

**CITY OF MILWAUKEE – WATER WORKS**

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

# CITY OF MILWAUKEE – WATER WORKS

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## INDEPENDENT AUDITORS' REPORT

To the Common Council  
City of Milwaukee - Water Works  
Milwaukee, Wisconsin

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the City of Milwaukee - Water Works, an enterprise fund of the City of Milwaukee, Wisconsin, as of and for the year ended December 31, 2018, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. The December 31, 2018 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 over financial reporting relevant to the City of Milwaukee - Water Works'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 City of Milwaukee - Water Works'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 City of Milwaukee - Water Works as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Prior Period Financial Statements***

The financial statements of the City of Milwaukee - Water Works, as of and for the year ended December 31, 2017, were audited by other auditors whose report dated September 20, 2018, expressed an unmodified opinion on those statements.

## **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the City of Milwaukee - Water Works enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Milwaukee, Wisconsin, as of December 31, 2018 and 2017 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the City of Milwaukee - Water Works adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated July 24, 2019 on our consideration of the overall City of Milwaukee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to City of Milwaukee - Water Works. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Milwaukee - Water Works's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Milwaukee - Water Works's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
July 24, 2019

## CITY OF MILWAUKEE – WATER WORKS

### Management's Discussion and Analysis

December 31, 2018 and 2017

(Unaudited)

The management of the City of Milwaukee – Water Works (MWW) offers readers of the organization's financial statements this narrative overview and analysis of the Water Works' financial statements for the fiscal years ended December 31, 2018 and 2017. Readers are encouraged to consider the information presented here in conjunction with the financial information.

The mission of the Water Works is to provide safe, reliable, and aesthetically pleasing drinking water to the City of Milwaukee and customers in suburban communities.

### **Financial Highlights**

#### ***Year ended December 31, 2018***

- Total revenues increased by 3.99% in 2018, from \$101.48 million in 2017 to \$105.52 million in 2018.
- Total expenses increased by 12.18% in 2018, from \$73.8 million in 2017 to \$82.8 million in 2018.
- As of December 31, 2018, the Water Works' outstanding debt consisted of \$49.7 million in revenue bonds, through a combination of the State of Wisconsin Safe Drinking Water Loan Program and conventional revenue bonds, and \$9.3 million in general obligation bonds for a total of \$59.0 million.

The Water Works is an enterprise fund within the primary government of the City of Milwaukee and as such is not subject to property taxes. In place of property taxes, the Water Works contributes to the City's tax levy by making a payment in lieu of taxes (PILOT). The PILOT was \$13.1 million in 2018 and \$13.3 million in 2017 and is reported in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Position as transfers out.

#### ***Year ended December 31, 2017***

- Total revenues increased by 3.29% in 2017, from \$98.24 million in 2016 to \$101.48 million in 2017.
- Total expenses increased by 0.22% in 2017, from \$73.6 million in 2016 to \$73.8 million in 2017.
- As of December 31, 2017, the Water Works' outstanding debt consisted of \$43.1 million in revenue bonds, through a combination of the State of Wisconsin Safe Drinking Water Loan Program and conventional revenue bonds, and \$7.8 million in general obligation bonds for a total of \$50.9 million.
- The PILOT was \$13.3 million in 2017 and \$12.8 in 2016.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the financial statements of the Water Works. The financial statements include two components: 1) the financial statements and 2) notes to the financial statements, which explain in more detail some of the information in the financial statements.

## **CITY OF MILWAUKEE – WATER WORKS**

Management’s Discussion and Analysis

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(Unaudited)

### **Required Financial Statements**

The financial statements report information about the Water Works using accounting methods similar to those used by private sector companies. These statements provide both long-term and short-term information about the Water Works’ overall financial status.

The statement of net position presents information on all of the Water Works’ 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 the amounts of investments in resources (assets and deferred outflows of resources) and the obligations to Water Works’ creditors (liabilities and deferred inflows of resources). It provides one way to measure financial health by providing the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Water Works. However, one will need to consider other nonfinancial factors, such as changes in economic conditions, population and industrial/commercial customer growth, and new or changed government legislation.

All of the current year’s revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement measures the results of operations over the past year and can be used to determine whether the Water Works has successfully recovered all of its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital financing and non-capital financing, and investing activities. This statement identifies sources and uses of cash, as well as the change in the cash balance during the reporting period.

**CITY OF MILWAUKEE – WATER WORKS**

Management’s Discussion and Analysis

December 31, 2018 and 2017

(Unaudited)

**Financial Analysis of the Water Works**

***Statement of Net Position***

A summary of assets, liabilities, and net position as of December 31, 2018, 2017, and 2016 is as follows:

**Table A-1**

**Condensed Summary of Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$ 65,084,535	\$ 68,588,293	\$ 56,971,960
Net capital assets	<u>513,653,846</u>	<u>491,790,532</u>	<u>454,715,271</u>
Total assets	<u>578,738,381</u>	<u>560,378,825</u>	<u>511,687,231</u>
Deferred outflows of resources	<u>5,596,743</u>	<u>6,791,656</u>	<u>8,445,000</u>
Liabilities:			
Current liabilities	27,181,412	29,616,143	17,250,028
Noncurrent liabilities	<u>106,966,601</u>	<u>62,913,594</u>	<u>65,695,736</u>
Total liabilities	<u>134,148,013</u>	<u>92,529,737</u>	<u>82,945,764</u>
Deferred inflows of resources	<u>5,933,889</u>	<u>1,093,835</u>	<u>557,000</u>
Net Position:			
Net investment in capital assets	454,607,392	440,896,886	400,511,980
Restricted for debt service	2,404,594	2,209,368	1,229,225
Unrestricted net position	<u>(12,758,764)</u>	<u>30,440,655</u>	<u>34,888,262</u>
Total net position	<u>\$ 444,253,222</u>	<u>\$ 473,546,909</u>	<u>\$ 436,629,467</u>

Net position may, over time, serve as a useful indicator of an entity’s financial position. In the case of the Water Works, assets exceeded liabilities by \$444.3 million and \$473.5 million at December 31, 2018 and 2017, respectively, showing a 6.2% decrease from 2017.

In Table A-1, it can be seen that the largest portion of the Water Works’ net position, 102%, and 93% as of December 31, 2018 and 2017, respectively, reflects the net investment in capital assets (e.g., water mains, buildings, machinery and equipment). Also, as shown in Table A-3, the Water Works’ water main system makes up approximately 56% and 55% of the capital assets as of December 31, 2018 and December 31, 2017, respectively. The Water Works uses these capital assets to provide safe, reliable, and aesthetically pleasing drinking water to its 867,000 customer base that lives in the City of Milwaukee and surrounding communities.

## CITY OF MILWAUKEE – WATER WORKS

### Management's Discussion and Analysis

December 31, 2018 and 2017

(Unaudited)

### **Financial Analysis of the Water Works (Continued)**

#### ***Statement of Net Position (Continued)***

The Water Works' net investment in capital assets is reported net of related debt. The resources to repay this debt must be provided from operating and nonoperating activities as the capital assets themselves are not intended to be used to liquidate these liabilities.

Unrestricted net position of the Water Works represents current assets such as cash on hand for operation, cash held in local government investment pool, accounts receivable, and inventory of materials. Unrestricted net position decreased to minus \$12.8 million in 2018 from \$30.4 million in 2017. This decrease in unrestricted net position is due to recognizing OPEB and terminal leave liabilities of \$40.5 million in compliance with GASB 75. Implementing this GASB requirement resulted in a restatement of net position beginning balance for 2018.

As can be seen in Table A-1, net investment in capital assets increased by \$13.7 million and increased by \$40.3 million during the years ended December 31, 2018 and 2017, respectively. The increase in net investment in capital assets in 2018 is mainly due to an increase in capital assets, from \$491.8 million in 2017 to \$513.7 million in 2018, offset by an increase in debt, from \$50.9 in 2017 to \$59.0 million in 2018. Also, in 2018, \$17.5 million water mains were added to the system along with \$4.7 million service lines.

Per a new Wisconsin Public Service Commission (PSC) requirement, in 2017, Milwaukee Water Works booked approximately \$21.1 million service lines that were paid for by private funds at the time of installation in addition to approximately \$4.8 million service lines installed by the Utility. These two types of service line capitalizations mainly accounted for the large increase in capital assets in 2017. Also in 2017, \$16.4 million water mains were added to the system.

MWW's increased water main replacement program to meet the PSC's mandate constitutes a significant portion of the increases in capital assets both in 2018 and 2017. The PSC required MWW to replace 18 miles of main in 2018 and no less than 15 miles in 2017.

The amounts of contributed capital were \$1.5 million and \$22.5 million in 2018 and in 2017, respectively, representing a 93% decrease. This large decrease is due to capitalization of \$21.1 million service lines paid by private funds as stated above in 2017 and nothing similar for 2018.

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Management’s Discussion and Analysis

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(Unaudited)

**Statement of Revenues, Expenses, and Changes in Net Position**

While the summary of net position (Table A-1) shows the amount of net position, as of the end of each respective year, the summary of revenues, expenses, and changes in fund net position (Table A-2) exhibits the nature and source of the changes.

**Table A-2**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 100,661,251	\$ 97,833,453	\$ 97,849,702
Nonoperating revenue	4,858,822	3,641,928	389,231
Total revenues	<u>105,520,073</u>	<u>101,475,381</u>	<u>98,238,933</u>
Depreciation expense	18,685,166	18,185,463	18,217,743
Other operating expenses	59,548,312	51,675,777	55,229,187
Nonoperating expenses	4,534,323	3,923,245	173,225
Total expenses	<u>82,767,801</u>	<u>73,784,485</u>	<u>73,620,155</u>
Income before capital contributions and transfers	22,752,272	27,690,896	24,618,778
Capital contributions	1,550,977	22,528,174	2,798,060
Transfers to the City of Milwaukee	<u>(13,090,014)</u>	<u>(13,301,628)</u>	<u>(12,767,171)</u>
Changes in net position	11,213,235	36,917,442	14,649,667
Net position – beginning of year	473,546,909	436,629,467	421,979,800
Restatement - OPEB & Terminal Leave Payable	<u>(40,506,922)</u>	—	—
Net position – beginning of year (restated)	<u>433,039,987</u>	<u>436,629,467</u>	<u>421,979,800</u>
Net position – end of year	<u>\$ 444,253,222</u>	<u>\$ 473,546,909</u>	<u>\$ 436,629,467</u>

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### Management's Discussion and Analysis

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#### *Year ended December 31, 2018*

A review of Table A-2 shows that total revenues increased by \$4 million, or 4% in 2018 and total expenses increased by \$9 million, or 12.2%. These results may be explained as follows:

#### *Revenues*

- Operating revenues increased by \$2.8 million in 2018. This increase in revenue reflects the full year impact of a 3% Simplified Rate Increase that was implemented in September 2017, despite a continuing trend of drop in water sales or consumption in 2018. Table A-4 shows the sale of water (in billion gallons) for the last five years. According to this table, the total sale of water to all customer classes has dropped by 1.1 billion gallons or 3.7% from 2014. The decline in sales to some customer classes may show slight fluctuations over the years but the overall trend is a decline in consumption thereby affecting operating revenue.
- Nonoperating revenues for MWW typically consist of rental income from antenna contracts, and also include miscellaneous fees for service and branch tapping, interest income and other revenues such as from sale of nonutility properties. However, in 2018 and 2017, MWW received Lead Service Line (LSL) replacement grants from the City of Milwaukee and the Department of Natural Resources (DNR) as a reimbursement of LSL expenses and principal forgiveness loans, respectively. Nonoperating revenues for 2018 increased by \$1.2 million or 33.4% over 2017. This increase is the result of lead service line replacement grants received in 2018, as stated above. Interest income increased from \$76,500 in 2017 to \$214,500 in 2018 whereas other miscellaneous revenue stayed about the same in both years, resulting in no significant impact in relation to total nonoperating revenues.

#### *Expenses*

- Operating expenses, excluding depreciation, increased by 15.2% to \$59.5 million in 2018, from \$51.7 million in 2017. This was mainly due to increases in administrative and general expenses, billing and collection expenses and transmission and distribution expenses, offset by a slight decrease in pumping expenses. Administrative and general expenses increased by 5.4%, billing and collection expenses by 13.4%, and transmission and distribution expenses by 38.1%. Pumping and treatment expenses decreased by a modest 1.8% whereas treatment expenses stayed about the same due to no increases experienced in cost of chemicals used in treatment.

Increase in pension expenses recognized in compliance to GASB requirements and increase in injuries and damages expenses account for most of the increase in administrative and general expenses. Increases in system support expenses arising from system upgrade issues and uncollectible accounts explain the increase in billing and collections expenses. Transmission and distribution expenses experienced the highest increase of \$6.9 million consisting of, among other things, \$2.5 million for tank painting and maintenance, \$3.3 million for maintenance of water mains due to increased water main breaks. There were 519 and

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### Management’s Discussion and Analysis

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374 water main breaks in 2018 and 2017 respectively. Pumping expenses continued to decrease partly because Plants Operations continued observing “peak” for pump operations at Texas and Howard facilities that in turn was believed to result in lowered electrical charges.

- Nonoperating expenses, in addition to interest expense, include LSL expenditures that are reimbursed by the City or the DNR which are accounted for as nonoperating expenses and these expenditures amounted to \$4.5 million in 2018 and \$3.8 million in 2017. Interest expense, decreased by \$10,000 or 11% from 2017 due to continued capitalization of interest expense during construction, despite increase in revenue bond debt service in 2018.

#### *Year ended December 31, 2017*

Total revenues increased by \$3.2 million, or 3.3% in 2017 and total expenses increased by \$164,000, or 0.22%. These results may be explained as follows:

#### *Revenues*

- Operating revenues decreased by \$16,000 in 2017. This moderate decrease in revenue was a reflection of a continued trend of drop in water sales or consumption also experienced in 2017. The total sale of water to all customer classes had dropped by 1.7 billion gallons or 5.6% from 2013.
- Nonoperating revenues for 2017 increased by \$3.3 million or 836% over 2016. This increase is mainly the result of LSL replacement grants received in 2017 from the City of Milwaukee and the Department of Natural Resources (DNR) as a reimbursement of LSL expenses and principal forgiveness loans, respectively and not in 2016. Interest income increased from \$31,000 in 2016 to \$76,500 in 2017 whereas other miscellaneous revenue decreased by \$50,000, resulting in no significant impact in relation to total nonoperating revenues.

#### *Expenses*

- Operating expenses, excluding depreciation, decreased by 6.4% to \$51.7 million in 2017, from \$55.2 million in 2016. This increase resulted from a combination of increases in administrative and general expenses and billing and collection expenses offset by decreases in transmission and distribution expenses, pumping and treatment expenses. Administrative and general expenses increased by 15% and billing and collection expenses increased by 3%, whereas transmission and distribution expenses decreased by 21%. Pumping and treatment expenses decreased by modest 1.3% and 1.8% respectively. Increase in pension expenses recognized in compliance to GASB 68 account for most of the increase in administrative and general expenses.

Decrease in transmission and distribution expenses was a net reflection of not having any major operation and maintenance expenses in 2017 such as the painting of the Lincoln storage tank in 2016, along with a lower cost of water main materials and stream lining of construction

## CITY OF MILWAUKEE – WATER WORKS

### Management’s Discussion and Analysis

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processes in 2017. Service line replacements were capitalized in 2017 whereas they were expensed in 2016. Pumping expenses decreased partly because Plants Operations continued observing “peak” for pump operations at Texas and Howard facilities that in turn was believed to result in lowered electrical charges. The slight decrease in treatment expenses can be explained by an initial moderate decrease in cost of chemicals used in treatment followed by stabilized prices.

- Nonoperating expenses, which in the past typically consisted of interest expense, include a new component in 2017. LSL expenditures that are reimbursed by the City or the DNR are accounted for as nonoperating expenses and amounted to \$3.8 million in 2017 whereas there were none for 2016. Grants received for same are reported as nonoperating revenues as stated above and deferred inflows for amounts not reimbursed in 2017. Interest expense, decreased by \$86,000 or 50% from 2016 due to increased capitalization of interest expense during construction, despite increase in revenue bond debt service in 2017.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

The Water Works calculates depreciation based on composite groups of assets within a given category and the average useful life. These categories are building and improvements, transmission and distribution system, and machinery and equipment. Each group’s depreciation is then calculated using a rate authorized by the latest Public Services Commission of Wisconsin (PSC) rate order.

As of December 31, 2018, the Water Works investment in capital assets, net of accumulated depreciation, increased by \$21.9 million or 4.4% to \$513.7 million. Transmission and distribution system assets and machinery and equipment increased by \$23.5 million and \$7.9 million, respectively, and construction in progress increased by \$4.6 million. The increases in transmission and distribution system assets and construction in progress were mainly due to installation of water mains per the ramped up water main replacement program mandated by the PSC. The increase in machinery and equipment reflects a combination of increases in Automated Meter Reading (AMR) equipment, computer equipment and transportation equipment acquired in 2018.

As of December 31, 2017, the Water Works investment in capital assets, net of accumulated depreciation, increased by \$37.1 million or 8.2% to \$491.8 million. Transmission and distribution system assets and machinery and equipment increased by \$42.3 million and \$8.5 million, respectively, and construction in progress increased by \$111,000. The increase in transmission and distribution system assets was mainly due to installation of water mains per the ramped up water main replacement program mandated by the PSC and capitalization of service lines in 2017. The increase in machinery and equipment reflects a combination of increases in Automated Meter Reading (AMR) equipment, and hydrants installed. There was no significant change in construction in progress in 2017.

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### Management's Discussion and Analysis

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(Unaudited)

**Table A-3**  
**Capital Assets**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital assets:			
Land	\$ 1,415,398	\$ 1,415,398	\$ 1,415,398
Buildings	31,110,416	30,280,171	28,992,766
Transmission and distribution system	447,476,755	423,999,217	381,681,201
Machinery and equipment	276,038,310	268,151,780	259,604,970
Construction in progress	42,188,306	37,618,178	37,506,698
Nonutility property	4,293,160	4,293,160	4,293,160
Total capital assets	802,522,345	765,757,904	713,494,193
Less accumulated depreciation	(288,868,499)	(273,967,372)	(258,778,922)
Net capital assets	<u>\$ 513,653,846</u>	<u>\$ 491,790,532</u>	<u>\$ 454,715,271</u>

### ***Investment Administration***

As an enterprise fund within the primary government of the City of Milwaukee, the Water Works does not have a direct investment plan. As such, cash not in use for day-to-day operation is invested through the City of Milwaukee, primarily in the State of Wisconsin's LGIP and/or other types of investment instruments as determined by the City Treasurer. As of December 31, 2018 and 2017, the City Treasurer held cash and cash equivalents of \$27.7 million and \$28 million, respectively, on behalf of the Water Works that consisted of LGIP investments and cash accounts.

### ***Debt Administration***

Debt service is administered by the Public Debt Commission and can only be initiated through Council resolution with approval from the Commissioner of Public Works (or his designee, the Superintendent of Water Works).

The Water Works continues to make its regularly scheduled payments on its bonds per the amortization schedule for each bond.

As of December 31, 2018 and 2017, the Water Works debt consisted of \$49.7 million and \$43.1 million, respectively, in revenue bonds through the State of Wisconsin Safe Drinking Water Loan program and a conventional revenue bond that the Milwaukee Water Works issued in 2017. In addition, Milwaukee Water Works had \$9.3 million and \$7.8 million, respectively, in general obligation bonds for a total indebtedness of \$59.0 million and \$50.9 million, as of December 31, 2018 and 2017, respectively.

### **Economic Factors**

Total volume of water sold decreased by 2 billion gallons and 0.6 billion gallons in 2018 and 2017, respectively. As shown in Table A-4, from 2017 to 2018, volumes of water sold to all customer categories

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experienced declines. The highest decrease was for residential customer class with a decline of 1.2 billion gallons, followed by commercial customer class with a 0.6 billion gallons decrease. There was a relatively small increase of 0.1 billion gallons experienced in wholesale customer category in 2018 whereas there was a 0.2 billion gallons decrease in 2017.

It should also be noted that volume of water sold to all customers dropped by 3.7% over the last five years, including 2018. Table A-5 shows, graphically, the volume of water sold to different categories of customers over the last 20 years. As can be observed in the graph, even though there had been a continuing decline in the sale of water to all customer categories over the 20-year period, it seems to have leveled out almost for all customer classes the last three years, with the exception of the shift that took place between residential and commercial customer classes in 2016 caused by reclassification of accounts. In 2016, some multi-family customer accounts were reclassified from commercial to residential category per a PSC mandate.

Milwaukee Water Works entered into a 40-year water sale agreement with the Waukesha Water Utility in 2017 to become Waukesha’s wholesale water provider. The terms of the agreement anticipate that water service will begin early in 2022, with an estimated annual revenue of \$3 million at an initial rate of \$1.45 per thousand gallons for 6 million gallons daily. The sale is projected to grow to 8.2 million gallons daily over the term of the agreement. In preparation for the connection, MWW has agreed to extend a transmission main and replace an existing pumping station with additional capacity to serve Waukesha. In 2018, MWW began the design phase of the project. The updated estimated capital costs of the facilities are \$14 million, which will primarily be incurred in 2020 and 2021.

**Table A-4**

**Sale of Water**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(In billion of gallons)				
Customer class:					
Residential	11.4	11.5	11.6	9.8	10.1
Commercial	5.0	5.0	5.3	7.2	7.0
Industrial	3.3	3.2	3.2	3.2	3.4
Public authority	1.6	1.7	1.7	1.7	1.8
Subtotal	21.3	21.4	21.8	21.9	22.3
Wholesale	7.5	7.4	7.6	7.8	7.6
Total	28.8	28.8	29.4	29.7	29.9

# CITY OF MILWAUKEE – WATER WORKS

Management’s Discussion and Analysis

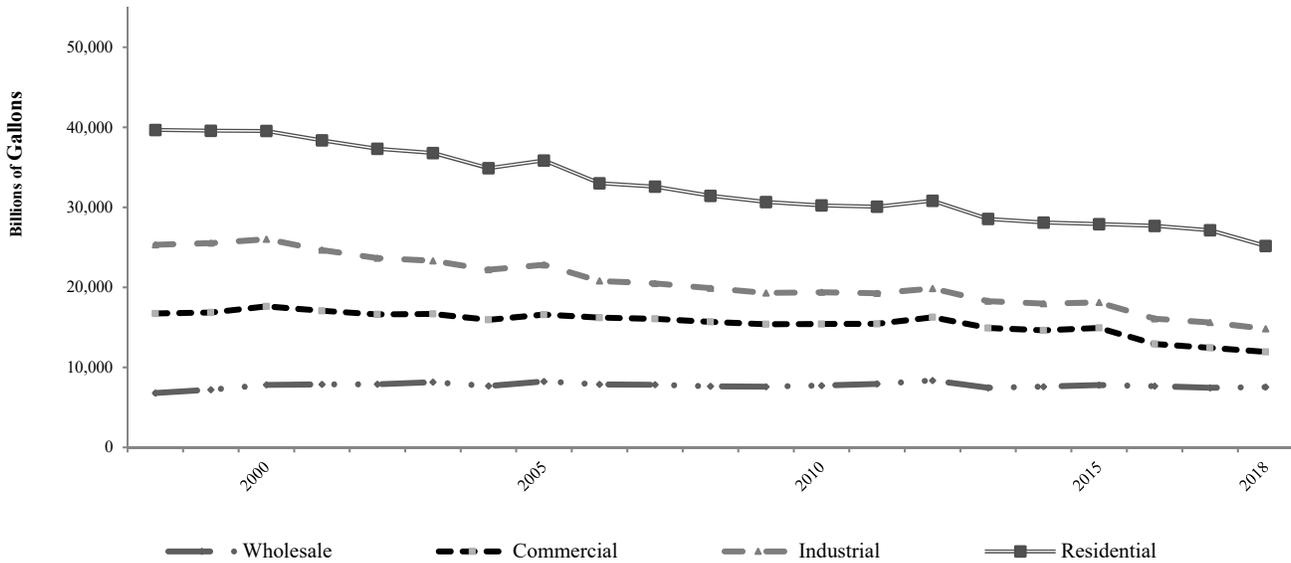
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(Unaudited)

## Economic Factors (Continued)

Table A-5

Volume of Water Sold by Customer Class



## Contacting Water Works Financial Management

This financial report is designed to provide a general overview of the Water Works’ finances to its customers, creditors, and anyone who has an interest in the Water Works’ operations. If you have questions about this report or need additional information, contact the Water Works’ Superintendent, Karen Dettmer or Water Financial Manager, Menbere W. Medhin, 841 N. Broadway, Room 409, Milwaukee, Wisconsin 53202.

**CITY OF MILWAUKEE – WATER WORKS**

Statements of Net Position  
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 25,175,191	\$ 25,766,291
Restricted cash and cash equivalents	2,553,624	2,209,368
Accounts receivable, net	18,258,694	18,081,473
Unbilled accounts receivable	13,524,695	13,850,399
Due from other funds	1,249,907	4,319,914
Inventory of materials and supplies	3,467,118	3,414,438
Prepaid items	795,233	821,358
Other assets	60,073	125,052
Total current assets	<u>65,084,535</u>	<u>68,588,293</u>
<b>Noncurrent assets:</b>		
Water plant in service, net	468,370,701	450,938,369
Construction work in process	42,188,306	37,618,178
Other property, net	3,094,839	3,233,985
Total noncurrent assets	<u>513,653,846</u>	<u>491,790,532</u>
Total assets	<u>578,738,381</u>	<u>560,378,825</u>
<b>Deferred outflow of resources</b>		
Pension deferred outflows	5,596,743	6,791,656
Total deferred outflow of resources	<u>5,596,743</u>	<u>6,791,656</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	15,062,969	11,734,477
Interest payable	205,720	180,799
Accrued wages	966,286	906,068
Compensated absences	1,988,163	1,179,274
Due to other funds	3,288,687	11,631,839
Long-term debt due within one year	5,669,587	3,983,686
Total current liabilities	<u>27,181,412</u>	<u>29,616,143</u>
<b>Noncurrent liabilities:</b>		
General obligation bonds payable	6,079,729	6,970,167
Revenue bonds payable	47,297,138	39,939,793
Net pension liability	6,569,000	7,961,000
Total Other Post Employment Benefits liability (TOL)	47,020,734	8,042,634
Total noncurrent liabilities	<u>106,966,601</u>	<u>62,913,594</u>
Total liabilities	<u>134,148,013</u>	<u>92,529,737</u>
<b>Deferred inflow of resources</b>		
Pension deferred inflows	2,897,000	515,000
OPEB deferred inflows	2,337,775	—
State deferred grant	699,114	578,835
Total deferred inflow of resources	<u>5,933,889</u>	<u>1,093,835</u>
<b>Net position:</b>		
Net investment in capital assets	454,607,392	440,896,886
Restricted for debt service	2,404,594	2,078,801
Unrestricted (deficit)	(12,758,764)	30,571,222
Total net position	\$ <u>444,253,222</u>	\$ <u>473,546,909</u>

See accompanying notes to financial statements.

**CITY OF MILWAUKEE – WATER WORKS**  
 Statements of Revenues, Expenses, and Changes in Fund Net Position  
 Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water sales	\$ 81,507,275	\$ 79,579,989
Fire protection service	9,457,202	9,172,601
Charges for shared service:	6,702,207	6,142,741
Other	<u>2,994,567</u>	<u>2,938,122</u>
Total operating revenues	<u>100,661,251</u>	<u>97,833,453</u>
Operating expenses:		
Administrative and general	12,148,790	11,531,242
Billing and collection	3,532,448	3,116,050
Transmission and distribution	25,110,130	18,186,856
Water pumping	6,935,941	7,061,620
Water treatment	11,821,003	11,780,009
Depreciation	<u>18,685,166</u>	<u>18,185,463</u>
Total operating expenses	<u>78,233,478</u>	<u>69,861,240</u>
Operating income	<u>22,427,773</u>	<u>27,972,213</u>
Nonoperating revenues (expenses):		
Interest income	214,500	76,531
Interest expense	(77,496)	(87,177)
Miscellaneous	307,775	308,164
Noncapital construction grants	4,336,547	3,257,233
Noncapital construction expenses	<u>(4,456,827)</u>	<u>(3,836,068)</u>
Total nonoperating expenses, net	<u>324,499</u>	<u>(281,317)</u>
Income before capital contributions and transfers	22,752,272	27,690,896
Capital contributions	1,550,977	22,528,174
Transfers out	<u>(13,090,014)</u>	<u>(13,301,628)</u>
Increase (decrease) in net position	11,213,235	36,917,442
Net position – beginning of year	473,546,909	436,629,467
Restatement – OPEB & Terminal Leave Payable	(40,506,922)	—
Net position – beginning of year (restated)	<u>433,039,987</u>	<u>436,629,467</u>
Net position – end of year	<u>\$ 444,253,222</u>	<u>\$ 473,546,909</u>

See accompanying notes to financial statements.

**CITY OF MILWAUKEE – WATER WORKS**

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 94,480,281	\$ 92,762,346
Receipts from interfund services provided	6,702,207	6,142,741
Payments to suppliers	(38,259,357)	(20,569,069)
Payments to employees	(23,508,513)	(22,873,364)
Payments (to) from other funds	3,070,007	3,132,764
Net cash provided by operating activities	<u>42,484,625</u>	<u>58,595,418</u>
Cash flows from noncapital financing activities:		
Miscellaneous nonoperating revenue (expense)	2,861,732	1,951,357
Noncapital construction expenditures	(4,456,827)	(3,461,612)
Noncapital reimbursements	1,595,094	1,961,357
Interfund transfers	(13,090,014)	(13,301,628)
Net cash provided by noncapital financing activities	<u>(13,090,015)</u>	<u>(12,850,526)</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant, and equipment	(37,008,695)	(31,841,387)
Proceeds from bonds, notes, and revenue bonds	20,168,521	20,360,922
Retirement of bonds, notes, and revenue bonds	(11,983,686)	(23,637,040)
Contributions received for construction	352,508	308,837
Interest paid	(1,384,602)	(1,292,745)
Net cash used in capital and related financing activities	<u>(29,855,954)</u>	<u>(36,101,413)</u>
Cash flows from investing activity:		
Interest income	214,500	76,531
Net cash provided by investing activity	<u>214,500</u>	<u>76,531</u>
Net increase (decrease) in cash and cash equivalents	(246,844)	9,720,010
Cash and cash equivalents – beginning of year	<u>27,975,659</u>	<u>18,255,649</u>
Cash and cash equivalents – end of year	\$ <u><u>27,728,815</u></u>	\$ <u><u>27,975,659</u></u>
Cash and cash equivalents at year-end consist of:		
Unrestricted cash and cash equivalents	\$ 25,175,191	\$ 25,766,291
Restricted cash and cash equivalents	2,553,624	2,209,368
Total cash and cash equivalents	\$ <u><u>27,728,815</u></u>	\$ <u><u>27,975,659</u></u>

**CITY OF MILWAUKEE – WATER WORKS**  
**Statements of Cash Flows**  
**Years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 22,427,773	\$ 27,972,213
Non-operating income	307,775	308,164
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	18,685,166	18,185,463
Effect of changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	148,483	454,631
Due from/to other funds resulting from operations	(5,273,145)	7,811,751
Inventory of materials and supplies	(52,680)	(190,440)
Prepaid items	26,125	1,368,468
Other assets	64,979	(17,693)
Noncapital accounts payable	2,287,176	(404,224)
Accrued wages and compensated absences	(59,618)	46,009
Net pension obligations, deferred outflows and deferred inflows	2,184,913	1,920,344
Net OPEB obligation, deferred outflows and deferred inflows	1,737,678	1,140,732
Net cash provided by operating activities	<u>\$ 42,484,625</u>	<u>\$ 58,595,418</u>
Noncash activities:		
During the year, water mains and related property installed by others were deeded to the Water Works in the amount of	\$ 1,198,469	\$ 22,219,337

See accompanying notes to financial statements.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

### (1) Summary of Significant Accounting Policies

The City of Milwaukee – Water Works (Water Works) is an enterprise fund within the primary government of the City of Milwaukee (the City). The Water Works provides water to residents and commercial enterprises in the metropolitan Milwaukee area. The basic financial statements of the Water Works have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB) modified for certain requirements of the Public Service Commission of Wisconsin (PSC). The PSC regulates rates charged to customers and other practices of the Water Works. To facilitate the understanding of data included in the basic financial statements, summarized below are the significant accounting policies:

#### (a) Reporting Entity

As defined by U.S. GAAP, the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either:
  - (a) the ability to impose will by the primary government; or
  - (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based on the application of these criteria, the Water Works has no component units and is not a component unit of any other entity. However, because the Water Works is not legally separate from the City, it is included in the basic financial statements of the City as an enterprise fund.

#### (b) Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting. Revenues from operations, investments, and other sources are recognized in the accounting period in which they are earned. Revenues for water sales are recognized when water services are rendered. Unbilled water services are accrued as receivables and revenue at year-end. Expenses (including depreciation and amortization) of providing services to the public are recognized in the period they are incurred.

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

## CITY OF MILWAUKEE – WATER WORKS

### Notes to Financial Statements

December 31, 2018 and 2017

#### **(c) Cash Equivalents**

Cash equivalents represent all highly liquid investments purchased with original maturities of three months or less, are stated at cost or amortized cost, which approximates fair value, and are invested with the City Treasurer. The City Treasurer manages a cash and investment pool to maximize return on funds while providing liquidity to meet day-to-day obligations. The Water Works' equity in the City's investment pool is considered to be a cash equivalent, since the Water Works can deposit or effectively withdraw cash at any time without prior notice or penalty.

#### **(d) Accounts Receivable**

Accounts receivable is composed of charges to customers for water services and receivables for sundry bill charges that cannot be attached to the property. The accounts receivable balance is stated net of allowance for doubtful accounts of \$784,249 and \$721,396 as of December 31, 2018 and 2017, respectively. The accounts receivable year-end balance includes actual unpaid charges. The unbilled accounts receivable balance consists of an estimate of the 2018 receivables that will be billed in the first quarter of 2019.

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

The utility has the right under Wisconsin statutes to place delinquent water bills on the tax roll for collection.

#### **(e) Inventory of Materials and Supplies**

Inventories of materials and supplies are stated at lower of moving average cost or market, based upon perpetual record-keeping systems and periodic cycle counts of quantities on hand.

#### **(f) Investments**

The City Treasurer is responsible for managing all of the Water Works' investments pursuant to the City's investment policy and Wisconsin Statutes. Wisconsin Statutes permit the City to invest funds not immediately needed in any of the following:

- Time deposits maturing within three years in any credit union, bank, savings bank, trust company, or savings and loan association which are authorized to transact business in the State of Wisconsin.
- Bonds or securities issued or guaranteed by the Federal government.
- Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the State of Wisconsin, as well as bonds issued by a local exposition district, a local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority.
- Local Government Investment Pool – Investment Fund of the State of Wisconsin.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(f) Investments (cont.)**

- Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc. or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- Securities of open-end management investment companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds or securities.

Investments, except the Local Government Investment Pool, are reported at fair value based on quoted market prices. The Local Government Investment Pool is an external investment pool administered by the State of Wisconsin. The value of the Water Works' investment in the fund is the same as the value of the pooled shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin Statutes.

**(g) Capital Assets**

Capital assets are defined by the Water Works as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Capital assets are capitalized at cost when purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation. Intangible assets not specifically excluded by its scope provisions will be classified as capital assets. Costs of depreciable property retired are removed from utility plant accounts and are charged to accumulated depreciation. Maintenance and repair costs are charged to operations as incurred and renewals and improvements are added to the asset accounts. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested debt proceeds over the same period. \$1,300,000 and \$1,200,000 of interest was capitalized in 2018 or 2017, respectively. Depreciation is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building and improvements	31 – 59 years
Transmission and distribution systems	45 – 77 years
Machinery and equipment	4 – 30 years

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

**(h) Restricted Assets**

Mandatory segregation of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

**(i) Bond Premiums, Issuance Costs, and Deferred Amounts on Refunding**

Bond premiums and deferred amounts on refunding are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium and deferred amounts on refunding. Bond issuance costs are reported as expenses in the year incurred.

**(j) Net Position**

Net position is displayed in three components as follows:

*Net Investment in Capital Assets* – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – This consists of amounts that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Water Works' policy to use restricted resources first, and then unrestricted resources when they are needed. The Water Works has restricted net position of \$2,404,594 and \$2,078,801 at December 31, 2018 and 2017, respectively. The restriction of net position is related to the debt service reserve requirements of the revenue bonds.

*Unrestricted* – This consists of net position that do not meet the definition of “restricted” or “investment in capital assets.”

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

**(k) Compensated Absences**

***Vacation Benefits***

Vacation benefits are recorded as expenses over the periods the benefits accrue to the employees. Vacation benefits accrued are included in the compensated absences balance.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

### **(k) *Compensated Absences (cont.)***

#### ***Sick Leave***

The liability for sick leave has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Upon retirement, employees receive a portion of their unused sick leave, in accordance with the Code of Ordinances. Upon retirement, employees are generally entitled to payment of accumulated sick leave up to a maximum of 30 days. At December 31, 2018 and 2017, accumulated sick leave earned but not taken was approximately \$4,045,877 and \$4,091,492 respectively. The amount likely to be paid upon retirement has been accrued in the financial statements.

#### ***Unfunded Terminal Leave Payable***

Terminal leave liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

### **(l) *Classification of Revenues and Expenses***

The Water Works classifies its revenues and expenses as either operating or nonoperating.

Operating revenue includes activities that have the characteristics of exchange transactions including sales of water supplied to city, suburban, and commercial users. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and most Federal, State, and local grants and contracts.

Operating expenses include the costs of operating the water utility, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

### **(m) *Taxes***

Payments in lieu of property taxes are recognized as a transfer in the year billed by the City.

### **(n) *Estimates***

The preparation of basic financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from this estimate.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

**(o) Pension**

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

**(p) Other Post Employment Benefits (OPEB)**

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

**(q) Other Assets**

The balance represents amounts due from other municipalities, miscellaneous receivables, and prepaid expenses.

**(r) Charges for Services**

Utility billings are rendered and recorded based on actual service provided. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

Current rates were authorized by the PSCW in an order dated September 1, 2017.

**(s) New Accounting Pronouncements Implemented**

In June 2015, the GASB issued Statement No. 74 and No. 75, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. These Statements replace Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43 and Statement No. 50, *Pension Disclosures*. The utility implemented GASB No. 75 as of January 1, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement improves financial reporting for leases by governments. This Statement will be effective for the year end December 31, 2020 financial statements.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(s) New Accounting Pronouncements Implemented (cont.)**

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires additional essential information related to debt be disclosed in the notes to the financial statements. This Statement will be effective for the year end 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement established accounting requirements for interest costs incurred before the end of a construction period. This Statement will be effective for the year end 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement defines a majority equity interest and addresses the appropriate accounting for these relationships. This Statement will be effective for the year end 2019 financial statements.

**(t) Comparative Data**

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

**(2) Deposits and Investments**

As of December 31, 2018 and 2017, the Water Works’ deposits and investments were as follows:

	<b>2018</b>	<b>2017</b>
Local Government Investment Pool	\$ 15,744,419	\$ 19,301,438
Deposits and cash on hand	11,984,396	8,674,221
Total	\$ 27,728,815	\$ 27,975,659

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. Per Common Council, the City Treasurer shall require collateralization of demand deposits and certificates of time deposit at financial institutions when the total amount of such deposits with any institution exceeds the combined insured limit of \$650,000. As of December 31, 2018 and 2017, the Water Works’ deposits were not subject to custodial credit risk as they were either insured or collateralized by securities held in the pledging bank’s trust department in the City’s name.

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

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

The Water Works maintains certain cash and investments commingled with the municipality. The fair value hierarchy pertaining specifically to the Water Work’s resources cannot be determined for those accounts. Please refer to the City’s CAFR for information on the fair value measurements.

**(3) Capital Assets**

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

	<b>December 31,</b>			<b>Transfers/</b>		<b>December 31,</b>
	<b>2017</b>	<b>Additions</b>	<b>Reduction</b>	<b>Adjustments</b>		<b>2018</b>
Capital assets not being depreciated:						
Land and land improvements	\$ 1,415,398	\$ —	\$ —	\$ —	\$ —	\$ 1,415,398
Nonutility property, land	375,541	—	—	—	—	375,541
Construction in progress	<u>37,618,178</u>	<u>40,685,656</u>	<u>(36,115,528)</u>	<u>—</u>	<u>—</u>	<u>42,188,306</u>
Total capital assets not being depreciated	<u>39,409,117</u>	<u>40,685,656</u>	<u>(36,115,528)</u>	<u>—</u>	<u>—</u>	<u>43,979,245</u>
Capital assets being depreciated						
Buildings	30,280,171	869,236	(38,991)	—	—	31,110,416
Transmission and distribution system	423,999,217	24,356,809	(879,271)	—	—	447,476,755
Machinery and equipment	268,151,780	10,889,483	(3,002,953)	—	—	276,038,310
Nonutility property	<u>3,917,619</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,917,619</u>
Total capital assets being depreciated	<u>726,348,787</u>	<u>36,115,528</u>	<u>(3,921,215)</u>	<u>—</u>	<u>—</u>	<u>758,543,100</u>
Less accumulated depreciation:						
Buildings	19,984,593	974,640	(38,991)	—	—	20,920,242
Transmission and distribution system	113,640,190	6,020,180	(938,343)	249,096	—	118,971,123
Machinery and equipment	139,283,414	11,690,346	(2,945,849)	(249,099)	—	147,778,812
Nonutility property	<u>1,059,175</u>	<u>—</u>	<u>—</u>	<u>139,147</u>	<u>—</u>	<u>1,198,322</u>
Total accumulated depreciation	<u>273,967,372</u>	<u>18,685,166</u>	<u>(3,923,183)</u>	<u>139,144</u>	<u>—</u>	<u>288,868,499</u>
Total capital assets being depreciated, net	<u>452,381,415</u>	<u>17,430,362</u>	<u>1,968</u>	<u>(139,144)</u>	<u>—</u>	<u>469,674,601</u>
Total capital assets, net	<u>\$ 491,790,532</u>	<u>\$ 58,116,018</u>	<u>\$ (36,113,560)</u>	<u>\$ (139,144)</u>	<u>\$ —</u>	<u>\$ 513,653,846</u>

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

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

	<b>Balance December 31, 2016</b>	<b>Additions</b>	<b>Reduction</b>	<b>Transfers/ Adjustments</b>	<b>Balance December 31, 2017</b>
Capital assets not being depreciated:					
Land and land improvements	\$ 1,415,398	\$ —	\$ —	\$ —	\$ 1,415,398
Nonutility property, land	375,541	—	—	—	375,541
Construction in progress	<u>37,506,698</u>	<u>55,508,096</u>	<u>(55,396,616)</u>	<u>—</u>	<u>37,618,178</u>
Total capital assets not being depreciated	<u>39,297,637</u>	<u>55,508,096</u>	<u>(55,396,616)</u>	<u>—</u>	<u>39,409,117</u>
Capital assets being depreciated					
Buildings	28,992,766	1,287,405	—	—	30,280,171
Transmission and distribution system	381,681,201	43,067,915	(749,899)	—	423,999,217
Machinery and equipment	259,604,970	11,041,296	(2,494,486)	—	268,151,780
Nonutility property	<u>3,917,619</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,917,619</u>
Total capital assets being depreciated	<u>674,196,556</u>	<u>55,396,616</u>	<u>(3,244,385)</u>	<u>—</u>	<u>726,348,787</u>
Less accumulated depreciation:					
Buildings	19,043,127	941,466	—	—	19,984,593
Transmission and distribution system	109,189,860	5,080,495	(630,165)	—	113,640,190
Machinery and equipment	129,625,906	12,024,356	(1,499,642)	(867,206)	139,283,414
Nonutility property	<u>920,029</u>	<u>139,146</u>	<u>—</u>	<u>—</u>	<u>1,059,175</u>
Total accumulated depreciation	<u>258,778,922</u>	<u>18,185,463</u>	<u>(2,129,807)</u>	<u>(867,206)</u>	<u>273,967,372</u>
Total capital assets being depreciated, net	<u>415,417,634</u>	<u>37,211,153</u>	<u>(1,114,578)</u>	<u>867,206</u>	<u>452,381,415</u>
Total capital assets, net	<u>\$ 454,715,271</u>	<u>\$ 92,719,249</u>	<u>\$ (56,511,194)</u>	<u>\$ 867,206</u>	<u>\$ 491,790,532</u>

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(4) Long-Term Obligations**

**(a) Changes in Long-Term Obligations**

Changes in long-term obligations for the year ended December 31, 2018 were as follows:

	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due within one year</u>
General obligation bonds	\$ 7,485,622	\$ —	\$ (857,211)	\$ 6,628,411	\$ 858,411
Revolving Note	—	10,400,000	(8,000,000)	2,400,000	2,400,000
Unamortized premiums	341,756	—	(32,027)	309,729	—
Revenue bonds	<u>43,066,268</u>	<u>9,768,521</u>	<u>(3,126,475)</u>	<u>49,708,314</u>	<u>2,411,176</u>
Total	\$ <u>50,893,646</u>	\$ <u>20,168,521</u>	\$ <u>(12,015,713)</u>	\$ <u>59,046,454</u>	\$ <u>5,669,587</u>

Changes in long-term obligations for the year ended December 31, 2017 were as follows:

	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2017</u>	<u>Due within one year</u>
General obligation bonds	\$ 8,341,632	\$ —	\$ (856,010)	\$ 7,485,622	\$ 857,211
Revolving Note	20,000,000	—	(20,000,000)	—	—
Unamortized premiums	375,283	—	(33,527)	341,756	—
Revenue bonds	<u>25,486,376</u>	<u>20,360,922</u>	<u>(2,781,030)</u>	<u>43,066,268</u>	<u>3,126,475</u>
Total	\$ <u>54,203,291</u>	\$ <u>20,360,922</u>	\$ <u>(23,670,567)</u>	\$ <u>50,893,646</u>	\$ <u>3,983,686</u>

In addition to the liabilities above, information on the net pension liability (asset) and net OPEB liability (asset) is provided in Note 6.

**(b) General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of the water plant and related equipment (water system). General obligation bonds are secured by the full faith and unlimited taxing power of the City. The bonds for the Water Works will be retired by revenues from water services or, if the revenues are not sufficient, by future tax levies. The original amount of general obligation bonds issued in years prior to 2018 was \$15,650,658.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) General Obligation Bonds (cont.)**

General obligation bonds and notes outstanding at December 31, 2018 and 2017 were as follows:

Series	Maturity	Interest rates	Original	Principal	
				Balance at December 31	
				2018	2017
Refunding E	2017 to 2019	4.50% to 5.00%	\$ 3,125,658	\$ 23,411	\$ 45,622
2009 N1	2017 to 2019	3.00% to 5.00%	150,000	15,000	30,000
2009 B2	2020 to 2024	4.00% to 5.00%	75,000	75,000	75,000
2010-N1	2017 to 2020	2.50% to 5.00%	450,000	90,000	135,000
2010-B5	2021 to 2025	1.50% to 5.00%	225,000	225,000	225,000
2011-N3	2017 to 2021	4.00% to 5.00%	7,750,000	2,325,000	3,100,000
2011-B4	2022 to 2026	4.00% to 5.00%	3,875,000	3,875,000	3,875,000
2018-N9-59	2019	2.8200%	2,400,000	2,400,000	—
Total			\$ 18,050,658	\$ 9,028,411	\$ 7,485,622

**(c) General Obligation Revolving Note**

In May 2018, The City drew \$8,000,000 for Milwaukee Water Works use on a revolving note, Series 2018-N1, to pay for water system improvements. The interest rate is at a fluctuating rate per annum equal to the Index Rate. The note is automatically extended for a period of 18 months beyond its maturity date of November 1, 2019. During 2018, the City repaid \$8,000,000 of the Revolving Note and as of December 31, 2018 the revolving note balance is \$0.

In December 2018, The City drew \$2,400,000 for Milwaukee Water Works use on a revolving note, Series 2016 N9, to pay for water system improvements. The interest rate is at a fluctuating rate per annum equal to the Index Rate. The note is automatically extended for a period of 18 months beyond its maturity date of December 1, 2019. As of December 31, 2018 the revolving note balance is \$2,400,000, but was paid in full as a Subsequent Event in January of 2019.

## CITY OF MILWAUKEE – WATER WORKS

### Notes to Financial Statements

December 31, 2018 and 2017

#### **(d) Revenue Bonds**

In December 1998, Water Works issued a revenue bond, in the amount of \$19,358,172, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for water quality capital projects, or reimbursement for capital expenditures related to water quality, up to the face value of the bond. The revenue bond borrowing authority was closed in 2004, and the final loan amount was \$17,559,378. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. The final maturity of the revenue bonds is May 1, 2018.

In December 2013, Water Works issued a revenue bond, in the amount of \$7,823,139, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for specific Water Works capital projects, or reimbursement for capital expenditures related to those Water Works specific capital projects, up to the face value of the bond. The revenue bond borrowing authority was closed in 2015, and the final loan amount was \$6,221,748. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. The final maturity of the revenue bonds is May 1, 2033.

In October 2014, Water Works issued a revenue bond, in the amount of \$8,548,447, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for specific Water Works capital projects, or reimbursement for capital expenditures related to those Water Works specific capital projects, up to the face value of the bond. The revenue bond borrowing authority was closed in 2018, and the final loan amount was \$8,046,504. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. The final maturity of the revenue bonds is May 1, 2034.

In December 2016, Water Works issued water system revenue bonds, Series 2016 W10, in the amount of \$10,000,000. These bonds are for the purpose of financing the costs of improvements to the City's Water Works System. The final maturity of the revenue bonds is December 1, 2036.

In January 2017, Water Works issued a revenue bond, in the amount of \$18,167,178, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for specific Water Works capital projects, or reimbursement for capital expenditures related to those Water Works specific capital projects, up to the face value of the bond. The revenue bond borrowing authority was closed in 2018, and the final loan amount was \$15,290,562. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. The final maturity of the revenue bonds is May 1, 2036.

In June 2017, Water Works issued a revenue bond, in the amount of \$6,936,616, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for specific Water Works capital projects, or reimbursement for capital expenditures related to those Water Works specific capital projects, up to the face value of the bond. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. Regardless of loan proceeds disbursement, the final maturity of the revenue bonds is May 1, 2037.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(d) Revenue Bonds (cont.)**

In May 2018, Water Works issued a revenue bond, in the amount of \$12,706,234, to the State of Wisconsin Safe Drinking Water Loan Program. This bond supports loans to the Water Works for specific Water Works capital projects, or reimbursement for capital expenditures related to those Water Works specific capital projects, up to the face value of the bond. Loan covenants provide for the monthly escrow of revenues to repay the debt plus interest. Regardless of loan proceeds disbursement, the final maturity of the revenue bonds is May 1, 2038.

Revenue bonds outstanding at December 31, 2018 and 2017 were as follows:

Series	Maturity	Interest rates	Original	Principal	
				Balance at December 31 2018	2017
SDW Bond 4851-02	2017 to 2018	2.64%	\$ 17,559,378	\$ —	\$ 1,156,621
SDW Bond 4851-08	2017 to 2033	1.93	6,221,748	4,911,027	5,191,159
SDW Bond 4851-23	2017 to 2034	1.93	8,046,504	7,002,412	7,373,149
SDW Bond 4851-26	2017 to 2036	1.54	15,290,562	14,042,388	14,714,979
SDW Bond 4851-27	2017 to 2037	1.87	5,911,914	5,700,519	5,070,360
SDW Bond 4851-32	2018 to 2038	1.87	8,926,968	8,926,968	—
Series 2016 W10	2017 to 2036	4.00	10,000,000	9,125,000	9,560,000
Total			\$ 71,957,074	\$ 49,708,314	\$ 43,066,268

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2018 and 2017 were \$4,106,500 and \$4,064,674 respectively. Total customer net revenues as defined for the same periods were \$41,327,439 and \$46,234,207. Annual principal and interest payments are expected to require 7.3% of net revenues on average.

**(e) Debt Service Requirements**

The maturities of the outstanding principal and related interest requirements as of December 31, 2018 are as follows:

Year:	General obligation bonds		Revenue bonds	
	Principal	Interest	Principal	Interest
2019	\$ 3,258,411	\$ 313,210	\$ 2,411,176	\$ 1,047,083
2020	835,000	267,475	2,451,148	1,000,974
2021	835,000	225,725	2,491,747	953,870
2022	834,998	184,050	2,532,983	904,859
2023	834,998	142,375	2,574,868	849,318
2024 – 2028	2,430,004	179,250	13,561,169	3,328,248
2029 – 2033	—	—	14,857,669	1,796,177
2034 – 2038	—	—	8,827,554	346,925
Total	\$ 9,028,411	\$ 1,312,085	\$ 49,708,314	\$ 10,227,454

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(5) Revenue Bond Debt Covenants**

	Gross revenues	Debt coverage expenses	Net revenue available for debt service	Debt service requirements			Coverage
				Principal	Interest	Total	
Fiscal year:							
2017	\$ 97,909,984	\$ 51,675,777	\$46,234,207	\$3,126,475	\$ 938,199	\$4,064,674	11.38%
2018	100,875,751	59,548,312	41,327,439	2,411,176	1,047,083	3,458,259	11.95%

Gross revenues are defined as total revenues plus interest income. Debt coverage expenses are defined as total operating expenses, minus depreciation. The revenue bonds debt service coverage ratio requirement is the greater of 1.2 or the highest debt service coverage ratio with respect to any other debt obligations payable from the revenues of the water system.

At December 31, 2018 and 2017, there were no other debt obligations payable from the revenues of the water system.

**(6) Retirement Plan and Other Postemployment Benefits**

**(a) Pension Benefits**

*Plan Description* - The following brief description of the more common provisions of the Employees’ Retirement System of the City of Milwaukee (the Retirement System or ERS) is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement (GPS). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the Retirement System.

*Plan Administration* – The Retirement System was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin 1937) to provide the payment of retirement and other benefits to employees of the City of Milwaukee (the “City”). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The Retirement System is a cost-sharing, multi- employer plan, which also provides benefits to employees of the Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of the Milwaukee Public Schools and some employees of the Milwaukee Area Technical College (the “Agencies”). City employees comprise approximately 54.0% of the active participants in the Retirement System.

*Measurement Focus and Basis of Accounting* – The ERS is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, contributions are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid and the employers has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the ERS. Investment transactions and the related gains and losses are recorded on a trade date basis. Dividend and interest income are accrued as earned. Investments are reported at fair value.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

*Long-term Expected Rate of Return on Plan Assets* –The long-term expected rate of return on the pension plan investments was determined based on the results of an experience review performed by Conduent HR Consulting, LLC. The results of the experience review were presented to the Board by Conduent at the Board’s October 23, 2017 meeting and adopted at the same meeting. The rate of return assumption was based on the Retirement System’s target asset allocation. In the experience review, Conduent developed best estimate ranges of expected future real rates of return (net of inflation) for the portfolio, based on the expected returns of each major asset class and their weights within the portfolio. Conduent used an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Expected investment expenses were subtracted and expected inflation was added to arrive at the long term expected nominal return. A value for the expected long term expected return was selected for the portfolio such that there was a better than 50% likelihood of the emerging returns exceeding the expected return.

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System’s target asset allocation as of December 31, 2017, are listed in the table below:

<u>Asset Class</u>	<u>Policy</u>	<u>Long-term Expected Rate of Return</u>
Public Equity	49.00%	8.25%
Fixed Income	13.00%	1.83%
Cash	1.00%	0.94%
Real Estate	7.70%	6.91%
Real Assets	3.30%	5.38%
Private Equity	8.00%	12.54%
Absolute Return	<u>18.00%</u>	4.66%
	100.0%	

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System’s target asset allocation as of December 31, 2016, are listed in the table below:

<u>Asset Class</u>	<u>Policy</u>	<u>Actual</u>	<u>Long-term Expected Rate of Return</u>
Public Equity	55.00%	55.72%	8.32%
Fixed Income	21.00%	20.50%	1.87%
Cash	1.00%	0.62%	0.92%
Real Estate	7.00%	7.95%	6.82%
Real Assets	3.00%	2.20%	5.63%
Private Equity	5.00%	4.96%	12.52%
Absolute Return	8.00%	8.05%	4.67%
	<u>100.0%</u>	<u>100.0%</u>	

**Rate of Return** – For the year ended December 31, 2017, the annual money-weighted rate of return, net of investment expense is shown below. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Annual money-weighted rate of return,	<u>2017</u>
Net of investment expense	16.41%

**Rate of Return** – For the year ended December 31, 2016, the annual money-weighted rate of return, net of investment expense is shown below. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Annual money-weighted rate of return,	<u>2016</u>
Net of investment expense	8.77%

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

**Actuarial Assumptions** – The last actuarial valuation was performed as of January 1, 2017, and the amounts were used to roll-forward the total pension liability to the plan’s year-end December 31, 2017, the measurement date, the, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earnings are amortized over a closed period of five years.
Asset Valuation Method	Market Value
Actuarial Assumptions	
Investment Rate of Return	8.0% return for calendar years through 2022, and 8.25% beginning with calendar year 2023
Projected Salary Increases	General City (including Water Works) 2.5% - 5.5% Police & Fire 4.0% - 13.4%
Inflation Assumption	2.50%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions.
Mortality Table	For regular retirees and for survivors, the RP-2014 Healthy Annuitant Mortality Table (using 111% of rates for males and 110%of rates for females) projected generationally with Scale MP-2016. For duty and ordinary disability retirees, the RP-2014 Disability Mortality Table (using 102% of rates for males and 98% of rates for females) projected generationally with Scale MP-2016 was used. For death in active service, the RP-2014 Non-annuitant Mortality Table projected generationally with Scale MP-2016.
Experience Study	The actuarial assumptions used in December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2012 - December 31, 2016.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

**Actuarial Assumptions** – The last actuarial valuation was performed as of January 1, 2016, and the amounts were used to roll-forward the total pension liability to the plan’s year-end December 31, 2016, the measurement date, the, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2016
Measurement Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earnings are amortized over a closed period of five years.
Asset Valuation Method	Market Value
Actuarial Assumptions	
Investment Rate of Return	8.25% return for calendar years through 2017, and 8.5% beginning with calendar year 2018
Projected Salary Increases	General City (including Water Works) 3.0% - 7.5% Police & Fire 4.0% - 13.4%
Inflation Assumption	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions.
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6 year setback.
Experience Study	The actuarial assumptions used in December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2007 - December 31, 2011.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

**Net Pension Liability** – The components of the pension liability of the City of Milwaukee – Water Works as of December 31, were as follows:

	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 101,040,000	\$ 99,262,000
Plan fiduciary net position	(94,471,000)	(91,301,000)
Net pension liability	<u>\$ 6,569,000</u>	<u>\$ 7,961,000</u>
Plan fiduciary net position as a percentage of total pension liability	93.50%	91.98%
Covered employee payroll	\$ 10,456,292	\$ 10,777,478
Net pension liability as a percentage of covered employee payroll	62.82%	73.87%

**Discount Rate** - The discount rate used to measure the total pension liability was 8.24 percent and 8.5 percent for 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that contribution from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 8.24 percent and 8.5 percent for 2018 and 2017, respectively, which reflects the long-term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate** – The following presents the Water Works’ net pension liability calculated using the discount rate of 8.24%, as well as what the Water Works’ net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.24%) or 1-percentage-point higher (9.24%) than the current rate as of December 31, 2018:

	<b>1% Decrease (7.24%)</b>	<b>Current Discount (8.24%)</b>	<b>1% Increase to (9.24%)</b>
Water Works' net pension liability (asset)	\$ 18,447,000	\$ 6,569,000	\$ (3,379,000)

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

**Sensitivity of the net pension liability to changes in the discount rate (cont.)**– The following presents the Water Works’ net pension liability calculated using the discount rate of 8.5%, as well as what the Water Works’ net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.5%) or 1-percentage-point higher (9.5%) than the current rate as of December 31, 2017:

	<u>1% Decrease (7.5%)</u>	<u>Current Discount (8.5%)</u>	<u>1% Increase to (9.5%)</u>
Water Works' net pension liability	\$ 18,770,000	\$ 7,961,000	\$ (1,156,000)

**Schedule of Employer Allocations** – The Employer Allocation Percentage is based on the employers required contribution compared to the required contribution for all employers. The Employer Allocation Percentage is rounded to seven decimal places.

**Schedule of Pension Amounts** – The employer’s proportionate share of the Collective Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Total Employer Pension Expense (Income) is based on the Employer Allocation Percentage.

The Collective Deferred Inflows and Outflows of Resources due to liabilities are amortized over the Average Expected Service Lives of all Employees of 3.93 years. The Collective Deferred Inflows and Outflows of Resources due to the net difference between projected and actual earnings on pension plan investments is amortized over 5 years.

The Water Works portion of the Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense for the year ended December 31, 2018 are as follows:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>	<u>Net Outflows (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 907,000	\$ (249,000)	\$ 658,000
Changes in assumptions	3,309,000	(27,000)	3,282,000
Contributions made subsequent to measurement date	1,362,743	—	1,362,743
Changes in proportion	18,000	(74,000)	(56,000)
Net differences between projected and actual earnings on pension plan investments	<u>—</u>	<u>(2,547,000)</u>	<u>(2,547,000)</u>
Total	<u>\$ 5,596,743</u>	<u>\$ (2,897,000)</u>	<u>\$ 2,699,743</u>

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

The Water Works portion of the Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense for the year ended December 31, 2017 are as follows:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>	<u>Net Outflows (Inflows) of Resources</u>
Differences between expected and actual experience	\$ —	\$ (435,000)	\$ (435,000)
Changes in assumptions	—	(51,000)	(51,000)
Contributions made subsequent to measurement date	1,490,656	—	1,490,656
Changes in proportion	28,000	—	28,000
Net difference between projected and actual earnings on pension plan investments	<u>5,273,000</u>	<u>(29,000)</u>	<u>5,244,000</u>
Total	<u>\$ 6,791,656</u>	<u>\$ (515,000)</u>	<u>\$ 6,276,656</u>

\$1,362,743 and \$1,490,656 reported as deferred outflows resulting from employer’s contributions made subsequent to the measurement date for 2018 and 2017, respectively, and will be recognized as a reduction of the pension liability in the subsequent year.

Deferred Outflows and Inflows of Resources to be recognized in the Future Pension Expense are as follows:

<u>Year Ended December 31:</u>	<u>Net Deferred Outflows of Resources</u>
2019	\$ 1,629,436
2020	1,191,017
2021	(106,637)
2022	<u>(1,376,816)</u>
Total	<u>\$ 1,337,000</u>

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(a) Pension Benefits (cont.)**

The Water Works portion of the Collective Pension Expense is determined as follows:

	2018	2017
Service cost	\$ 1,408,000	\$ 1,315,000
Interest cost on total pension liability	8,005,000	8,048,000
Projected earnings on plan investments	(7,097,000)	(7,133,000)
Contributions - Member	(589,000)	(671,000)
Administrative Expense	156,000	151,000
Plan changes	-	-
Changes in assumptions	1,130,000	-
Difference between expected and actual liability experience	310,000	(45,000)
Difference between projected and actual earnings	(1,435,000)	(7,000)
Deferred Outflows	1,898,000	1,957,000
Deferred Inflows	(202,000)	(157,000)
Change in proportional share	(14,000)	10,000
 Total Pension Expense	 \$ 3,570,000	 \$ 3,468,000

Additional Financial Information for the ERS – For additional information regarding ERS’s financial statements and audit report, please visit the ERS web site at [https://www.cmers.com/CMERS\\_RD/About-ERS--The-Fund/Financial-Reports--Policies.htm](https://www.cmers.com/CMERS_RD/About-ERS--The-Fund/Financial-Reports--Policies.htm)

**(b) Other Postemployment Benefits**

The City implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective January 1, 2018. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2018. The prior year balances for deferred outflows of resources, deferred inflows of resources, and the total OPEB liability were not restated due to the measurement date used for the calculation of the balances and the timing of the information received by the Plan.

The City provides other postemployment benefits (OPEB) to its retirees for health and life insurance.

*Plan Description* – The City provides a single-employer defined benefit healthcare plan and life insurance administered by both the City and Milwaukee’s Employees’ Retirement System (ERS). The City provides medical and COBRA dental insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of statement 75.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

### **(b) Other Postemployment Benefits (cont.)**

*Benefits Provided* – Retiree eligibility for full health insurance coverage varies by employee group, but can be summarized as follows:

General Employees: Employees hired prior to January 1, 2017, in general, are eligible when they retire through the ERS with a minimum of 15 years of creditable service with the City. Furthermore, if they retire on a service retirement they are eligible for an 88% subsidy until they attain age 65. Certain other groups of General employees are eligible, but pay a variety of rates depending upon their group affiliation at the time of retirement, service credit, age, and type of retirement – the subsidy for these may range from 100% to 25% until age 65. Almost all retirees get a 25% subsidy once they attain Medicare age (65 years). Service retirement for General employees enrolled prior to January 1, 2014 is age 60 or age 55 with 30 years of creditable service; for those enrolled on/after January 1, 2014 is age 65 or age 60 with 30 years of creditable service.

Disability: Slightly different eligibility criteria apply for employees who retire on an ordinary or duty disability and their subsidy is different from regular service retirees.

In addition to medical insurance, before 2014 the City allowed its employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees in accordance with Section 350-25 of the Code of Ordinances. The base amount of coverage for general City employees covered under the City's Life Insurance plan until December 31, 2013 was equal to the employee's annual basic salary to the next higher thousand dollars. The base amount of coverage for firefighters and police officers is equal to one and one-half the employee's annual basic salary to the next higher thousand dollars.

General City employees retiring after 2013 must have purchased before retirement at least 50% of their annual base salary in voluntary life insurance coverage to be able to continue their enrollment in the City's General Life Insurance program. Premiums are paid at age-banded rates that are in effect at that time. Employees maintaining a minimum of 50% of their annual base salary at the time of retirement in voluntary coverage until age 65, upon attaining age 65, have \$10,000 of coverage paid for by the City.

In general, General City employees retiring on a service retirement prior to 2014 were eligible to continue coverage at the level on the date prior to their date of retirement. Firefighters and Police retiring on a service retirement are eligible to continue coverage up to their base amount of coverage on the date prior to their date of retirement. Prior to age 65, all retirees are required to pay the full premium rates as established by the insurance carrier, less an adjustment for estimated dividends.

The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching the age of 65, those retirees still part of the group life plan have their coverage reduced in accordance with the reduction schedule in effect on their last day physically at work. For certain groups of retirees, the City may assume all future premiums or only the cost of the \$10,000 of coverage, depending upon the retirement date and reduction schedule in effect on their last day at work.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) Other Postemployment Benefits (cont.)**

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

Inactive plan members or beneficiaries currently receiving benefit payments	325
Inactive plan members entitled to but not yet receiving benefit payments	0
Active plan members	618
	943
	943

**Actuarial Assumptions –**

Valuation Date	January 1, 2017
Measurement Date	December 31, 2018
Plan Fiscal Year End	December 31, 2018
Actuarial Cost Method	Entry Age Normal, used to measure the Total OPEB Liability
Contribution Policy	Sponsor contributes pay-as-you-go-costs.
Asset Valuation Method	No Assets (Pay-as-you-go)
Discount Rate	3.31% as of December 31,2017; 3.71 % as of December 31, 2018
Wage Inflation	3.00% per year
Salary Increases	Depends on employee group and age. For general employees, salary increase rates start at 6.9% at age 25 and decrease steadily to 3.0% at age 50. For public safety employees, salary increases start at 10.5% at age 25 and decrease steadily to 3.0% at age 55.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) Other Postemployment Benefits (cont.)**

**Actuarial Assumptions – (cont.)**

Mortality	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for the actuarial valuation as of January 1, 2013, for males and females. For death in active service, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for the actuarial valuation as of January 1, 2013, for males and females, then a 6-year setback for males and females. For purposes of the retiree healthcare valuation, the mortality assumption for disabled retirees is the assumption for regular retirees and survivors with a 3-year set forward to the mortality rates.
Healthcare Cost Trend Rates	Plan year 2018 trend rates were based on actual premium and were equal to 6.0% for pre-Medicare benefits and 6.6% for post-Medicare benefits. Pre-Medicare trend rates are 8.0% for 2019 and grade down in 0.50% increments to an ultimate trend rates of 4.50% in 2029. Effective in 2022, pre-Medicare/post-Medicare excess trend of 0.39%/0.00% for the PPO Plan and 0.43%/0.10% for the EPO Plan are applied to the base trend healthcare rates to account for the Excise Tax under the Healthcare Reform Act.
Aging Factors	Based on the 2013 SOA Study “Health Care Costs – From Birth to Death”
Expenses	Health administrative expenses are included in the development of the per capita claim costs. Operating expenses are reflected separately.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) Other Postemployment Benefits (cont.)**

***Changes in the Total OPEB Liability***

	<b>Total OPEB Liability (a)</b>
	<u>                    </u>
<b>Balances at 12/31/2017</b>	\$ 47,620,831
<b>Changes for the year:</b>	
Service cost	1,937,129
Interest	1,585,075
Changes of benefit terms	-
Differences between expected and actual experience	(7,068)
Changes in assumptions or other inputs	(2,722,837)
Benefit payments	<u>(1,392,396)</u>
<b>Net changes</b>	<u>(600,097)</u>
 <b>Balances at 12/31/2018</b>	 <b>\$ 47,020,734</b>
	<u>                    </u>

***Sensitivity of the total OPEB liability to changes in the discount rate.*** The following presents the Water Works' portion of the City of Milwaukee's total OPEB liability, as well as what the Water Works' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71 percent) or 1-percentage-point higher (4.71 percent) than the current discount rate:

	<u>1% Decrease (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase (4.71%)</u>
Total OPEB liability	\$ 54,289,477	\$ 47,020,734	\$ 41,121,338

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) Other Postemployment Benefits (cont.)**

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Assumption</u>	<u>1% Increase</u>
Total OPEB liability	\$ 40,773,749	\$ 47,020,734	\$ 54,919,375

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended December 31, 2018, the City of Milwaukee recognized OPEB expense of \$3,130,074. At December 31, 2018, the City of Milwaukee reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (6,053)
Changes of assumptions or other inputs	-	<u>(2,331,722)</u>
Total	<u>\$ -</u>	<u>\$ (2,337,775)</u>

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

**Year Ended December 31:**

2019	\$ 392,130
2020	392,130
2021	392,130
2022	392,130
2023	392,130
Thereafter	377,125

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(b) Other Postemployment Benefits (cont.)**

**Other Postemployment Benefits – 2017 Reference Data**

*Annual OPEB Cost and Net OPEB Obligation* – The Water Works’ annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Water Works’ annual OPEB cost for the year, the amount actually contributed to the plan (pay-as-you-go basis), and the changes in the Water Works’ net OPEB obligation for the years ended December 31, 2017:

	<u>2017</u>
Annual required contribution (ARC)	\$ 2,422,679
Interest on net OPEB obligation	283,192
Adjustment to ARC	<u>(270,531)</u>
Annual OPEB cost	2,435,340
Contributions made	<u>1,294,608</u>
Increase in net OPEB obligation	(1,140,732)
Net OPEB obligation at beginning of year	<u>(6,901,902)</u>
Net OPEB obligation at end of year	\$ <u><u>(8,042,634)</u></u>

The Water Works annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016 and 2015 were as follows:

	<u>Employer contribution</u>		
	<u>Annual</u>	<u>Percentage</u>	
	<u>OPEB cost</u>	<u>contributed</u>	<u>Net OPEB</u>
			<u>obligation</u>
Year ended December 31:			
2017	\$ 2,435,340	53.2%	\$ 8,042,634
2016	2,297,359	63.7	6,901,902
2015	2,109,289	52.2	6,068,775

*Funded Status and Funding Progress* – As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits related to all City employees was \$1,061,771,500 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,061,771,500. Of this amount, it was estimated that 9.2% is attributable to Water Works. The covered payroll (annual payroll of all active City employees covered by the plan) was \$459,535,982 and the ratio of the UAAL to the covered payroll was 231.0%. The covered payroll for Water Works employees was \$16,836,908.

## CITY OF MILWAUKEE – WATER WORKS

Notes to Financial Statements

December 31, 2018 and 2017

### **(b) Other Postemployment Benefits (cont.)**

Actuarial valuations of an ongoing plan involve estimates of 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 the 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.

*Actuarial Methods and Assumptions* – The retiree healthcare valuation was based on the projected unit credit (PUC) cost method. The PUC method produces an explicit normal cost and actuarial accrued liability. The normal cost and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement. Depending on the demographic characteristics of the current group and new entrants in the future, this method could produce stable annual costs, in the aggregate, when expressed as a percentage of pay.

The OPEB valuation uses a discount rate assumption of 4.0% based on the City's projected short-term investment rate of return. The healthcare cost trends rate is 8.0% initially, and reduced by decrements to the ultimate rate of 4.5% after 10 years. The actuarial assumption for wage inflation is 3.0%. The amortization of the unfunded actuarial accrued liability is based on a level percentage of pay over a 30-year open amortization period.

### **(7) Regulatory Agency**

PSC reporting requirements and the timing of the reports give rise to differences between revenues and expenses that are included in the PSC reports and these basic financial statements. The major categories of these differences are as follows: (1) the PSC recognizes the amortization of Contributions in Aid of Construction (CIAC) deferred credits over a 20-year period, (2) the PSC has elected to retain reporting pension related expense under the funding method, rather than the actuarial method required by GASB standards, and (3) some expenses are recognized in different years due to the timing of the PSC report and this report.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

The effect of such differences on net income is as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Increase in net assets as shown in accompanying financial statements	\$ 11,213,000	\$ 36,917,000
Amortization of deferred credits resulting from Contributions in Aid of Construction (CIAC) reclassification	811,000	811,000
Pension, difference between GASB and PSC reporting	—	—
Misc. credits to Non-Operating Income	<u>(25,000)</u>	<u>(37,000)</u>
Net income as shown on PSC reports	<u>\$ 11,999,000</u>	<u>\$ 37,691,000</u>

**(8) Commitments and Contingencies**

The Water Works is generally committed under the terms of various contracts for construction of improvements and additions to the Water Works' system. Contract terms provide for partial payments as construction progresses with specified retention to assure full contract compliance. Open commitments on such contracts as of December 31, 2018 totaled \$7,996,763.

The Water Works has an annual maximum contingent liability of \$200,000 for general liability claims. Claims in excess of this amount, if any, are the liability of the City.

**(9) Risk Management**

The Water Works is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employee or natural disaster. These risks are monitored and evaluated by the City of Milwaukee for all aspect of the City's operations, including the Water Works. With certain exceptions, it is not the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for reasonably estimated current claim settlements and unfavorable judgements through annual appropriations and supplemental appropriations. The liabilities are recorded in the City's government-wide financial statements and are not separately determinable for the Water Works.

**(10) Transfers and Interfund Balances**

At December 31, 2018 and 2017, the Water Works has recorded a due from other funds of \$1,249,907 and \$4,319,914, respectively, which represents the amount owed to the Water Works as a result of regular advance and reimbursement activities. At December 31, 2018 and 2017, the Water Works has recorded a due to the City (General and Sewer Funds) of \$3,288,687 and \$11,631,839 respectively, for sewer maintenance and other municipal fees collected by the Water Works.

The Water Works transfers funds to the City (general fund) for PILOT. In 2018 and 2017, the PILOT transfers to the City were \$13,090,014 and \$13,301,628, respectively.

The Water Works advanced funds to the Parking fund for \$272,286 in 2012. The advance is payable in annual installments of \$27,229 over 10 years or until the balance is repaid.

**CITY OF MILWAUKEE – WATER WORKS**

Notes to Financial Statements

December 31, 2018 and 2017

**(11) Subsequent Events**

On January 14, 2019, the City paid \$2,400,000 on behalf of the Milwaukee Water Works to US Bank on Revolving Note 2018-N9-59 to retire the debt in full. As of January 15, 2019 the revolving note balance is \$0.

On June 26, 2019, the City of Milwaukee, on behalf of the Water Works, issued Safe Drinking Water Revenue Bonds in the amount up to \$16,210,551 to finance capital improvements. The debt is payable over 20 years and bears an interest rate of 1.98%. As of the date of the financial statements, the Water Works has drawn \$3,055,898 of the available principal balance.

**(12) Cumulative Effect of a Change in Accounting Principle**

The City of Milwaukee and Milwaukee Water Works adopted GASB Statement No. 75, as of January 1, 2018. The standard revises and established new financial reporting requirements for most governments that provide their employees with OPEB benefits. Prior to 2018, unfunded terminal leave payable was included in the governmental activities of the City including the portion attributable to the Water Works. Beginning in 2018, terminal leave has been allocated to the Water Works for the amount attributed to Water Works employees.

The Water Works' ending of the year net position has been restated as follows:

Net Position previously reported – January 1, 2018	\$ 473,546,909
Adjustment for GASB 75 Other Post Employment Benefits	(39,578,197)
Adjustment for unfunded terminal leave	<u>(928,725)</u>
Net Position restated – January 1, 2018	<u>\$ 433,039,987</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MILWAUKEE – WATER WORKS**

Required Supplementary Information

December 31, 2018 and 2017

Schedule of Water Works Proportionate Share of the Net Pension Liability  
City of Milwaukee Employee Retirement System  
Last 10 Measurement Periods\*

	Plan Year Ended December 31,			
	2017	2016	2015	2014
Water Works' proportion of the net pension liability	1.8118086%	1.8683190%	1.8194712%	1.8920740%
Water Works' proportionate share of the net pension liability	\$ 6,569,000	\$ 7,961,000	\$ 7,652,000	\$ 2,147,000
Water Works' covered payroll	\$ 10,777,478	\$ 10,126,658	\$ 9,748,763	\$ 10,027,000
Plan fiduciary net position as a percentage of the total pension liability	93.50%	92.08%	92.41%	97.76%

Schedule of City of Milwaukee – Water Works Contributions  
City of Milwaukee Employee Retirement System  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Contractually required contributions	\$ 1,362,743	\$ 1,490,656	\$ 1,314,000	\$ 1,464,233
Contributions in relation to the contractually required contributions	\$ (1,362,743)	\$ (1,490,656)	\$ (1,314,000)	\$ (1,464,233)
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Water Works' covered payroll	\$ 10,456,292	\$ 10,777,478	\$ 10,126,658	\$ 9,748,763
Contributions as a percentage of covered payroll	13.03%	13.83%	12.98%	15.02%

\*Additional years' information will be displayed as it becomes available

**CITY OF MILWAUKEE – WATER WORKS**

Required Supplementary Information

December 31, 2018 and 2017

Notes to the Required Supplementary Information  
For the Year Ended December 31, 2018

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

*Changes of assumptions.*

	<u>2018</u>	<u>2017</u>
Investment Rate of Return	8.0% return for calendar years through 2022, and 8.25% beginning with calendar year 2023	8.25% return for calendar years through 2017, and 8.5% beginning with calendar year 2018
Projected Salary Increases General City (including Water Works)	2.5% - 5.5%	3.0% - 7.5%
Inflation Assumption	2.5%	3.0%
Mortality Table	For regular retirees and for survivors, the RP-2014 Healthy Annuitant Mortality Table (using 111% of rates for males and 110% of rates for females) projected generationally with Scale MP-2016. For duty and ordinary disability retirees, the RP-2014 Disability Mortality Table (using 102% of rates for males and 98% of rates for females) projected generationally with Scale MP-2016 was used. For death in active service, the RP-2014 Non-annuitant Mortality Table projected generationally with Scale MP-2016.	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6 year setback.
Experience Study	The actuarial assumptions used in December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2012 - December 31, 2016.	The actuarial assumptions used in December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2007 - December 31, 2011.

**CITY OF MILWAUKEE – WATER WORKS**

Required Supplementary Information

December 31, 2018 and 2017

Schedule of Changes in Milwaukee Water Works’ OPEB Liability and Related Ratios  
City of Milwaukee GRS  
Last 10 Measurement Periods\*

	Plan Year Ended December 31, 2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 1,937,129
Interest	1,585,075
Changes of benefit terms	-
Differences between expected and actual experience	(7,068)
Changes of assumptions	(2,722,837)
Benefit payments	<u>(1,392,396)</u>
<b>Net Change in Total OPEB Liability</b>	(600,097)
<b>Total OPEB Liability - Beginning</b>	<u>47,620,831</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 47,020,734</u></u>
<b>Covered employee payroll</b>	18,836,918
<b>Total OPEB liability as a percentage of covered employee payroll</b>	249.62%

**CITY OF MILWAUKEE – WATER WORKS**

Required Supplementary Information

December 31, 2018 and 2017

Schedule of City of Milwaukee – Water Works Contributions  
City of Milwaukee GRS  
Last 10 Fiscal Years\*

	<u>2018</u>
Contractually required contributions	\$ 1,392,396
Contributions in relation to the contractually required contributions	\$ (1,392,396)
Contribution deficiency (excess)	\$ —
Water Works' covered - employee payroll	\$ 17,701,534
Contributions as a percentage of covered - employee payroll	7.87%

\*Additional years' information will be displayed as it becomes available

*Changes of benefit terms.* There were no changes of benefit terms for any participating employee in OPEB.

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

The City implemented GASB Statement No. 75 in 2018. Information prior to fiscal year 2018 is not available.

**CITY OF MILWAUKEE – WATER WORKS**

Required Supplementary Information

December 31, 2018 and 2017

**DISCLOSURES UNDER GASB STATEMENT NO. 45 FOR 2017**

A summary of the Utility’s funding progress for its other postemployment benefits plan is presented in Table 1 for the three most recent years an actuarial study was completed.

**Schedule of Funding Progress for Other Postemployment Benefits Plan  
For the Years Ended December 31, 2017, 2016 and 2015**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	1/1/2015	\$ -	\$ 6,068,775	\$ 6,068,775	0 %	\$ 15,857,186	38.27%
2016	1/1/2016	-	6,901,901	6,901,901	0 %	16,497,529	41.84%
2017	1/1/2017	-	8,042,633	8,042,633	0 %	16,836,908	47.77%