

# **Sheboygan Water Utility**

An Enterprise Fund of the City of Sheboygan, Wisconsin

Financial Statements and  
Supplementary Information

December 31, 2021 and 2020

# **Sheboygan Water Utility**

An Enterprise Fund of the City of Sheboygan, Wisconsin

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December 31, 2021 and 2020

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## **Independent Auditors' Report**

To the Utility Commission of  
Sheboygan Water Utility

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Emphasis of Matter**

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

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for a reasonable period of time.

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

## **Required Supplementary Information**

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

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 11, 2022

## **Sheboygan Water Utility**

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### **Unaudited Management's Discussion and Analysis**

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

The purpose of this section is to provide users with an objective, easy to read overview of the financial activities of the Sheboygan Water Utility for the years ended December 31, 2021 and 2020. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

### **Financial Highlights**

- The utility's operating income increased from \$1,888,505 in 2020 to \$3,099,042 in 2021.
- The utility's total cash position decreased from \$9,678,420 in 2020 to \$8,963,485 in 2021.
- The utility's unrestricted cash and investment position increased from \$5,680,697 in 2020 to \$6,689,683 in 2021.
- The utility's total net position increased by \$1,688,508 in 2021 to \$48,517,953 from \$46,829,445 in 2020.
- The utility's total assets increased by \$873,648 in 2021 to \$64,199,788 from \$63,326,140 in 2020.
- Total liabilities decreased \$943,351 to \$15,331,513 in 2021 from \$16,274,864 in 2020.

### **Financial Statements**

The financial statements report information of the utility using accounting methods similar to those used by private sector companies. The statements offer both short and long term information regarding the activities of the utility. The Statements of Net Position include the utility's assets (investments), deferred outflows of resources, liabilities (obligations to creditors) and deferred inflow of resources. These statements provide information to assess the liquidity and financial flexibility of the utility.

The Statements of Revenues, Expenses and Changes in Net Position will measure the success of the utility's operations for the past year. All of the current year's revenues and expenses are included in this statement and will show if the utility has recovered all of its costs through user fees.

Cash receipts, cash payments, net changes in cash resulting from investing and financing activities are shown in the Statements of Cash Flows. This will also answer questions regarding where the cash came from, what was the cash used for, and what was the change in cash balance.

### **Financial Analysis of the Utility**

The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position will assist in answering the question of how the past year's activities have affected the financial position of the utility. The Statements of Net Position will show the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Over a period of time this can assist in determining if the financial position is improving or deteriorating.

### **2021**

The Statement of Net Position showed that total net position increased \$1,688,508, an increase of 3.6%. Total assets increased \$873,648 or 1.4%. The increase is due to an increase in pension and other post employment benefit assets. Net capital assets increased by \$1,464,781 to \$52,255,433 in 2021 due to work on the Raw Water Improvement Project. Capital additions were financed with operating income and revenue bond anticipation note. Restricted net position increased to \$1,263,954 due to the increase in net pension asset.

## Sheboygan Water Utility

### Unaudited Management's Discussion and Analysis

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

#### 2020

The Statement of Net Position showed that total net position increased \$419,758, an increase of 0.9%. Total assets increased \$2,311,347 or 3.8%. The increase is due to an increase in restricted funds for construction. The utility saw a 2.3% increase in net capital assets of \$1,161,104. Capital additions were financed with operating income and revenue bonds. Restricted net position increased to \$894,234 due to the increase in net pension asset.

#### STATEMENTS OF NET POSITION As of December 31, 2021, 2020 and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Unrestricted current and other assets	\$ 9,385,116	\$ 8,506,618	\$ 10,142,482
Restricted assets	2,559,239	4,028,870	1,242,762
Capital assets	<u>52,255,433</u>	<u>50,790,652</u>	<u>49,629,548</u>
Total Assets	<u>64,199,788</u>	<u>63,326,140</u>	<u>61,014,792</u>
Deferred outflows related to pensions	<u>1,402,233</u>	<u>1,038,866</u>	<u>1,262,190</u>
Current liabilities payable			
from unrestricted assets	1,574,647	1,514,738	2,098,510
Liabilities payable from restricted assets	1,114,462	1,091,308	1,066,793
Non-current liabilities	<u>12,642,404</u>	<u>13,668,818</u>	<u>12,050,584</u>
Total Liabilities	<u>15,331,513</u>	<u>16,274,864</u>	<u>15,215,887</u>
Deferred inflows related to pensions	<u>1,752,555</u>	<u>1,260,697</u>	<u>651,408</u>
Net investment in capital assets	40,823,686	40,122,886	38,634,349
Restricted net position	1,263,954	894,234	481,598
Unrestricted net position	<u>6,430,313</u>	<u>5,812,325</u>	<u>7,293,740</u>
Total Net Position	<u>\$ 48,517,953</u>	<u>\$ 46,829,445</u>	<u>\$ 46,409,687</u>

## Sheboygan Water Utility

### Unaudited Management's Discussion and Analysis

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

The following Statements of Revenues, Expenditures and Changes in Net Position helps to further explain the nature of the increase in net position during 2021 and 2020.

#### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Operating revenues	\$ 9,702,393	\$ 8,695,191	\$ 8,902,438
Non-operating revenues	251,739	124,728	337,471
Total Revenues	9,954,132	8,819,919	9,239,909
Operating & maintenance expenses	6,603,351	6,806,686	6,626,959
Non-operating expenses	498,237	414,914	566,958
Total Expenses	7,101,588	7,221,600	7,193,917
Income before transfers	2,852,544	1,598,319	2,045,992
Capital contributions	-	-	1,541,118
Interfund transfers (tax equivalent)	(1,164,036)	(1,178,561)	(1,124,163)
Change in Net Position	1,688,508	419,758	2,462,947
Beginning Net Position	46,829,445	46,409,687	43,946,740
Ending Total Net Position	\$ 48,517,953	\$ 46,829,445	\$ 46,409,687

### 2021

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have increased \$1,007,202 from \$8,695,191 in 2020, to \$9,702,393 in 2021. The increase is due to an increase in water usage in 2021. Operating and maintenance expenses decreased in 2021 by \$203,335, due to the completion of the Georgia Avenue standpipe painting project completed in 2020. Non-operating revenues increased in 2021 by \$127,011 due to an increase in DNR and other grant revenue. Non-operating expenses increased \$83,323, due to an increase in costs related to the Lead Water Service Lateral Replacement Program.

### 2020

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have decreased \$207,247 from \$8,902,438 in 2019, to \$8,695,191 in 2020. Water usage decreased in 2020, mainly among industrial customers, due to the COVID-19 pandemic. Operating and maintenance expenses increased by \$179,727, due to costs related to bond anticipation note financing for the Raw Water Improvement Project, rate study, and completion of the water system capacity and master planning studies. In 2020, non-operating revenues decreased by \$212,743 due to a decrease in interest on investments and grant revenue. Non-operating expenses decreased \$152,044, due to a decrease in funding for the Lead Water Service Lateral Replacement Program.

## Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

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

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### Capital Assets and Debt Administration

#### Capital Assets (see Note 4.)

At the end of 2021 the water utility had \$74.64 million in invested property, plant and equipment in service, an increase of \$167,701 over 2020. The utility completed SCADA upgrades in the treatment plant at Park Avenue, replaced a filter turbidity unit, shoreline revetment and rehabilitation along the outside of plant, completed the AWIA Risk and Resiliency Study, and west basin flocculation repair. Water main replacement projects continued in 2021. The utility installed 18.55' of 4" water main at S. 10th Street and Illinois Avenue; 155.07' of 6" water main at various locations; 192.3' of 8" water main at various locations; 27.5' of 10" water main at one location; and 3,129.62' of 12" water main at various locations. The largest water main project in 2021 was located at Georgia Avenue. In addition, 30 hydrants were installed at these and other various locations in the City.

At the end of 2020 the water utility had \$74.47 million in invested property, plant and equipment in service, an increase of \$2,126,892 over 2019. Due to the COVID-19 pandemic, most large capital projects were postponed to 2021. The utility was able to complete a rooftop solar project at Park Avenue, install a clearwell slide gate, update and remodel the meter shop, and add a thermo scientific lab refrigerator. Water main replacement projects continued in 2020. The utility installed 8.3' of 4" water main at S. 10th Street and Illinois Avenue; 242.07' of 6" water main at various locations; 975.5' of 8" water main at various locations; 5157.14' of 12" water main at various locations; and 44' of 16" water main at various locations. The largest water main projects in 2020 were located at Geele Avenue, Illinois Avenue, Saemann Avenue, Maryland Avenue, and Niagara Avenue. In addition, 24 hydrants were installed at these and other various locations in the City.

#### Debt (see Note 5.)

On December 31, 2021, the Sheboygan Water Utility had outstanding debt of \$12,490,132. This includes 2004 revenue bonds issued for a Safe Drinking Water Loan, balance of \$413,650, to be retired in 2023; on May 1, 2013, a \$3 million revenue bond was issued with a 3.5% interest rate, and a balance of \$2,015,000 to be retired on 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$2,241,481 and interest rate of 1.65%, to be retired 2035; on April 20, 2016, refunding revenue bonds were issued with an interest rate of 2% and balance of \$935,000, to be retired 2025; and on March 1, 2018, refunding revenue bonds were issued with an interest rate of 3.5% and balance of \$3,785,000, to be retired 2033. These bond proceeds funded the construction of the two reservoirs at Erie Avenue and I-43, and the booster pump station completed in 2008. The 2013 revenue bond funded a backwash storage reservoir at Park Avenue, and funded various projects into 2015. The Safe Drinking Water Loan issued on May 1, 2015 funded a UV disinfection system at the treatment plant. The revenue bond issued on April 20, 2016 refunded the 2005 revenue bond issue. The revenue bond issued on March 1, 2018 refunded the 2007 revenue bond issue and funded the construction of an elevated storage tank at Horizon Drive. The utility issued a \$3,100,000 Bond Anticipation Note (BAN) on May 18, 2020 at 1.25% interest maturing on May 1, 2024 for interim financing of engineering and design costs for the Raw Water Improvement Project. The remaining balance on the \$302,000 debt for the Unfunded Retirement obligation is \$134,042.



## **Sheboygan Water Utility**

### **Unaudited Management's Discussion and Analysis**

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

On December 31, 2020, the Sheboygan Water Utility had outstanding debt of \$13,524,996. This includes 2004 revenue bonds issued for a Safe Drinking Water Loan, balance of \$612,210, to be retired in 2023; on May 1, 2013, a \$3 million revenue bond was issued with a 3.5% interest rate, and a balance of \$2,155,000 to be retired on 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$2,382,786 and interest rate of 1.65%, to be retired 2035; on April 20, 2016, refunding revenue bonds were issued with an interest rate of 2% and balance of \$1,170,000, to be retired 2025; and on March 1, 2018, refunding revenue bonds were issued with an interest rate of 3.5% and balance of \$4,105,000, to be retired 2033. These bond proceeds funded the construction of the two reservoirs at Erie Avenue and I-43, and the booster pump station completed in 2008. The 2013 revenue bond funded a backwash storage reservoir at Park Avenue, and funded various projects into 2015. The Safe Drinking Water Loan issued on May 1, 2015 funded a UV disinfection system at the treatment plant. The revenue bond issued on April 20, 2016 refunded the 2005 revenue bond issue. The revenue bond issued on March 1, 2018 refunded the 2007 revenue bond issue and funded the construction of an elevated storage tank at Horizon Drive. The utility issued a \$3,100,000 Bond Anticipation Note (BAN) on May 18, 2020 at 1.25% interest maturing on May 1, 2024 for interim financing of engineering and design costs for the Raw Water Improvement Project. The remaining balance on the \$302,000 debt for the Unfunded Retirement obligation is \$152,173.

### **Economic Factors and Next Year's Budgets and Rates**

In 2021, Sheboygan Water Utility saw minimal impact by the COVID-19 pandemic compared to 2020. The Utility moved quickly to implement measures protecting core operations. Face coverings and other protective measures were put into place. Many customers shifted to electronic and remote pay options. Departments were isolated from each other, and remote work continued for staff who were able to work from home. All office, plant, and field operations continued without interruption. There was very little impact to revenue or expense in 2021 due to the COVID-19 pandemic. The Wisconsin Public Service Commission lifted a moratorium on disconnections and late fees for non-payment of water utility bills in 2021.

Sheboygan Water Utility submitted an application for a rate increase to the Public Service Commission of Wisconsin July 2021 to provide for a 4.9% rate of return. Since the last rate increase, operating revenues have decreased slightly, while the utility has experienced increasing operating costs and has continued to invest in system replacements and improvements. A rate increase is expected to be implemented early 2022.

Sheboygan Water Utility received a total of \$192,538 in grants from the DNR to fund the replacement of lead service laterals in 2021. The Utility has applied to the DNR for grants in the amount of \$405,000 for replacement of lead service laterals in 2022.

Sheboygan Water Utility has submitted an application to the DNR for Safe Drinking Water Loan Program funds in the amount of \$38,860,865 from the Wisconsin Department of Natural Resources for the construction of the Raw Water Improvement Project. \$3,100,000 will be used to retire the BAN interim financing. This loan is expected to close by June 30, 2022. American Rescue Plan Act funds will be used to offset a portion of the cost for this project.

Sheboygan Water Utility has a total capital improvement budget of \$19,777,000 in 2022. Large projects include \$18,000,000 for design and engineering of the raw water improvement project; \$110,000 for pumpstation generator replacement; \$1,200,000 for water main replacement; \$100,000 for hydrant and valve replacement; and \$162,000 for meter and radio read unit replacement; and fuel efficient utility truck.

## **Sheboygan Water Utility**

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Unaudited Management's Discussion and Analysis

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

### **CONTACTING THE UTILITY FINANCIAL MANAGEMENT**

This financial report is designed to provide a general easy to read overview of the finances of the Sheboygan Water Utility and to provide an overview of plans for the future. If you have any questions about this report or would like to obtain additional information, please feel free to contact the Board of Water Commissioners at 72 Park Avenue Sheboygan, WI 53081-2958 or telephone (920) 459-3800, Opt. 2.

## Sheboygan Water Utility

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and investments	\$ 6,689,683	\$ 5,680,697
Restricted assets:		
Redemption account	545,998	539,531
Customer accounts receivable	1,233,705	1,474,472
Other accounts receivable	251,233	73,656
Due from municipality	240,440	269,518
Materials and supplies	223,046	277,191
Prepayments	<u>28,385</u>	<u>76,495</u>
Total current assets	<u>9,212,490</u>	<u>8,391,560</u>
<b>Noncurrent Assets</b>		
Restricted assets:		
Reserve account	668,414	688,824
Construction account	575,065	2,389,368
Net pension asset	769,762	411,147
Other assets:		
Health insurance reserve	380,000	380,000
LSL revolving loan	104,325	-
Special assessments receivable	234,299	274,589
Capital assets:		
Plant in service	74,640,596	74,472,895
Accumulated depreciation	(26,219,555)	(24,691,820)
Construction work in progress	<u>3,834,392</u>	<u>1,009,577</u>
Total noncurrent assets	<u>54,987,298</u>	<u>54,934,580</u>
Total assets	<u>64,199,788</u>	<u>63,326,140</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to other post employment benefits	100,617	84,214
Deferred outflows related to pension	<u>1,301,616</u>	<u>954,652</u>
Total deferred outflows of resources	<u>1,402,233</u>	<u>1,038,866</u>

See notes to financial statements

## Sheboygan Water Utility

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 140,027	\$ 79,746
Accrued wages	66,098	50,671
Accrued taxes due to municipality	1,197,490	1,215,296
Accrued interest	5,578	5,301
Accrued vacation leave	133,345	126,441
Current portion of accrued sick leave	12,890	19,152
Current portion of advance from municipality	19,219	18,131
Current liabilities payable from restricted assets:		
Current portion of revenue bonds	1,062,656	1,034,864
Accrued interest	<u>51,806</u>	<u>56,444</u>
Total current liabilities	<u>2,689,109</u>	<u>2,606,046</u>
<b>Noncurrent Liabilities</b>		
Advance from municipality	114,823	134,042
Revenue bonds and BANS	11,427,476	12,490,132
Unamortized premium and discount	185,094	220,963
Accrued sick leave	557,971	498,795
Total other post employment benefits liability, health insurance	211,557	213,320
Net other post employment benefits liability, life insurance	<u>145,483</u>	<u>111,566</u>
Total noncurrent liabilities	<u>12,642,404</u>	<u>13,668,818</u>
Total liabilities	<u>15,331,513</u>	<u>16,274,864</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pension	1,725,585	1,232,175
Deferred inflows related to other post employment benefits	<u>26,970</u>	<u>28,522</u>
Total deferred inflows of resources	<u>1,752,555</u>	<u>1,260,697</u>
<b>Net Position</b>		
Net investment in capital assets	40,823,686	40,122,885
Restricted for:		
Debt service	494,192	483,087
Pension	769,762	411,147
Unrestricted	<u>6,430,313</u>	<u>5,812,326</u>
Total net position	<u>\$ 48,517,953</u>	<u>\$ 46,829,445</u>

See notes to financial statements

## Sheboygan Water Utility

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Operating Revenues</b>		
Sales of water	\$ 9,540,076	\$ 8,526,930
Other	<u>162,317</u>	<u>168,261</u>
Total operating revenues	<u>9,702,393</u>	<u>8,695,191</u>
<b>Operating Expenses</b>		
Operation and maintenance	5,043,806	5,169,308
Depreciation	<u>1,559,545</u>	<u>1,637,378</u>
Total operating expenses	<u>6,603,351</u>	<u>6,806,686</u>
<b>Operating Income</b>	<u>3,099,042</u>	<u>1,888,505</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	15,082	44,283
Grant revenue	200,788	45,825
Grant expense	(176,303)	(45,825)
Interest expense	(321,934)	(334,614)
Amortization of premium and discount	35,869	34,620
Bond issuance costs	<u>-</u>	<u>(34,475)</u>
Total nonoperating revenues (expenses)	<u>(246,498)</u>	<u>(290,186)</u>
Income before transfers	2,852,544	1,598,319
<b>Transfers, Tax Equivalent</b>	<u>(1,164,036)</u>	<u>(1,178,561)</u>
Change in net position	1,688,508	419,758
<b>Net Position, Beginning</b>	<u>46,829,445</u>	<u>46,409,687</u>
<b>Net Position, Ending</b>	<u>\$ 48,517,953</u>	<u>\$ 46,829,445</u>

See notes to financial statements

## Sheboygan Water Utility

### Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Received from customers	\$ 10,009,788	\$ 8,377,680
Paid to suppliers for goods and services	(3,162,853)	(3,879,046)
Paid to employees for operating payroll	<u>(1,792,843)</u>	<u>(1,720,376)</u>
Net cash flows from operating activities	<u>5,054,092</u>	<u>2,778,258</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Paid to municipality for tax equivalent	(1,181,842)	(1,123,748)
Collections of assessments for customer owned laterals	40,290	70,827
Debt retired for pension liability	(18,131)	(17,079)
Interest paid for pension liability	(6,696)	(7,193)
Grant revenue received	200,788	45,825
Paid for expenses for grant-related projects	<u>(176,303)</u>	<u>(45,825)</u>
Net cash flows from noncapital financing activities	<u>(1,141,894)</u>	<u>(1,077,193)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(3,287,752)	(3,211,234)
Debt retired	(1,034,864)	(1,012,256)
Interest paid	(319,599)	(325,908)
Proceeds from debt issue, net of discount paid	-	3,091,010
Debt issuance costs	<u>-</u>	<u>(34,475)</u>
Net cash flows from capital and related financing activities	<u>(4,642,215)</u>	<u>(1,492,863)</u>
<b>Cash Flows From Investing Activities</b>		
Interest income	<u>15,082</u>	<u>44,283</u>
Net change in cash and cash equivalents	(714,935)	252,485
<b>Cash and Cash Equivalents, Beginning</b>	<u>9,678,420</u>	<u>9,425,935</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 8,963,485</u>	<u>\$ 9,678,420</u>
<b>Noncash Capital and Related Financing Activities</b>		
Amortization of premium and discount	\$ 35,869	\$ 34,620
Construction related accounts payable	<u>\$ 23,790</u>	<u>\$ 17,833</u>

See notes to financial statements

## Sheboygan Water Utility

### Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of Operating Income to Net Cash Flows From Operating Activities</b>		
Operating income	\$ 3,099,042	\$ 1,888,505
Noncash items in operating income:		
Depreciation	1,559,545	1,637,378
Depreciation charged to clearing and other utilities	269,383	224,716
Changes in assets and liabilities:		
Customer accounts receivable	240,767	(458,313)
Other accounts receivable	(177,577)	16,897
Due from municipality	29,078	(65,582)
Materials and supplies	54,145	(6,360)
Prepayments	48,110	(44,081)
Pension related deferrals and liabilities	(212,169)	20,586
Accounts payable	54,324	(520,648)
Accrued vacation and sick leave	75,245	87,109
Other postemployment retirement benefit deferrals and liabilities	<u>14,199</u>	<u>(1,949)</u>
Net cash flows from operating activities	<u>\$ 5,054,092</u>	<u>\$ 2,778,258</u>
<b>Reconciliation of Cash and Cash Equivalents to Statements of Net Position Accounts</b>		
Cash and investments	\$ 6,689,683	\$ 5,680,697
Redemption account	545,998	539,531
Reserve account	668,414	688,824
Construction account	575,065	2,389,368
Health Insurance Reserve	380,000	380,000
LSL Revolving Loan	<u>104,325</u>	<u>-</u>
Cash and cash equivalents	<u>\$ 8,963,485</u>	<u>\$ 9,678,420</u>

See notes to financial statements

# Sheboygan Water Utility

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Notes to Financial Statements  
December 31, 2021 and 2020

## 1. Summary of Significant Accounting Policies

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

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

### Reporting Entity

The Utility is a separate enterprise fund of the City of Sheboygan (municipality). The Utility is managed by a utility commission. The Utility provides water service to properties within the municipality. The Utility also provides wholesale service to the City of Sheboygan Falls and Village of Kohler.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The accounting records of the utility are maintained in accordance with Uniform System of Accounts prescribed by the PSCW.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

### Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

#### Deposits and Investments

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



## **Sheboygan Water Utility**

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Notes to Financial Statements  
December 31, 2021 and 2020

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

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

The Utility has adopted an investment policy. The Utility, as part of the municipality, is covered under an investment policy adopted by the City of Sheboygan. Please refer to the City of Sheboygan's financial statements for information regarding the adopted investment policy. This policy does not address custodial credit risk associated with the City of Sheboygan's or the Utility's deposits or investments.

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

### **Receivables/Payables**

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

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

### **Materials and Supplies**

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

### **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.

# Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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## Health Insurance Reserve

The Utility has elected to internally designate \$380,000 cash in 2021 and 2020 for the purposes of use towards funding future health insurance obligations. These funds are not legally restricted and could be used for other purposes if the need arose. Use of the funds is at the board's discretion.

## LSL Revolving Loan

The Utility has elected to internally designate \$104,325 cash in 2021 for the purpose of lending funds to customers to replace lead service laterals. These funds are not legally restricted and could be used for other purposes if the need arose. Use of the funds is at the board's discretion.

## Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually. Infrastructure improvements are primarily customer owned lateral that have been installed and financed by the Utility.

## Capital Assets

Capital assets are generally defined by the Utility as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

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

	<u>Years</u>
Water Plant	
Source of supply	50
Pumping	28 - 42
Water treatment	30 - 40
Transmission and distribution	45 - 100
General	4 - 45

## Pensions

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

## **Postemployment Benefits Other Than Pensions (OPEB)**

### **Health Insurance**

For purposes of measuring the total OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by utility OPEB Plan. For this purpose, the utility OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### **Life Insurance**

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

### **Deferred Outflow of Resources**

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

### **Accrued Vacation and Sick Leave**

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

### **Long-Term Obligations**

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

### **Deferred Inflows of Resources**

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

# Sheboygan Water Utility

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Notes to Financial Statements  
December 31, 2021 and 2020

## Revenues and Expenses

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

## Charges for Services

The majority of billings are rendered and recorded quarterly based on metered usage, with monthly billing rendered to high usage customers in the industrial, commercial, public authority and wholesale classes. The Utility does accrue revenues beyond billing dates. Unbilled revenue of \$352,190 and \$353,143 were accrued as of December 31, 2021 and 2020, respectively.

Current water rates were approved by the PSCW effective October 1, 2020.

## Capital Contributions

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

## Interfund Transfers

Transfers include the payment in lieu of taxes to the municipality.

## Effect of New Accounting Standards on Current Period Financial Statements

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

- Statement No. 87, *Leases*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GABS Statements No. 14 and No. 84, and a supersession of GABS Statement No. 32*

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

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### 2. Deposits and Investments

	Carrying Value as of December 31,		Risks
	2021	2020	
Deposit	\$ 8,962,735	\$ 8,629,157	Custodial Credit
Certificates of Deposits	-	1,048,513	Custodial Credit
Petty Cash	750	750	
Total	<u>\$ 8,963,485</u>	<u>\$ 9,678,420</u>	

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

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities.

In addition, the Utility has collateral or depository insurance agreements in the amount of \$20,000,000 at December 31, 2021 and 2020.

#### Custodial Credit Risk

##### Deposits

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

The Utility does not have any deposits exposed to custodial credit risk.

### 3. Restricted Assets

#### Restricted Accounts

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

Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.

Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.

Construction - Used to report debt proceeds restricted for use in construction.

#### Net Pension Asset

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

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### Restricted Net Position

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

	<u>2021</u>	<u>2020</u>
Restricted assets:		
Redemption account	\$ 545,998	\$ 539,531
Reserve account	668,414	688,824
Construction account	575,065	2,389,368
Net pension asset	<u>769,762</u>	<u>411,147</u>
Total restricted assets	<u>2,559,239</u>	<u>4,028,870</u>
Less restricted assets not funded by revenues		
Reserve from borrowing	(668,414)	(688,824)
Construction account	<u>(575,065)</u>	<u>(2,389,368)</u>
Total restricted assets not funded by revenues	<u>(1,243,479)</u>	<u>(3,078,192)</u>
Current liabilities payable from restricted assets	<u>(51,806)</u>	<u>(56,444)</u>
Total restricted net position as calculated	<u>\$ 1,263,954</u>	<u>\$ 894,234</u>

The purpose of the restricted net position is as follows:

	<u>2021</u>	<u>2020</u>
Debt service	\$ 494,192	\$ 483,087
Pension	<u>769,762</u>	<u>411,147</u>
Total restricted net position	<u>\$ 1,263,954</u>	<u>\$ 894,234</u>

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### 4. Changes in Capital Assets

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

	<u>Balance 1/1/21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/21</u>
Capital assets, not being depreciated:				
Land and land rights	<u>\$ 375,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,238</u>
Capital assets being depreciated:				
Source of supply	627,615	-	-	627,615
Pumping	6,352,523	9,719	-	6,362,242
Water treatment	13,484,199	172,213	207,700	13,448,712
Transmission and distribution	50,757,927	205,763	56,506	50,907,184
General	<u>2,875,393</u>	<u>87,196</u>	<u>42,984</u>	<u>2,919,605</u>
Total capital assets being depreciated	<u>74,097,657</u>	<u>474,891</u>	<u>307,190</u>	<u>74,265,358</u>
Total capital assets	<u>74,472,895</u>	<u>474,891</u>	<u>307,190</u>	<u>74,640,596</u>
Less accumulated depreciation:				
Source of supply	(464,567)	(10,669)	-	(475,236)
Pumping	(3,568,260)	(219,291)	-	(3,787,551)
Water treatment	(5,912,911)	(486,978)	207,700	(6,192,189)
Transmission and distribution	(12,627,349)	(934,341)	56,506	(13,505,184)
General	<u>(2,118,733)</u>	<u>(183,646)</u>	<u>42,984</u>	<u>(2,259,395)</u>
Total accumulated depreciation	<u>(24,691,820)</u>	<u>(1,834,925)</u>	<u>307,190</u>	<u>(26,219,555)</u>
Construction in progress	<u>1,009,577</u>	<u>3,177,536</u>	<u>352,721</u>	<u>3,834,392</u>
Net capital assets	<u>\$ 50,790,652</u>			<u>\$ 52,255,433</u>

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

	<b>Balance 1/1/20</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/20</b>
Capital assets, not being depreciated:				
Land and land rights	\$ 375,238	\$ -	\$ -	\$ 375,238
Capital assets being depreciated:				
Source of supply	627,615	-	-	627,615
Pumping	6,273,784	78,739	-	6,352,523
Water treatment	13,395,887	88,312	-	13,484,199
Transmission and distribution	48,857,718	2,008,391	108,182	50,757,927
General	2,815,761	147,183	87,551	2,875,393
Total capital assets being depreciated	71,970,765	2,322,625	195,733	74,097,657
Total capital assets	72,346,003	2,322,625	195,733	74,472,895
Less accumulated depreciation:				
Source of supply	(453,896)	(10,671)	-	(464,567)
Pumping	(3,350,858)	(217,402)	-	(3,568,260)
Water treatment	(5,421,115)	(491,796)	-	(5,912,911)
Transmission and distribution	(11,816,419)	(919,112)	108,182	(12,627,349)
General	(1,983,171)	(223,113)	87,551	(2,118,733)
Total accumulated depreciation	(23,025,459)	(1,862,094)	195,733	(24,691,820)
Construction in progress	309,005	3,342,543	2,641,971	1,009,577
Net capital assets	\$ 49,629,549			\$ 50,790,652

## 5. Long-Term Obligations

### Revenue Debt , Water

The following bonds have been issued:

<b>Date</b>	<b>Purpose</b>	<b>Final Maturity</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Outstanding Amount 12/31/21</b>
3/10/04	Plant Expansion	5/1/23	2.75 %	\$ 3,152,000	\$ 413,651 *
4/3/13	Plant Expansion	5/1/33	2.00	3,000,000	2,015,000
5/13/15	UV Disinfecting Project	5/1/35	1.65	2,990,520	2,241,481 *
4/20/16	Revenue Refunding	4/20/25	1.00	2,115,000	935,000
5/1/18	Revenue Refunding	5/1/33	3.00	4,705,000	3,785,000

\* The debt noted is directly placed with a third party.



# Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

Revenue bonds debt service requirements to maturity follows:

<b>Years Ending December 31,</b>	<b>Bonds</b>		<b>Direct Placement</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2022	\$ 715,000	\$ 207,994	\$ 347,656	\$ 44,370	\$ 1,315,020
2023	735,000	185,969	355,637	36,292	1,312,898
2024	735,000	163,234	148,415	30,981	1,077,630
2025	750,000	140,269	150,864	28,512	1,069,645
2026	555,000	118,162	153,354	26,002	852,518
2027-2031	2,305,000	330,219	805,569	90,890	3,531,678
2032-2035	940,000	30,894	693,637	23,124	1,687,655
Total	<u>\$ 6,735,000</u>	<u>\$ 1,176,741</u>	<u>\$ 2,655,132</u>	<u>\$ 280,171</u>	<u>\$ 10,847,044</u>

All Utility revenues net of specified operating expenses net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2021 and 2020 were \$1,379,290 and \$1,362,436, respectively. Total customer net revenues as defined for the same periods were \$4,698,154 and \$3,570,166. Annual principal and interest payments are expected to require 17 percent of net revenues on average.

## Advances from Other Funds of the Municipality

Other funds of the municipality have advanced the following to the Utility:

<b>Date</b>	<b>Purpose</b>	<b>Final Maturity</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Outstanding Amount 12/31/21</b>
1/30/08	Unfunded retirement obligation	3/15/27	2 %	\$ 302,304	\$ 134,042

Advances from other funds of the municipality debt service requirements to maturity follows:

<b>Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 19,219	\$ 7,046	\$ 26,265
2023	20,372	7,152	27,524
2024	21,579	4,534	26,113
2025	22,890	3,644	26,534
2026	24,263	2,564	26,827
2027	25,719	1,350	27,069
Total	<u>\$ 134,042</u>	<u>\$ 26,290</u>	<u>\$ 160,332</u>

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### Revenue Bond Anticipation Notes (BANs)

Revenue BANs issued by the Utility is as follows:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/21</u>
5/18/20	Revenue BAN	5/1/24	1.5 %	\$ 3,100,000	\$ 3,100,000 *

\* The debt noted is considered a direct borrowing or direct placement.

Revenue BANs debt service requirements to maturity follows:

<u>Years Ending December 31,</u>	<u>Revenue BAN</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ -	\$ 38,750	\$ 38,750
2023	-	38,750	38,750
2024	3,100,000	19,735	3,119,735
Total	<u>\$ 3,100,000</u>	<u>\$ 97,235</u>	<u>\$ 3,197,235</u>

### Long-Term Obligations Summary , Water

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

	<u>1/1/21 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/21 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 10,424,996	\$ -	\$ 1,034,864	\$ 9,390,132	\$ 1,062,656
Advance from municipality	152,173	-	18,131	134,042	19,219
Revenue BANs	3,100,000	-	-	3,100,000	-
Accrued sick leave	517,947	65,804	12,890	570,861	12,890
Unamortized premium	220,963	-	35,869	185,094	-
Total other post employment benefits liability, health insurance	213,320	-	1,763	211,557	-
Net other post employment benefits liability, life insurance	111,566	33,917	-	145,483	-
Total	<u>\$ 14,740,965</u>	<u>\$ 99,721</u>	<u>\$ 1,103,517</u>	<u>\$ 13,737,169</u>	<u>\$ 1,094,765</u>

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

	<b>1/1/20 Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>12/31/20 Balance</b>	<b>Due Within One Year</b>
Revenue bonds	\$ 11,437,252	\$ -	\$ 1,012,256	\$ 10,424,996	\$ 1,034,864
Advance from municipality	169,252	-	17,079	152,173	18,131
Revenue BANs	-	3,100,000	-	3,100,000	-
Accrued sick leave	481,127	55,972	19,152	517,947	19,152
Unamortized premium	264,573	-	43,610	220,963	-
Net pension liability	452,290	-	452,290	-	-
Total other post employment benefits liability, health insurance	203,536	9,784	-	213,320	-
Net other post employment benefits liability, life insurance	71,889	39,677	-	111,566	-
Total	<u>\$ 13,079,919</u>	<u>\$ 3,205,433</u>	<u>\$ 1,544,387</u>	<u>\$ 14,740,965</u>	<u>\$ 1,072,147</u>

### Bond Covenant Disclosures

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

#### Insurance

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

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
<i>Automotive Liability</i>		
General Liability	\$ 2,000,000	7/1/22
Automobile Liability	1,000,000	7/1/22
Contractors Equipment	652,161	7/1/22
<i>Crime, Theft/Forgery</i>		
Position Bond (Employee Dishonestly)	\$ 250,000	7/1/22
Forgery/Alteration	250,000	7/1/22
Extra Expense	250,000	7/1/22
Employee Benefits	2,000,000	7/1/22
Public Officials Liability	1,000,000	7/1/22
Theft of Money and Securities	25,000	7/1/22
<i>Property</i>		
Buildings	\$ 64,335,500	7/1/22
Flood	10,000,000	7/1/22
Earthquake	10,000,000	7/1/22

### Debt Coverage

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.2 times the annual debt service. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 9,702,393	\$ 8,695,191
Investment income	15,082	44,283
Miscellaneous nonoperating income	200,788	45,825
Less miscellaneous nonoperating expense	(176,303)	(45,825)
Less operation and maintenance expenses	(5,043,806)	(5,169,308)
Net defined earnings	<u>\$ 4,698,154</u>	<u>\$ 3,570,166</u>
Minimum Required Earnings per Resolution:		
Annual debt service, principal	\$ 1,034,864	\$ 1,012,256
Annual debt service, interest	319,599	325,908
Subtotal	1,354,463	1,338,164
Coverage factor	<u>1.20</u>	<u>1.20</u>
Minimum required earnings	<u>\$ 1,625,356</u>	<u>\$ 1,605,797</u>
Actual debt coverage	<u>3.47</u>	<u>2.67</u>

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### Number of Customers and Billed Volumes, Water

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

	<b>Customers</b>		<b>Sales (000 gals)</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Residential	17,076	17,054	743,579	750,506
Multifamily residential	296	296	124,441	122,186
Commercial	1,302	1,304	226,611	212,468
Industrial	156	155	2,303,684	2,141,580
Public authority	123	120	49,703	44,884
Interdepartmental	2	2	688,836	615,187
Total	<u>18,955</u>	<u>18,931</u>	<u>4,136,854</u>	<u>3,886,811</u>

### 6. Net Position

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

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

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

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

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

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

	2021	2020
Construction in progress	\$ 3,834,392	\$ 1,009,577
Plant in service	74,640,596	74,472,895
Accumulated depreciation	(26,219,555)	(24,691,820)
Subtotal	52,255,433	50,790,652
Less capital related debt:		
Current portion of capital related long-term debt	1,062,656	1,034,864
Long-term portion of capital related long-term debt	11,427,476	12,490,132
Unamortized debt premium	185,094	220,963
Subtotal	12,675,226	13,745,959
Add unspent debt proceeds:		
Construction funds	575,065	2,389,368
Reserve from borrowing	668,414	688,824
Subtotal	1,243,479	3,078,192
Total net investment in capital assets	\$ 40,823,686	\$ 40,122,885

## 7. Employees Retirement System

### General Information About the Pension Plan

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

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

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

*Benefits provided:* Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants, if hired on or before 12/31/2016) are entitled to retirement benefit based on a formula factor, their average earnings and creditable service.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

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

The WRS also provides death and disability benefits for employees.

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

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

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

The WRS recognized \$140,585 and \$138,123 in contributions from the Utility during the current and prior reporting periods, respectively.

# Sheboygan Water Utility

## Notes to Financial Statements

December 31, 2021 and 2020

Contribution rates for the plan year reported as of December 31, 2021 and December 31, 2020 are:

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

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

At December 31, 2021, the Utility reported a liability (asset) of \$(769,762) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net pension liability (asset) was based on the Utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the Utility's proportion was 0.012329677 percent, which was a decrease of 0.00042120 percent from its proportion measured as of December 31, 2019.

At December 31, 2020, the Utility reported a liability (asset) of \$(411,147) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net pension liability (asset) was based on the Utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the Utility's proportion was 0.01275088 percent, which was an increase of 0.00003784 percent from its proportion measured as of December 31, 2018.

For the years ended December 31, 2021 and 2020, the Utility recognized pension expense of \$(212,169) and \$20,586, respectively.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,138,810	\$ (252,345)
Changes in assumption	18,475	-
Net differences between project and actual earnings on pension plan	-	(1,471,796)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,056	(1,444)
Employer contributions subsequent to the measurement date	143,275	-
Total	<u>\$ 1,301,616</u>	<u>\$(1,725,585)</u>



# Sheboygan Water Utility

## Notes to Financial Statements

December 31, 2021 and 2020

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 780,451	\$ (390,563)
Changes in assumption	32,039	-
Net differences between project and actual earnings on pension plan	-	(840,530)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,577	(1,082)
Employer contributions subsequent to the measurement date	<u>140,585</u>	<u>-</u>
Total	<u><u>\$ 954,652</u></u>	<u><u>\$(1,232,175)</u></u>

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

	<b>2021</b>
Year ended December 31,	
2022	\$ (145,677)
2023	(39,538)
2024	(268,417)
2025	(113,612)
2026	-
Thereafter	<u>-</u>
Total	<u><u>\$ (567,244)</u></u>

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

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

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

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

*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 geometric real rates of return for each major asset class as of December 31, 2021 are summarized in the following table:

<b>Core Fund Asset Class</b>	<b>Asset Allocation %</b>	<b>Long-Term Expected Nominal Rate of Return %</b>	<b>Long-Term Expected Real Rate of Return %</b>
Global Equities	51 %	7.2 %	4.7 %
Fixed Income	25	3.2	0.8
Inflation Sensitive Assets	16	2.0	(0.4)
Real Estate	8	5.6	3.1
Private Equity/Debt	11	10.2	7.6
Multi-Asset	4	5.8	3.3
Total Core Fund	115	6.6	4.1
<b>Variable Fund Asset Class</b>			
U.S Equities	70	6.6	4.1
International Equities	30	7.4	4.9
Total Variable Fund	100	7.1	4.6

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.4 percent.

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

# Sheboygan Water Utility

## Notes to Financial Statements

December 31, 2021 and 2020

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

<b>Core Fund Asset Class</b>	<b>Asset Allocation %</b>	<b>Long-Term Expected Nominal Rate of Return %</b>	<b>Long-Term Expected Real Rate of Return %</b>
Global Equities	49 %	8.0 %	5.1 %
Fixed Income	24.5	4.9	2.1
Inflation Sensitive Assets	15.5	4.0	1.2
Real Estate	9	6.3	3.5
Private Equity/Debt	8	10.6	7.6
Multi-Asset	4	6.9	4.0
Total Core Fund	110	7.5	4.6
<b>Variable Fund Asset Class</b>			
U.S Equities	70	7.5	4.6
International Equities	30	8.2	5.3
Total Variable Fund	100	7.8	4.9

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

*Single discount rate:* A single discount rate of 7.00 percent was used to measure the total pension liability as of December 31, 2021 and December 31, 2020. This single discount rate was based on the expected rate of return on pension plan investments of 7.00 percent and a long term bond rate of 2.0 percent and 2.75 percent, in 2021 and 2020 respectively. (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2020 and 2019, respectively. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 7.00 percent expected rate of return implies that a dividend of approximately 1.9 percent will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

The sensitivity analysis as of December 31, 2021 follows:

	<b>1% Decrease to Discount Rate (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase to Discount Rate (8.00%)</b>
Utility's proportionate share of the net position liability (asset)	\$ 732,707	\$ (769,762)	\$ (1,873,314)

The sensitivity analysis as of December 31, 2020 follows:

	<b>1% Decrease to Discount Rate (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase to Discount Rate (8.00%)</b>
Utility's proportionate share of the net position liability (asset)	\$ 1,058,776	\$ (411,147)	\$ (1,510,083)

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

## 8. Other Postemployment Benefits

### General Information About the OPEB Plan

*Plan description:* The Utility's defined benefit OPEB plan, Retiree Benefits Plan (RBP), provides OPEB for all permanent full-time general and public safety employees of the Utility. RBP is a single-employer defined benefit OPEB plan administered by the Utility. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the Utility Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

### Total OPEB Liability

At December 31, 2021, the Utility's total OPEB liability of \$211,557 was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date. At December 31, 2020, the Utility's total OPEB liability of \$213,320 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

## Sheboygan Water Utility

### Notes to Financial Statements

December 31, 2021 and 2020

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2021</u>	<u>2020</u>
Inflation	The assumed salary inflation of 3.0% per year is added to merit increases to get the total assumed increase in salary.	The assumed salary inflation of 3.0% per year is added to merit increases to get the total assumed increase in salary.
Salary increases	6.50% decreasing by 0.10% per year down to 5.0%, and level thereafter	6.50% decreasing by 0.10% per year down to 5.0%, and level thereafter

The discount rate was based on all years of projected payments discounted at a municipal bond rate of 2.25 percent..

Mortality rates were based on the Wisconsin 2018 Mortality Table.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period 2015-17.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
Balances at December 31, 2019	<u>\$ 203,536</u>
Changes for the year:	
Service cost	10,029
Interest	7,886
Differences between expected and actual experience	4,395
Changes in assumptions or other inputs	10,279
Benefit payments	<u>(22,805)</u>
Net changes	<u>9,784</u>
Balances at December 31, 2020	<u>213,320</u>
Changes for the year:	
Service cost	13,754
Interest	5,674
Changes in assumptions or other inputs	6,555
Benefit payments	<u>(27,746)</u>
Net changes	<u>(1,763)</u>
Balances at December 31, 2021	<u><u>\$ 211,557</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.75 percent in 2019 to 2.25 percent in 2020.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

As of December 31, 2021:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	(1.25%)	(2.25%)	(3.25%)
Total OPEB liability	\$ 225,095	\$ 211,557	\$ 198,605

As of December 31, 2020:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	(1.75%)	(2.75%)	(3.75%)
Total OPEB liability	\$ 225,940	\$ 213,320	\$ 201,254

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

As of December 31, 2021:

	<u>1% Decrease (5.5% Decreasing to 4.0%)</u>	<u>Healthcare Cost Trend Rates (6.5% Decreasing to 5.0%)</u>	<u>1% Increase (7.5% Decreasing to 6.0%)</u>
Total OPEB liability	\$ 189,063	\$ 211,557	\$ 238,355

As of December 31, 2020:

	<u>1% Decrease (5.5% Decreasing to 4.0%)</u>	<u>Healthcare Cost Trend Rates (6.5% Decreasing to 5.0%)</u>	<u>1% Increase (7.5% Decreasing to 6.0%)</u>
Total OPEB liability	\$ 194,682	\$ 213,320	\$ 235,334

# Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

For the year ended December 31, 2021 and 2020, the Utility recognized OPEB expense of \$1,121 and \$(8,919), respectively. At December 31, 2021 and 2020, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,515	\$ -	\$ 3,955	\$ -
Changes of assumptions or other inputs	14,122	(3,892)	9,251	(4,448)
Employer contributions subsequent to the measurement date	19,875	-	27,746	-
Total	<u>\$ 37,512</u>	<u>\$ (3,892)</u>	<u>\$ 40,952</u>	<u>\$ (4,448)</u>

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

Years Ended December 31,	
2022	\$ 1,568
2023	1,568
2024	1,568
2025	1,568
2026	1,568
Thereafter	5,905

## Local Retiree Life Insurance Fund (LRLIF)

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

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

*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.



## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

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

Contribution rates for the plan year reported as of December 31, 2021 and 2020 are:

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

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

<b>Life Insurance Member Contribution Rates For the Plan Year</b>		
<b>Attained Age</b>	<b>Basic</b>	<b>Supplemental</b>
Under 30	\$0.05	\$0.05
30-34	0.06	0.06
34-39	0.07	0.07
40-44	0.08	0.08
45-49	0.12	0.12
50-54	0.22	0.22
55-59	0.39	0.39
60-64	0.49	0.49
65-69	0.57	0.57

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

The LRLIF recognized \$527 and \$474 in contributions from the employer during the current and prior reporting periods, respectively.

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

At December 31, 2021, the Utility reported a liability of \$145,483 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2020, the Utility's proportion was 0.00026448 percent, which was an decrease of 0.00002479 percent from its proportion measured as of December 31, 2019.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

At December 31, 2020, the Utility reported a liability of \$111,566 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the Utility's proportion was 0.00026200 percent, which was an decrease of 0.00001660 percent from its proportion measured as of December 31, 2018.

For the year ended December 31, 2021 and 2020, the Utility recognized OPEB expense of \$13,078 and \$4,662, respectively.

At December 31, 2021 and 2020, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (7,100)	\$ -	\$ (4,998)
Net differences between projected and actual earnings on OPEB plan investments	2,184	-	2,105	-
Changes in assumptions	57,899	(10,372)	41,157	(12,272)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,022	(5,606)	-	(6,804)
Total	<u>\$ 63,105</u>	<u>\$ (23,078)</u>	<u>\$ 43,262</u>	<u>\$ (24,074)</u>

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

<u>Years Ended December 31:</u>	<u>Deferred Outflows of Resources and Deferred Inflows of Resources (net)</u>
2022	\$ 7,271
2023	7,038
2024	6,799
2025	6,173
2026	8,348
Thereafter	4,398

## Sheboygan Water Utility

### Notes to Financial Statements

December 31, 2021 and 2020

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

	2021	2020
Actuarial Valuation Date:	January 1, 2020	January 1, 2019
Measurement Date of Net OPEB Liability	December 31, 2020	December 31, 2019
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	2.12%	2.74%
Long-Term Expected Rate of Return:	4.25%	4.25%
Discount Rate:	2.25%	2.87%
Salary Increases:		
Inflation	3.00%	3.00%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table	Wisconsin 2018 Mortality Table

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Liability for December 31, 2021 is based upon a roll-forward of the liability calculated from the January 1, 2021 actuarial valuation. The Total OPEB Liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the January 1, 2020 actuarial valuation.

*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.

## Sheboygan Water Utility

Notes to Financial Statements  
December 31, 2021 and 2020

### Local OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2020

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

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

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

The long-term expected rate of return and expected inflation rate remained unchanged from the prior year at 4.25 percent and 2.20 percent, respectively. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

*Single discount rate:* A single discount rate was used to measure the total OPEB liability (2.25 percent for 2021 and 2.87 percent for 2020). The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.74 percent as of December 31, 2019 to 2.12 percent as of December 31, 2020. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

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

## Sheboygan Water Utility

### Notes to Financial Statements

December 31, 2021 and 2020

#### *Sensitivity of the Utility's proportionate share of the net OPEB liability to changes in the discount rate:*

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

As of December 31, 2021:

	<b>1% Decrease to Discount Rate (1.25%)</b>	<b>Current Discount Rate (2.25%)</b>	<b>1% Increase to Discount Rate (3.25%)</b>
The Utility's proportionate share of the net OPEB liability	\$ 197,898	\$ 145,483	\$ 105,842

As of December 31, 2020:

	<b>1% Decrease to Discount Rate (1.87%)</b>	<b>Current Discount Rate (2.87%)</b>	<b>1% Increase to Discount Rate (3.87%)</b>
The Utility's proportionate share of the net OPEB liability	\$ 154,054	\$ 111,566	\$ 79,241

At December 31, 2021, the Utility reported a payable to the OPEB plan of \$0, which represents contractually required contributions outstanding as of the end of the year.

## 9. Commitments and Contingencies

### Claims and Judgments

From time to time, the Utility 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 Utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utility's financial position or results of operations.

### Grants

The utility 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 disallowance's, if any, would be immaterial.

## 10. Risk Management

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

## **Sheboygan Water Utility**

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Notes to Financial Statements  
December 31, 2021 and 2020

### **11. Significant Customers**

#### **Water Utility**

The Utility has one significant customer who was responsible for 23 percent and 24 percent of operating revenues in 2021 and 2020, respectively.

### **12. Subsequent Events**

The Utility evaluated subsequent events through April 11, 2022, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

#### **Rate Adjustment**

New water rates were approved by the Public Service Commission of Wisconsin on January 20, 2022. The water rate increase is effective for billings after February 1, 2022.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## Sheboygan Water Utility

### Schedule of Proportionate Share of the Net Pension Asset (Liability)

Wisconsin Retirement System

Year Ended December 31, 2021

(Unaudited)

WRS Fiscal Year End Date	Utility's Proportion of the Net Pension Liability (Asset)	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/14	0.01092910%	\$ (268,255)	\$ 1,844,785	14.54%	102.74%
12/31/15	0.01233200%	200,307	1,974,984	10.14%	98.20%
12/31/16	0.01295300%	106,815	1,892,944	5.64%	99.12%
12/31/17	0.01303701%	(387,084)	1,874,682	20.65%	102.93%
12/31/18	0.01271302%	452,290	1,930,859	23.42%	96.45%
12/31/19	0.01275088%	(411,147)	2,108,745	19.50%	102.96%
12/31/20	0.01232968%	(769,762)	2,082,741	36.96%	105.26%

### Schedule of Employer Contributions

Wisconsin Retirement System

Year Ended December 31, 2021

Utility's Fiscal Year End Date	Utility's Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 134,299	\$ 134,299	\$ -	\$ 1,973,928	6.80%
12/31/16	124,934	124,934	-	1,892,944	6.60%
12/31/17	127,478	127,478	-	1,874,682	6.80%
12/31/18	129,368	129,368	-	1,930,859	6.70%
12/31/19	138,123	138,123	-	2,108,745	6.55%
12/31/20	140,585	140,585	-	2,082,741	6.75%
12/31/21	143,275	143,275	-	2,122,595	6.75%

See notes to required supplementary information



**Sheboygan Water Utility****Schedule of Changes in the Total OPEB Liability and Related Ratios, Health Insurance**

December 31, 2021

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 13,754	\$ 10,029	\$ 10,894	\$ 10,894
Interest	5,674	7,886	7,203	7,184
Differences between expected and actual experience	-	4,395	-	-
Changes in assumptions	6,555	10,279	(5,560)	-
Benefit payments	<u>(27,746)</u>	<u>(22,805)</u>	<u>(18,721)</u>	<u>(16,356)</u>
<b>Net Change in Total OPEB Liability</b>	(1,763)	9,784	(6,184)	1,722
<b>Total OPEB Liability, Beginning</b>	<u>213,320</u>	<u>203,536</u>	<u>209,720</u>	<u>207,998</u>
<b>Total OPEB Liability, Ending</b>	<u>\$ 211,557</u>	<u>\$ 213,320</u>	<u>\$ 203,536</u>	<u>\$ 209,720</u>
<b>Covered-employee payroll</b>	\$ 1,986,982	\$ 1,986,982	\$ 1,874,682	\$ 1,877,409
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	10.65%	10.74%	10.86%	11.17%

**Notes to Schedule:**

The Utility implemented GASB Statements No. 75 in 2018.

## Sheboygan Water Utility

### Schedule of Employer's Proportionate Share of the Net OPEB Liability (Asset)

Wisconsin Life Insurance Plan

Year Ended December 31, 2021

(Unaudited)

ETF Fiscal Year Ending	Utility's Proportion of the Net OPEB Liability (Asset)	Utility's Proportionate Share of the Net OPEB Liability (Asset)	Utility Covered Payroll	Utility's Proportionate Share of the Net OPEB Asset (Liability) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
12/31/17	0.02980410%	\$ 89,668	\$ 1,874,682	4.78%	44.81%
12/31/18	0.02878610%	71,889	1,930,859	3.72%	48.69%
12/31/19	0.02620030%	111,566	2,108,745	5.29%	37.58%
12/31/20	0.02644792%	145,483	2,082,741	6.99%	37.58%

### Schedule of Employer Contributions

Wisconsin Life Insurance Plan

Year Ended December 31, 2021

Utility's Fiscal Year End Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/18	\$ 937	\$ 937	\$ -	\$ 1,930,859	0.05%
12/31/19	942	942	-	2,108,745	0.04%
12/31/20	932	932	-	2,082,741	0.04%
12/31/21	527	527	-	2,122,595	0.02%

See notes to required supplementary information

## Sheboygan Water Utility

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Notes to Required Supplementary Information  
Year Ended December 31, 2021

### **Wisconsin Retirement System**

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

*Changes of assumptions.* No significant changes in assumptions were noted from the prior year

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

### **Health Insurance**

The data presented in the Schedule of Change in the Total OPEB Liability and Related Ratio was taken from the reports issued by the actuary.

*Changes in benefit terms.* There were no changes of benefit terms for the Utility.

*Changes in Assumptions.* The discount rate has changed from 2.75 percent to 2.25 percent

### **Local Retiree Life Insurance Fund**

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

*Changes in Assumptions.* The discount rate has changed from 2.87 percent to 2.25 percent.