

WAUKESHA WATER UTILITY

An Enterprise Fund of the
City of Waukesha, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2021 and 2020

WAUKESHA WATER UTILITY

An Enterprise Fund of the City of Waukesha, Wisconsin

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Independent Auditors' Report

To the Utility Commission of
Waukesha Water Utility

Opinion

We have audited the financial statements of the Waukesha Water Utility (Utility), an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2021 and 2020 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Utility and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Utility of the City of Waukesha, Wisconsin, are intended to present the financial position, the changes in the financial position and where applicable, cash flows of only the Utility. They do not purport to and do not, present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2021, and 2020, and the changes in financial position or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 an opinion 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 are 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 supplementary information are fairly stated in all material respects, in relation to the financial statements as a whole.

Baker Tilly US, LLP

Madison, Wisconsin
May 16, 2022

MANAGEMENT’S DISCUSSION AND ANALYSIS
Years Ended December 31, 2021 and 2020
(Unaudited)

The management of Waukesha Water Utility (Utility) offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility’s financial performance during the years ending December 31, 2021 and 2020. You are invited to read this narrative in conjunction with the Utility’s financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total net position increased by \$2,752,000 to \$76,703,000 in 2021, an increase of 3.72%. In 2021, the increase was a result of increased revenues and stable expenses. In comparison, the net position decreased in 2020 primarily because non-capital planning and support costs for the new water supply project were written off.
- ❖ Operating revenues, generated mostly by rate payers, increased by \$2,015,000, or 17.51% in 2021. This is due to an increase in rates that was granted by the Public Service Commission of Wisconsin (PSCW) effective February 1, 2021.
- ❖ Operation and maintenance expenses decreased by \$25,000 or 0.49% in 2021. There were no major maintenance or repair projects completed in 2021, keeping costs consistent with those in 2020.
- ❖ Year-end Cash and Equivalents increased by \$5,850,000 in 2021 as a result of an increase in cash from operating activities and proceeds from debt issues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Utility is a self-supporting entity and an enterprise fund of the City of Waukesha (municipality). It provides water services to properties within the municipality and to certain areas outside the municipality. The Utility also provides metering and billing services for the City’s Sewer Department.

The Utility is managed by a Commission. It operates under service rules and rates that are established by the PSCW. Accounting records for the Utility are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW and in accordance with the Governmental Accounting Standards Board (GASB).

This annual report includes this management’s discussion and analysis report, the independent auditor’s report and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Utility report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Utility’s assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2021 and 2020
(Unaudited)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility's user charges are sufficient.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

UTILITY FINANCIAL ANALYSIS

An analysis of the Utility's financial position begins with a review of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. These two statements report the Utility's net assets and changes therein. The Utility's net assets (the difference between assets, deferred outflows, liabilities, and deferred inflows) are key to measuring the financial health of the Utility. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that financial position could also be affected by other non-financial factors including economic conditions, population growth and new regulations. The Utility's overall financial position has remained stable for the years ended December 31, 2021 and 2020.

NET POSITION

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

Table 1
Condensed Statement of Net Position
2021, 2020, and 2019
(000's)

	2021	2020	2019	2021 v. 2020 Change		2020 v. 2019 Change	
Current Assets	\$ 52,804	\$ 44,469	\$ 43,497	\$ 8,335	18.74 %	\$ 972	2.23 %
Net Capital Assets	144,892	118,958	98,180	25,934	21.80	20,778	21.16
Other Noncurrent Assets	6,629	7,206	29,383	(577)	(8.01)	(22,177)	(75.48)
Total Assets	204,325	170,633	171,060	33,692	19.75	(427)	(0.25)
Deferred Outflows of Resources	3,329	2,850	2,707	479	16.81	143	5.28
Long Term Debt Outstanding	104,856	83,552	81,020	21,304	25.50	2,532	3.13
Other Liabilities	23,766	14,604	15,910	9,162	62.74	(1,306)	(8.21)
Total Liabilities	128,622	98,156	96,930	30,466	31.04	1,226	1.26
Deferred Inflows of Resources	2,329	1,377	726	952	69.14	651	89.67
Net Investment in Capital Assets	42,443	37,951	44,505	4,492	11.84	(6,554)	(14.73)
Restricted Net Position	2,266	1,654	761	612	37.00	893	117.35
Unrestricted Net Position	31,994	34,345	30,845	(2,351)	(6.85)	3,500	11.35
Total Net Position	\$ 76,703	\$ 73,950	\$ 76,111	\$ 2,753	3.72 %	\$ (2,161)	(2.84) %

See accompanying independent Auditor's Report

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2021 and 2020
(Unaudited)

As shown in Table 1, Total net position increased by \$2,753,000 to \$76,703,000 in 2021, an increase of 3.72%. Revenues in excess of expenses and capital contributions account for the increase in net position.

Total net position decreased by \$2,161,000 to \$73,950,000 in 2020, a decrease of 2.84%. A non-capital write-off of \$2.257 million from the new water supply project account for the decrease in net position.

The restricted portion of the net position includes accounts that are limited by bond covenants.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

The specific nature or source of changes in net assets becomes more evident in the Utility's *Statements of Revenues, Expenses and Changes in Net Position* as shown in Table 2. This statement provides an indication of the Utility's financial health.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position
2021, 2020, and 2019
(000's)

	2021	2020	2019	2021 v. 2020 Change		2020 v. 2019 Change	
Operating Revenues	\$ 13,525	\$ 11,510	\$ 11,728	\$ 2,015	17.51 %	\$ (218)	(1.86) %
Non-operating Revenues	66	205	749	(139)	(67.80)	(544)	(72.63)
Total Revenues	13,591	11,715	12,477	1,876	16.01	(762)	(6.11)
Depreciation Expense	2,780	2,708	2,620	72	2.66	88	3.36
Other Operating Expense	5,036	5,061	5,812	(25)	(0.49)	(751)	(12.92)
Non-operating Expense	1,753	4,622	1,965	(2,869)	(62.07)	2,657	135.22
Total Expense	9,569	12,391	10,397	(2,822)	(22.77)	1,994	19.18
Income before Capital Contributions and Transfers	4,022	(676)	2,080	4,698	694.97	(2,756)	(132.50)
Capital Contributions	873	508	308	365	71.85	200	64.94
Capital Contributions - Municipal	4	31	14	(27)	(87.10)	17	121.43
Transfers - Tax Equivalent	(2,146)	(2,024)	(2,059)	122	6.03	(35)	(1.70)
Changes in Net Assets	2,753	(2,161)	343	4,914	227.39	(2,504)	(730.03)
Beginning Net Assets	73,950	76,111	75,768	(2,161)	(2.84)	343	0.45
Ending Net Assets	<u>\$ 76,703</u>	<u>\$ 73,950</u>	<u>\$ 76,111</u>	<u>\$ 2,753</u>	<u>3.72 %</u>	<u>\$ (2,161)</u>	<u>(2.84) %</u>

Operating revenues increased in 2021 by \$2,015,000, as a result of an increase in water rates that the Public Service Commission of Wisconsin (PSCW) granted on February 1, 2021. Non-operating revenues decreased by \$139,000, or 67.8%, primarily due to a decrease in investment income. Interest rates have decreased drastically from mid-2019 through November 2021.

Operating revenues decreased in 2020 by \$218,000 as a result of the Coronavirus Pandemic and continued conservation efforts in all customer classes. Non-operating revenues decreased by \$544,000, or 72.63%, because of a decrease in investment income, due to low interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2021 and 2020

(Unaudited)

Depreciation expense in 2021 increased by \$72,000, or 2.66%, due to the addition of capital assets. Other operating expenses were consistent with the previous year and decreased only \$25,000. Non-operating expenses decreased by \$2,869,000, due to a non-capital write-off from the new water supply project in 2020. Interest expense was also lower in 2021 because a portion of debt that had higher interest rates was refinanced at the end of 2020 and in April of 2021.

Depreciation expense in 2020 increased by \$88,000 due to the addition of capital assets. Other operating expenses decreased by \$751,000 or 12.92%. There were no large maintenance projects incurred in 2020. Non-operating expenses increased \$2,657,000, or 135.22%, due to a non-capital write-off of \$2.257 million from the new water supply project.

Capital contributions increased in 2021 by \$365,000 or 71.85% due to developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$122,000.

Capital contributions increased in 2020 by \$200,000 or 64.94% due to developer-funded water projects. In keeping with the negotiated schedule, the payment in lieu of taxes to the City decreased \$35,000.

CASH FLOWS

The *Statement of Cash Flows*, illustrated in Table 3, reports the cash provided and used by operating activities, as well as other cash sources and uses derived from financing and investment activities.

Table 3
Condensed Statement of Cash Flows
2021, 2020, and 2019
(000's)

	2021	2020	2019	2021 v. 2020 Change		2020 v. 2019 Change	
Cash Flows From:							
Operating Activities	\$ 11,260	\$ 6,798	\$ 7,772	\$ 4,462	65.64 %	\$ (974)	(12.53) %
Paid to Municipality - Tax Equivalent	(2,023)	(2,059)	(1,875)	(36)	(1.75)	(184)	(9.81)
Capital and Related Financing Activities	(3,440)	(5,639)	464	2,199	39.00	(6,103)	(1,315.30)
Investing Activities	54	189	725	(135)	(71.43)	(536)	(73.93)
Net Change in Cash and Equivalents	5,851	(711)	7,086	6,562	922.93	(7,797)	(110.03)
Cash and Equivalents Beginning of Year	36,230	36,941	29,855	(711)	(1.92)	7,086	23.73
Cash and Equivalents End of Year	<u>\$ 42,081</u>	<u>\$ 36,230</u>	<u>\$ 36,941</u>	<u>\$ 5,851</u>	<u>16.15 %</u>	<u>\$ (711)</u>	<u>(1.92) %</u>

Year-end Cash and Equivalents increased by \$5,851,000 in 2021 as a result of an increase in cash from operating activities and proceeds from debt issues.

Year-end Cash and Equivalents decreased by \$711,000 in 2020 primarily due to the increase in annual debt service payments associated with the new water supply project.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2021 and 2020
(Unaudited)

CAPITAL ASSETS

Table 4 summarizes the Utility's capital assets. Please refer to the *Notes to Financial Statements*, particularly the *Capital Assets* section of *Note 1 – Summary of Significant Accounting Policies* and *Note 5 – Changes in Capital Assets*, for further detail of the Utility's capital assets.

Table 4
Capital Assets
2021, 2020, and 2019
(000's)

	2021	2020	2019	2021 v. 2020 Change		2020 v. 2019 Change	
Land & Land Rights	\$ 566	\$ 566	\$ 566	\$ -	- %	\$ -	- %
Intangible	217	201	197	16	7.96	4	2.03
Source of Supply	2,592	2,592	2,592	-	-	-	-
Pumping	10,052	9,951	9,969	101	1.01	(18)	(0.18)
Water Treatment	5,245	5,245	5,245	-	-	-	-
Transmission and Distribution	115,199	112,083	108,472	3,116	2.78	3,611	3.33
General	6,569	6,438	6,079	131	2.03	359	5.91
Total Capital Assets	140,440	137,076	133,120	3,364	2.45	3,956	2.97
Accumulated Depreciation	(39,814)	(37,556)	(35,337)	(2,258)	(6.01)	(2,219)	(6.28)
Construction in Progress	44,266	19,438	397	24,828	127.73	19,041	4,796.22
Net Capital Assets	\$ 144,892	\$ 118,958	\$ 98,180	\$ 25,934	21.80 %	\$ 20,778	21.16 %

The Utility's capital assets increased by \$3.364 million, or 2.45% in 2021. Increases in developer contributions totaled \$873,500. The balance of the increase relates to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$722,000 in assets were retired.

The Utility's capital assets increased by \$3.956 million, or 2.97% in 2020. Increases in developer contributions totaled \$508,000. The balance is due to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$815,000 in assets were retired.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2021 and 2020
(Unaudited)

LONG-TERM DEBT

At the end of 2021, the Utility had revenue bonds of \$74.84 million outstanding, which included \$11.88 million in Safe Drinking Water (SDW) Loans issued in 2013, 2018 and 2019 and \$48.07 million in Water Infrastructure Finance and Innovation Act (WIFIA) Loans issued in 2020 and 2021 through the U.S. Environmental Protection Agency. At the end of 2020, the Utility had revenue bonds of \$51.58 million outstanding, which included \$12.47 million in SDW Loans and \$27.58 million in WIFIA Loans. The SDW and WIFIA loans were, and still are, being used to finance capital improvement projects necessary to secure an alternate source of water. The Utility had General Obligation (GO) debt outstanding of \$30.02 million in 2021 and \$31.97 million in 2020. The debt originated from offerings issued in 2013, 2014, 2015, 2016 and 2017, along with debt refinancings in 2020 and 2021. The GO debt funded past routine capital replacements and Great Water Alliance improvements.

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

ECONOMIC FACTORS AND FUTURE PLANNING

The Utility's service area is located in southeast Wisconsin. Waukesha County is the third largest county in the State. The service area was experiencing a commercial and residential boom prior to the economic down-turn in late 2008. The economy began to stabilize in 2012 and has continued to improve since. The Coronavirus Pandemic did have a short-term impact on the Utility's financials in 2020, but the impact did lessen as the year progressed in 2021.

The Utility maintains a five-year financial plan that focuses on identifying and implementing improvements. This plan coordinates with the City of Waukesha's Master Plan. Rate structures are reviewed on a consistent basis to ensure that customers are provided with high quality water, in the amounts they need and at a fair price. A residential inclining rate structure has been implemented in order to promote conservation.

Declining water levels and water quality, coupled with future water demand, have forced Waukesha to spend many years investigating an alternative water source. Through this investigation, Waukesha and the WDNR determined that Lake Michigan water was the most sustainable public water supply source. The Great Lakes-St. Lawrence River Basin Water Resources Council agreed, and unanimously approved Waukesha's application to borrow water from Lake Michigan on June 21, 2016. This long-term solution, known as the Great Water Alliance, will require an unprecedented investment in infrastructure over the next several years. Construction began in late 2020 and is expected to continue into 2023 when the transition of the new water supply is expected to occur.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Joseph Ciarro, Administrative Services Manager, Waukesha Water Utility, 115 Delafield Street, P.O. 1648, Waukesha, Wisconsin 53187-1648, by phone at (262) 409-4420, or by email jciarro@waukesha-water.com.

WAUKESHA WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 24,994,200	\$ 20,329,283
Other special accounts	15,482,804	14,609,722
Restricted Assets		
Redemption account	1,603,536	1,291,675
Receivables		
Customer accounts	2,473,146	4,378,048
Unbilled revenue	1,232,654	1,546,030
Other	126,628	339,753
Due from municipality	325,500	-
Due from sewer utility	6,005,974	1,451,663
Materials and supplies	377,839	354,351
Prepayments	181,442	168,303
Total Current Assets	<u>52,803,723</u>	<u>44,468,828</u>
NONCURRENT ASSETS		
Restricted Assets		
Net pension asset	818,011	437,465
Other Assets		
Preliminary survey and investigation	2,875,617	3,833,949
Property held for future use	2,935,090	2,935,090
Capital Assets		
Plant in service	140,439,916	137,075,579
Accumulated depreciation	(39,813,782)	(37,556,076)
Construction in progress	44,266,074	19,438,574
Total Noncurrent Assets	<u>151,520,926</u>	<u>126,164,581</u>
Total Assets	<u>204,324,649</u>	<u>170,633,409</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	651,595	749,404
Deferred outflow related to pensions	1,449,930	1,059,079
Deferred outflow related to other post-employment benefits	1,227,740	1,041,358
Total Deferred Outflows of Resources	<u>3,329,265</u>	<u>2,849,841</u>

See accompanying notes to financial statements

	2021	2020
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 11,358,829	\$ 1,076,176
Due to municipality	2,146,102	2,039,957
Due to sewer utility	2,863,867	4,101,791
Customer deposits	164,825	266,083
Conservation programs	121,296	78,128
Accrued wages	59,380	44,862
Accrued interest	284,914	189,741
Accrued vacation leave	207,759	221,740
Current portion of general obligation debt	1,855,000	8,225,000
Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	608,025	596,662
Accrued interest	155,963	75,466
Total Current Liabilities	<u>19,825,960</u>	<u>16,915,606</u>
NONCURRENT LIABILITIES		
General obligation debt	28,165,000	23,745,000
Revenue bonds	74,228,074	50,985,644
Unamortized premium on debt	1,179,123	1,139,323
Customer advances for construction	50,221	21,102
Other net post-employment benefits liability	5,174,100	5,349,159
Total Noncurrent Liabilities	<u>108,796,518</u>	<u>81,240,228</u>
 Total Liabilities	 <u>128,622,478</u>	 <u>98,155,834</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to pensions	1,893,017	1,340,220
Deferred inflow related to other post-employment benefits	435,449	37,124
Total Deferred Outflows of Resources	<u>2,328,466</u>	<u>1,377,344</u>
NET POSITION		
Net investment in capital assets	42,443,671	37,950,941
Restricted for debt service	1,447,573	1,216,209
Restricted for pensions	818,011	437,465
Unrestricted net position	<u>31,993,715</u>	<u>34,345,457</u>
 TOTAL NET POSITION	 <u><u>\$ 76,702,970</u></u>	 <u><u>\$ 73,950,072</u></u>

See accompanying notes to financial statements

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WAUKESHA WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Sales of water	\$ 13,316,326	\$ 11,149,602
Other operating revenues	209,038	360,474
Total Operating Revenues	<u>13,525,364</u>	<u>11,510,076</u>
OPERATING EXPENSES		
Operation and maintenance	5,035,672	5,060,612
Depreciation expense	2,780,231	2,708,128
Total Operating Expenses	<u>7,815,903</u>	<u>7,768,740</u>
OPERATING INCOME	<u>5,709,461</u>	<u>3,741,336</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	53,529	189,122
Income from merchandising and jobbing	6,193	5,926
Other nonoperating revenues	5,710	9,747
Interest expense	(1,615,294)	(1,963,077)
Amortization of premium	179,725	303,470
Amortization of loss on advance refunding	(97,809)	(50,999)
Debt issuance costs	(108,832)	(477,000)
Project non-capital expense	-	(2,257,370)
Lobbying expense	(110,967)	(176,901)
Total Nonoperating Revenues (Expenses)	<u>(1,687,745)</u>	<u>(4,417,082)</u>
Income Before Transfers and Capital Contributions	<u>4,021,716</u>	<u>(675,746)</u>
TRANSFERS AND CONTRIBUTIONS		
Capital contributions	873,498	507,927
Capital contributions - Municipal	3,786	30,624
Transfers out - Tax equivalent	(2,146,102)	(2,023,579)
Total Transfers and Contributions	<u>(1,268,818)</u>	<u>(1,485,028)</u>
CHANGE IN NET POSITION	2,752,898	(2,160,774)
NET POSITION - Beginning of Year	<u>73,950,072</u>	<u>76,110,846</u>
NET POSITION - END OF YEAR	<u><u>\$ 76,702,970</u></u>	<u><u>\$ 73,950,072</u></u>

See accompanying notes to financial statements

WAUKESHA WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 15,834,429	\$ 11,625,357
Paid to suppliers for goods and services	(2,630,272)	(2,997,683)
Paid to employees for operating payroll	(1,944,593)	(1,829,253)
Net Cash Flows From Operating Activities	11,259,564	6,798,421
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(2,023,579)	(2,058,933)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(24,311,523)	(12,949,035)
Proceeds from sale of capital assets	877,418	8,305,949
Cost of removal of capital assets	(46,003)	(41,317)
Salvage on retirement of plant	65,592	116,794
Proceeds from debt issue	31,970,455	40,867,939
Premium on long-term debt	219,525	-
Debt issuance costs	(108,832)	(477,000)
Debt retired	(10,666,662)	(30,350,511)
Interest paid	(1,439,624)	(2,165,658)
Payment to escrow agent	-	(8,946,575)
Net Cash Flows From Capital and Related Financing Activities	(3,439,654)	(5,639,414)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	53,529	189,122
Net Change in Cash and Cash Equivalents	5,849,860	(710,804)
CASH AND CASH EQUIVALENTS - Beginning of Year	36,230,680	36,941,484
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 42,080,540	\$ 36,230,680
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Municipal financed additions to utility plant	\$ 3,786	\$ 30,624
Contributed capital assets	\$ 873,498	\$ 507,927
Debt refunded	\$ -	\$ (7,985,000)
Amortization of premium	\$ 179,725	\$ 303,470

See accompanying notes to financial statements

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,709,461	\$ 3,741,336
Nonoperating revenue (expense)	(99,064)	(161,228)
Noncash items in operating income:		
Depreciation	2,780,231	2,708,128
Depreciation charged to clearing and other utilities	180,142	170,843
Other post-employment benefit obligation	36,884	127,987
Amortization of preliminary survey and investigation	958,332	591,491
Change in assets, deferred outflows, liabilities and deferred inflows		
Customer accounts receivable	2,431,403	(503,760)
Materials and supplies	(23,488)	36,626
Prepayments	(13,139)	(4,801)
Pension related deferrals and liabilities	(218,600)	7,539
Conservation programs	43,168	37,526
Accounts payable	6,586,486	(102,672)
Customer deposits	(101,258)	129,998
Accrued liabilities	537	(79,466)
Due from/to municipality/sewer	(7,011,531)	98,874
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 11,259,564</u>	<u>\$ 6,798,421</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 24,994,200	\$ 20,329,283
Redemption account	1,603,536	1,291,675
Other special accounts	15,482,804	14,609,722
CASH AND CASH EQUIVALENTS	<u>\$ 42,080,540</u>	<u>\$ 36,230,680</u>

See accompanying notes to financial statements

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Waukesha (municipality). The utility is managed by a utility commission. The utility provides water service to properties within the municipality.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

Deposits and Investments

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

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

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

Deposits and Investments (cont.)

Investment of utility funds is restricted by state statutes. Investments are limited to:

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

The utility has adopted an investment policy. That policy follows the state statute for allowable investments.

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

Receivables/Payables

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

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

Materials and Supplies

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

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

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

Restricted Assets

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

Conservation Programs

The balance represents the net of amounts spent on PSCW approved programs less the amount authorized in customer rates. The difference is carried from year to year and will be factored into future water rate cases.

Other Special Accounts

This account consists of investments set aside for various capital projects and payment of the utility tax equivalent as follows:

	<u>2021</u>	<u>2020</u>
Equipment replacement account	\$ 13,267,738	\$ 12,518,198
Tax equivalent account	<u>2,215,066</u>	<u>2,091,524</u>
	<u>\$ 15,482,804</u>	<u>\$ 14,609,722</u>

Prepayments

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

Preliminary Survey and Investigation

The balance represents initial project engineering and support costs related to utility plant construction. The balance will be capitalized upon commencement of the project or is amortized over a useful life established by the PSCW. The utility amortized \$958,332 and \$591,491 in 2021 and 2020, respectively.

Property Held for Future Use

This balance represents the value of land and water rights not currently in service but held for future use in operations.

Capital Assets

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

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 utility are recorded at cost or the estimated acquisition value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

	Years
Water Plant	
Source of supply	34 - 55
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability and OPEB expense, the City of Waukesha OPEB Health Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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

Deferred Outflow of Resources

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

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

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

Accrued Vacation Leave

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

Customer Advances for Construction

The balance represents fees collected for future capital improvements. The fees may be refundable based on rules filed with the PSCW or statutory requirements.

Customer Deposits

This account represents amounts deposited with the utilities by customers as security for payments of bills.

Long-Term Obligations

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

Deferred Inflows of Resources

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

REVENUES AND EXPENSES

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

Sales of Water

Billings are rendered and recorded monthly based on metered usage. The utility does accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective February 1, 2021.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

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

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

Capital Contributions

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

REVENUES AND EXPENSES

Project Non-Capital Expense

During 2020, \$2.257 million of planning and support costs relating to the new water supply project were categorized as non-capital and were subsequently written off.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement 96, *Subscription Based Information Technology Arrangements* and Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		
	2021	2020	Risks
Checking, savings and sweep	\$ 5,366,975	\$ 2,493,245	Custodial credit
Local Government Investment Pool	36,712,520	33,736,830	Credit
Petty Cash	1,045	605	N/A
	<u>\$ 42,080,540</u>	<u>\$ 36,230,680</u>	

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts. Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

In addition, the utility has collateral or depository insurance agreements in the amount of \$6,299,599 and \$5,975,834 at December 31, 2021 and 2020 respectively.

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, 2021 and 2020, the fair value of the LGIP's assets were substantially equal to the utility's share.

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

Custodial Credit Risk

Deposits

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

The utility maintains certain deposits in the same institutions as the municipality. The following is a summary of the utility's total deposit balances at these institutions.

	2021		2020	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 5,694,904	\$ 5,359,134	\$ 3,008,338	\$ 2,484,078
Chase Bank	7,841	7,841	9,167	9,167
Totals	<u>\$ 5,702,745</u>	<u>\$ 5,366,975</u>	<u>\$ 3,017,505</u>	<u>\$ 2,493,245</u>

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Investments

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

The utility did not hold any investments with custodial credit risk at December 31, 2021 and 2020.

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

Credit Risk

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

The utility held investments in the Local Government Investment Pool which is an external pool that is not rated.

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

Interest Rate Risk

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

As of December 31, 2021, the utility does not hold investments with interest rate risk.

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

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2021 and 2020:

Due To	Due From	2021		2020	
		Amount	Principal Purpose	Amount	Principal Purpose
Water Utility	Municipality	\$ 325,500	Capital projects	\$ -	N/A
Water Utility	Sewer Utility	6,005,974	Capital projects	1,451,663	Capital projects
Municipality	Water Utility	2,146,102	Tax equivalent	2,023,579	Tax equivalent
Municipality	Water Utility	-	Capital projects	16,378	Capital projects
Sewer Utility	Water Utility	2,863,867	Amounts billed for sewer utility	4,101,791	Amounts billed for sewer utility

The following is a schedule of transfer balances for the years ending December 31, 2021 and 2020:

To	From	2021		2020	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 2,146,102	Tax equivalent	\$ 2,023,579	Tax equivalent

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

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

Redemption -	Used to segregate resources accumulated for debt service payments over the next twelve months.
Net Pension Asset -	Used to report the net pension asset balance since the balance must be used to fund asset employee benefits.

Restricted Net Position

The following calculation supports the amount of restricted net position:

	2021	2020
Restricted Assets		
Redemption account	\$ 1,603,536	\$ 1,291,675
Net pension asset	818,011	437,465
Total Restricted Assets	<u>2,421,547</u>	<u>1,729,140</u>
 Current Liabilities Payable From Restricted Assets	 <u>(155,963)</u>	 <u>(75,466)</u>
 Total Restricted Net Position as Calculated	 <u>\$ 2,265,584</u>	 <u>\$ 1,653,674</u>

The purpose of the restricted net position is as follows:

	2021	2020
Restricted for debt service	\$ 1,447,573	\$ 1,216,209
Restricted for pensions	818,011	437,465
 Totals	 <u>\$ 2,265,584</u>	 <u>\$ 1,653,674</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in water capital assets for 2021 follows:

	Balance 1/1/21	Increases	Decreases	Balance 12/31/21
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	200,739	16,690	-	217,429
Total Capital Assets Not Being Depreciated	766,297	16,690	-	782,987
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,951,371	127,636	26,517	10,052,490
Water treatment	5,244,634	-	-	5,244,634
Transmission and distribution	112,083,280	3,671,390	555,567	115,199,103
General	6,438,224	270,877	140,172	6,568,929
Total Capital Assets Being Depreciated	136,309,282	4,069,903	722,256	139,656,929
Total Capital Assets	137,075,579	4,086,593	722,256	140,439,916
Less: Accumulated depreciation				
Source of supply	(1,782,936)	(51,731)	-	(1,834,667)
Pumping	(3,825,927)	(385,163)	(26,517)	(4,184,573)
Water treatment	(2,757,195)	(210,078)	-	(2,967,273)
Transmission and distribution	(25,156,240)	(2,034,666)	(590,349)	(26,600,557)
General	(4,033,778)	(344,327)	(151,393)	(4,226,712)
Total Accumulated Depreciation	(37,556,076)	(3,025,965)	(768,259)	(39,813,782)
Construction in progress	19,438,574	27,013,728	2,186,228	44,266,074
Net Capital Assets	\$ 118,958,077			\$144,892,208

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in water capital assets for 2020 follows:

	Balance 1/1/20	Increases	Decreases	Balance 12/31/20
Capital assets, not being depreciated				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	196,947	3,792	-	200,739
Total Capital Assets Not Being Depreciated	762,505	3,792	-	766,297
Capital assets being depreciated				
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,968,868	85,304	102,801	9,951,371
Water treatment	5,244,634	-	-	5,244,634
Transmission and distribution	108,471,750	3,937,475	325,945	112,083,280
General	6,080,866	743,352	385,994	6,438,224
Total Capital Assets Being Depreciated	132,357,891	4,766,131	814,740	136,309,282
Total Capital Assets	133,120,396	4,769,923	814,740	137,075,579
Less: Accumulated depreciation				
Source of supply	(1,719,699)	(63,237)	-	(1,782,936)
Pumping	(3,477,199)	(383,554)	(34,826)	(3,825,927)
Water treatment	(2,547,118)	(210,077)	-	(2,757,195)
Transmission and distribution	(23,542,601)	(1,969,991)	(356,352)	(25,156,240)
General	(4,050,865)	(368,906)	(385,993)	(4,033,778)
Total Accumulated Depreciation	(35,337,482)	(2,995,765)	(777,171)	(37,556,076)
Construction in progress	397,470	20,833,277	1,792,173	19,438,574
Net Capital Assets	\$ 98,180,384			\$ 118,958,077

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

Long-term obligation activity for the year ended December 31, 2021 is as follows:

	1/1/21 Balance	Increases	Decreases	12/31/21 Balance	Due Within One Year
General obligation debt	\$ 31,970,000	\$ 8,120,000	\$ 10,070,000	\$ 30,020,000	\$ 1,855,000
Revenue debt – direct borrowings	51,582,306	23,850,455	596,662	74,836,099	608,025
Customer advances for construction	21,102	50,221	21,102	50,221	-
Unamortized premium on debt	1,139,323	219,525	179,725	1,179,123	-
Other post-employment benefits	5,349,159	503,517	678,576	5,174,100	-
Totals	<u>\$ 90,061,890</u>	<u>\$ 32,743,718</u>	<u>\$ 11,546,065</u>	<u>\$ 111,259,543</u>	<u>\$ 2,463,025</u>

Long-term obligation activity for the year ended December 31, 2020 is as follows:

	1/1/20 Balance	Increases	Decreases	12/31/20 Balance	Due Within One Year
General obligation debt	\$ 45,715,000	\$ 9,050,000	\$ 22,795,000	\$ 31,970,000	\$ 8,225,000
Revenue debt – direct borrowings	35,304,878	31,817,939	15,540,511	51,582,306	596,662
Customer advances for construction	89,202	21,102	89,202	21,102	-
Unamortized premium on debt	1,919,482	-	780,159	1,139,323	-
Other post-employment benefits	5,239,989	282,161	172,991	5,349,159	-
Net pension liability	478,201	-	478,201	-	-
Totals	<u>\$ 88,746,752</u>	<u>\$ 41,171,202</u>	<u>\$ 39,856,064</u>	<u>\$ 90,061,890</u>	<u>\$ 8,821,662</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt

The following general obligation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Balance 12/31/21
05/23/13	2013 G.O. Refunding Bonds	10/01/32	2.00% - 4.00%	\$ 10,085,000	\$ 1,700,000
04/08/14	2014 G.O. Refunding Bonds	10/01/33	2.00% - 4.25%	4,600,000	765,000
05/12/15	2015 G.O. Refunding Bonds	10/01/34	2.00% - 4.00%	5,415,000	4,620,000
05/10/16	2016 G.O. Refunding Bonds	10/01/35	3.00% - 4.00%	6,280,000	5,955,000
12/03/20	2020 G.O. Refunding Bonds	10/01/33	0.23% - 2.10%	9,050,000	8,860,000
04/20/21	2021 G.O. Refunding Bonds	10/01/40	2.00% - 5.00%	8,120,000	8,120,000
					<u>\$ 30,020,000</u>

General obligation debt service requirements to maturity follows:

	General Obligation Debt		
	Principal	Interest	Total
2022	\$ 1,855,000	\$ 889,674	\$ 2,744,674
2023	2,015,000	744,496	2,759,496
2024	2,085,000	671,946	2,756,946
2025	2,120,000	626,774	2,746,774
2026	2,260,000	587,664	2,847,664
2027 – 2031	8,600,000	2,196,096	10,796,096
2032 – 2036	6,665,000	963,311	7,628,311
2037 – 2040	4,420,000	237,375	4,657,375
	<u>\$ 30,020,000</u>	<u>\$ 6,917,336</u>	<u>\$ 36,937,336</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Debt – Direct Placement

The following directly placed revenue debt has been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Balance 12/31/21
05/07/13	Capital improvements	05/01/33	1.925%	\$ 1,117,601	\$ 722,640
06/27/18	Capital improvements	05/01/38	1.870%	679,774	593,150
03/27/19	Capital improvements	03/27/38	1.980%	8,863,261	8,078,004
12/11/19	Capital improvements	05/01/39	1.650%	2,333,343	2,483,630
08/06/20	Capital improvements (WIFIA Loan)	05/01/58	1.160%	137,100,000	48,069,643
	Sub-total (with debt service schedule)				59,947,067
04/02/18	Bond Anticipation Notes - cap. improve.	04/01/23	variable	32,800,000	14,889,032
	Totals				<u>\$ 74,836,099</u>

Revenue debt service requirements to maturity follows:

Revenue Debt - Direct Placement					
		Principal	Interest	Total	
2022		\$ 608,025	\$ 770,148	\$ 1,378,173	
2023		619,607	766,052	1,385,659	
2024		631,410	754,136	1,385,546	
2025		691,508	741,713	1,433,221	
2026		703,768	728,779	1,432,547	
2027 - 2031		5,537,742	3,402,401	8,940,143	
2032 - 2036		6,634,782	2,901,378	9,536,160	
2037 - 2041		6,626,925	2,410,369	9,037,294	
2042 - 2046		10,267,676	1,903,283	12,170,959	
2047 - 2051		10,974,299	1,287,544	12,261,843	
2052 - 2056		11,733,800	629,121	12,362,921	
2057 - 2058		4,917,525	57,238	4,974,763	
		<u>\$ 59,947,067</u>	<u>\$ 16,352,162</u>	<u>\$ 76,299,229</u>	

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2021 and 2020 were \$828,271 and \$822,323, respectively. Total customer gross revenues as defined for the same periods were \$13,578,893 and \$11,699,198. Annual principal and interest payments are expected to require 15.2% of gross revenues on average.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Debt – Direct Placement (cont.)

Bond Anticipation Notes – variable rate

On April 2, 2018, the Water Utility issued \$32.8 million of Bond Anticipation Notes (BAN) to fund \$31.1 million of permitting and design costs for the Great Water Alliance project through 2019 and to refund \$1.7 million of 2008 revenue bonds, when the bonds became callable in 2018. The BAN is considered a draw-bond debt instrument where the Utility can be reimbursed for project costs as incurred. The BAN has a final maturity of April 1, 2023 and has a variable interest rate, reset monthly, tied to the 30-day LIBOR rate. At December 31, 2021, the amount outstanding from this debt issue is \$14,889,032. The average interest rate from January 2021 through December 2021 is 0.9224%. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available loan amount at the average annual interest rate.

Debt service requirements to maturity are as follows, using an interest rate of 0.9224%:

	Revenue BAN – Direct Placement		
	Principal	Interest	Total
2022	\$ -	\$ 137,336	\$ 137,336
2023	14,889,032	68,668	14,957,700
	<u>\$ 14,889,032</u>	<u>\$ 206,004</u>	<u>\$ 15,095,036</u>

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the revenue bonds:

Insurance

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

The utility is covered under the following insurance policies at December 31, 2021:

Type	Coverage		Expiration
General Liability	\$ 10,000,000	Each occurrence	7/1/22
Automobile	10,000,000		7/1/22

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Default Provisions

The utility's outstanding revenue debt noted previously contain provision that (1) any delinquent payments can be deducted from any state payments that are due to the City or a special charge may be added to the taxes apportioned to and levied upon the county in which the City is located and (2) in an event of default, outstanding amounts become immediately due and payable or the interest rate may be increased to the market interest rate and (3) any delinquent payments may be intercepted from the revenue of the water system.

Debt Coverage

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (net defined earnings) must exceed 1.10 times the subsequent year debt service in 2021 and 2020, respectively. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2021 and 2020 as follows:

	2021	2020
Operating revenues	\$ 13,525,364	\$ 11,510,076
Investment income	53,529	189,122
Income from merchandising and jobbing	6,193	5,926
Less: Operation and maintenance expenses	<u>(5,035,672)</u>	<u>(5,060,612)</u>
Net Defined Earnings	<u>\$ 8,549,414</u>	<u>\$ 6,644,512</u>
Minimum Required Earnings per Resolution:		
2013 SDWLP rev. bonds subsequent year debt service	\$ 67,497	\$ 67,507
2018 SDWLP rev. bonds subsequent year debt service	40,773	40,778
2019B SDWLP rev. bonds subsequent year debt service	560,269	560,347
2019E SDWLP rev. bonds subsequent year debt service	159,622	159,638
2020 WIFIA rev. bonds subsequent year debt service	550,011	279,980
2018 revenue bond anticipation notes calculated debt service ¹	<u>683,647</u>	<u>720,789</u>
Subtotal	2,061,819	1,829,039
Coverage Factor	<u>1.10</u>	<u>1.10</u>
Minimum Required Earnings	<u>\$ 2,268,001</u>	<u>\$ 2,011,943</u>
Actual Debt Coverage	<u>4.15</u>	<u>3.63</u>

¹ - Loan is a variable rate draw bond debt instrument with a total availability of \$17.845 million remaining. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available loan amount at the average annual interest rate. Average interest rate for January - December 2021 was 0.9224%.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2021 and 2020:

	Customers		Sales (000 gals)	
	2021	2020	2021	2020
Residential	17,958	17,885	927,702	903,020
Multifamily residential	1,026	1,028	394,207	372,943
Commercial	1,272	1,267	319,490	299,397
Industrial	146	147	137,808	161,294
Public authority	118	119	62,241	47,757
Irrigation	142	137	11,538	6,206
Totals	<u>20,662</u>	<u>20,583</u>	<u>1,852,986</u>	<u>1,790,617</u>

WIFIA Loan

On August 6, 2020, the Utility closed on a \$137,100,000 revenue debt issue through the Water Infrastructure Financing and Innovation Act (WIFIA) with the U.S. Environmental Agency. The loan will finance capital assets that will bring a new water supply to Waukesha, as noted in Note 10. For the years ended December 31, 2021, and 2020, the total amount of loan available for future project costs was reported at \$89,030,357 and \$109,515,812, respectively.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 7 - NET POSITION

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

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

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

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

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

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

	2021	2020
Construction in progress	\$ 44,266,074	\$ 19,438,574
Plant in service	140,439,916	137,075,579
Accumulated depreciation	(39,813,782)	(37,556,076)
Property held for future use	2,935,090	2,935,090
Sub-Totals	147,827,298	121,893,167
Less: Capital related debt		
Current portion of general obligation debt	1,855,000	8,225,000
Current portion of revenue bonds	608,025	596,662
General obligation debt	28,165,000	23,745,000
Revenue bonds	74,228,074	50,985,644
Unamortized loss on advance refunding	(651,595)	(749,403)
Unamortized premium on debt	1,179,123	1,139,323
Sub-Totals	105,383,627	83,942,226
Net Investment in Capital Assets	\$ 42,443,671	\$ 37,950,941

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

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

ETF issues a standalone Annual Comprehensive Financial Report (ACFR), which can be found at <http://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

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 retirement benefit based on a formula factor, their average earnings, and creditable service.

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

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

The WRS also provides death and disability benefits for employees.

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:

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Year	Core Fund Adjustment	Variable Fund Adjustment
2011	-1.2 %	11.0 %
2012	-7.0	-7.0
2013	-9.6	9.0
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	-5.0
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	-10.0
2020	1.7	21.0

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

The WRS recognized \$152,885 and \$147,575 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2021 and December 31, 2020 are:

	2021		2020	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.75%	6.75%	6.55%	6.55%
Protective with Social Security	6.75%	11.65%	6.55%	10.55%
Protective without Social Security	6.75%	16.25%	6.55%	14.95%

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2021, the utility reported a liability (asset) of \$(818,011) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the City of Waukesha's proportion was 0.37138%, which was an increase of 0.00830% from its proportion measured as of December 31, 2019.

At December 31, 2020, the utility reported a liability (asset) of \$(437,465) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the City of Waukesha's proportion was 0.36308%, which was an increase of 0.00932% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2021, and 2020 the utility recognized pension expense of \$(65,715) and \$155,114.

At December 31, 2021, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,260,508	\$ 314,749
Changes in assumption	30,313	-
Net differences between project and actual earnings on pension plan	-	1,576,929
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,799	1,339
Employer contributions subsequent to the measurement date	155,310	-
Total	<u>\$1,449,930</u>	<u>\$ 1,893,017</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

At December 31, 2020, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 860,642	\$ 452,101
Changes in assumption	43,946	-
Net differences between project and actual earnings on pension plan	-	885,583
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,606	2,536
Employer contributions subsequent to the measurement date	152,885	-
Total	<u>\$1,059,079</u>	<u>\$ 1,340,220</u>

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

Years Ended December 31:	
2022	\$ (154,012)
2023	(41,130)
2024	(283,363)
2025	(119,892)
2026	-
Thereafter	-
	<u>\$ (598,397)</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:

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

	2021	2020
Actuarial valuation date	December 31, 2019	December 31, 2018
Measurement date of net pension liability (asset)	December 31, 2020	December 31, 2019
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.0%	7.0%
Discount rate	7.0%	7.0%
Salary increases		
Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2018 Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments	1.9%	1.9%

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

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three year period from January 1, 2015 to December 31, 2017. The total pension liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the December 31, 2019 actuarial valuation. The total pension liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the December 31, 2018 actuarial valuation.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2021 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	51.0 %	7.2 %	4.7 %
Fixed Income	25.0	3.2	0.8
Inflation Sensitive Assets	16.0	2.0	(0.4)
Real Estate	8.0	5.6	3.1
Private Equity/Debt	11.0	10.2	7.6
Multi-Asset	4.0	5.8	3.3
Total Core Fund	115.0	6.6	4.1
<u>Variable Fund Asset Class</u>			
U.S. Equities	70.0	6.6	4.1
International Equities	30.0	7.4	4.9
Total Variable Fund	100.0	7.1	4.6

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.40 percent. Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2020 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	49.0 %	8.0 %	5.1 %
Fixed Income	24.5	4.9	2.1
Inflation Sensitive Assets	15.5	4.0	1.2
Real Estate	9.0	6.3	3.5
Private Equity/Debt	8.0	10.6	7.6
Multi-Asset	4.0	6.9	4.0
Total Core Fund	110.0	7.5	4.6
<u>Variable Fund Asset Class</u>			
U.S. Equities	70.0	7.5	4.6
International Equities	30.0	8.2	5.3
Total Variable Fund	100.0	7.8	4.9

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

Single discount rate. A single discount rate of 7.00 percent was used to measure the total pension liability as of December 31, 2021 and December 31, 2020. This single discount rate was based on the expected rate of return on pension plan investments of 7.00 percent and a long term bond rate of 2.00 percent and 2.75 percent, in 2021 and 2020 respectively. (Source: Fixed income municipal bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index's "20 year Municipal GO AA Index" as of December 31, 2020 and 2019, respectively. In describing this index, Fidelity notes that the Municipal Curves are constructed using option adjusted analytics of a diverse population of over 10,000 tax exempt securities.) Because of the unique structure of WRS, the 7.00 percent expected rate of return implies that a dividend of approximately 1.9 percent 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.

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The sensitivity analysis as of December 31, 2021 follows:

	<u>1% Decrease to Discount Rate (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase to Discount Rate (8.0%)</u>
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 778,633	\$ (818,011)	\$ (1,990,735)

The sensitivity analysis as of December 31, 2020 follows:

	<u>1% Decrease to Discount Rate (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase to Discount Rate (8.0%)</u>
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 1,126,551	\$ (437,465)	\$ (1,606,748)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Health Care Benefits

Plan description. The utility's defined benefit OPEB plan, Waukesha Water Retiree Benefits Plan, provides OPEB for all permanent full-time employees of the utility. The utility's other post-employment benefits plan is a single-employer defined benefit OPEB plan administered by the utility. The authority to establish and amend the benefit terms and financing requirements is granted to the Utility Commission. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided. The utility offers postemployment medical benefits for retirees and their dependents that retired with 20 years of service and were hired and were on the payroll as of January 1, 1994. The portion of the premiums paid by the utility will be in accordance with the utility policy language governing premium payment in effect for active employees. Employees hired after January 1, 1994 can choose to stay on the utility's policy on their own expense until they reached age 65. The current benefit structure is determined by the commission.

Employees covered by benefit terms. At December 31, 2021, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	14
Inactive plan members entitled to but not yet receiving benefit payments	0
Active plan members	<u>27</u>
Total plan members	<u><u>41</u></u>

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

TOTAL OPEB LIABILITY

At December 31, 2021, the utility's total OPEB liability of \$4,929,768 was measured as of December 31, 2021 and was determined by an actuarial valuation as of January 1, 2022.

At December 31, 2020, the utility's total OPEB liability of \$5,110,572 was measured as of December 31, 2020 and was determined by an actuarial valuation as of January 1, 2019. The total OPEB liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

CHANGES IN THE TOTAL OPEB LIABILITY

	<u>2021</u>	<u>2020</u>
Balances at January 1	\$ 5,110,572	\$ 5,100,636
Changes for the year:		
Service Cost	32,691	36,128
Interest	137,955	142,201
Changes of benefit terms	-	-
Differences between expected and actual experience	(468,268)	-
Changes in assumptions or other inputs	304,873	-
Benefit payments	(188,055)	(168,393)
Net changes	<u>(180,804)</u>	<u>9,936</u>
Balances at December 31	<u>\$ 4,929,768</u>	<u>\$ 5,110,572</u>

At December 31, 2020, the utility 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	\$ 86,642	\$ -
Changes in assumptions	<u>860,051</u>	<u>-</u>
Total	<u>\$ 946,693</u>	<u>\$ -</u>

At December 31, 2021, the utility 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	\$ 77,978	\$ 396,557
Changes in assumptions	<u>1,032,230</u>	<u>-</u>
Total	<u>\$ 1,110,208</u>	<u>\$ 396,557</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

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

Years Ended December 31:		
2022	\$	69,647
2023		69,647
2024		69,647
2025		69,647
2026		69,647
Thereafter		365,416
	\$	<u>713,651</u>

OPEB EXPENSE

The utility recognized OPEB expense of \$240,293 and \$272,998 in 2021 and 2020, respectively.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the utility, as well as what the utility's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

The sensitivity analysis as of December 31, 2021 follows:

	1% Decrease to Discount Rate (1.06%)	Current Discount Rate (2.06%)	1% Increase to Discount Rate (3.06%)
Total OPEB liability	\$ 5,662,762	\$ 4,929,768	\$ 4,330,821

The sensitivity analysis as of December 31, 2020 follows:

	1% Decrease to Discount Rate (1.75%)	Current Discount Rate (2.75%)	1% Increase to Discount Rate (3.75%)
Total OPEB liability	\$ 5,931,449	\$ 5,110,572	\$ 4,439,210

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

The sensitivity analysis as of December 31, 2021 follows:

	1% Decrease to Healthcare Cost Trend Rate (5.0% Decreasing to 4.0%)	Current Healthcare Cost Trend Rate (6.0% Decreasing to 5.0%)	1% Increase to Healthcare Cost Trend Rate (7.0% Decreasing to 6.0%)
Total OPEB liability	\$ 4,319,459	\$ 4,929,768	\$ 5,668,645

The sensitivity analysis as of December 31, 2020 follows:

	1% Decrease to Healthcare Cost Trend Rate (5.75% Decreasing to 4.0%)	Current Healthcare Cost Trend Rate (6.75% Decreasing to 5.0%)	1% Increase to Healthcare Cost Trend Rate (7.75% Decreasing to 6.0%)
Total OPEB liability	\$ 4,421,606	\$ 5,110,572	\$ 5,946,589

Actuarial assumptions and other inputs. The total OPEB liability in the January 1, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2021	2020
Actuarial valuation date	January 1, 2021	January 1, 2019
Measurement date of total OPEB liability (asset)	December 31, 2021	December 31, 2020
Actuarial cost method	Entry age	Entry age
Long-term expected rate of return	2.06%	2.75%
Discount rate	2.06%	2.75%
Salary increases	2.0%	2.0%
Retirees' share of benefit-related costs	6.0 percent for 2022, decreasing 0.5% every two years to an ultimate rate of 5.0%	6.75 percent for 2021, decreasing 0.5% every two years to an ultimate rate of 5.0%
Retirees' share of benefit-related costs	PPO - \$1,500 per member, \$3,000 per family	PPO - \$1,500 per member, \$3,000 per family

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Health Care Benefits (cont.)

In the January 1, 2021 valuation, mortality rates rates from the Wisconsin Retirement System Experience Study Report dated November 19, 2018 with 50% of the MP-2018 Improvement Scale. The actuarial assumptions used in the January 1, 2020 valuation used mortality rates a blend of the Death In Service and Retired Lives mortality rates from the "Wisconsin Retirement System 2015 – 2017 Experience Study" with the MP 2018 generational improvement scale.

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 Annual Comprehensive Financial Report (ACFR), which can be found at <http://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

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, 2021 and 2020 are:

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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Member contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating members must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The member 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

Disabled members under 70 receive a waiver-of-premium benefit

The LRLIF recognized \$1,073 and \$887 in contributions from the employer during the current and prior reporting periods, respectively.

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

At December 31, 2021, the utility reported a liability of \$244,331 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020 rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2020, the Utility's proportion was 0.70803600%, which was an decrease of 0.02172% from its proportion measured as of December 31, 2019.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

At December 31, 2020, the utility reported a liability of \$238,587 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the Utility's proportion was 0.72975400%, which was an decrease of 0.004494% from its proportion measured as of December 31, 2018.

For the years ended December 31, 2021 and 2020, the utility recognized OPEB expense of \$27,513 and \$23,382, respectively.

At December 31, 2021, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 13,305
Changes in assumption	110,567	20,239
Net differences between project and actual earnings on OPEB plan	4,235	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,657	5,348
Employer contributions subsequent to the measurement date	1,073	-
Total	<u>\$ 117,532</u>	<u>\$ 38,892</u>

At December 31, 2020, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,380
Changes in assumption	87,433	24,917
Net differences between project and actual earnings on OPEB plan	4,355	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,990	1,827
Employer contributions subsequent to the measurement date	887	-
Total	<u>\$ 94,665</u>	<u>\$ 37,124</u>

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

\$1,073 reported as deferred outflows related to OPEB resulting from the LRLIF Employer's contributions subsequent to the measurement date will be recognized as a reduction of net OPEB liability in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended December 31:		
2022	\$	14,697
2023		14,248
2024		13,786
2025		12,490
2026		15,570
Thereafter		6,776
	\$	<u>77,567</u>

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

	2021	2020
Actuarial valuation date	January 1, 2020	January 1, 2019
Measurement date of net OPEB liability (asset)	December 31, 2020	December 31, 2019
Actuarial cost method	Entry age Normal	Entry age Normal
20-Year tax-exempt municipal bond yield	2.12%	2.74%
Long-term expected rate of return	4.25%	4.25%
Discount rate	2.25%	2.87%
Salary increases		
Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2018 Mortality Table	Wisconsin 2018 Mortality Table

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the January 1, 2019 actuarial valuation. The Total OPEB Liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the January 1, 2020 actuarial valuation. The Total OPEB Liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the January 1, 2019 actuarial valuation.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

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, 2020

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return %
US Credit Bonds	Barclays Credit	50%	1.47%
US Mortgages	Barclays MBS	50	0.82
Inflation			2.20
Long-Term Expected Rate of Return			4.25

Local OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2019

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return %
US Credit Bonds	Barclays Credit	45%	2.12%
US Long Credit Bonds	Barclays Long Credit	5	2.90
US Mortgages	Barclays MBS	50	1.53
Inflation			2.20
Long-Term Expected Rate of Return			4.25

The long-term expected rate of return and expected inflation rate remained unchanged from the prior year at 4.25% and 2.20% respectively. 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

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Single discount rate. A single discount rate was used to measure the total OPEB liability (2.25 percent for 2021 and 2.87 percent for 2020). The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.74% as of December 31, 2019 to 2.12% as of December 31, 2020. 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. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contribution schedule and that contributions are made by plan members retiring prior to age 65.

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

The sensitivity analysis as of December 31, 2021 follows:

	1% Decrease to Discount Rate (1.25%)	Current Discount Rate (2.25%)	1% Increase to Discount Rate (3.25%)
Waukesha Water Utility's proportionate share of the net OPEB liability	\$ 332,260	\$ 244,332	\$ 177,757

The sensitivity analysis as of December 31, 2020 follows:

	1% Decrease to Discount Rate (1.87%)	Current Discount Rate (2.87%)	1% Increase to Discount Rate (3.87%)
Waukesha Water Utility's proportionate share of the net OPEB liability	\$ 329,447	\$ 238,587	\$ 169,458

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

Compliance with Drinking Water Standards

On April 12, 1992, the State of Wisconsin commenced a legal action against the utility entitled State of Wisconsin, Department of Natural Resources vs. City of Waukesha Water Utility. Case No. 91-CV-1027 Circuit Court, Waukesha County, Wisconsin. case number 92-2530, Court of Appeals and Supreme Court of the State of Wisconsin. In that case the State requested judgment against the Utility for (1) an injunction requiring the Utility to bring its water supply system into compliance with Wisconsin Administrative Code No 109.50(1); (2) the forfeitures provided for in sections 144.99 Stats., for past violations of Wisconsin Administrative Code Sec. NR 109.50; (3) a penalty assessment pursuant to Sect. 165.87(2) (Stats.).

Although the Federal legislation underpinning EPA regulations of radionuclides had been renewed, the EPA examined the 1996 amendments to the Safe Drinking Water Act and took the position that the contaminant level (MCL) of 5 pCi/L of radium in drinking water for Ra 226 and Ra 228, combined. The EPA conducted a new rulemaking proceeding and published a Notice of Data Availability and concluded the rulemaking in 2000.

In December 2000, the EPA finalized its rule for radium 226 and 228. In response to this rule, the City of Waukesha, doing business as the City of Waukesha Water Utility, petitioned the United States Court of Appeals, District of Columbia Circuit, in Washington, D.C. to review the rule promulgated by the EPA. The case City of Waukesha, et al. v. EPA, 01 1028, was heard on November 20, 2002. On February 25, 2003 the United States Court of Appeals ruled in favor of the EPA. As such, the municipality terminated the legal process and began negotiation with the Wisconsin Department of Natural Resources (WDNR) to develop a consent order/compliance agreement to bring the water supply into compliance with the radium standard. The municipality entered into a consent order/compliance agreement with the WDNR on December 19, 2003, and immediately began working towards compliance.

The agreement required the utility to develop new shallow wells, install treatment at some of the existing wells and blend the non compliant water with the compliant water to bring the water supply into compliance with the radium standards. The cost of the improvements was approximately thirteen million five hundred thousand dollars (\$13,500,000). The utility balanced the radium compliance projects with the other projects that were planned to become part of the long term water supply strategy.

On September 22, 2008 the City of Waukesha was referred to the Department of Justice for Alleged Violations of Consent Order #2003 SEEE 107, by not meeting the December 8, 2006 timeline for providing drinking water that meets the Safe Drinking Water Standards for Radium. The Waukesha Water Utility worked with its legal counsel and the City of Waukesha Attorney to negotiate a settlement with the Department of Justice.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

Compliance with Drinking Water Standards (cont.)

A settlement was successfully negotiated and was filed with the Clerk of Circuit Court in Waukesha County on March 30, 2009. The agreement required the City of Waukesha Water Utility to pay a judgment comprised of forfeitures and fees in the amount of fifty-five thousand (\$55,000). It also recognized the efforts the utility made in regards to capital projects and water conservation. In addition, the utility was allowed to operate under strict operating conditions until June 30, 2018. At that date, the city was to be in complete compliance with all federal and state drinking water radionuclide standards which require that the radionuclide-compliant water can be provided in the event of failure of the system's largest well. This may be accomplished by some combination of obtaining a new source of compliant water and by treating for radionuclide-removal and/or new sources of water. If the city fails to meet the strict operating guidelines before final compliance is accomplished, the city will be required to discontinue the supply of non-radionuclide-compliant water to the distribution system and shall meet state and federal radionuclide standards within three (3) years of such failure.

As a solution to the radionuclide issue, the City of Waukesha started an investigation of water supply alternatives. As a result, the City of Waukesha submitted an application for Great Lakes Water with the Wisconsin Department of Natural Resources (WDNR). This application was updated in October 2013.

In January 2016, the WDNR concluded that Waukesha had no reasonable water supply alternative and qualifies for water under the Great Lakes Compact. It submitted the City of Waukesha's proposal to borrow Lake Michigan water to the governors and premiers of the other Great Lakes states and provinces. On June 21, 2016 the Great Lakes-St. Lawrence River Basin Water Resources Council approved Waukesha's application to secure water from Lake Michigan.

On August 19, 2016 Great Lakes and St. Lawrence Cities Initiative submitted a request for a hearing and Compact Council consideration of their Final Decision in the matter of Application by the City of Waukesha, Wisconsin for a diversion of Great Lakes water.

In July 2017, the City of Waukesha and Wisconsin Department of Justice reached an agreement to extend its deadline for compliance with radium standards in drinking water to September 1, 2023.

Since then, the Waukesha Water Utility ("Utility") hired a Program Manager to complete the related permitting and design, a Construction Manager to perform constructability reviews and manage construction activities and a construction audit firm to review the resulting financial transactions. Additionally, the Utility entered into three contracts to construction water infrastructure associated with the project. Construction began in January 2021.

The utility entered into construction contracts related to the water supply project totaling \$83,117,389, net of change orders. As of December 31, 2021, \$21,988,912 has been completed on those contracts.

WAUKESHA WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2021 and 2020

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

Intergovernmental Agreement for Construction

On March 11, 2020, the City of Waukesha and City of New Berlin reached an agreement related to construction in New Berlin for Waukesha's Great Lakes water project. In the agreement, the City of Waukesha agreed to move construction of a booster pumping station and two (2) reservoirs, originally planned in the City of New Berlin, to property in Waukesha, while also paving portions of a roadway affected by Waukesha's construction and providing New Berlin access to fiber optic and water infrastructure for possible future use.

In return, the City of Waukesha will receive the necessary permits required to construct pipeline through the City of New Berlin in a timely manner and a total intergovernmental payment of \$2.0 million. This amount will be paid in three annual payments from 2021 through 2023. With construction beginning, the first annual payment was received by the Waukesha Water Utility in 2021.

NOTE 11 – SUBSEQUENT EVENTS

The utility evaluated subsequent events through the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WAUKESHA WATER UTILITY

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

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability					
Service Cost	\$ 32,691	\$ 36,128	\$ 41,084	\$ 32,988	\$ 35,013
Interest	137,955	142,201	109,623	137,865	135,768
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(468,268)	-	103,970	-	-
Changes in assumptions or other inputs	304,873	-	1,032,061	-	-
Benefit payments	(188,055)	(168,393)	(131,291)	(136,107)	(104,412)
Net change in Total OPEB Liability	(180,804)	9,936	1,155,447	34,746	66,369
Total OPEB Liability - Beginning	5,110,572	5,100,636	3,945,189	3,910,443	3,844,074
Total OPEB Liability - Ending	<u>\$ 4,929,768</u>	<u>\$ 5,110,572</u>	<u>\$ 5,100,636</u>	<u>\$ 3,945,189</u>	<u>\$ 3,910,443</u>
 Covered employee payroll	 \$ 2,320,086	 \$ 2,233,436	 \$ 2,276,756	 \$ 2,233,038	 \$ 2,118,960
 Total OPEB liability as a percentage of covered-employee payroll	 212.48%	 228.82%	 224.03%	 176.67%	 184.55%

No assets were accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4, to pay related benefits.

The Utility implemented GASB Statement No. 75 in fiscal year 2017. Information prior to fiscal year 2017 is not available.

WAUKESHA WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) - LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) Years Ended December 31, 2021 and 2020

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

WRS Year End Date	Proportion of the Net OPEB Liability (Asset) - City	Utility's Proportionate Share of the Net OPEB Liability (Asset)	Covered Payroll	Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
12/31/21	0.70803600%	\$ 244,331	\$ 2,385,711	10.24%	31.36%
12/31/20	0.72975400%	238,586	2,889,731	8.26%	37.58%
12/31/19	0.73424800%	139,353	2,673,247	5.21%	48.69%
12/31/18	0.72034700%	159,404	2,228,085	7.15%	44.81%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) Years Ended December 31, 2021 and 2020

Fiscal Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/21	\$ 1,073	\$ 1,073	\$ -	\$ 2,300,885	0.05%
12/31/20	887	887	-	2,264,947	0.04%
12/31/19	1,111	1,111	-	2,253,048	0.05%
12/31/18	1,044	1,044	-	2,184,218	0.05%

WAUKESHA WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM Years Ended December 31, 2021 and 2020

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

WRS Year End Date	Proportion of the Net Pension Liability (Asset) - City	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
12/31/21	0.37138155%	\$ (818,011)	\$ 2,264,947	36.12%	105.26%
12/31/20	0.36307909%	(437,465)	2,253,044	19.42%	102.96%
12/31/19	0.35375569%	478,201	2,184,218	21.89%	96.45%
12/31/18	0.34296598%	(403,325)	2,145,520	18.80%	102.93%
12/31/17	0.33494529%	120,942	2,171,284	5.57%	99.12%
12/31/16	0.33038575%	225,396	1,979,742	11.39%	98.20%
12/31/15	0.33058285%	(344,769)	1,956,957	17.62%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM Years Ended December 31, 2021 and 2020

Fiscal Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/21	\$ 155,310	\$ 155,310	\$ -	\$ 2,300,885	6.75%
12/31/20	152,885	152,885	-	2,264,947	6.75%
12/31/19	147,575	147,575	-	2,253,044	6.55%
12/31/18	146,343	146,343	-	2,184,218	6.70%
12/31/17	145,898	145,898	-	2,145,520	6.80%
12/31/16	143,305	143,305	-	2,171,284	6.60%
12/31/15	134,622	134,622	-	1,979,742	6.80%

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

WAUKESHA WATER UTILITY

Notes to Required Supplementary Information Years Ended December 31, 2021 and 2020

Health Insurance

Actuarial valuation date for December 31, 2021 is as of January 1, 2022.

Methods and assumptions used to determine the total OPEB liability:

Actuarial cost method	Entry age normal
Asset valuation	Fair market value
Inflation	2.06 percent
Healthcare cost trend rates	6.0 percent in 2022, decreasing 0.5 percent every 2 years to an ultimate rate of 5.0 percent
Salary increases	2.0 percent, average, including inflation
Investment rate of return	2.06 percent
Retirement age	Expected retirement ages of employees were developed from a 2018 Experience Study
Mortality	Wisconsin 2018 Mortality Table

Local Retiree Life Insurance Fund (LRLIF)

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

The Utility is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

Changes in benefit terms. There were no changes of benefit terms for any participating employer in the Local Retiree Life Insurance Fund (LRLIF).

Changes in assumptions.

	2018	2019	2020	2021
20 Year tax-exempt municipal bond yield	3.4%	4.1%	2.7%	2.1%
Salary increases				
Inflation	3.2%	3.0%	3.0%	3.0%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%	0.1% - 5.6%	0.1% - 5.6%
Mortality (Wisconsin)	2012 Mortality Table	2018 Mortality Table	2018 Mortality Table	2018 Mortality Table
Discount rate	3.63%	4.22%	2.87%	2.25%

Wisconsin Retirement System

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

Changes of assumptions. There are no changes of assumptions for any participating employer in WRS.

	2015 - 2018	2019 - 2021
Long-term expected rate of return	7.2%	7.0%
Discount rate	7.2%	7.0%
Salary increases		
Inflation	3.2%	3.0%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments	2.10%	1.90%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

SUPPLEMENTAL INFORMATION

WAUKESHA WATER UTILITY

WATER UTILITY PLANT For the Years Ended December 31, 2021

	Balance 1/1/21	Additions	Retirements	Balance 12/31/21
INTANGIBLE				
Miscellaneous intangible plant	\$ 200,739	\$ 16,690	\$ -	\$ 217,429
SOURCE OF SUPPLY				
Land and land rights	204,625	-	-	204,625
Wells and springs	1,507,630	-	-	1,507,630
Supply mains	1,084,143	-	-	1,084,143
Total Source of Supply	2,796,398	-	-	2,796,398
PUMPING				
Land and land rights	181,670	-	-	181,670
Structures and improvements	4,526,259	106,427	5,308	4,627,378
Electric pumping equipment	5,425,112	21,209	21,209	5,425,112
Total Pumping	10,133,041	127,636	26,517	10,234,160
WATER TREATMENT				
Structures and improvements	2,785,733	-	-	2,785,733
Water Treatment equipment	2,458,901	-	-	2,458,901
Total Water Treatment	5,244,634	-	-	5,244,634
TRANSMISSION AND DISTRIBUTION				
Land and land rights	110,083	-	-	110,083
Distribution reservoirs and standpipes	6,477,305	2,008	35,877	6,443,436
Transmission and distribution mains	78,543,405	2,590,995	158,560	80,975,840
Services	15,275,828	538,571	58,964	15,755,435
Meters	4,156,495	205,110	267,164	4,094,441
Hydrants	7,630,247	334,706	35,002	7,929,951
Total Transmission and Distribution	112,193,363	3,671,390	555,567	115,309,186
GENERAL				
Land and land rights	69,180	-	-	69,180
Structures and improvements	2,333,811	64,772	11,287	2,387,296
Office furniture and equipment	183,648	21,169	21,159	183,658
Computer equipment	581,219	8,474	13,657	576,036
Transportation equipment	955,857	145,145	49,727	1,051,275
Stores equipment	9,764	-	-	9,764
Tools, shop and garage equipment	461,246	-	23,057	438,189
Laboratory equipment	5,842	-	-	5,842
Power-operated equipment	1,014,806	31,317	21,285	1,024,838
Communication equipment	64,714	-	-	64,714
SCADA equipment	827,317	-	-	827,317
Total General	6,507,404	270,877	140,172	6,638,109
TOTAL WATER UTILITY PLANT	\$ 137,075,579	\$ 4,086,593	\$ 722,256	\$ 140,439,916

WAUKESHA WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 5,914,197	\$ 5,016,903
Multifamily residential	1,896,400	1,552,530
Commercial	1,640,643	1,310,555
Industrial	592,157	572,953
Public authorities	308,504	213,159
Irrigation	100,565	52,098
Total Metered Sales	10,452,466	8,718,198
Private fire protection	311,686	261,546
Public fire protection	2,552,174	2,169,858
Total Sales of Water	13,316,326	11,149,602
Other Operating Revenues		
Forfeited discounts	142,304	69,482
Rents from water property	269,204	245,908
Other	(202,470)	45,084
Total Operating Revenues	13,525,364	11,510,076
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Miscellaneous	958,374	591,491
Maintenance		
Supervision and engineering	17,619	13,878
Wells and springs	7,761	4,421
Total Source of Supply	983,754	609,790
Pumping		
Operation supervision and engineering	18,371	16,324
Fuel or purchased power for pumping	697,003	638,078
Pumping labor	32,561	31,428
Miscellaneous	31,147	30,529
Maintenance		
Supervision and engineering	19,203	17,094
Structures and improvements	56,603	43,610
Pumping equipment	45,547	60,893
Total Pumping	900,435	837,956
Water Treatment		
Operation supervision and engineering	17,190	8,900
Chemicals	154,412	147,357
Operation labor	299,146	281,714
Miscellaneous	418	408
Maintenance		
Structures and improvements	129	1,936
Water treatment equipment	29,498	19,671
Total Water Treatment	500,793	459,986

WAUKESHA WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 46,172	\$ 38,685
Storage facilities	20,770	203,660
Transmission and distribution lines	108,809	112,071
Meters	60,648	47,500
Customer installations	547	2,706
Miscellaneous	128,295	137,605
Maintenance		
Supervision and engineering	30,190	31,553
Reservoirs and standpipes	13,150	9
Fire mains	437,249	321,601
Services	42,854	96,033
Meters	6,163	3,168
Hydrants	61,586	63,037
Miscellaneous	30,684	15,900
Total Transmission and Distribution	<u>987,117</u>	<u>1,073,528</u>
Customer Accounts		
Supervision	6,911	12,035
Meter reading	16,219	12,974
Accounting and collecting labor	205,104	126,856
Uncollectible accounts	2,006	6,507
Miscellaneous	10,151	122,361
Total Customer Accounts	<u>240,391</u>	<u>280,733</u>
Sales	<u>62,271</u>	<u>62,271</u>
Administrative and General		
Salaries	222,692	263,878
Office supplies	142,432	121,671
Outside services employed	31,206	32,590
Property insurance	80,696	77,211
Injuries and damages	18,575	18,332
Employee pensions and benefits	535,400	859,900
Regulatory commission	6,558	38,283
Miscellaneous	31,785	69,898
Maintenance	167,063	138,065
Total Administrative and General	<u>1,236,407</u>	<u>1,619,828</u>
Taxes	<u>124,504</u>	<u>116,520</u>
Total Operation and Maintenance	5,035,672	5,060,612
Depreciation	2,780,231	2,708,128
Total Operating Expenses	<u>7,815,903</u>	<u>7,768,740</u>
OPERATING INCOME	<u>\$ 5,709,461</u>	<u>\$ 3,741,336</u>