

Sheboygan Water Utility

An Enterprise Fund of the City of Sheboygan, Wisconsin

Financial Statements and
Supplementary Information

December 31, 2023 and 2022

Sheboygan Water Utility

An Enterprise Fund of the City of Sheboygan, Wisconsin

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Independent Auditors' Report

To the Utility Commission of
Sheboygan Water Utility

Opinion

We have audited the 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, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position for the Utility 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 the Utility and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Utility are intended to present the financial position and the changes in the financial position of only the Utility. They do not purport to, and do not, present fairly the financial position of the City of Sheboygan, Wisconsin, as of December 31, 2023, and 2022, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, net position as of December 31, 2022 has been restated to correct a material misstatement regarding the recognition of grant revenue. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
April 12, 2024

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2023 and 2022

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 (the Utility) for the years ended December 31, 2023 and 2022. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

Financial Highlights

- The Utility's operating income decreased from \$4,036,906 in 2022 to \$2,059,441 in 2023.
- The Utility's total cash position decreased from \$15,192,926 in 2022 to \$7,144,206 in 2023.
- The Utility's unrestricted cash and investment position decreased from \$8,779,611 in 2022 to \$7,406,135 in 2023.
- The Utility's total net position increased by \$5,993,109 in 2023 to \$63,330,302 from \$57,337,193 in 2022.
- The Utility's total assets increased by \$24,144,560 in 2023 to \$103,264,497 from \$79,119,937 in 2022.
- Total liabilities increased \$19,642,944 to \$41,048,692 in 2023 from \$21,405,748 in 2022.

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.

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2023 and 2022

2023

The Statement of Net Position showed that total net position increased \$5,993,109, an increase of 10.5%. Total assets increased \$24,144,560 or 30.5%. The increase is due to the construction of the Raw Water Improvement Project, while the net pension asset decreased. Net capital assets increased by \$30,629,922 to \$91,006,076 in 2023, also due to construction of the Raw Water Improvement Project. Capital additions were financed using Wisconsin Department of Natural Resources Safe Drinking Water Loan, EPA Community Grant funds, and American Rescue Plan Act grant funds. Restricted net position decreased by \$944,870 in 2023 to \$418,497 due to the decrease in net pension asset.

2022

The Statement of Net Position showed that total net position (restated) increased \$8,819,240, an increase of 18.2%. Total assets increased \$14,920,149 or 23%. The increase is due to receipt of American Rescue Plan Act grant funds designated to the Raw Water Improvement Project, and an increase in pension and other post-employment benefit assets. Net capital assets increased by \$8,120,721 to \$60,376,154 in 2022 due to construction of the Raw Water Improvement Project. Capital additions were financed using Wisconsin Department of Natural Resources Safe Drinking Water Loan and American Rescue Plan Act grant funds. Restricted net position increased by \$99,413 in 2022 to \$1,363,367 due to the increase in net pension asset.

STATEMENTS OF NET POSITION As of December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u> (Restated)	<u>2021</u>
Unrestricted current and other assets	\$ 11,101,620	\$ 16,554,586	\$ 9,385,116
Restricted assets	1,156,801	2,189,197	2,559,239
Capital assets	91,006,076	60,376,154	52,255,433
Total Assets	<u>103,264,497</u>	<u>79,119,937</u>	<u>64,199,788</u>
Deferred outflows related to pensions	<u>2,648,031</u>	<u>2,025,204</u>	<u>1,402,233</u>
Current liabilities payable			
from unrestricted assets	5,516,147	4,420,191	1,574,647
Liabilities payable from restricted assets	1,670,398	1,272,147	1,114,462
Non-current liabilities	33,862,147	15,713,410	12,642,404
Total Liabilities	<u>41,048,692</u>	<u>21,405,748</u>	<u>15,331,513</u>
Deferred inflows related to pensions	<u>1,533,534</u>	<u>2,402,200</u>	<u>1,752,555</u>
Net investment in capital assets	58,036,857	48,464,112	40,823,686
Restricted net position	418,497	1,363,367	1,263,954
Unrestricted net position	<u>4,874,948</u>	<u>7,509,714</u>	<u>6,430,313</u>
Total Net Position	<u>\$ 63,330,302</u>	<u>\$ 57,337,193</u>	<u>\$ 48,517,953</u>

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis
As of and for the Years Ended December 31, 2023 and 2022

The following Statements of Revenues, Expenditures and Changes in Net Position helps to further explain the nature of the increase in net position during 2023, 2022 and 2021.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u> (Restated)	<u>2021</u>
Operating revenues	\$ 10,423,636	\$ 10,461,269	\$ 9,702,393
Non-operating revenues	5,410,473	6,504,543	251,739
Total Revenues	<u>15,834,109</u>	<u>16,965,812</u>	<u>9,954,132</u>
Operating & maintenance expenses	8,364,195	6,424,363	6,603,351
Non-operating expenses	479,014	692,906	498,237
Total Expenses	<u>8,843,209</u>	<u>7,117,269</u>	<u>7,101,588</u>
Income before contributions and transfers	6,990,900	9,848,543	2,852,544
Interfund transfers (tax equivalent)	<u>(997,791)</u>	<u>(1,029,303)</u>	<u>(1,164,036)</u>
Change in Net Position	5,993,109	8,819,240	1,688,508
Beginning Net Position	57,337,193	48,517,953	46,829,445
Ending Total Net Position	<u>\$ 63,330,302</u>	<u>\$ 57,337,193</u>	<u>\$ 48,517,953</u>

2023

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have decreased slightly by \$37,633 from \$10,461,269 in 2022, to \$10,423,636 in 2023. The decrease is due to a decrease in water usage and sales for the year. Operating and maintenance expenses increased significantly in 2023 by \$1,939,832, or 30%, due to an increase in nearly all operating costs, with the most significant being chemicals, electricity, filter rehabilitation projects in the treatment plant, and pension expense. Non-operating revenues decreased in 2023 by \$1,094,070 due to a decrease in grant revenue provided by the WDNR to fund lead service lateral replacement, and a decrease in earned revenue from the ARPA grant funds from 2022. Non-operating expenses decreased \$213,892, due to a decrease in costs related to the Lead Water Service Lateral Replacement Program and bond interest expense.

2022

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have increased \$758,876 from \$9,702,393 in 2021, to \$10,461,269 in 2022. The increase is due to a rate increase that became effective on February 1, 2022. Operating and maintenance expenses decreased in 2022 by \$178,988, due to a decrease in medical claims and the completion of the Georgia Avenue standpipe painting project in early 2021. Non-operating revenues increased in 2022 by \$6,252,804 (restated) due to an increase in grant revenue provided by ARPA funds restricted to the Raw Water Improvement Project. Non-operating expenses increased \$194,669, due to an increase in costs related to the Lead Water Service Lateral Replacement Program, and an increase in revenue bond interest expense.

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis
As of and for the Years Ended December 31, 2023 and 2022

Capital Assets and Debt Administration

Capital Assets (see Note 4.)

At the end of 2023 the water Utility had \$77.90 million in invested property, plant and equipment in service, an increase of \$1,378,993 over 2022. The Utility completed a rehabilitation project in the upper garage at Park Avenue, purchased two Utility vehicles, replaced aging computer equipment, purchased meters and remote reading equipment, and continued development of vacant Utility land. Water main replacement projects continued in 2023. The Utility installed 30' of 6" water main at various locations; 302' of 8" water main at various locations; 2,060' of 12" water main at various locations; and 966' of 16" water main at various locations. The largest water main projects in 2023 were located at Indiana Avenue at S. 19th through S. 24th Streets, and Gateway Drive at Behrens Parkway. In addition, 16 hydrants were installed at these and other various locations in the City.

At the end of 2022 the water Utility had \$76.52 million in invested property, plant and equipment in service, an increase of \$1,882,078 over 2021. The Utility completed SCADA software and computer upgrades in the treatment plant at Park Avenue, replaced a high lift turbine, added heating units in the plant, added phosphate level sensors to the bulk tank system, and rehabilitation of filter #5 in the plant. Water main replacement projects continued in 2022. The Utility installed 40' of 6" water main at various locations; 445' of 8" water main at various locations; and 2,388' of 12" water main at various locations. The largest water main projects in 2022 were located at St. Clair Avenue and Indiana Avenue. In addition, 12 hydrants were installed at these and other various locations in the City.

Debt (see Note 5.)

On December 31, 2023, the Sheboygan Water Utility had outstanding revenue bonds of \$33,448,209. This includes a \$3 million revenue bond issued on May 1, 2013 with a 2.0% interest rate, and a balance of \$1,730,000 to be retired 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$1,951,839 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 \$450,000, to be retired 2025; and on March 1, 2018, refunding revenue bonds were issued with an interest rate of 4% and balance of \$3,105,000, 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. On June 22, 2022, the Utility closed a Safe Drinking Water Loan in the amount of \$39,430,018, at 2.145% interest, for the construction of the Raw Water Improvement Project. The current balance of disbursements as of December 31, 2023 is \$26,211,370. Principal and interest payments on this DNR SDWL will begin May 1, 2024. On May 1, 2023, the Utility retired a 2004 DNR Safe Drinking Water Loan issued March 10, 2004, with a 2.75% interest rate and original balance of \$3,088,960. The remaining balance on the \$302,003 debt for the Unfunded Retirement Obligation is \$94,450.

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2023 and 2022

On December 31, 2022, the Sheboygan Water Utility had outstanding revenue bonds of \$12,390,119. This includes 2004 revenue bonds issued for a Safe Drinking Water Loan, balance of \$209,630, 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 \$1,875,000 to be retired on 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$2,097,845 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 \$690,000, to be retired 2025; and on March 1, 2018, refunding revenue bonds were issued with an interest rate of 3.5% and balance of \$3,455,000, 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. On June 22, 2022, the Utility closed a Safe Drinking Water Loan in the amount of \$39,430,018, at 2.145% interest, for the construction of the Raw Water Improvement Project. The current balance of disbursements as of December 31, 2022 is \$4,062,644. On June 24, 2022, the Utility retired a \$3,100,000 Bond Anticipation Note (BAN) dated May 18, 2020 at 1.25% interest, used 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 \$114,823.

Economic Factors and Next Year's Budgets and Rates

An application for a two phase rate increase was submitted to the Public Service Commission of Wisconsin on August 2, 2023 to provide for a phase 1 rate of return of 3.8% in 2024, and total rate of return at phase 2 of 6% in 2025. Since the last rate increase, operating revenues have decreased, while the Utility has experienced significant increasing operating costs and has continued to invest in system replacements and improvements, including the historic Raw Water Improvement Project, replacing one of the original intake pipes in Lake Michigan.

In October 2023, the Utility received an EPA Community Grant from a 2022 congressionally directed spending appropriation in the amount of \$2,000,000 designated to the Raw Water Improvement Project.

Sheboygan Water Utility submitted an application to the WDNR Safe Drinking Water Loan Program on June 21, 2023, to provide \$1,646,375 in grants and loans to property owners for lead service line replacement in the City of Sheboygan. These funds will be used for replacement of lead service lines for projects completed in 2023 and 2024. Closing of the SDWLP Financial Assistance Agreement is scheduled for June 2024. Lead service line replacement projects completed in 2023 were located at N. 15th and 16th Streets, N. 20th Street, and Michigan Avenue at N. 12th Street. LSL projects scheduled in 2024 are located at S. 11th Street, Lincoln Avenue, Swift Avenue, and Dillingham Avenue.

Sheboygan Water Utility had a total capital improvement budget of \$14,636,000 in 2024. Large projects include remaining construction of the Raw Water Improvement Project with substantial completion scheduled in June 2024; \$450,000 for filter bed rehabilitation; \$50,000 for water treatment equipment replacement; \$762,000 for water main and hydrant replacement; \$332,000 for meter and radio read unit replacement; \$192,000 for computer and IT software; and \$380,000 for vehicles and heavy equipment.

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, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 7,406,135	\$ 8,779,611
Restricted assets:		
Redemption account	544,441	551,990
Customer accounts receivable	1,604,094	1,653,110
Other accounts receivable	773,159	188,913
Due from municipality	269,722	272,587
Materials and supplies	231,559	249,572
Prepayments	32,411	22,846
	<u>10,861,521</u>	<u>11,718,629</u>
Noncurrent Assets		
Restricted assets:		
Reserve account	612,360	644,320
Net pension asset	-	992,887
Other assets:		
LSL revolving loan account	344,831	188,064
Project account	288,897	5,028,941
Special assessments receivable	150,812	170,942
Capital assets:		
Plant in service	77,901,667	76,522,674
Accumulated depreciation	(29,557,299)	(27,827,390)
Construction work in progress	42,661,708	11,680,870
	<u>92,402,976</u>	<u>67,401,308</u>
Total noncurrent assets		
	<u>103,264,497</u>	<u>79,119,937</u>
Total assets		
	<u>103,264,497</u>	<u>79,119,937</u>
Deferred Outflows of Resources		
Deferred outflows related to pension	2,579,937	1,960,300
Deferred outflows related to other post employment benefits	68,094	64,904
	<u>2,648,031</u>	<u>2,025,204</u>
Total deferred outflows of resources		
	<u>2,648,031</u>	<u>2,025,204</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 4,202,356	\$ 3,099,904
Accrued wages	84,564	73,400
Accrued taxes due to municipality	1,032,425	1,061,884
Accrued interest	3,589	5,662
Accrued vacation leave	150,088	137,423
Current portion of accrued sick leave	21,546	21,546
Current portion of advance from Municipality	21,579	20,372
Current liabilities payable from restricted assets:		
Current portion of revenue bonds	1,544,454	1,090,637
Accrued interest	125,944	181,510
	<u>7,186,545</u>	<u>5,692,338</u>
Noncurrent Liabilities		
Revenue bonds	31,903,755	11,299,482
Unamortized debt premium, net of discount	133,370	166,243
Advance from municipality	72,871	94,451
Accrued sick leave	645,924	589,849
Total other post employment benefits liability, health insurance	48,424	51,536
Net other post employment benefits liability, life insurance	103,389	138,739
Unearned revenues	270,987	3,373,110
Net pension liability	683,427	-
	<u>33,862,147</u>	<u>15,713,410</u>
Total liabilities	<u>41,048,692</u>	<u>21,405,748</u>
Deferred Inflows of Resources		
Deferred inflows related to pension	1,436,187	2,363,025
Deferred inflows related to other postemployment benefits	97,347	39,175
	<u>1,533,534</u>	<u>2,402,200</u>
Net Position		
Net investment in capital assets	58,036,857	48,464,112
Restricted for:		
Debt service	418,497	370,480
Pension	-	992,887
Unrestricted	4,874,948	7,509,714
	<u>63,330,302</u>	<u>57,337,193</u>
Total net position	<u>\$ 63,330,302</u>	<u>\$ 57,337,193</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Operating Revenues		
Sales of water	\$ 10,196,668	\$ 10,231,007
Other	226,968	230,262
Total operating revenues	<u>10,423,636</u>	<u>10,461,269</u>
Operating Expenses		
Operation and maintenance	6,737,073	4,844,858
Depreciation	<u>1,627,122</u>	<u>1,579,505</u>
Total operating expenses	<u>8,364,195</u>	<u>6,424,363</u>
Operating Income	<u>2,059,441</u>	<u>4,036,906</u>
Nonoperating Revenues (Expenses)		
Investment income	124,121	52,032
Grant revenue	5,253,480	6,433,660
Grant expense	(151,358)	(253,642)
Interest expense	(327,656)	(435,450)
Amortization of debt premium, net of discount	32,872	18,851
Debt issuance costs	<u>-</u>	<u>(3,814)</u>
Total nonoperating revenues (expenses)	<u>4,931,459</u>	<u>5,811,637</u>
Income before transfers	6,990,900	9,848,543
Transfers, Tax Equivalent	<u>(997,791)</u>	<u>(1,029,303)</u>
Change in net position	5,993,109	8,819,240
Net Position, Beginning	<u>57,337,193</u>	<u>48,517,953</u>
Net Position, Ending	<u>\$ 63,330,302</u>	<u>\$ 57,337,193</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Cash Flows From Operating Activities		
Received from customers	\$ 10,150,495	\$ 10,302,752
Paid to suppliers for goods and services	(5,018,330)	(2,336,355)
Paid to employees for operating payroll	(2,221,834)	(2,068,295)
	<u>2,910,331</u>	<u>5,898,102</u>
Cash Flows From Noncapital Financing Activities		
Paid to municipality for tax equivalent	(1,027,250)	(1,164,909)
Collections of assessments for customer owned laterals	20,130	63,357
Debt retired for pension liability	(20,373)	(19,219)
Interest paid for pension liability	(5,079)	(7,045)
Grant revenue received	151,357	256,770
Paid for expenses for grant-related projects	(151,358)	(253,642)
	<u>(1,032,573)</u>	<u>(1,124,688)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(30,676,015)	(7,743,561)
Grant revenue received	2,000,000	6,176,890
Advance receipt of grant funds	-	3,373,110
Debt retired	(1,090,636)	(4,162,656)
Interest paid	(380,216)	(298,617)
Proceeds from debt issue	22,148,726	4,062,643
Debt issuance costs	-	(3,814)
	<u>(7,998,141)</u>	<u>1,403,995</u>
Cash Flows From Investing Activities		
Investments purchased	(2,052,458)	-
Interest income	124,121	52,032
	<u>(1,928,337)</u>	<u>52,032</u>
Net cash flows from investing activities	<u>(1,928,337)</u>	<u>52,032</u>
Net change in cash and cash equivalents	(8,048,720)	6,229,441
Cash and Cash Equivalents, Beginning	<u>15,192,926</u>	<u>8,963,485</u>
Cash and Cash Equivalents, Ending	<u>\$ 7,144,206</u>	<u>\$ 15,192,926</u>
Noncash Capital and Related Financing Activities		
Amortization of debt premium, net of discount	<u>\$ 32,872</u>	<u>\$ 18,851</u>
Construction related accounts payable	<u>\$ 4,033,285</u>	<u>\$ 2,225,319</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u> (Restated)
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income	\$ 2,059,441	\$ 4,036,906
Noncash items in operating income:		
Depreciation	1,627,122	1,579,505
Depreciation charged to clearing and other utilities	226,937	244,864
Changes in assets and liabilities:		
Customer accounts receivable	49,016	(441,346)
Other accounts receivable	(584,246)	62,357
Due from municipality	2,865	(10,244)
Materials and supplies	18,013	(26,526)
Prepayments	(9,566)	5,539
Pension related deferrals and assets/liabilities	129,839	(244,369)
Accounts payable	(705,514)	758,349
Other liabilities	79,904	51,914
Other postemployment retirement benefit deferrals and liabilities	16,520	(118,847)
	<u>\$ 2,910,331</u>	<u>\$ 5,898,102</u>
Net cash flows from operating activities		
	<u>\$ 2,910,331</u>	<u>\$ 5,898,102</u>
Reconciliation of Cash and Cash Equivalents to Statements of Net Position Accounts		
Cash and investments	\$ 7,406,135	\$ 8,779,611
Redemption account	544,441	551,990
Reserve account	612,360	644,320
LSL revolving loan	344,831	188,064
Project account	288,897	5,028,941
	<u>9,196,664</u>	<u>15,192,926</u>
Total cash and investments		
	9,196,664	15,192,926
Less noncash equivalents	<u>(2,052,458)</u>	<u>-</u>
	<u>\$ 7,144,206</u>	<u>\$ 15,192,926</u>
Cash and cash equivalents		
	<u>\$ 7,144,206</u>	<u>\$ 15,192,926</u>

See notes to financial statements

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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 (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

Reporting Entity

The Utility is a separate enterprise fund of the City of Sheboygan (Municipality). The Utility is managed by the Board of Water Commissioners (the Board). 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 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.

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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

- Bonds or securities issued or guaranteed by the federal government.
- The local government investment pool.
- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.

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

LSL Revolving Loan

The Utility has elected to internally designate \$344,831 and \$188,064 in cash in 2023 and 2022, respectively, 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Project Account

The Utility has elected to internally designate \$288,897 and \$5,028,941 cash in 2023 and 2022, respectively, for the purpose of construction of the raw water intake project. 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.

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

The fiduciary net position of the Wisconsin Retirement System (WRS) has been determined using the flow of economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the following:

- Net Pension Liability (Asset);
- Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions; and
- Pension Expense (Revenue).

Information about the fiduciary net position of the WRS and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by the 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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's OPEB Plan. For this purpose, the Utility's 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 (LRIF) has been determined using the flow of economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the following:

- Net OPEB Liability;
- Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB; and
- OPEB Expense (Revenue).

Information about the fiduciary net position of the LRIF and additions to/deductions from LRIF's fiduciary net position have been determined on the same basis as they are reported by LRIF. 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.

Unearned Revenues

Unearned revenues relates to the collection of grant funds that have yet to be spent as of December 31, 2023 and 2022.

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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Deferred Inflows of Resources

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

Revenues and Expenses

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

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 \$374,029 and \$372,928 were accrued as of December 31, 2023 and 2022, respectively.

Current water rates were approved by the PSCW effective February 1, 2022.

Effect of New Accounting Standards on Current Period Financial Statements

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

- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*
- Statement No. 102, *Certain Risk Disclosures*

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

2. Deposits and Investments

	Carrying Value as of		Risks
	December 31,		
	2023	2022	
Deposit	\$ 6,116,456	\$ 15,192,176	Custodial Credit
Certificates of deposits	3,079,458	-	Custodial Credit
Petty cash	750	750	
Total	<u>\$ 9,196,664</u>	<u>\$ 15,192,926</u>	

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022.

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.

Investment Policy

No formal investment policy has been adopted by the Utility.

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, 2023 and 2022

Restricted Net Position

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

	<u>2023</u>	<u>2022</u>
Restricted assets:		
Redemption account	\$ 544,441	\$ 551,990
Reserve account	612,360	644,320
Net pension asset	-	992,887
	<u>1,156,801</u>	<u>2,189,197</u>
Less restricted assets not funded by revenues:		
Reserve from borrowing	<u>(612,360)</u>	<u>(644,320)</u>
Current liabilities payable from restricted assets	<u>(125,944)</u>	<u>(181,510)</u>
	<u>\$ 418,497</u>	<u>\$ 1,363,367</u>

The purpose of the restricted net position is as follows:

	<u>2023</u>	<u>2022</u>
Debt service	\$ 418,497	\$ 370,480
Pension	-	992,887
	<u>\$ 418,497</u>	<u>\$ 1,363,367</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

4. Changes in Capital Assets

A summary of changes in water capital assets for 2023 follows:

	<u>Balance</u> <u>1/1/23</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/23</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 375,238	\$ 20,456	\$ -	\$ 395,694
Capital assets being depreciated:				
Source of supply	627,615	-	-	627,615
Pumping	6,420,923	1,167	-	6,422,090
Water treatment	13,599,786	-	-	13,599,786
Transmission and distribution	52,604,769	1,400,806	49,660	53,955,915
General	2,894,343	83,875	77,651	2,900,567
Total capital assets being depreciated	<u>76,147,436</u>	<u>1,485,848</u>	<u>127,311</u>	<u>77,505,973</u>
Total capital assets	<u>76,522,674</u>	<u>1,506,304</u>	<u>127,311</u>	<u>77,901,667</u>
Less accumulated depreciation:				
Source of supply	(485,905)	(10,669)	-	(496,574)
Pumping	(4,008,022)	(220,414)	-	(4,228,436)
Water treatment	(6,676,572)	(491,339)	-	(7,167,911)
Transmission and distribution	(14,296,271)	(975,252)	49,660	(15,221,863)
General	(2,360,620)	(159,545)	77,650	(2,442,515)
Total accumulated depreciation	<u>(27,827,390)</u>	<u>(1,857,219)</u>	<u>127,310</u>	<u>(29,557,299)</u>
Construction in progress	<u>11,680,870</u>	<u>32,494,590</u>	<u>1,513,752</u>	<u>42,661,708</u>
Net capital assets	<u>\$ 60,376,154</u>			<u>\$ 91,006,076</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

A summary of changes in water capital assets for 2022 follows:

	Balance 1/1/22	Increases	Decreases	Balance 12/31/22
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	6,362,242	58,681	-	6,420,923
Water treatment	13,448,712	155,539	4,465	13,599,786
Transmission and distribution	50,907,184	1,856,346	158,761	52,604,769
General	2,919,605	34,528	59,790	2,894,343
Total capital assets being depreciated	<u>74,265,358</u>	<u>2,105,094</u>	<u>223,016</u>	<u>76,147,436</u>
Total capital assets	<u>74,640,596</u>	<u>2,105,094</u>	<u>223,016</u>	<u>76,522,674</u>
Less accumulated depreciation:				
Source of supply	(475,236)	(10,669)	-	(485,905)
Pumping	(3,787,551)	(220,471)	-	(4,008,022)
Water treatment	(6,192,189)	(488,848)	4,465	(6,676,572)
Transmission and distribution	(13,505,184)	(949,844)	158,757	(14,296,271)
General	(2,259,395)	(161,015)	59,790	(2,360,620)
Total accumulated depreciation	<u>(26,219,555)</u>	<u>(1,830,847)</u>	<u>223,012</u>	<u>(27,827,390)</u>
Construction in progress	<u>3,834,392</u>	<u>9,850,892</u>	<u>2,004,414</u>	<u>11,680,870</u>
Net capital assets	<u>\$ 52,255,433</u>			<u>\$ 60,376,154</u>

5. Long-Term Obligations

Revenue Debt - Water

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
03/10/04	Plant Expansion	05/01/23	2.75 %	\$ 3,152,000	\$ - *
04/03/13	Plant Expansion	05/01/33	2.00	3,000,000	1,730,000
05/13/15	UV Disinfecting Project	05/01/35	1.65	2,990,520	1,951,839
04/20/16	Revenue Refunding	04/20/25	2.00	2,115,000	450,000 *
05/01/18	Revenue Refunding	05/01/33	3.00	4,705,000	3,105,000
06/22/22	Raw Water Intake Project	05/01/52	2.15	26,211,370	26,211,370 (1)

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

(1) - During 2022 the Utility was authorized to issue \$39,430,018 of Water System Safe Drinking Water Loan revenue bonds. The original amount reported above has been issued as of December 31, 2023. The repayment schedule is for the amount issued.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Revenue bonds debt service requirements to maturity follows:

Years Ending December 31:	Bonds		Direct Placement		Total
	Principal	Interest	Principal	Interest	
2024	\$ 735,000	\$ 163,234	\$ 809,454	\$ 573,352	\$ 2,281,040
2025	750,000	140,269	826,083	569,325	2,285,677
2026	555,000	118,163	843,055	552,176	2,068,394
2027	575,000	97,188	860,380	534,672	2,067,240
2028	415,000	78,956	878,063	516,805	1,888,824
2029-2033	2,255,000	184,969	4,668,671	2,302,786	9,411,426
2034-2038	-	-	4,618,270	1,810,678	6,428,948
2039-2043	-	-	4,743,333	1,322,159	6,065,492
2044-2048	-	-	5,274,353	785,444	6,059,797
2049-2052	-	-	4,641,547	201,763	4,843,310
Total	\$ 5,285,000	\$ 782,779	\$ 28,163,209	\$ 9,169,160	\$ 43,400,148

All Utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2023 and 2022 were \$1,496,304 and \$4,487,537, respectively. Total customer net revenues as defined for the same periods were \$3,810,684 and \$5,668,443. Annual principal and interest payments are expected to require 39% of net revenues on average.

Advances From Other Funds of the Municipality

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

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
1/30/08	Unfunded retirement obligation	03/15/27	2 %	\$ 302,304	\$ 94,450

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

Years Ending December 31:	Principal	Interest	Total
2024	\$ 21,579	\$ 4,534	\$ 26,113
2025	22,890	3,644	26,534
2026	24,263	2,564	26,827
2027	25,718	1,350	27,068
Total	\$ 94,450	\$ 12,092	\$ 106,542

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Long-Term Obligations Summary - Water

Long-term obligation activity for the year ended December 31, 2023 is as follows:

	1/1/23 Balance	Additions	Reductions	12/31/23 Balance	Due Within One Year
Revenue bonds	\$ 12,390,119	\$ 22,148,726	\$ 1,090,636	\$ 33,448,209	\$ 1,544,454
Advance from Municipality	114,823	-	20,373	94,450	21,579
Accrued sick leave	611,395	77,621	21,546	667,470	21,546
Unamortized premium, net of discount	166,243	-	32,873	133,370	-
Net pension liability	-	683,427	-	683,427	-
Total other post employment benefits liability, health insurance	51,536	-	3,112	48,424	-
Net other post employment benefits liability, life insurance	138,739	-	35,350	103,389	-
Unearned revenue	<u>3,373,110</u>	<u>-</u>	<u>3,102,123</u>	<u>270,987</u>	<u>-</u>
Total	<u>\$ 16,845,965</u>	<u>\$ 22,909,774</u>	<u>\$ 4,306,013</u>	<u>\$ 35,449,726</u>	<u>\$ 1,587,579</u>

Long-term obligation activity for the year ended December 31, 2022 is as follows:

	1/1/22 Balance	Additions	Reductions	12/31/22 Balance (Restated)	Due Within One Year
Revenue bonds	\$ 9,390,132	\$ 4,062,643	\$ 1,062,656	\$ 12,390,119	\$ 1,090,637
Advance from Municipality	134,042	-	19,219	114,823	20,372
Bond anticipation notes	3,100,000	-	3,100,000	-	-
Accrued sick leave	570,861	62,080	21,546	611,395	21,546
Unamortized premium, net of discount	185,094	-	18,851	166,243	-
Total other post employment benefits liability, health insurance	211,557	-	160,021	51,536	-
Net other post employment benefits liability, life insurance	145,483	-	6,744	138,739	-
Unearned revenue	<u>-</u>	<u>3,373,110</u>	<u>-</u>	<u>3,373,110</u>	<u>-</u>
Total	<u>\$ 13,737,169</u>	<u>\$ 7,497,833</u>	<u>\$ 4,389,037</u>	<u>\$ 16,845,965</u>	<u>\$ 1,132,555</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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.

The Utility is covered under the following insurance policies at December 31, 2023:

<u>Type</u>	<u>Coverage</u>	<u>Expiration</u>
<i>Automotive Liability</i>		
General Liability	\$ 2,000,000	7/1/24
Automobile Liability	1,000,000	7/1/24
Contractors Equipment	648,162	7/1/24
<i>Crime, Theft/Forgery</i>		
Position Bond (Employee Dishonestly)	\$ 250,000	7/1/24
Forgery/Alteration	250,000	7/1/24
Extra Expense	250,000	7/1/24
Employee Benefits	2,000,000	7/1/24
Public Officials Liability	1,000,000	7/1/24
Theft of Money and Securities	25,000	7/1/24
<i>Property</i>		
Buildings	\$ 64,335,500	7/1/24
Flood	10,000,000	7/1/24
Earthquake	10,000,000	7/1/24

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 10,423,636	\$ 10,461,269
Investment income	124,121	52,032
Miscellaneous nonoperating income	151,358	256,770
Less miscellaneous nonoperating expense	(151,358)	(253,642)
Less operation and maintenance expenses	<u>(6,737,073)</u>	<u>(4,844,858)</u>
Net defined earnings	<u>\$ 3,810,684</u>	<u>\$ 5,671,571</u>
Minimum required earnings per resolution:		
Annual debt service, principal	\$ 1,090,636	\$ 1,062,656
Annual debt service, interest	<u>380,216</u>	<u>298,617</u>
Subtotal	1,470,852	1,361,273
Coverage factor	<u>1.20</u>	<u>1.20</u>
Minimum required earnings	<u>\$ 1,765,022</u>	<u>\$ 1,633,528</u>
Actual debt coverage	<u>2.59</u>	<u>4.17</u>

Number of Customers and Billed Volumes - Water

The Utility has the following number of customers and billed volumes for 2023 and 2022:

	<u>Customers</u>		<u>Sales (000 gals)</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Residential	17,113	17,082	732,239	728,735
Multifamily residential	294	295	128,555	126,646
Commercial	1,311	1,313	222,361	228,799
Industrial	150	150	2,398,494	2,397,230
Public authority	119	122	51,377	50,850
Interdepartmental	<u>2</u>	<u>2</u>	<u>574,244</u>	<u>629,694</u>
Total	<u>18,989</u>	<u>18,964</u>	<u>4,107,270</u>	<u>4,161,954</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

6. Net Position

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

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

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

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

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

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

	<u>2023</u>	<u>2022</u>
Construction work in progress	\$ 42,661,708	\$ 11,680,870
Plant in service	77,901,667	76,522,674
Accumulated depreciation	<u>(29,557,299)</u>	<u>(27,827,390)</u>
Subtotal	<u>91,006,076</u>	<u>60,376,154</u>
Less capital related debt:		
Current portion of revenue bonds	1,566,034	1,090,637
Revenue Bonds	31,882,175	11,299,482
Unamortized Premium	<u>133,370</u>	<u>166,243</u>
	<u>33,581,579</u>	<u>12,556,362</u>
Add unspent debt proceeds:		
Reserve from borrowing	<u>612,360</u>	<u>644,320</u>
Total net investment in capital assets	<u>\$ 58,036,857</u>	<u>\$ 48,464,112</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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>.

Additionally, ETF issued a standalone Wisconsin Retirement System Financial Report, which can be found using the link above.

Vesting

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

Benefits Provided

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

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

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

The WRS also provides death and disability benefits for employees.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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>
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
2021	5.1	13.0
2022	7.4	15.0

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 was merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The WRS recognized \$152,960 and \$143,275 in contributions from the Utility during the current and prior reporting periods, respectively.

Contribution rates for the plan year reported as of December 31, 2023 and December 31, 2022 are:

	<u>2023</u>		<u>2022</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
General (including Executives and Elected Officials)	6.50 %	6.50 %	6.75 %	6.75 %
Protective with Social Security	6.50	12.00	6.75	11.75
Protective without Social Security	6.50	16.40	6.75	16.35

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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

At December 31, 2023, the Utility reported a liability (asset) of \$683,427 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2021 rolled forward to December 31, 2022. 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, 2022, the Utility's proportion was .01290043840%, which was an increase of .00058202399% from its proportion measured as of December 31, 2021.

At December 31, 2022, the Utility reported a liability (asset) of \$(992,887) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2020 rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net 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, 2021, the Utility's proportion was .012318414%, which was a decrease of .00001127% from its proportion measured as of December 31, 2020.

For the years ended December 31, 2023 and 2022, the Utility recognized pension expense (revenue) of \$129,839 and \$(244,369), respectively.

At December 31, 2023, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual experience	\$ 1,034,687	\$ (1,435,434)
Changes in assumption	127,246	-
Net differences between project and actual earnings on pension plan	1,242,303	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	826	(753)
Employer contributions subsequent to the measurement date	<u>174,875</u>	<u>-</u>
Total	<u>\$ 2,579,937</u>	<u>\$ (1,436,187)</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

At December 31, 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,619,569	\$ (126,072)
Changes in assumption	186,111	-
Net differences between project and actual earnings on pension plan	-	(2,235,975)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,660	(978)
Employer contributions subsequent to the measurement date	<u>152,960</u>	<u>-</u>
Total	<u>\$ 1,960,300</u>	<u>\$ (2,363,025)</u>

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

Years Ending December 31:

2024	\$ 39,992
2025	200,662
2026	205,860
2027	522,361
2028	-
Thereafter	<u>-</u>
Total	<u>\$ 968,875</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Actuarial Valuation Date:	December 31, 2021	December 31, 2020
Measurement Date of Net Pension Liability (Asset):	December 31, 2022	December 31, 2021
Experience Study:	January 1, 2018 - December 31, 2020, Published November 19, 2021	January 1, 2018 - December 31, 2020, Published November 19, 2021
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	Fair Value	Fair Value
Long-Term Expected Rate of Return:	6.8%	6.8%
Discount Rate:	6.8%	6.8%
Salary Increases:		
Wage Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table	2020 WRS Experience Mortality Table
Post-Retirement Adjustments: *	1.7%	1.7%

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

Actuarial assumptions are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. The total pension liability for December 31, 2022 is based upon a roll-forward of the liability calculated from the December 31, 2021 actuarial valuation.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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, 2023 are summarized in the following table:

Asset Allocation Targets and Expected Returns¹ As of December 31, 2022			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Public Equity	48 %	7.6 %	5.0 %
Public Fixed Income	25	5.3	2.7
Inflation Sensitive	19	3.6	1.1
Real Estate	8	5.2	2.6
Private Equity/Debt	15	9.6	6.9
Total Core Fund ³	115	7.4	4.8
Variable Fund Asset			
U.S Equities	70	7.2	4.6
International Equities	30	8.1	5.5
Total Variable Fund	100	7.7	5.1

¹ Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations.

² New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5%.

³ The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used subject to an allowable range of up to 20%.

Sheboygan Water Utility

Notes to Financial Statements
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The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2022 are summarized in the following table:

Asset Allocation Targets and Expected Returns¹ As of December 31, 2021			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Global Equities	52 %	6.8 %	4.2 %
Fixed Income	25	4.3	1.8
Inflation Sensitive	19	2.7	0.2
Real Estate	7	5.6	3.0
Private Equity/Debt	12	9.7	7.0
Total Core Fund ³	115	6.6	4.0
Variable Fund Asset			
U.S Equities	70	6.3	3.7
International Equities	30	7.2	4.6
Total Variable Fund	100	6.8	4.2

¹ Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations.

² New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5%.

³ The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used subject to an allowable range of up to 20%.

Single Discount Rate

A single discount rate of 6.80% was used to measure the total pension liability as of December 31, 2023 and December 31, 2022. As of December 31, 2023, this discount rate was based on the expected rate of return on pension plan investments of 6.80% and a long term bond rate of 4.05%. As of December 31, 2022, the discount rate was based on the expected rate of return on pension plan investments of 6.80% and a long term bond rate of 1.84%. (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, 2022 and 2021, 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 6.80% expected rate of return implies that a dividend of approximately 1.7% 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, 2023 and 2022

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, 2023 follows:

	<u>1% Decrease to Discount Rate (5.80%)</u>	<u>Current Discount Rate (6.80%)</u>	<u>1% Increase to Discount Rate (7.80%)</u>
Utility's proportionate share of the net pension liability (asset)	\$ 2,268,272	\$ 683,427	\$ (406,810)

The sensitivity analysis as of December 31, 2022 follows:

	<u>1% Decrease to Discount Rate (5.80%)</u>	<u>Current Discount Rate (6.80%)</u>	<u>1% Increase to Discount Rate (7.80%)</u>
Utility's proportionate share of the net pension liability (asset)	\$ 704,524	\$ (992,887)	\$ (2,214,707)

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. The Board has the authority to amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Total OPEB Liability

At December 31, 2023, the Utility's total OPEB liability of \$48,424 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date. At December 31, 2022, the Utility's total OPEB liability of \$51,536 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2023</u>	<u>2022</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 4.25% for 2022 and 2.00% for 2021.

Mortality rates were based on the Wisconsin 2018 Mortality Table.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period 2018-20.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances at December 31, 2021	\$ <u>211,557</u>
Changes for the year:	
Service cost	15,276
Interest	4,708
Changes in assumptions or other inputs	(160,130)
Benefit payments	<u>(19,875)</u>
Net changes	<u>(160,021)</u>
Balances at December 31, 2022	<u>51,536</u>
Changes for the year:	
Service cost	4,249
Interest	1,184
Changes in assumptions or other inputs	(6,457)
Benefit payments	<u>(2,088)</u>
Net changes	<u>(3,112)</u>
Balances at December 31, 2023	<u>\$ <u>48,424</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.00% in 2021 to 4.25% in 2022.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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, 2023:

	1% Decrease (3.25%)	Discount Rate (4.25%)	1% Increase (5.25%)
Total OPEB liability	\$ 51,173	\$ 48,424	\$ 45,801

As of December 31, 2022:

	1% Decrease (1.00%)	Discount Rate (2.00%)	1% Increase (3.00%)
Total OPEB liability	\$ 54,289	\$ 51,536	\$ 48,826

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

As of December 31, 2023:

	1% Decrease (6.0% Decreasing to 3.5%)	Healthcare Cost Trend Rates (7.0% Decreasing to 4.5%)	1% Increase (8.0% Decreasing to 5.5%)
Total OPEB liability	\$ 43,934	\$ 48,424	\$ 53,695

As of December 31, 2022:

	1% Decrease (5.5% Decreasing to 4.0%)	Healthcare Cost Trend Rates (6.5% Decreasing to 5.0%)	1% Increase (7.5% Decreasing to 6.0%)
Total OPEB liability	\$ 46,677	\$ 51,536	\$ 57,253

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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

For the year ended December 31, 2023 and 2022, the Utility recognized OPEB expense of \$1,532 and \$(134,103), respectively. At December 31, 2023 and 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,635	\$ (2,491)	\$ 3,075	\$ (2,803)
Changes of assumptions or other inputs	10,754	(11,933)	12,438	(7,096)
Employer contributions subsequent to the measurement date	4,093	-	2,088	-
Total	<u>\$ 17,482</u>	<u>\$ (14,424)</u>	<u>\$ 17,601</u>	<u>\$ (9,899)</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 Ending December 31:	
2024	\$ 192
2025	192
2026	192
2027	192
2028	192
Thereafter	<u>(1,995)</u>
Total	(1,035)

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>.

Additionally, ETF issued a standalone Retiree Life Insurance Financial Report, which can be found at the link above.

Sheboygan Water Utility

Notes to Financial Statements
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Benefits Provided

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

Contributions

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

Employers are required to pay the following contribution based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they must continue paying the member 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, 2023 and 2022 are:

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

Life Insurance Member Contribution Rates*		
For the Plan Year		
Attained Age	Basic	Supplemental
Under 30	\$0.05	\$0.05
30-34	0.06	0.06
35-39	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 \$1,402 and \$480 in contributions from the employer during the current and prior reporting periods, respectively.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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

At December 31, 2023, the Utility reported a liability of \$103,389 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021 rolled forward to December 31, 2022. 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, 2022, the Utility's proportion was 0.00027137%, which was an increase of 0.00000689% from its proportion measured as of December 31, 2021.

At December 31, 2022, the Utility reported a liability of \$138,739 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020 rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2021, the Utility's proportion was 0.00023474%, which was a decrease of 0.00002974% from its proportion measured as of December 31, 2020.

For the year ended December 31, 2023 and 2022, the Utility recognized OPEB expense (revenue) of \$14,829 and \$15,256, respectively.

At December 31, 2023 and 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (9,917)	\$ -	\$ (7,177)
Net differences between projected and actual investment earnings on plan investments	1,911	-	1,855	-
Changes in actuarial assumptions	36,197	(61,047)	42,906	(7,019)
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,504	(11,959)	2,542	(15,080)
Total	\$ 50,612	\$ (82,923)	\$ 47,303	\$ (29,276)

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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 (revenue) as follows:

<u>Years Ending December 31:</u>	<u>Deferred Outflows of Resources and Deferred Inflows of Resources (Net)</u>
2024	\$ (3,116)
2025	(3,755)
2026	(1,514)
2027	(5,945)
2028	(10,181)
Thereafter	(7,800)
Total	(32,311)

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:

	<u>2023</u>	<u>2022</u>
Actuarial Valuation Date	January 1, 2022	January 1, 2021
Measurement Date of Net OPEB Liability (Asset)	December 31, 2022	December 31, 2021
Experience Study	January 1, 2018 - December 31, 2020, Published November 19, 2021	January 1, 2018 - December 31, 2020, Published November 19, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield *	3.72%	2.06%
Long-Term Expected Rate of Return	4.25%	4.25%
Discount Rate:	3.76%	2.17%
Salary Increases:		
Wage Inflation	3.00%	3.00%
Seniority/Merit	0.10% - 5.6%	0.10% - 5.6%
Mortality	2020 WRS Experience Mortality Table	2020 WRS Experience Mortality Table

* Based on the Bond Buyers GO index.

Actuarial assumptions are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. The Total OPEB Liability for December 31, 2022 is based upon a roll-forward of the liability calculated from the January 1, 2022 actuarial valuation. 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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.

State OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2022

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Intermediate Credit Bonds	Bloomberg US Interm Credit	50%	2.45%
US Mortgages	Bloomberg US MBS	50	2.83
Inflation			2.30
Long-Term Expected Rate of Return			4.25

State OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2021

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Intermediate Credit Bonds	Bloomberg US Interm Credit	45%	1.68%
US Long Credit Bonds	Bloomberg US Long Credit	5	1.82
US Mortgages	Bloomberg US MBS	50	1.94
Inflation			2.30
Long-Term Expected Rate of Return			4.25

The long-term expected rate of return remained unchanged from the prior year at 4.25%. 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. The expected inflation rate remained unchanged from the prior year at 2.30%.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

Single Discount Rate

A single discount rate was used to measure the total OPEB liability (3.76% for 2023 and 2.17% for 2022). The significant change in the discount rate was primarily caused by the increase in the municipal bond rate from 2.06% as of December 31, 2021 to 3.72% as of December 31, 2022. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

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

Sensitivity of the Utility's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Utility's proportionate share of the net OPEB liability (asset) calculated using the discount rate, as well as what the Utility's proportionate share of the net OPEB 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 discount rate:

As of December 31, 2023:

	<u>1% Decrease to Discount Rate (2.76%)</u>	<u>Current Discount Rate (3.76%)</u>	<u>1% Increase to Discount Rate (4.76%)</u>
The Utility's proportionate share of the net OPEB liability (asset)	\$ 140,959	\$ 103,389	\$ 74,595

As of December 31, 2022:

	<u>1% Decrease to Discount Rate (1.17%)</u>	<u>Current Discount Rate (2.17%)</u>	<u>1% Increase to Discount Rate (3.17%)</u>
The Utility's proportionate share of the net OPEB liability (asset)	\$ 188,219	\$ 138,739	\$ 101,508

At December 31, 2023, 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

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 disallowances, 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.

11. Significant Customers

Water Utility

The Utility has one significant customer who was responsible for 28% and 26% of operating revenues in 2023 and 2022, respectively.

12. Subsequent Events

The Utility evaluated subsequent events through April 12, 2024, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

Safe Drinking Water Loan

On February 14, 2024 and February 28, 2024, the Utility drew an additional \$4,007,370 and \$1,546,440, respectively, in additional funding from the Safe Drinking Water Loan authorized for the raw water intake project. These additional draws will impact the repayment schedules included in Note 5 related to the 2022 Safe Drinking Water Loan.

Rate Adjustment

New water rates were approved by the Public Service Commission of Wisconsin on March 21, 2024. The water rate increase is effective for billings after April 1, 2024.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2023 and 2022

13. Restatement

Net position has been restated to correct an error in the recognition of grant revenue in 2022.

	<u>12/31/2022</u> <u>(as Reported)</u>	<u>Adjustment</u>	<u>12/31/2023</u> <u>(as Restated)</u>
Statement of Net Position			
Unearned revenue	\$ 5,028,941	\$ (1,655,831)	\$ 3,373,110
Net position	55,681,362	1,655,831	57,337,193
Statement of Changes in Net Position			
Grant revenue	4,777,829	1,655,831	6,433,660
Net position	55,681,362	1,655,831	57,337,193
Statement of Cash Flows			
Grant revenue received	4,521,059	1,655,831	6,176,890
Advance receipt of grant funds	5,028,941	(1,655,831)	3,373,110

Net income of the prior year would have been increased by \$1,655,831.

REQUIRED SUPPLEMENTARY INFORMATION

Sheboygan Water Utility

Schedule of Proportionate Share of the Net Pension Asset (Liability) -
 Wisconsin Retirement System
 Year Ended December 31, 2023
 (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%
12/31/21	0.01231841%	(992,887)	2,122,595	46.78%	106.02%
12/31/22	0.01290044%	683,427	2,353,225	29.04%	95.72%

Schedule of Employer Contributions -
 Wisconsin Retirement System
 Year Ended December 31, 2023

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%
12/31/22	152,960	152,960	-	2,353,225	6.50%
12/31/23	174,875	174,875	-	2,571,695	6.80%

See notes to required supplementary information

Sheboygan Water Utility

Schedule of Changes in the Total OPEB Liability and Related Ratios - Health Insurance

December 31, 2023

(Unaudited)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability						
Service cost	\$ 4,249	\$ 15,276	\$ 13,754	\$ 10,029	\$ 10,894	\$ 10,894
Interest	1,184	4,708	5,674	7,886	7,203	7,184
Differences between expected and actual experience	-	-	-	4,395	-	-
Changes in assumptions	(6,457)	(160,130)	6,555	10,279	(5,560)	-
Benefit payments	<u>(2,088)</u>	<u>(19,875)</u>	<u>(27,746)</u>	<u>(22,805)</u>	<u>(18,721)</u>	<u>(16,356)</u>
Net Change in Total OPEB Liability	(3,112)	(160,021)	(1,763)	9,784	(6,184)	1,722
Total OPEB Liability, Beginning	<u>51,536</u>	<u>211,557</u>	<u>213,320</u>	<u>203,536</u>	<u>209,720</u>	<u>207,998</u>
Total OPEB Liability, Ending	<u>\$ 48,424</u>	<u>\$ 51,536</u>	<u>\$ 211,557</u>	<u>\$ 213,320</u>	<u>\$ 203,536</u>	<u>\$ 209,720</u>
Covered-Employee Payroll	\$ 2,571,696	\$ 2,261,999	\$ 2,122,595	\$ 1,986,982	\$ 1,874,682	\$ 1,877,409
Net OPEB Liability as a Percentage of Covered-Employee Payroll	1.88%	2.28%	9.97%	10.74%	10.86%	11.17%

Notes to Schedule:

The Utility implemented GASB Statements No. 75 in 2018.

See notes to required supplementary information

Sheboygan Water Utility

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

Wisconsin Life Insurance Plan

Year Ended December 31, 2023

(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%
12/31/21	0.02347386%	138,739	2,122,595	6.54%	29.57%
12/31/22	0.02713736%	103,389	2,353,225	4.39%	38.81%

Schedule of Employer Contributions -

Wisconsin Life Insurance Plan

Year Ended December 31, 2023

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%
12/31/22	480	480	-	2,353,225	0.02%
12/31/23	544	544	-	2,571,695	0.02%

See notes to required supplementary information

Sheboygan Water Utility

Notes to Required Supplementary Information
Year Ended December 31, 2023

Wisconsin Retirement System

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

Changes of assumptions: Based on a three-year experience study conducted in 2021 covering January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2021, including the following:

- Lowering the long-term expected rate of return from 7.0% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Lowering the post-retirement adjustments from 1.9% to 1.7%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table

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. The changes to benefit terms in 2023 were as follows:

- Updated WRS retirement rates to age 75
- Changes to the assumed discount rate increased from 2.00% to 4.25%
- Changes to the assumed health care trend rate
- Changes to the assumed number of dependents covered under family coverage used in determining the expected per capita claims cost

Changes in assumptions. The discount rate increased from 2.00% to 4.25%.

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 changes in assumptions in 2022 were as follows:

- The price inflation rate increased from 2.20% to 2.30%
- The discount rate increased from 2.17% to 3.76%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table