



# CITY OF RACINE

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As of and for the Year Ended December 31, 2019

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# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The accounting policies of the City of Racine, Wisconsin (“the City”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

#### ***A. REPORTING ENTITY***

This report includes all of the funds of the City of Racine. The reporting entity for the city consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **A. REPORTING ENTITY (cont.)**

##### ***Discretely Presented Component Unit***

###### *Business Improvement District*

The government-wide financial statements include the Downtown Racine Business Improvement District #1, (BID) as a component unit. The BID, created in November 2001, has a separate nine member board appointed by the mayor and approved by the city council. The BID was designed to provide for and promote the continued vitality of the city's downtown business district through an aggressive marketing plan to promote existing businesses and attract new business. The BID has its own independent budgetary authority and assessment capabilities. However, the city can impose its will on the BID as the city must approve the BID operating budget and annual assessment. The city has no responsibility for fund deficits of the BID. As a component unit, the BID's financial statements have been presented as a discrete column in the city's financial statements. The financial information presented for the BID is for the fiscal year ended December 31, 2019. Separately issued financial statements of the BID may be obtained from the BID office.

###### *Redevelopment Authority*

The government-wide financial statements include the City of Racine Redevelopment Authority as a component unit. The Authority is a legally separate organization, created in February 1974, has a separate seven member board appointed by the mayor and approved by the city council. The Redevelopment Authority was created for the purpose of carrying out blight elimination, slum clearance, and urban renewal programs and projects as set forth in section 66.133 of Wisconsin State Statute. Wisconsin Statutes provide for circumstances whereby the City can impose its will on the Authority, and also create a potential financial benefit to or burden on the City. As a component unit, the Authority's financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended December 31, 2019. The Authority does not issue separate financial statements.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS***

In January 2017, the GASB issued statement No. 84 – *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. This standard was implemented as of January 1, 2019.

In March 2018, the GASB issued statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented January 1, 2019.

#### ***Government-Wide Financial Statements***

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

#### ***Fund Financial Statements***

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/expenses.



# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)***

##### ***Fund Financial Statements (cont.)***

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the city's management believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The city reports the following major governmental funds:

- General Fund – accounts for the city's primary operating activities. It is used to account for and report all financial resources except those accounted and reported in another fund.
- Debt Service Fund – used to account for and report financial resources that are restricted, committed or assigned to expenditure for the payment of general long-term debt principal, interest, and related cost on long-term debt other than enterprise fund debt.

The city reports the following major enterprise funds:

- Water Utility – accounts for operations of the water system.
- Wastewater Utility – accounts for operations of the sewer system.
- Storm Water Utility – accounts for operations of the storm water system.
- Belle Urban Transit Fund – accounts for operations of the Belle Urban Transit system.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)***

##### ***Fund Financial Statements (cont.)***

The city reports the following non-major governmental and enterprise funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes (other than debt service or capital projects)

HUD Grants	Private Property Maintenance
State Grants	Sanitary Sewer Maintenance
Federal Grants	Health Lab
Other Agency Grants	Municipal Court
Loans	Cemetery
Special Assessments	Recycling
Restricted	Library
Room Tax	Trusts

Capital Projects Funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

City Projects	Intergovernmental Revenue Sharing
Capital Grants	Tax Incremental Districts
Equipment Replacement	General Obligation Bond Projects

Permanent Funds – used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Endowment Fund

Enterprise Funds –used to account for and report any activity for which a fee is charged to external uses for goods or services, and must be used for activities which meet certain debt or cost recovering criteria.

Parking Utility	Civic Centre
Radio Repair	Golf Courses

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)***

##### ***Fund Financial Statements (cont.)***

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

Equipment Maintenance Garage	Health Insurance	Building Complex
Information Systems	Telephones	

Custodial fund is used to account for and report assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collecting

#### ***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION***

##### ***Government-Wide Financial Statements***

The government-wide statement of net position and statement of activities 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. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's Water and Wastewater Utilities, Belle Urban Transit and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

##### ***Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the city considers revenues, except for reimbursable intergovernmental grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursable intergovernmental grants are considered to be available if they are collected within one year of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)***

##### ***Fund Financial Statements (cont.)***

Property taxes are recorded in the year levied as receivables and unearned revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are recorded as deferred inflows.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and unavailable revenues. Delinquent special assessments being held by the county are reported as receivables and unavailable revenue.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's enterprise funds and the city's internal service funds are charges to customers for sales and services. Operating expenses for proprietary funds and internal service 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.

##### ***All Financial Statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY*

##### **1. Deposits, Investments and Equivalents**

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of City funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. 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, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority, or Wisconsin Aerospace Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investment of most trust funds including cemetery perpetual care funds is regulated by Chapter 881 of the Wisconsin Statutes. Investment of library trust funds is regulated by Chapter 112. Those sections give broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The City has adopted an investment policy. That policy follows the state statute for allowable investments. The investment policy seeks to attain the following five goals:

1. Safety – Investments by the government of the City of Racine, Wisconsin shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To this end each investment transaction shall seek to first ensure that capital losses are avoided.
2. Legality – Investments by the government of the City of Racine, Wisconsin shall be made in accordance with Federal Law, Wisconsin Revised Statutes (particularly, WISSTATS 34.07, 66.04, 67.11 and 219.05), the Municipal Code of the City of Racine and this Investment Policy.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY* (cont.)

##### **1. Deposits, Investments and Equivalents** (cont.)

3. Liquidity – Investments by the government of the City of Racine, Wisconsin shall be of sufficient liquidity to meet the cash requirements of the City.
4. Yield – Investments by the government of the City of Racine, Wisconsin shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.
5. Public Trust – Investments by the government of the City of Racine, Wisconsin shall be designed and managed with a degree of professionalism worthy of the public trust.

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 IV. A. 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. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank statement balance and carrying value is due to outstanding checks and/or deposits in transit.

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, 2019, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these financial statements.

See Note IV.A. for further information.

##### **2. Receivables**

Property taxes are levied in November on the assessed value as of the prior January 1. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying statement of fiduciary net position – fiduciary fund.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **2. Receivables (cont.)**

Property tax calendar – 2019 tax roll:

Lien date and levy date	November 2019
Tax bills mailed	December 2019
Payment in full, or	
First installment due	January 31, 2020
Second installment due	March 31, 2020
Third installment due	May 31, 2020
Fourth installment due	July 31, 2020
Personal property taxes in full	January 31, 2020
Final settlement with County	August 15, 2020
Tax deed by County – 2019	
Delinquent real estate taxes	October 2022

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the water and wastewater utilities because they have the right by law to place substantially all delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

In the governmental fund financial statements, advances to other funds are offset equally by a nonspendable fund balance account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation or by a restricted fund balance account, if the funds will ultimately be restricted when the advance is repaid.

The City has received federal and state grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made and funds have been disbursed.

It is the City’s policy to record unavailable revenue for the net amount of the receivable balance. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as restricted fund balance in the fund financial statements.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **3. INVENTORIES AND PREPAID ITEMS**

Governmental fund inventories, if material, are recorded at cost based on the weighted average method using the consumption method of accounting. Inventory quantities at December 31, 2019 were determined by physical counts. Proprietary fund inventories are generally used for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average method, and charged to operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### **4. 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. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

##### **5. Capital Assets**

###### **Government–Wide Statements**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and \$25,000 for infrastructure assets, and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. There was no interest capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation and amortization is provided over the assets' estimated useful lives using the straight-line method of depreciation with a half year convention. The range of estimated useful lives by type of asset is as follows:



# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **5. Capital Assets (cont.)**

###### **Government–Wide Statements (cont.)**

Buildings and Building Improvements	10-50	Years
Intangibles	5	Years
Land Improvements	20	Years
Machinery and Equipment, including buses	3-25	Years
Infrastructure:		
Streets, Roads, and Bridges	30-50	Years
Sidewalks	20	Years
Sewer Lines	50	Years
Shoreline Walls	50	Years
Other	15-100	Years

###### **Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

##### **6. Assets Held for Resale**

Periodically, the city purchases land and buildings for redevelopment and resale. In both the fund financial statements and the government wide statements these items are reported at the lower of cost or market.

##### **7. Deferred Outflows 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/expenditure) until that future time.

A deferred charge on refunding arises from the advance refunding of debt. The difference between the cost of the securities placed in trust for future payments of the refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the government-wide and proprietary fund financial statements.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **8. Compensated Absences**

The City's policy allows employees to earn varying amounts of vacation pay for each year employed. Upon retirement or termination of employment, the employee is entitled to payment in cash for any unused accrued vacation. Sick leave is earned at varying rates based on the union contract. All employees, with the exception of firefighters, earn sick leave at the rate of eight hours per month of full-time service to a maximum of 1,200 hours. Employees are not compensated for unused sick leave upon termination of employment, except upon retirement or death. Upon retirement or death, all employees, with the exception of firefighters, are paid up to a maximum of 560 hours of accumulated sick leave. Firefighters may accrue sick leave to a maximum of 1,340 hours, or 960 hours depending on the class. Upon retirement or death these employees are paid up to a maximum of 670 hours or 480 hours respectively. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. In governmental fund financial statements, the cost of vacation and sick leave is recognized when payments are made to employees and liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2019 are determined on the basis of current salary rates and include salary related payments.

##### **9. Long-Term Obligations/Conduit Debt**

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consists primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. The balance at year end is shown as an increase or decrease in the liability section of the statement of net position.

The City has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the city. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is \$31,912,669 made up of four issues.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **10. 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.

##### **11. Equity Classifications**

###### **Government–Wide Statements**

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The net position section includes an adjustment of \$4,630,926 million for capital assets owned by the business type activities, but financed by the debt of the governmental activities. The amount is a reduction of “net investment of capital assets”, and an increase in “unrestricted” net position, shown only in the total column.

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

###### **Fund Statements**

Governmental fund equity is classified as fund balance and displayed as follows:

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### ***D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)***

##### ***11. Equity Classifications (cont.)***

###### ***Fund Statements (cont.)***

- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through formal action resolution of the City. This formal action must occur prior to the end of the reporting year, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the city that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. The City Council has, by resolution, adopted a financial policy authorizing the Director of Finance to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The City has a formal minimum fund balance policy for the general fund. The policy is to maintain an unassigned fund balance of at least 20% of the subsequent year's general fund budgeted expenditures. The unassigned balance at year end was \$20,923,082 or 25%.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made. Proprietary fund equity is classified the same as in the government-wide statements.

##### ***12. Pension and OPEBs***

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

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

---

### NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

---

#### *D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (cont.)*

##### **12. Pension and OPEBs (cont.)**

For purposes of measuring the total health insurance OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the City OPEB 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 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.

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### NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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#### *A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION*

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and therefore, are unearned in the funds”. The details of this difference are as follows:

Unearned revenue-loans	\$ 4,183,502
Unearned revenue-grants	1,358,236
Unearned revenue-debt service	234,632
Unearned revenue-special assessments	<u>1,632,176</u>
Combined Adjustment for Long-Term Assets	<u>\$ 7,408,546</u>

Another element of that reconciliation states that “some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds”. In addition, interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position. The details of the difference are as follows:

Bonds and notes payable, including premiums	\$ 99,677,390
Compensated absences, not including internal service fund	2,562,832
Unamortized loss on refunding	(828,146)
Accrued interest	<u>146,686</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 101,558,762</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION (cont.)**

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Land	\$ 24,863,221
Construction in progress	19,614,360
Other capital assets net of accumulated depreciation/amortization	158,838,092
Less: Internal Service Funds capital assets	<u>(1,814,366)</u>
Combined Adjustment for Capital Assets	<u>\$ 201,501,307</u>

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “Governmental funds report the effects of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of the differences are as follows:

Premium received	\$ (1,392,502)
Amortization of loss on refunding and premium (net)	<u>281,337</u>
Unamortized debt premiums/deferred charges	<u>\$ (1,111,165)</u>

Another element of that reconciliation states that “Revenues in the governmental funds that are not reported as revenues in the statement of activities.” The details of this difference are as follows:

Principal paid on economic development loans	\$ (556,159)
Principal paid on debt service loans	(228,515)
State capital grant	131,095
Special assessments collections	<u>(133,249)</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (786,828)</u>

Another element of that reconciliation states that “Expenditures in the governmental funds that are not reported as expenses in the statement of activities.” The net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in Net Position governmental activities of \$2,351,196 represents the net amount of economic development loans made and written off during the year.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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#### *A. BUDGETARY INFORMATION*

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.

The city adopted annual governmental fund budgets for the following funds:

General Fund	Debt Service
Special Revenue Funds:	Capital Projects Funds:
Cemetery	Intergovernmental Revenue Sharing
Library	General Obligation Bond Projects
Health Lab	Equipment Replacement
Private Property Maintenance	
Recycling	
Sanitary Sewer Maintenance	
Municipal Court	

Budgets have not been formally adopted for the following funds in their entirety:

Special Revenue Funds:
HUD Grants
State Grants
Other Agency Grants
Federal Grants
Loans
Special Assessments
Restricted
Trusts
Capital Project Funds:
City Projects
Capital Grants
Tax Incremental Districts
Permanent Fund:
Endowment Fund

Wisconsin State Statute 65.90 requires that an annual budget be adopted for all funds.

The budgeted amounts presented include any amendments made. Appropriation lapse at year-end unless specifically carried over. Carryovers to the following year include items encumbered at year-end. Carryovers to the following year were \$9,444,231. The City uses appropriation unit control (salaries and fringe benefits, operating and capital outlay) within department. All modifications/changes to appropriation units, capital outlay items and capital projects require Liaison Committee, Finance Committee and Common Council approval. Supplemental appropriations during the year were \$8,692,197.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### **NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)**

#### ***B. EXCESS EXPENDITURES OVER APPROPRIATIONS***

The following appropriation units have an excess of actual expenditures over appropriations for the year ended December 31, 2019:

<u>Fund</u>	<u>Department</u>	<u>Appropriation Unit</u>	<u>Amount</u>
General Fund	City Administration	Operating Expenditures	\$ 31,818
	Non Departmental	Operating Expenditures	37,044
	Non Departmental	Salaries and Fringes	712,568
	Health	Operating Expenditures	2,877
	Fire	Operating Expenditures	20,208
	Fire	Interdepartmental	2,500
	Police	Salaries and Fringes	98,635
	Public Works	Operating Expenditures	405,627
	Parks	Interdepartmental	33,134
	City Development	Operating Expenditures	68,127
	Assessor	Operating Expenditures	3,507
	Attorney's Office	Operating Expenditures	58,317
	Special Revenue Funds:		
Library		Salaries and Fringes	39,332
Library		Capital Outlay	4,211
Recycling		Salaries and Fringes	60,618
Recycling		Operating	96,465
Municipal Court		Operating	1,575
Private Property Maintenance		Salaries and Fringes	21,653
Private Property Maintenance		Operating	117,901



# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### **NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)**

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#### ***C. DEFICIT BALANCES***

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end. The Sanitary Sewer Maintenance fund had an \$181,076 deficit balance at year end. The Municipal court fund and the Recycling fun also had deficit balances of \$7,406 and \$508,917 respectively. These deficits will be funded by future charges for services.

#### ***D. LIMITATIONS ON THE CITY'S TAX LEVY***

Wisconsin law limits the City's future tax levies. Generally the City is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the City's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. The City is required to reduce its allowable levy by the estimated amount of fee revenue it collects for certain services, if those services were funded in 2013 by the property tax levy. Levies can be increased above the allowable limits if the amount is approved by referendum.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS**

***A. DEPOSITS AND INVESTMENTS***

The city's deposits and investments at year end comprised of the following:

	<u>Carrying Value</u>	<u>Statement Balances</u>	<u>Associated Risks</u>
Demand deposits	\$ 58,852,811	\$54,932,398	Custodial credit
Savings deposits	1,000,579	1,000,579	Custodial credit
Certificates of deposit	36,207,355	36,207,355	Custodial credit
Petty cash	<u>8,015</u>	<u>-</u>	NA
Total deposits	96,068,760	<u>\$92,140,332</u>	
Wisconsin Local Government			
Investment Pool	41,118,952		Credit
Mutual funds-equities	3,920,701		Credit
Mutual funds-fixed income	1,671,659		Credit, Interest Rate
			Credit, Custodial Credit,
U.S. Government agency securities-Explicit	1,177,547		Interest Rate, Concentration of
			Credit
			Credit, Custodial Credit,
U.S. Government agency securities-Implicit	<u>21,022,873</u>		Interest Rate, Concentration of
			Credit
Total investments	<u>68,911,732</u>		
Total Deposits and Investments	<u>\$164,980,492</u>		
Reconciliation to financial statements			
Per statement of net position			
Cash and Investments-Primary government	\$ 100,478,300		
Cash and investments-Component units	922,943		
Restricted cash and investments	25,954,451		
Per statement of fiduciary net position			
Custodial fund	<u>37,624,798</u>		
	<u>\$164,980,492</u>		

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

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### *A. DEPOSITS AND INVESTMENTS* (cont.)

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

#### **Custodial Credit Risk for Deposits**

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

As of December 31, 2019, the City's carrying value of deposits was \$96,026,839, as compared to bank balances of \$92,140,332. Of the bank balances \$90,467,982 was insured by either federal depository insurance or collateralized by securities held by the bank or its correspondent bank but not in the City's name. \$1,672,350 was uninsured as of December 31, 2019.

#### **Custodial Credit Risk for Investments**

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateralized securities that are in the possession of an outside party.

As of December 31, 2019, the City's carrying value of U.S. Government Agency Securities subject to custodial credit risk was \$22,200,420. Of this investment balance, all amounts were covered by securities held by an agency in the City's name.

#### **Credit Risk for Investments**

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

As indicated in Note I, Wisconsin statutes requires municipalities to invest in securities which have a rating that is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investor's Service, or other similar nationally recognized rating agency or if that security is senior to, or on a par with, a security of the same issuer which has such a rating.

The City's U.S. Government agencies as of December 31, 2019 were rated Aaa by Moody's Investor's Services and AA+ by Standard & Poor's. As of December 31, 2019, the balance in these types of investments was \$22,200,420. The money market funds are rated A and the mutual funds range from a rating of A – BBB. The City also had investments in the LGIP which is an external pool that is not rated.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### A. DEPOSITS AND INVESTMENTS (cont.)

##### **Concentration of Credit Risk for Investments**

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

At December 31, 2019, the City's investment portfolio had concentration of investments greater than 5% of the total portfolio as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
Federal National Mortgage Association	U.S. government agency notes and mortgage backed securities	14.98%
Federal Home Loan Bank Corporation	U.S. government agency notes and mortgage backed securities	11.37%
Federal Home Loan Mortgage Corporation	U.S. government agency notes and mortgage backed securities	68.22%

##### **Interest Rate Risk for Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investments subject to interest rate risk as of December 31, 2019 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration in Years</u>
U.S Government Agency-implicitly guaranteed	\$ 17,467,084	1.66
U.S Government Agency-implicitly guaranteed	3,555,789	0.63
U.S Government Agency-explicitly guaranteed	1,177,547	0.66
Mutual Funds-fixed income	1,671,659	5.03

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**A. DEPOSITS AND INVESTMENTS (cont.)**

**Fair Value Hierarchy**

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

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

>Quoted market prices for similar assets or liabilities in active markets

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Fund Equities	\$ -	\$ 3,920,701	\$ -	\$ 3,920,701
Mutual Fund Fixed Income	-	1,671,659	-	1,671,659
US Government Agencies	<u>1,177,547</u>	<u>21,022,873</u>	<u>-</u>	<u>22,200,420</u>
 Total	 <u>\$ 1,177,547</u>	 <u>\$ 26,615,233</u>	 <u>\$ -</u>	 <u>\$ 27,792,780</u>

**B. RECEIVABLES**

Receivables of the City are reported net of uncollectible amounts. Details relating to the uncollectible amounts are as follows:

	<u>Account</u>	<u>Rescue</u>	<u>Loans</u>	<u>Delinquent</u>	<u>Total</u>
	<u>Receivable</u>	<u>Runs</u>	<u>Receivable</u>	<u>Personal</u>	
				<u>Property</u>	
General Fund	\$ 309,393	\$ 270,208	\$ -	\$ 377,467	\$ 957,068
Loan Fund	-	-	1,480,778	-	1,480,778
Other Enterprise	5,785	-	-	-	5,785
Internal Service	5,459	-	-	-	5,459
Other Non-Major Funds	<u>51,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,422</u>
	<u>\$ 372,059</u>	<u>\$ 270,208</u>	<u>\$ 1,480,778</u>	<u>\$ 377,467</u>	<u>\$ 2,500,512</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**B. RECEIVABLES (cont.)**

The following receivable amounts are considered to be long-term receivables:

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Non Major</u>	<u>Total</u>
Special Assessments	\$ -	\$ 1,632,176	\$ 1,632,176
Delinquent personal property taxes	35,494	-	35,494
Loans and notes	-	4,183,502	4,183,502
	<u>\$ 35,494</u>	<u>\$ 5,815,678</u>	<u>\$ 5,851,172</u>

Governmental funds report unavailable or unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable	\$ -	\$ 58,664,456	\$ 58,664,456
Loans receivable	4,183,502	-	4,183,502
Special assessments not yet due	1,632,176	-	1,632,176
Interest on loans and advances	-	342,607	342,607
Due from enterprise for debt service	234,632	-	234,632
Grant receivables	1,358,236	-	1,358,236
 Total Unearned/Unavailable Revenue for Governmental Funds	<u>\$ 7,408,546</u>	<u>\$ 59,007,063</u>	<u>\$ 66,415,609</u>

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

#### **C. RESTRICTED ASSETS**

The following represent the balances of the restricted assets:

##### **Long Term Debt Accounts**

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation – Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Improvement – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

##### **Equipment Replacement Account**

The Wastewater Utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Following is a list of restricted assets for the Water and Wastewater Utility at December 31, 2019:

	Water Utility	Wastewater Utility	Total
Bond redemption account	\$ 2,517,424	\$ 4,446,754	\$ 6,964,178
Bond reserve account	3,697,351	-	3,697,351
Bond depreciation account	800,000	-	800,000
Equipment replacement account	-	3,198,643	3,198,643
Capital improvement fund	11,294,279	-	11,294,279
Plant capacity receivable	-	24,388,865	24,388,865
Total Restricted Assets	18,309,054	32,034,262	50,343,316
Reconciliation to restricted net position			
Plant capacity receivable reported as unearned revenue	-	(24,388,865)	(24,388,865)
Accrued interest payable	(556,187)	(130,619)	(686,806)
Unspent bond proceeds	(11,294,279)	-	(11,294,279)
Bond reserve fund financed by bond proceeds	(3,697,351)	-	(3,697,351)
Restricted Net Position	\$ 2,761,237	\$ 7,514,778	\$ 10,276,015

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

#### **D. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated/amortized				
Land	\$ 26,062,278	\$ -	\$ 1,199,057	\$ 24,863,221
Construction in progress	14,205,809	10,598,285	5,189,734	19,614,360
Total Capital Assets Not Being Depreciated/Amortized	<u>40,268,087</u>	<u>10,598,285</u>	<u>6,388,791</u>	<u>44,477,581</u>
Capital assets being depreciated/amortized				
Intangible assets	1,492,200	130,898	-	1,623,098
Land improvements	11,994,396	904,015	-	12,898,411
Buildings	49,905,851	836,815	306,714	50,435,952
Machinery and equipment	41,106,438	2,912,724	924,424	43,094,738
Roads, streets, and bridges	178,259,634	2,074,124	247,781	180,085,977
Sidewalks	55,091,103	658,601	69,860	55,679,844
Sewer lines	46,807,341	976,308	98,704	47,684,945
Shoreline walls and other	23,828,121	212,460	-	24,040,581
Total Capital Assets Being Depreciated/Amortized	<u>408,485,084</u>	<u>8,705,945</u>	<u>1,647,483</u>	<u>415,543,546</u>
Less: accumulated depreciation/amortization for				
Intangible assets	910,068	123,287	-	1,033,355
Land improvements	9,491,206	576,398	-	10,067,604
Buildings	28,165,133	1,931,157	258,202	29,838,088
Machinery and equipment	31,176,946	2,632,478	924,424	32,885,000
Roads, streets, and bridges	95,231,470	4,993,901	244,203	99,981,168
Sidewalks	46,985,869	921,105	69,860	47,837,114
Sewer lines	21,557,883	880,222	98,704	22,339,401
Shoreline walls and other	12,048,699	675,025	-	12,723,724
Total Accumulated Depreciation/Amortization	<u>245,567,274</u>	<u>12,733,573</u>	<u>1,595,393</u>	<u>256,705,454</u>
Total Capital Assets being Depreciated/Amortized, Net	<u>162,917,810</u>	<u>(4,027,628)</u>	<u>52,090</u>	<u>158,838,092</u>
Governmental Activities Capital Assets, Net	<u>\$ 203,185,897</u>	<u>\$ 6,570,657</u>	<u>\$ 6,440,881</u>	<u>\$ 203,315,673</u>



**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

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***D. CAPITAL ASSETS*** (cont.)

Depreciation/amortization expense was charged to functions as follows:

**Governmental Activities**

General government	\$	673,404
Education and recreation		1,775,036
Public works, which includes infrastructure		8,945,257
Public safety		<u>1,339,876</u>
Total Governmental Activities Depreciation/Amortization Expense	\$	<u><u>12,733,573</u></u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**D. CAPITAL ASSETS (cont.)**

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 5,084,905	\$ 216,848	\$ -	\$ 5,301,753
Construction in progress	<u>9,502,191</u>	<u>9,498,431</u>	<u>8,759,099</u>	<u>10,241,523</u>
Total Capital Assets Not Being Depreciated	<u>14,587,096</u>	<u>9,715,279</u>	<u>8,759,099</u>	<u>15,543,276</u>
Capital assets being depreciated				
Land improvements	9,973,000	-	-	9,973,000
Improvements other than buildings	219,474,347	7,206,711	369,520	226,311,538
Buildings	149,854,856	12,560,919	100,881	162,314,894
Machinery and equipment	<u>103,796,798</u>	<u>1,676,990</u>	<u>1,742,725</u>	<u>103,731,063</u>
Total Capital Assets Being Depreciated	<u>483,099,001</u>	<u>21,444,620</u>	<u>2,213,126</u>	<u>502,330,495</u>
Less: accumulated depreciation for				
Land improvements	6,851,865	339,282	-	7,191,147
Improvements other than buildings	78,839,184	3,775,700	369,520	82,245,364
Buildings	73,080,390	3,860,363	100,881	76,839,872
Machinery and equipment	<u>71,183,679</u>	<u>4,865,680</u>	<u>1,688,900</u>	<u>74,360,459</u>
Total Accumulated Depreciation	<u>229,955,118</u>	<u>12,841,025</u>	<u>2,159,301</u>	<u>240,636,842</u>
Total Capital Assets Depreciated, Net	<u>253,143,883</u>	<u>8,603,595</u>	<u>53,825</u>	<u>261,693,653</u>
Business-Type Activities Capital Assets, Net	<u>\$ 267,730,979</u>	<u>\$ 18,318,874</u>	<u>\$ 8,812,924</u>	<u>\$ 277,236,929</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

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**D. CAPITAL ASSETS (cont.)**

Depreciation expense was charged to functions as follows:

**Business-Type Activities**

Water	\$ 5,277,689
Wastewater	3,821,877
Stormwater	1,445,721
Belle Urban Transit	1,300,085
Other	<u>995,653</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 12,841,025</u>

Depreciation expense may be different from business-type activity capital asset additions to accumulated depreciation because of joint metering, salvage, cost of removal, internal allocations, or costs associated with the disposal of assets.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

#### *E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS*

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Total
General Fund	Enterprise Fund-Transit	\$ 3,257,345
General Fund	Enterprise Fund-Civic Center	354,215
General Fund	Internal Service Fund-Information Systems	22,600
General Fund	Wastewater Utility	375,260
General Fund	Water Utility	1,566,093
General Fund	Special Revenue-HUD Grants	409,491
General Fund	Special Revenue-State Grants	749,355
General Fund	Special Revenue-Federal Grants	352,868
General Fund	Special Revenue-Trusts	12,785
General Fund	Special Revenue-Recycling	410,965
General Fund	Permanent Funds	-
General Fund	Capital Projects-Capital grants	316,462
General Fund	Capital Projects-City Projects	1,146,214
Debt Service Fund	Water Utility	264
Debt Service Fund	Wastewater Utility	235
Wastewater Utility	Internal Service Fund-Building Complex	21,742
Wastewater Utility	Water Utility	806,665
Wastewater Utility	General Fund	1,612,930
Water Utility	Wastewater Utility	850,529
Water Utility	Special Revenue-Restricted	1,806,424
Water Utility	General Fund	2,305,258
Water Utility	Internal Service Fund-Building Complex	96

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

#### *E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)*

Receivable Fund	Payable Fund	Total
Capital Projects-City Projects	Wastewater Utility	4,410,229
Internal Service Fund-Equipment Maint.	Water Utility	10,038
Internal Service Fund-Equipment Maint.	Wastewater Utility	2,216
Internal Service Fund-Building Complex	Water Utility	7,627
Internal Service Fund-Building Complex	Wastewater Utility	7,628
Enterprise-Storm Water	Water Utility	1,802,475
Other Enterprise-Radio Tower	Water Utility	51
Special Revenue-Restricted	Water Utility	1,806,424
Special Revenue-Library	Wastewater Utility	6
Subtotal-Fund Financial Statements		24,433,039
Less: Fund eliminations		(6,889,015)
Less: Government-wide eliminations		(23,595,148)
		<u>\$ (6,051,124)</u>

The principal purpose of these interfunds is to fund overdrafts on pooled cash. In addition, the balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

All amounts are due within one year except for \$5,030,815 of funds owed to the general fund from other City funds. This amount is included in nonspendable fund balance in the general fund as a non current receivable.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

The Intergovernmental Revenue Sharing fund is advancing funds to several TID's to cover the shortfall in each TID. The fund is charging interest at the City's blended investment rate and a repayment schedule has not been determined. A repayment schedule has been established for the advances to the Water and Wastewater Utility based on their percentage of the pension liability.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

***E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)***

The following is a schedule of interfund advances:

Receivable Fund	Payable Fund	Amount	Amount Due Within One Year
Debt Service Fund	Wastewater Utility	\$ 110,775	\$ 110,775
Debt Service Fund	Water Utility	123,857	123,857
Intergovernmental Revenue Sharing	Tax Increment District #23	14,500	-
Intergovernmental Revenue Sharing	Tax Increment District #22	18,500	-
Intergovernmental Revenue Sharing	Tax Increment District #20	3,566	-
Intergovernmental Revenue Sharing	Tax Increment District #19	288,812	-
Intergovernmental Revenue Sharing	Tax Increment District #18	6,965,839	-
Intergovernmental Revenue Sharing	Tax Increment District #16	206,498	-
Subtotal-Fund financial statements		\$ 7,732,347	\$ <u>234,632</u>
Less: fund eliminations		(7,497,715)	
Total advance to other funds-government wide statements		\$ 234,632	

Repayment schedules for advances with an established payment schedule follow:

	Water Utility	Wastewater Utility
2020	\$ 125,436	\$ 112,187
Sub-total	125,436	112,187
Amount representing interest	(1,579)	(1,412)
	\$ 123,857	\$ 110,775

For the statement of Net Position, interfund advance balances which are owed within the governmental activities or business-type activities are netted and eliminated.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

***E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)***

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount
General Fund	Enterprise - Water	\$ 1,577,693
General Fund	Enterprise - Wastewater	911,048
General Fund	Special Revenue-Loans	194,067
General Fund	Special Revenue-HUD Grants	51,252
General Fund	Special Revenue-Restricted	12,500
Debt Service Fund	Capital Projects-TID	1,131,987
Capital Projects-City Projects	Special Revenue-Special Assessment	1,616,789
Enterprise-Transit	Capital Projects - General Obligation	23,685
Enterprise-Civic Centre	Capital Projects - General Obligation	366,157
Enterprise - Water	Enterprise - Wastewater	53,741
Internal Service-Information Systems	Capital Projects - General Obligation	775,657
Internal Service-Information Systems	General Fund	60,000
Special Revenue-Loans	Special Revenue-HUD Grants	520,003
Special Revenue-Loans	Capital Projects-TID	717,631
Special Revenue-Restricted	Enterprise - Water	1,806,424
Special Revenue-Restricted	Special Revenue-HUD Grants	28,321
Special Revenue-State Grants	General Fund	40,478
Special Revenue-Restricted	Capital Projects-Intergovernmental	107,057
Special Revenue-Sanitary Sewer	Capital Projects-General Obligation	400,000
Subtotal-fund financial statements		10,394,490
Less: Fund eliminations		(5,709,483)
Add: Government wide eliminations		(779,684)
		<u>\$ 3,905,323</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS**

Long-term obligations activity for the year ended December 31, 2019 was as follows:

**GOVERNMENTAL ACTIVITIES**

	Beginning			Ending	Amounts
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
General Obligation					
Bonds and notes payable	\$ 94,270,000	\$ 31,345,000	\$ 32,970,000	\$ 92,645,000	\$ 14,185,000
Premiums	<u>6,348,649</u>	<u>1,392,502</u>	<u>708,761</u>	<u>7,032,390</u>	<u>-</u>
Sub-total	<u>100,618,649</u>	<u>32,737,502</u>	<u>33,678,761</u>	<u>99,677,390</u>	<u>14,185,000</u>
Other Liabilities					
Vested compensated absences	2,470,913	505,151	312,155	2,663,909	302,390
Total health OPEB liability	291,940,187	15,674,824	36,913,794	270,701,217	-
Net life insurance OPEB liability	2,218,402	-	238,899	1,979,503	-
Net pension liability	<u>-</u>	<u>15,188,341</u>	<u>-</u>	<u>15,188,341</u>	<u>-</u>
Total Other Liabilities	<u>296,629,502</u>	<u>31,368,316</u>	<u>37,464,848</u>	<u>290,532,970</u>	<u>302,390</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 397,248,151</u>	<u>\$ 64,105,818</u>	<u>\$ 71,143,609</u>	<u>\$ 390,210,360</u>	<u>\$ 14,487,390</u>



**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS (cont.)**

**BUSINESS-TYPE ACTIVITIES**

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within One Year
<b>Bonds and notes payable</b>					
Revenue bonds	\$ 64,511,718	\$ 25,413,305	\$ 10,403,356	\$ 79,521,667	\$ 10,795,827
Premiums	<u>1,518,600</u>	<u>1,162,099</u>	<u>274,886</u>	<u>2,405,813</u>	<u>274,928</u>
Sub-total	<u>66,030,318</u>	<u>26,575,404</u>	<u>10,678,242</u>	<u>81,927,480</u>	<u>11,070,755</u>
<b>Other Liabilities</b>					
Vested compensated absences	1,146,552	152,661	187,350	1,111,863	61,637
Total health OPEB liability	43,492,249	2,706,813	6,205,633	39,993,429	1,440,538
Net life insurance OPEB liability	567,132	-	85,678	481,454	-
Net pension liability	<u>-</u>	<u>1,590,093</u>	<u>-</u>	<u>1,590,093</u>	<u>-</u>
Total Other Liabilities	<u>45,205,933</u>	<u>4,449,567</u>	<u>6,478,661</u>	<u>43,176,839</u>	<u>1,502,175</u>
<b>Total Business Type Activities</b>					
Long-Term Liabilities	<u>\$ 111,236,251</u>	<u>\$ 31,024,971</u>	<u>\$ 17,156,903</u>	<u>\$ 125,104,319</u>	<u>\$ 12,572,930</u>

**General Obligation Debt**

All general obligation notes and bonds payable are backed by the full faith and credit of the City. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City may not exceed five percent of the equalized value of taxable property within the City's jurisdiction. The debt limit as of December 31, 2019, was \$185,948,525. Total general obligation debt outstanding at year end was \$92,645,000.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS (cont.)**

**General Obligation Debt (cont.)**

<u>Type/Series</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Indebtedness</u>	<u>Outstanding 12/31/2019</u>
<b>General Obligation Bonds</b>					
2012	12/27/2012	12/27/2026	2.00-4.00%	9,830,000	\$ 5,930,000
2013	11/06/2013	12/10/2027	2.00-4.00	26,450,000	6,475,000
2013	12/02/2013	12/2/2020	1.75-5.00	4,450,000	1,275,000
2014	12/09/2014	12/9/2028	2.00-4.00	15,395,000	10,285,000
2015	12/07/2015	12/7/2029	2.00-3.00	11,130,000	7,575,000
2016	12/07/2016	12/7/2030	2.00-4.00	11,915,000	8,390,000
2017	12/05/2017	12/5/2031	3.00-5.00	19,145,000	15,870,000
2018	12/11/2018	12/11/2032	4.00-5.00	9,720,000	8,235,000
2019	12/20/2019	12/20/2033	3.00-5.00	13,390,000	13,390,000
					<u>77,425,000</u>
<b>Taxable General Obligation Bonds</b>					
2010	11/24/2010	12/1/2024	0.85-4.70	9,850,000	3,270,000
2011	10/25/2011	10/25/2020	0.55-2.55	12,925,000	2,110,000
2019	10/01/2019	10/1/2023	3.0	2,690,000	2,690,000
					<u>8,070,000</u>
<b>Taxable Incremental General Obligation Debt</b>					
2014 (Tif #10)	12/09/2014	12/9/2028	2.00-4.00	2,280,000	1,765,000
2015 (Tif #11)	09/08/2015	12/1/2025	1.00-3.10	1,410,000	950,000
2018 (Tif #18)	12/11/2018	12/11/2021	3.5	3,500,000	3,500,000
2019 (Tif #9)	10/01/2019	10/1/2021	3.0	935,000	935,000
					<u>7,150,000</u>
<b>Total Governmental Activities-General Obligation Debt</b>					<b><u>\$ 92,645,000</u></b>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS (cont.)**

**General Obligation Debt (cont.)**

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities General Obligation Debt		
	Principal	Interest	Total
2020	\$ 14,185,000	\$ 3,445,988	\$ 17,630,988
2021	10,970,000	3,031,793	14,001,793
2022	9,700,000	2,676,133	12,376,133
2023	12,860,000	2,287,360	15,147,360
2024	8,060,000	1,772,950	9,832,950
2025-2029	28,235,000	4,585,320	32,820,320
2030-2033	8,635,000	608,950	9,243,950
Totals	\$ 92,645,000	\$ 18,408,494	\$ 111,053,494

**Debt Refunding**

On October 1, 2019, the City issued \$3,625,000 in general obligation refunding bonds, with an interest rate of 3%. The bonds were used to current refund \$2,760,000 of 2009 Taxable General Obligation Bonds (BABS) and \$950,000 of 2010 General Obligation Refunding Bonds.

The cash flow requirements on the refunded debt prior to the current refunding was \$4,132,083 from 2019 through 2023. The cash flow requirements on the general obligation refunding bonds are \$3,890,775 from 2019 through 2023.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS (cont.)**

***Business-Type Activities Revenue Debt***

***Revenue Debt***

Revenue bonds are payable only from revenues derived from the operation of the Water and Wastewater Utilities.

Revenue debt payable at December 31, 2019 consists of the following:

<u>Type/Series</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance Outstanding 12/31/2019</u>
<b>Water Utility</b>					
Safe Drinking Water Loan	12/22/2004	5/1/2024	2.37%	16,666,035	\$ 5,164,308
Mortgage Revenue Refunding Bonds	10/25/2011	9/1/2021	2.00-4.50	6,500,000	660,000
Mortgage Revenue Refunding Bonds	7/10/2012	9/1/2024	2.00-4.00	14,140,000	7,550,000
Safe Drinking Water Loan	5/27/2015	5/1/2035	1.65	1,708,229	1,542,310
Mortgage Revenue Refunding Bonds	9/8/2015	9/1/2026	2.00-4.00	6,590,000	4,745,000
Mortgage Revenue Refunding Bonds	9/7/2016	9/1/2021	2.00-3.00	3,725,000	1,525,000
Mortgage Revenue Bonds	12/28/2017	9/1/2031	3.00-5.00	6,135,000	6,135,000
Mortgage Revenue Bonds	2/19/2019	9/1/2039	3.00-5.00	20,000,000	20,000,000
Total Water Utility					47,321,618
<b>Wastewater Utility</b>					
Clean Water Fund Loans	9/27/2000	5/1/2020	2.970	805,113	52,410
Clean Water Fund Loans	4/10/2002	5/1/2021	2.750	4,073,012	537,449
Clean Water Fund Loans	12/22/2004	5/1/2021	2.860	17,943,748	3,555,506
Clean Water Fund Loans	11/27/2002	5/1/2022	2.867	60,724,848	12,681,769
Clean Water Fund Loans	1/23/2008	5/1/2027	2.480	3,481,931	1,605,812
Clean Water Fund Loans	3/24/2010	5/1/2029	2.200	2,524,712	1,489,717
Clean Water Fund Loans	5/23/2018	5/1/2038	1.870	521,526	499,782
Clean Water Fund Loans	6/27/2018	5/1/2038	1.870	13,088,291	11,777,604
Total Wastewater Utility					32,200,049
Total Business-Type Revenue Debt					\$ 79,521,667

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**F. LONG-TERM OBLIGATIONS (cont.)**

**Revenue Debt (cont.)**

Debt service requirements to maturity are as follows:

<u>Years</u>	Business-Type Activities Revenue Debt		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 10,795,827	\$ 2,425,081	\$ 13,220,908
2021	11,063,833	2,115,155	13,178,988
2022	10,264,852	1,791,994	12,056,846
2023	4,848,119	1,566,903	6,415,022
2024	5,003,407	1,409,662	6,413,069
2025-2029	14,989,867	5,108,594	20,098,461
2030-2034	11,536,669	2,766,458	14,303,127
2035-2039	11,019,093	1,045,309	12,064,402
	\$ 79,521,667	\$ 18,229,156	\$ 97,750,823

The Utilities issue revenue bonds, safe drinking water loans and clean water fund loans that are payable only from revenues derived from the operation of the Water and Wastewater Utilities.

The Water Utility has pledged future customer revenues, net of specified operating expenses, to repay \$77.7 million in water system revenue bonds issued between 2004 and 2019. Proceeds from the bonds provided financing for various extension, replacement, repair and improvement projects throughout the water treatment and distribution system and acquiring equipment, and refunding. The bonds are payable solely from water customer net revenues and are payable through 2039. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$62,186,598. Principal and interest paid for the current year and total customer net revenues were \$5,981,548 and \$11,221,802, respectively.

The Wastewater Utility has pledged future customer revenues, net of specified operating expenses, to repay \$103.2 million in clean water fund loans issued between 2000 and 2018. Proceeds from the bonds provided financing for the construction of certain projects in the wastewater treatment system. The loans are payable solely from wastewater customer net revenues and are payable through 2038. Annual principal and interest payments on the loans are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$35,564,225. Principal and interest paid for the current year and total revenues were \$6,989,233 and \$9,092,332, respectively.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. With the exception of the violation noted above, the Utility believes they are in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

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**F. LONG-TERM OBLIGATIONS (cont.)**

***Other Debt Information***

Estimated payments of compensated absences, net pension liability and other postemployment benefits are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

A statutory mortgage lien upon the City's utility system and any additions, improvements and extensions thereto is created by Section 66.066 of the Wisconsin Statutes as provided for in the ordinances creating the revenue bond issue. The City's system and the earnings of the system remain subject to the lien until payment in full of the principal and interest on the bonds.

***Defeasance of Debt***

The City has defeased certain general obligation notes and bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old notes and bonds. Accordingly, the trust account assets and the liability for the defeased notes and bonds are not included in the City's financial statements. At December 31, 2019, \$8,080,000 of bonds outstanding is considered defeased. The bonds are callable in 2020.

**G. LEASE DISCLOSURES**

The Wastewater Utility leases a parcel of land from the Racine Commercial Airport Corporation. The lease, which is for 50 years expiring in 2052, is classified as an operating lease. Lease payments are the greater of \$35,000 adjusted annually for inflation or half of the property taxes levied on the Airport's real property. Rent expense for the lease was \$49,824 in 2019.

Future minimum payments for the next five years under the lease:

2020	\$	35,000
2021		35,000
2022		35,000
2023		35,000
2024		35,000
Thereafter		945,000
	\$	<u>1,120,000</u>

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### **H. NET POSITION/FUND BALANCES**

Net position reported on the government wide statement of net position at December 31, 2019 includes the following:

#### **Governmental Activities**

Net Investment in capital assets	
Capital assets, net of accumulated depreciation/amortization	\$ 203,315,673
Less: related long-term debt outstanding	(85,904,074)
Plus: funds borrowed but not spent	<u>8,936,334</u>
Total Net Investment in Capital Assets	<u>126,347,933</u>
Restricted for	
Debt service	488,997
Permanent Funds	
Non Expendable	964,701
Expendable	1,588,375
Library	174,044
Loan programs	6,457,661
Tax incremental districtes	12,982,216
Intergovernmental revenue sharing	11,252,691
Federal and State grant programs	1,026,067
Trusts	3,944,712
Health and other	781,506
Special assessment program	<u>2,444,028</u>
Total Restricted	<u>42,104,998</u>
Unrestricted (deficit)	<u>(244,975,562)</u>
Total Governmental Activities Net Positions	<u>\$ (76,522,631)</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

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***H. NET POSITION/FUND BALANCES (cont.)***

***Business-Type Activities***

Net investment in capital assets	
Capital assets, net of accumulated depreciation	\$ 277,236,929
Less: related long-term debt outstanding	<u>(67,506,332)</u>
Total Net Investment in Capital Assets	<u>209,730,597</u>
Restricted for	
Debt Service	6,277,372
Depreciation Fund	800,000
DNR equipment replacement fund	<u>3,198,643</u>
Total Restricted	<u>10,276,015</u>
Unrestricted (deficit)	<u>(41,488,680)</u>
Total Business-Type Activities Net Position	<u>\$ 178,517,932</u>



**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**H. NET POSITION/FUND BALANCES (cont.)**

**Governmental Funds**

Governmental fund balances reported on the fund financial statements at December 31, 2019 include the following:

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable				
Non current receivables	\$ 5,030,815	\$ -	\$ -	\$ 5,030,815
Inventories	470,501	-	-	470,501
Prepaid Items	104,336	-	-	104,336
Deposit in CVMIC	<u>2,962,500</u>	-	-	<u>2,962,500</u>
	<u>8,568,152</u>	-	-	<u>8,568,152</u>
Restricted for:				
Loan program	-	-	2,455,507	2,455,507
Debt service	-	401,050	-	401,050
HUD grant programs	-	-	262,526	262,526
State grant programs	-	-	978	978
Federal grant programs	-	-	524,966	524,966
Special assessment program	-	-	811,852	811,852
Public safety	-	-	581,439	581,439
Health services	-	-	37,061	37,061
Cemetery donations	-	-	102,553	102,553
Park and recreation programs	-	-	60,453	60,453
Trusts	-	-	3,944,711	3,944,711
Library services	-	-	174,044	174,044
Tax incremental districts	-	-	12,965,096	12,965,096
Revenue sharing	-	-	11,252,691	11,252,691
Endowments	<u>-</u>	<u>-</u>	<u>2,553,076</u>	<u>2,553,076</u>
	<u>-</u>	<u>401,050</u>	<u>35,726,953</u>	<u>36,128,003</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)**

**H. NET POSITION/FUND BALANCES (cont.)**

**Governmental Funds (cont.)**

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Committed to:				
Harbor Commission	\$ -	\$ -	\$ 220,851	\$ 220,851
Fire Prevention	-	-	33,660	33,660
Racine Safe Neighborhood	-	-	9,116	9,116
Sister Cities	-	-	18,440	18,440
Comm Center Concessions	-	-	32,582	32,582
Landmark Preservation	-	-	4,296	4,296
Open Space Park Land	-	-	11,689	11,689
Cemetery	-	-	376,760	376,760
City Projects	-	-	2,841,615	2,841,615
Private Property Maintenance	-	-	641,344	641,344
Health Lab	-	-	98,506	98,506
Room Tax	-	-	198,311	198,311
Equipment Replacement	-	-	1,268,134	1,268,134
Capital projects	-	-	7,668,200	7,668,200
	-	-	13,423,504	13,423,504
Assigned to:				
Budget Stabilization	1,465,586	-	-	1,465,586
Wage Provision	3,191,529	-	-	3,191,529
Economic Development	-	-	127,587	127,587
	4,657,115	-	127,587	4,784,702
Unassigned (deficit)	20,923,082	-	(697,399)	20,225,683
 Total Fund Balances	 \$ 34,148,349	 \$ 401,050	 \$ 48,580,645	 \$ 83,130,044

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### *I. COMPONENT UNITS*

This report contains the Downtown Racine Business Improvement District #1 (BID) and the Racine Redevelopment Authority, which are included as component units. Financial information is presented as a discrete column in the statement of Net Position and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

#### ***CITY OF RACINE REDEVELOPMENT AUTHORITY***

a. Basis of Accounting/Measurement Focus

The Redevelopment Authority follows the modified accrual basis of accounting and the flow of current financial resources measurement focus.

b. Transactions with the Primary Government

At December 31, 2019, the Redevelopment Authority has advances from the City in the amount of \$2,286,585. There has been no amortization schedule established.

c. Assets Held for Resale

The Authority obtains land and buildings to redevelop and resale. All assets are recorded at lower of cost or market. Donated assets are recorded at fair market value at the date of donation. The Authority's assets are being held for resale and are therefore not depreciable.

At December 31, 2019 the Authority had assets held for resale of \$5,622,831.

d. Cash and Investments

At December 31, 2019, the carrying value and bank balance of the Redevelopment Authority's deposits are \$881,022. These monies are commingled with other City funds and therefore FDIC coverage is not able to be determined.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### *I. COMPONENT UNITS (cont.)*

##### ***DOWNTOWN RACINE BUSINESS IMPROVEMENT DISTRICT #1 (BID)***

a. Basis of Accounting/Measurement Focus

The BID follows the modified accrual basis of accounting and the flow of current financial resources measurement focus.

b. Transactions with the Primary Government

At December 31, 2019, the BID has a receivable of \$197,578 from the City's tax collection fund for the entire subsequent year's annual assessment.

c. Cash and Investments

At December 31, 2019, the carrying value of the BID's deposits is \$41,921, respectively. Of that balance all was covered by federal depository insurance.

d. Capital Assets

The BID's capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Equipment is depreciated using the straight-line method over five to ten years.

At December 31, 2019, the District had capital assets with a cost of \$14,232 and accumulated depreciation of \$14,232. The District's net book value of capital assets was \$-0-. There were no current year additions.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION

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#### **A. EMPLOYEES' RETIREMENT SYSTEM**

All eligible employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. 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 and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

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

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

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

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

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2009	(2.1)%	(42)%
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4
2018	2.4	17.0

**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 and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE V – OTHER INFORMATION (cont.)**

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**A. EMPLOYEES’ RETIREMENT SYSTEM (cont.)**

During the reporting period, the WRS recognized \$4,791,544 in contributions from the City.

Contribution rates for the plan year reported are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General	6.7%	6.7%
Executives & Elected Officials	6.7%	6.7%
Protective with Social Security	6.7%	10.7%
Protective without Social Security	6.7%	14.9%

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

At December 31, 2019, the city reported a liability of \$16,778,434 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability 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 city’s proportion of the net pension liability was based on the city’s share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the city’s proportion was .47161079%, which was an increase of .01094369% from its proportion measured as of December 31, 2018.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

For the year ended December 31, 2019, the city recognized pension expense of \$11,929,729.

At December 31, 2019, the city reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 13,067,859	\$ 23,099,276
Changes of actuarial assumptions	2,828,230	-
Net differences between projected and actual earnings on pension plan investments	24,503,752	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	204,296	32,466
Employer contributions subsequent to the measurement date	<u>5,503,715</u>	<u>-</u>
Total	<u>\$ 46,107,852</u>	<u>\$ 23,131,742</u>



# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

\$5,503,715 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended <u>December 31:</u>	Deferred Outflow (inflow) <u>of Resources (net)</u>
2020	\$ 6,404,406
2021	1,607,563
2022	2,753,768
2023	6,706,658

**Actuarial assumptions.** The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2018
Measurement Date of Net Pension Liability	December 31, 2019
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.0%
Discount Rate:	7.0%
Salary Increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table
Post-retirement Adjustments*	1.9%*

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

### NOTE V – OTHER INFORMATION (cont.)

#### A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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. Based on this experience study, actuarial assumptions used to measure the Total Pension Liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates. The Total Pension Liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

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

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Rate of Return %	Long-Term Real Rate of Return
Global Equities	49%	8.1%	5.5%
Fixed Income	24.5	4.0	1.5
Inflation Sensitive Assets	15.5	3.8	1.3
Real Estate	9	6.5	3.9
Private Equity/Debt	8	9.4	6.7
Multi-Asset	4	6.7	4.1
Total Core Fund	110	7.3	4.7

  

Variable Fund Asset Class	Current Asset Allocation %	Long-Term Expected Rate of Return %	Long-Term Real Rate of Return
US Equities	70%	7.6%	5.0%
International Equities	30	8.5	5.9
Total Variable Fund	100	8.0	5.4

New England Pension Consultants Long Term US CPI (inflation) Forecast: 2.5%

Asset allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**A. EMPLOYEES’ RETIREMENT SYSTEM (cont.)**

**Single discount rate.** A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a long term bond rate of 3.71%. Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.90% 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 city’s proportionate share of the net pension liability (asset) to changes in the discount rate.** The following presents the city’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the city’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1- percentage-point lower (6.00%) or 1- percentage-point higher (8.00%) than the current rate:

	1% Decrease to Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase to Discount Rate (8.00%)
The City’s proportionate share of the net pension liability (asset)	<u>\$66,679,252</u>	<u>\$16,778,434</u>	<u>\$(20,326,695)</u>

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

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### ***B. RACINE TRANSIT SYSTEM PENSION PLAN***

The Transit System's union employees participate in a cost-sharing, multiple-employer defined benefit plan. The Plan provides for retirement and related benefits for eligible employees of contributing employers that are signatory to collective bargaining agreements with local unions accepted by the Trustees of the Fund.

The Transit System makes contributions to the Fund, on behalf of their employee participants, at rates specified in their collective bargaining agreement. Contributions to the plan were \$932,744, \$803,424, and \$864,664, for the years ended December 31, 2019, 2018, and 2017 respectively. The following table shows the rate charged per week for each contract year:

Contract Period	Rate per week
July 1, 2019 – June 30, 2020	\$254
July 1, 2018 – June 30, 2019	244
July 1, 2017 – June 30, 2018	235
July 1, 2016 – June 30, 2017	226

The Plan provides several pension benefits. Benefit levels are generally based on the participant's contribution levels, length of vested service and age. Generally, at least 10 years of service are required to be eligible for any benefit level. The Plan's principal benefit has been a "20-Year Service Pension", which is available to participants who attain age 57 and have twenty years of service credits. Greater benefits apply to participants who accumulate 25, 30 or 35 years of contributory credit.

Under certain conditions, partial pensions are available at reduced amounts where participation has been divided between the Plan and other pension plans that have reciprocal agreements with the Fund. The Plan also provides for a monthly disability benefit, a lump-sum disability benefit and various death benefits.

The amount shown as the "pension benefit obligation" below, is a standardized disclosure measure of the present value of pension benefits, estimated to be payable in the future as a result of employee service to date and applying other significant assumptions regarding mortality rates, age of retirement, and rates of termination for reasons other than death or retirement. The measure is intended to help users assess the funding status of the Plan on a going-concern basis, and to assess progress made in accumulating sufficient assets to pay benefits when due. The Plan does not make separate measurements of assets and pension benefit obligations for separate employers.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

***B. RACINE TRANSIT SYSTEM PENSION PLAN (cont.)***

***FUNDED PERCENTAGE***

The funded percentage of a plan is a measure of how well that plan is funded. This percentage is obtained by dividing the Plan’s assets by its liabilities on the valuation date for the plan year. In general, the higher the percentage, the better funded the plan. The Plan’s funded percentage for the Plan Year and 2 preceding plan years is set forth in the chart below, along with a statement of the value of the Plan’s assets and liabilities for the same period.

	2019	2018	2017
Valuation Date	January 1, 2019	January 1, 2018	January 1, 2017
Funded Percentage	24.8%	27.2%	37.80%
Value of Assets	\$13,163,329,735	\$14,636,917,318	\$15,591,062,869
Value of Liabilities	\$52,986,860,755	\$53,716,610,057	\$41,246,553,973

***FAIR MARKET VALUE OF ASSETS***

Asset values in the chart above are actuarial values, not market values. Market values tend to show a clearer picture of a plan’s funded status as of a given point in time. However, because market values can fluctuate daily based on factors in the marketplace, such as changes in the stock market, pension law allows plans to use actuarial values for funding purposes. While actuarial values fluctuate less than market values, they are estimates. Below are the fair market values (FMVs) of the Plan’s assets for each respective year.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
FMV of Plan Assets	\$ 12,309,907,060	\$ 13,168,043,720	\$ 15,011,652,100

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### **C. RISK MANAGEMENT**

The City 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. The City is self-insured for medical coverage and workers compensation at December 31, 2019. The City purchases general and automobile liability insurance from the Cities and Villages Mutual Insurance Company. The City purchases commercial insurance for property and casualty claims. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

#### **Self Insurance**

For health care claims, the City has purchased commercial insurance for claims in excess of \$250,000 per member incurred in the calendar year. Settled claims have not exceeded the commercial coverage in any of the past three years.

For workers compensation claims, the uninsured risk of loss is \$350,000 per incident for a policy year. The City has purchased commercial insurance for claims in excess of those amounts. Settled claims have not exceeded the commercial coverage in any of the past three years.

All funds of the City participate in the risk management program. Amounts payable to the general fund are based on actuarial estimates of the amounts necessary to pay prior and current year claims.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Liabilities include an amount for claims that have been incurred but not reported.

#### **Claims Liability**

	<u>Current</u>	<u>Prior Year</u>
Unpaid claims – Beginning of Year	\$ 1,684,926	\$ 1,356,163
Current year claims and changes in estimates	15,824,203	15,328,512
Claim payments	<u>(15,627,485)</u>	<u>(14,999,749)</u>
Unpaid Claims – End of Year	<u>\$ 1,881,644</u>	<u>\$ 1,684,926</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**C. RISK MANAGEMENT (cont.)**

**Public Entity Risk Pool**

**Wisconsin Municipal Insurance Commission (WMIC)  
Cities and Villages Mutual Insurance Company (CVMIC)**

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment and capitalization of the CVMIC, and has numerous cities and villages as members.

The CVMIC is a municipal mutual insurance company established on September 14, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the cities and villages which make up the membership of the WMIC.

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities.

Member equity ownership attributable to the WMIC bonds (\$25 million) is based on the amount of the bond the member delivered in proportion to the bonds delivered by all members. The City's percentage participation in WMIC and CVMIC at December 31, 2019 was 11.85% or \$2,962,500. This amount has been recorded as a deposit in CVMIC in the City's general fund.

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The City does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC are available from: Cities and Village Mutual Insurance Company, 1250 South Sunnyslope Road, Suite 105, Brookfield, WI 53005.

The City pays an annual premium to the mutual for its general liability insurance, which provides coverage up to \$10,000,000 per occurrence, less the City's retained liability. The City's retained liability is limited to \$225,000 per occurrence and an annual aggregate limit of \$750,000. An actuarially determined estimate has been recorded for this liability, as well as for claims incurred but not reported at December 31, 2019. A total liability of \$1,162,704 at December 31, 2019 was recorded as claims payable in the governmental activities column of government-wide statement of Net Position. Changes in the fund's claims loss liability follow:

	Beginning Balance	Incurred Claims	Claims Paid/ Settled	Ending Balance
2019	\$ 1,129,093	1,477,253	1,443,642	\$ 1,162,704
2018	1,167,840	1,072,214	1,110,961	1,129,093

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE V – OTHER INFORMATION (cont.)**

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**C. RISK MANAGEMENT (cont.)**

**Public Entity Risk Pool (cont.)**

**Transit Mutual Insurance Corporation of Wisconsin (TMI)**

The Transit Mutual Insurance Corporation of Wisconsin is a joint venture of Wisconsin municipalities which have joined together for the managing and funding of the first party property losses and third party liability claims of its member municipalities mass transit funds.

In 2019, TMI issued a Motor Vehicle Insurance Policy to its members with the following available coverages:

Liability	\$0 per person, \$10,000,000 per accident, 0 deductible
Uninsured Motorists	\$ 25,000 per person, \$50,000 per accident, 0 deductible
Physical damage	Collision and Comprehensive – “Agreed value, or Cost of Repairs, whichever is less, minus \$ 500 flat deductible per accident for all private passenger & service units, \$1,000 flat deductible per accident for all bus units

TMI retains \$500,000 per occurrence (accident) of the liability limits and cedes \$9,500,000 to General Reinsurance Corporation. TMI retains \$500,000 per occurrence (accident) of the physical damage limits and cedes the balance up to \$9,500,000 to General Reinsurance Corp.

Management consists of a board of directors comprised of one representative for each member. The municipality does not exercise any control over the activities of the agency beyond its representation on the board of directors.

Initial contributions are determined in advance of each membership year. The board of directors may require that supplemental contributions be made by members to ensure adequate funds are available to meet the obligations applicable to the membership year. Members have a contractual obligation to fund any deficit attributable to a membership year during which they were a member. The city’s share of this joint venture is 9.51% for auto liability and 20.21% for physical damage liability. A list of the other members is in the TMI report, which can be obtained directly from TMIC’s offices.



# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### ***D. COMMITMENTS AND CONTINGENCIES***

Claims and judgments are as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

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

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The City borrowed for the purpose of making various capital improvements. These monies as well as other revenue sources are reflected in the capital projects funds. Work that has been completed but not yet paid for (including contract retainages) is reflected as accounts payable and expenditures. The balance of contract amounts plus open purchase orders is \$3,787,720.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### ***E. OTHER POSTEMPLOYMENT BENEFITS***

##### ***HEALTH INSURANCE***

The City provides post employment health care and life benefits to retired employees and their dependents. The benefits can vary, depending upon the age and years of service of the retiree. Depending on the union contract, the City pays 100 percent of the health care costs for employees who retire with a combination of age and years of service between 75 and 80 years. The City also pays 100 percent of the Medicare premiums for those individuals. Life insurance premiums are paid to age 65 for those individuals who retire prior to age 65 and qualify as defined above. Required contributions range from 0%-10% based on labor negotiations and retirement date.

The City of Racine administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides health insurance benefits for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements, personnel policy guidelines, or past practice and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates. The Retiree Health Plan does not issue a publicly available financial report

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the City and the union. The City makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The amount of the City’s contribution ranges from 92.5-100% based on the employee’s year of retirement and bargaining unit. For fiscal year 2019, the City contributed \$10,478,991 to the plan. Eligible plan member contributions vary based on the specific collective bargaining agreement. Plan member contributions range from 0-10% of their premium costs. For fiscal year 2019, total retiree member contributions were \$427,420.

##### ***Plan Description and Benefits Provided***

The City’s total OPEB liability of \$310,694,646 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date and rolled forward to December 31, 2019.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

***E. OTHER POSTEMPLOYMENT BENEFITS (cont.)***

***Actuarial Assumptions and Other Inputs***

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

- Interest Discount Rate-Based on Bond Buyer 20-Year Bond Index
- Mortality-Based on the Wisconsin 2012 Mortality Table
- Employee Turnover/Withdrawal
- Annual Medical Trends
- Salary Adjustment Factors

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the years 2012-2014. This information was rolled forward to determine the valuation as of December 31, 2019.

***Changes in the Total Health OPEB liability***

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Balance at December 31, 2018	\$291,940,187	\$43,492,249	\$335,432,436
Changes for the year:			
Service Cost	5,774,719	1,013,250	6,787,969
Interest	9,900,105	1,693,563	11,593,668
Differences between expected and actual experience	(1,500,584)	(34,569)	(1,535,153)
Changes in assumption or other input	(26,677,205)	(4,428,078)	(31,105,283)
Benefit payments	<u>(8,736,005)</u>	<u>(1,742,986)</u>	<u>(10,478,991)</u>
Net changes	<u>(21,238,970)</u>	<u>(3,498,820)</u>	<u>(24,737,790)</u>
Balance at December 31, 2019	<u>\$270,701,217</u>	<u>\$39,993,429</u>	<u>\$310,694,646</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

***E. OTHER POSTEMPLOYMENT BENEFITS (cont.)***

***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate***

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a different discount rate that is 1-percentage-point lower (3.10 percent) or 1-percentage-point higher (5.10 percent) than the current discount rate:

	<u>1% Decrease to Discount Rate (3.10)%</u>	<u>Current Discount Rate (4.10%)</u>	<u>1% Increase to Discount Rate (5.10%)</u>
Total OPEB Liability	\$ <u>359,682,963</u>	\$ <u>310,694,646</u>	\$ <u>271,171,527</u>

***Sensitivity of the Total OPEB liability to changes in the healthcare cost trend rates***

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that a 1-percentage-point lower (3.10%) 1-percentage-point higher (5.10%) than the current healthcare cost trend rates:

	<u>1% Decrease (3.10%)</u>	<u>Current Trend Rate (4.10%)</u>	<u>1% Increase (5.10%)</u>
Total OPEB Liability	\$ <u>265,725,662</u>	\$ <u>310,694,646</u>	\$ <u>367,247,813</u>

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**E. OTHER POSTEMPLOYMENT BENEFITS (cont.)**

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

For the year ended December 31, 2019 to City recognized OPEB-Health expense of \$24,737,791.

At December 31, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

	Deferred Outflows of Resources	Deferred Inflow of Resources
<u>Governmental Activities</u>		
Differences between actual and expected experience	\$ 10,744,265	\$ 2,047,614
Changes in assumptions or inputs	(3,321,625)	20,414,949
Employer contributions subsequent to the measurement date	8,920,547	-
	16,343,187	22,462,563
<u>Business Type Activities</u>		
Differences between actual and expected experience	2,771,270	4,733,899
Changes in assumptions or inputs	(1,060,687)	(974,994)
Employer contributions subsequent to the measurement date	1,918,241	-
	3,628,824	3,758,905
Total	\$ 19,972,011	\$ 26,221,468

The \$10,838,788 reported as deferred outflows relating to employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ended December 31.</u>	<u>Deferred Outflow (inflow) of Resources (net)</u>
2020	\$ (4,171,586)
2021	(4,171,586)
2022	(6,532,254)
2023	(2,199,753)
2024	(13,066)

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### **E. OTHER POSTEMPLOYMENT BENEFITS** (cont.)

##### **LOCAL RETIREE LIFE INSURANCE FUND (LRLIF)**

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

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

**Vesting.** For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and 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.** 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 are:

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

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

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**NOTE V – OTHER INFORMATION (cont.)**

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***E. OTHER POSTEMPLOYMENT BENEFITS (cont.)***

***LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) (CONT)***

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

Life Insurance Employee Contribution Rates For  
the Plan Year

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

During the reporting period, the LRLIF recognized \$19,387 in contributions from the employer.

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

At December 31, 2019 the City reported a liability of \$2,460,957 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018, the City's proportion was .95373400%, which was an increase of .027871% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the City recognized OPEB-Life expense of \$266,337.

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**E. OTHER POSTEMPLOYMENT BENEFITS (cont.)**

**LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) (CONT)**

At December 31, 2019, the City 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	\$ -	\$ 124,842
Changes in assumptions	234,813	533,438
Net differences between projected and actual earnings	58,813	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	133,462	-
Employer contributions subsequent to the measurement date	19,387	-
Total	<u>\$ 446,475</u>	<u>\$ 658,280</u>

\$19,387 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 the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>		<u>Deferred Outflows and Deferred Inflows (net)</u>
2020	\$	(25,489)
2021		(25,489)
2022		(25,489)
2023		(33,749)
2024		(42,257)
Thereafter		(78,719)



**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**E. OTHER POSTEMPLOYMENT BENEFITS (cont.)**

**LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) (CONT)**

**Actuarial assumptions.** The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2018
Measurement Date of Net OPEB Liability	December 31, 2018
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield:	4.10%
Long-Term Expected Rate of Return:	5.0%
Discount Rate:	4.22%
Salary Increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table

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

**Local OPEB Life Insurance  
Asset Allocation Targets and Expected Returns  
As of December 31, 2018**

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return %
US Government Bonds	Barclays Government	1%	1.44%
US Credit Bonds	Barclays Credit	40	2.69
US Long Credit Bonds	Barclays Long Credit	4	3.01
US Mortgages	Barclays MBS	54	2.25
US Municipal Bonds	Bloomberg Barclays Muni	1	1.68
Inflation			2.3
Long-Term Expected Rate of Return			5

**CITY OF RACINE**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2019

**NOTE V – OTHER INFORMATION (cont.)**

**E. OTHER POSTEMPLOYMENT BENEFITS (cont.)**

**LOCAL RETIREE LIFE INSURANCE FUND (LRLIF) (CONT)**

**Single discount rate.** A single discount rate of 4.22% was used to measure the total OPEB liability. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the longterm expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient.

**Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the City's proportionate share of the net OPEB liability calculated using the discount rate of 4.22 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.22 percent) or 1-percentage-point higher (4.22 percent) than the current rate:

	1% Decrease to Discount Rate (3.22%)	Current Discount Rate (4.22%)	1% Increase to Discount Rate (5.22%)
Proportionate share of the net OPEB liability	<u>\$3,500,872</u>	<u>\$2,460,957</u>	<u>\$1,658,896</u>

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

**F. ECONOMIC DEPENDENCY**

One major customer accounted for 14.0% of Water Utility gross sales aggregating \$2,965,698 and 14.5% of gross sales aggregating \$3,127,968 in 2019 and 2018, respectively.

Two major customers accounted for 30.0% and 21.4% of Wastewater Utility gross sales aggregating \$7,182,767 in 2019.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### ***G. INTERMUNICIPAL SANITARY SEWER SERVICE AGREEMENT***

The Wastewater Utility entered into an intergovernmental sanitary sewer service agreement with the surrounding local municipalities. The agreement was reached to provide for an equitable allocation of the cost of the expansion of the existing sewer service facilities, which were necessary to continue providing high quality, reliable sewer service, and allow for future growth needs. The agreement allocates treatment capacity to each of the participating municipalities based on their future estimated usage. In return for such treatment capacity allocations each participating municipality is required to pay the Wastewater Utility its proportionate share of the capital cost of improvements.

The municipalities agreed to participate in loans from the Clean Water Fund to pay for their share of the capital costs. As such, the agreement calls for each municipality to timely pay to the Wastewater Utility its proportionate share of debt and any related debt service costs on a payment schedule approved by the Wastewater Utility. The principal of debt due from each municipality was recorded as receivable and unearned revenue upon completion of the expansion project.

Interest payments under the agreement are recorded as revenue when earned. Principal payments are recorded as reductions of the account receivable – capacity rights account. The unearned revenue will be recognized as revenue on a straight-line basis over the term of the agreement. The capacity revenue recognized was \$1,147,993 and \$1,147,993 for the years ended December 31, 2019 and 2018 respectively.

The agreement also calls for revenue sharing payments to be made between participating municipalities based on current year's municipal budgets and the prior year's municipal populations and equalized valuations. The agreement requires the Wastewater Utility to collect revenue sharing payments from the contributing municipalities and distribute them to recipient municipalities.

The agreement also requires the Wastewater Utility to make payments from its reserve accounts to the City of Racine, Wisconsin, with respect to the Racine Public Library, Racine Zoo, and the Charles A. Wustum Museum of Fine Arts which were determined to be regional cultural services and facilities which benefit the outlying parties. These payments in the amount of \$911,048 and \$894,844 for 2019 and 2018, respectively, are reported as transfers to other funds in the statement of revenues, expenses and changes in net position.

#### ***H. INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT***

The Racine Water Utility entered into an intergovernmental retail water service agreement with the Village of Mount Pleasant and the Village of Sturtevant. The agreement was reached to provide an equitable allocation of the cost expansion of existing and future water service facilities, which are necessary to continue providing high quality reliable water service, and allow for future growth needs. Projects designed to serve future growth funded through the water rates, contract connection charges and contract front foot charges for new mains installed in the City and Villages that will directly and substantially serve future growth and development. Costs to remedy existing deficiencies in the water system may be recovered through the water sales. In 2013 the Water Utility entered into an intergovernmental wholesale water service agreement with the Village of Caledonia. The Village of Caledonia opted to prepay its residents portion of these charges in two installments, one in 2013 and one in 2014.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### ***H. INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT (cont.)***

The residential equivalent connection (REC) fees are deposited in an interest bearing segregated account and are restricted to pay future growth costs. REC fees are recorded as revenue when received. The Utility recognized \$212,860 of REC fee revenue in 2019.

In 2018, the Water Utility amended the intergovernmental agreement with the Village of Mount Pleasant. As part of the amendment, the Water Utility facilitates engineering and construction costs for Village development projects. Amounts paid by the Utility for such projects are billed to the Village, and the Village reimburses the Utility. The Village maintains ownership of those assets during construction. As December 31, 2019 the Utility reporting an outstanding receivable from the Village in due from other governments on the statement of net position of \$1,605,646.

The amendment also establishes minimum required annual revenues that are required to finance project related debt service payments. In the event that the designated annual revenues are below the established thresholds, the Village of Mount Pleasant is required to remit the designated shortfall to the Utility.

The amendment also decreased annual REC fees for all classes of customers and guarantees cash flows sufficient to meet existing debt service requirements for related debt. In the event annual collections of REC fees are less than agreed upon amounts, payments will be made to the Utility. These payments are recoverable in the event future receipts exceed debt service requirements. No payments were made or received by the Utility during 2019.

#### ***I. INFILTRATION/INFLOW REMOVAL AGREEMENT***

In 1994, the Wastewater Utility entered into an agreement with the City of Racine to periodically replace the manholes and upgrade other structures to promote infiltration/inflow removal in the City of Racine. As part of the agreement, the Utility paid the construction cost for the manhole replacement and upgrades and was allowed to place a special charge on the bills of the City residents to recover its costs. At December 31, 2019, the Wastewater Utility had excess collections of \$4,410,229 which was reported as due to the City of Racine.

#### ***J. MUNICIPAL REVENUE OBLIGATIONS***

In 2006, the city issued a municipal revenue obligation as part of a development agreement. The amount of the obligation is \$1,888,000, and is payable to the developer solely from tax increments collected from a specific development in Tax Incremental District No.13.

The obligation has no established repayment terms. The obligation bears interest at 6.5% and matures on October 1, 2030. In no case, shall the term of this obligation and the city's obligation to make payments, extend beyond the statutory expiration of Tax Incremental District No.13, nor shall the amount of principal to be paid under the obligation exceed \$1,888,000.

The obligation does not constitute a charge upon any funds of the city. In the event that future tax increments are not sufficient to pay off the obligation, the obligation terminates with no further liability to the city. Since the amount of future payments is contingent on the collection of future tax increments, the obligation is not reported as a liability in the accompanying financial statements. The balance of the commitment outstanding at year end is \$1,162,658.

# CITY OF RACINE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2019

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### NOTE V – OTHER INFORMATION (cont.)

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#### **K. SUBSEQUENT EVENT**

In March 2020, the City issued \$900,000 of general obligation bonds from the State of Wisconsin Board of Commissioners of Public Lands with maturity dates between March 15, 2021 and March 15, 2040. The bonds carry an interest rate of 3.75% and are payable commencing on March 15, 2021 annually thereafter on March 15<sup>th</sup> each year. The bonds were issued for the public purpose of financing an economic development housing project.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the City. As of the audit opinion date, the City's evaluation of the effects of these events is ongoing; however, based on current information we believe this situation will impact investment valuations and decreased investment income, increase in delinquencies or uncollectible accounts receivable, loss of revenues in transit fares, parking fares, municipal fines, and construction permits. The City has also experienced increased costs related election operations, information technology equipment, community communications, pensions, OPEBs, insurance, labor (sick time or overtime), etc. In addition, the City has received Federal, State, and private grant awards to respond to the pandemic in excess of \$12 million. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

#### **L. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS**

The Governmental Accounting Standards Board (GASB) has approved the following:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 87, *Leases*

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Statement No. 90, *Majority Equity Interests*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus*

Statement No. 93, *Replacement of Interbank Offered Rates*

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

When they become effective, application of these standards may restate portions of these financial statements.

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance, with the exception of Statement No. 87 which was postponed by one and a half years.