

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the
City of Kenosha, Wisconsin)
Kenosha, Wisconsin

BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Water Commissioners
The City of Kenosha Water Utility
Kenosha, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Kenosha Water Utility, an enterprise fund of the City of Kenosha, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the enterprise fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kenosha Water Utility as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 1, the financial statements present only the City of Kenosha Water Utility and do not purport to, and do not, present fairly the financial position of the City of Kenosha, Wisconsin, as of December 31, 2018 and 2017 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

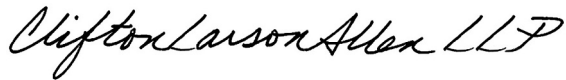
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 12, the schedule of the Utility's allocation of the City's proportionate share of the net pension liability, the schedule of Kenosha Water Utility Contributions – Wisconsin Retirement System, schedule of changes in the utility total OPEB health insurance liability and related ratios, the schedule of the Utility's allocation of the City's proportionate share of the net OPEB liability – Local Retiree Life Insurance Fund, schedule of Kenosha Water Utility Contributions – Local Retiree Life Insurance Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kenosha Water Utility's basic financial statements. The supplementary schedules on pages 55 – 68 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Milwaukee, Wisconsin
April 30, 2019

Management's Discussion and Analysis

The management discussion and analysis of the Kenosha Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2018 and 2017. This information should be read in conjunction with the financial statements.

2018 Financial Highlights

The Utility's combined net position increased to \$201.7 million from \$199.2 million. Events that had significant impact on the financial statements were:

- Operating revenues were flat compared to 2017 while operating expenses increased \$1.27 million or 5.8% from 2017. This resulted in a decrease of approximately \$1.27 million or 20.6% in operating income compared to 2017.
- The Utility awarded contracts for water tank painting and water main relays in 2018. The 60th Street east ground storage tank was painted at a cost of approximately \$312,000; water mains were relayed by contractors at a total cost of approximately \$1.27 million during 2018.
- On August 31, 2018, the Public Service Commission of Wisconsin approved the Utility's application to provide grants and financial assistance for utility customers to replace private lead water services.
- The Utility accepted no donated infrastructure from developers during 2018.

2017 Financial Highlights

The Utility's combined net position increased to \$199.2 million from \$190.8 million. Events that had significant impact on the financial statements were:

- Operating revenues increased \$0.73 million or 2.7% from 2016 while operating expenses increased \$0.93 million or 4.4% from 2016. This resulted in a decrease of approximately \$0.20 million or 3.1% in operating income compared to 2016.
- Capital contributions increased \$0.56 million in total; donations of water and sewer infrastructure by developers increased \$1.48 million, revenue from sewer impact fees decreased \$0.52 million, grants decreased approximately \$0.51 million with the balance attributed to the collection of special and unbilled assessments.
- The Utility awarded contracts for water tank painting and water main relays in 2017. The 75th Street elevated tank was painted at a cost of approximately \$488,000; water mains were relayed by contractors at a total cost of approximately \$822,000 during 2017.
- The Utility accepted donated water and sewer main, water services and hydrants from developers valued at \$2.4 million.

Overview of Financial Statements

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. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows, notes to the financial statements, required supplementary information and supplementary schedules.

The **statement of net position** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net position presents information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets), unamortized portion of changes in net pension and net OPEB asset/liability (asset/liability) and the obligations to Utility creditors (liabilities). Over time, increases and decreases in net position is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It 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.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **required supplementary schedules**, provide more details regarding the funding status and progress of the Other Post Employment Benefit and Pension plans.

The **supplementary schedules** provide more detail than the preceding statements. A Schedule of Capital Assets is provided for the Water, Sewerage, and Household Hazardous Waste units. Detailed debt repayment schedules are provided for all debt issues. Detailed operating revenue and expense schedules are provided as well as the water tax equivalent calculation.

Summary of Organization and Business

The Kenosha Water Utility's mission is:

"Providing and Protecting Kenosha's Greatest Natural Resource – *Water*"

The Kenosha Water Utility (KWU) provides water and wastewater service to more than 100,000 persons in the greater Kenosha area, including the City of Kenosha, Villages of Pleasant Prairie, Somers and Bristol, and the Town of Somers. The Kenosha Water Utility also provides a monthly household hazardous waste collection service for City of Kenosha residents.

The Kenosha Water Utility is a municipally-owned, fiscally-independent public utility organized under authority of Section 66.0805 of the Wisconsin State Statutes and Chapter XXXII of the City of Kenosha Code of General Ordinances. The Utility is an enterprise fund of the City of Kenosha and is solely financed by service charges operating like a private business entity. The Utility has no taxing power and receives no tax revenues from the City of Kenosha. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, developers, federal and state grants and loans, bond sales, and Utility revenues.

The Board of Water Commissioners is composed of six aldermen appointed under authority of Section 1.06H of the City of Kenosha Code of General Ordinances. The powers and duties of the Board of Water Commissioners include establishing policy, adopting rules and regulations, adopting an annual budget, establishing rates and fees, and approving contracts and agreements. The management and operation of the Water Utility is under the direction of the General Manager who is appointed by the Board of Water Commissioners.

Surface water from Lake Michigan has been Kenosha's source of water since 1894. Lake Michigan water is valued for both its quality and quantity. The Utility provides reliable high quality potable water used for drinking, irrigation, fire protection, and other purposes. The wastewater treatment plant provides primary and secondary treatment with disinfection in accordance with permits from the State of Wisconsin Department of Natural Resources. The treated wastewater is discharged to Lake Michigan and the solids are transported to a landfill. Both plants are in compliance with all state and federal regulations. The Household Hazardous Waste program was established in 1992 and provides for a monthly drop-off service to city residential customers; wastes are disposed of by licensed wastehaulers.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as a reasonable level of unrestricted net assets. Management feels that the current financial condition, technical support staff capabilities and operating and expansion plans will meet anticipated customer needs.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statements and associated notes.

Condensed Summary of Net Position

	December 31			Variance of 2018 to 2017 Increase (decrease)	
	2018	2017	2016	Dollars	%
Capital assets:					
Net plant in service	\$ 147,587,941	\$ 148,737,770	\$ 146,677,514	\$ (1,149,829)	(0.8) %
Construction in progress	14,162,544	14,320,139	13,361,937	(157,595)	(1.1)
Other capital assets	1,074,404	1,074,404	1,074,404	-	0.0
Current, restricted and other assets	<u>47,833,154</u>	<u>46,234,216</u>	<u>43,353,233</u>	<u>1,598,938</u>	<u>3.5</u>
Total assets	<u>210,658,043</u>	<u>210,366,529</u>	<u>204,467,088</u>	<u>291,514</u>	<u>0.1</u>
Deferred outflows of resources:					
Deferred pension resources	2,820,636	3,520,603	4,268,479	(699,967)	(19.9)
Deferred OPEB resources	<u>77,004</u>	<u>-</u>	<u>-</u>	<u>77,004</u>	<u>100.0</u>
Total deferred outflows of resources	<u>2,897,640</u>	<u>3,520,603</u>	<u>4,268,479</u>	<u>(622,963)</u>	<u>(17.7)</u>
Current liabilities	5,237,001	9,718,480	7,788,192	(4,481,479)	(46.1)
Long-term liabilities	<u>3,333,075</u>	<u>3,207,012</u>	<u>8,452,373</u>	<u>126,063</u>	<u>3.9</u>
Total liabilities	<u>8,570,076</u>	<u>12,925,492</u>	<u>16,240,565</u>	<u>(4,355,416)</u>	<u>(33.7)</u>
Deferred inflows of resources:					
Deferred pension resources	3,221,721	1,753,765	1,651,907	1,467,956	83.7
Deferred OPEB resources	<u>8,190</u>	<u>-</u>	<u>-</u>	<u>8,190</u>	<u>100.0</u>
Total deferred inflows of resources	<u>3,229,911</u>	<u>1,753,765</u>	<u>1,651,907</u>	<u>1,476,146</u>	<u>84.2</u>
Net position:					
Invested in capital assets, net of related debt (restated)	162,617,964	161,393,160	155,908,261	1,224,804	0.8
Restricted for debt service	2,863,029	9,136,149	8,967,774	(6,273,120)	(68.7)
Restricted for pension	1,632,829	-	-	1,632,829	100.0
Unrestricted	<u>34,641,874</u>	<u>28,678,566</u>	<u>25,967,060</u>	<u>5,963,308</u>	<u>20.8</u>
Total net position	<u>\$ 201,755,696</u>	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</u>	<u>\$ 2,547,821</u>	<u>1.3 %</u>

In 2018, total net position increased \$2.54 million or 1.3%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$2.92 million, a decrease of 21.3% from 2017, capital contributions of \$0.3 million from assessments and impact fees, and a prior period adjustment reducing net position of approximately \$0.68 million.

In 2017, total net position increased \$8.36 million or 4.4%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$3.72 million, an increase of 0.9% from 2016, and capital contributions of \$4.64 million. Capital contributions consisted of approximately \$4.21 million of donated infrastructure, \$425,000 in assessments and impact fees, and \$4,600 in grants for infrastructure.

In 2018, total assets increased \$0.29 million or 0.1%. Capital assets increased \$3.8 million while construction in progress decreased \$0.16 million; accumulated depreciation increased \$4.95 million. Current, restricted and other assets increased \$1.6 million or 3.5%.

In 2017, total assets increased \$5.9 million or 2.9%. Capital assets increased \$5.78 million while construction in progress increased \$0.96 million; accumulated depreciation increased \$3.72 million. Current, restricted and other assets increased \$2.88 million or 6.6%.

The Water, Sewerage, and Household Hazardous Waste units are self-supporting divisions. Net assets of one division are not permanently used by other divisions.

Condensed Summary of Revenues, Expenses and Changes in Fund Net Position

	Year ended December 31			Variance of 2018 to 2017 Increase (decrease)	
	2018	2017	2016	Dollars	%
Revenues:					
Water service revenues	\$ 12,270,451	\$ 12,490,141	\$ 12,612,131	\$ (219,690)	(1.8) %
Sewerage service revenues	11,352,816	11,239,817	10,573,187	112,999	1.0
Household Hazardous Waste revenues	166,517	166,429	166,175	88	0.1
Other revenues	4,323,635	4,222,136	4,031,540	101,499	2.4
Total operating revenues	<u>28,113,419</u>	<u>28,118,523</u>	<u>27,383,033</u>	<u>(5,104)</u>	<u>(0.0)</u>
Expenses:					
Operating and maintenance, before depreciation and taxes					
Water operations	5,839,051	5,347,129	5,447,296	491,922	9.2
Sewerage operations	6,510,088	6,018,375	5,468,700	491,713	8.2
Household Hazardous Waste	171,764	164,937	142,357	6,827	4.1
Loss on disposal of equipment	-	230,388	-	(230,388)	100.0
Depreciation	5,251,014	5,045,302	4,947,405	205,712	4.1
Customer accounting and collecting, administrative and general	5,435,267	5,134,155	5,004,379	301,112	5.9
Total operating expenses	<u>23,207,184</u>	<u>21,940,286</u>	<u>21,010,137</u>	<u>1,266,898</u>	<u>5.8</u>
Operating income	<u>4,906,235</u>	<u>6,178,237</u>	<u>6,372,896</u>	<u>(1,272,002)</u>	<u>(20.6)</u>
Nonoperating revenues	614,624	318,485	165,786	296,139	93.0
Nonoperating expenses	(231,004)	(366,411)	(469,136)	(135,407)	(37.0)
Increase in net position, before capital contributions and transfers	<u>5,289,855</u>	<u>6,130,311</u>	<u>6,069,546</u>	<u>(840,456)</u>	<u>(13.7)</u>
Capital contributions:					
Assessments, impact fees and grants	297,015	429,925	1,344,406	(132,910)	(30.9)
Donated by developers	-	4,209,976	2,729,108	(4,209,976)	(100.0)
Transfers out	(2,360,152)	(2,405,432)	(2,378,777)	(45,280)	(1.9)
Increase in net position	<u>3,226,718</u>	<u>8,364,780</u>	<u>7,764,283</u>	<u>(5,138,062)</u>	<u>(61.4)</u>
Net position at beginning of year	199,207,875	190,843,095	183,078,812	8,364,780	4.4
Prior period adjustment	(678,897)	-	-	(678,897)	(100.0)
Net position at end of year	<u>\$ 201,755,696</u>	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</u>	<u>\$ 2,547,821</u>	<u>1.3 %</u>

Revenues from operations fall into four general categories: water service, sewerage service, household hazardous waste and other charges. Other charges include penalty fees and charges for miscellaneous billed services.

The number of metered customers increased 0.1% during 2018. Water consumption decreased 2.2%. Water service revenues decreased approximately \$220,000 or 1.8%. Sewerage service revenues increased approximately \$113,000 or 1.0%. The decrease in water service revenues is due to decreased water consumption; the increase in sewerage service revenues is attributable to increased sales to other municipalities and to commercial customers.

Operating expenses increased 5.8% or approximately \$1.27 million during 2018. Water Unit operations expenses increased 9.2% or \$492,000 due to increased costs for supervision, maintenance of water mains and costs related to the replacement of customer-owned lead service lines as allowed by the PSCW, docket 2820-100-LS. Sewerage Unit operation expenses increased 8.2% or approximately \$492,000 mainly due to increases in maintenance expenses in the collection system and increases in engineering services expenses. Operating expenses in the Household Hazardous Waste Unit were flat compared to 2017. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$301,000 or

5.9% while depreciation expense for all units increased approximately \$206,000 – \$65,000 for the Water Unit and \$141,000 for the Sewerage Unit - or 4.1%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in salaries and benefits, outside consultant and engineering services expenses.

Operating income for 2018 decreased 20.6% or approximately \$1.27 million. Nonoperating revenues increased 93.0% or approximately \$296,000 due to increased net investment income; nonoperating expenses decreased 37.0% or approximately \$135,000 due to decreases in interest expense and amortization on long-term debt.

The number of metered customers increased 0.1% during 2017. Water consumption decreased 1.5%. Water service revenues decreased approximately \$122,000 or 1.0%. Sewerage service revenues increased approximately \$667,000 or 6.3%. The decrease in water service revenues is due to decreased water consumption; the increase in sewerage service revenues is attributable to increased sales to other municipalities and to public customers.

Operating expenses increased 4.4% or approximately \$930,000 during 2017. Water Unit operating expenses decreased 1.8% or \$0.1 million due to decreased costs for maintenance of water mains – construction crews on capital projects - and increased costs for maintenance of water services related to an increase in water main relays. Sewerage Unit operating expenses increased 10.1% or approximately \$550,000 mainly due to increases in maintenance expenses at the wastewater treatment plant for equipment, structures and improvements and increases in engineering services expenses. Operating expenses increased approximately \$22,000 or 15.9% in the Household Hazardous Waste Unit due mainly to increased disposal costs. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$130,000 or 2.6% while depreciation expense for all units increased approximately \$98,000 – 39,000 for the Water Unit and \$59,000 for the Sewerage Unit - or 2.0%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases legal, outside consultant and engineering services expenses.

Operating income for 2017 decreased 3.1% or approximately \$195,000. Nonoperating revenues increased 92.1% or approximately \$152,000 due to increased net investment income; nonoperating expenses decreased 21.9% or approximately \$103,000 due to decreases in interest expense and amortization on long-term debt.

For 2018, the increase in net position of \$2.55 million is approximately \$5.81 million less than the previous year's increase of \$8.36 million or a decrease of 56.1%. This is attributable to a decrease in donations from developers of approximately \$4.2 million, decreases in operating income, and a prior period adjustment reducing beginning net position approximately \$0.68 million. The increases in net position attributable to the Water, Sewerage and Household Hazardous Waste Units were approximately \$154,000, \$2,383,000 and \$11,000, respectively.

For 2017, the increase in net position of \$8,364,000 was approximately \$600,000 more than the previous year's increase of \$7,764,000 or an increase of 7.7%. This is attributable an increase in donations from developers of approximately \$1.48 million and decreases in grants of \$506,000 and assessments and impact fees of \$408,000, decreases in operating income and debt interest expense and an increase in nonoperating investment income. The increases in net position attributable to the Water, Sewerage and Household Hazardous Waste Units were approximately \$2,813,000, \$5,535,000 and \$16,000, respectively.

Capital Assets and Debt Administration

Capital Assets

Changes in Capital Assets

	<u>Balance</u> <u>Jan. 1, 2018</u>	<u>Additions/ reclass- ifications</u>	<u>Deletions/ reclass- ifications</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,309	\$ -	\$ -	\$ 2,151,309
Construction in progress	<u>14,320,139</u>	<u>2,989,141</u>	<u>3,146,736</u>	<u>14,162,544</u>
Total capital assets not being depreciated	<u>16,471,448</u>	<u>2,989,141</u>	<u>3,146,736</u>	<u>16,313,853</u>
Capital assets being depreciated:				
Revenue producing and service equipment:				
Wastewater collection system	1,349,889	15,534	-	1,365,423
Production pumping	4,546,308	29,666	-	4,575,974
Collection system pumping	9,097,054	171,102	-	9,268,156
Production purification	15,145,778	39,217	-	15,184,995
Wastewater treatment and disposal	<u>21,064,328</u>	<u>286,045</u>	<u>84,220</u>	<u>21,266,153</u>
Total revenue producing and service equipment	<u>51,203,357</u>	<u>541,564</u>	<u>84,220</u>	<u>51,660,701</u>
Buildings and structures:				
Production intake	3,425,277	-	-	3,425,277
Wastewater collection system	81,314,034	177,976	-	81,492,010
Production pumping	3,771,343	-	645	3,770,698
Collection system pumping	11,406,897	-	-	11,406,897
Production purification	8,450,031	77,371	-	8,527,402
Wastewater treatment and disposal	7,826,715	6,441	849	7,832,307
Transmission and distribution	80,117,162	2,757,203	125,378	82,748,987
General plant	<u>2,219,480</u>	<u>63,896</u>	<u>6,981</u>	<u>2,276,395</u>
Total buildings and structures	<u>198,530,939</u>	<u>3,082,887</u>	<u>133,853</u>	<u>201,479,973</u>
Office furnishings, shop equipment and other:				
General equipment	8,746,691	545,414	122,038	9,170,067
Engineering equipment	<u>501,897</u>	<u>22,559</u>	<u>48,851</u>	<u>475,605</u>
Total office furnishings, shop equipment and other	<u>9,248,588</u>	<u>567,973</u>	<u>170,889</u>	<u>9,645,672</u>
Total capital assets being depreciated	<u>258,982,884</u>	<u>4,192,424</u>	<u>388,962</u>	<u>262,786,346</u>
Total accumulated depreciation	<u>111,322,019</u>	<u>5,251,014</u>	<u>297,723</u>	<u>116,275,310</u>
Total capital assets being depreciated, net	<u>147,660,865</u>	<u>(1,058,590)</u>	<u>91,239</u>	<u>146,511,036</u>
Total capital assets, net	<u>\$ 164,132,313</u>	<u>\$ 1,930,551</u>	<u>\$ 3,237,975</u>	<u>\$ 162,824,889</u>

The Utility had combined investment in capital assets of \$279.1 million at the end of 2018. Of that amount, construction in progress totaled \$14.2 million; the energy optimized resource recovery project at the wastewater treatment plant accounted for \$11.7 million of the construction in progress total. Accumulated depreciation totaled approximately \$116.3 million resulting in a net book value of \$162.8 million. In 2018, the Utility recorded combined depreciation expense of approximately \$5.25 million. More detailed information about capital assets may be found in the supplemental information section report – Schedule of Capital Assets – for the Water, Sewerage, and Hazardous Waste Units as well as in Note 4 to the financial statements.

Long-Term Debt

The Utility had \$207,000 in long-term term debt outstanding as of December 31, 2018. Of this amount, approximately \$102,000 is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$4.8 million or 95.69% due to scheduled debt payments.

The Utility had \$5.0 million in long-term term debt outstanding as of December 31, 2017. Of this amount, approximately \$4.82 million is due within one year (see note 5 to the audited financial statements regarding classification of revenue bond debt). Outstanding debt decreased \$2.4 million or 32.7% due to scheduled debt payments.

The Utility carries an AA rating from Standard & Poor's Ratings Services and a rating of Aa2 from Moody's Investor Service for its water revenue bonds; the Clean Water Fund loans are not rated. Detailed debt schedules may be found in the supplemental information section as well as note 5 to the audited financial statements.

Long-Term Debt Activity

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018	Due Within One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 305,646	\$ -	\$ 98,721	\$ 206,925	\$ 101,849
Revenue bonds	4,725,000	-	4,725,000	-	-
Bond premium	27,139	-	27,139	-	-
Advance from City of Kenosha	180,710	-	87,697	93,013	93,013
Worker's compensation accrued liability	295,277	-	131,747	163,530	-
Other post employment benefits	1,601,185	1,030,311	173,000	2,458,496	-
Net pension liability - WRS	422,883	-	422,883	-	-
Accrued compensated absences	665,341	142,023	117,240	690,124	84,151
	<u>\$ 8,223,181</u>	<u>\$ 1,172,334</u>	<u>\$ 5,783,427</u>	<u>\$ 3,612,088</u>	<u>\$ 279,013</u>

	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017	Due Within One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 401,334	\$ -	\$ 95,688	\$ 305,646	\$ 98,721
Revenue bonds	7,075,000	-	2,350,000	4,725,000	4,725,000
Bond premium	70,242	-	43,103	27,139	27,139
Advance from City of Kenosha	263,092	-	82,382	180,710	87,697
Worker's compensation accrued liability	323,271	-	27,994	295,277	-
Other post employment benefits	1,532,857	241,328	173,000	1,601,185	-
Net pension liability - WRS	784,947	-	362,064	422,883	-
Accrued compensated absences	607,818	135,641	78,118	665,341	77,613
	<u>\$ 11,058,561</u>	<u>\$ 376,969</u>	<u>\$ 3,212,349</u>	<u>\$ 8,223,181</u>	<u>\$ 5,016,170</u>

Economic Factors and the Utility's Future

The utility, in its continuing commitment to provide a safe water supply to our customers has undertaken a multi-year project to replace all Utility-owned lead water services at Utility expense. In order to encourage the replacement of private lead water services, the Utility filed docket 2820-LS-100 with the Public Service Commission of Wisconsin to create a grant and loan program to assist with replacement of private lead water services; this request was approved on August 31, 2018. The PSCW's order stated that the Utility shall submit an application for a full water rate case no later than two years from the effective date of their Final Decision. The Utility estimates that there are 8,726 Utility-owned lead water services and 4,800 private lead water services.

There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use.

Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors 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, please contact the Kenosha Water Utility, Director of Business Services, 4401 Green Bay Road, Kenosha, Wisconsin 53144.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
Statements of Net Position
December 31, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 18,950,458	\$ 11,016,109
Investments	6,560,208	10,004,000
Restricted cash and cash equivalents	2,759,346	179,996
Restricted cash - Storm Water Utility collections	333,852	324,939
Restricted Investments	104,776	11,268,948
Accounts receivable	4,411,744	4,706,161
Unbilled revenue	2,603,010	2,593,254
Inventories	493,335	480,832
Other current assets	189,522	245,023
Total current assets	36,406,251	40,819,262
Noncurrent assets:		
Investments	4,542,088	-
Other assets		
Special Assessments	42,366	43,740
Unbilled assessments	5,209,620	5,371,214
Pension asset - Wisconsin Retirement System	1,632,829	-
Capital assets:		
Capital assets not being depreciated:		
Land and land improvements	2,151,309	2,151,309
Construction in progress	14,162,544	14,320,139
Capital assets being depreciated:		
Revenue producing and service equipment	51,660,701	51,203,357
Buildings and structures	201,479,973	198,530,939
Office furnishings, shop equipment, and other	9,645,672	9,248,588
Less accumulated depreciation	(116,275,310)	(111,322,019)
Total capital assets, net of accumulated depreciation	162,824,889	164,132,313
Total noncurrent assets	174,251,792	169,547,267
Total assets	210,658,043	210,366,529
Deferred Outflows of Resources		
Deferred pension resources	2,820,636	3,520,603
Deferred OPEB resources	77,004	-
Total deferred outflows of resources	2,897,640	3,520,603
Liabilities		
Current liabilities:		
Accounts payable	809,127	674,316
Accrued liabilities	1,093	21,302
Accrued property taxes	2,360,152	2,405,432
Current portion of accrued compensated absences	84,151	77,613
Current portion of long-term obligations	101,849	4,850,860
Current portion of advance from City of Kenosha	93,013	87,697
Due to City of Kenosha	1,037,816	1,230,834
Due to City of Kenosha - Storm Water Utility collections	333,852	324,939
Other current liabilities	415,948	45,487
Total current liabilities	5,237,001	9,718,480
Noncurrent liabilities:		
Long-term portion of accrued compensated absences	605,973	587,728
Worker's compensation accrued liability	163,530	295,277
Net other postemployment benefit obligations	2,458,496	1,601,185
Pension liability - Wisconsin Retirement System	-	422,883
Advance from City of Kenosha	-	93,013
Clean Water Fund loans	105,076	206,926
Total noncurrent liabilities	3,333,075	3,207,012
Total liabilities	8,570,076	12,925,492
Deferred Inflows of Resources		
Deferred pension resources	3,221,721	1,753,765
Deferred OPEB resources	8,190	-
Total deferred inflows of resources	3,229,911	1,753,765
Net Position		
Invested in capital assets, net of related debt	162,617,964	161,393,160
Restricted for debt service	2,863,029	9,136,149
Restricted for pension	1,632,829	-
Unrestricted	34,641,874	28,678,566
Total net position	\$ 201,755,696	\$ 199,207,875

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

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Charges for services	\$ 23,789,784	\$ 23,896,387
Miscellaneous	4,323,635	4,222,136
Total operating revenues	<u>28,113,419</u>	<u>28,118,523</u>
Operating expenses:		
General and administrative	5,435,267	5,134,155
Operations and maintenance	12,520,903	11,530,441
Loss on disposal of equipment	-	230,388
Depreciation	5,251,014	5,045,302
Total operating expenses	<u>23,207,184</u>	<u>21,940,286</u>
Operating income	<u>4,906,235</u>	<u>6,178,237</u>
Nonoperating revenues (expenses):		
Net investment income	546,624	228,930
Interest expense	(231,004)	(366,411)
Miscellaneous	68,000	89,555
Total nonoperating revenue (expenses)	<u>383,620</u>	<u>(47,926)</u>
Increase in net position before capital contributions and transfers	5,289,855	6,130,311
Capital contributions	297,015	4,639,901
Transfers out	<u>(2,360,152)</u>	<u>(2,405,432)</u>
Increase in net position	3,226,718	8,364,780
Net position at beginning of year	199,207,875	190,843,095
Prior period adjustment, change in accounting principle	<u>(678,897)</u>	<u>-</u>
Net position at beginning of year, restated	<u>198,528,978</u>	<u>190,843,095</u>
Net position at end of year	<u>\$ 201,755,696</u>	<u>\$ 199,207,875</u>

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

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers	\$ 28,408,335	\$ 28,124,527
Payments to suppliers	(12,528,418)	(11,702,137)
Payments to employees	(5,320,420)	(4,548,628)
Net cash provided by operating activities	<u>10,559,497</u>	<u>11,873,762</u>
Cash flows from noncapital financing activities:		
Advances paid to other funds	(87,697)	(82,382)
Interest paid on noncapital debt	(8,102)	(12,889)
Miscellaneous receipts	40,861	46,453
Transfer to City of Kenosha	(2,405,432)	(2,378,777)
Net cash used in noncapital financing activities	<u>(2,460,370)</u>	<u>(2,427,595)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,107,398)	(3,957,940)
Special assessments collected (purchased)	175,998	212,479
Impact fees and contributions collected	369,584	260,933
Customer deposits for construction	370,461	(372,868)
Proceeds on disposal of capital assets	36,957	39,328
Principal paid on capital debt	(4,823,721)	(2,445,688)
Interest paid on capital debt	(243,112)	(363,795)
Net cash used in capital and related financing activities	<u>(8,221,231)</u>	<u>(6,627,551)</u>
Cash flows from investing activities:		
Sale of investments	21,272,948	2,009,125
Purchase of investments	(11,207,072)	(1,140,895)
Interest and dividends received	578,840	264,503
Net cash provided by investing activities	<u>10,644,716</u>	<u>1,132,733</u>
Net increase in cash and cash equivalents	10,522,612	3,951,349
Cash and cash equivalents – beginning of year	<u>11,521,044</u>	<u>7,569,695</u>
Cash and cash equivalents – end of year	\$ <u>22,043,656</u>	\$ <u>11,521,044</u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 18,950,458	\$ 11,016,109
Restricted cash and cash equivalents	3,093,198	504,935
Total cash and cash equivalents	\$ <u>22,043,656</u>	\$ <u>11,521,044</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>4,906,235</u>	\$ <u>6,178,237</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,251,014	5,045,302
Loss (gain) on disposal of capital assets	54,282	233,820
Changes in assets and liabilities:		
Accounts receivable	294,417	(27,477)
Unbilled revenues	(9,756)	59,441
Inventories	(12,503)	(51,920)
Other current assets	10,255	(25,960)
Accounts payable	134,811	(122,352)
Compensated absences	24,783	57,523
Worker's compensation accrued liability	(131,747)	(27,994)
Pension benefits	(2,055,712)	(362,064)
Deferred outflows of resources related to pensions	699,967	747,876
Deferred outflows of resources related to OPEB	(77,004)	-
Other post employment benefits	178,414	68,328
Deferred inflows of resources related to pensions	1,467,956	101,858
Deferred inflows of resources related to OPEB	8,190	-
Payable to City of Kenosha	(184,105)	(23,178)
Other current liabilities	-	22,322
Total adjustments	<u>5,653,262</u>	<u>5,695,525</u>
Net cash provided by operating activities	\$ <u>10,559,497</u>	\$ <u>11,873,762</u>
Contributions of capital assets from developers, including assessments and impact fees	\$ <u>272,614</u>	\$ <u>4,617,625</u>

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

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

Nature of Business

The City of Kenosha Water Utility (Utility) is an enterprise fund of the City of Kenosha, Wisconsin (City) and is comprised of three units: Water, Sewerage, and Household Hazardous Waste. The Utility is governed by the City of Kenosha Board of Water Commissioners (Board) consisting of six members appointed by the Mayor of the City of Kenosha.

These financial statements present only the City of Kenosha Water Utility and are not intended to present the financial position and results of operations of the City of Kenosha, Wisconsin in conformity with accounting principles generally accepted in the United States of America.

The Water Unit operates, maintains, and constructs the City's water system. Services are financed primarily by user charges. The Water Unit charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSCW). Accounting records of the Water Unit are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The Sewerage Unit operates, maintains, and constructs the City's sewage collection and treatment system. Services are financed primarily by user charges. Service rates and rules are established by the Board.

The Household Hazardous Waste Unit collects, stores, and disposes of residential household hazardous waste. Services are financed primarily by user charges. Service rates and rules are established by the Board.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting policies of the Utility conform to U.S. generally accepted accounting principles (GAAP) for enterprise funds as formulated by the Governmental Accounting Standards Board. The accounts of the Utility, which are organized as an enterprise fund, are used to account for the Utility's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Utility maintains its records on the full accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Utility receives value without directly giving equal value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Utility on a reimbursement basis.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents, are considered to have original maturities of three months or less from the date of purchase.

Receivables/Payables

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

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

Materials and Supplies

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

Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as certain resources set aside for their repayment, system renewal and replacement, depreciation and taxes, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. In addition, amounts collected for the Storm Water Utility, which are due to the City, are considered restricted.

The Pension Asset – Wisconsin Retirement System represents the Utility's allocation of the City's proportionate share of the overfunded status of the Wisconsin Retirement System. These assets are held by the Wisconsin Retirement System in trust and their use is limited to the settlement of pension related obligations

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

Other Current Assets

Other current assets include the current portion of special assessments receivable, interest receivable and prepaid expenses.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

Investments

Investment of Utility funds is restricted by Wisconsin Statutes to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association authorized to transact business in the state which matures 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 or the University of Wisconsin Hospitals and Clinics Authority.
- Bonds or securities issued or guaranteed by the federal government.
- The Wisconsin 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.

Investments, other than US Treasury Notes with original maturities of less than one year, are reported 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 quoted market prices. Adjustments necessary to report investments at fair value are recorded in the statement of revenues, expenses and change in net position as increases or decreases in investment income. U.S. Treasury notes are carried at amortized cost. Non-negotiable Certificates of Deposit are deposits reported at cost and are not subject to fair value measurement.

Special Assessments and Unbilled Assessments

Unbilled assessments represent assessments that have been levied upon properties within the City that are not currently connected to the Utility system. This balance also includes assessments levied on properties outside the boundaries of the City which are not collectible until and unless the property connects to the Utility system or is attached to the City. Amounts reported as special assessments represent amounts levied that are currently payable.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the Utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost or the fair market value at the time of contribution to the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase is reflected in the capitalized value of utility plant constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Useful life (years)
Water unit:	
Production intake	50-75
Production pumping	25-50
Production purification	18-50
Transmission and distribution	20-108
General plant and equipment	5-17
Sewerage unit:	
Collection system	20-100
Collection system pumping	20-50
Treatment and disposal	15-50
Engineering equipment	5-17
General plant and equipment	5-50
Household hazardous waste unit:	
Structures and improvements	25
Equipment	12

Compensated Absences

Vacation

The Utility compensates all employees upon termination for unused vacation earned in the current year. Employees may carry-over up to two weeks of unused vacation into the next calendar year to be used by June 30 of that year; any unused vacation carry-over not used by June 30 is forfeited.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

Sick Leave

Utility employees are entitled to sick leave at a rate of one day per month of full-time service. Sick leave is paid upon normal retirement or disability up to a maximum of 66 days. Terminated employees are not compensated for unused sick leave. The balance sheets of the Water and Sewerage Units contain a liability for estimated accrued sick leave and associated fringe benefits.

Other Postemployment Benefits (OPEB) Retiree Health Insurance

The City provides post-retirement health care benefits to full-time employees. GASB Statement No. 75 was implemented by the Utility for the year ended December 31, 2018. The most notable change is that the Net OPEB liability will show as an item on the financial statement rather than a footnote entry.

Regularly appointed full-time employees retiring under the provisions of the Wisconsin Retirement System (WRS) with greater than or equal to fifteen years of service and who attained the age of sixty at the time of retirement, or regularly appointed full-time employees retiring under the provisions of the WRS with greater than or equal to eight years of service but less than fifteen years of service and who attained the age of sixty-two at the time of retirement, may retain City health insurance for themselves and their spouses and eligible dependents until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.

Other Postemployment Benefits (OPEB) Retiree Life Insurance

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 LRLIF's 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.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications

The difference between all other elements in a statement of financial position is net position. Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unspent related debt proceeds or deferred inflows of resources is excluded from the calculation of net investment in capital assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Long-term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Long-term debt is reported net of any premium or discount. Issuance costs are reported as expenses in the year incurred.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, 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 benefit terms. Investments are reported at fair value.

Charges for Services

Billings for water and sewerage services are issued monthly to high-consumption users and bi-monthly to all other customers. Hazardous waste charges are billed bimonthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) **Summary of Significant Accounting Policies** (Continued)

Classification of Revenues

The Utility has classified its revenues and expenses as either operating or nonoperating. Operating revenues and expenses arise from activities that have the characteristics of exchange transactions, including providing water, sewerage, and hazardous waste services. Nonoperating revenues and expenses arise from activities that have the characteristics of nonexchange transactions, such as those related grants and contributions. Investment activities are also classified as nonoperating.

Taxes

The Water Unit records an annual payment in lieu of taxes (PILOT) based on the value of its plant and materials and supplies inventory using the current assessment ratio and local and school portion of the mill rate. Municipal utilities are exempt from federal and state income taxes. A portion of the payment is allocated to the Sewerage Unit. The payment is recorded as a transfer out to the City's General Fund.

Use of Estimates

The preparation of the basic 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, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes new accounting and financial reporting requirements for the OPEB provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of OPEB plans, including methods and assumptions to be used for defined benefit OPEB. The Utility implemented the requirements of this standard for the year ended December 31, 2018. This resulted in the restatement of net position for the beginning of year Net OPEB obligation as discussed in Note 14.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, which adds additional criterion regarding the blending of certain component units. The Utility implemented the requirements of this standard for the year ended December 31, 2017.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which establishes recognition and measurement guidance for irrevocable split-interest agreements. The Utility implemented the requirements of this standard for the year ended December 31, 2017.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which address accounting and reporting requirements for certain asset retirement obligations. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2019.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*, which modifies the guidance regarding the identification and report of fiduciary activities for accounting and financial reporting. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2019.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues related to blending component units, goodwill, fair value measurement and other post-employment benefits result from implementation and application of various GASB statements. The Utility implemented the requirements of this standard for the year ended December 31, 2018.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishments*, which addresses accounting and financial reporting, including certain footnote disclosures, of in-substance debt defeasance and prepaid insurance on such debt. The Utility implemented the requirements of this standard for the year ending December 31, 2018.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which modifies the guidance regarding the classification, accounting and financial reporting of leases. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2020. The impact of this standard on the Utility's financial statements is not yet determined.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*, which address certain financial statement disclosures relate to debt transactions. The Utility will implement the requirements of this standard beginning with the year ending December 31, 2019.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which address the accounting requirements for interest cost incurred before the end of a construction period. The Utility has elected early implement this standard for the year ended December 31, 2018.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statement No. 14 and 61*, which addresses specific accounting and financial reporting aspects of investments that meet the definition of a majority equity interest investment. The Utility will implement the requirements of this standard beginning with the year ended December 31, 2019.

CITY OF KENOSHA WATER UTILITY
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(2) Cash and Investments

The Utility, as an enterprise fund of the City, maintains separate cash and investment accounts at the same financial institutions utilized by the City. A summary of cash and investments as of December 31, 2018 and 2017 are as follows:

	2018	2017
Cash on hand	\$ 1,700	\$ 1,700
Demand deposits	22,041,956	3,501,231
U.S. Treasury notes	6,914,782	29,291,061
Bonds	4,292,290	-
Total cash, cash equivalents and investments	\$ 33,250,728	\$ 32,793,992
Reconciliation to the financial statement:		
Current assets:		
Cash and cash equivalents	\$ 18,950,458	\$ 11,016,109
Investments	6,560,208	10,004,000
Restricted Cash	2,759,346	179,996
Restricted cash - Storm Water Utility collections	333,852	324,939
Restricted Investments	104,776	11,268,948
Noncurrent assets:		
Investments	4,542,088	-
Total cash, cash equivalents and investments	\$ 33,250,728	\$ 32,793,992

Investment Policy

The Utility's investments are made in accordance with the Utility's investment policy which is similar to the City of Kenosha's investment policies and the Wisconsin Statutes. A summary of authorized investments is included in Note 1.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned. Deposits of governmental entities held by an official custodian in banks located in the same state as the governmental entity are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per financial institution. Deposits are also insured for \$400,000 by the State Deposit Guarantee Fund. The investment policies require collateralization of deposits at financial institutions when the total amount of such deposits exceeds the insured limits. Federal depository insurance and the State of Wisconsin Guarantee Fund insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the Utility alone.

CITY OF KENOSHA WATER UTILITY
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(2) Cash and Investments (Continued)

Credit Risk

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

As of December 31, 2018, the District is exposed to credit risk with investments in the following:

Investment Type	Fair Value	Moody's Rating
Corporate Bonds	\$ 1,315,409	Aa2
Corporate Bonds	936,332	Aa3
Corporate Bonds	2,040,549	A1
Total Fair Value of Investments subject to credit risk	\$ 4,292,290	

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. As of December 31, 2018 and 2017, the Utility's investments were U.S. Treasury notes and corporate bonds with maturities of less than two years.

Investment Type	Carrying Value	Less than 1	Investment maturities (in years)		
			1 to 5	6 to 10	More than 10
U.S. Treasury notes	\$ 6,914,782	\$ 4,608,532	\$ 2,306,250	\$ -	\$ -
Corporate Bonds	4,292,290	2,056,452	2,235,838	-	-
Total Fair Value of Investments	\$ 11,207,072	\$ 6,664,984	\$ 4,542,088	-	-

Fair Value Measurements

The Utility uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Utility follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Utility has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

CITY OF KENOSHA WATER UTILITY
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(2) Cash and Investments (Continued)

Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

The Utility has the following assets that are subject to fair value measurements as of December 31, 2018:

	Fair Value	Level 1	Level 2	Level 3	Exempted from Disclosure
Corporate bonds	\$ 4,292,290	\$ -	\$ 4,292,290	\$ -	\$ -
U.S. Treasury notes		-	-	-	6,914,782
Total Fair Value of Investments	<u>\$ 4,292,290</u>	<u>\$ -</u>	<u>\$ 4,292,290</u>	<u>\$ -</u>	<u>\$ 6,914,782</u>

The Utility had the following assets that were subject to fair value measurements as of December 31, 2017:

	Fair Value	Level 1	Level 2	Level 3	Exempted from Disclosure
U.S. Treasury notes	\$ -	\$ -	\$ -	\$ -	\$ 29,291,061
Total Fair Value of Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,291,061</u>

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(3) Restricted Assets

Restricted assets have been established in accordance with the requirements of debt agreements, pension restrictions, and City policies as follows:

	2018			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Restricted for Debt Service				
Debt service account	\$ -	\$ 105,653	\$ -	\$ 105,653
	-	105,653	-	105,653
Restricted for renewal and replacement	-	1,725,606	-	1,725,606
Restricted for depreciation	-	1,032,863	-	1,032,863
Restricted for Storm Water Utility collections due to the City of Kenosha	-	333,852	-	333,852
Total restricted assets	<u>\$ -</u>	<u>\$ 3,197,974</u>	<u>\$ -</u>	<u>\$ 3,197,974</u>
Restricted cash and cash equivalents	\$ -	\$ 3,093,198	\$ -	\$ 3,093,198
Restricted investments	-	104,776	-	104,776
Total restricted assets	<u>\$ -</u>	<u>\$ 3,197,974</u>	<u>\$ -</u>	<u>\$ 3,197,974</u>
	2017			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Restricted for Debt Service				
Debt service account	\$ -	\$ 110,675	\$ -	\$ 110,675
Special redemption account	2,737,925	-	-	2,737,925
Reserve account	2,291,493	-	-	2,291,493
	<u>5,029,418</u>	<u>110,675</u>	<u>-</u>	<u>5,140,093</u>
Restricted for renewal and replacement	-	1,765,887	-	1,765,887
Restricted for taxes	2,523,870	-	-	2,523,870
Restricted for depreciation	1,009,547	1,009,547	-	2,019,094
Restricted for Storm Water Utility collections due to the City of Kenosha	-	324,939	-	324,939
Total restricted assets	<u>\$ 8,562,835</u>	<u>\$ 3,211,048</u>	<u>\$ -</u>	<u>\$ 11,773,883</u>
Restricted cash and cash equivalents	\$ 93,762	\$ 411,173	\$ -	\$ 504,935
Restricted investments	8,469,073	2,799,875	-	11,268,948
Total restricted assets	<u>\$ 8,562,835</u>	<u>\$ 3,211,048</u>	<u>\$ -</u>	<u>\$ 11,773,883</u>

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(4) Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,309	\$ -	\$ -	\$ 2,151,309
Construction in progress	14,320,139	2,989,141	3,146,736	14,162,544
Total capital assets not being depreciated	<u>16,471,448</u>	<u>2,989,141</u>	<u>3,146,736</u>	<u>16,313,853</u>
Capital assets being depreciated:				
Revenue producing and service equipment	51,203,357	541,564	84,220	51,660,701
Buildings and structures	198,530,939	3,082,887	133,853	201,479,973
Office furnishings, shop equipment, and other	9,248,588	567,973	170,889	9,645,672
Total capital assets being depreciated	<u>258,982,884</u>	<u>4,192,424</u>	<u>388,962</u>	<u>262,786,346</u>
Less accumulated depreciation:				
Revenue producing and service equipment	44,161,012	1,801,784	84,220	45,878,576
Buildings and structures	61,818,645	3,024,309	50,540	64,792,414
Office furnishings, shop equipment, and other	5,342,362	424,921	162,963	5,604,320
Total accumulated depreciation	<u>111,322,019</u>	<u>5,251,014</u>	<u>297,723</u>	<u>116,275,310</u>
Total capital assets being depreciated, net	<u>147,660,865</u>	<u>(1,058,590)</u>	<u>91,239</u>	<u>146,511,036</u>
Total capital assets, net	<u>\$ 164,132,313</u>	<u>\$ 1,930,551</u>	<u>\$ 3,237,975</u>	<u>\$ 162,824,889</u>

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(4) Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,309	\$ -	\$ -	\$ 2,151,309
Construction in progress	13,361,937	3,216,898	2,258,696	14,320,139
Total capital assets not being depreciated	<u>15,513,246</u>	<u>3,216,898</u>	<u>2,258,696</u>	<u>16,471,448</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,519,900	1,456,502	773,045	51,203,357
Buildings and structures	193,922,398	5,365,957	757,416	198,530,939
Office furnishings, shop equipment, and other	8,760,288	556,247	67,947	9,248,588
Total capital assets being depreciated	<u>253,202,586</u>	<u>7,378,706</u>	<u>1,598,408</u>	<u>258,982,884</u>
Less accumulated depreciation:				
Revenue producing and service equipment	43,041,712	1,659,492	540,192	44,161,012
Buildings and structures	59,593,867	2,945,330	720,552	61,818,645
Office furnishings, shop equipment, and other	4,966,398	440,480	64,516	5,342,362
Total accumulated depreciation	<u>107,601,977</u>	<u>5,045,302</u>	<u>1,325,260</u>	<u>111,322,019</u>
Total capital assets being depreciated, net	<u>145,600,609</u>	<u>2,333,404</u>	<u>273,148</u>	<u>147,660,865</u>
Total capital assets, net	<u>\$ 161,113,855</u>	<u>\$ 5,550,302</u>	<u>\$ 2,531,844</u>	<u>\$ 164,132,313</u>

CITY OF KENOSHA WATER UTILITY
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(5) Long-term Obligations

Long-term obligations activity for the year ended December 31, 2018 was as follows:

Issue	Interest rate	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 2000	3.17%	\$ 305,646	-	\$ 98,721	\$ 206,925	\$ 101,849
Revenue Bonds:						
Series 2008	3.25-5.00%	4,725,000	-	4,725,000	-	-
		5,030,646	-	4,823,721	206,925	101,849
Unamortized premium		27,139	-	27,139	-	-
Advance from Municipality:						
1999 agreement	4.74-6.00%	180,710	-	87,697	93,013	93,013
Worker's compensation accrued liability	N/A	295,277	-	131,747	163,530	-
Other post employment benefits	N/A	1,601,185	1,030,311	173,000	2,458,496	-
Net pension liability - WRS	N/A	422,883	-	422,883	-	-
Accrued Compensated Absences	N/A	665,341	142,023	117,240	690,124	84,151
Total		<u>\$ 8,223,181</u>	<u>\$ 1,172,334</u>	<u>\$ 5,783,427</u>	<u>\$ 3,612,088</u>	<u>\$ 279,013</u>

Long-term debt activity for the year ended December 31, 2017 was as follows:

Issue	Interest rate	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 2000	3.17%	\$ 401,334	-	\$ 95,688	\$ 305,646	\$ 98,721
Revenue Bonds:						
Series 2008	3.25-5.00%	7,075,000	-	2,350,000	4,725,000	4,725,000
		7,476,334	-	2,445,688	5,030,646	4,823,721
Unamortized premium		70,242	-	43,103	27,139	27,139
Advance from Municipality:						
1999 agreement	4.74-6.00%	263,092	-	82,382	180,710	87,697
Worker's compensation accrued liability	N/A	323,271	-	27,994	295,277	-
Other post employment benefits	N/A	1,532,857	241,328	173,000	1,601,185	-
Net pension liability - WRS	N/A	784,947	-	362,064	422,883	-
Accrued Compensated Absences	N/A	607,818	135,641	78,118	665,341	77,613
Total		<u>\$ 11,058,561</u>	<u>\$ 376,969</u>	<u>\$ 3,212,349</u>	<u>\$ 8,223,181</u>	<u>\$ 5,016,170</u>

CITY OF KENOSHA WATER UTILITY
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(5) Long-term Debt (Continued)

State of Wisconsin Department of Natural Resources Clean Water Fund Loan (CWFL)

Clean Water Fund loans are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Sewerage Unit Clean Water Fund debt is payable from revenues of the sewerage system; however, upon default, the City's transportation aids or shared revenue may be reduced. The municipal ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established:

- Renewal and replacement - Utilities receiving federal or state construction grant funds from the EPA or the Wisconsin Fund are required by Wis. Admin. Code NR 128.13 and CFR 35.2005, Federal Register, to establish and fund a "replacement account" for mechanical equipment. Each grantee must review its facility and estimate its future expenditures for equipment replacement that will be necessary to maintain the facility's capacity throughout its design life of 20 years. Withdrawals are made as major mechanical equipment is repaired or replaced.

- Debt Service account - Used to deposit monthly one-sixth and one-twelfth of the Next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.

Revenue Bonds

Revenue bond debt is payable from revenues derived by the Utility. Revenue bonds are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Such ordinances provide for the establishment of separate accounts into which cash receipts are allocated. Revenue bonds were paid in full by the Utility during 2018 and all restricted asset balances were released. During 2017, the following accounts were carried for the Water and Sewerage units:

- Special redemption account - Used to deposit monthly one-sixth and one-twelfth of the next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount is on deposit.

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(5) Long-term Debt (Continued)

Revenue Bonds (continued)

- Reserve account - Used to make interest or principal payments when amounts are not available in the special redemption account, remedy deficiencies in any of the other accounts, or retire bonds in advance of maturity.
- Renewal and replacement - Used for the payment of repairs, replacements, new construction, and expansion on or additions to the system.
- Tax equivalent account - Used to fund the annual tax equivalent paid to the City.
- Depreciation account - Used for the payment of extraordinary repairs or replacements and to remedy any deficiencies in the special redemption account.

Advance from Municipality

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue, and makes principal and interest payments to the City. During 2009, the City refunded the 1999 general obligation refunding bonds which resulted in an increase in annual principal payments and a reduction in annual interest payments due for the remaining life of the bonds. The Utility recorded its share of the increase in principal due as a charge to the year of the change's pension expense.

Principal and Interest Payments

Long-term debt principal and interest requirements to maturity as of December 31, 2018 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2019	46,116	148,746	194,862	1,383	6,351	7,734
2020	-	105,076	105,076	-	1,665	1,665
	<u>\$ 46,116</u>	<u>\$ 253,822</u>	<u>\$ 299,938</u>	<u>\$ 1,383</u>	<u>\$ 8,016</u>	<u>\$ 9,399</u>

CITY OF KENOSHA WATER UTILITY
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(6) Net Position

The components of net position are shown below:

	2018			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Invested in capital assets, net of related debt				
Net investment in capital assets	\$ 76,923,755	\$ 85,844,679	\$ 56,454	\$ 162,824,888
Outstanding long-term debt	-	(206,925)	-	(206,925)
	<u>76,923,755</u>	<u>85,637,754</u>	<u>56,454</u>	<u>162,617,963</u>
Restricted				
Restricted for renewal and replacement	-	1,725,606	-	1,725,606
Restricted for depreciation	-	1,032,863	-	1,032,863
Restricted for debt service	-	105,653	-	105,653
Restricted for Storm Water Utility collections	-	333,852	-	333,852
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(333,852)	-	(333,852)
Accrued interest payable	-	(1,093)	-	(1,093)
	<u>-</u>	<u>2,863,029</u>	<u>-</u>	<u>2,863,029</u>
Restricted for pension	<u>831,329</u>	<u>794,931</u>	<u>6,569</u>	<u>1,632,829</u>
Unrestricted	<u>3,626,126</u>	<u>30,561,111</u>	<u>454,638</u>	<u>34,641,875</u>
Total net position	<u>\$ 81,381,210</u>	<u>\$ 119,856,825</u>	<u>\$ 517,661</u>	<u>\$ 201,755,696</u>

	2017			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Invested in capital assets, net of related debt				
Net investment in capital assets	\$ 77,163,410	\$ 86,909,107	\$ 59,796	\$ 164,132,313
Outstanding long-term debt	(4,725,000)	(305,646)	-	(5,030,646)
Debt not related to capital assets	2,291,493	-	-	2,291,493
	<u>74,729,903</u>	<u>86,603,461</u>	<u>59,796</u>	<u>161,393,160</u>
Restricted				
Restricted for renewal and replacement	-	1,765,887	-	1,765,887
Restricted for taxes	2,523,870	-	-	2,523,870
Restricted for depreciation	1,009,547	1,009,547	-	2,019,094
Restricted for debt service	2,737,925	110,675	-	2,848,600
Restricted for bond reserve	2,291,493	-	-	2,291,493
Restricted for Storm Water Utility collections	-	324,939	-	324,939
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(324,939)	-	(324,939)
Accrued interest payable	(19,688)	(1,614)	-	(21,302)
Long-term debt	(2,291,493)	-	-	(2,291,493)
	<u>6,251,654</u>	<u>2,884,495</u>	<u>-</u>	<u>9,136,149</u>
Unrestricted	<u>245,250</u>	<u>27,986,148</u>	<u>447,168</u>	<u>28,678,566</u>
Total net position	<u>\$ 81,226,807</u>	<u>\$ 117,474,104</u>	<u>\$ 506,964</u>	<u>\$ 199,207,875</u>

CITY OF KENOSHA WATER UTILITY
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NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(7) Pensions

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 is responsible for administration of the WRS and the State of Wisconsin Investment Board (SWIB) is responsible for managing WRS investments.

Vesting

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits provided

Employees who retire at or after age 65 (54 for protective occupations, 62 for elected officials and executive service retirement plan participants, if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may withdraw either received employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

The WRS also provides death and disability benefits for employees.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
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(7) Pensions (Continued)

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:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3.0%	10.0%
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 was merged into the General Employee Category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The Kenosha Water Utility participates in the Plan as part of the City of Kenosha. The City has determined that Kenosha Water Utility's allocation of the City's proportional share of participation in the Pension, to be 10.95%, for the year ended December 31, 2018.

During the reporting period, the WRS recognized contributions from the City of Kenosha including \$411,989 of contributions from the Kenosha Water Utility.

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 December 31, 2018 and 2017

(7) Pensions (Continued)

Contribution rates as of December 31, 2018 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	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 an asset of \$1,632,829 for its allocation of the City of Kenosha's proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension 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 City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. The Utility's allocation of the City's proportion was determined by the City. At December 31, 2017, the Utility's allocated proportion was 0.05499373%, which was an increase of 0.00368790% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the Utility recognized pension expense of \$524,200.

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	\$ 2,074,550	\$ 970,406
Changes in assumptions	322,615	-
Net differences between projected and actual earnings on pension plan investments	-	2,244,172
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,482	7,143
Employer contributions subsequent to the measurement date	<u>411,989</u>	<u>-</u>
Total	<u>\$ 2,820,636</u>	<u>\$ 3,221,721</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
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(7) Pensions (Continued)

\$411,989 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31	Net Outflows/Inflows of Resources
2019	\$ 181,850
2020	(12,720)
2021	(561,952)
2022	(424,165)
2023	3,913

Actuarial assumptions. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2016
Measurement Date of Net Pension Liability (Asset):	December 31, 2017
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases	
Inflation:	3.2%
Seniority/Merit:	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	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 are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

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(7) Pensions (Continued)

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 are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
Global Equities	50	8.2	5.3
Fixed Income	24.5	4.2	1.4
Inflation Sensitive Assets	15.5	3.8	1.0
Real Estate	8	6.5	3.6
Private Equity/Debt	8	9.4	6.5
Multi-Asset	4	6.5	3.6
Total Core Fund	110	7.3	4.4
 <u>Variable Fund Asset Class</u>			
U.S. Equities	70	7.5	4.6
International Equities	30	7.8	4.9
Total Variable Fund	100	7.9	5.0

Single Discount rate. A single discount rate of 7.20% was used to measure the total pension liability. 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 3.31%. 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.

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(7) Pensions (Continued)

Sensitivity of the Utility's allocation of the City's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the Utility's allocation of the City'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 allocation of the City'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:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Water Utility's allocation of the City's proportionate share of the net pension liability (asset)	\$ 4,224,686	\$ (1,632,829)	\$ (6,084,722)

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>.

Payables to the pension plan

The Utility's share of the City's payable to WRS as of December 31, 2018, was \$39,070.

(8) Other Postemployment Benefits – Health Insurance

The Utility participates in a single-employer defined benefit health care plan ("the Retiree Health Plan") administered by the City of Kenosha. The plan provides health insurance benefits for eligible retirees, their spouses and eligible dependents through the City's group health insurance plan, which -covers both active and retired members. Benefit provisions are established through personnel policy guidelines or past practice and state that eligible retirees, their spouses and eligible dependents receive healthcare insurance based on the following criteria:

- Regularly appointed full-time employees retiring under the provisions of the Wisconsin Retirement System (WRS) with greater than or equal to fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree's sixtieth birthday, for a maximum of five years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.
- Regularly appointed full-time employees retiring under the provisions of the WRS with greater than or equal to eight years of service but less than fifteen years of service may retain City health insurance, the full premium cost being paid by the City, from the first month following the retiree's sixty-second birthday, for a maximum of three years, or until the retiree becomes eligible for other paid health insurance, becomes eligible for Medicare, or until the retiree attains the age of sixty-five, whichever occurs first.

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(8) Other Postemployment Benefits – Health Insurance (Continued)

The Retiree Health Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria of paragraph 4 of the GASB Statement No. 75.

Benefit provisions are established through personnel policies and generally result in the employer paying 100% of the health care costs – less plan deductibles and co-pays – as outlined above. Benefit provisions may be amended through changes in personnel policy guidelines by action of the City’s Common Council. There is no contribution requirement since the Utility pays 100% of health care costs less plan deductibles and co-pays.

Employees covered by benefit terms. At December 31, 2018, the following employees were covered by the benefit terms:

Active employees	88
Retirees	<u>3</u>
Total	91

Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB. The valuation date is December 31, 2017. The measurement date is December 31, 2018. The measurement date is the date as of which the total OPEB liability is determined.

The total OPEB liability of \$2,100,397 was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions and was then projected forward to the measurement date.

For the year ended December 31, 2018, the Utility recognized OPEB expense of \$74,644.

OPEB Health Insurance Prior Period Adjustment. A prior period adjustment was entered to record the changes in reporting for GASB Statements No. 74 and 75. \$386,291 of the prior period adjustment is due to the health insurance portion of other postemployment benefits.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	38,277	-
Employer contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 38,277</u>	<u>\$ -</u>

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(8) Other Postemployment Benefits – Health Insurance (Continued)

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

<u>Year ended December 31</u>	<u>Net Outflows/Inflows of Resources</u>
2019	\$ 5,800
2020	5,800
2021	5,800
2022	5,800
2023	5,800
Thereafter	9,277

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Valuation date	December 31, 2018
Measurement date	December 31, 2017
Discount rate	3.44%
Healthcare cost trend	3.90% - 5.90%
Salary increases including inflation	WRS; see "Actuarial Assumptions" for details
Mortality	WRS; see "Actuarial Assumptions" for details
Actuarial cost method	Entry Age Normal

The discount rate is based on the yield or index rate for 20-Year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the following criteria:

Pre-retirement: This assumption applies to death while in service. Rates are based on the Wisconsin 2018 Mortality table (multiplied by 50% for males and females) as the base table and project future improvements with 2018 generational improvement scale (multiplied by 60%), as adopted by the Employee Trust Fund (ETF) Board in connection with the 2015-2017 Experience Study performed by the actuary for the Wisconsin Retirement System.

Post-retirement: This assumption applies to death of participants after retirement. Rates are based on the 2018 Mortality Table as the base table and project future improvements with 2018 generational improvement scale (multiplied by 60%), as adopted by the ETF Board in connection with the 2015-2017 Experience Study performed by the actuary for the Wisconsin Retirement System.

Post-disability: This assumption applies to death after disablement. Rates are based on the 2015-2017 Experience Study performed by the actuary for the Wisconsin Retirement System as the base table and project future improvements with 2018 generational improvement scale (multiplied by 60%), as adopted by the ETF Board in connection with the 2015-2017 Experience Study performed by the actuary for the Wisconsin Retirement System.

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(8) Other Postemployment Benefits – Health Insurance (Continued)

Changes in Total OPEB Liability

	Increase (Decrease) Total OPEB Liability
Changes in Total OPEB Liability	2018
Beginning of Year Balances	\$ 1,987,476
Changes for the year:	
Service Cost	163,766
Interest on total OPEB liability	78,078
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	44,077
Benefit payments	(173,000)
End of Year Balances	\$ 2,100,397

Changes of assumptions and other inputs reflect a change in the:

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City of Kenosha Water Utility, calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate.

	2018		
	1% Decrease 2.44%	Discount Rate 3.44%	1% Increase 4.44%
Total OPEB liability	\$ 2,231,985	\$ 2,100,397	\$ 1,972,096

Sensitivity of the total OPEB liability to changes in healthcare cost trend rate. The following presents the total OPEB liability of the City of Kenosha Water Utility, calculated using the current healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current trend rate.

	2018		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 1,884,953	\$ 2,100,397	\$ 2,353,375

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(8) Other Postemployment Benefits – Health Insurance (Continued)

Comparative information. The Governmental Accounting Standards Board (GASB) released new accounting standards for public postemployment benefit plans and other pension (OPEB) and participating employers in 2015. These standards, GASB Statements No. 74 and 75, have substantially revised the accounting requirements previously mandated under GASB Statements No. 43 and 45. Due to the implementation of GASB Statement No. 74, the year ended December 31, 2018 will be noted separately from the year ended December 31, 2017.

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The following presentation is based on GASB Statement No. 45 for the year ended December 31, 2017. Due to the implementation of GASB Statement No. 74, the Annual Required Contribution (ARC) has been eliminated and the Net OPEB Liability will be presented on the Utility's financial statement rather than a footnote entry. This is information data for the prior year.

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

The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation for the year ended December 31, 2017:

	2017		
	Water Unit	Sewerage Unit	Total
Annual required contribution	\$ 144,858	\$ 126,411	\$ 271,269
Interest on net OPEB obligation	24,557	21,429	45,986
Adjustment to annual required contribution	<u>(40,545)</u>	<u>(35,382)</u>	<u>(75,927)</u>
Annual OPEB cost	128,870	112,458	241,328
Contributions made	<u>(92,382)</u>	<u>(80,618)</u>	<u>(173,000)</u>
Increase in net OPEB obligaton	36,488	31,840	68,328
Net OPEB obligation, beginning of year	<u>799,231</u>	<u>733,626</u>	<u>1,532,857</u>
Net OPEB obligation, end of year	<u>\$ 835,719</u>	<u>\$ 765,466</u>	<u>\$ 1,601,185</u>

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(8) Other Postemployment Benefits – Health Insurance (Continued)

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows as of December 31, 2017:

	Water Unit	Sewerage Unit	Total
Year ended December 31, 2017			
Annual OPEB cost	\$ 128,870	\$ 112,458	\$ 241,328
Percentage of annual OPEB cost contributed	71.69%	71.69%	71.69%
Net OPEB obligation	\$ 835,719	\$ 765,466	\$1,601,185
Year ended December 31, 2016			
Annual OPEB cost	\$ 131,218	\$ 105,211	\$ 236,429
Percentage of annual OPEB cost contributed	66.83%	66.83%	66.83%
Net OPEB obligation	\$ 799,231	\$ 733,626	\$1,532,857
Year ended December 31, 2015			
Annual OPEB cost	\$ 142,884	\$ 121,227	\$ 264,111
Percentage of annual OPEB cost contributed	64.37%	64.37%	64.37%
Net OPEB obligation	\$ 755,703	\$ 698,725	\$1,454,428

The funded status of the plan as of December 31, 2016, the most recent actuarial valuation date used for the 2017 financial statements, was as follows:

	Water Unit	Sewerage Unit	Total
Actuarial accrued liability (AAL)	\$ 1,430,328	\$ 1,248,188	\$ 2,678,516
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,430,328</u>	<u>\$ 1,248,188</u>	<u>\$ 2,678,516</u>
Funded ratio (actuarial value of plan assets / AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members) - 2017	\$ 2,932,750	\$ 2,351,484	\$ 5,284,234
UAAL as a percentage of covered payroll	48.77%	53.08%	50.69%

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(9) Other Postemployment Benefits – Life Insurance

General Information about the Other Post-Employment Benefits – Life Insurance

Plan description

The Local Retiree Life Insurance Fund (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.

OPEB Plan Fiduciary Net Position

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

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 contributions 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 as of December 31, 2018 are:

Coverage Type	Employer Contribution
50% Post Retirement Coverage	40% of employee contribution
25% Post Retirement Coverage	20% of employee contribution

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(9) Other Postemployment Benefits – Life Insurance (Continued)

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 year ended December 31, 2017 are listed below:

Life Insurance Employee Contribution Rates
 For the year ended December 31, 2017

Attained Age	Basic
Under 30	\$ 0.05
30-34	0.06
35-39	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, LRLIF recognized contributions from the City of Kenosha including \$2,260 of contributions from the Kenosha Water Utility.

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 \$358,099 for its allocation of the City of Kenosha's 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 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 City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to contributions of all participating employers. The Utility's allocation of the City's proportion was determined by the City. At December 31, 2017, the Utility's allocated proportion was 0.11902606%, which was an increase of 0.04400950% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the Utility recognized OPEB expense of \$34,956.

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(9) Other Postemployment Benefits – Life Insurance (Continued)

OPEB Life Insurance Prior Period Adjustment. A prior period adjustment was entered to record the changes in reporting for GASB Statement No. 74 and 75. \$292,606 of the prior period adjustment is due to the life insurance portion of other postemployment benefits.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,045
Changes in assumptions	34,604	-
Net differences between projected and actual earnings on OPEB plan investments	4,123	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,145
Employer contributions subsequent to the measurement date	-	-
Total	\$ 38,727	\$ 8,190

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	Net Outflows/Inflows of Resources
2019	\$ 5,076
2020	5,076
2021	5,076
2022	5,076
2023	4,045
Thereafter	6,188

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(9) Other Postemployment Benefits – Life Insurance (Continued)

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 (Asset)	December 31, 2017
Actuarial Cost Method	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	3.44%
Long-term Expected Rate of Return	5.00%
Discount rate	3.63%
Salary increases:	
Inflation	3.20%
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 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 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.

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
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			2.30%
Long-Term Expected Rate of Return			5.00%

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 payments to the extent that the plan's fiduciary net position is projected to be insufficient.

CITY OF KENOSHA WATER UTILITY
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 December 31, 2018 and 2017

(9) Other Postemployment Benefits – Life Insurance (Continued)

Sensitivity of the Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate. The following presents the Utility's allocation of the City's proportionate share of the net OPEB liability calculated using the discount rate of 3.63 percent, as well as what the Utility's allocation of the City'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%)
Water Utility's allocation of the City's proportionate share of the net OPEB liability	\$ 506,131	\$ 358,099	\$ 244,501

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>.

(10) Risk Management

The Utility is exposed to various risks of loss related to theft of, damage to, or destruction of assets, torts, errors and omissions, workers' compensation, and health care of its employees. The Utility purchases commercial insurance to insure its assets and protect against liability claims. Settled liability and property damage claims have not exceeded the commercial insurance coverage in the last five years. The Utility, in conjunction with the City, is self-insured for workers' compensation and health insurance. The City purchases stop loss insurance to limit risk exposures.

For liability and errors and omissions insurance, the City, including the Utility, is a participant in the Wisconsin Municipal Insurance Commission (WMIC). The WMIC is an intergovernmental cooperation commission created by contract under Section 66.0301 of the Wisconsin Statutes in August 1987 for the purpose of facilitating the organization, establishment, and capitalization of the Cities and Villages Mutual Insurance Company (CVMIC) and has approximately fifty municipalities as members. CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. CVMIC provides liability and worker's compensation insurance coverage. Separately issued financial statements for CVMIC may be obtained from CVMIC at 9898 W. Bluemound Road, Wauwatosa, WI 53226-4319.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

(10) Risk Management (Continued)

For liability and errors and omissions insurance claims, the uninsured risk of loss is \$125,000 per incident and \$500,000 in the aggregate for a policy year.

The participation of the City, and its related funding for capitalization, is accounted in an internal service fund in the financial statements of the City. See the City's financial statements for additional information on the City's participation in the public entity risk pools as a whole.

(11) Basis for Existing Rates

Water Unit

On April 20, 2015, the PSCW authorized a rate increase effective June 1, 2015. The new rates were approved using the Simplified Rate Case Process which allowed a 3.0% increase in rates for general service, public fire protection and wholesale service. The revenue increase combined with the Utility's prior year's net operating income did not exceed an overall rate of return of 5.9%, the Commission's overall rate of return applicable to a municipally owned water utility.

Sewerage Unit

On November 17, 2014, the Board of Water Commissioners approved a rate adjustment for sewerage service, industrial waste discharge permit and miscellaneous services that was placed into effect June 1, 2015.

Household Hazardous Waste Unit

Rates were approved by the Board of Water Commissioners on November 27, 2006, and placed into effect January 1, 2007.

(12) Commitments and Contingencies

At December 31, 2018, the Utility had outstanding purchase commitments for contracts of approximately \$194,664 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$13,128 for painting the 58th Street ground storage tank #2, \$72,949 for water main construction and \$25,152 for sewer main construction.

At December 31, 2018, the Utility had outstanding purchase commitments for contracts of approximately \$314,575 for the rehabilitation of the equalization basin on 80th Street, \$194,664 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$34,119 for water main construction and \$1,252 for sewer main construction.

From time to time, the Utility becomes a party to 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 attorney that the likelihood is remote that any such claim or proceedings will have a material adverse effect on the Utility's financial position or results of operations.

(13) Subsequent Events

On March 11, 2019, a contract was awarded to L&T Painting Company, Inc. by the Board of Water Commissioners for painting the Industrial Park Elevated Storage Tank in the amount of \$506,400.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 NOTES TO BASIC FINANCIAL STATEMENTS
 December 31, 2018 and 2017

(14) Restatement

The Utility adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* as of January 1, 2018. The standard requires the Utility to record the total postemployment benefit liability less any related trust assets of the Utility's other postemployment benefit (OPEB) plan, and record related deferred outflows and deferred inflows of resources and expenses as of the plan's actuarial valuation. As a result, the Utility's beginning of the year net position has been restated as follows:

	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Ending net position, December 31, 2017, as previously reported	\$ 81,226,807	\$ 117,474,104	\$ 506,964	\$ 199,207,875
Less: Net OPEB liability per GASB Statement No. 75	<u>(397,060)</u>	<u>(281,837)</u>	-	<u>(678,897)</u>
Net position, January 1, 2018, as restated	<u>\$ 80,829,747</u>	<u>\$ 117,192,267</u>	<u>\$ 506,964</u>	<u>\$ 198,528,978</u>

\$386,291 is due to the OPEB Health Insurance Liability

\$292,606 is due to the OPEB Life Insurance Liability

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

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UTILITY'S ALLOCATION OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 Wisconsin Retirement System
 Last 10 Measurement Periods*

	Year Ended December 31,			
	2017	2016	2015	2014
Utility's allocation of the City of Kenosha's proportion of the net pension liability (asset)	0.05499373%	0.05130583%	0.04915221%	0.04851257%
Utility's allocation of the City of Kenosha's proportionate share of the net pension liability (asset)	\$ (1,632,829)	\$ 422,883	\$ 784,947	\$ (1,191,602)
Utility's covered - employee payroll	\$ 5,548,927	\$ 5,288,234	\$ 5,124,588	\$ 4,980,993
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.93%	99.12%	98.20%	102.74%

SCHEDULE OF KENOSHA WATER UTILITY CONTRIBUTIONS
 Wisconsin Retirement System
 Last 10 Fiscal Years*

	2018	2017	2016	2015
Contractually required contributions	\$ 411,989	\$ 377,256	\$ 349,144	\$ 347,298
Contributions in relation to the contractually required contributions	\$ (411,989)	\$ (377,256)	\$ (349,144)	\$ (347,298)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Utility's covered - employee payroll	\$ 6,151,776	\$ 5,548,927	\$ 5,288,234	\$ 5,124,588
Contributions as a percentage of covered employee payroll	6.70%	6.80%	6.60%	6.78%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. The schedules above are intended to show information for ten years; additional years' information will be displayed as it becomes available.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Utility's
 Total OPEB Health Insurance Liability and Related Ratios
 Last 10 Fiscal Years*
 December 31, 2018

	2018
Total OPEB Liability	
Service cost	\$ 163,766
Interest on total OPEB liability	78,078
Changes in benefit terms	-
Effect of economic/demographic gains (losses)	-
Effect of assumption changes or inputs	44,077
Benefit payments	(173,000)
Net change in total OPEB liability	112,921
Total OPEB liability, beginning	1,987,476
Total OPEB liability, ending	\$ 2,100,397
Covered payroll	\$ 6,151,776
Total OPEB as a % of covered payroll	34.14%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UTILITY'S ALLOCATION OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET OPEB LIABILITY
 Local Retiree Life Insurance Fund
 Last 10 Fiscal Years*

	2018
Utility's allocation of the City of Kenosha's proportion of the net OPEB liability	0.11902606%
Utility's allocation of the City of Kenosha's proportionate share of the net OPEB liability	\$ 358,099
Utility's covered - employee payroll	\$ 5,005,386
Plan fiduciary net position as a percentage of the total OPEB liability	7.15%

SCHEDULE OF KENOSHA WATER UTILITY CONTRIBUTIONS
 Local Retiree Life Insurance Fund
 Last 10 Fiscal Years*

	2018
Contractually required contributions	\$ 2,260
Contributions in relation to the contractually required contributions	\$ 2,260
Contribution deficiency (excess)	\$ -
Utility's covered - employee payroll	\$ 5,005,386
Contributions as a percentage of covered-employee payroll	0.05%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 for the year ended December 31, 2018

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

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

Changes of benefit terms. There were no changes of benefit terms in the OPEB health insurance fund.

Changes of assumptions. There were no changes in the assumptions.

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Net Position

December 31, 2018

Assets	Water unit	Sewerage unit	Household hazardous waste unit	Total
Current assets:				
Cash and cash equivalents	\$ 5,760,513	\$ 12,795,269	\$ 394,676	\$ 18,950,458
Investments	997,423	5,562,785	-	6,560,208
Restricted cash equivalents	-	2,759,346	-	2,759,346
Restricted cash - Storm Water Utility collections	-	333,852	-	333,852
Restricted investments	-	104,776	-	104,776
Accounts receivable	2,247,586	2,119,780	44,378	4,411,744
Unbilled revenue	1,555,508	1,026,660	20,842	2,603,010
Inventories	445,555	47,780	-	493,335
Other current assets	97,483	92,039	-	189,522
Total current assets	11,104,068	24,842,287	459,896	36,406,251
Noncurrent assets:				
Investments	-	4,542,088	-	4,542,088
Advance to Water Unit	-	5,000,000	-	5,000,000
Other assets				
Special assessments	21,026	21,340	-	42,366
Unbilled assessments	2,858,268	2,351,352	-	5,209,620
Pension asset - Wisconsin Retirement System	831,329	794,931	6,569	1,632,829
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	878,572	1,272,737	-	2,151,309
Construction in progress	1,737,050	12,425,494	-	14,162,544
Capital assets being depreciated:				
Revenue producing and service equipment	19,760,969	31,899,732	-	51,660,701
Buildings and structures	98,472,364	102,927,548	80,061	201,479,973
Office furnishings, shop equipment, and other	3,869,257	5,775,583	832	9,645,672
Less accumulated depreciation	(47,794,457)	(68,456,414)	(24,439)	(116,275,310)
Total capital assets, net of accumulated depreciation	76,923,755	85,844,680	56,454	162,824,889
Total noncurrent assets	80,634,378	98,554,391	63,023	179,251,792
Total assets	\$ 91,738,446	\$ 123,396,678	\$ 522,919	\$ 215,658,043
Deferred Outflows of Resources				
Deferred pension resources	\$ 1,386,329	\$ 1,421,289	\$ 13,018	\$ 2,820,636
Deferred OPEB resources	41,587	35,417	-	77,004
	1,427,916	1,456,706	13,018	2,897,640
Liabilities				
Current liabilities:				
Accounts payable	\$ 258,378	\$ 545,530	\$ 5,219	\$ 809,127
Accrued liabilities	-	1,093	-	1,093
Accrued property taxes	2,360,152	-	-	2,360,152
Current portion of accrued compensated absences	39,698	44,453	-	84,151
Current portion of long-term obligations	-	101,849	-	101,849
Current portion of advance from City of Kenosha	46,116	46,897	-	93,013
Due to City of Kenosha	581,745	455,940	131	1,037,816
Due to City of Kenosha - Storm Water Utility collections	-	333,852	-	333,852
Other current liabilities	105,233	310,715	-	415,948
Total current liabilities	3,391,322	1,840,329	5,350	5,237,001
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	378,186	227,787	-	605,973
Worker's compensation accrued liability	85,690	77,840	-	163,530
Other postemployment benefits	1,328,554	1,129,942	-	2,458,496
Advance from Sewerage Unit	5,000,000	-	-	5,000,000
Clean Water Fund loans	-	105,076	-	105,076
Total noncurrent liabilities	6,792,430	1,540,645	-	8,333,075
Total liabilities	10,183,752	3,380,974	5,350	13,570,076
Deferred Inflows of Resources				
Deferred pension resources	\$ 1,596,880	\$ 1,611,916	\$ 12,925	\$ 3,221,721
Deferred OPEB resources	4,521	3,669	-	8,190
	1,601,401	1,615,585	12,925	3,229,911
Net Position				
Invested in capital assets, net of related debt	76,923,755	85,637,755	56,455	162,617,965
Restricted for debt service	-	2,863,029	-	2,863,029
Restricted for pension	831,329	794,931	6,569	1,632,829
Unrestricted	3,626,125	30,561,110	454,638	34,641,873
Total net position	\$ 81,381,209	\$ 119,856,825	\$ 517,662	\$ 201,755,696

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year ended December 31, 2018

	<u>Water unit</u>	<u>Sewerage unit</u>	<u>Household hazardous waste unit</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 12,270,451	\$ 11,352,816	\$ 166,517	\$ 23,789,784
Miscellaneous	2,195,237	2,311,802	17,821	4,524,860
Total operating revenues	<u>14,465,688</u>	<u>13,664,618</u>	<u>184,338</u>	<u>28,314,644</u>
Operating expenses:				
General and administrative	2,687,063	2,949,429	-	5,636,492
Operations and maintenance	5,839,051	6,510,088	171,764	12,520,903
Depreciation	2,919,617	2,328,055	3,342	5,251,014
Total operating expenses	<u>11,445,731</u>	<u>11,787,572</u>	<u>175,106</u>	<u>23,408,409</u>
Operating income	<u>3,019,957</u>	<u>1,877,046</u>	<u>9,232</u>	<u>4,906,235</u>
Nonoperating revenues (expenses):				
Net investment income	166,597	553,865	1,161	721,623
Interest expense	(394,955)	(11,050)	-	(406,005)
Miscellaneous	37,884	29,813	305	68,002
Total nonoperating revenue (expenses)	<u>(190,474)</u>	<u>572,628</u>	<u>1,466</u>	<u>383,620</u>
Increase in net position before capital contributions and transfers	2,829,483	2,449,674	10,698	5,289,855
Capital contributions	31,712	265,303	-	297,015
Transfers out	<u>(2,309,733)</u>	<u>(50,419)</u>	<u>-</u>	<u>(2,360,152)</u>
Increase in net position	551,462	2,664,558	10,698	3,226,718
Net position at beginning of year	81,226,807	117,474,104	506,964	199,207,875
Prior period adjustment, change in accounting principle	<u>(397,060)</u>	<u>(281,837)</u>	<u>-</u>	<u>(678,897)</u>
Net position at beginning of year, restated	<u>80,829,747</u>	<u>117,192,267</u>	<u>506,964</u>	<u>198,528,978</u>
Net position at end of year	<u>\$ 81,381,209</u>	<u>\$ 119,856,825</u>	<u>\$ 517,662</u>	<u>\$ 201,755,696</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Schedule of Capital Assets
Water Unit

Year ended December 31, 2018

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 878,572	\$ -	\$ -	\$ 878,572
Construction in progress	2,155,862	2,266,255	2,685,067	1,737,050
Total capital assets not being depreciated	<u>3,034,434</u>	<u>2,266,255</u>	<u>2,685,067</u>	<u>2,615,622</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,692,086	68,883	-	19,760,969
Buildings and structures	95,763,813	2,834,574	126,023	98,472,364
Office furnishings, shop equipment, and other	3,725,216	237,578	93,537	3,869,257
Total capital assets being depreciated	<u>119,181,115</u>	<u>3,141,035</u>	<u>219,560</u>	<u>122,102,590</u>
Less accumulated depreciation:				
Revenue producing and service equipment	15,538,969	1,066,217	-	16,605,186
Buildings and structures	26,887,895	1,678,310	88,041	28,478,164
Office furnishings, shop equipment, and other	2,625,275	175,090	89,258	2,711,107
Total accumulated depreciation	<u>45,052,139</u>	<u>2,919,617</u>	<u>177,299</u>	<u>47,794,457</u>
Total capital assets being depreciated, net	<u>74,128,976</u>	<u>221,418</u>	<u>42,261</u>	<u>74,308,133</u>
Total capital assets, net	<u>\$ 77,163,410</u>	<u>\$ 2,487,673</u>	<u>\$ 2,727,328</u>	<u>\$ 76,923,755</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>	
2019	46,116	1,383	-	47,499
Totals	\$ 46,116	\$ 1,383	\$ -	\$ 47,499

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,702,765	\$ 5,708,387
Commercial	2,703,907	2,714,429
Industrial	817,718	865,936
Public	478,420	528,457
Total metered sales	9,702,810	9,817,209
Flat rate sales to general customers	15,684	11,150
Private fire protection	173,070	164,921
Public fire protection	1,356,695	1,355,848
Sales to other municipalities	2,551,957	2,661,782
Total sales of water	13,800,216	14,010,910
Penalties	153,410	159,343
Allocated services	144,125	144,672
Other	367,937	345,454
Total operating revenues	14,465,688	14,660,379
Operating expenses:		
Source of supply:		
Miscellaneous	9,625	9,625
Total source of supply	9,625	9,625
Power and pumping:		
Operations:		
Supervision and engineering	96,060	156,516
Fuel and power purchased	777,473	799,895
Pumping labor and supplies	124,000	121,129
Miscellaneous	8,148	8,969
Maintenance:		
Structures and improvements	48,821	33,859
Power production equipment	10,472	31,841
Pumping equipment	83,596	69,091
Total power and pumping	1,148,570	1,221,300

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2018 and 2017

	2018	2017
Water treatment:		
Operations:		
Supervision and engineering	\$ 61,945	\$ 52,777
Labor and supplies	303,797	296,901
Chemicals	121,405	106,118
Structures and improvements	80,113	63,246
Treatment equipment	517,593	519,177
Miscellaneous	436,594	508,639
Total water treatment	1,521,447	1,546,858
Transmission and distribution:		
Operations:		
Supervision and engineering	324,181	140,038
Transmission and distribution lines	82,263	23,352
Meters	66,038	72,160
Customer installation	106,620	115,389
Customer installation - lead service line replacement	106,991	
Labor and equipment	538,067	507,215
Maintenance:		
Supervision and engineering	14,317	-
Distribution reservoirs and standpipes	395,381	556,319
Mains	1,092,085	740,154
Services	325,198	295,635
Meters	47,809	64,683
Hydrants	60,459	54,401
Total transmission and distribution	3,159,409	2,569,346
Total operations and maintenance	5,839,051	5,347,129
General and administrative:		
Customer accounting and collecting:		
Meter reading	63,392	60,546
Customer records and collection	407,069	304,514
Total customer accounting and collecting	470,461	365,060

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2018 and 2017

	2018	2017
Administrative:		
Executive and general office	\$ 231,210	\$ 217,462
Office supplies	26,959	38,736
Outside services	494,999	406,995
Casualty and property insurance	120,126	106,061
Employee benefits and insurance	1,293,562	1,345,523
Miscellaneous	24,146	24,390
Regulatory commission	25,600	14,305
Total administrative	2,216,602	2,153,472
Total general and administrative	2,687,063	2,518,532
Depreciation	2,919,617	2,855,046
Total operating expenses	11,445,731	10,720,707
Operating income	\$ 3,019,957	\$ 3,939,672

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Water Tax Equivalent Calculation Schedules

Years ended December 31, 2018 and 2017

Local property taxes due to the City of Kenosha for the years ended December 31, 2018 and 2017 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	2018	2017
Gross book value – January 1:		
Plant and equipment	\$ 122,841,106	\$ 119,151,745
Materials and supplies	407,885	380,511
Total gross book value	123,248,991	119,532,256
Less plant outside municipal boundaries	(5,839,690)	(5,782,728)
Assessable plant	117,409,301	113,749,528
Assessment ratio	0.975206	0.934740
Assessed value of property	114,498,255	106,326,234
Local and school share of tax rate (per thousand)	20.613000	22.623124
Computed tax equivalent (floor = \$1,033,306)	\$ 2,360,152	\$ 2,405,432

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Schedule of Capital Assets
Sewerage Unit

Year ended December 31, 2018

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 1,272,737	\$ -	\$ -	\$ 1,272,737
Construction in progress	12,164,277	722,886	461,669	12,425,494
Total capital assets not being depreciated	<u>13,437,014</u>	<u>722,886</u>	<u>461,669</u>	<u>13,698,231</u>
Capital assets being depreciated:				
Revenue producing and service equipment	31,511,271	472,681	84,220	31,899,732
Buildings and structures	102,680,084	248,313	849	102,927,548
Office furnishings, shop equipment, and other	5,522,540	330,395	77,352	5,775,583
Total capital assets being depreciated	<u>139,713,895</u>	<u>1,051,389</u>	<u>162,421</u>	<u>140,602,863</u>
Less accumulated depreciation:				
Revenue producing and service equipment	28,622,043	735,567	84,220	29,273,390
Buildings and structures	34,903,504	1,342,657	(44,482)	36,290,643
Office furnishings, shop equipment, and other	2,716,255	249,831	73,705	2,892,381
Total accumulated depreciation	<u>66,241,802</u>	<u>2,328,055</u>	<u>113,443</u>	<u>68,456,414</u>
Total capital assets being depreciated, net	<u>73,472,093</u>	<u>(1,276,666)</u>	<u>48,978</u>	<u>72,146,449</u>
Total capital assets, net	\$ <u><u>86,909,107</u></u>	\$ <u><u>(553,780)</u></u>	\$ <u><u>510,647</u></u>	\$ <u><u>85,844,680</u></u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 2000 – Clean Water Fund Loan

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2019	101,849	3,279	1,665	106,793
2020	105,076	1,665	-	106,741
Totals	\$ <u>206,925</u>	\$ <u>4,944</u>	\$ <u>1,665</u>	\$ <u>213,534</u>

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>	
2019	46,897	1,407	-	48,304
Totals	\$ <u>46,897</u>	\$ <u>1,407</u>	\$ <u>-</u>	\$ <u>48,304</u>

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 4,296,027	\$ 4,330,367
Commercial	2,261,742	2,233,433
Industrial	1,027,586	1,148,743
Public	623,610	691,827
Total sales to general customers	8,208,965	8,404,370
Sales to other municipalities	3,143,851	2,835,447
Industrial waste monitoring	98,675	108,922
Engineering services	1,765,598	1,586,133
Waste haulers	249,956	325,610
Penalties	117,244	124,384
Other	80,329	90,670
Total operating revenues	13,664,618	13,475,536
Operating expenses:		
Wastewater treatment:		
Operations:		
Supervision and labor	488,862	489,417
Chemicals	545,385	601,155
Power	600,020	647,224
Sludge handling	264,533	268,443
Maintenance:		
Supervision and labor	316,684	290,821
Treatment equipment	515,673	366,865
Structures and improvements	317,753	409,689
Transportation expense	100,579	78,454
Total wastewater treatment	3,149,489	3,152,068
Collection system:		
Collection	463,080	378,544
Equalization basin and pump station	136,696	89,726
Cleaning and inspection	367,075	301,649
Lift station equipment	271,922	187,785
Monitoring equipment	3,945	3,268
Total collection system	1,242,718	960,972
Laboratory operations:		
Labor and supplies	311,219	301,762
Industrial waste monitoring	64,732	60,020
Total laboratory operations	375,951	361,782
Engineering services	1,741,930	1,543,553
Total operation and maintenance	6,510,088	6,018,375

CITY OF KENOSHA WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2018 and 2017

	2018	2017
General and administrative:		
Customer accounting and collecting:		
Meter reading	\$ 63,391	\$ 60,546
Customer records and collection	376,319	276,665
Total customer accounting and collecting	439,710	337,211
Administrative:		
Salaries	313,407	309,649
Outside services	450,393	420,141
Office supplies	54,677	48,255
Accidents and damages	652	(362)
Insurance and employee benefits	1,362,686	1,351,056
Meter operation	327,904	351,496
Total administrative	2,509,719	2,480,235
Total general and administrative	2,949,429	2,817,446
Loss on sale of equipment	-	230,388
Depreciation	2,328,055	2,186,774
Total operating expenses	11,787,572	11,252,983
Operating income	\$ 1,877,046	\$ 2,222,553

CITY OF KENOSHA WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Schedule of Capital Assets
Household Hazardous Waste Unit

Year ended December 31, 2018

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Capital assets being depreciated:				
Buildings and structures	87,042		6,981.00	80,061
Office furnishings, shop equipment, and other	832	-	-	832
Total capital assets being depreciated	87,874	-	6,981.00	80,893
Less accumulated depreciation:				
Buildings and structures	27,246	3,342	6,981.00	23,607
Office furnishings, shop equipment, and other	832	-	-	832
Total accumulated depreciation	28,078	3,342	6,981.00	24,439
Total capital assets, net	\$ 59,796	\$ (3,342)	\$ -	\$ 56,454