

WEST BEND WATER AND SEWER UTILITIES

Enterprise Funds of the
City of West Bend, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

WEST BEND WATER AND SEWER UTILITIES

Enterprise Funds of the City of West Bend, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the City Council
West Bend Water and Sewer Utilities
West Bend, Wisconsin

We have audited the accompanying financial statements of West Bend Water and Sewer Utilities, enterprise funds of the City of West Bend, Wisconsin, as of and for the years ended December 31, 2018 and 2017, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the West Bend Water and Sewer Utilities' 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 West Bend Water and Sewer Utilities' 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 opinions.

Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the West Bend Water and Sewer Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the City of West Bend, 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 opinions are not modified with respect to this matter.

As discussed in Note 1, West Bend Water and Sewer Utilities adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* effective January 1, 2018. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 11, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
WATER UTILITY**

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

The management of the West Bend Water Utility offers all persons interested in the financial position of the utility an objective, easy to read overview and analysis of the utility's financial performance during the years ending December 31, 2018 and 2017. You are encouraged to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

- > The water utility's total assets increased \$739,000 or 2.2% from the prior year. Capital assets decreased \$209,000 due to current year main, service lines, and hydrants additions, offset by annual depreciation and plant retirements. There was also a \$948,000 increase in current and other assets due to cash received in a 2018 bond issuance and increased cash flows from operating activities. In 2017, the water utility's total assets increased \$804,000 or 2.5% from the prior year. Capital assets increased \$415,000 due to current year street projects, offset by annual depreciation. There was also a \$389,000 increase in current and other assets due to cash received in a 2017 bond issuance.
 - > The water utility's operating revenues, generated mostly by user fees, decreased \$17,500 or 0.4%. In 2017, operating revenues decreased \$4,700 or .1%.
 - > Operating expenses increased \$228,000 in 2018 primarily due to Well 5 Rehabilitation project during the year. In 2017, operating expenses increased \$332,000 primarily due to an increase in labor costs, along with a leak survey and pavement repair costs.
-

OVERVIEW OF THE FINANCIAL STATEMENTS

The water utility is a self-supporting entity and a separate enterprise fund of the City of West Bend. The utility provides water service to the City of West Bend and a small portion of the Town of Barton residents adjacent to the corporate boundaries of the City of West Bend.

The water utility is managed by the City of West Bend Board of Public Works in the capacity of a Water and Sewerage Commission and operates under the rules and regulations of the Public Service Commission of Wisconsin. The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission of Wisconsin, and in accordance with the Governmental Accounting Standards Board.

This annual report consists of two parts: Management's Discussion and Analysis, and the basic financial statements as well as the independent auditor's report.

An analysis of the utility's financial position begins with a review of the Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report the utility's net position and changes therein. The utility's net position – 'the difference between assets plus deferred outflows and liabilities plus deferred inflows' – is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

See accompanying independent auditors' report.

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS

The Statement of Net Position includes all of the utility's assets, deferred outflows, liabilities and deferred inflows and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

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

Table 1
Condensed Statement of Net Position

	2018	2017	2016	Dollar Change 2018-2017
Current and other assets	\$ 7,341,279	\$ 6,393,331	\$ 6,004,347	\$ 947,948
Capital assets	<u>27,022,995</u>	<u>27,232,138</u>	<u>26,817,371</u>	<u>(209,143)</u>
Total Assets	<u>34,364,274</u>	<u>33,625,469</u>	<u>32,821,718</u>	<u>738,805</u>
Deferred outflows of resources	410,096	469,061	652,272	(58,965)
Long-term debt outstanding	4,150,412	4,256,731	4,175,353	(106,319)
Other liabilities	<u>1,878,600</u>	<u>1,438,387</u>	<u>1,403,952</u>	<u>440,213</u>
Total Liabilities	<u>6,029,012</u>	<u>5,695,118</u>	<u>5,579,305</u>	<u>333,894</u>
Deferred inflows of resources	343,625	184,198	240,178	159,427
Investment in capital assets	23,231,461	23,327,518	22,990,541	(96,057)
Restricted	694,107	447,963	405,264	246,144
Unrestricted	<u>4,476,165</u>	<u>4,439,733</u>	<u>4,258,702</u>	<u>36,432</u>
Total Net Position	<u>\$ 28,401,733</u>	<u>\$ 28,215,214</u>	<u>\$ 27,654,507</u>	<u>\$ 186,519</u>

As can be seen from the table above, the utility's net position increased \$187,000 or 0.7%. The utility's net position increased \$561,000 in 2017, an increase of 2.0%.

See accompanying independent auditors' report.

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The restricted portion of net position includes accounts that are limited by bond covenants. Listed below are restricted assets:

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used for any deficiencies in the redemption account.
- Depreciation – Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Construction – Bond issue monies used only for the restricted construction projects.

Restricted net position also includes the net pension asset, or the utility's proportionate share of WRS' net pension asset. See Note 9 for more information on the utility's employee retirement system.

The Statement of Revenues, Expenses, and Changes in Net Position provides an indication of the utility's financial health.

Table 2
**Condensed Statement of Revenues,
Expenses and Changes in Net Position**

	2018	2017	2016	Dollar Change 2018-2017
Operating revenues	\$ 4,860,605	\$ 4,878,067	\$ 4,882,741	\$ (17,462)
Nonoperating revenues	87,931	34,598	32,245	53,333
Total Revenues	<u>4,948,536</u>	<u>4,912,665</u>	<u>4,914,986</u>	<u>35,871</u>
Depreciation expense	973,038	1,023,943	906,665	(50,905)
Other operating expenses	2,879,846	2,600,919	2,386,048	278,927
Nonoperating expenses	110,992	117,392	118,607	(6,400)
Total Expenses	<u>3,963,876</u>	<u>3,742,254</u>	<u>3,411,320</u>	<u>221,622</u>
Income Before Capital Contributions and Transfers	984,660	1,170,411	1,503,666	(185,751)
Capital contributions	-	197,642	-	(197,642)
Transfers – Tax equivalent	(641,108)	(636,810)	(660,398)	(4,298)
Transfers	14,373	(170,536)	(147,462)	184,909
Changes in Net Position	357,925	560,707	695,806	(202,782)
Beginning Net Position	<u>28,215,214</u>	<u>27,654,507</u>	<u>26,958,701</u>	<u>560,707</u>
Cumulative effect of change in accounting principle	(171,406)	-	-	(171,406)
Total Net Position - Ending	<u>\$ 28,401,733</u>	<u>\$ 28,215,214</u>	<u>\$ 27,654,507</u>	<u>\$ 186,519</u>

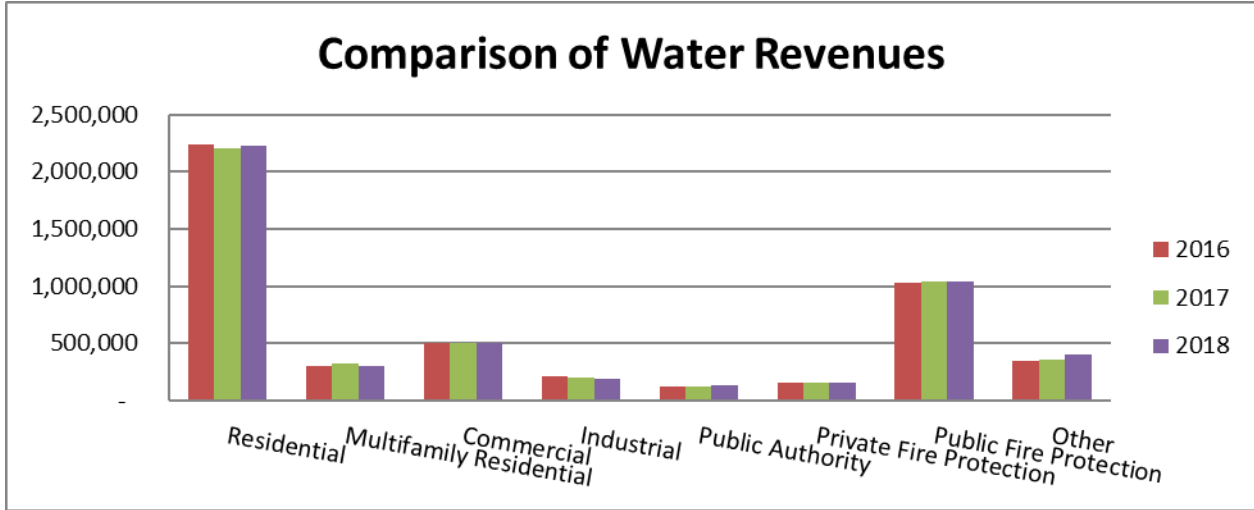
See accompanying independent auditors' report.

WEST BEND WATER UTILITY

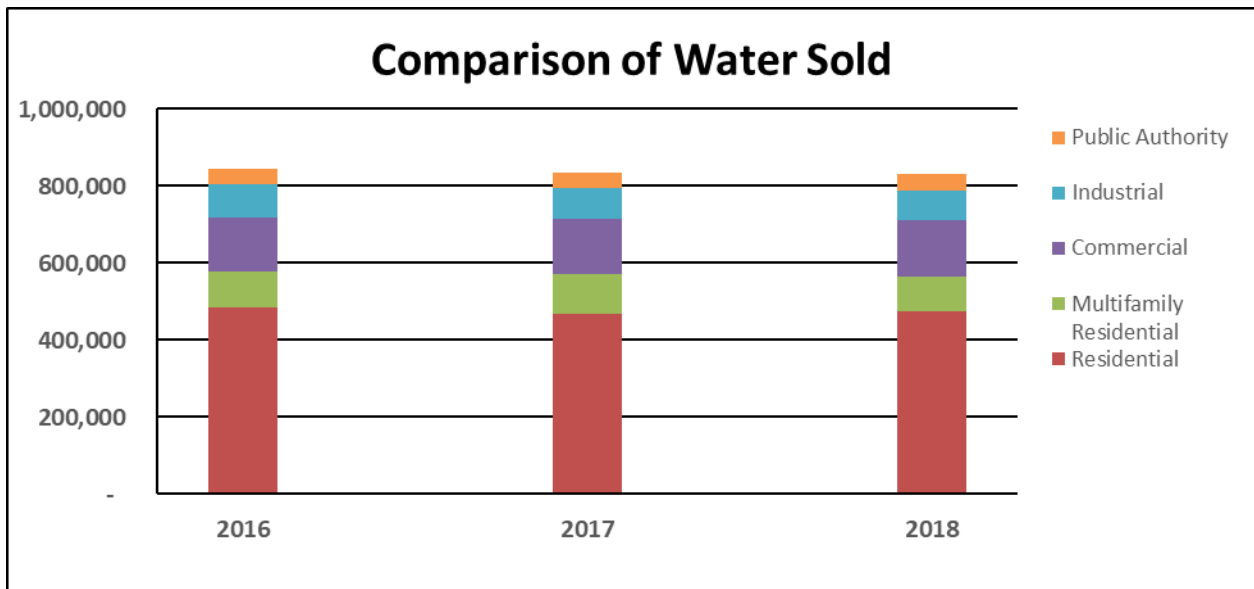
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

As illustrated on the graph below, operating revenues decreased \$17,500 or 0.4%. In 2017, operating revenues decreased \$4,700 or .1%.



The last rate increase took place on April 1, 2011 when the water utility implemented a 9% rate increase. Water usage has remained relatively steady over the past several years as the number of customers grows but water conservation efforts continue.



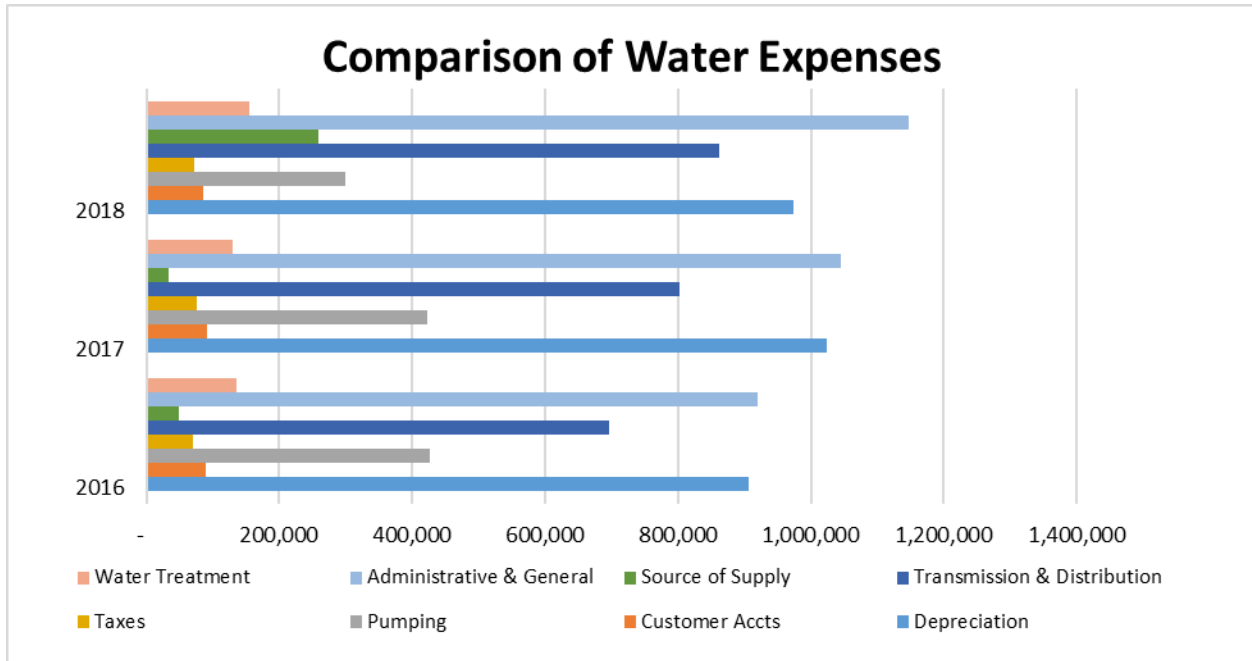
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WEST BEND WATER UTILITY

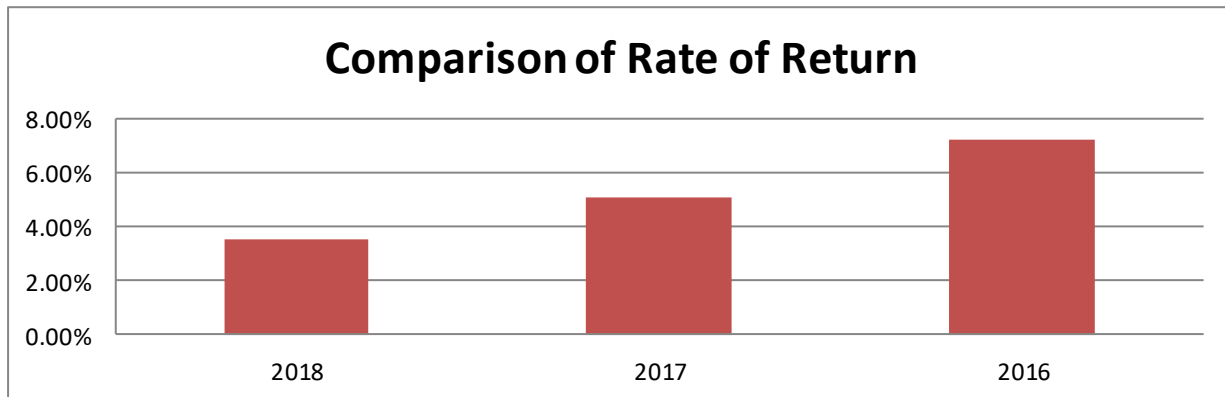
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

Operating expenses increased \$228,000 in 2018 primarily due to Well 5 Rehabilitation project during the year. In 2017, operating expenses increased \$332,000 primarily due to an increase in labor costs, along with a leak survey and pavement repair costs.



In 2018, the actual rate of return was 3.53% compared to 5.09% in 2017. The decreased rate in 2018 and 2017 is due to increased operating expenses from the prior year.



See accompanying independent auditors' report.

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Table 3
Condensed Statements of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Dollar Change 2018-2017</u>
Cash Flows From:				
Operating activities	\$ 2,084,725	\$ 2,515,253	\$ 2,609,191	\$ (430,528)
Noncapital financing activities	(622,384)	(831,687)	(804,603)	209,303
Capital and related financing activities	(617,086)	(929,334)	(1,037,071)	312,248
Investing activities	<u>66,670</u>	<u>27,018</u>	<u>13,699</u>	<u>39,652</u>
Net Change in Cash and Cash Equivalents	911,925	781,250	781,216	130,675
Cash and Cash Equivalents – Beginning of Year	<u>3,653,757</u>	<u>2,872,507</u>	<u>2,091,291</u>	<u>781,250</u>
Cash and Cash Equivalents – End of Year	4,565,682	3,653,757	2,872,507	911,925
Long-term Investments	<u>912,138</u>	<u>900,383</u>	<u>896,628</u>	<u>11,755</u>
Total Cash and Investments	<u>\$ 5,477,820</u>	<u>\$ 4,554,140</u>	<u>\$ 3,769,135</u>	<u>\$ 923,680</u>

As noted above, cash flows from operating activities decreased in 2018 due to routine maintenance labor costs increasing for transmission and distribution and higher health insurance claims. Cash outflows from capital and related financing activities decreased due to offsetting debt proceeds issued in 2018.

See accompanying independent auditors' report.

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The following summarizes the changes in capital assets.

Table 4
Capital Assets

	2018	2017	2016	Dollar Change 2018-2017
Capital Assets				
Source of supply	\$ 935,886	\$ 935,886	\$ 935,886	\$ -
Pumping	3,278,387	3,272,193	3,239,586	6,194
Water treatment	1,693,528	1,693,528	1,690,670	-
Transmission and distribution	34,014,387	33,517,957	32,564,247	496,430
General	4,316,327	4,148,430	3,935,348	167,897
Total Capital Assets	44,238,515	43,567,994	42,365,737	670,521
Less: Accumulated depreciation	(17,253,477)	(16,358,000)	(15,597,299)	(895,477)
Construction in progress	37,957	22,144	48,933	15,813
Net Capital Assets	\$ 27,022,995	\$ 27,232,138	\$ 26,817,371	\$ (209,143)

During 2018 and 2017, the utility's net capital assets decreased \$200,000 and increased \$415,000, respectively due to routine additions to plant and annual depreciation expense. The 2018 and 2017 capital assets increased by \$671,000 and \$1,202,000, respectively. Both increases were primarily due to additions related to service lines and street projects.

Please refer to the notes to the financial statements for further detail of the utility's capital assets.

LONG-TERM DEBT

As of December 31, 2018, the utility has total revenue bond debt of \$1,095,000 payable from and secured by a pledge of income and revenue to be derived from the operation of the utility. Total revenue bond debt was \$1,410,000 and \$1,725,000 as of December 31, 2017 and 2016, respectively. The decrease in debt is due to annual debt service payments in the current year. No new revenue bonds were issued in 2018 or 2017. The outstanding revenue bonds were issued for various infrastructure projects, mostly related to the water distribution system.

As of December 31, 2018, the utility has total general obligation (G.O.) debt of \$3,010,000, an increase of \$205,000 from 2017 due to the issuance of the 2018A G.O. note, partially offset by annual debt service payments. Total general obligation debt was \$2,805,000 and \$1,420,000 as of December 31, 2017 and 2016, respectively. The outstanding general obligation bonds were issued for various infrastructure projects, mostly related to the water distribution system. Tables of separate revenue bond and general obligation debt issues are included in the notes to the financial statements.

See accompanying independent auditors' report.

WEST BEND WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

The City of West Bend is located 35 miles North of Milwaukee. The City of West Bend has successful business parks and commercial areas as well as steady residential growth which provides the balance needed to maintain our identity as a regional source of shopping and quality living.

The Water Utility has maintained and continued project planning as well as financial planning to keep pace with the City's growth. Capital additions such as new water mains, upgrading of existing well control systems and implementation of security needs along with the planned construction of two new wells in the next two years are examples of our continued efforts to maintain and improve our system reliability. Infrastructure in new subdivisions is contributed by developers. We review our rate structure on an annual basis.

CONTACTING UTILITY FINANCIAL MANAGEMENT

This financial report is designed to provide our customers with a general overview of the utility's finances. If you have questions about this report, or need additional information, contact the Utility Superintendent, West Bend Water Utility, 251 Municipal Drive, West Bend, Wisconsin, 53095.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
SEWER UTILITY**

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

The management of the West Bend Sewer Utility offers all persons interested in the financial position of the utility an objective, easy to read overview and analysis of the utility's financial performance during the years ending December 31, 2018 and 2017. You are encouraged to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

- > The sewer utility's total assets increased \$400,000 in 2018 due to an increase in cash capital assets offset by decreased capital asset depreciation. Total assets increased \$741,000 in 2017 due to an increase in capital assets and investments.
- > The sewer utility's operating revenues, generated mostly by user fees, increased by \$14,000 or .3%. The 2018 slight increase is due to an increase in micro turbine uptime over prior year. In 2017, operating revenues, generated mostly by user fees, increased by \$118,000 or 3.1%. The 2017 decrease is due to a decrease in volume billed to industrial and residential customers.
- > The sewer utility's 2018 operating expenses were \$106,000 or 2.9% lower than in 2017. The decrease is due mainly to less maintenance on sewer lines over the prior year as two projects were completed. In 2017, operating expenses were \$333,000 or 9.8% higher than in 2016. The increase is due to higher labor costs along with costs to be in compliance with new phosphorus limits in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

The sewer utility is a self-supporting entity and a separate enterprise fund of the City of West Bend. The utility provides sewer service to the City of West Bend, Wallace Lake, Silver Lake, and outside waste haulers.

The sewer utility is managed by the City of West Bend Board of Public Works and operates under the rules and regulations established by the City Council. The accounting records are maintained in accordance with the Governmental Accounting Standards Board.

This annual report consists of two parts: Management's Discussion and Analysis, and the basic financial statements as well as the independent auditor's report.

An analysis of the utility's financial position begins with a review of the Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report the utility's net position and changes therein. The utility's net position – 'the difference between assets plus deferred outflows and liabilities plus deferred inflows' – is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS

The Statement of Net Position includes all of the utility's assets, deferred outflows, and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

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

Table 1
Condensed Statement of Net Position

	2018	2017	2016	Dollar Change 2018-2017
Current and other assets	\$ 18,349,043	\$ 17,327,835	\$ 16,010,551	\$ 1,021,208
Capital assets	<u>23,925,560</u>	<u>24,546,953</u>	<u>25,123,708</u>	<u>(621,393)</u>
Total Assets	<u>42,274,603</u>	<u>41,874,788</u>	<u>41,134,259</u>	<u>399,815</u>
Deferred outflows of resources	238,501	283,759	375,115	(45,258)
Long-term debt outstanding	322,140	382,140	442,140	(60,000)
Other liabilities	<u>654,384</u>	<u>695,303</u>	<u>635,442</u>	<u>(40,919)</u>
Total Liabilities	<u>976,524</u>	<u>1,077,443</u>	<u>1,077,582</u>	<u>(100,919)</u>
Deferred inflows of resources	231,763	110,760	141,002	121,003
Investment in capital assets	23,603,419	24,164,813	24,681,568	(561,394)
Restricted	780,189	769,502	513,782	10,687
Unrestricted	<u>16,921,209</u>	<u>16,036,029</u>	<u>15,095,440</u>	<u>885,180</u>
Total Net Position	<u>\$ 41,304,817</u>	<u>\$ 40,970,344</u>	<u>\$ 40,290,790</u>	<u>\$ 334,473</u>

As can be seen from the table above, the utility's net position increased \$334,000 in 2018, an increase of 0.8% versus an increase of 1.7% and 1.5% in 2017 and 2016 respectively.

The restricted portion of net assets includes an account that is limited by the Wisconsin Department of Natural Resources (DNR).

Replacement – Used to accumulate funds for replacement of certain mechanical equipment due to the receipt of state and federal funds.

Restricted net position also includes the net pension asset, or the utility's proportionate share of WRS' net pension asset. See Note 9 for more information on the utility's employee retirement system.

See accompanying independent auditors' report.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The Statement of Revenues, Expenses, and Changes in Net Position provides an indication of the utility's financial health.

Table 2
Condensed Statement of Revenues,
Expenses and Changes in Net Position

	2018	2017	2016	Dollar Change 2018-2017
Operating revenues	\$ 3,653,453	\$ 3,639,894	\$ 3,758,111	\$ 13,559
Nonoperating revenues	256,424	123,734	96,622	132,690
Total Revenues	<u>3,909,877</u>	<u>3,763,628</u>	<u>3,854,733</u>	<u>146,249</u>
Depreciation expense	1,271,533	1,261,888	1,254,970	9,645
Other operating expenses	2,343,006	2,458,626	2,132,219	(115,620)
Nonoperating expenses	8,276	9,406	12,221	(1,130)
Total Expenses	<u>3,622,815</u>	<u>3,729,920</u>	<u>3,399,410</u>	<u>(107,105)</u>
Income Before Capital Contributions and Transfers	287,062	33,708	455,323	253,354
Capital contributions	-	545,823	-	(545,823)
Transfers	89,963	100,023	145,172	(10,060)
Changes in Net Position	377,025	679,554	600,495	(302,529)
Beginning Net Position	<u>40,970,344</u>	<u>40,290,790</u>	<u>39,690,295</u>	<u>679,554</u>
Cumulative effect of change in accounting principle	<u>(42,552)</u>	<u>-</u>	<u>-</u>	<u>(42,552)</u>
Total Net Position - Ending	<u>\$ 41,304,817</u>	<u>\$ 40,970,344</u>	<u>\$ 40,290,790</u>	<u>\$ 334,473</u>

Sewer utility transfers in were \$89,963 in 2018. 2017 transfers in were \$100,023. Both years transfers were reimbursements from TIF District No. 11 that were previously written off.

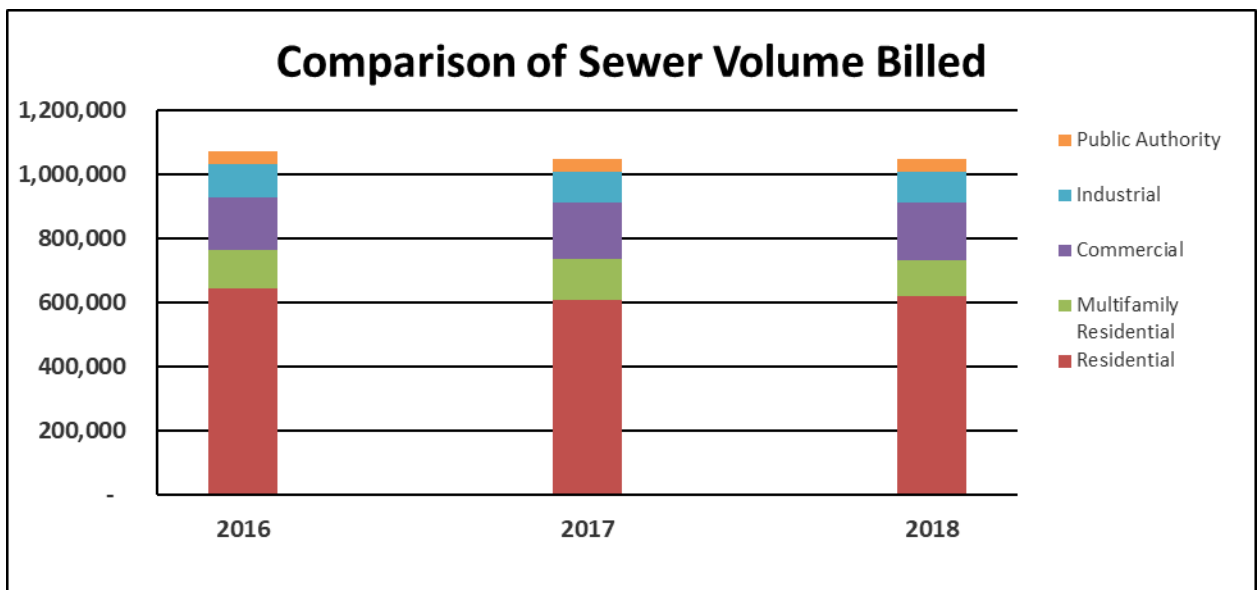
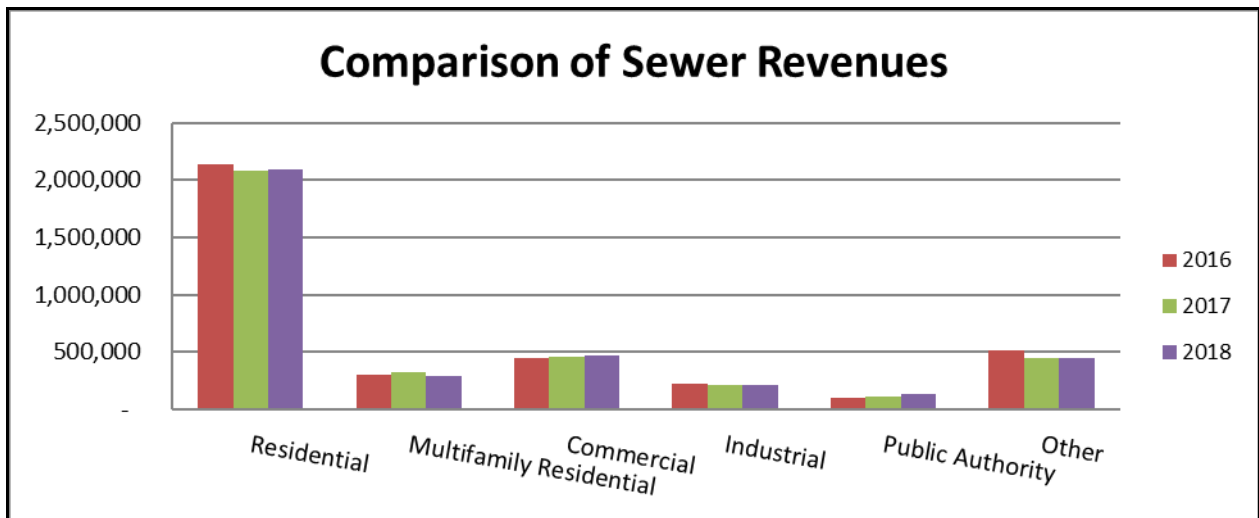
See accompanying independent auditors' report.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The sewer utility's operating revenues, generated mostly by user fees, increased by \$14,000 or .3%. The 2018 due to an increase in micro turbine uptime over prior year and landfill charges to public authority. In 2017, operating revenues, generated mostly by user fees, increased by \$118,000 or 3.1%. The 2017 decrease is due to a decrease in volume billed to industrial and residential customers. Operating revenues decreased \$14,000 in 2016. The 2016 decrease is due to a decrease in volume billed to public authorities along with a decrease in interdepartmental sales. The sewer utility last increased rates on December 1, 2006.



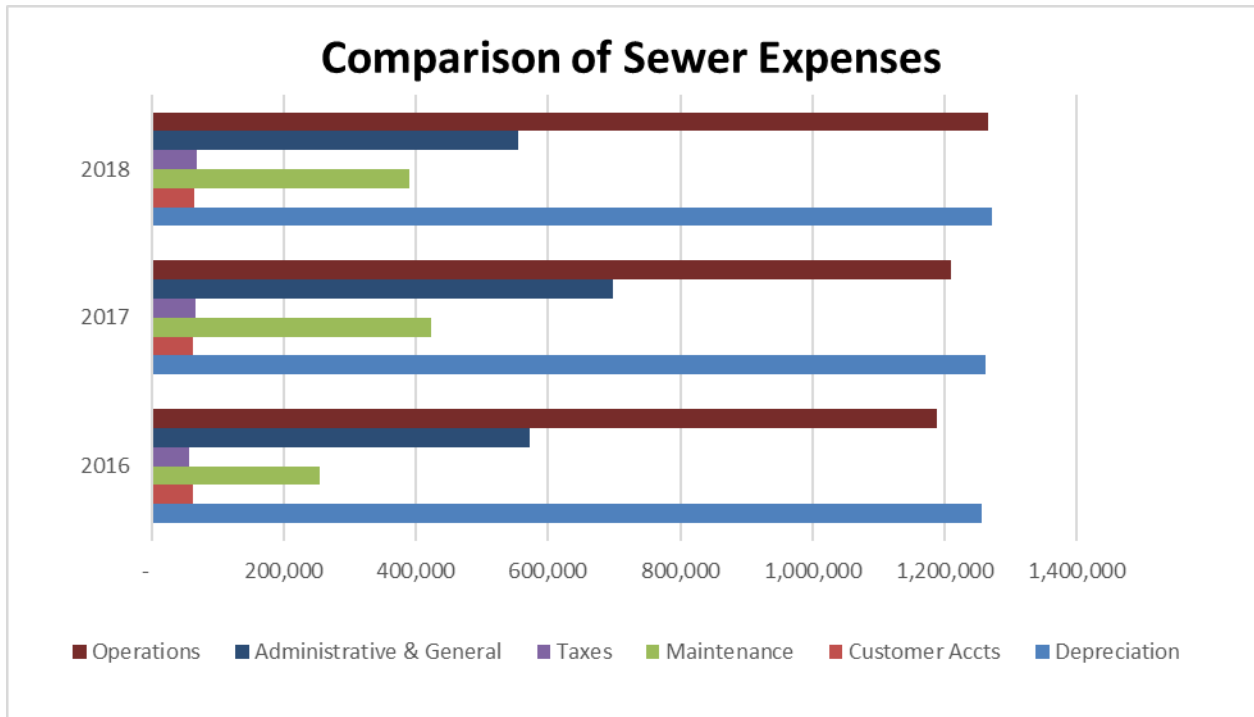
See accompanying independent auditors' report.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The sewer utility's 2018 operating expenses were \$106,000 or 2.9% lower than in 2017. The decrease is due to less maintenance projects required in 2018. In 2017, operating expenses were \$333,000 or 9.8% higher than in 2016. The increase is due to higher labor costs along with costs to be in compliance with new phosphorus limits in 2017



See accompanying independent auditors' report.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

The Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Table 3
Condensed Statements of Cash Flows

	2018	2017	2016	Dollar Change 2018-2017
Cash Flows From:				
Operating activities	\$ 1,277,240	\$ 1,276,755	\$ 1,736,713	\$ 485
Noncapital financing activities	209,839	(1,027,358)	569,584	1,237,197
Capital and related financing activities	(578,553)	(330,147)	(463,286)	(248,406)
Investing activities	<u>(1,027,610)</u>	<u>70,152</u>	<u>(123,095)</u>	<u>(1,097,762)</u>
Net Change in Cash and Cash Equivalents	(119,084)	(10,598)	1,719,916	(108,486)
Cash and Cash Equivalents – Beginning of Year	<u>7,679,689</u>	<u>7,690,287</u>	<u>5,970,371</u>	<u>(10,598)</u>
Cash and Cash Equivalents – End of Year	7,560,605	7,679,689	7,690,287	(119,084)
Long-term Investments	<u>3,580,130</u>	<u>2,334,324</u>	<u>2,320,756</u>	<u>1,245,806</u>
Total Cash and Investments	<u><u>\$ 11,140,735</u></u>	<u><u>\$ 10,014,013</u></u>	<u><u>\$ 10,011,043</u></u>	<u><u>\$ 1,126,722</u></u>

The following summarizes the changes in capital assets.

Table 4
Capital Assets

	2018	2017	2016	Dollar Change 2018-2017
Capital Assets				
Collection System	\$ 23,579,981	\$ 23,398,146	\$ 22,783,834	\$ 181,835
Collection system equipment	360,624	360,624	360,624	-
Treatment and disposal	26,669,655	26,430,036	26,437,732	239,619
General	<u>724,774</u>	<u>723,802</u>	<u>723,802</u>	<u>972</u>
Total Capital Assets	51,335,034	50,912,608	50,305,992	422,426
Less: Accumulated depreciation	(27,598,459)	(26,459,186)	(25,235,692)	(1,139,273)
Construction in progress	<u>188,985</u>	<u>93,531</u>	<u>53,408</u>	<u>95,454</u>
Net Capital Assets	<u><u>\$ 23,925,560</u></u>	<u><u>\$ 24,546,953</u></u>	<u><u>\$ 25,123,708</u></u>	<u><u>\$ (621,393)</u></u>

See accompanying independent auditors' report.

WEST BEND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

UTILITY FINANCIAL ANALYSIS (cont.)

During 2018, capital assets increased by \$423,000 due to increased investment in the collecting system and treatment and disposal from street projects. During 2017, capital assets increased by \$607,000 also due to increased investment in the collecting system and treatment and disposal from street projects.

Please refer to the notes to the financial statements for further detail of the utility's capital assets.

LONG-TERM DEBT

As of December 31, 2018, the utility has total general obligation debt of \$322,140. The \$60,000 decrease from the prior year is due to the annual debt service payment. There was no new issuances of debt in 2018.

A table of separate debt issues is included in the notes to the financial statements.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

The City of West Bend is located 35 miles North of Milwaukee. The City of West Bend has successful business parks and commercial areas as well as steady residential growth which provide the balance needed to maintain our identity as a regional source of shopping and quality living.

The Sewer Utility has maintained and continued project planning as well as financial planning to keep pace with the City's growth. Infrastructure in new subdivisions is contributed by developers. We review our rate structure on a bi-annual basis.

CONTACTING UTILITY FINANCIAL MANAGEMENT

This financial report is designed to provide our customers with a general overview of the utility's finances. If you have questions about this report, or need additional information, contact the Utility Director, West Bend Water Utility, 251 Municipal Drive, West Bend, Wisconsin, 53095.

WATER UTILITY

WEST BEND WATER UTILITY

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

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and investments	\$ 3,968,747	\$ 3,198,259
Interest receivable	3,613	2,341
Restricted Assets		
Redemption account	181,849	166,563
Customer accounts receivable	910,330	903,378
Other accounts receivable	1,676	3,479
Due from sewer utility	56,676	47,105
Materials and supplies	88,517	85,872
Current portion of advance	<u>145,000</u>	<u>135,000</u>
Total Current Assets	<u>5,356,408</u>	<u>4,541,997</u>
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	358,878	352,111
Depreciation account	338,346	297,207
Net pension asset	187,352	-
Other Assets		
OPEB investment	630,000	540,000
Property held for future use	163,124	163,124
Special assessments receivable	307,171	353,892
Advances to other funds	-	145,000
Capital Assets		
Plant in service	44,238,515	43,567,994
Accumulated depreciation	(17,253,477)	(16,358,000)
Construction work in progress	<u>37,957</u>	<u>22,144</u>
Total Noncurrent Assets	<u>29,007,866</u>	<u>29,083,472</u>
Total Assets	<u>34,364,274</u>	<u>33,625,469</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	362,936	469,061
Deferred outflows related to OPEB	<u>47,160</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>410,096</u>	<u>469,061</u>

LIABILITIES		<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES			
Accounts payable		\$ 323,343	\$ 107,871
Due to municipality		768,431	698,550
Accrued wages		131,924	121,330
Accrued interest		17,670	17,355
Other current liabilities		6,751	6,805
Current portion of general obligation debt		375,000	325,000
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		345,000	315,000
Accrued interest		13,440	15,807
Total Current Liabilities		<u>1,981,559</u>	<u>1,607,718</u>
NONCURRENT LIABILITIES			
General obligation debt		2,635,000	2,480,000
Revenue bonds		750,000	1,095,000
Unamortized debt premium		45,412	41,731
Accrued sick leave		127,200	128,710
Net OPEB liability		489,841	288,836
Net pension liability		-	53,123
Total Noncurrent Liabilities		<u>4,047,453</u>	<u>4,087,400</u>
Total Liabilities		<u>6,029,012</u>	<u>5,695,118</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		342,626	184,198
Deferred inflows related to OPEB		999	-
Total Deferred Inflows of Resources		<u>343,625</u>	<u>184,198</u>
NET POSITION			
Net investment in capital assets		23,231,461	23,327,518
Restricted for:			
Debt service		168,409	150,756
Equipment replacement		338,346	297,207
Pension		187,352	-
Unrestricted		4,476,165	4,439,733
TOTAL NET POSITION		<u><u>\$ 28,401,733</u></u>	<u><u>\$ 28,215,214</u></u>

See accompanying notes to the financial statements.

WEST BEND WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales of water	\$ 4,550,450	\$ 4,549,909
Other	<u>310,155</u>	<u>328,158</u>
Total Operating Revenues	<u>4,860,605</u>	<u>4,878,067</u>
OPERATING EXPENSES		
Operation and maintenance	2,879,846	2,600,919
Depreciation	<u>973,038</u>	<u>1,023,943</u>
Total Operating Expenses	<u>3,852,884</u>	<u>3,624,862</u>
OPERATING INCOME	<u>1,007,721</u>	<u>1,253,205</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	79,697	32,025
Miscellaneous revenues	8,234	2,573
Interest expense	(108,756)	(110,336)
Amortization of premium and issuance costs	<u>(2,236)</u>	<u>(7,056)</u>
Total Nonoperating Revenues (Expenses)	<u>(23,061)</u>	<u>(82,794)</u>
Income Before Contributions and Transfers	984,660	1,170,411
CAPITAL CONTRIBUTIONS	-	197,642
TRANSFER IN (OUT)	14,373	(170,536)
TRANSFERS - TAX EQUIVALENT	<u>(641,108)</u>	<u>(636,810)</u>
CHANGE IN NET POSITION	357,925	560,707
NET POSITION - Beginning of Year	<u>28,215,214</u>	<u>27,654,507</u>
Cumulative effect of a change in accounting principle	<u>(171,406)</u>	-
NET POSITION - END OF YEAR	<u><u>\$ 28,401,733</u></u>	<u><u>\$ 28,215,214</u></u>

See accompanying notes to the financial statements.

WEST BEND WATER UTILITY

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 4,931,937	\$ 4,921,778
Paid to suppliers for goods and services	(1,910,271)	(1,444,623)
Paid to employees for operating payroll	(936,941)	(961,902)
Net Cash Flows From Operating Activities	2,084,725	2,515,253
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(636,757)	(661,151)
Transfers to other funds	14,373	(170,536)
Net Cash Flows From Noncapital Financing Activities	(622,384)	(831,687)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(589,181)	(1,036,706)
Special assessments received	56,458	2,432
Debt retired	(505,000)	(490,000)
Interest paid	(110,808)	(109,382)
Proceeds from debt issue	544,948	720,709
Debt issuance costs	(13,503)	(16,387)
Net Cash Flows From Capital and Related Financing Activities	(617,086)	(929,334)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(319,025)	(3,755)
Investments sold and matured	307,270	-
Investment income	78,425	30,773
Net Cash Flows From Investing Activities	66,670	27,018
Net Change in Cash and Cash Equivalents	911,925	781,250
CASH AND CASH EQUIVALENTS - Beginning of Year	3,653,757	2,872,507
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,565,682	\$ 3,653,757
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt paid by TIF districts	\$ 135,000	\$ 140,000
Interest expense paid by TIF districts	\$ 8,221	\$ 13,376
Transfer of property held for future use to plant in service	\$ -	\$ 225,000

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 1,007,721	\$ 1,253,205
Nonoperating revenue (expense)	8,234	2,573
Noncash items in operating income		
Depreciation	973,038	1,023,943
Depreciation charged to clearing and other utilities	64,510	63,011
Changes in assets and liabilities		
Customer accounts receivable	(6,952)	(12,026)
Other accounts receivable	2,103	(254)
Due from other funds	12,009	(6,060)
Materials and supplies	(2,645)	(14,896)
Due from sewer utility	(9,571)	(3,248)
Accounts payable	(23,753)	15,531
Due to other funds	43,785	96,124
Accrued sick leave	(1,510)	12,136
Other current liabilities	10,240	3,273
OPEB related deferrals and liabilities	(16,562)	15,714
Pension related deferrals and assets/liabilities	24,078	66,227
	<u>24,078</u>	<u>66,227</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,084,725</u>	<u>\$ 2,515,253</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 3,968,747	\$ 3,198,259
Redemption account	181,849	166,563
Reserve account	358,878	352,111
Depreciation account	338,346	297,207
OPEB Investment	630,000	540,000
Total Cash and Investments	5,477,820	4,554,140
Less: Noncash equivalents	(912,138)	(900,383)
	<u>(912,138)</u>	<u>(900,383)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 4,565,682</u>	<u>\$ 3,653,757</u>

See accompanying notes to the financial statements.

SEWER UTILITY

WEST BEND SEWER UTILITY

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

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and investments	\$ 4,505,178	\$ 3,481,903
Interest receivable	10,820	12,964
Customer accounts receivable	666,669	660,058
Other accounts receivable	68,397	59,619
Due from municipality	164,615	245,165
Prepayments	300	300
Current portion of advance	<u>95,000</u>	<u>198,833</u>
Total Current Assets	<u>5,510,979</u>	<u>4,658,842</u>
NONCURRENT ASSETS		
Restricted Assets		
Replacement account	657,313	769,502
Net pension asset	122,876	-
Other Assets		
Designated project investments	5,498,244	5,352,608
OPEB investment	480,000	410,000
Preliminary survey and investigation	100,882	104,906
Special assessments receivable	778,410	854,839
Advances to other funds	1,035,000	1,090,812
Long-term receivable from TIF	4,090,338	4,011,326
Non-utility property	75,000	75,000
Capital Assets		
Plant in service	51,335,034	50,912,608
Accumulated depreciation	(27,598,459)	(26,459,186)
Construction work in progress	<u>188,985</u>	<u>93,531</u>
Total Noncurrent Assets	<u>36,763,623</u>	<u>37,215,946</u>
Total Assets	<u>42,274,602</u>	<u>41,874,788</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	233,090	283,759
Deferred outflows related to OPEB	<u>5,411</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>238,501</u>	<u>283,759</u>

LIABILITIES		<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES			
Accounts payable		\$ 228,910	\$ 188,599
Due to municipality		182,132	191,077
Due to water utility		56,676	47,105
Accrued wages		75,541	69,424
Accrued interest		2,131	2,552
Other current liabilities		46	46
Current portion of general obligation debt		<u>60,000</u>	<u>60,000</u>
Total Current Liabilities		<u>605,436</u>	<u>558,803</u>
NONCURRENT LIABILITIES			
General obligation debt		262,140	322,140
Accrued sick leave		30,717	29,550
Net OPEB liability		78,230	138,252
Net pension liability		<u>-</u>	<u>28,698</u>
Total Noncurrent Liabilities		<u>371,087</u>	<u>518,640</u>
Total Liabilities		<u>976,523</u>	<u>1,077,443</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		231,177	110,760
Deferred inflows related to OPEB		<u>586</u>	<u>-</u>
Total Deferred Inflows of Resources		<u>231,763</u>	<u>110,760</u>
NET POSITION			
Net investment in capital assets		23,603,420	24,164,813
Restricted for:			
Replacement funds		657,313	769,502
Pension		122,876	-
Unrestricted		<u>16,921,208</u>	<u>16,036,029</u>
TOTAL NET POSITION		<u>\$ 41,304,817</u>	<u>\$ 40,970,344</u>

See accompanying notes to the financial statements.

WEST BEND SEWER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Treatment charges	\$ 3,505,736	\$ 3,516,192
Other	<u>147,717</u>	<u>123,702</u>
Total Operating Revenues	<u>3,653,453</u>	<u>3,639,894</u>
OPERATING EXPENSES		
Operation and maintenance	2,343,006	2,458,626
Depreciation	<u>1,271,533</u>	<u>1,261,888</u>
Total Operating Expenses	<u>3,614,539</u>	<u>3,720,514</u>
OPERATING INCOME (LOSS)	<u>38,914</u>	<u>(80,620)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	255,296	118,134
Income from merchandising and jobbing	(295)	4,946
Miscellaneous revenues	1,128	654
Interest expense	<u>(7,981)</u>	<u>(9,406)</u>
Total Nonoperating Revenues (Expenses)	<u>248,148</u>	<u>114,328</u>
Income Before Contributions and Transfers	287,062	33,708
CAPITAL CONTRIBUTIONS	-	545,823
TRANSFER IN (OUT)	<u>89,963</u>	<u>100,023</u>
CHANGE IN NET POSITION	377,025	679,554
NET POSITION - Beginning of Year	<u>40,970,344</u>	<u>40,290,790</u>
Cumulative effect of a change in accounting principle	<u>(42,552)</u>	-
NET POSITION - END OF YEAR	<u><u>\$ 41,304,817</u></u>	<u><u>\$ 40,970,344</u></u>

See accompanying notes to the financial statements.

WEST BEND SEWER UTILITY

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 3,652,617	\$ 3,624,623
Paid to suppliers for goods and services	(1,673,511)	(1,689,061)
Paid to employees for operating payroll	(701,866)	(658,807)
Net Cash Flows From Operating Activities	1,277,240	1,276,755
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	89,963	100,023
Advances to other funds	-	(1,750,000)
Repayment of advances to other funds	119,876	622,619
Net Cash Flows From Noncapital Financing Activities	209,839	(1,027,358)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(652,868)	(401,306)
Capital contributions received	-	16,800
Special assessments received	142,717	124,198
Debt retired	(60,000)	(60,000)
Interest paid	(8,402)	(9,839)
Net Cash Flows From Capital and Related Financing Activities	(578,553)	(330,147)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(1,470,806)	(13,568)
Investments sold and matured	225,000	-
Investment income	218,196	83,720
Net Cash Flows From Investing Activities	(1,027,610)	70,152
Net Change in Cash and Cash Equivalents	(119,084)	(10,598)
CASH AND CASH EQUIVALENTS - Beginning of Year	7,679,689	7,690,287
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,560,605	\$ 7,679,689
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ -	\$ 238,523
Customer deposits recognized	\$ -	\$ 34,000
Interest accrued on advances to other funds	\$ 39,245	\$ 29,597
Properties specially assessed	\$ -	\$ 256,500

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 38,914	\$ (80,620)
Nonoperating revenue (expense)	(295)	4,946
Noncash items in operating income (loss)		
Depreciation	1,271,533	1,261,888
Changes in assets and liabilities		
Customer accounts receivable	(6,611)	(470)
Other accounts receivable	(8,778)	4,824
Due from other funds	14,262	(24,571)
Accounts payable	48,192	13,102
Due to other funds	626	49,555
Accrued sick leave	1,167	5,035
Other current liabilities	6,117	12,733
Pension related deferrals and liabilities	19,512	22,811
OPEB related deferrals and liabilities	<u>(107,399)</u>	<u>7,522</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,277,240</u>	<u>\$ 1,276,755</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 4,505,178	\$ 3,481,903
Replacement account	657,313	769,502
Designated project investments	5,498,244	5,352,608
OPEB Investment	<u>480,000</u>	<u>410,000</u>
Total Cash and Investments	11,140,735	10,014,013
Less: Noncash equivalents	<u>(3,580,130)</u>	<u>(2,334,324)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 7,560,605</u>	<u>\$ 7,679,689</u>

See accompanying notes to the financial statements.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of West Bend Water and Sewer Utilities (utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utilities are described below.

REPORTING ENTITY

The utilities are separate enterprise funds of the City of West Bend (municipality). The utilities are managed by the city council. The utilities provide water and sewer service to properties within the municipality.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utilities are presented as enterprise funds of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

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

In June 2015, the GASB issued Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented January 1, 2018. The cumulative impact of implementation is shown in Note 13.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Deposits and Investments

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

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

Deposits and Investments (cont.)

Investment of the utilities' funds are restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company.
- > Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The local government investment pool.
- > Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- > Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- > Repurchase agreements with public depositories, with certain conditions.

The utilities have adopted an investment policy. That policy follows the state statute for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Transactions between the utilities 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 utilities and other funds of the municipality are reported as due to/from other funds.

The utilities have the right under Wisconsin statutes to place delinquent water and sewer bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Materials and Supplies

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

Restricted Assets

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

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

Designated Projects Investments

These are funds the sewer utility has elected to set aside for future collecting system projects.

OPEB Investment

These are funds the utilities have elected to set aside for future OPEB obligations. Further information about the OPEB obligation can be seen in Note 10.

Prepayments

This balance represents prepaid insurance and bills.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project.

Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually.

Anticipated Future Special Assessments

At December 31, 2018 and 2017, there were \$1,258,063 of anticipated future assessments which are not reported as receivables because collection is subject to certain events occurring in the future and no formal repayment schedule has been established.

The balance of this account consists of amounts that will be assessed to property owners when specific property is annexed by the municipality or when vacant land is developed.

Property Held for Future Use

The balance represents land purchased and held for a possible water treatment facility.

Non-Utility Property

The balance represents wet lands donated to be used in the future to help offset wastewater treatment levels.

Capital Assets

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

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

Capital Assets (cont.)

Capital assets of the utilities are recorded at cost or the estimated acquisition value at the time of contribution to the utilities. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	<u>Years</u>
Water Plant	
Source of supply	34
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34
Sewer Plant	
Collecting system	15 - 77
Treatment and disposal	15 - 40
General	4 - 17

Pensions

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City OPEB Plan and additions to/deductions from the City OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the City OPEB Plan. For this purpose, the City OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

Deferred Outflow of Resources

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

Accrued Vacation and Sick Leave

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

Long-Term Obligations

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

Deferred Inflows of Resources

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

REVENUES AND EXPENSES

The utilities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utilities' principal ongoing operations. The principal operating revenues of the utilities are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded quarterly based on metered usage. The utilities do not accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective April 1, 2011.

Current sewer rates were approved by the city council on December 1, 2006.

Capital Contributions

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2018	2017	
Checking and savings	\$ 820,625	\$ 892,316	See city audit report
LGIP	10,534,017	8,107,996	Credit risk
Certificates of deposit (negotiable)	715,324	-	Interest rate risk
Certificates of deposit (non-negotiable)	-	2,357,052	Custodial credit risk
Other investments and mutual funds	3,048,758	2,702,437	See city audit report
Corporate and municipal bonds	-	498,765	Custodial credit, credit and interest rate risk
U.S. agency securities	728,487	-	Credit risk and interest rate risk
Demand deposit/money market	771,344	9,287	Custodial credit
Cash on hand	-	300	
Totals	<u>\$ 16,618,555</u>	<u>\$ 14,568,153</u>	

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

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

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2018 and 2017, the fair value of the LGIP's assets were substantially equal to the utilities' share.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Fair Value Measurements

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

The valuation methods for recurring methods fair value measurements are as follows:

- quoted prices or independent services
- most advantageous market for the investment/government
- current market prices

<u>Investment Type</u>	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposits - negotiable	\$ -	\$ 715,324	\$ -	\$ 715,324
U.S. Agencies	-	728,487	-	728,487
Total	\$ -	\$ 1,443,811	\$ -	\$ 1,443,811

<u>Investment Type</u>	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Corporate Bonds	\$ 498,765	\$ -	\$ -	\$ 498,765

The utilities also maintain certain investments commingled with the municipality. The fair value hierarchy pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on the fair value measurements.

Custodial Credit Risk

Deposits

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

The utilities do not have any deposits, including those commingled with the municipality, exposed to custodial credit risk.

Investments

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

The utilities do not have any investments, including those commingled with the municipality, exposed to custodial credit risk.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

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

The utilities maintain certain investments commingled with the municipality. The credit risk pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

As of December 31, 2018, the utilities' investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
United States Treasury Bills	A-1+	Aaa

As of December 31, 2017, the utilities' investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
Apple Corporate Bond	AA+	AA1

The utilities also held investments in the following external pools which are not rated:

Local Government Investment Pool

Interest Rate Risk

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

As of December 31, 2018, the utilities' investments were as follows:

Investment Type	Maturity (In Years)			
	Fair Value	Less than 1	1-5	Greater than 5
U.S. Agencies	\$ 728,487	\$ 728,487	\$ -	\$ -
Certificates of deposit	<u>715,324</u>	<u>715,324</u>	-	-
Totals	<u>\$ 1,443,811</u>	<u>\$ 1,443,811</u>	<u>\$ -</u>	<u>\$ -</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

As of December 31, 2017, the utilities' investments were as follows:

Investment Type	Maturity (In Years)			
	Fair Value	Less than 1	1-5	Greater than 5
Corporate and Municipal Bonds	\$ 498,765	\$ -	\$ 498,765	\$ -
Certificates of deposit	<u>2,702,437</u>	<u>2,702,437</u>	-	-
Totals	<u>\$ 3,201,202</u>	<u>\$ 2,702,437</u>	<u>\$ 498,765</u>	<u>\$ -</u>

The utilities maintain certain investments commingled with the municipality. The interest rate risk pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

Custodial Credit Risk

The municipality addresses custodial credit risk by collateralizing certificates of deposit or any other time deposit in an amount equal to 105% of the investment less the amount insured by the FDIC or guaranteed by the State of Wisconsin with appropriate collateral instruments and at levels per recommended practices of the Government Finance Officers Association. Collateral shall be held by the municipality or an independent third party custodian with whom the City has a current custodial agreement. As of December 31, 2018, the market value of collateral held at First Bank was \$6,056,388. As of December 31, 2017, the market value of collateral held at First Bank was \$33,444,197. Additionally, through Lloyds of London, accounts have additional securities coverage of \$99.5 million per customer, subject to a \$500 million aggregate firm limit.

Credit Risk and Interest Rate Risk

The municipality addresses these risks by requiring commercial paper issued with a maturity not exceeding 270 days shall have a rating of at least A1 by Standard & Poors at the time of purchase. Corporate notes and bonds with maturities not exceeding 5 years should be rated at least Aa by Moody's or AA by Standard & Poors at the time of purchase. All money market mutual funds should be rated AAAM by Standard & Poors or AAA by Moody's Investor Service at the time of purchase.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

Due To	Due From	2018		2017	
		Amount	Principal Purpose	Amount	Principal Purpose
Water Municipality	Sewer Water	\$ 56,676	Shared costs	\$ 47,105	Shared costs
		768,431	Shared costs and tax equivalent	698,550	Shared costs and tax equivalent
Sewer Municipality	Municipality Sewer	164,615	Shared costs	245,165	Shared costs
		182,132	Shared costs	191,077	Shared costs

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

To	From	2018		2017	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality Sewer	Water Municipality	\$ 641,108	Tax equivalent	\$ 636,810	Tax equivalent
Water Municipality	Municipality Water	89,963	TIF No. 11	100,023	TIF No. 11
		14,373	Debt service	-	
		-		17,160	Debt service
		-	TIF No. 3	82,553	TIF No. 3
		-	TIF No. 4	43,820	TIF No. 4
		-	TIF No. 6	27,003	TIF No. 6

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

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

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

Replacement Account

As a condition of receiving state and federal funds for wastewater plant construction, the utilities have established an account for replacement of certain mechanical equipment.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 - RESTRICTED ASSETS (cont.)

Net Pension Asset

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

Restricted Net Position

The following calculation supports the amount of water restricted net position:

	2018	2017
Restricted Assets		
Redemption account	\$ 181,849	\$ 166,563
Reserve account	358,878	352,111
Depreciation account	338,346	297,207
Net pension asset	187,352	-
Total Restricted Assets	1,066,425	815,881
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	(358,878)	(352,111)
Current Liabilities Payable From Restricted Assets	(13,440)	(15,807)
Total Restricted Net Position as Calculated	\$ 694,107	\$ 447,963

The purpose of the restricted net position is as follows:

	2018	2017
Debt service	\$ 168,409	\$ 150,756
Equipment replacement	338,346	297,207
Pension	187,352	-
Total Restricted Net Position	\$ 694,107	\$ 447,963

The following calculation supports the amount of sewer restricted net position:

	2018	2017
Restricted Assets		
Replacement account	\$ 657,313	\$ 769,502
Net pension asset	122,876	-
Total Restricted Net Position as Calculated	\$ 780,189	\$ 769,502

The purpose of the restricted net position is as follows:

	2018	2017
Equipment replacement	\$ 657,313	\$ 769,502
Pension	122,876	-
Total Restricted Net Position	\$ 780,189	\$ 769,502

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - ADVANCES TO OTHER FUNDS

In 2008, the water utility advanced funds to various Tax Incremental Financing (TIF) districts of the municipality out of the 2008 Revenue Bonds. The advanced debt portion will be paid by the TIF districts.

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/2018
02/01/1999	TIF District #3 Construction	09/01/2019	4.2-4.9%	\$ 945,000	\$ 85,000
02/01/1999	TIF District #6 Construction	09/01/2019	4.2-4.9	280,000	20,000
02/01/1999	TIF District #4 Construction	09/01/2019	4.2-4.9	570,000	40,000

The sewer utility has advanced funds to the General Fund, Library HVAC, Economic Development and Capital Project Funds and TIF Districts No. 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13. Repayment schedules have only been established for the Library HVAC, 2015 General, and Economic Development Funds. No other repayment schedules have been established. In 2013, an allowance was set-up for TIF advances No. 5, 7, 9, 11, 12 and 13 in the amount of \$3,030,843. This amount was reduced to \$2,840,857 in 2018 due to recovery of a previously written off advance to TIF No. 11. Interest is calculated and added to the remaining advances yearly based on the calculated average investment interest rate.

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/2018
1996	TIF District #3 Construction	TBD	Variable%	\$ 1,187,560	\$ 1,758,780
1998	TIF District #5 Construction	TBD	Variable	1,008,124	-
2006	Library HVAC Fund	2017	8.0%	27,648	-
2000	TIF District #7 Construction	TBD	Variable	117,128	-
2000	TIF District #8 Construction	TBD	Variable	157,563	82,685
2003	TIF District #9 Construction	TBD	Variable	1,524,624	54,177
2004	TIF District #10 Construction	TBD	Variable	426,173	494,695
2005	TIF District #11 Construction	TBD	Variable	96,481	-
2007	TIF District #12 Construction	TBD	Variable	106,038	-
2010	TIF District #13 Construction	TBD	Variable	50,000	-
2012	Capital Projects Fund/LLC	TBD	Variable	300,000	-
2012	Economic Development Fund	2042	0.69%	1,350,000	1,080,000
2017	TIF District #12 Construction	2035	2.385%	1,750,000	1,750,000
2013	TIF District #4 Construction	TBD	Variable	158,888	-
2016	TIF District #6 Construction	TBD	Variable	11,133	-

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - ADVANCES TO OTHER FUNDS (cont.)

Repayment requirements to maturity follow:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 95,000	\$ 49,190	\$ 144,190
2020	95,000	47,687	142,687
2021	95,000	46,183	141,183
2022	95,000	44,680	139,680
2023	95,000	43,178	138,178
2024-2028	725,000	181,417	906,417
2029-2033	925,000	106,040	1,031,040
2034-2038	525,000	21,600	546,600
2039-2042	<u>180,000</u>	<u>3,105</u>	<u>183,105</u>
Totals	<u>\$ 2,830,000</u>	<u>\$ 543,080</u>	<u>\$ 3,373,080</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS

Water Utility

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

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
Capital assets, not being depreciated				
Land and land rights	\$ 517,041	\$ -	\$ -	\$ 517,041
Capital assets being depreciated				
Source of supply	793,616	-	-	793,616
Pumping	3,272,193	6,194	-	3,278,387
Water treatment	1,617,426	-	-	1,617,426
Transmission and distribution	33,465,238	557,894	61,464	33,961,668
General	3,902,480	244,828	76,931	4,070,377
Total Capital Assets Being Depreciated	43,050,953	808,916	138,395	43,721,474
Total Capital Assets	43,567,994	808,916	138,395	44,238,515
Less: Accumulated depreciation				
Source of supply	(504,841)	(23,015)	-	(527,856)
Pumping	(2,033,863)	(127,556)	-	(2,161,419)
Water treatment	(1,045,693)	(52,591)	-	(1,098,284)
Transmission and distribution	(9,408,254)	(647,938)	68,164	(9,988,028)
General	(3,365,349)	(189,474)	76,933	(3,477,890)
Total Accumulated Depreciation	(16,358,000)	(1,040,574)	145,097	(17,253,477)
Construction in progress	22,144	462,960	447,147	37,957
Net Capital Assets	\$ 27,232,138			\$ 27,022,995

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

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

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 292,041	\$ 225,000	\$ -	\$ 517,041
Capital assets being depreciated				
Source of supply	793,616	-	-	793,616
Pumping	3,239,586	41,607	9,000	3,272,193
Water treatment	1,614,568	5,949	3,091	1,617,426
Transmission and distribution	32,511,528	1,088,590	134,880	33,465,238
General	3,914,398	197,116	209,034	3,902,480
Total Capital Assets Being Depreciated	42,073,696	1,333,262	356,005	43,050,953
Total Capital Assets	42,365,737	1,558,262	356,005	43,567,994
Less: Accumulated depreciation				
Source of supply	(481,826)	(23,015)	-	(504,841)
Pumping	(1,916,123)	(126,740)	9,000	(2,033,863)
Water treatment	(996,240)	(52,544)	3,091	(1,045,693)
Transmission and distribution	(8,910,083)	(633,051)	134,880	(9,408,254)
General	(3,293,027)	(281,354)	209,032	(3,365,349)
Total Accumulated Depreciation	(15,597,299)	(1,116,704)	356,003	(16,358,000)
Construction in progress	48,933	865,672	892,461	22,144
Net Capital Assets	\$ 26,817,371			\$ 27,232,138

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

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

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
Capital assets, not being depreciated				
Land and land rights	\$ 35,530	\$ -	\$ -	\$ 35,530
Capital assets being depreciated				
Collecting system	23,372,107	211,420	29,585	23,553,942
Collecting system pumping	360,624	-	-	360,624
Treatment and disposal	26,420,545	340,645	101,026	26,660,164
General	<u>723,802</u>	<u>2,859</u>	<u>1,887</u>	<u>724,774</u>
Total Capital Assets Being Depreciated	<u>50,877,078</u>	<u>554,924</u>	<u>132,498</u>	<u>51,299,504</u>
Total Capital Assets	<u>50,912,608</u>	<u>554,924</u>	<u>132,498</u>	<u>51,335,034</u>
Less: Accumulated depreciation	<u>(26,459,186)</u>	<u>(1,271,771)</u>	<u>132,498</u>	<u>(27,598,459)</u>
Construction in progress	<u>93,531</u>	<u>562,081</u>	<u>466,627</u>	<u>188,985</u>
Net Capital Assets	<u>\$ 24,546,953</u>			<u>\$ 23,925,560</u>

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

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 35,530	\$ -	\$ -	\$ 35,530
Capital assets being depreciated				
Collecting system	22,757,795	614,312	-	23,372,107
Collecting system pumping	360,624	-	-	360,624
Treatment and disposal	26,428,241	30,698	38,394	26,420,545
General	<u>723,802</u>	<u>-</u>	<u>-</u>	<u>723,802</u>
Total Capital Assets Being Depreciated	<u>50,270,462</u>	<u>645,010</u>	<u>38,394</u>	<u>50,877,078</u>
Total Capital Assets	<u>50,305,992</u>	<u>645,010</u>	<u>38,394</u>	<u>50,912,608</u>
Less: Accumulated depreciation	<u>(25,235,692)</u>	<u>(1,261,888)</u>	<u>38,394</u>	<u>(26,459,186)</u>
Construction in progress	<u>53,408</u>	<u>446,610</u>	<u>406,487</u>	<u>93,531</u>
Net Capital Assets	<u>\$ 25,123,708</u>			<u>\$ 24,546,953</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS

Revenue Bonds - Water

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/18
04/24/2008	System improvements and refinance 1999 bonds	03/01/2023	2.7-4.2%	\$ 2,725,000	\$ 615,000
04/07/2009	System improvements	03/01/2024	4.0-4.5	1,020,000	480,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 345,000	\$ 39,073	\$ 384,073
2020	155,000	28,920	183,920
2021	160,000	22,320	182,320
2022	165,000	15,425	180,425
2023	175,000	8,079	183,079
2024	95,000	2,138	97,138
Totals	<u>\$ 1,095,000</u>	<u>\$ 115,955</u>	<u>\$ 1,210,955</u>

All utility revenues net of specified operating expenses 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 \$367,091 and \$365,755, respectively. Total customer net revenues as defined for the same periods were \$2,060,456 and \$2,309,173. Annual principal and interest payments are expected to require 13% of net revenues on average.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Water

The following general obligation bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/18
04/12/2011	System improvements	03/01/2031	2.00-4.15%	\$ 310,000	\$ 230,000
07/09/2014	2014C Refunding Bonds	04/01/2020	2.00	785,000	270,000
03/29/2016	System improvements and refund 2010 bonds	03/01/2030	2.00-2.50	775,000	680,000
06/01/2016	System improvements	06/01/2026	1.35	800,000	660,000
05/11/2017	System improvements	03/01/2027	2.03	700,000	640,000
05/03/2018	System improvements	05/01/2028	3.00	530,000	530,000

General obligation bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 375,000	\$ 67,439	\$ 442,439
2020	390,000	58,368	448,368
2021	265,000	50,688	315,688
2022	265,000	44,539	309,539
2023	280,000	38,213	318,213
2024-2028	1,245,000	95,370	1,340,370
2028-2031	190,000	6,970	196,970
Totals	<u>\$ 3,010,000</u>	<u>\$ 361,587</u>	<u>\$ 3,371,587</u>

General Obligation Debt - Sewer

The following general obligation bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/18
10/1/2010	System improvements from TIF #11	04/01/2026	4.29%	\$ 500,080	\$ 77,140
05/09/2012	Refinance part of 2010 debt	04/01/2026	2.22	235,000	215,000
6/10/2015	Refinance 2010 debt	10/1/2019	1.50-2.00	120,000	30,000

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Sewer (cont.)

General obligation bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 60,000	\$ 6,889	\$ 66,889
2020	55,000	5,411	60,411
2021	57,140	3,901	61,041
2022	30,000	2,812	32,812
2023	30,000	2,212	32,212
2024-2026	<u>90,000</u>	<u>2,944</u>	<u>92,944</u>
Totals	<u>\$ 322,140</u>	<u>\$ 24,169</u>	<u>\$ 346,309</u>

Long-Term Obligations Summary - Water

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

	1/1/18 Balance	Additions	Reductions	12/31/18 Balance	Due Within One Year
Revenue bonds	\$ 1,410,000	\$ -	\$ 315,000	\$ 1,095,000	\$ 345,000
General obligation debt	2,805,000	530,000	325,000	3,010,000	375,000
Accrued sick leave	128,710	14,871	16,381	127,200	-
Unamortized debt premium	41,731	14,948	11,267	45,412	9,998
OPEB obligation	<u>288,835</u>	<u>489,841</u>	<u>288,835</u>	<u>489,841</u>	<u>-</u>
Totals	<u>\$ 4,674,276</u>	<u>\$ 1,049,660</u>	<u>\$ 956,483</u>	<u>\$ 4,767,453</u>	<u>\$ 729,998</u>

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

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 1,725,000	\$ -	\$ 315,000	\$ 1,410,000	\$ 315,000
General obligation debt	2,420,000	700,000	315,000	2,805,000	325,000
Accrued sick leave	116,574	19,203	7,067	128,710	-
Unamortized debt premium	30,353	20,709	9,331	41,731	-
OPEB obligation	<u>273,122</u>	<u>33,073</u>	<u>17,360</u>	<u>288,835</u>	<u>-</u>
Totals	<u>\$ 4,565,049</u>	<u>\$ 772,985</u>	<u>\$ 663,758</u>	<u>\$ 4,674,276</u>	<u>\$ 640,000</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Sewer

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

	1/1/18 Balance	Additions	Reductions	12/31/18 Balance	Due Within One Year
General obligation debt	\$ 382,140	\$ -	\$ 60,000	\$ 322,140	\$ 60,000
Accrued sick leave	29,550	7,652	6,485	30,717	-
OPEB obligation	<u>138,252</u>	<u>78,230</u>	<u>138,252</u>	<u>78,230</u>	<u>-</u>
Totals	<u>\$ 549,942</u>	<u>\$ 85,882</u>	<u>\$ 204,737</u>	<u>\$ 431,087</u>	<u>\$ 60,000</u>

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

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
General obligation debt	\$ 442,140	\$ -	\$ 60,000	\$ 382,140	\$ 60,000
Accrued sick leave	24,515	8,465	3,430	29,550	-
OPEB obligation	<u>130,730</u>	<u>15,831</u>	<u>8,309</u>	<u>138,252</u>	<u>-</u>
Totals	<u>\$ 597,385</u>	<u>\$ 24,296</u>	<u>\$ 71,739</u>	<u>\$ 549,942</u>	<u>\$ 60,000</u>

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the water utility's revenue bonds:

Insurance

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Insurance (cont.)

The utilities are covered under the following insurance policies at December 31, 2018:

Type	Coverage	Expiration
General Liability	\$ 5,000,000	4/1/2019
Automobile	5,000,000	4/1/2019
Workers Compensation	500,000	4/1/2019
Property	136,701,622	4/1/2019
Crime	250,000	4/1/2020
Commercial	5,000,000	4/1/2019
Equipment	100,000,000	4/1/2019

Self Insurance

The utilities are part of the municipality's self-funded health insurance program with claims processed by an administrative firm on behalf of the municipality. A separate trust fund has been established into which deposits are made and actual claims are paid out. As part of the plan, a reinsurance policy has been purchased which covers claims in excess of \$90,000 per individual up to a maximum of \$3,484,949. Deposits to the self-insured fund in excess of the claims and other costs paid are retained by the municipality. The utilities' total contributions to the program during the years 2018 and 2017 were \$279,446 and \$466,211, respectively. Details of the plan can be found in the basic financial statements of the City of West Bend.

Debt Coverage - Water

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.25 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met as follows:

	2018	2017
Operating revenues	\$ 4,860,605	\$ 4,878,067
Investment income	79,697	32,025
Less: Operation and maintenance expenses	<u>(2,879,846)</u>	<u>(2,600,919)</u>
Net Defined Earnings	<u>\$ 2,060,456</u>	<u>\$ 2,309,173</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 384,073	\$ 384,073
Coverage factor	<u>1.25</u>	<u>1.25</u>
Minimum Required Earnings	<u>\$ 480,091</u>	<u>\$ 480,091</u>
Actual Debt Coverage	<u>5.36</u>	<u>6.01</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

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

	Customers		Sales (000 gals)	
	2018	2017	2018	2017
Residential	10,873	10,828	474,532	469,142
Multifamily residential	186	185	91,430	102,864
Commercial	794	790	145,765	142,553
Industrial	80	80	77,154	78,939
Public authority	70	69	41,354	39,525
	<u>12,003</u>	<u>11,952</u>	<u>830,235</u>	<u>833,023</u>

NOTE 8 - NET POSITION

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

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 8 - NET POSITION (cont.)

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

	2018	2017
Construction work in progress	\$ 37,957	\$ 22,144
Plant in service	44,238,515	43,567,994
Accumulated depreciation	<u>(17,253,477)</u>	<u>(16,358,000)</u>
Sub-Totals	<u>27,022,995</u>	<u>27,232,138</u>
Less: Capital related debt		
Current portion of capital related long-term debt	720,000	640,000
Long-term portion of capital related long-term debt	3,385,000	3,575,000
Unamortized debt premium	<u>45,412</u>	<u>41,731</u>
Sub-Totals	<u>4,150,412</u>	<u>4,256,731</u>
Add: Unspent debt proceeds		
Reserve from borrowing	<u>358,878</u>	<u>352,111</u>
Net Investment in Capital Assets	<u>\$ 23,231,461</u>	<u>\$ 23,327,518</u>

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

	2018	2017
Construction work in progress	\$ 188,985	\$ 93,531
Plant in service	51,335,034	50,912,608
Accumulated depreciation	<u>(27,598,459)</u>	<u>(26,459,186)</u>
Sub-Totals	<u>23,925,560</u>	<u>24,546,953</u>
Less: Capital related debt		
Current portion of capital related long-term debt	60,000	60,000
Long-term portion of capital related long-term debt	<u>262,140</u>	<u>322,140</u>
Sub-Totals	<u>322,140</u>	<u>382,140</u>
Net Investment in Capital Assets	<u>\$ 23,603,420</u>	<u>\$ 24,164,813</u>

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

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

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants, if hired on or before 12/31/2016) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

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

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

The WRS also provides death and disability benefits for employees.

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2008	6.6%	0%
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4.0

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

The WRS recognized \$109,058 and \$93,374 in contributions from the utilities during the current and prior reporting periods, respectively.

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

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

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

At December 31, 2018, the utilities reported a liability (asset) of \$(310,228) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities' proportion of the net pension liability (asset) was based on the utilities' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the City of West Bend's proportion was .12859065%, which was an increase of .00126600% from its proportion measured as of December 31, 2016.

At December 31, 2017, the utilities reported a liability (asset) of \$81,821 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities' proportion of the net pension liability (asset) was based on the utilities' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City of West Bend's proportion was .12732465%, which was a decrease of .00152575% from its proportion measured as of December 31, 2015.

For the years ended December 31, 2018 and 2017, the utilities recognized pension expense of \$148,380 and \$215,801, respectively.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

	<u>West Bend Water Utility</u>		<u>West Bend Sewer Utility</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 242,139	\$ 133,588	\$ 156,022	\$ 77,567
Changes in assumption	44,411	-	25,789	-
Net differences between project and actual earnings on pension plan	-	209,038	-	153,610
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,978	-	5,303	-
Employer contributions subsequent to the measurement date	<u>66,408</u>	<u>-</u>	<u>45,976</u>	<u>-</u>
Total	<u>\$ 362,936</u>	<u>\$ 342,626</u>	<u>\$ 233,090</u>	<u>\$ 231,177</u>

At December 31, 2017, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>West Bend Water Utility</u>		<u>West Bend Sewer Utility</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,740	\$ 184,198	\$ 12,783	\$ 110,760
Changes in assumption	357,177	-	211,688	-
Net differences between project and actual earnings on pension plan	8,859	-	8,528	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,425	-	7,564	-
Employer contributions subsequent to the measurement date	<u>65,860</u>	<u>-</u>	<u>43,196</u>	<u>-</u>
Total	<u>\$ 469,061</u>	<u>\$ 184,198</u>	<u>\$ 283,759</u>	<u>\$ 110,760</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

<u>Year Ended December 31</u>	<u>West Bend Water Utility</u>		<u>West Bend Sewer Utility</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ (3,030)	\$ (3,512)	\$ (1,912)	\$ (2,362)
2020	170,737	197,280	107,738	133,109
2021	130,029	150,244	82,051	101,372
2022	(1,208)	(1,386)	(763)	(942)
2023	-	-	-	-
Thereafter	-	-	-	-
Total	<u>\$ 296,528</u>	<u>\$ 342,626</u>	<u>\$ 187,114</u>	<u>\$ 231,177</u>

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

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

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

Actuarial assumptions used in the December 31, 2016 and 2015 actuarial valuations are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2017 and 2016 are based upon a roll-forward of the liability calculated from the December 31, 2016 and 2015 actuarial valuations.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2018 are summarized in the following table:

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

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
Global Equities	50%	8.3%	5.4%
Fixed Income	24.5	4.24	1.4
Inflation Sensitive Assets	15.5	4.3	1.5
Real Estate	8	6.5	3.6
Private Equity/Debt	7	9.4	6.5
Multi-Asset	4	6.6	3.7
Total Core Fund	110	7.4	4.5
 <u>Variable Fund Asset Class</u>			
U.S Equities	70	7.6	4.7
International Equities	30	8.5	5.6
Total Variable Fund	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2018 and December 31, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31% in 2018 and 3.78% in 2017. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Sensitivity of the utilities' proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the utilities' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utilities' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

The sensitivity analysis as of December 31, 2018 follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
West Bend Water & Sewer Utilities' proportionate share of the net position liability (asset)	\$ 803,121	\$ (310,228)	\$ (1,156,718)

The sensitivity analysis as of December 31, 2017 follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
West Bend Water & Sewer Utilities' proportionate share of the net position liability (asset)	\$ 1,075,511	\$ 81,821	\$ (683,486)

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

The utilities 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 net 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.

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan description. The utilities' defined benefit OPEB plan, Retiree Medical Benefits (RBP), provides health insurance for eligible retirees and their spouses through the city's group health insurance plan, which covers both active and retired members of the utilities. The RBP is a single-employer defined benefit OPEB plan administered by the city. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Benefits provided. Retiree Medical Benefits provides health insurance benefits for retirees and their spouses. The benefit terms provide for payment of 50 percent of health insurance premiums for non-Medicare-eligible retirees except for police union members. Police union retirees are allowed to remain on the plan until they reach Medicare eligibility, but must contribute 100% of the premium.

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	3
Active plan members	<u>10</u>
Total	<u><u>13</u></u>

TOTAL OPEB LIABILITY

The utilities' total OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

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

Inflation	3.44
Salary increases	0.4% - 4.8%
Healthcare cost trend rates	7.903% decreasing to ultimate rate of 4.6% over 68 years
Retiree's share of benefit-related costs	50% non-police union

Mortality rates are based on the Wisconsin 2012 Mortality Table.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period 2012 - 2014.

The discount rate is based on 20-year Bond Buyer GO index.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

CHANGES IN THE TOTAL OPEB LIABILITY

	Total OPEB Liability
Balances at Sunday, December 31, 2017	\$ 488,703
Changes for the year:	
Service cost	19,776
Interest	12,921
Differences between expected and actual experience	(266)
Contributions-employer	-
Benefit payments	(48,296)
Net changes	(15,865)
 Balances at Monday, December 31, 2018	 \$ 472,838

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the utilities, as well as what the utilities' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75 percent) than the current discount rate:

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
Net OPEB liability (asset)	\$ 519,132	\$ 472,838	\$ 430,322

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the utilities, as well as what the utilities' net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.9 percent decreasing to 7.0 percent) or 1-percentage-point higher (9.9 percent decreasing to 9.0 percent) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB liability (asset)	\$ 411,763	\$ 434,819	\$ 546,712

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued utilities' financial report.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

***OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES
RELATED TO OPEB***

For the year ended December 31, 2018, the water and sewer utilities recognized OPEB expense of \$29,680 and \$4,534, respectively. At December 31, 2018, the utilities 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	\$ -	\$ 243
Employer contributions after the measurement date	<u>39,768</u>	<u>-</u>
Total	<u>\$ 39,768</u>	<u>\$ 243</u>

Deferred outflows related to OPEB resulting from the employer's contributions subsequent to the measurement date reported in the table above will be recognized as a reduction of the total OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:

2018	\$	23
2019		23
2020		23
2021		23
2022		23
Thereafter		<u>128</u>
Total	<u>\$</u>	<u>243</u>

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Local Retiree Life Insurance Fund (LRLIF)

Plan description. The LRLIF is a multiple-employer defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides post-employment life insurance benefits for all eligible employees.

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

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

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

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

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

Contribution rates for the plan year reported as of December 31, 2018 are:

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Life Insurance Employee Contribution Rates For the Plan Year

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

During the reporting period, the LRLIF recognized \$368 and \$270 in contributions from water and sewer, respectively.

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEBS

At December 31, 2018, the water and sewer utilities reported a liability of \$95,233 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities' proportion of the net OPEB liability was based on the utilities's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, the utilities' proportion was 0.03169320%, which was an increase of 0.00088680% from its proportion measured as of December 31, 2016.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

For the year ended December 31, 2018, the utilities recognized OPEB expense of \$9,672.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,342
Net differences between projected and actual earnings on OPEB plan investments	1,097	-
Changes in assumptions	9,203	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,865	-
Employer contributions subsequent to the measurement date	638	-
Total	\$ 12,803	\$ 1,342

\$368 reported as deferred outflows related to OPEB resulting from the LRLIF Employer's contributions subsequent to the measurement date will be recognized as \$368 of the net OPEB liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	Deferred Outflows of Resources and Deferred Inflows of Resources (net)
2018	\$ 1,765
2019	1,765
2020	1,765
2021	1,765
2022	1,490
Thereafter	2,273
Total	\$ 10,823

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Actuarial Valuation Date:	January 1, 2017
Measurement Date of Net OPEB Liability	December 31, 2017
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	3.44%
Long-Term Expected Rate of Return:	5.0%
Discount Rate:	3.63%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table

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

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

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Sensitivity of the utilities' proportionate share of the net OPEB liability to changes in the discount rate. The following presents the utilities' proportionate share of the net OPEB liability calculated using the discount rate of 3.63 percent, as well as what the utilities' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.63 percent) or 1-percentage-point higher (4.63 percent) than the current rate:

	1% Decrease to Discount Rate (2.63%)	Current Discount Rate (3.63%)	1% Increase to Discount Rate (4.63%)
The utilities' proportionate share of the net OPEB liability	\$134,768	\$95,233	\$65,104

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

OTHER POSTEMPLOYMENT BENEFIT DISCLOSURES REQUIRED UNDER GASB No. 45

The municipality provides post-employment health care benefits to retired employees and their dependents. The municipality's annual other postemployment benefit costs are calculated based on the annual required contribution of the employer as determined by an actuary in accordance with parameters of Governmental Accounting Standards Board Statement No. 45 for 2017. The annual required contributions and actual contributions were as follows:

	Required Contributions 2017		Actual Contributions 2017
Water	\$ 37,842	\$	17,360
Sewer	18,113		8,309

Specific information concerning the utilities' other post-employment benefits has not been determined. Please refer to the municipality's financial statements for information concerning the municipality's other postemployment benefits.

WEST BEND WATER AND SEWER UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

Open Contracts

The utilities have signed construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2018 has been accrued in these financial statements.

NOTE 12 - SUBSEQUENT EVENTS

The utilities evaluated subsequent events through June 10, 2019, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

Debt Issue

On April 3, 2019 the City issued general obligation bonds which included \$1,350,000 of proceeds for capital projects of and repayment by the Water Utility.

On March 18, 2019, the City approved a resolution to enter into a cooperative agreement relating to the "Wisconsin Investment Series Cooperative" and authorize participation in the investment programs of the fund.

NOTE 13 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utilities adopted GASB Statement No. 75 effective January 1, 2018. The cumulative effect of implementation is reflected as a change in net position at December 31, 2017 as follows:

Sewer Utility

Net OPEB liability January 1, 2018	\$ (42,786)
Deferred outflows and inflows January 1, 2018	<u>234</u>
Cumulative Effect of a Change in Accounting Principle	<u><u>\$ (42,552)</u></u>

Water Utility

Net OPEB liability January 1, 2018	\$ (211,297)
Deferred outflows and inflows January 1, 2018	<u>39,891</u>
Cumulative Effect of a Change in Accounting Principle	<u><u>\$ (171,406)</u></u>

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

WEST BEND WATER AND SEWER UTILITIES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) Wisconsin Retirement System Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS. The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	2015	2016	2017	2018
City of West Bend's proportion of the net pension liability (asset)	0.133309%	.1288504%	.12732465%	.12859065%
West Bend Water and Sewer Utilities' proportionate share of the net pension liability (asset)	\$ (299,673)	\$ 181,128	\$ 81,821	\$ (310,228)
West Bend Water and Sewer Utilities' covered employee payroll	\$ 1,694,410	\$ 1,562,206	\$ 1,414,758	\$ 1,603,794
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%	99.12%	102.93%

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

SCHEDULE OF CONTRIBUTIONS Wisconsin Retirement System Last 10 Fiscal Years*

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

	2015	2016	2017	2018
Contractually required contributions	\$ 106,230	\$ 93,374	\$ 109,058	\$ 112,384
Contributions in relation to the contractually required contributions	(106,230)	(93,374)	(109,058)	(112,384)
Contributions deficiency (excess)	-	-	-	-
West Bend Water and Sewer Utilities's covered-employee payroll	1,562,206	1,414,758	1,603,794	1,677,373
Contributions as a percentage of covered-employee payroll	6.80%	6.60%	6.80%	6.7%

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

WEST BEND WATER AND SEWER UTILITIES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET LIFE INSURANCE OPEB LIABILITY LOCAL RETIREE LIFE INSURANCE FUND For the Year Ended December 31, 2018

Fiscal Year Ending	Proportion of the Net OPEB Liability	Proportionate Share of the Net OPEB Liability	Covered Payroll	Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
12/31/18	0.00632100%	\$ 95,223	\$ 1,723,864	5.52%	44.81%

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

WEST BEND WATER AND SEWER UTILITIES

HEALTH INSURANCE SCHEDULE OF CHANGES IN THE UTILITIES' TOTAL OPEB LIABILITY AND RELATED RATIOS Most Recent Fiscal Year

	2018
Total OPEB Liability	
Service cost	\$ 19,776
Interest	12,921
Changes of benefit terms	-
Differences between expected and actual experience	(266)
Changes of assumptions	-
Benefit payments	(48,296)
Net Change in Total OPEB Liability	(15,865)
Total OPEB Liability - Beginning	488,703
Total OPEB Liability - Ending	\$ 472,838
 Covered-employee payroll	 \$ 1,723,864
 Total OPEB liability as a percentage of covered-employee payroll	 27.43%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, 2017, one year prior to the end of the fiscal year.

Actuarial cost method	Entry age normal
Amortization method	Average remaining member service life
Amortization period	8.6 years
Asset valuation method	N/A
Inflation	3.44 percent
Healthcare cost trend rates	7.903 percent for 2018 decreasing to an ultimate rate of 4.6 percent to an ultimate rate of 4.0 percent
Salary increases	3 percent annually
Investment rate of return	N/A
Retirement age	Based upon rates from the December 31, 2017 actuarial valuation for the Wisconsin Retirement System (WRS)
Mortality	Assumed life expectancies were based on the Wisconsin 2012 Mortality Table

Benefit changes. There were no changes to the benefits.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

The utilities implemented GASB Statement No. 75 in 2018. Information prior to 2018 is not available.

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

WEST BEND WATER AND SEWER UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2018

Wisconsin Retirement System (WRS)

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

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

Local Retiree Life Insurance Fund (LRLIF)

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

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

WEST BEND WATER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Adjustments	Balance 12/31/18
SOURCE OF SUPPLY					
Land and land rights	\$ 142,270	\$ -	\$ -	\$ -	\$ 142,270
Wells and springs	793,616	-	-	-	793,616
Total Source of Supply	<u>935,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>935,886</u>
PUMPING					
Structures and improvements	1,376,575	6,194	-	-	1,382,769
Electric pumping equipment	1,325,824	-	-	-	1,325,824
Diesel pumping equipment	569,794	-	-	-	569,794
Total Pumping	<u>3,272,193</u>	<u>6,194</u>	<u>-</u>	<u>-</u>	<u>3,278,387</u>
WATER TREATMENT					
Land and land rights	76,102	-	-	-	76,102
Structures and improvements	784,709	-	-	-	784,709
Water treatment equipment	832,717	-	-	-	832,717
Total Water Treatment	<u>1,693,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,693,528</u>
TRANSMISSION AND DISTRIBUTION					
Land and land rights	52,719	-	-	-	52,719
Distribution reservoirs and standpipes	2,371,838	30,131	3,484	-	2,398,485
Transmission and distribution mains	21,405,112	190,854	2,145	-	21,593,821
Services	3,774,828	101,706	72	-	3,876,462
Meters	2,309,599	113,344	40,761	-	2,382,182
Hydrants	3,603,861	121,859	15,002	-	3,710,718
Total Transmission and Distribution	<u>33,517,957</u>	<u>557,894</u>	<u>61,464</u>	<u>-</u>	<u>34,014,387</u>
GENERAL					
Land and land rights	245,950	-	-	-	245,950
Structures and improvements	976,297	11,125	5,514	-	981,908
Office furniture and equipment	31,235	4,575	-	-	35,810
Computer equipment	420,327	2,085	-	-	422,412
Transportation equipment	839,340	225,518	68,782	-	996,076
Tools, shop and garage equipment	219,319	1,525	-	-	220,844
Laboratory equipment	7,126	-	20	-	7,106
Power-operated equipment	133,184	-	2,615	-	130,569
Communication equipment	168,799	-	-	-	168,799
SCADA equipment	912,603	-	-	-	912,603
Miscellaneous equipment	194,250	-	-	-	194,250
Total General	<u>4,148,430</u>	<u>244,828</u>	<u>76,931</u>	<u>-</u>	<u>4,316,327</u>
TOTAL WATER UTILITY PLANT	<u><u>\$43,567,994</u></u>	<u><u>\$ 808,916</u></u>	<u><u>\$ 138,395</u></u>	<u><u>\$ -</u></u>	<u><u>\$44,238,515</u></u>

WEST BEND WATER UTILITY

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

	2018	2017
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 2,229,784	\$ 2,209,895
Multifamily residential	297,860	327,371
Commercial	506,022	502,954
Industrial	192,601	195,724
Public authorities	128,099	124,684
Total Metered Sales	3,354,366	3,360,628
Private fire protection	154,077	152,784
Public fire protection	1,042,007	1,036,497
Total Sales of Water	4,550,450	4,549,909
Other Operating Revenues		
Forfeited discounts	57,736	60,969
Miscellaneous service revenue	1,507	5,500
Rents from water property	208,501	215,489
Other	42,411	46,200
Total Operating Revenues	4,860,605	4,878,067
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Wells and springs	258,259	32,794
Pumping		
Operation supervision and engineering	1,688	1,375
Fuel or purchased power for pumping	189,170	187,617
Pumping labor	20,445	20,610
Miscellaneous	35,374	97,829
Maintenance		
Supervision and engineering	-	1,217
Structures and improvements	15,431	40,487
Pumping equipment	38,149	73,270
Total Pumping	300,257	422,405
Water Treatment		
Chemicals	97,450	89,599
Operation labor	21,744	21,830
Miscellaneous	-	249
Maintenance		
Supervision and engineering	-	105
Water treatment equipment	35,499	18,515
Total Water Treatment	154,693	130,298

WEST BEND WATER UTILITY

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

	2018	2017
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 12,529	\$ 11,839
Storage facilities	11,180	10,441
Meters	6,829	6,780
Customer installations	-	70
Miscellaneous	34,930	25,286
Maintenance		
Supervision and engineering	12,022	12,097
Reservoirs and standpipes	33,570	23,093
Mains	520,883	468,792
Services	173,591	203,062
Meters	33,345	26,943
Hydrants	23,771	14,572
Total Transmission and Distribution	862,650	802,975
Customer Accounts		
Meter reading	20,162	15,787
Accounting and collecting labor	65,174	75,766
Total Customer Accounts	85,336	91,553
Administrative and General		
Salaries	296,718	292,453
Office supplies	41,144	41,930
Outside services employed	21,080	31,302
Injuries and damages	56,763	55,398
Employee pensions and benefits	541,906	476,889
Miscellaneous	70,622	60,032
Maintenance	118,221	86,869
Total Administrative and General	1,146,454	1,044,873
Taxes	72,197	76,021
Total Operation and Maintenance	2,879,846	2,600,919
Depreciation	973,038	1,023,943
Total Operating Expenses	3,852,884	3,624,862
OPERATING INCOME	\$ 1,007,721	\$ 1,253,205

WEST BEND SEWER UTILITY

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Balance 12/31/18
COLLECTING SYSTEM				
Land and land rights	\$ 26,039	\$ -	\$ -	\$ 26,039
Collecting mains	19,400,028	211,420	29,585	19,581,863
Interceptor mains	3,373,873	-	-	3,373,873
Force mains	225,919	-	-	225,919
Other collecting system equipment	372,287	-	-	372,287
Total Collecting System	<u>23,398,146</u>	<u>211,420</u>	<u>29,585</u>	<u>23,579,981</u>
COLLECTING SYSTEM PUMPING				
Electric pumping equipment	<u>360,624</u>	-	-	<u>360,624</u>
TREATMENT AND DISPOSAL				
Land and land rights	9,491	-	-	9,491
Structures and improvements	12,135,149	8,302	4,762	12,138,689
Preliminary treatment equipment	637,214	-	-	637,214
Primary treatment equipment	282,634	-	-	282,634
Secondary treatment equipment	1,326,662	275,296	88,824	1,513,134
Advanced treatment equipment	2,810,938	-	-	2,810,938
Chlorination equipment	147,572	-	-	147,572
Disinfecting equipment	620,660	-	-	620,660
Sludge treatment and disposal equipment	3,954,407	30,979	7,440	3,977,946
Plant site piping	4,213,707	26,068	-	4,239,775
Flow metering and monitoring equipment	177,846	-	-	177,846
Other treatment and disposal equipment	113,756	-	-	113,756
Total Treatment and Disposal	<u>26,430,036</u>	<u>340,645</u>	<u>101,026</u>	<u>26,669,655</u>
GENERAL				
Office furniture and equipment	50,327	812	-	51,139
Computer equipment	130,378	-	-	130,378
Transportation equipment	188,145	-	-	188,145
Other general equipment	354,952	2,047	1,887	355,112
Total General	<u>723,802</u>	<u>2,859</u>	<u>1,887</u>	<u>724,774</u>
TOTAL SEWER UTILITY PLANT	<u><u>\$50,912,608</u></u>	<u><u>\$ 554,924</u></u>	<u><u>\$ 132,498</u></u>	<u><u>\$51,335,034</u></u>

WEST BEND SEWER UTILITY

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

	2018	2017
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 2,093,728	\$ 2,081,985
Multifamily residential	293,885	327,743
Commercial	466,522	456,754
Industrial	216,091	214,261
Public authorities	137,288	107,173
Interdepartmental sales	1,698	566
Contractual services revenue	296,524	327,710
Total Sewer Revenues	3,505,736	3,516,192
Other Operating Revenues		
Forfeited discounts	40,915	44,242
Generation revenue	106,802	79,460
Total Operating Revenues	3,653,453	3,639,894
 OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	259,526	260,139
Power and fuel for pumping	351,977	345,705
Treatment charges	101,583	86,695
Phosphorous removal chemicals	237,192	214,408
Other chemicals	50,703	40,782
Laboratory expenses	74,270	77,038
Other operating supplies	71,241	61,976
Joint metering costs	64,512	63,011
Transportation	11,070	14,687
Rents	43,582	44,221
Total Operation	1,265,656	1,208,662
Maintenance		
Collection system	70,073	146,883
Meters	12,772	25,303
Pumping equipment	11,853	23,771
Treatment and disposal plant equipment	255,669	170,499
General plant structures and equipment	38,887	57,230
Total Maintenance	389,254	423,686
Customer Accounts		
Accounting and collecting	47,405	45,923
Miscellaneous	17,815	15,933
Total Customer Accounts	65,220	61,856
Administrative and General		
Salaries	224,231	228,687
Office supplies	31,700	33,048
Outside services employed	81,533	86,637
Insurance	60,311	63,099
Employees pensions and benefits	144,709	274,657
Miscellaneous	11,631	12,542
Total Administrative and General	554,115	698,670

WEST BEND SEWER UTILITY

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

	<u>2018</u>	<u>2017</u>
OPERATING EXPENSES		
Operation and Maintenance (cont.)		
Taxes	\$ 68,761	\$ 65,752
Total Operation and Maintenance	2,343,006	2,458,626
Depreciation	<u>1,271,533</u>	<u>1,261,888</u>
Total Operating Expenses	<u>3,614,539</u>	<u>3,720,514</u>
 OPERATING INCOME (LOSS)	 <u>\$ 38,914</u>	 <u>\$ (80,620)</u>