

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

**BASIC FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the component unit'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, 2017 and 2016, 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, 2017 and 2016 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 OPEB Funding Status on page 43, and the Pension Schedules on page 44 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 45 – 59 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 27, 2018

## Management's Discussion and Analysis

The management discussion and analysis of the City of Kenosha Water Utility's (Kenosha Water Utility, KWU, the Utility) financial performance provides an overall review of financial activities for the years ended December 31, 2017 and 2016. This information should be read in conjunction with the financial statements.

### 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.

### 2016 Financial Highlights

The Utility's combined net position increased from \$183.1 million to \$190.8 million. Events that had significant impact on the financial statements were:

- Operating revenues increased almost \$1.1 million or 4.2% from 2015 while operating expenses increased \$0.35 million or 1.7% from 2015. This resulted in an increase of \$0.74 million or 13.2% in operating income over 2015.
- Capital contributions increased \$0.9 million in total; donations of water and sewer infrastructure by developers decreased \$0.25 million while revenue from sewer impact fees increased \$0.59 million, grants increased \$0.51 million with the balance attributed to assessments.
- The Utility awarded contracts to paint two water tanks in 2016. The washwater tank at the O. Fred Nelson Water Production Plant and the 58th Street ground storage tank #1 were painted for a combined expense of approximately \$696,000.
- The Utility accepted donated water and sewer main, water services and hydrants from several developers valued at \$2.7 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 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 2017 to 2016 Increase (decrease)	
	2017	2016	2015	Dollars	%
	Capital assets:				
Net plant in service	\$ 148,737,770	\$ 146,677,514	\$ 146,163,795	\$ 2,060,256	1.4 %
Construction in progress	14,320,139	13,361,937	13,852,603	958,202	7.2
Other capital assets	1,074,404	1,074,404	1,071,606	-	0.0
Current, restricted and other assets	<u>46,234,216</u>	<u>43,353,233</u>	<u>38,475,648</u>	<u>2,880,983</u>	<u>6.6</u>
Total assets	<u>210,366,529</u>	<u>204,467,088</u>	<u>199,563,652</u>	<u>5,899,441</u>	<u>2.9</u>
Deferred outflows of resources:					
Deferred pension resources	<u>3,520,603</u>	<u>4,268,479</u>	<u>1,120,133</u>	<u>(747,876)</u>	<u>(17.5)</u>
Current liabilities	9,718,480	7,788,192	7,376,628	1,930,288	24.8
Long-term liabilities	<u>3,207,012</u>	<u>8,452,373</u>	<u>10,228,345</u>	<u>(5,245,361)</u>	<u>(62.1)</u>
Total liabilities	<u>12,925,492</u>	<u>16,240,565</u>	<u>17,604,973</u>	<u>(3,315,073)</u>	<u>(20.4)</u>
Deferred inflows of resources:					
Deferred pension resources	<u>1,753,765</u>	<u>1,651,907</u>	<u>-</u>	<u>101,858</u>	<u>6.2</u>
Net position:					
Invested in capital assets, net of related debt (restated)	161,393,160	155,908,261	153,528,920	5,484,899	3.5
Restricted for debt service	9,136,149	8,967,774	8,998,095	168,375	1.9
Restricted for pension	-	-	1,191,602	-	0.0
Unrestricted	<u>28,678,566</u>	<u>25,967,060</u>	<u>19,360,195</u>	<u>2,711,506</u>	<u>10.4</u>
Total net position	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</u>	<u>\$ 183,078,812</u>	<u>\$ 8,364,780</u>	<u>4.4 %</u>

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 2016, total net position increased \$7.76 million or 4.2%. This is due to combined net income, before capital contributions, of the water, sewerage, and household hazardous waste units of \$3.69 million, an increase of 30.6% from 2015, and capital contributions of \$4.07 million. Capital contributions consisted of approximately \$2.73 million of donated infrastructure, \$833,000 in assessments and impact fees, and \$511,000 in grants for infrastructure.

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%.

In 2016, total assets increased \$4.9 million or 2.5%. Capital assets increased \$4.97 million while construction in progress decreased \$0.49 million; accumulated depreciation increased \$4.46 million. Current, restricted and other assets increased \$4.9 million or 12.7%.

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 2017 to 2016 Increase (decrease)	
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Dollars</u>	<u>%</u>
<b>Revenues:</b>					
Water service revenues	\$ 12,490,141	\$ 12,612,131	\$ 11,783,417	\$ (121,990)	(1.0) %
Sewerage service revenues	11,239,817	10,573,187	10,248,301	666,630	6.3
Household Hazardous Waste revenues	166,429	166,175	167,353	254	0.2
Other revenues	<u>4,222,136</u>	<u>4,031,540</u>	<u>4,088,006</u>	<u>190,596</u>	<u>4.7</u>
Total operating revenues	<u>28,118,523</u>	<u>27,383,033</u>	<u>26,287,077</u>	<u>735,490</u>	<u>2.7</u>
<b>Expenses:</b>					
Operating and maintenance, before depreciation and taxes					
Water operations	5,347,129	5,447,296	4,390,161	(100,167)	(1.8)
Sewerage operations	6,018,375	5,468,700	6,404,149	549,675	10.1
Household Hazardous Waste	164,937	142,357	171,308	22,580	15.9
Loss on disposal of equipment	230,388	-	-	230,388	100.0
Depreciation	5,045,302	4,947,405	4,979,775	97,897	2.0
Customer accounting and collecting, administrative and general	<u>5,134,155</u>	<u>5,004,379</u>	<u>4,713,398</u>	<u>129,776</u>	<u>2.6</u>
Total operating expenses	<u>21,940,286</u>	<u>21,010,137</u>	<u>20,658,791</u>	<u>930,149</u>	<u>4.4</u>
Operating income	<u>6,178,237</u>	<u>6,372,896</u>	<u>5,628,286</u>	<u>(194,659)</u>	<u>(3.1)</u>
Nonoperating revenues	318,485	165,786	123,425	152,699	92.1
Nonoperating expenses	<u>(366,411)</u>	<u>(469,136)</u>	<u>(562,935)</u>	<u>(102,725)</u>	<u>(21.9)</u>
Increase in net position, before capital contributions and transfers	<u>6,130,311</u>	<u>6,069,546</u>	<u>5,188,776</u>	<u>60,765</u>	<u>1.0</u>
<b>Capital contributions:</b>					
Assessments, impact fees and grants	429,925	1,344,406	182,695	(914,481)	(68.0)
Donated by developers	4,209,976	2,729,108	2,978,139	1,480,868	54.3
Transfers out	<u>(2,405,432)</u>	<u>(2,378,777)</u>	<u>(2,363,371)</u>	<u>(26,655)</u>	<u>1.1</u>
Increase in net position	8,364,780	7,764,283	5,986,239	600,497	7.7
Net position at beginning of year	190,843,095	183,078,812	174,806,192	7,764,283	4.2
Prior period adjustment	-	-	2,286,381	-	0.0
Net position at end of year	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</u>	<u>\$ 183,078,812</u>	<u>\$ 8,364,780</u>	<u>4.4 %</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 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.

The number of metered customers increased 0.1% during 2016. Water consumption increased 8.2%. Water service revenues increased approximately \$859,000 or 7.0%. Sewerage service revenues increased approximately \$325,000 or 3.2%. The increase in water and sewerage service revenues is attributable to increased water consumption.

Operating expenses increased 1.7% or approximately \$351,000 during 2016. Water Unit operating expenses increased 24.1% or \$1.06 million due to increased costs for water tank painting both at the water treatment plant and in the distribution system and increased costs for street restoration related to water main repairs. Sewerage Unit operating expenses decreased 14.6% or \$935,000 mainly due to decreases in sludge handling expenses, maintenance expenses at the wastewater treatment plant for equipment, structures and improvements and decreases in collection system expenses. A combined increase of \$149,000 was recorded in wastewater treatment supervision and labor, chemicals, wastewater maintenance supervision and labor and laboratory labor and supplies. Operating expenses decreased approximately \$29,000 or 16.9% in the Household Hazardous Waste Unit due mainly to decreased disposal, advertising and allocated and administrative expenses. Customer accounting and collecting, administrative and general expenses for all units increased approximately \$291,000 or 6.2% while depreciation expense for all units decreased approximately \$32,000 or 0.7%.

The increase in customer accounting and collecting, administrative and general expenses is mainly due to increases in wages and employee benefits and insurance and legal and engineering services expenses.

Operating income for 2016 increased 13.2% or approximately \$745,000. Nonoperating revenues increased 39.3% or approximately \$42,000 due to increased net investment income; nonoperating expenses decreased 16.7% or approximately \$94,000 due to decreases in interest expense and amortization on long-term debt.

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.

For 2016, the increase in net position of \$7,764,000 was approximately \$1,778,000 more than the previous year's increase of \$5,986,000 or an increase of 29.7%. This is attributable grants received from Focus on Energy for construction and improvements at the wastewater treatment plant totaling approximately \$510,000, an increase in impact fees of approximately \$760,000, an increase in operating income and nonoperating revenues and a decrease in debt interest expense. The increases in net position attributable to the Water Unit, Sewerage Unit and Household Hazardous Waste Unit were approximately \$2,724,000, \$5,001,000 and \$39,000, respectively.

## Capital Assets and Debt Administration

### Capital Assets

#### Changes in Capital Assets

	<u>Balance</u> <u>Jan. 1, 2017</u>	<u>Additions/</u> <u>reclass-</u> <u>ifications</u>	<u>Deletions/</u> <u>reclass-</u> <u>ifications</u>	<u>Balance</u> <u>Dec. 31, 2017</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,309	\$ -	\$ -	\$ 2,151,309
Construction in progress	<u>13,361,937</u>	<u>3,216,898</u>	<u>2,258,696</u>	<u>14,320,139</u>
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:				
Wastewater collection system	1,352,803	-	2,914	1,349,889
Production pumping	4,590,043	11,229	54,964	4,546,308
Collection system pumping	9,292,932	57,838	253,716	9,097,054
Production purification	15,152,056	13,983	20,261	15,145,778
Wastewater treatment and disposal	<u>20,132,066</u>	<u>1,373,452</u>	<u>441,190</u>	<u>21,064,328</u>
Total revenue producing and service equipment	<u>50,519,900</u>	<u>1,456,502</u>	<u>773,045</u>	<u>51,203,357</u>
Buildings and structures:				
Production intake	3,425,277	-	-	3,425,277
Wastewater collection system	78,424,290	2,891,875	2,131	81,314,034
Production pumping	3,772,244	-	901	3,771,343
Collection system pumping	11,454,468	-	47,571	11,406,897
Production purification	8,450,031	-	-	8,450,031
Wastewater treatment and disposal	8,230,964	4,440	408,689	7,826,715
Transmission and distribution	77,928,144	2,427,810	238,792	80,117,162
General plant	<u>2,236,980</u>	<u>41,832</u>	<u>59,332</u>	<u>2,219,480</u>
Total buildings and structures	<u>193,922,398</u>	<u>5,365,957</u>	<u>757,416</u>	<u>198,530,939</u>
Office furnishings, shop equipment and other:				
General equipment	8,231,501	537,276	22,086	8,746,691
Engineering equipment	<u>528,787</u>	<u>18,971</u>	<u>45,861</u>	<u>501,897</u>
Total office furnishings, shop equipment and other	<u>8,760,288</u>	<u>556,247</u>	<u>67,947</u>	<u>9,248,588</u>
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>
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>

The Utility had combined investment in capital assets of \$275.4 million at the end of 2017. Of that amount, construction in progress totaled \$16.5 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 \$111.3 million resulting in a net book value of \$147.6 million. In 2017, the Utility recorded combined depreciation expense of approximately \$5.0 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 \$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 had \$7.5 million in long-term term debt outstanding as of December 31, 2016. Of this amount, approximately \$2.45 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 24.1% 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, 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>

	Balance Jan. 1, 2016	Additions	Deletions	Balance Dec. 31, 2016	Due Within One Year
Bonds, loans and advances payable:					
Clean Water Fund loans	\$ 494,084	\$ -	\$ 92,750	\$ 401,334	\$ 95,688
Revenue bonds	9,325,000	-	2,250,000	7,075,000	2,350,000
Bond premium	125,296	-	55,054	70,242	43,103
Advance from City of Kenosha	340,159	-	77,067	263,092	82,382
Worker's compensation accrued liability	390,086	-	66,815	323,271	-
Other post employment benefits	1,454,428	236,429	158,000	1,532,857	-
Net pension liability - WRS	-	784,947	-	784,947	-
Accrued compensated absences	589,051	78,967	60,200	607,818	78,118
	<u>\$ 12,718,104</u>	<u>\$ 1,100,343</u>	<u>\$ 2,759,886</u>	<u>\$ 11,058,561</u>	<u>\$ 2,649,291</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 customer-owned lead water services, the Utility has filed docket 2820-LS-100 with the Public Service Commission of Wisconsin which would finance a portion of the replacement of a customer-owned lead water service with a combination of grants and/or loans. As of December 31, 2017, the Utility estimates that there are 8,809 Utility-owned lead water services and 4,800 customer-owned 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, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 11,016,109	\$ 7,150,685
Investments	10,004,000	10,991,000
Restricted cash and cash equivalents	179,996	119,936
Restricted cash - Storm Water Utility collections	324,939	299,074
Restricted Investments	11,268,948	11,150,178
Accounts receivable	4,706,161	4,678,684
Unbilled revenue	2,593,254	2,652,695
Inventories	480,832	428,912
Other current assets	245,023	269,589
Total current assets	<u>40,819,262</u>	<u>37,740,753</u>
Noncurrent assets:		
Other assets		
Special Assessments	43,740	245,210
Unbilled assessments	5,371,214	5,367,270
Capital assets:		
Capital assets not being depreciated:		
Land and land improvements	2,151,309	2,151,309
Construction in progress	14,320,139	13,361,937
Capital assets being depreciated:		
Revenue producing and service equipment	51,203,357	50,519,900
Buildings and structures	198,530,939	193,922,398
Office furnishings, shop equipment, and other	9,248,588	8,760,288
Less accumulated depreciation	<u>(111,322,019)</u>	<u>(107,601,977)</u>
Total capital assets, net of accumulated depreciation	<u>164,132,313</u>	<u>161,113,855</u>
Total noncurrent assets	<u>169,547,267</u>	<u>166,726,335</u>
Total assets	<u>210,366,529</u>	<u>204,467,088</u>
<b>Deferred Outflows of Resources</b>		
Deferred pension resources	<u>3,520,603</u>	<u>4,268,479</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	674,316	796,668
Accrued liabilities	21,302	31,575
Accrued property taxes	2,405,432	2,378,777
Current portion of accrued compensated absences	77,613	78,118
Current portion of long-term obligations	4,850,860	2,445,688
Current portion of advance from City of Kenosha	87,697	82,382
Due to City of Kenosha	1,230,834	1,279,877
Due to City of Kenosha - Storm Water Utility collections	324,939	299,074
Other current liabilities	45,487	396,033
Total current liabilities	<u>9,718,480</u>	<u>7,788,192</u>
Noncurrent liabilities:		
Long-term portion of accrued compensated absences	587,728	529,700
Worker's compensation accrued liability	295,277	323,271
Other postemployment benefits	1,601,185	1,532,857
Pension liability - Wisconsin Retirement System	422,883	784,947
Advance from City of Kenosha	93,013	180,710
Revenue bonds payable	-	4,795,242
Clean Water Fund loans	206,926	305,646
Total noncurrent liabilities	<u>3,207,012</u>	<u>8,452,373</u>
Total liabilities	<u>12,925,492</u>	<u>16,240,565</u>
<b>Deferred Inflows of Resources</b>		
Deferred pension resources	<u>1,753,765</u>	<u>1,651,907</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt	161,393,160	155,908,261
Restricted for debt service	9,136,149	8,967,774
Unrestricted	28,678,566	25,967,060
Total net position	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</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 Revenues, Expenses and Changes in Fund Net Position

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for services	\$ 23,896,387	\$ 23,351,493
Miscellaneous	4,222,136	4,031,540
Total operating revenues	<u>28,118,523</u>	<u>27,383,033</u>
Operating expenses:		
General and administrative	5,134,155	5,004,379
Operations and maintenance	11,530,441	11,058,353
Loss on disposal of equipment	230,388	-
Depreciation	5,045,302	4,947,405
Total operating expenses	<u>21,940,286</u>	<u>21,010,137</u>
Operating income	<u>6,178,237</u>	<u>6,372,896</u>
Nonoperating revenues (expenses):		
Net investment income	228,930	76,741
Interest expense	(366,411)	(469,136)
Miscellaneous	89,555	89,045
Total nonoperating revenue (expenses)	<u>(47,926)</u>	<u>(303,350)</u>
Increase in net position before capital contributions and transfers	6,130,311	6,069,546
Capital contributions	4,639,901	4,073,514
Transfers out	<u>(2,405,432)</u>	<u>(2,378,777)</u>
Increase in net position	8,364,780	7,764,283
Net position at beginning of year	<u>190,843,095</u>	<u>183,078,812</u>
Net position at end of year	<u>\$ 199,207,875</u>	<u>\$ 190,843,095</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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Receipts from customers	\$ 28,124,527	\$ 27,374,526
Payments to suppliers	(11,702,137)	(11,019,067)
Payments to employees	(4,548,628)	(4,502,829)
Net cash provided by operating activities	11,873,762	11,852,630
Cash flows from noncapital financing activities:		
Advances paid to other funds	(82,382)	(77,068)
Interest paid on noncapital debt	(12,889)	(17,081)
Miscellaneous receipts	46,453	33,991
Transfer to City of Kenosha	(2,378,777)	(2,363,371)
Net cash used in noncapital financing activities	(2,427,595)	(2,423,529)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,957,940)	(2,262,940)
Special assessments collected (purchased)	212,479	43,829
Impact fees and contributions collected	260,933	801,132
Grant proceeds	-	510,930
Customer deposits for construction	(372,868)	326,822
Proceeds on disposal of capital assets	39,328	52,357
Principal paid on capital debt	(2,445,688)	(2,342,750)
Interest paid on capital debt	(363,795)	(460,324)
Net cash used in capital and related financing activities	(6,627,551)	(3,330,944)
Cash flows from investing activities:		
Sale of investments	2,009,125	3,867
Purchase of investments	(1,140,895)	(19,332,081)
Interest and dividends received	264,503	(76,418)
Net cash provided by (used in) investing activities	1,132,733	(19,404,632)
Net increase (decrease) in cash and cash equivalents	3,951,349	(13,306,475)
Cash and cash equivalents – beginning of year	7,569,695	20,876,170
Cash and cash equivalents – end of year	\$ 11,521,044	\$ 7,569,695
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 11,016,109	\$ 7,150,685
Restricted cash and cash equivalents	504,935	419,010
Total cash and cash equivalents	\$ 11,521,044	\$ 7,569,695
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,178,237	\$ 6,372,896
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,045,302	4,947,405
Loss (gain) on disposal of capital assets	233,820	(1,221)
Changes in assets and liabilities:		
Accounts receivable	(27,477)	(46,279)
Unbilled revenues	59,441	39,155
Inventories	(51,920)	70,389
Other current assets	(25,960)	(1,383)
Accounts payable	(122,352)	24,226
Compensated absences	57,523	18,767
Worker's compensation accrued liability	(27,994)	(66,815)
Other post employment benefits	68,328	78,429
Pension benefits	487,670	480,110
Payable to City of Kenosha	(23,178)	(63,049)
Other current liabilities	22,322	-
Total adjustments	5,695,525	5,479,734
Net cash provided by operating activities	\$ 11,873,762	\$ 11,852,630
Contributions of capital assets from developers, including assessments and impact fees	\$ 4,617,625	\$ 4,033,413

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, 2017 and 2016

**(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, 2017 and 2016

**(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.

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, 2017 and 2016

**(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 operating statement 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, 2017 and 2016

**(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:

	<b>Useful life (years)</b>
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, 2017 and 2016

**(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.

***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 pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with 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, 2017 and 2016

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

***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.

***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 will implement the requirements of this standard beginning with the year ended December 31, 2018. This will result in the inclusion in the Utility's statement of net position the total OPEB obligation.

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 beginning with 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, 2017 and 2016

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

***New Accounting Pronouncements (Continued)***

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 beginning with the year ended December 31, 2017.

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 will implement the requirements of this standard beginning with 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 will implement the requirements of this standard beginning with 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.



**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

**(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, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
Petty cash	\$ 1,700	\$ 1,700
Demand deposits	3,501,231	4,579,995
U.S. Treasury notes	29,291,061	25,019,178
Certificates of deposit	-	110,000
Total cash, cash equivalents and investments	\$ 32,793,992	\$ 29,710,873
Reconciliation to the financial statement:		
Current assets:		
Cash and cash equivalents	\$ 11,016,109	\$ 7,150,685
Investments	10,004,000	10,991,000
Restricted Cash	179,996	119,936
Restricted cash - Storm Water Utility collections	324,939	299,074
Restricted Investments	11,268,948	11,150,178
Total cash, cash equivalents and investments	\$ 32,793,992	\$ 29,710,873

***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.

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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.

***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, 2017 and 2016, the Utility's investments were U.S. Treasury notes with maturities of less than one year.

***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.

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 does not have any assets that are subject to fair value measurements.

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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:

	<b>2017</b>			
	<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	<u>2,291,493</u>	<u>-</u>	<u>-</u>	<u>2,291,493</u>
	5,029,418	110,675	-	5,140,093
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	<u>-</u>	<u>324,939</u>	<u>-</u>	<u>324,939</u>
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	<u>8,469,073</u>	<u>2,799,875</u>	<u>-</u>	<u>11,268,948</u>
Total restricted assets	<u>\$ 8,562,835</u>	<u>\$ 3,211,048</u>	<u>\$ -</u>	<u>\$ 11,773,883</u>
	<b>2016</b>			
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</u>	<u>Total</u>
Restricted for Debt Service				
Debt service account	\$ -	\$ 110,000	\$ -	\$ 110,000
Special redemption account	2,705,945	-	-	2,705,945
Reserve account	<u>2,270,741</u>	<u>-</u>	<u>-</u>	<u>2,270,741</u>
	4,976,686	110,000	-	5,086,686
Restricted for renewal and replacement	-	1,730,711	-	1,730,711
Restricted for taxes	2,473,729	-	-	2,473,729
Restricted for depreciation	989,494	989,494	-	1,978,988
Restricted for Storm Water Utility collections due to the City of Kenosha	<u>-</u>	<u>299,074</u>	<u>-</u>	<u>299,074</u>
Total restricted assets	<u>\$ 8,439,909</u>	<u>\$ 3,129,279</u>	<u>\$ -</u>	<u>\$ 11,569,188</u>
Restricted cash and cash equivalents	\$ 75,731	\$ 343,279	\$ -	\$ 419,010
Restricted investments	<u>8,364,178</u>	<u>2,786,000</u>	<u>-</u>	<u>11,150,178</u>
Total restricted assets	<u>\$ 8,439,909</u>	<u>\$ 3,129,279</u>	<u>\$ -</u>	<u>\$ 11,569,188</u>

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**(4) Capital Assets**

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

	<b>Balance January 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2017</b>
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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**(4) Capital Assets (Continued)**

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 2,151,309	\$ -	\$ -	\$ 2,151,309
Construction in progress	13,852,603	1,616,504	2,107,170	13,361,937
Total capital assets not being depreciated	<u>16,003,912</u>	<u>1,616,504</u>	<u>2,107,170</u>	<u>15,513,246</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,567,137	16,837	64,074	50,519,900
Buildings and structures	189,080,110	5,084,733	242,445	193,922,398
Office furnishings, shop equipment, and other	8,581,990	413,488	235,190	8,760,288
Total capital assets being depreciated	<u>248,229,237</u>	<u>5,515,058</u>	<u>541,709</u>	<u>253,202,586</u>
Less accumulated depreciation:				
Revenue producing and service equipment	41,460,396	1,641,889	60,572	43,041,713
Buildings and structures	56,892,946	2,915,080	214,160	59,593,866
Office furnishings, shop equipment, and other	4,791,803	390,436	215,841	4,966,398
Total accumulated depreciation	<u>103,145,145</u>	<u>4,947,405</u>	<u>490,573</u>	<u>107,601,977</u>
Total capital assets being depreciated, net	<u>145,084,092</u>	<u>567,653</u>	<u>51,136</u>	<u>145,600,609</u>
Total capital assets, net	<u>\$ 161,088,004</u>	<u>\$ 2,184,157</u>	<u>\$ 2,158,306</u>	<u>\$ 161,113,855</u>

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**(5) Long-Term Debt**

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>

Long-term debt activity for the year ended December 31, 2016 was as follows:

Issue	Interest rate	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 2000	3.17%	\$ 494,084	\$ -	\$ 92,750	\$ 401,334	\$ 95,688
Revenue Bonds:						
Series 2008	3.25-5.00%	9,325,000	-	2,250,000	7,075,000	2,350,000
		9,819,084	-	2,342,750	7,476,334	2,445,688
Unamortized premium		125,296	-	55,054	70,242	43,103
Advance from Municipality:						
1999 agreement	4.74-6.00%	340,159	-	77,067	263,092	82,382
Worker's compensation accrued liability	N/A	390,086	-	66,815	323,271	-
Other post employment benefits	N/A	1,454,428	236,429	158,000	1,532,857	-
Net pension liability - WRS	N/A	-	784,947	-	784,947	-
Accrued Compensated Absences	N/A	589,051	88,710	69,943	607,818	78,118
Total		<u>\$ 12,718,104</u>	<u>\$ 1,110,086</u>	<u>\$ 2,769,629</u>	<u>\$ 11,058,561</u>	<u>\$ 2,649,291</u>

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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. The following accounts have been established 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, 2017 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2018	4,768,480	142,938	4,911,418	240,267	12,206	252,473
2019	46,116	148,746	194,862	1,383	6,351	7,734
2020	-	105,076	105,076	-	1,665	1,665
	<u>\$ 4,814,596</u>	<u>\$ 396,760</u>	<u>\$ 5,211,356</u>	<u>\$ 241,650</u>	<u>\$ 20,222</u>	<u>\$ 261,872</u>



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**(6) Net Position**

The components of net position are shown below:

	<b>2017</b>			<b>Total</b>
	<u>Water Unit</u>	<u>Sewer Unit</u>	<u>Household Hazardous Waste Unit</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	<u>2,291,493</u>	<u>-</u>	<u>-</u>	<u>2,291,493</u>
	<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	<u>(2,291,493)</u>	<u>-</u>	<u>-</u>	<u>(2,291,493)</u>
	<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>
	<b>2016</b>			
	<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	\$ 76,036,078	\$ 85,014,499	\$ 63,278	\$ 161,113,855
Outstanding long-term debt	(7,075,000)	(401,335)	-	(7,476,335)
Debt not related to capital assets	<u>2,270,741</u>	<u>-</u>	<u>-</u>	<u>2,270,741</u>
	<u>71,231,819</u>	<u>84,613,164</u>	<u>63,278</u>	<u>155,908,261</u>
Restricted				
Restricted for renewal and replacement	-	1,730,712	-	1,730,712
Restricted for taxes	2,473,728	-	-	2,473,728
Restricted for depreciation	989,494	989,494	-	1,978,988
Restricted for debt service	2,705,945	110,000	-	2,815,945
Restricted for bond reserve	2,270,741	-	-	2,270,741
Restricted for Storm Water Utility collections	-	299,074	-	299,074
Liabilities payable from restricted assets				
Storm Water Utility collections	-	(299,074)	-	(299,074)
Accrued interest payable	(29,479)	(2,120)	-	(31,599)
Long-term debt	<u>(2,270,741)</u>	<u>-</u>	<u>-</u>	<u>(2,270,741)</u>
	<u>6,139,688</u>	<u>2,828,086</u>	<u>-</u>	<u>8,967,774</u>
Unrestricted	<u>1,041,841</u>	<u>24,497,850</u>	<u>427,369</u>	<u>25,967,060</u>
Total net position	<u>\$ 78,413,348</u>	<u>\$ 111,939,100</u>	<u>\$ 490,647</u>	<u>\$ 190,843,095</u>

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**(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 occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

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

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

The WRS also provides death and disability benefits for employees.

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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:

Year	Core Fund Adjustment	Variable Fund Adjustment
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)

**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. 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 10.45%, for the year ended December 31, 2017.

During the reporting period, the WRS recognized contributions from the City of Kenosha including \$377,257 of contributions from the Kenosha Water.

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**(7) Pensions (Continued)**

Contribution rates as of December 31, 2017 are:

Employee Category	Employee	Employer
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, 2017, the Utility reported a liability of \$422,883 for its allocation of the City of Kenosha's proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension liability 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, 2016, the Utility's allocated proportion was 0.05130583%, which was an increase of 0.00215362% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the Utility recognized pension expense of \$864,927.

At December 31, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 161,245	\$ 1,329,929
Changes in assumptions	442,140	-
Net differences between projected and actual earnings on pension plan investments	2,521,927	416,951
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,034	6,885
Employer contributions subsequent to the measurement date	377,257	-
Total	<u>\$ 3,520,603</u>	<u>\$ 1,753,765</u>

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

**(7) Pensions (Continued)**

\$377,257 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended December 31</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 1,096,688	\$ 530,538
2019	1,096,688	530,538
2020	915,090	530,538
2021	34,145	162,070
2022	735	81

**Actuarial assumptions.** The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset):	December 31, 2016
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, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

**CITY OF KENOSHA WATER UTILITY**  
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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>Current Asset</u>	<u>Destination</u>	<u>Long-Term</u>	<u>Long-Term</u>
	<u>Allocation %</u>	<u>Target Asset</u>	<u>Expected Nominal</u>	<u>Expected Real</u>
		<u>Allocation %</u>	<u>Rate of Return %</u>	<u>Rate of Return %</u>
Global Equities	50 %	45 %	8.3	5.4
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	<u>4</u>	<u>4</u>	<u>6.6</u>	<u>3.7</u>
Total Core Fund	110	120	7.4	4.5
 <u>Variable Fund Asset Class</u>				
U.S. Equities	70	70	7.6	4.7
International Equities	<u>30</u>	<u>30</u>	<u>8.5</u>	<u>5.6</u>
Total Variable Fund	100	100	7.9	5

*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 3.78%. 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.

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
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 December 31, 2017 and 2016

**(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)	\$ 5,563,291	\$ 422,883	\$ (3,535,465)

*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, 2017, was \$39,229.

**(8) 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 forty-eight 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, 2017 and 2016

**(8) 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.

**(9) 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.

**(10) Commitments and Contingencies**

At December 31, 2017, 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.

At December 31, 2016, the Utility had outstanding purchase commitments for contracts of approximately \$883,851 for the installation of bar screen equipment and \$194,664 for the installation of energy optimized resource recovery equipment at the wastewater plant, \$11,518 for painting the 58th Street ground storage tank #1, \$80,843 for water main construction and \$6,169 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.



**CITY OF KENOSHA WATER UTILITY**  
(An Enterprise Fund of the City of Kenosha, Wisconsin)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
December 31, 2017 and 2016

**(11) Other Postemployment Benefits**

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 employee’s 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 employee’s 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.

The Retiree Health Plan does not issue a publicly available financial report.

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. For fiscal 2017 and 2016, the Utility contributed \$173,000 and \$158,000 to the plan, respectively.

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 interpretations. 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.

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

**(11) Other Postemployment Benefits (Continued)**

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:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
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>

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, 2016:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
Annual required contribution	\$ 146,985	\$ 117,853	\$ 264,838
Interest on net OPEB obligation	24,216	19,417	43,633
Adjustment to annual required contribution	<u>(39,983)</u>	<u>(32,059)</u>	<u>(72,042)</u>
Annual OPEB cost	131,218	105,211	236,429
Contributions made	<u>(87,690)</u>	<u>(70,310)</u>	<u>(158,000)</u>
Increase in net OPEB obligaton	43,528	34,901	78,429
Net OPEB obligation, beginning of year	<u>755,703</u>	<u>698,725</u>	<u>1,454,428</u>
Net OPEB obligation, end of year	<u>\$ 799,231</u>	<u>\$ 733,626</u>	<u>\$ 1,532,857</u>

**CITY OF KENOSHA WATER UTILITY**  
 (An Enterprise Fund of the City of Kenosha, Wisconsin)  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

**(11) Other Postemployment Benefits (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:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
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, was as follows:

	<u>Water Unit</u>	<u>Sewerage Unit</u>	<u>Total</u>
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)	\$ 2,932,750	\$ 2,351,484	\$ 5,284,234

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF KENOSHA WATER UTILITY**  
(An Enterprise Fund of the City of Kenosha, Wisconsin)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
December 31, 2017 and 2016

**(11) Other Postemployment Benefits (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.00% investment rate of return and an annual healthcare cost trend rate of 6.2% initially, reduced by decrements to an ultimate rate of 4.0% after 2074. The unfunded actuarial accrued liability is being amortized over 30 years from the valuation date on an open basis in level dollar payments.

**(12) Subsequent Events**

On February 12, 2018, a contract was awarded to Horizon Brothers Painting Corporation by the Board of Water Commissioners for painting the 60<sup>th</sup> Street East Ground Storage Tank in the amount of \$317,100.

On March 12, 2018, a contract was awarded to Reesman's Excavating & Grading, Inc. by the Board of Water Commissioners for Water Main Relay – Phase 1 in the amount of \$1,180,758.

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 OPEB FUNDING PROGRESS

December 31, 2017 and 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Accrued Actuarial Liability (b)	(UAAL) Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	\$ -	\$ 3,986,522	\$ 3,986,522	0.00%	\$ 4,461,416	89.36%
12/31/2014	\$ -	\$ 2,820,420	\$ 2,820,420	0.00%	\$ 4,980,993	56.62%
12/31/2016	\$ -	\$ 2,678,516	\$ 2,678,516	0.00%	\$ 5,284,234	50.69%

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

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

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

	2017	2016	2015
	Contractually required contributions	\$ 349,144	\$ 347,298
Contributions in relation to the contractually required contributions	\$ (349,144)	\$ (347,298)	\$ (348,556)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Utility's covered - employee payroll	\$ 5,288,234	\$ 5,124,588	\$ 4,980,993
Contributions as a percentage of covered employee payroll	6.60%	6.78%	7.00%

\* The amounts presented for each measurement period that was presented for each fiscal year noted.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 For the year ended December 31, 2017

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

*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, 2017

<b>Assets</b>	<b>Water unit</b>	<b>Sewerage unit</b>	<b>Household hazardous waste unit</b>	<b>Total</b>
Current assets:				
Cash and cash equivalents	\$ 2,107,386	\$ 8,524,473	\$ 384,250	\$ 11,016,109
Investments	-	10,004,000	-	10,004,000
Restricted cash equivalents	93,762	86,234	-	179,996
Restricted cash - Storm Water Utility collections	-	324,939	-	324,939
Restricted investments	8,469,073	2,799,875	-	11,268,948
Accounts receivable	2,210,589	2,450,357	45,215	4,706,161
Unbilled revenue	1,559,603	1,012,828	20,823	2,593,254
Inventories	407,885	72,947	-	480,832
Other current assets	136,342	108,681	-	245,023
<b>Total current assets</b>	<b>14,984,640</b>	<b>25,384,334</b>	<b>450,288</b>	<b>40,819,262</b>
Noncurrent assets:				
Advance to Water Unit	-	5,000,000	-	5,000,000
Other assets				
Special assessments	18,907	24,833	-	43,740
Unbilled assessments	2,882,742	2,488,472	-	5,371,214
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	878,572	1,272,737	-	2,151,309
Construction in progress	2,155,862	12,164,277	-	14,320,139
Capital assets being depreciated:				
Revenue producing and service equipment	19,692,086	31,511,271	-	51,203,357
Buildings and structures	95,763,813	102,680,084	87,042	198,530,939
Office furnishings, shop equipment, and other	3,725,216	5,522,540	832	9,248,588
Less accumulated depreciation	(45,052,139)	(66,241,802)	(28,078)	(111,322,019)
<b>Total capital assets, net of accumulated depreciation</b>	<b>77,163,410</b>	<b>86,909,107</b>	<b>59,796</b>	<b>164,132,313</b>
<b>Total noncurrent assets</b>	<b>80,065,059</b>	<b>94,422,412</b>	<b>59,796</b>	<b>174,547,267</b>
<b>Total assets</b>	<b>\$ 95,049,699</b>	<b>\$ 119,806,746</b>	<b>\$ 510,084</b>	<b>\$ 215,366,529</b>
<b>Deferred Outflows of Resources</b>				
Deferred pension resources	\$ 1,724,192	\$ 1,779,502	\$ 16,909	\$ 3,520,603
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 206,020	\$ 459,696	\$ 8,600	\$ 674,316
Accrued liabilities	19,688	1,614	-	21,302
Accrued property taxes	2,405,432	-	-	2,405,432
Current portion of accrued compensated absences	37,591	40,022	-	77,613
Current portion of long-term obligations	4,752,139	98,721	-	4,850,860
Current portion of advance from City of Kenosha	43,480	44,217	-	87,697
Due to City of Kenosha	598,830	630,377	1,627	1,230,834
Due to City of Kenosha - Storm Water Utility collections	-	324,939	-	324,939
Other current liabilities	29,233	16,254	-	45,487
<b>Total current liabilities</b>	<b>8,092,413</b>	<b>1,615,840</b>	<b>10,227</b>	<b>9,718,480</b>
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	369,623	218,105	-	587,728
Worker's compensation accrued liability	155,611	139,666	-	295,277
Other postemployment benefits	835,719	765,466	-	1,601,185
Pension liability - Wisconsin Retirement System	191,162	230,149	1,572	422,883
Advance from City of Kenosha	46,116	46,897	-	93,013
Advance from Sewerage Unit	5,000,000	-	-	5,000,000
Revenue bonds payable	-	-	-	-
Clean Water Fund loans	-	206,926	-	206,926
<b>Total noncurrent liabilities</b>	<b>6,598,231</b>	<b>1,607,209</b>	<b>1,572</b>	<b>8,207,012</b>
<b>Total liabilities</b>	<b>14,690,644</b>	<b>3,223,049</b>	<b>11,799</b>	<b>17,925,492</b>
<b>Deferred Inflows of Resources</b>				
Deferred pension resources	\$ 856,440	\$ 889,095	\$ 8,230	\$ 1,753,765
<b>Net Position</b>				
Invested in capital assets, net of related debt	74,729,903	86,603,461	59,796	161,393,160
Restricted for debt service	6,251,654	2,884,495	-	9,136,149
Unrestricted	245,250	27,986,148	447,168	28,678,566
<b>Total net position</b>	<b>\$ 81,226,807</b>	<b>\$ 117,474,104</b>	<b>\$ 506,964</b>	<b>\$ 199,207,875</b>

**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, 2017

	<u>Water unit</u>	<u>Sewerage unit</u>	<u>Household hazardous waste unit</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 12,490,141	\$ 11,239,817	\$ 166,429	\$ 23,896,387
Miscellaneous	2,170,238	2,235,719	18,002	4,423,959
Total operating revenues	<u>14,660,379</u>	<u>13,475,536</u>	<u>184,431</u>	<u>28,320,346</u>
Operating expenses:				
General and administrative	2,518,532	2,817,446	-	5,335,978
Operations and maintenance	5,347,129	6,018,375	164,937	11,530,441
Loss on disposal of equipment	-	230,388	-	230,388
Depreciation	2,855,046	2,186,774	3,482	5,045,302
Total operating expenses	<u>10,720,707</u>	<u>11,252,983</u>	<u>168,419</u>	<u>22,142,109</u>
Operating income	<u>3,939,672</u>	<u>2,222,553</u>	<u>16,012</u>	<u>6,178,237</u>
Nonoperating revenues (expenses):				
Net investment income	98,942	304,728	260	403,930
Interest expense	(524,787)	(16,624)	-	(541,411)
Miscellaneous	50,469	39,041	45	89,555
Total nonoperating revenue (expenses)	<u>(375,376)</u>	<u>327,145</u>	<u>305</u>	<u>(47,926)</u>
Increase in net position before capital contributions and transfers	3,564,296	2,549,698	16,317	6,130,311
Capital contributions	1,602,021	3,037,880	-	4,639,901
Transfers out	(2,352,858)	(52,574)	-	(2,405,432)
Increase in net position	<u>2,813,459</u>	<u>5,535,004</u>	<u>16,317</u>	<u>8,364,780</u>
Net position at beginning of year	<u>78,413,348</u>	<u>111,939,100</u>	<u>490,647</u>	<u>190,843,095</u>
Net position at end of year	<u>\$ 81,226,807</u>	<u>\$ 117,474,104</u>	<u>\$ 506,964</u>	<u>\$ 199,207,875</u>



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

Schedule of Capital Assets  
Water Unit

Year ended December 31, 2017

	<b>Balance January 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2017</b>
Capital assets not being depreciated:				
Land and land improvements	\$ 878,572	\$ -	\$ -	\$ 878,572
Construction in progress	727,538	2,155,654	727,330	2,155,862
Total capital assets not being depreciated	<u>1,606,110</u>	<u>2,155,654</u>	<u>727,330</u>	<u>3,034,434</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,742,099	25,212	75,225	19,692,086
Buildings and structures	93,575,696	2,427,810	239,693	95,763,813
Office furnishings, shop equipment, and other	3,602,282	132,161	9,227	3,725,216
Total capital assets being depreciated	<u>116,920,077</u>	<u>2,585,183</u>	<u>324,145</u>	<u>119,181,115</u>
Less accumulated depreciation:				
Revenue producing and service equipment	14,570,204	1,043,040	74,275	15,538,969
Buildings and structures	25,479,743	1,610,981	202,829	26,887,895
Office furnishings, shop equipment, and other	2,440,162	201,025	15,912	2,625,275
Total accumulated depreciation	<u>42,490,109</u>	<u>2,855,046</u>	<u>293,016</u>	<u>45,052,139</u>
Total capital assets being depreciated, net	<u>74,429,968</u>	<u>(269,863)</u>	<u>31,129</u>	<u>74,128,976</u>
Total capital assets, net	<u>\$ 76,036,078</u>	<u>\$ 1,885,791</u>	<u>\$ 758,459</u>	<u>\$ 77,163,410</u>

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

Water Unit

Debt Repayment Schedule

Series 2008 – Water System Revenue Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total</u>
	<u>December 1</u>	<u>June 1</u>	<u>December 1</u>	
2018	4,725,000	118,125	118,125	4,961,250
Totals	\$ <u>4,725,000</u>	\$ <u>118,125</u>	\$ <u>118,125</u>	\$ <u>4,961,250</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

<b>Year</b>	<b>Principal</b>	<b>Interest</b>		<b>Total</b>
	<b>April 1</b>	<b>April 1</b>	<b>October 1</b>	
2018	43,480	2,634	1,383	47,497
2019	46,116	1,383	-	47,499
Totals	\$ <u>89,596</u> \$	\$ <u>4,017</u> \$	\$ <u>1,383</u> \$	<u>94,996</u>

**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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,708,387	\$ 5,910,377
Commercial	2,714,429	2,752,976
Industrial	865,936	1,000,504
Public	528,457	319,338
Irrigation	-	-
Total metered sales	9,817,209	9,983,195
Flat rate sales to general customers	11,150	12,718
Private fire protection	164,921	167,224
Public fire protection	1,355,848	1,351,071
Sales to other municipalities	2,661,782	2,616,218
Total sales of water	14,010,910	14,130,426
Penalties	159,343	160,111
Allocated services	144,672	146,531
Other	345,454	356,748
Total operating revenues	14,660,379	14,793,816
Operating expenses:		
Source of supply:		
Maintenance of lake intake	-	54,130
Miscellaneous	9,625	9,625
Total source of supply	9,625	63,755
Power and pumping:		
Operations:		
Supervision and engineering	156,516	144,169
Fuel and power purchased	799,895	827,827
Pumping labor and supplies	121,129	117,654
Miscellaneous	8,969	5,993
Maintenance:		
Structures and improvements	33,859	21,545
Power production equipment	31,841	257
Pumping equipment	69,091	96,291
Total power and pumping	1,221,300	1,213,736

**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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Water treatment:		
Operations:		
Supervision and engineering	\$ 52,777	\$ 54,428
Labor and supplies	296,901	307,646
Lead testing program	-	-
Chemicals	106,118	147,766
Structures and improvements	63,246	440,979
Treatment equipment	519,177	503,570
Miscellaneous	508,639	23,084
Total water treatment	1,546,858	1,477,473
Transmission and distribution:		
Operations:		
Supervision and engineering	140,038	217,662
Transmission and distribution lines	23,352	67,008
Meters	72,160	43,379
Customer installation	115,389	137,366
Labor and equipment	507,215	469,557
Maintenance:		
Supervision and engineering	-	11,131
Distribution reservoirs and standpipes	556,319	461,455
Mains	740,154	1,082,053
Services	295,635	119,368
Meters	64,683	41,310
Hydrants	54,401	42,043
Total transmission and distribution	2,569,346	2,692,332
Total operations and maintenance	5,347,129	5,447,296
General and administrative:		
Customer accounting and collecting:		
Meter reading	60,546	60,952
Customer records and collection	304,514	304,004
Total customer accounting and collecting	365,060	364,956

**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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Administrative:		
Executive and general office	\$ 217,462	\$ 211,712
Office supplies	38,736	48,094
Outside services	406,995	223,081
Casualty and property insurance	106,061	109,036
Employee benefits and insurance	1,345,523	1,486,635
Miscellaneous	24,390	27,419
Regulatory commission	14,305	15,337
Total administrative	<u>2,153,472</u>	<u>2,121,314</u>
Total general and administrative	2,518,532	2,486,270
Depreciation	<u>2,855,046</u>	<u>2,816,133</u>
Total operating expenses	<u>10,720,707</u>	<u>10,749,699</u>
Operating income	<u>\$ 3,939,672</u>	<u>\$ 4,044,117</u>

**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, 2017 and 2016

Local property taxes due to the City of Kenosha for the years ended December 31, 2017 and 2016 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	<b>2017</b>	<b>2016</b>
Gross book value – January 1:		
Plant and equipment	\$ 119,151,745	\$ 116,848,293
Materials and supplies	380,511	443,622
Total gross book value	119,532,256	117,291,915
Less plant outside municipal boundaries	(5,782,728)	(5,944,321)
Assessable plant	113,749,528	111,347,594
Assessment ratio	0.934740	0.971250
Assessed value of property	106,326,234	108,146,351
Local and school share of tax rate (per thousand)	22.623124	21.995910
Computed tax equivalent (floor = \$1,033,306)	\$ 2,405,432	\$ 2,378,777

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

Schedule of Capital Assets  
Sewerage Unit

Year ended December 31, 2017

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2017</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,272,737	\$ -	\$ -	\$ 1,272,737
Construction in progress	12,634,399	1,061,244	1,531,366	12,164,277
Total capital assets not being depreciated	<u>13,907,136</u>	<u>1,061,244</u>	<u>1,531,366</u>	<u>13,437,014</u>
Capital assets being depreciated:				
Revenue producing and service equipment	30,777,801	1,431,290	697,820	31,511,271
Buildings and structures	100,259,660	2,938,147	517,723	102,680,084
Office furnishings, shop equipment, and other	5,157,174	424,086	58,720	5,522,540
Total capital assets being depreciated	<u>136,194,635</u>	<u>4,793,523</u>	<u>1,274,263</u>	<u>139,713,895</u>
Less accumulated depreciation:				
Revenue producing and service equipment	28,471,508	616,452	465,917	28,622,043
Buildings and structures	34,090,360	1,330,867	517,723	34,903,504
Office furnishings, shop equipment, and other	2,525,404	239,455	48,604	2,716,255
Total accumulated depreciation	<u>65,087,272</u>	<u>2,186,774</u>	<u>1,032,244</u>	<u>66,241,802</u>
Total capital assets being depreciated, net	<u>71,107,363</u>	<u>2,606,749</u>	<u>242,019</u>	<u>73,472,093</u>
Total capital assets, net	\$ <u><u>85,014,499</u></u>	\$ <u><u>3,667,993</u></u>	\$ <u><u>1,773,385</u></u>	\$ <u><u>86,909,107</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>		
2018	98,721	4,843	3,278		106,842
2019	101,849	3,279	1,665		106,793
2020	105,076	1,665	-		106,741
Totals	\$ <u>305,646</u>	\$ <u>9,787</u>	\$ <u>4,943</u>	\$	<u>320,376</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

<b>Year</b>	<b>Principal</b>	<b>Interest</b>		<b>Total</b>
	<b>April 1</b>	<b>April 1</b>	<b>October 1</b>	
2018	44,217	2,678	1,407	48,302
2019	46,897	1,407	-	48,304
Totals	\$ 91,114	\$ 4,085	\$ 1,407	\$ 96,606

**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, 2017 and 2016

	<b>2017</b>		<b>2016</b>
Operating revenues:			
Metered sales to general customers:			
Residential	\$ 4,330,367	\$	4,393,738
Commercial	2,233,433		2,245,706
Industrial	1,148,743		1,261,564
Public	691,827		217,807
Total sales to general customers	8,404,370		8,118,815
Sales to other municipalities	2,835,447		2,454,372
Industrial waste monitoring	108,922		106,414
Engineering services	1,586,133		1,385,536
Waste haulers	325,610		326,726
Penalties	124,384		125,817
Other	90,670		89,652
Total operating revenues	13,475,536		12,607,332
Operating expenses:			
Wastewater treatment:			
Operations:			
Supervision and labor	489,417		435,363
Chemicals	601,155		551,038
Power	647,224		654,878
Sludge handling	268,443		309,612
Maintenance:			
Supervision and labor	290,821		293,214
Treatment equipment	366,865		278,699
Structures and improvements	409,689		132,431
Transportation expense	78,454		82,050
Total wastewater treatment	3,152,068		2,737,285
Collection system:			
Collection	378,544		398,189
Equalization basin and pump station	89,726		82,761
Cleaning and inspection	301,649		377,989
Lift station equipment	187,785		155,223
Monitoring equipment	3,268		3,803
Total collection system	960,972		1,017,965
Laboratory operations:			
Labor and supplies	301,762		303,615
Industrial waste monitoring	60,020		58,994
Total laboratory operations	361,782		362,609
Engineering services	1,543,553		1,350,841
Total operation and maintenance	6,018,375		5,468,700

**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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
General and administrative:		
Customer accounting and collecting:		
Meter reading	\$ 60,546	\$ 60,952
Customer records and collection	<u>276,665</u>	<u>278,745</u>
Total customer accounting and collecting	<u>337,211</u>	<u>339,697</u>
Administrative:		
Salaries	309,649	299,205
Outside services	420,141	51,539
Office supplies	48,255	319,352
Accidents and damages	(362)	(6,488)
Insurance and employee benefits	1,351,056	1,368,623
Meter operation	<u>351,496</u>	<u>348,412</u>
Total administrative	<u>2,480,235</u>	<u>2,380,643</u>
Total general and administrative	<u>2,817,446</u>	<u>2,720,340</u>
Loss on sale of equipment	230,388	-
Depreciation	<u>2,186,774</u>	<u>2,128,003</u>
Total operating expenses	<u>11,252,983</u>	<u>10,317,043</u>
Operating income	<u>\$ 2,222,553</u>	<u>\$ 2,290,289</u>

**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, 2017

	<b>Balance January 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2017</b>
Capital assets being depreciated:				
Buildings and structures	\$ 87,042	\$ -	\$ -	\$ 87,042
Office furnishings, shop equipment, and other	832	-	-	832
Total capital assets being depreciated	<u>87,874</u>	<u>-</u>	<u>-</u>	<u>87,874</u>
Less accumulated depreciation:				
Buildings and structures	23,764	3,482	-	27,246
Office furnishings, shop equipment, and other	832	-	-	832
Total accumulated depreciation	<u>24,596</u>	<u>3,482</u>	<u>-</u>	<u>28,078</u>
Total capital assets, net	<u>\$ 63,278</u>	<u>\$ (3,482)</u>	<u>\$ -</u>	<u>\$ 59,796</u>