Vesting.** 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, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**Benefits provided.** Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is defined as the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

**Post-retirement adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system’s consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the “floor”) set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2008	6.6 %	0.0 %
2009	-2.1	-42.0
2010	-1.3	22.0
2011	-1.2	11.0
2012	-7.0	-7.0
2013	-9.6	9.0
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	-5.0
2017	2.0	4.0
2018	2.4	17.0

**Contributions.** Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The WRS recognized \$146,343 and \$145,896 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2019 and December 31, 2018 are:

	2019		2018	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.55%	6.55%	6.70%	6.70%
Protective with Social Security	6.55%	10.55%	6.70%	10.70%
Protective without Social Security	6.55%	14.95%	6.70%	14.90%

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2019, the utility reported a liability (asset) of \$478,201 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, the City of Waukesha's proportion was 0.35376%, which was an increase of 0.01079% from its proportion measured as of December 31, 2017.

At December 31, 2018, the utility reported a liability (asset) of \$403,325 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City of Waukesha's proportion was 0.34297%, which was an increase of 0.00802% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2019, and 2018 the utility recognized pension expense of \$342,224 and \$181,595.

At December 31, 2019, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 396,511	\$ 683,983
Changes in assumption	89,128	-
Net differences between project and actual earnings on pension plan	695,563	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,075	3,805
Employer contributions subsequent to the measurement date	147,575	-
Total	\$ 1,329,852	\$ 687,788

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

At December 31, 2018, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 515,653	\$ 255,581
Changes in assumption	84,968	-
Net differences between project and actual earnings on pension plan	-	534,595
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,509	4,020
Employer contributions subsequent to the measurement date	<u>146,343</u>	<u>-</u>
Total	<u>\$ 749,473</u>	<u>\$ 794,196</u>

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date reported in the tables above will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Years Ended December 31:</u>	
2020	\$ 179,231
2021	44,117
2022	78,452
2023	192,689
2024	-
Thereafter	<u>-</u>
	<u>\$ 494,489</u>

## WAUKESHA WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

#### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

**Actuarial assumptions.** The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Actuarial valuation date	December 31, 2017	December 31, 2016
Measurement date of net pension liability (asset)	December 31, 2018	December 31, 2017
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.0%	7.2%
Discount rate	7.0%	7.2%
Salary increases		
Inflation	3.0%	3.2%
Seniority/Merit	0.1% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2018 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	1.9%	2.1%

*\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. The percentages listed above are the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions used in the December 31, 2017 actuarial valuation are based upon an experience study conducted in 2016 using experience from 2015 – 2017. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

Actuarial assumptions used in the December 31, 2016 actuarial valuation are based upon an experience study conducted in 2016 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

## WAUKESHA WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

#### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

**Long-term expected return on plan assets.** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2019 are summarized in the following table:

<u>Core Fund Asset Class</u>	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	49.0 %	45.0 %	8.1 %	5.5 %
Fixed Income	24.5	37.0	4.0	1.5
Inflation Sensitive Assets	15.5	20.0	3.8	1.3
Real Estate	9.0	7.0	6.5	3.9
Private Equity/Debt	8.0	7.0	9.4	6.7
Multi-Asset	4.0	4.0	6.7	4.1
Total Core Fund	110.0	120.0	7.3	4.5
<u>Variable Fund Asset Class</u>				
U.S. Equities	70.0	70.0	7.6	5.0
International Equities	30.0	30.0	8.5	5.9
Total Variable Fund	100.0	100.0	8.0	5.4

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2018 are summarized in the following table:

<u>Core Fund Asset Class</u>	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50.0 %	45.0 %	8.2 %	5.3 %
Fixed Income	24.5	37.0	4.2	1.4
Inflation Sensitive Assets	15.5	20.0	3.8	1.0
Real Estate	8.0	7.0	6.5	3.6
Private Equity/Debt	8.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.5	3.6
Total Core Fund	110.0	120.0	7.3	4.4
<u>Variable Fund Asset Class</u>				
U.S. Equities	70.0	70.0	7.5	4.6
International Equities	30.0	30.0	7.8	4.9
Total Variable Fund	100.0	100.0	7.9	5.0

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)**

**Single discount rate.** A single discount rate of 7.00% was used to measure the Total Pension Liability, as opposed to a discount rate of 7.20% for the prior year. This single discount rate is based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.71%. Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.9% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability..

**Sensitivity of the utility's proportionate share of the net pension liability (asset) to changes in the discount rate.** The following presents the utility's proportionate share of the net pension liability (asset) calculated using the current discount rate, as well as what the utility's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

The sensitivity analysis as of December 31, 2019 follows:

	1% Decrease to Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase to Discount Rate (8.0%)
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 1,900,414	\$ 478,201	\$ (579,328)

The sensitivity analysis as of December 31, 2018 follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 1,043,304	\$ (403,235)	\$ (1,502,648)

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/Publications/cafr.htm>.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

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#### *Health Care Benefits*

**Plan description.** The utility's defined benefit OPEB plan, Waukesha Water Retiree Benefits Plan, provides OPEB for all permanent full-time employees of the utility. The utility's other post-employment benefits plan is a single-employer defined benefit OPEB plan administered by the utility. The authority to establish and amend the benefit terms and financing requirements is granted to the Utility Commission. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

**Benefits provided.** The utility offers postemployment medical benefits for retirees and their dependents that retired with 20 years of service and were hired and were on the payroll as of January 1, 1994. The portion of the premiums paid by the utility will be in accordance with the utility policy language governing premium payment in effect for active employees. Employees hired after January 1, 1994 can choose to stay on the utility's policy on their own expense until they reached age 65. The current benefit structure is determined by the commission.

**Employees covered by benefit terms.** At December 31, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	14
Inactive plan members entitled to but not yet receiving benefit payments	1
Active plan members	<u>27</u>
Total plan members	<u>42</u>

#### ***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs***

##### **TOTAL OPEB LIABILITY**

At December 31, 2019, the utility's total OPEB liability of \$5,100,636 was measured as of December 31, 2019 and was determined by an actuarial valuation as of January 1, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

At December 31, 2018, the utility's total OPEB liability of \$3,945,189 was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2017.

# WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

## NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

### *Health Care Benefits* (cont.)

#### CHANGES IN THE TOTAL OPEB LIABILITY

	2019	2018
<b>Balances at January 1</b>	\$ 3,945,189	\$ 3,910,443
<b>Changes for the year:</b>		
Service Cost	41,084	32,988
Interest	109,623	137,865
Changes of benefit terms	-	-
Differences between expected and actual experience	103,970	-
Changes in assumptions or other inputs	1,032,061	-
Benefit payments	(131,291)	(136,107)
<b>Net changes</b>	1,155,447	34,746
<b>Balances at December 31</b>	\$ 5,100,636	\$ 3,945,189

At December 31, 2019, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 95,306	\$ -
Changes in assumptions	946,056	-
<b>Total</b>	\$ 1,041,362	\$ -

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

#### Years Ended December 31:

2020	\$	94,669
2021		94,669
2022		94,669
2023		94,669
2024		94,669
Thereafter		568,017
		\$ 1,041,362

## WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

#### *Health Care Benefits* (cont.)

#### **OPEB EXPENSE**

The utility recognized OPEB expense of \$245,376 and \$170,853 in 2019 and 2018, respectively.

**Sensitivity of the total OPEB liability to changes in the discount rate.** The following presents the total OPEB liability of the utility, as well as what the utility's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

The sensitivity analysis as of December 31, 2019 follows:

	1% Decrease to Discount Rate (1.75%)	Current Discount Rate (2.75%)	1% Increase to Discount Rate (3.75%)
Net OPEB liability	\$ 5,919,917	\$ 5,100,636	\$ 4,430,579

The sensitivity analysis as of December 31, 2018 follows:

	1% Decrease to Discount Rate (2.5%)	Current Discount Rate (3.5%)	1% Increase to Discount Rate (4.5%)
Net OPEB liability	\$ 4,585,445	\$ 3,945,189	\$ 3,423,113

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.** The following presents the total OPEB liability of the utility, as well as what the utility's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

The sensitivity analysis as of December 31, 2019 follows:

	1% Decrease to Healthcare Cost Trend Rate (12.4% Decreasing to 4.0%)	Current Healthcare Cost Trend Rate (13.4% Decreasing to 5.0%)	1% Increase to Healthcare Cost Trend Rate (14.4% Decreasing to 6.0%)
Net OPEB liability	\$ 4,413,009	\$ 5,100,636	\$ 5,935,028

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the years ended December 31, 2019 and 2018

### **NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)**

#### **Health Care Benefits (cont.)**

The sensitivity analysis as of December 31, 2018 follows:

	1% Decrease to Healthcare Cost Trend Rate (5.5% Decreasing to 4.0%)	Current Healthcare Cost Trend Rate (6.5% Decreasing to 5.0%)	1% Increase to Healthcare Cost Trend Rate (7.5% Decreasing to 6.0%)
Net OPEB liability	\$ 3,358,246	\$ 3,945,189	\$ 4,755,323

**Actuarial assumptions and other inputs.** The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2019	2018
Actuarial valuation date	January 1, 2019	January 1, 2017
Measurement date of net pension liability (asset)	December 31, 2019	December 31, 2018
Actuarial cost method	Entry age	Entry age
Long-term expected rate of return	2.75%	3.5%
Discount rate	2.75%	3.5%
Salary increases	2.0%	2.0%
Retirees' share of benefit-related costs	13.4 percent for 2020, 6.75% in 2021, decreasing 0.5% every two years to an ultimate rate of 5.0%	6.5% for 2019, decreasing 0.5% every two years to an ultimate rate of 5.0% for 2025 and beyond
Retirees' share of benefit-related costs	PPO - \$1,500 per member, \$3,000 per family	PPO - \$1,500 per member, \$3,000 per family Non-PPO - \$2,000 per member, \$4,000 per family

Mortality rates were based on a blend of the Death In Service and Retired Lives mortality rates from the "Wisconsin Retirement System 2015 – 2017 Experience Study" with the MP 2018 generational improvement scale. The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the years 2015 – 2017.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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#### *Local Retiree Life Insurance Fund (LRLIF)*

**Plan description.** The LRLIF is a multiple-employer defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides post-employment life insurance benefits for all eligible employees. ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

**Vesting.** 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 or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

**Benefits provided.** The LRLIF plan provides fully paid up life insurance benefits for post-age 64 retired employees and pre-65 retirees who pay for their coverage.

**Contributions.** The Group Insurance Board approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contribution based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

Contribution rates for the plan year reported as of December 31, 2019 are:

<u>Coverage Type</u>	<u>Employer Contribution</u>
50% Post Retirement Coverage	40% of employee contribution
25% Post Retirement Coverage	20% of employee contribution

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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#### *Local Retiree Life Insurance Fund (LRLIF) (cont.)*

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the plan year are as listed below:

#### Life Insurance Employee Contribution Rates For the Plan Year

<u>Attained Age</u>	<u>Basic</u>
Under 30	\$0.05
30-34	0.06
34-39	0.07
40-44	0.08
45-49	0.12
50-54	0.22
55-59	0.39
60-64	0.49
65-69	0.57

The LRLIF recognized \$1,111 and \$1,044 in contributions from the employer during the current and prior reporting periods, respectively.

#### ***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs***

At December 31, 2019, the utility reported a liability of \$139,353 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net OPEB liability was based on the utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018, City of Waukesha's proportion was 0.73424800%, which was an increase of 0.0139% from its proportion measured as of December 31, 2017.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the years ended December 31, 2019 and 2018

### **NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)**

#### ***Local Retiree Life Insurance Fund (LRLIF) (cont.)***

At December 31, 2018, the utility reported a liability of \$159,404 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net OPEB liability was based on the utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, City of Waukesha's proportion was 0.72034700%.

For the years ended December 31, 2018 and 2019, the utility recognized OPEB expense of \$144,746 and \$13,962, respectively.

At December 31, 2019, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 7,071
Changes in assumption	13,297	30,207
Net differences between project and actual earnings on OPEB plan	3,331	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,397	1,169
Employer contributions subsequent to the measurement date	<u>1,111</u>	<u>-</u>
Total	<u>\$ 20,136</u>	<u>\$ 38,447</u>

At December 31, 2018, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,247
Changes in assumption	15,404	-
Net differences between project and actual earnings on OPEB plan	1,837	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,380
Employer contributions subsequent to the measurement date	<u>1,044</u>	<u>-</u>
Total	<u>\$ 18,285</u>	<u>\$ 3,627</u>



# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

### **NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)**

\$1,111 reported as deferred outflows related to OPEB resulting from the LRLIF Employer's contributions subsequent to the measurement date will be recognized as a reduction of net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended December 31:		
2020	\$	(2,564)
2021		(2,564)
2022		(2,564)
2023		(3,032)
2024		(3,514)
Thereafter		(5,184)
	<b>\$</b>	<b>(19,422)</b>

**Actuarial assumptions.** The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Actuarial valuation date	January 1, 2018	January 1, 2017
Measurement date of net OPEB liability (asset)	December 31, 2018	December 31, 2017
Actuarial cost method	Entry age normal	Entry age normal
20-Year tax-exempt municipal bond yield	4.10%	3.44%
Long-term expected rate of return	5.0%	5.0%
Discount rate	4.22%	3.63%
Salary increases		
Inflation	3.0%	3.2%
Seniority/Merit	0.1% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2018 Mortality Table	Wisconsin 2012 Mortality Table

**Long-term expected return on plan assets.** The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the LRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the LRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A-Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

## WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

### NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

**Local OPEB Life Insurance  
Asset Allocation Targets and Expected Returns  
As of December 31, 2018**

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return %
US Government Bonds	Barclays Government	1%	1.44%
US Credit Bonds	Barclays Credit	40	2.69
US Long Credit Bonds	Barclays Long Credit	4	2.25
US Mortgages	Barclays MBS	54	2.25
US Mortgages	Barclays MBS	1	1.68
Inflation			2.3
Long-Term Expected Rate of Return			5.0

**Local OPEB Life Insurance  
Asset Allocation Targets and Expected Returns  
As of December 31, 2017**

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return %
US Government Bonds	Barclays Government	1%	1.13%
US Credit Bonds	Barclays Credit	65	2.61
US Long Credit Bonds	Barclays Long Credit	3	3.08
US Mortgages	Barclays MBS	31	2.19
Inflation			2.3
Long-Term Expected Rate of Return			5.0

**Single discount rate.** A single discount rate was used to measure the total OPEB liability (4.22% for 2019 and 3.63% for 2018). The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient.

**Sensitivity of the utility's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the utility's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the utility's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

# WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2019 and 2018

## **NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)**

The sensitivity analysis as of December 31, 2019 follows:

	1% Decrease to Discount Rate (3.22%)	Current Discount Rate (4.22%)	1% Increase to Discount Rate (5.22%)
Waukesha Water Utility's proportionate share of the net OPEB liability	\$198,238	\$139,353	\$93,935

The sensitivity analysis as of December 31, 2018 follows:

	1% Decrease to Discount Rate (2.63%)	Current Discount Rate (3.63%)	1% Increase to Discount Rate (4.63%)
Waukesha Water Utility's proportionate share of the net OPEB liability	\$225,298	\$159,404	\$108,837

***OPEB plan fiduciary net position.*** Detailed information about the OPEB plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

## **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

From time to time, the utility is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings, except as noted, will have a material adverse effect on the utility's financial position or results of operation.

On April 12, 1992, the State of Wisconsin commenced a legal action against the utility entitled State of Wisconsin, Department of Natural Resources vs. City of Waukesha Water Utility. Case No. 91-CV-1027 Circuit Court, Waukesha County, Wisconsin, case number 92-2530, Court of Appeals and Supreme Court of the State of Wisconsin. In that case the State requested judgment against the utility for (1) an injunction requiring the utility to bring its water supply system into compliance with Wisconsin Administrative Code No 109.50(1); (2) the forfeitures provided for in sections 144.99 Stats., for past violations of Wisconsin Administrative Code Sec. NR 109.50; (3) a penalty assessment pursuant to Sect. 165.87(2) (Stats.).

Although the Federal legislation underpinning EPA regulations of radionuclides had been renewed, the EPA examined the 1996 amendments to the Safe Drinking Water Act and took the position that the contaminant level (MCL) of 5 pCi/L of radium in drinking water for Ra 226 and Ra 228, combined. The EPA conducted a new rulemaking proceeding and published a Notice of Data Availability and concluded the rulemaking in 2000.

# WAUKESHA WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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### **NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)**

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In December 2000, the EPA finalized its rule for radium 226 and 228. In response to this rule, the City of Waukesha, doing business as the City of Waukesha Water Utility, petitioned the United States Court of Appeals, District of Columbia Circuit, in Washington, D.C. to review the rule promulgated by the EPA. The case City of Waukesha, et al. v. EPA, 01 1028, was heard on November 20, 2002. On February 25, 2003 the United States Court of Appeals ruled in favor of the EPA. As such, the municipality terminated the legal process and began negotiation with the Wisconsin Department of Natural Resources (WDNR) to develop a consent order/compliance agreement to bring the water supply into compliance with the radium standard. The municipality entered into a consent order/compliance agreement with the WDNR on December 19, 2003, and immediately began working towards compliance.

The agreement required the utility to develop new shallow wells, install treatment at some of the existing wells and blend the non-compliant water with the compliant water to bring the water supply into compliance with the radium standards. The cost of the improvements was approximately thirteen million five hundred thousand dollars (\$13,500,000). The utility balanced the radium compliance projects with the other projects that were planned to become part of the long-term water supply strategy.

On September 22, 2008 the City of Waukesha was referred to the Department of Justice for Alleged Violations of Consent Order #2003 SEEE 107, by not meeting the December 8, 2006 timeline for providing drinking water that meets the Safe Drinking Water Standards for Radium. The Waukesha Water Utility worked with its legal counsel and the City of Waukesha Attorney to negotiate a settlement with the Department of Justice.

A settlement was successfully negotiated and was filed with the Clerk of Circuit Court in Waukesha County on March 30, 2009. The agreement required the City of Waukesha Water Utility to pay a judgment comprised of forfeitures and fees in the amount of fifty five thousand (\$55,000). It also recognized the efforts the utility made in regards to capital projects and water conservation. In addition, the utility was allowed to operate under strict operating conditions until June 30, 2018. At that date, the city was to be in complete compliance with all federal and state drinking water radionuclide standards which require that the radionuclide-compliant water can be provided in the event of failure of the system's largest well. This may be accomplished by some combination of obtaining a new source of compliant water and by treating for radionuclide-removal and/or new sources of water. If the city fails to meet the strict operating guidelines before final compliance is accomplished, the city will be required to discontinue the supply of non-radionuclide-compliant water to the distribution system and shall meet state and federal radionuclide standards within three (3) years of such failure.

As a solution to the radionuclide issue, the City of Waukesha started an investigation of water supply alternatives. As a result, the City of Waukesha submitted an application for Great Lakes Water with the Wisconsin Department of Natural Resources (WDNR). This application was updated in October 2013.

In January 2016, the WDNR concluded that Waukesha had no reasonable water supply alternative and qualifies for water under the Great Lakes Compact. It submitted the City of Waukesha's proposal to borrow Lake Michigan water to the governors and premiers of the other Great Lakes states and provinces.

On June 21, 2016 the Great Lakes-St. Lawrence River Basin Water Resources Council approved Waukesha's application to secure water from Lake Michigan.

On August 19, 2016 Great Lakes and St. Lawrence Cities Initiative submitted a request for a hearing and Compact Council consideration of their Final Decision in the matter of Application by the City of Waukesha, Wisconsin for a diversion of Great Lakes water.

## WAUKESHA WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018

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#### **NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)**

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The utility hired a Program Manager to complete the related permitting and design, a Construction Manager to perform constructability reviews and manage construction activities and a construction audit firm to review the resulting financial transactions. Construction of the infrastructure assets to bring Great Lakes water to the City of Waukesha is expected to begin in the summer of 2020.

**REQUIRED SUPPLEMENTARY INFORMATION**

## WAUKESHA WATER UTILITY

### SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS HEALTH INSURANCE

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>			
Service Cost	\$ 41,084	\$ 32,988	\$ 35,013
Interest	109,623	137,865	135,768
Changes of benefit terms	-	-	-
Differences between expected and actual experience	103,970	-	-
Changes in assumptions or other inputs	1,032,061	-	-
Benefit payments	<u>(131,291)</u>	<u>(136,107)</u>	<u>(104,412)</u>
<b>Net change in Total OPEB Liability</b>	1,155,447	34,746	66,369
<b>Total OPEB Liability - Beginning</b>	<u>3,945,189</u>	<u>3,910,443</u>	<u>3,844,074</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 5,100,636</u>	<u>\$ 3,945,189</u>	<u>\$ 3,910,443</u>
<b>Covered employee payroll</b>	\$ 2,276,756	\$ 2,233,038	\$ 2,118,960
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	224.03%	176.67%	184.55%

#### Notes to Schedule:

##### Valuation date:

Actuarial valuation date for December 31, 2019 is as of January 1, 2019.

Methods and assumptions used to determine the total OPEB liability:

Actuarial cost method	Entry age normal
Amortization method	20 year level percent
Amortization period	20 years
Asset valuation	5-year smoothed market
Inflation	2.75 percent
Healthcare cost trend rates	13.4 percent in 2020, 6.75 percent in 2021, decreasing 0.5 percent every 2 years to an ultimate rate of 5.0 percent
Salary increases	2.0 percent, average, including inflation
Investment rate of return	2.75 percent
Retirement age	Expected retirement ages of employees were developed from a 2015-2017 Experience Study
Mortality	Expected mortality rates were developed from a 2015-2017 Experience Study with the MP-2018 generational improvement scale.

No assets were accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4, to pay related benefits.

The Utility implemented GASB Statement No. 75 in fiscal year 2017. Information prior to fiscal year 2017 is not available.

See independent auditors' report and accompanying notes to required supplementary information.

## WAUKESHA WATER UTILITY

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) - LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) For the Years Ended December 31, 2019 and 2018

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

WRS Year End Date	Proportion of the Net OPEB Liability (Asset) - City	Utility's Proportionate Share of the Net OPEB Liability (Asset)	Covered Payroll	Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
12/31/19	0.73424800%	\$ 139,353	\$ 2,673,247	5.21%	48.69%
12/31/18	0.72034700%	159,404	2,228,085	7.15%	44.81%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) For the Years Ended December 31, 2019 and 2018

Fiscal Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/19	\$ 1,111	\$ 1,111	-	\$ 2,253,048	0.05%
12/31/18	1,044	1,044	-	2,184,218	0.05%

#### Notes to Schedules:

##### **Local Retiree Life Insurance Fund (LRLIF)**

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The Utility is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

*Changes in benefit terms.* There were no changes of benefit terms for any participating employer in the Local Retiree Life Insurance Fund (LRLIF).

*Changes in assumptions.* There were no changes in assumptions.



## WAUKESHA WATER UTILITY

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM

For the Years Ended December 31, 2019 and 2018

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

WRS Year End Date	Proportion of the Net Pension Liability (Asset) - City	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
12/31/19	0.35375569%	\$ 478,201	\$ 2,184,218	21.89%	96.45%
12/31/18	0.34296598%	(403,325)	2,145,520	18.80%	102.93%
12/31/17	0.33494529%	120,942	2,171,284	5.57%	99.12%
12/31/16	0.33038575%	225,396	1,979,742	11.39%	98.20%
12/31/15	0.33058285%	(344,769)	1,956,957	17.62%	102.74%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM

For the Years Ended December 31, 2019 and 2018

Fiscal Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/19	\$ 147,575	\$ 147,575	\$ -	\$ 2,253,044	6.55%
12/31/18	146,343	146,343	-	2,184,218	6.70%
12/31/17	145,898	145,898	-	2,145,520	6.80%
12/31/16	143,305	143,305	-	2,171,284	6.60%
12/31/15	134,622	134,622	-	1,979,742	6.80%

#### Notes to Schedules:

##### **Wisconsin Retirement System**

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumptions.*

	2015 - 2018	2019
Long-term expected rate of return	7.2%	7.0%
Discount rate	7.2%	7.0%
Salary increases		
Inflation	3.2%	3.0%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments	2.10%	1.90%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

See independent auditors' report and accompanying notes to required supplementary information.

**SUPPLEMENTAL INFORMATION**

# WAUKESHA WATER UTILITY

WATER UTILITY PLANT  
For the Years Ended December 31, 2019

	Balance 1/1/19	Additions	Retirements	Balance 12/31/19
<b>INTANGIBLE</b>				
Miscellaneous intangible plant	\$ 193,305	\$ 8,436	\$ 4,794	\$ 196,947
<b>SOURCE OF SUPPLY</b>				
Land and land rights	204,625	-	-	204,625
Wells and springs	1,507,630	-	-	1,507,630
Supply mains	1,084,143	-	-	1,084,143
Total Source of Supply	2,796,398	-	-	2,796,398
<b>PUMPING</b>				
Land and land rights	181,670	-	-	181,670
Structures and improvements	4,591,194	10,580	1,967	4,599,807
Electric pumping equipment	5,181,793	487,934	300,666	5,369,061
Total Pumping	9,954,657	498,514	302,633	10,150,538
<b>WATER TREATMENT</b>				
Structures and improvements	2,785,733	-	-	2,785,733
Water Treatment equipment	2,458,901	-	-	2,458,901
Total Water Treatment	5,244,634	-	-	5,244,634
<b>TRANSMISSION AND DISTRIBUTION</b>				
Land and land rights	110,083	-	-	110,083
Distribution reservoirs and standpipes	6,477,305	-	-	6,477,305
Transmission and distribution mains	71,919,942	4,314,778	231,640	76,003,080
Services	13,829,670	712,686	15,543	14,526,813
Meters	4,196,476	159,239	236,837	4,118,878
Hydrants	6,933,977	433,860	22,163	7,345,674
Total Transmission and Distribution	103,467,453	5,620,563	506,183	108,581,833
<b>GENERAL</b>				
Land and land rights	69,180	-	-	69,180
Structures and improvements	2,246,923	54,103	47,500	2,253,526
Office furniture and equipment	181,737	-	-	181,737
Computer equipment	576,011	26,505	-	602,516
Transportation equipment	965,139	45,217	27,876	982,480
Stores equipment	9,764	-	-	9,764
Tools, shop and garage equipment	461,246	-	-	461,246
Laboratory equipment	5,842	-	-	5,842
Power-operated equipment	658,734	141,532	108,542	691,724
Communication equipment	64,714	-	-	64,714
SCADA equipment	864,391	39,087	76,161	827,317
Total General	6,103,681	306,444	260,079	6,150,046
<b>TOTAL WATER UTILITY PLANT</b>	\$ 127,760,128	\$ 6,433,957	\$ 1,073,689	\$ 133,120,396

# WAUKESHA WATER UTILITY

## OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Sales of Water		
Metered		
Residential	\$ 4,808,096	\$ 4,887,167
Multifamily residential	1,537,165	1,550,064
Commercial	1,433,053	1,425,857
Industrial	760,455	788,371
Public authorities	272,961	276,268
Irrigation	32,821	35,664
Total Metered Sales	8,844,551	8,963,391
Private fire protection	257,623	247,886
Public fire protection	2,155,574	2,107,814
Total Sales of Water	11,257,748	11,319,091
Other Operating Revenues		
Forfeited discounts	150,238	135,782
Rents from water property	230,640	229,715
Other	89,457	156,704
Total Operating Revenues	11,728,083	11,841,292
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	2,725	-
Miscellaneous	592,001	591,876
Maintenance		
Supervision and engineering	16,346	11,139
Wells and springs	3,600	4,000
Total Source of Supply	614,672	607,015
Pumping		
Operation supervision and engineering	38,911	37,442
Fuel or purchased power for pumping	673,407	684,689
Pumping labor	30,700	37,639
Miscellaneous	29,489	36,728
Maintenance		
Supervision and engineering	9,202	10,509
Structures and improvements	77,122	53,272
Pumping equipment	156,752	40,070
Total Pumping	1,015,583	900,349
Water Treatment		
Operation supervision and engineering	16,428	4,716
Chemicals	144,488	159,885
Operation labor	260,494	222,509
Miscellaneous	340	697
Maintenance		
Supervision and engineering	-	-
Structures and improvements	292	1,445
Water treatment equipment	26,382	31,826
Total Water Treatment	448,424	421,078

## WAUKESHA WATER UTILITY

### OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 40,052	\$ 32,140
Storage facilities	295,899	188,395
Transmission and distribution lines	138,146	146,387
Meters	64,567	60,633
Customer installations	21,850	48,953
Miscellaneous	119,438	120,254
Maintenance		
Supervision and engineering	32,319	26,968
Reservoirs and standpipes	73	309
Fire mains	505,636	328,380
Services	328,126	280,961
Meters	2,717	2,353
Hydrants	62,706	56,283
Miscellaneous	29,429	30,443
Total Transmission and Distribution	1,640,958	1,322,459
Customer Accounts		
Supervision	13,732	13,808
Meter reading	10,404	11,488
Accounting and collecting labor	123,301	121,662
Uncollectible accounts	6,594	6,469
Miscellaneous	5,491	7,026
Total Customer Accounts	159,522	160,453
Sales	62,271	62,271
Administrative and General		
Salaries	272,844	245,763
Office supplies	135,488	109,683
Outside services employed	60,206	20,003
Property insurance	69,902	69,981
Injuries and damages	21,740	17,462
Employee pensions and benefits	995,050	884,516
Regulatory commission	26,929	4,786
Miscellaneous	29,926	29,471
Maintenance	139,425	111,834
Total Administrative and General	1,751,510	1,493,499
Taxes	119,150	116,906
Total Operation and Maintenance	5,812,090	5,084,030
Depreciation	2,620,258	2,540,732
Total Operating Expenses	8,432,348	7,624,762
<b>OPERATING INCOME</b>	<b>\$ 3,295,735</b>	<b>\$ 4,216,530</b>