

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, 2018 and 2017

WAUKESHA WATER UTILITY

An Enterprise Fund of the City of Waukesha, Wisconsin

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

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, 2018 and 2017. You are invited to read this narrative in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total net position increased by \$1,565,000 to \$75,768,000 in 2018, an increase of 2.11%. Responsibility for this increase is shared by revenues in excess of expenses and capital contributions.
 - ❖ Operating revenues, generated mostly by rate payers, increased by \$821,000, or 7.45% in 2018. This was primarily due to an increase in rates that was granted by the Public Service Commission of Wisconsin (PSCW) effective December 1, 2017.
 - ❖ Operation and maintenance expenses decreased by \$1,130,000 or 18.18% in 2018. In 2017, additional amortization costs related to the Great Water Alliance project inflated expenses. This amortization was done under the direction of the PSCW.
 - ❖ Year-end Cash and Equivalents increased by \$2,001,000 in 2018 as a result of an increase in cash from operating activities and proceeds from a debt issue.
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OVERVIEW OF THE FINANCIAL STATEMENTS

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.

REQUIRED FINANCIAL STATEMENTS

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.

See accompanying independent Auditor's Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

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.

UTILITY FINANCIAL ANALYSIS

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, 2018 and 2017.

NET POSITION

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

Table 1
Condensed Statement of Net Position
2018, 2017, and 2016
(000's)

	2018	2017	2016	2018 v. 2017		2017 v. 2016	
				Change		Change	
Current Assets	\$ 35,842	\$ 30,354	\$ 28,567	\$ 5,488	18.08 %	\$ 1,787	6.26 %
Net Capital Assets	94,433	92,271	92,484	2,162	2.34	(213)	(0.23)
Other Noncurrent Assets	24,270	19,532	10,768	4,738	24.26	8,764	81.39
Total Assets	154,545	142,157	131,819	12,388	8.71	10,338	7.84
Deferred Outflows of Resources	1,130	1,287	1,726	(157)	(12.20)	(439)	(25.43)
Long Term Debt Outstanding	64,258	54,804	45,579	9,454	17.25	9,225	20.24
Other Liabilities	14,851	14,073	10,315	778	5.53	3,758	36.43
Total Liabilities	79,109	68,877	55,894	10,232	14.86	12,983	23.23
Deferred Inflows of Resources	798	364	474	434	119.23	(110)	(23.21)
Net Investment in Capital Assets	50,242	52,759	51,916	(2,517)	(4.77)	843	1.62
Restricted Assets	752	565	487	187	33.10	78	16.02
Unrestricted Assets	24,774	20,879	24,773	3,895	18.66	(3,894)	(15.72)
Total Net Position	\$ 75,768	\$ 74,203	\$ 77,176	\$ 1,565	2.11 %	\$ (2,973)	(3.85) %

See accompanying independent Auditor's Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

As shown in Table 1, total net position increased by \$1,565,000 to \$75,768,000 in 2018, an increase of 2.11%. Revenues in excess of expenses and capital contributions account for the increase in net position.

Total net position decreased by \$2,973,000 to \$74,203,000 in 2017, a decrease of 3.85%. A change in accounting principle due to the implementation of GASB 75 required a restatement of the other post-employment benefits obligation by \$2.67 million, with an increase in interest expense accounting for the remainder of the decrease 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
2018, 2017, and 2016
(000's)

	2018	2017	2016	2018 v. 2017 Change		2017 v. 2016 Change	
Operating Revenues	\$ 11,841	\$ 11,020	\$ 11,212	\$ 821	7.45 %	\$ (192)	(1.71) %
Non-operating Revenues	718	345	296	373	108.12	49	16.55
Total Revenues	12,559	11,365	11,508	1,194	10.51	(143)	(1.24)
Depreciation Expense	2,541	2,473	2,343	68	2.75	130	5.55
Other Operating Expense	5,084	6,214	4,391	(1,130)	(18.18)	1,823	41.52
Non-operating Expense	1,811	1,826	1,373	(15)	(0.82)	453	32.99
Total Expense	9,436	10,513	8,107	(1,077)	(10.24)	2,406	29.68
Income before Capital Contributions and Transfers	3,123	852	3,402	2,271	266.55	(2,550)	(74.96)
Capital Contributions	279	639	1,682	(360)	(56.34)	(1,043)	(62.01)
Capital Contributions - Municipal	38	3	38	35	1,166.67	(35)	(92.11)
Transfers - Tax Equivalent	(1,875)	(1,794)	(1,775)	(81)	(4.52)	(19)	(1.07)
Changes in Net Assets	1,565	(299)	3,348	1,864	623.41	(3,647)	(108.93)
Beginning Net Assets	74,204	77,176	73,828	(2,972)	(3.85)	3,348	4.53
Cumulative Effect - Change in Accounting Principle	-	(2,673)	-	2,673	100.00	(2,673)	(100.00)
Ending Net Assets	<u>\$ 75,768</u>	<u>\$ 74,204</u>	<u>\$ 77,176</u>	<u>\$ 1,564</u>	<u>2.11 %</u>	<u>\$(2,972)</u>	<u>(3.85) %</u>

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

Operating revenues in 2017 decreased by \$192,000 as a result of continued conservation efforts in all customer classes. Non-operating revenues increased in 2017 by \$49,000, or 16.55%. An increase in investment income is the main factor for the increase.

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 amortization costs related to the Great Water Alliance project inflated expenses. Non-operating expenses were consistent with the previous year and decreased only \$15,000.

Depreciation expense in 2017 increased by \$130,000 due to the addition of capital assets. Other operating expenses increased by \$1,823,000 or 41.52%. Under the direction of the PSCW, amortization of Great Water Alliance costs was recorded as an expense in 2017. Non-operating expenses increased 32.99% due to debt interest expense.

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.

Capital contributions decreased in 2017 by \$1,043,000 or 62.01% due to fewer developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$19,000.

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

The cumulative effect of a change in accounting principle decreased net assets in 2017 by \$2,673,000. The Utility implemented GASB 75, which restates the current other post employee benefit (OPEB) liability to the actuarial present value of future payments on the financial statements.

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
2018, 2017, and 2016
(000's)

	2018	2017	2016	2018 v. 2017 Change		2017 v. 2016 Change	
Cash Flows From:							
Operating Activities	\$ 7,917	\$ 6,380	\$ 7,682	\$ 1,537	24.09 %	\$(1,302)	(16.95) %
Paid to Municipality - Tax Equivalent	(1,794)	(1,775)	(1,777)	(19)	1.07	2	(0.11)
Capital and Related Financing Activities	(4,617)	(7,639)	3,076	3,022	39.56	(10,715)	(348.34)
Investing Activities	495	293	137	202	68.94	156	113.87
Net Change in Cash and Equivalents	2,001	(2,741)	9,119	4,742	173.00	(11,859)	(130.05)
Cash and Equivalents Beginning of Year	27,854	30,595	21,476	(2,741)	(8.96)	9,119	42.46
Cash and Equivalents End of Year	<u>\$ 29,855</u>	<u>\$ 27,854</u>	<u>\$ 30,595</u>	<u>\$ 2,001</u>	<u>7.18 %</u>	<u>\$(2,741)</u>	<u>(8.96) %</u>

See accompanying independent Auditor's Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

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.

Year-end Cash and Equivalents decreased by \$2,741,000 in 2017. All debt proceeds from the 2016 issue, along with some of the 2017 debt proceeds, were spent on capital related activity and the Great Water Alliance project.

CAPITAL ASSETS

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
2018, 2017, and 2016
(000's)

	2018	2017	2016	2018 v. 2017		2017 v. 2016	
				Change		Change	
Land & Land Rights	\$ 566	\$ 566	\$ 566	\$ -	- %	\$ -	- %
Intangible	193	191	187	2	1.05	4	2.14
Source of Supply	2,592	2,592	2,592	-	-	-	-
Pumping	9,773	9,841	9,683	(68)	(0.69)	158	1.63
Water Treatment	5,245	5,242	5,234	3	0.06	8	0.15
Transmission and							
Distribution	103,357	99,113	95,669	4,244	4.28	3,444	3.60
General	6,034	5,977	5,858	57	0.95	119	2.03
Total Capital Assets	127,760	123,521	119,789	4,239	3.43	3,733	3.12
Accumulated Depreciation	(33,684)	(31,522)	(29,414)	(2,162)	6.86	(2,108)	7.17
Construction in Progress	357	272	2,109	85	31.25	(1,837)	(87.10)
Net Capital Assets	\$ 94,433	\$ 92,271	\$ 92,484	\$ 2,162	2.34 %	\$ (212)	(0.23) %

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.

The Utility's capital assets increased by \$3.73 million, or 3.12% in 2017. Increases in developer contributions totaled \$639,000. The balance is due to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$552,000 in assets were retired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2018 and 2017

LONG-TERM DEBT

The Utility had revenue bonds of \$12.23 million and \$2.09 million (excluding the Safe Drinking Water Loan) outstanding as of December 31, 2018 and 2017, respectively. The 2018 outstanding revenue bonds funded routine capital replacements and Great Water Alliance improvements and refinanced the revenue bonds outstanding in 2017. The revenue bonds outstanding in 2017 funded various construction projects that involved five wells, upgraded treatment facilities, and a larger tower. Safe Drinking Water Loans were secured by revenue bonds in 2013 and 2018 with an outstanding balance of \$1,559,000 as of December 31, 2018. 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 \$51,545,000 in 2018 and \$52,445,000 in 2017. The debt originated from offerings issued in 2013, 2014, 2015, 2016, and 2017. The debt is funding capital replacements and Great Water Alliance improvements.

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

ECONOMIC FACTORS AND FUTURE PLANNING

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.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

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 Ciarro, 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 jciarro@waukesha-water.com.

WAUKESHA WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 13,571,645	\$ 11,257,955
Other special accounts	15,871,306	12,756,134
Restricted Assets		
Redemption account	412,032	590,665
Receivables		
Accounts	3,782,907	3,622,249
Unbilled revenue	1,595,812	1,540,368
Other	54,889	27,979
Materials and supplies	400,692	413,798
Prepayments	153,160	144,965
Conservation programs	-	95
Total Current Assets	35,842,443	30,354,208
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	-	475,848
Capital improvement account	-	2,773,560
Net pension asset	403,235	-
Other Assets		
Preliminary survey and investigation	23,431,490	15,847,283
Property held for future use	435,090	435,090
Capital Assets		
Plant in service	127,760,128	123,520,458
Accumulated depreciation	(33,683,736)	(31,521,635)
Construction in progress	356,771	272,268
Total Noncurrent Assets	118,702,978	111,802,872
Total Assets	154,545,421	142,157,080
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	362,260	409,003
Deferred outflow related to pensions	749,473	878,297
Deferred outflow related to other post-employment benefits	18,285	-
Total Deferred Outflows of Resources	1,130,018	1,287,300

See accompanying notes to financial statements.

	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 3,538,323	\$ 1,523,768
Due to municipality	1,683,922	1,793,628
Due to sewer utility	1,160,419	2,523,030
Customer deposits	161,492	188,280
Conservation programs	20,702	-
Accrued wages	108,076	96,566
Accrued interest	360,332	364,832
Accrued vacation leave	249,469	236,088
Current portion of general obligation debt	995,000	225,000
Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	79,440	435,134
Accrued interest	63,353	25,330
Total Current Liabilities	<u>8,420,528</u>	<u>7,411,656</u>
NONCURRENT LIABILITIES		
Long-Term Debt		
General obligation debt	50,550,000	52,220,000
Revenue bonds	13,708,273	2,583,908
Unamortized premium on debt	2,260,747	2,570,948
Customer advances for construction	64,917	59,419
Other post-employment benefits	4,104,593	3,910,443
Net pension liability	-	120,942
Total Noncurrent Liabilities	<u>70,688,530</u>	<u>61,465,660</u>
Total Liabilities	<u>79,109,058</u>	<u>68,877,316</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to pensions	794,196	363,591
Deferred inflow related to other post-employment benefits	3,627	-
Total Deferred Outflows of Resources	<u>797,823</u>	<u>363,591</u>
NET POSITION		
Net investment in capital assets	50,242,462	52,759,313
Restricted for debt service	348,679	565,335
Restricted for pensions	403,235	-
Unrestricted net position	<u>24,774,182</u>	<u>20,878,825</u>
TOTAL NET POSITION	<u>\$ 75,768,558</u>	<u>\$ 74,203,473</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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales of water	\$ 11,319,091	\$ 10,479,783
Other operating revenues	522,201	540,584
Total Operating Revenues	11,841,292	11,020,367
OPERATING EXPENSES		
Operation and maintenance	5,084,030	6,213,573
Depreciation expense	2,540,732	2,473,423
Total Operating Expenses	7,624,762	8,686,996
OPERATING INCOME	4,216,530	2,333,371
NONOPERATING REVENUES (EXPENSES)		
Investment income	494,971	292,868
Income from merchandising and jobbing	6,330	3,542
Other nonoperating revenues	145,177	5,198
Interest expense	(1,890,666)	(1,733,976)
Interest charged to construction	71,226	43,497
Amortization of premium	310,201	279,729
Amortization of loss on advance refunding	(46,743)	(46,743)
Debt issuance costs	(99,442)	(54,097)
Lobbying expense	(84,738)	(271,006)
Total Nonoperating Revenues (Expenses)	(1,093,684)	(1,480,988)
Income Before Transfers and Capital Contributions	3,122,846	852,383
TRANSFERS AND CONTRIBUTIONS		
Capital contributions	279,016	638,502
Capital contributions - Municipal	38,103	3,259
Transfers out - Tax equivalent	(1,874,880)	(1,793,628)
Total Transfers and Contributions	(1,557,761)	(1,151,867)
CHANGE IN NET POSITION	1,565,085	(299,484)
NET POSITION - Beginning of Year	74,203,473	77,175,851
Cumulative effect of a change in accounting principle	-	(2,672,894)
NET POSITION - END OF YEAR	\$ 75,768,558	\$ 74,203,473

See accompanying notes to financial statements.

WAUKESHA WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 11,839,881	\$ 10,653,991
Paid to suppliers for goods and services	(2,067,143)	(2,391,955)
Paid to employees for operating payroll	(1,856,215)	(1,882,407)
Net Cash Flows From Operating Activities	7,916,523	6,379,629
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(1,793,628)	(1,774,814)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(12,806,851)	(16,157,404)
Cost of removal of capital assets	(43,580)	(76,004)
Salvage on retirement of plant	16,594	81,352
Capital contributions received	304,706	601,198
Proceeds from debt issue	12,908,806	9,885,000
Premium on long-term debt	-	282,218
Debt issuance costs	(99,442)	(54,097)
Debt retired	(3,040,135)	(419,187)
Interest paid	(1,857,143)	(1,781,865)
Net Cash Flows From Capital and Related Financing Activities	(4,617,045)	(7,638,789)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	494,971	292,868
Net Change in Cash and Cash Equivalents	2,000,821	(2,741,106)
CASH AND CASH EQUIVALENTS - Beginning of Year	27,854,162	30,595,268
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 29,854,983	\$ 27,854,162
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Municipal financed additions to utility plant	\$ 38,103	\$ 3,368
Interest charged to construction	\$ 71,226	\$ 43,497

See accompanying notes to financial statements.

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 4,216,530	\$ 2,333,371
Nonoperating revenue (expense)	66,769	(262,266)
Noncash items in operating income:		
Depreciation	2,540,732	2,473,423
Depreciation charged to clearing and other utilities	174,710	180,770
Other post-employment benefit obligation	179,492	66,339
Amortization of preliminary survey and investigation	591,491	1,624,078
Change in assets, deferred outflows, liabilities and deferred inflows		
Customer accounts receivable	(263,204)	(379,835)
Materials and supplies	13,106	66,115
Prepayments	(8,195)	(4,219)
Pension related deferrals and liabilities	35,252	176,553
Conservation programs	20,797	89,003
Accounts payable	1,904,509	(182,849)
Customer deposits	(26,788)	94,955
Accrued liabilities	24,891	6,774
Due to municipality/sewer	(1,553,569)	97,417
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 7,916,523	\$ 6,379,629
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 13,571,645	\$ 11,257,955
Redemption account	412,032	590,665
Reserve account	-	475,848
Capital improvement account	-	2,773,560
Other special accounts	15,871,306	12,756,134
CASH AND CASH EQUIVALENTS	\$ 29,854,983	\$ 27,854,162

See accompanying notes to financial statements.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 June 2015, the GASB issued Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented January 1, 2017. The cumulative impact of implementation is shown in Note 12.

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, 2018 and 2017

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. Market 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, 2018 and 2017

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>2018</u>	<u>2017</u>
Equipment replacement account	\$ 13,969,719	\$ 10,960,603
Tax equivalent account	<u>1,901,587</u>	<u>1,795,531</u>
	<u>\$ 15,871,306</u>	<u>\$ 12,756,134</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 and \$1,624,078 in 2018 and 2017, respectively.

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, 2018 and 2017

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (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. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets 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 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, 2018 and 2017

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 utilities 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, 2018 and 2017

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* and Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. 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		Risks
	December 31,		
	2018	2017	
Checking, savings and sweep	\$ 5,011,350	\$ 1,903,800	Custodial credit
U.S. Agencies	-	557,157	Custodial credit, interest rate
Local Government Investment Pool	24,842,449	25,392,361	Credit
Petty Cash	1,184	844	N/A
	<u>\$ 29,854,983</u>	<u>\$ 27,854,162</u>	

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 \$5,435,543 and \$5,411,671 at December 31, 2018 and 2017 respectively.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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, 2018 and 2017, 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.

The utility had investments in U.S. Agency Securities of \$0 and \$557,157 at December 31, 2018 and 2017 respectively. These investments were valued using a matrix pricing model (Level 2 input).

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.

	2018		2017	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 4,734,556	\$ 4,528,024	\$ 2,064,928	\$ 1,426,431
Chase Bank	483,326	483,326	477,359	477,369
Totals	<u>\$ 5,217,882</u>	<u>\$ 5,011,350</u>	<u>\$ 2,542,287</u>	<u>\$ 1,903,800</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.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

The utility maintains certain investments with the same counterparties as the municipality. The following is a summary of these investment balances disclosed by type.

	2018		2017	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Agencies	\$ -	\$ -	\$ 557,157	\$ 557,157

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

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.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2018, the utility does not hold investments with interest rate risk.

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, 2018 and 2017:

	Due To	Due From	2018		2017	
			Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,683,922	Tax equivalent, net of \$190,958 owed by City - capital projects	\$ 1,793,628	Tax equivalent	
Sewer Utility	Water Utility	1,160,419	Amounts billed for sewer utility	2,523,030	Amounts billed for sewer utility	

The following is a schedule of transfer balances for the years ending December 31, 2018 and 2017:

	To	From	2018		2017	
			Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 1,874,880	Tax equivalent	\$ 1,793,628	Tax equivalent	

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

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.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Capital Improvement - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- 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:

	2018	2017
Restricted Assets		
Redemption account	\$ 412,032	\$ 590,665
Reserve account	-	475,848
Capital improvement account	-	2,773,560
Net pension asset	403,235	-
Total Restricted Assets	815,267	3,840,073
Less: Restricted Assets Not Funded by Revenues		
Reserve account	-	(475,848)
Capital improvement account	-	(2,773,560)
Total Restricted Assets Not Funded by Revenues	-	(3,249,408)
Current Liabilities Payable From Restricted Assets	(63,353)	(25,330)
Total Restricted Net Position as Calculated	\$ 751,914	\$ 565,335

The purpose of the restricted net position is as follows:

	2018	2017
Restricted for debt service	\$ 348,679	\$ 565,335
Restricted for pensions	403,235	-
Totals	\$ 751,914	\$ 565,335

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2018 and 2017

NOTE 5 - CHANGES IN CAPITAL ASSETS

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, 2018 and 2017

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in water capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	187,488	3,369	-	190,857
Total Capital Assets Not Being Depreciated	753,046	3,369	-	756,415
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,683,240	304,097	146,659	9,840,678
Water treatment	5,234,017	14,931	7,000	5,241,948
Transmission and distribution	95,668,799	3,793,276	349,458	99,112,617
General	5,857,773	167,890	48,636	5,977,027
Total Capital Assets Being Depreciated	119,035,602	4,280,194	551,753	122,764,043
Total Capital Assets	119,788,648	4,283,563	551,753	123,520,458
Less: Accumulated depreciation				
Source of supply	(1,559,203)	(63,236)	-	(1,622,439)
Pumping	(2,899,551)	(443,902)	(179,977)	(3,163,476)
Water treatment	(1,926,650)	(209,857)	(7,000)	(2,129,507)
Transmission and distribution	(19,439,343)	(1,757,333)	(389,119)	(20,807,557)
General	(3,589,100)	(261,217)	(51,661)	(3,798,656)
Total Accumulated Depreciation	(29,413,847)	(2,735,545)	(627,757)	(31,521,635)
Construction in progress	2,109,050	255,217	2,091,999	272,268
Net Capital Assets	\$ 92,483,851			\$ 92,271,091

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 6 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

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

	1/1/18 Balance	Increases	Decreases	12/31/18 Balance	Due Within One Year
General obligation debt	\$ 52,445,000	\$ -	\$ 900,000	\$ 51,545,000	\$ 995,000
Revenue debt	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	120,942	-	120,942	-	-
Totals	\$ 62,125,794	\$ 13,304,987	\$ 3,667,811	\$ 71,762,970	\$ 1,074,440

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Increases	Decreases	12/31/17 Balance	Due Within One Year
General obligation debt	\$ 42,560,000	\$ 9,885,000	\$ -	\$ 52,445,000	\$ 225,000
Revenue debt	3,438,229	-	419,187	3,019,042	435,134
Customer advances for construction	91,288	59,419	91,288	59,419	-
Unamortized premium on debt	2,568,459	282,218	279,729	2,570,948	-
Other post-employment benefits	1,171,210	2,843,645	104,412	3,910,443	-
Net pension liability	225,396	-	104,454	120,942	-
Totals	\$ 50,054,582	\$ 13,070,282	\$ 999,070	\$ 62,125,794	\$ 660,134

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the years ended December 31, 2018 and 2017

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 12/31/18
05/23/13	2013 G.O. Refunding Bonds	10/01/32	2.00% - 4.00%	\$ 10,085,000	\$ 8,865,000
04/08/14	2014 G.O. Refunding Bonds	10/01/33	2.00% - 4.25%	4,600,000	4,375,000
05/12/15	2015 G.O. Refunding Bonds	10/01/34	2.00% - 4.00%	5,415,000	5,415,000
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	16,725,000
05/23/17	Note Anticipation Notes - capital improvements	05/23/17	3.00%	9,885,000	9,885,000
					<u>\$ 51,545,000</u>

General obligation notes debt service requirements to maturity follows:

		General Obligation Debt		
		Principal	Interest	Total
	2019	\$ 995,000	\$ 1,707,429	\$ 2,702,429
	2020	1,280,000	1,690,054	2,970,054
	2021	18,360,000	1,408,719	19,768,719
	2022	11,580,000	954,319	12,534,319
	2023	1,755,000	746,844	2,501,844
	2024 - 2028	8,475,000	2,699,281	11,174,281
	2029 - 2033	7,595,000	1,183,694	8,778,694
	2034 - 2035	1,505,000	81,800	1,586,800
		<u>\$ 51,545,000</u>	<u>\$ 10,472,140</u>	<u>\$ 62,017,140</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Debt

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Balance 12/31/18
05/07/13	Capital improvements	05/01/33	1.925%	\$ 1,117,601	\$ 878,907
06/27/18	Capital improvements	05/01/38	1.870%	679,774	679,774
	Sub-total (with debt service schedule)				1,558,681
04/02/18	Bond Anticipation Notes - cap. improve.	04/01/23	variable	32,800,000	12,229,032
	Totals				<u>\$ 13,787,713</u>

Revenue debt service requirements to maturity follows:

	Revenue Debt		
	Principal	Interest	Total
2019	\$ 79,440	\$ 28,862	\$ 108,302
2020	80,954	27,346	108,300
2021	82,497	25,789	108,286
2022	84,068	24,202	108,270
2023	85,670	22,585	108,255
2024 - 2028	453,469	87,568	541,037
2029 - 2033	498,349	42,259	540,608
2034 - 2038	194,234	9,215	203,449
	<u>\$ 1,558,681</u>	<u>\$ 267,826</u>	<u>\$ 1,826,507</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 2018 and 2017 were \$547,400 and \$542,664, respectively. Total customer gross revenues as defined for the same periods were \$12,336,263 and \$11,313,235. 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, 2018, the amount drawn from this debt issue is \$12,229,032. The average interest rate from issuance (April 2018) through December 2018 is 2.4499%.

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, 2018 and 2017

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

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, 2018:

Type	Coverage	Expiration
General Liability	\$ 10,000,000 Each occurrence	7/1/19
Automobile	10,000,000	7/1/19

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 and 1.25 times the subsequent year debt service in 2018 and 2017, respectively. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2018 and 2017 as follows:

	2018	2017
Operating revenues	\$ 11,841,292	\$ 11,020,367
Investment income	494,971	292,868
Income from merchandising and jobbing	6,330	3,542
Less: Operation and maintenance expenses	(5,084,030)	(6,213,573)
 Net Defined Earnings	 \$ 7,258,563	 \$ 5,103,204
 Minimum Required Earnings per Resolution:		
2008 revenue bonds subsequent year debt service	\$ -	\$ 474,394
2013 SDWLP rev. bonds subsequent year debt service	67,526	67,536
2018 SDWLP rev. bonds subsequent year debt service	40,776	-
2018 revenue bond anticipation notes calculated debt service ¹	1,556,657	-
Subtotal	1,664,959	541,930
Coverage Factor	1.10	1.25
 Minimum Required Earnings	 \$ 1,831,455	 \$ 677,413
Actual Debt Coverage	4.36	9.42

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 April - December 2018 is 2.4499%.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2018 and 2017:

	Customers		Sales (000 gals)	
	2018	2017	2018	2017
Residential	17,723	17,631	881,451	887,599
Multifamily residential	1,027	1,027	376,472	383,810
Commercial	1,258	1,248	338,426	353,351
Industrial	149	149	230,557	232,669
Public authority	116	117	67,339	72,385
Irrigation	133	122	4,447	1
Totals	<u>20,406</u>	<u>20,294</u>	<u>1,898,692</u>	<u>1,929,815</u>

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.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 7 – NET POSITION (cont.)

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

	2018	2017
Construction in progress	\$ 356,771	\$ 272,268
Plant in service	127,760,128	123,520,458
Accumulated depreciation	(33,683,736)	(31,521,635)
Preliminary survey and investigation	23,040,499	14,864,801
Sub-Totals	<u>117,473,662</u>	<u>107,135,892</u>
Less: Capital related debt		
Current portion of general obligation debt	995,000	225,000
Current portion of revenue bonds	79,440	435,134
General obligation debt	50,550,000	52,220,000
Revenue bonds	13,708,273	2,583,908
Unamortized loss on advance refunding	(362,260)	(409,003)
Unamortized premium on debt	2,260,747	2,570,948
Sub-Totals	<u>67,231,200</u>	<u>57,625,987</u>
Add: Unspent debt proceeds		
Reserve account	-	475,848
Capital improvement account	-	2,773,560
Sub-Totals	<u>-</u>	<u>3,249,408</u>
Total Net Investment in Capital Assets	<u>\$ 50,242,462</u>	<u>\$ 52,759,313</u>

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

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.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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.

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

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.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The WRS recognized \$145,896 and \$143,305 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2018 and December 31, 2017 are:

	2018		2017	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.7%	6.7%	6.8%	6.8%
Protective with Social Security	6.7%	10.7%	6.8%	10.6%
Protective without Social Security	6.7%	14.9%	6.8%	14.9%

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

At December 31, 2018, the utility reported a liability (asset) of \$(403,235) 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, 2017, the City of Waukesha's proportion was .34297%, which was an increase of .00802% from its proportion measured as of December 31, 2016.

At December 31, 2017, the utility reported a liability (asset) of \$120,942 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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 .33495%, which was an increase of .00456% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2018, and 2017 the utility recognized pension expense of \$181,595 and \$322,449.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

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>

At December 31, 2017, 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	\$ 45,017	\$ 359,741
Changes in assumption	119,597	-
Net differences between project and actual earnings on pension plan	563,782	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,003	3,850
Employer contributions subsequent to the measurement date	<u>145,898</u>	<u>-</u>
Total	<u>\$ 878,297</u>	<u>\$ 363,591</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>	
2019	\$ 41,368
2020	(3,674)
2021	(131,024)
2022	(98,644)
2023	908
Thereafter	<u>-</u>
	<u>\$ (191,066)</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

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:

	2018	2017
Actuarial valuation date	December 31, 2016	December 31, 2015
Measurement date of net pension liability (asset)	December 31, 2017	December 31, 2016
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

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.

Actuarial assumptions used in the December 31, 2015 actuarial valuation are based upon an experience study conducted in 2015 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, 2018 and 2017

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, 2018 are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
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, 2018 and 2017

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 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 %	8.3 %	5.4 %
Fixed Income	24.5	37.0	4.2	1.4
Inflation Sensitive Assets	15.5	20.0	4.3	1.5
Real Estate	8.0	7.0	6.5	3.6
Private Equity/Debt	7.0	7.0	9.4	6.5
Multi-Asset	4.0	4.0	6.6	3.7
Total Core Fund	110.0	120.0	7.4	4.5
 <u>Variable Fund Asset Class</u>				
U.S. Equities	70.0	70.0	7.6	4.7
International Equities	30.0	30.0	8.5	5.6
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.

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2018 and December 31, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78% in 2017 and 3.56% in 2016. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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 discount rate of 7.20 percent, 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 (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

The sensitivity analysis as of December 31, 2018 follows:

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

The sensitivity analysis as of December 31, 2017 follows:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (6.20%)</u>
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 1,591,067	\$ 120,942	\$ (1,011,121)

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>.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

The utility implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective January 1, 2017.

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.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

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, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	13
Inactive plan members entitled to but not yet receiving benefit payments	2
Active plan members	<u>28</u>
Total plan members	<u><u>43</u></u>

TOTAL OPEB LIABILITY

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. 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.

At December 31, 2017, the utility's total OPEB liability of \$3,910,443 was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.5 percent
Salary increases	2 percent annual salary increase
Healthcare cost trend rates	6.5 percent for 2019, decreasing 0.5 percent every two years to an ultimate rate of 5.0 percent for 2025 and later years
Retirees' share of benefit-related costs	PPO - \$1,500 per Member, \$3,000 per family Non-PPO \$2,000 per Member, \$4,000 per family

The discount rate was based on a calculation performed by the actuary.

Mortality rates were based on a blend of the Death-In-Service and Retired Lives mortality rates from the "Wisconsin Retirement System 2012-2014 Experience Study" with the MP-2015 generational improvement scale (multiplied by 50%). The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the years 2012- 2014.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

CHANGES IN THE TOTAL OPEB LIABILITY

	2018	2017
Balances at January 1	<u>\$ 3,910,443</u>	<u>\$ 3,844,074</u>
Changes for the year:		
Service Cost	32,988	35,013
Interest	137,865	135,768
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions or other inputs	-	-
Benefit payments	<u>(136,107)</u>	<u>(104,412)</u>
Net changes	<u>34,746</u>	<u>66,369</u>
Balances at December 31	<u><u>\$ 3,945,189</u></u>	<u><u>\$ 3,910,443</u></u>

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 (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current discount rate.

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

The sensitivity analysis as of December 31, 2017 follows:

	1% Decrease to Discount Rate (2.5%)	Current Discount Rate (3.5%)	1% Increase to Discount Rate (4.5%)
Net OPEB liability	\$ 4,545,060	\$ 3,910,443	\$ 3,392,965

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

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 (5.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates.

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

The sensitivity analysis as of December 31, 2017 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	\$ 3,329,670	\$ 3,910,443	\$ 4,713,442

OPEB EXPENSE

The utility recognized OPEB expense of \$170,853 and \$170,781 in 2018 and 2017, respectively.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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, 2018 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

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:

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

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

During the reporting period, the LRLIF recognized \$1,006 in contributions from the employer.

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

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 year ended December 31, 2018, the utility recognized OPEB expense of \$144,746.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

At December 31, 2018, 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	\$ -	\$ 2,247
Net differences between projected and actual earnings on OPEB plan investments	1,837	-
Changes in assumptions	15,404	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,380
Employer contributions subsequent to the measurement date	1,044	-
Total	\$ 18,285	\$ 3,627

\$1,044 reported as deferred outflows related to OPEB resulting from the LRLIF Employer's contributions subsequent to the measurement date will be recognized as a \$1,044 of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	Deferred Outflows of Resources and Deferred Inflows of Resources (net)
2019	\$ 2,262
2020	2,262
2021	2,262
2022	2,262
2023	1,804
Thereafter	2,762
	\$ 13,614

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Actuarial assumptions. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2017
Measurement Date of Net OPEB Liability	December 31, 2017
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	3.44%
Long-Term Expected Rate of Return:	5.0%
Discount Rate:	3.63%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	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.

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Single discount rate. A single discount rate of 3.63% was used to measure the total OPEB liability. 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 '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 discount rate of 3.63 percent, 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 (2.63 percent) or 1-percentage-point higher (4.63 percent) than the current rate:

	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>.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

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 has 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 has been renewed, the EPA has examined the 1996 amendments to the Safe Drinking Water Act and taken 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.

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 is balancing the radium compliance projects with the other projects that will 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 is allowed to operate under strict operating conditions until June 30, 2018. At that date, the city must be in

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2018 and 2017

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Cont.)

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 is in the process of developing a new water supply. As a result of the investigation of water supply alternatives, 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 has 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.

The Utility has 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.

NOTE 11 - SUBSEQUENT EVENTS

On March 27, 2019, the City of Waukesha passed a resolution for the Waukesha Water Utility to issue up to \$9,201,816 in Waterworks System Revenue Bonds through the State of Wisconsin's Safe Drinking Water Loan Program to reimburse the Utility for funds spent on distribution system improvements projects completed in 2016 – 2018. In relation to these projects, \$4.835 million of the Utility's outstanding 2016 Note Anticipation Notes were also refinanced with these proceeds. Terms of the bonds include semi-annual debt service payments, with a final maturity of May 1, 2038 and a 1.98% interest rate.

NOTE 12 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utility adopted GASB Statement No. 75 effective January 1, 2017. The cumulative effect of implementation is reflected as a change in net position at December 31, 2017 as follows:

Other post-employment benefits January 1, 2017- Under GASB 45	\$	1,171,210
Other post-employment benefits January 1, 2017- Under GASB 75		<u>(3,844,074)</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u><u>(2,672,864)</u></u>

Additional information required for retroactive implementation was not provided by the OPEB plan.

WAUKESHA WATER UTILITY

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

For the Years Ended December 31, 2018 and 2017

	2018	2017
Total OPEB Liability		
Service Cost	\$ 32,988	\$ 35,013
Interest	137,865	135,768
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions or other inputs	-	-
Benefit payments	(136,107)	(104,412)
Net change in Total OPEB Liability	34,746	66,369
Total OPEB Liability - Beginning	3,910,443	3,844,074
Total OPEB Liability - Ending	\$ 3,945,189	\$ 3,910,443
 Covered employee payroll	 \$ 2,233,038	 \$ 2,118,960
 Total OPEB liability as a percentage of covered-employee payroll	 176.67%	 184.55%

Notes to Schedule:

Valuation date:

Actuarial valuation date for December 31, 2018 is as of January 1, 2017, which was rolled forward to December 31, 2017.

Methods and assumptions used to determine the total OPEB liability:

Actuarial cost method	Entry age
Amortization method	21 Year level Percent
Amortization period	15 years
Asset valuation	5-year smoothed market
Inflation	3.5 percent
Healthcare cost trend rates	6.5 percent initial, 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	3.5 percent
Retirement age	Expected retirement ages of employees were developed from a 2012-2014 Experience Study
Mortality	Expected mortality rates were developed from a 2012-2014 Experience Study with the MP-2015 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, 2018 and 2017

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
12/31/18	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, 2018 and 2017

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
12/31/18	\$ 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.

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

WAUKESHA WATER UTILITY

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

For the Years Ended December 31, 2018 and 2017

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
12/31/18	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, 2018 and 2017

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
12/31/18	\$ 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

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 Wisconsin Retirement System.

Changes in assumptions. There were no changes in assumptions.

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

WAUKESHA WATER UTILITY

WATER UTILITY PLANT
For the Years Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Balance 12/31/18
INTANGIBLE				
Miscellaneous intangible plant	\$ 190,857	\$ 2,448	\$ -	\$ 193,305
SOURCE OF SUPPLY				
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
PUMPING				
Land and land rights	181,670	-	-	181,670
Structures and improvements	4,582,154	9,988	948	4,591,194
Electric pumping equipment	5,258,524	32,422	109,153	5,181,793
Total Pumping	10,022,348	42,410	110,101	9,954,657
WATER TREATMENT				
Structures and improvements	2,785,733	-	-	2,785,733
Water Treatment equipment	2,456,215	5,186	2,500	2,458,901
Total Water Treatment	5,241,948	5,186	2,500	5,244,634
TRANSMISSION AND DISTRIBUTION				
Land and land rights	110,083	-	-	110,083
Distribution reservoirs and standpipes	6,469,716	7,589	-	6,477,305
Transmission and distribution mains	68,581,062	3,523,173	184,293	71,919,942
Services	13,174,391	683,321	28,042	13,829,670
Meters	4,186,805	124,024	114,353	4,196,476
Hydrants	6,700,643	258,444	25,110	6,933,977
Total Transmission and Distribution	99,222,700	4,596,551	351,798	103,467,453
GENERAL				
Land and land rights	69,180	-	-	69,180
Structures and improvements	2,246,923	-	-	2,246,923
Office furniture and equipment	181,737	-	-	181,737
Computer equipment	576,893	37,217	38,099	576,011
Transportation equipment	903,436	75,982	14,279	965,139
Stores equipment	9,764	-	-	9,764
Tools, shop and garage equipment	464,593	6,231	9,578	461,246
Laboratory equipment	5,842	-	-	5,842
Power-operated equipment	658,734	-	-	658,734
Communication equipment	64,714	-	-	64,714
SCADA equipment	864,391	-	-	864,391
Total General	6,046,207	119,430	61,956	6,103,681
TOTAL WATER UTILITY PLANT	\$ 123,520,458	\$ 4,766,025	\$ 526,355	\$ 127,760,128

WAUKESHA WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 4,887,167	\$ 4,576,370
Multifamily residential	1,550,064	1,487,164
Commercial	1,425,857	1,406,700
Industrial	788,371	755,128
Public authorities	276,268	268,871
Irrigation	35,664	13
Total Metered Sales	8,963,391	8,494,246
Private fire protection	247,886	189,862
Public fire protection	2,107,814	1,795,675
Total Sales of Water	11,319,091	10,479,783
Other Operating Revenues		
Forfeited discounts	135,782	129,899
Rents from water property	229,715	228,827
Other	156,704	181,858
Total Operating Revenues	11,841,292	11,020,367
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation supervision and engineering	-	2,219
Miscellaneous	591,876	1,626,050
Maintenance		
Supervision and engineering	11,139	7,615
Wells and springs	4,000	9,669
Total Source of Supply	607,015	1,645,553
Pumping		
Operation supervision and engineering	37,442	29,634
Fuel or purchased power for pumping	684,689	656,384
Pumping labor	37,639	35,762
Miscellaneous	36,728	70,008
Maintenance		
Supervision and engineering	10,509	10,549
Structures and improvements	53,272	22,379
Pumping equipment	40,070	76,309
Total Pumping	900,349	901,025
Water Treatment		
Operation supervision and engineering	4,716	6,096
Chemicals	159,885	165,250
Operation labor	222,509	229,856
Miscellaneous	697	-
Maintenance		
Supervision and engineering	-	3,533
Structures and improvements	1,445	684
Water treatment equipment	31,826	20,959
Total Water Treatment	421,078	426,378

WAUKESHA WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	32,140	36,752
Storage facilities	188,395	324,346
Transmission and distribution lines	146,387	119,729
Meters	60,633	64,117
Customer installations	48,953	49,193
Miscellaneous	120,254	102,946
Maintenance		
Supervision and engineering	26,968	27,738
Reservoirs and standpipes	309	58
Fire mains	328,380	281,828
Services	280,961	155,231
Meters	2,353	869
Hydrants	56,283	47,114
Miscellaneous	30,443	23,406
Total Transmission and Distribution	1,322,459	1,233,327
Customer Accounts		
Supervision	13,808	6,487
Meter reading	11,488	12,862
Accounting and collecting labor	121,662	123,519
Uncollectible accounts	6,469	820
Miscellaneous	7,026	5,310
Total Customer Accounts	160,453	148,998
Sales	62,271	151,285
Administrative and General		
Salaries	245,763	288,607
Office supplies	109,683	118,178
Outside services employed	20,003	20,204
Property insurance	69,981	74,073
Injuries and damages	17,462	12,102
Employee pensions and benefits	884,516	861,681
Regulatory commission	4,786	52,026
Miscellaneous	29,471	46,549
Maintenance	111,834	117,602
Total Administrative and General	1,493,499	1,591,022
Taxes	116,906	115,985
Total Operation and Maintenance	5,084,030	6,213,573
Depreciation	2,540,732	2,473,423
Total Operating Expenses	7,624,762	8,686,996
OPERATING INCOME	\$ 4,216,530	\$ 2,333,371