

Sheboygan Water Utility

An Enterprise Fund of the City of Sheboygan, Wisconsin

Financial Statements and
Required Supplementary Information

December 31, 2025 and 2024

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, 2025 and 2024, 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 of the Utility, as of December 31, 2025 and 2024, 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, 2025, and 2024, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 3, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2025 and 2024

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, 2025 and 2024. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

Financial Highlights

- The Utility's operating income increased from \$2,779,804 in 2024 to \$3,759,975 in 2025.
- The Utility's total cash position increased from \$7,396,725 in 2024 to \$8,267,367 in 2025.
- The Utility's unrestricted cash and investment position increased from \$7,197,652 in 2024 to \$10,698,189 in 2025.
- The Utility's total net position increased by \$3,332,349 in 2025 to \$66,683,124 from \$63,350,775 in 2024.
- The Utility's total assets increased by \$2,820,672 in 2025 to \$110,337,510 from \$107,516,838 in 2024.
- Total liabilities decreased \$620,005 to \$44,347,524 in 2025 from \$44,967,529 in 2024.

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 provide insight into the sources of cash, how it was utilized, and the overall change in the 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, 2025 and 2024

2025

The Statement of Net Position showed that total net position increased \$3,332,349, an increase of 5.26%. Total assets increased \$2,820,672 or 2.62%. The increase in net position and assets is due primarily to the receipt of DNR Safe Drinking Water Loan Program grant funds for lead service line replacement received in 2025 to reimburse prior year expense. Net capital assets decreased by \$1,330,050 to \$93,758,952 in 2025, due to a conservative approach to infrastructure replacement in 2025, in anticipation of two large projects in 2026. Capital additions were financed using Wisconsin Department of Natural Resources Safe Drinking Water Loan and water revenues. Restricted net position decreased by \$117,854 in 2025 to \$261,140 due to the decrease in reserve for debt service.

2024

The Statement of Net Position showed that total net position increased \$20,473, an increase of 0.03%. Total assets increased \$4,252,341 or 4.1%. The increase in assets is due primarily to the completion of the Raw Water Improvement Project. Net capital assets increased by \$4,082,926 to \$95,089,002 in 2024, also due to the completion of the Raw Water Improvement Project and other small capital projects. Capital additions were financed using Wisconsin Department of Natural Resources Safe Drinking Water Loan and water revenues. Restricted net position decreased by \$39,503 in 2024 to \$378,994 due to the decrease in reserve for debt service.

STATEMENTS OF NET POSITION As of December 31, 2025, 2024 and 2023

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Unrestricted current and other assets	\$ 15,634,261	\$ 11,306,686	\$ 11,101,620
Restricted assets	944,297	1,121,150	1,156,801
Capital assets	<u>93,758,952</u>	<u>95,089,002</u>	<u>91,006,076</u>
Total Assets	<u>110,337,510</u>	<u>107,516,838</u>	<u>103,264,497</u>
Deferred outflows related to pensions	<u>1,796,291</u>	<u>2,388,326</u>	<u>2,648,031</u>
Current liabilities payable			
from unrestricted assets	2,250,336	2,022,192	5,516,147
Liabilities payable from restricted assets	1,802,332	1,993,790	1,670,398
Non-current liabilities	<u>40,294,856</u>	<u>40,951,547</u>	<u>33,862,147</u>
Total Liabilities	<u>44,347,524</u>	<u>44,967,529</u>	<u>41,048,692</u>
Deferred inflows related to pensions	<u>1,103,153</u>	<u>1,586,860</u>	<u>1,533,534</u>
Net investment in capital assets	54,656,143	54,201,204	58,036,857
Restricted net position	261,140	378,994	418,497
Unrestricted net position	<u>11,765,841</u>	<u>8,770,577</u>	<u>4,874,948</u>
Total Net Position	<u>\$ 66,683,124</u>	<u>\$ 63,350,775</u>	<u>\$ 63,330,302</u>

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis
As of and for the Years Ended December 31, 2025 and 2024

The following Statements of Revenues, Expenditures and Changes in Net Position helps to further explain the nature of the increase in net position during 2025, 2024 and 2023.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2025, 2024 and 2023

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 13,274,560	\$ 11,691,482	\$ 10,423,636
Non-operating revenues	3,772,871	490,218	5,410,473
Total Revenues	<u>17,047,431</u>	<u>12,181,700</u>	<u>15,834,109</u>
Operating & maintenance expenses	9,514,585	8,911,678	8,364,195
Non-operating expenses	3,028,152	2,116,610	479,014
Total Expenses	<u>12,542,737</u>	<u>11,028,288</u>	<u>8,843,209</u>
Income before contributions and transfers	4,504,694	1,153,412	6,990,900
Interfund transfers (tax equivalent)	<u>(1,172,345)</u>	<u>(1,132,939)</u>	<u>(997,791)</u>
Change in Net Position	3,332,349	20,473	5,993,109
Beginning Net Position	<u>63,350,775</u>	<u>63,330,302</u>	<u>57,337,193</u>
Ending Total Net Position	<u>\$ 66,683,124</u>	<u>\$ 63,350,775</u>	<u>\$ 63,330,302</u>

2025

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have increased by \$1,583,078 from \$11,691,482 in 2024, to \$13,274,560 in 2025. The increase is due to a rate increase approved the Public Service Commission effective April 1, 2025. Operating and maintenance expenses increased by \$602,907, or 6.77%. This is due to an increase in depreciation expense related to the raw water intake pipe put into service December 2024. Non-operating revenues increased by \$3,282,653 due to grant funding from the WDNR for lead service lateral replacements to reimburse costs in both current and prior years. Additionally, non-operating expenses increased by \$911,542, primarily due to higher costs related to the Lead Water Service Lateral Replacement Program.

2024

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues have increased by \$1,267,846 from \$10,423,636 in 2023, to \$11,691,482 in 2024. The increase is due to a rate increase approved the Public Service Commission effective April 1, 2024. Operating and maintenance expenses increased in 2024 by \$547,483, or 6.5%, due to an increase in maintenance of high lift piping, UV disinfection, Erie Avenue tank washing, and landscaping of Park Avenue grounds. Non-operating revenues decreased by \$4,920,255 due to reduced grant funding from the WDNR for lead service lateral replacements and lower earned revenue from ARPA grant funds used for the Raw Water Improvement project in 2023. Additionally, non-operating expenses increased by \$1,637,596, primarily due to higher costs related to the Lead Water Service Lateral Replacement Program and bond interest expenses.

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2025 and 2024

Capital Assets and Debt Administration

Capital Assets (see Note 4.)

At the end of 2025 the water Utility had \$127,804,366 in invested property, plant and equipment in service, an increase of \$1,806,243 over 2024. The Utility completed work on filters in the treatment plant, rehabilitation of the bulk tanks in the treatment plant, purchased a large dump truck, and completed several site upgrades to security in 2025. The Utility installed 128' of 6" water main at various locations; 3,606' of 8" water main at various locations; and 1,510' of 12" water main at various locations. The largest water main projects in 2025 were located at North 25th Steet near Superior Avenue and North 7th Street from Bell Avenue to North Avenue. In addition, 22 hydrants were installed at these and other various locations in the City.

At the end of 2024 the water Utility had \$125,998,123 in invested property, plant and equipment in service, an increase of \$48,096,456 over 2023. The Utility completed the historic Raw Water Improvement Project, which included a new intake pipe into Lake Michigan, new shore well, new pumping station, pumps, generators, and SCADA; purchased two Utility vehicles, replaced aging computer equipment, purchased meters and remote reading equipment, and replaced aging SCADA. Water main replacement projects continued in 2024. The Utility installed 23' of 6" water main at various locations; 473' of 8" water main at various locations; 14' of 10" water main at one location; 21' of 16" water main at various locations; and 378' of 24" water main at various locations. The largest water main projects in 2024 were located at Lincoln Avenue and South Taylor Drive. In addition, 17 hydrants were installed at these and other various locations in the City.

Debt (see Note 5.)

On December 31, 2025, the Sheboygan Water Utility had outstanding DNR Safe Drinking Water Loans and Water Revenue Bonds of \$40,529,965. This includes a revenue bond issued on May 1, 2013 with a 2.0% interest rate, and a balance of \$1,425,000 to be retired 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$1,652,559 and interest rate of 1.65%, to be retired 2035; on March 1, 2018, refunding revenue bonds were issued with an interest rate of 4% and balance of \$2,375,000, to be retired 2033; and on June 22, 2022 a Safe Drinking Water Loan was issued with a balance of \$34,109,162 with an interest rate of 2.145%, to be retired 2052; a Safe Drinking Water Loan was issued on January 29, 2025 with a balance of \$846,365 and an interest rate of 0.25% to be retired May 1, 2034; and a Safe Drinking Water Loan was issued on August 27, 2025 with a balance of \$121,879 and an interest rate of 0.25% to be retired on May 1, 2035. 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 March 1, 2018 refunded the 2007 revenue bond issue and funded the construction of an elevated storage tank at Horizon Drive. The Safe Drinking Water Loan issued on June 22, 2022 funded the raw water improvement project. The two Safe Drinking Water Loans issued in 2025 are to fund lead service line replacement in the City of Sheboygan. The refunding revenue bonds issued April 20, 2016 were paid in full on May 1, 2025. The remaining balance on the \$302,003 debt for the Unfunded Retirement Obligation is \$49,982.

Sheboygan Water Utility

Unaudited Management's Discussion and Analysis

As of and for the Years Ended December 31, 2025 and 2024

On December 31, 2024, the Sheboygan Water Utility had outstanding revenue bonds of \$41,361,694. This includes a revenue bond issued on May 1, 2013 with a 2.0% interest rate, and a balance of \$1,580,000 to be retired 2033; on May 1, 2015, a Safe Drinking Water Loan was issued with a balance of \$1,803,423 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 \$215,000, to be retired 2025; on March 1, 2018, refunding revenue bonds were issued with an interest rate of 4% and balance of \$2,755,000, to be retired 2033; and on June 22, 2022 a Safe Drinking Water Loan was issued with a balance of \$35,008,271 with an interest rate of 2.145%, to be retired 2052; Bond proceeds funded the construction of the two reservoirs at Erie Avenue and I-43, and the booster pump station completed in 2008. The 2013 revenue bond funded a backwash storage reservoir at Park Avenue, and funded various projects into 2015. The Safe Drinking Water Loan issued on May 1, 2015 funded a UV disinfection system at the treatment plant. The revenue bond issued on April 20, 2016 refunded the 2005 revenue bond issue. The revenue bond issued on March 1, 2018 refunded the 2007 revenue bond issue and funded the construction of an elevated storage tank at Horizon Drive. The Safe Drinking Water Loan issued on June 22, 2022 funded the raw water improvement project. The remaining balance on the \$302,003 debt for the Unfunded Retirement Obligation is \$72,871.

Economic Factors and Next Year's Budgets and Rates

A rate increase with a rate of return of 6% was effective April 1, 2025. The Utility will submit a rate case to the Public Service Commission in 2026 for implementation of new rates in early 2027.

Sheboygan Water Utility submitted three applications to the WDNR Safe Drinking Water Loan Program on June 16, 2025, to provide \$3,413,000 in principal forgiveness and \$1,037,000 in loans to property owners for lead service line replacement in the City of Sheboygan disadvantaged census tracts. Closing of the SDWLP Financial Assistance Agreements is scheduled for the third quarter in 2026. The Utility closed three Safe Drinking Water Loans in 2025 for lead service line replacement totaling \$5,371,622 in principal forgiveness and \$1,011,365 in loans.

Sheboygan Water Utility submitted a DNR SDWLP application on June 30, 2024 for funding replacement of filters 7, 8, and 9, along with filter building roof beam reconstruction in the amount of \$4,232,414. The loan is scheduled to close May 2026.

Sheboygan Water Utility has a total capital improvement budget of \$6,602,200 in 2026. Large projects include filter 7, 8, and 9 replacement and roof beam reconstruction, water main and hydrant replacement; meter and radio read unit replacement; river crossing water main project, SCADA upgrades, HVAC replacement in the Utility office building, and heavy equipment replacement.

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.

BASIC FINANCIAL STATEMENTS

Sheboygan Water Utility

Statements of Net Position
December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 10,698,189	\$ 7,197,652
Restricted assets:		
Redemption account	409,388	546,756
Customer accounts receivable	1,736,931	1,781,383
LSL accounts receivable	694,024	905,227
Grant receivable	608,084	-
Due from Municipality	466,018	317,265
Materials and supplies	287,092	248,690
Prepayments	33,070	28,143
	<u>14,932,796</u>	<u>11,025,116</u>
Total current assets		
Noncurrent Assets		
Restricted assets:		
Reserve account	534,909	574,394
Other assets:		
LSL revolving loan account	972,268	685,201
Special assessments receivable	138,585	143,125
Capital assets:		
Plant in service	127,804,366	125,998,123
Accumulated depreciation	(34,515,013)	(31,746,093)
Construction work in progress	469,599	836,972
	<u>95,404,714</u>	<u>96,491,722</u>
Total noncurrent assets		
Total assets	<u>110,337,510</u>	<u>107,516,838</u>
Deferred Outflows of Resources		
Deferred outflows related to pension	1,304,372	1,878,303
Deferred outflows related to other postemployment benefits	491,919	510,023
	<u>1,796,291</u>	<u>2,388,326</u>
Total deferred outflows of resources		

See notes to financial statements

Sheboygan Water Utility

Statements of Net Position
December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 652,785	\$ 432,177
Accrued wages	177,728	151,872
Accrued taxes due to Municipality	1,203,085	1,163,605
Accrued interest	2,399	3,290
Accrued vacation leave	142,016	148,891
Current portion of accrued sick leave	48,060	99,467
Current portion of advance from Municipality	24,263	22,890
Current liabilities payable from restricted assets:		
Current portion of revenue bonds	1,654,084	1,826,028
Accrued interest	148,248	167,762
Total current liabilities	<u>4,052,668</u>	<u>4,015,982</u>
Noncurrent Liabilities		
Revenue bonds	38,875,881	39,535,666
Unamortized debt premium, net of discount	75,997	100,498
Advance from Municipality	25,719	49,981
Accrued sick leave	655,904	612,959
Total other postemployment benefits liability, health insurance	46,281	47,439
Net other postemployment benefits liability, life insurance	390,909	392,183
Net pension liability	224,165	212,821
Total noncurrent liabilities	<u>40,294,856</u>	<u>40,951,547</u>
Total liabilities	<u>44,347,524</u>	<u>44,967,529</u>
Deferred Inflows of Resources		
Deferred inflows related to pension	828,447	1,381,179
Deferred inflows related to other postemployment benefits	274,706	205,681
Total deferred inflows of resources	<u>1,103,153</u>	<u>1,586,860</u>
Net Position		
Net investment in capital assets	54,656,143	54,201,204
Restricted for:		
Debt service	261,140	378,994
Unrestricted	11,765,841	8,770,577
Total net position	<u>\$ 66,683,124</u>	<u>\$ 63,350,775</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Sales of water	\$ 13,001,765	\$ 11,445,924
Other	<u>272,795</u>	<u>245,558</u>
Total operating revenues	<u>13,274,560</u>	<u>11,691,482</u>
Operating Expenses		
Operation and maintenance	6,675,653	6,696,987
Depreciation	<u>2,838,932</u>	<u>2,214,691</u>
Total operating expenses	<u>9,514,585</u>	<u>8,911,678</u>
Operating Income	<u>3,759,975</u>	<u>2,779,804</u>
Nonoperating Revenues (expenses)		
Investment income	140,234	163,859
Grant revenue	3,608,136	293,487
Grant expense	(2,132,546)	(1,233,213)
Interest expense	(895,606)	(883,397)
Amortization of debt premium, net of discount	<u>24,501</u>	<u>32,872</u>
Total nonoperating revenues (expenses)	<u>744,719</u>	<u>(1,626,392)</u>
Income before transfers	4,504,694	1,153,412
Transfers, Tax Equivalent	<u>(1,172,345)</u>	<u>(1,132,939)</u>
Change in net position	3,332,349	20,473
Net Position, Beginning	<u>63,350,775</u>	<u>63,330,302</u>
Net Position, Ending	<u>\$ 66,683,124</u>	<u>\$ 63,350,775</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Received from customers	\$ 13,452,887	\$ 11,777,891
Paid to suppliers for goods and services	(4,092,891)	(4,222,358)
Paid to employees for operating payroll	(2,444,274)	(2,397,898)
Net cash flows from operating activities	<u>6,915,722</u>	<u>5,157,635</u>
Cash Flows From Noncapital Financing Activities		
Paid to Municipality for tax equivalent	(1,132,865)	(1,001,759)
Collections of assessments for customer owned laterals	4,540	7,687
Debt retired for pension liability	(22,889)	(21,579)
Interest paid for pension liability	(3,644)	(4,235)
Interest paid for LSL liability	(1,522)	-
Proceeds from LSL debt issuance	968,244	-
Grant revenues received	3,000,052	293,487
Paid for expenses for grant-related projects	(2,132,546)	(1,233,213)
LSL loan receivable	211,203	(132,068)
Net cash flows from noncapital financing activities	<u>890,573</u>	<u>(2,091,680)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,624,960)	(10,498,317)
Debt retired	(1,826,734)	(1,684,519)
Interest paid	(910,845)	(837,643)
Proceeds from debt issue	26,761	9,598,004
Net cash flows from capital and related financing activities	<u>(4,335,778)</u>	<u>(3,422,475)</u>
Cash Flows From Investing Activities		
Investments purchased	(4,347,387)	(1,607,278)
Investments sold	1,607,278	2,052,458
Interest income	140,234	163,859
Net cash flows from investing activities	<u>(2,599,875)</u>	<u>609,039</u>
Net change in cash and cash equivalents	870,642	252,519
Cash and Cash Equivalents, Beginning	<u>7,396,725</u>	<u>7,144,206</u>
Cash and Cash Equivalents, Ending	<u>\$ 8,267,367</u>	<u>\$ 7,396,725</u>
Noncash Capital and Related Financing Activities		
Amortization of debt premium, net of discount	<u>\$ 24,501</u>	<u>\$ 32,872</u>
Construction related accounts payable	<u>\$ 469,064</u>	<u>\$ 332,364</u>

See notes to financial statements

Sheboygan Water Utility

Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income	\$ 3,759,975	\$ 2,779,804
Noncash items in operating income:		
Depreciation	2,838,932	2,214,691
Depreciation charged to clearing and other utilities	252,778	228,792
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Customer accounts receivable	44,452	(177,289)
Due from Municipality	(148,753)	(47,543)
Materials and supplies	(38,402)	(17,131)
Prepayments	(4,927)	4,268
Pension related deferrals and assets/liabilities	32,543	176,020
Accounts payable	83,908	(69,258)
Other liabilities	10,519	111,067
Other postemployment retirement benefit deferrals and liabilities	84,697	(45,786)
	<u>\$ 6,915,722</u>	<u>\$ 5,157,635</u>
Net cash flows from operating activities		
	<u>\$ 6,915,722</u>	<u>\$ 5,157,635</u>
Reconciliation of Cash and Cash Equivalents to Statements of Net Position Accounts		
Cash and investments	\$ 10,698,189	\$ 7,197,652
Redemption account	409,388	546,756
Reserve account	534,909	574,394
LSL revolving loan account	972,268	685,201
	<u>12,614,754</u>	<u>9,004,003</u>
Total cash and investments		
	<u>12,614,754</u>	<u>9,004,003</u>
Less noncash equivalents	<u>(4,347,387)</u>	<u>(1,607,278)</u>
	<u>\$ 8,267,367</u>	<u>\$ 7,396,725</u>
Cash and cash equivalents		
	<u>\$ 8,267,367</u>	<u>\$ 7,396,725</u>

See notes to financial statements

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Deposits and Investments

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

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

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

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

The Utility has adopted an investment policy. 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

LSL Revolving Loan Account

The Utility has elected to internally designate \$972,268 and \$685,201 in cash in 2025 and 2024, 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.

LSL Receivable

This account represents the balances of the private lead and galvanized water service line replacement program. The Utility pays the full project cost directly to the contractor upon receipt of appropriate documentation from the property owner. Eligible costs are partially subsidized by the Utility, with financial assistance provided for up to 50% of the total cost. The remaining portion is extended to property owners as a non-interest bearing loan, repayable either through monthly installments or in a single lump-sum payment.

Grant Receivable

This account represents the balances due to the Utility under the Safe Drinking Water Loan program. These funds are received on a reimbursement basis, whereby the Utility incurs eligible project costs and subsequently requests reimbursement from the Department of Natural Resources. The balance reflects eligible expenditures incurred during the fiscal year that had not yet been reimbursed as of December 31, 2025.

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

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

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.

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 (Asset);
- 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 member contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

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

Accrued Vacation and Sick Leave

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Vacation and sick leave pay is accrued when earned in the financial 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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

Long-Term Obligations

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

Deferred Inflows of Resources

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

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 \$469,890 and \$422,244 were accrued as of December 31, 2025 and 2024, respectively.

Current water rates were approved by the PSCW effective April 1, 2025.

Effect of New Accounting Standards on Current Period Financial Statements

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

- Statement No. 103, *Financial Reporting Model Improvements*
- Statement No. 104, *Disclosure of Certain Capital Assets*
- Statement No. 105, *Subsequent Events*

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

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

2. Deposits and Investments

	Carrying Value as of December 31,		Risks
	2025	2024	
Deposit	\$ 8,266,618	\$ 5,782,915	Custodial Credit
Certificates of deposits	4,347,386	3,220,338	Custodial Credit
Petty cash	750	750	
Total	<u>\$ 12,614,754</u>	<u>\$ 9,004,003</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and non-interest 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 \$1,000,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities.

Custodial Credit Risk

Deposits

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

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

3. Restricted Assets

Restricted Accounts

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

- Redemption** - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve** - Used to report resources set aside to make up potential future deficiencies in the redemption account.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

Restricted Net Position

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

	<u>2025</u>	<u>2024</u>
Restricted assets:		
Redemption account	\$ 409,388	\$ 546,756
Reserve account	<u>534,909</u>	<u>574,394</u>
Total restricted assets	<u>944,297</u>	<u>1,121,150</u>
Less restricted assets not funded by revenues:		
Reserve from borrowing	<u>(534,909)</u>	<u>(574,394)</u>
Current liabilities payable from restricted assets	<u>(148,248)</u>	<u>(167,762)</u>
Total restricted net position as calculated	<u>\$ 261,140</u>	<u>\$ 378,994</u>

The purpose of the restricted net position is as follows:

	<u>2025</u>	<u>2024</u>
Debt service	<u>\$ 261,140</u>	<u>\$ 378,994</u>
Total restricted net position	<u>\$ 261,140</u>	<u>\$ 378,994</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

4. Changes in Capital Assets

A summary of changes in water capital assets for 2025 follows:

	<u>Balance</u> <u>1/1/25</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/25</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 395,694	\$ -	\$ -	\$ 395,694
Capital assets being depreciated:				
Source of supply	34,175,909	201,405	-	34,377,314
Pumping	19,036,356	134,193	4,800	19,165,749
Water treatment	14,572,005	-	-	14,572,005
Transmission and distribution	54,357,018	1,522,221	223,483	55,655,756
General	3,461,141	273,737	97,030	3,637,848
Total capital assets being depreciated	<u>125,602,429</u>	<u>2,131,556</u>	<u>325,313</u>	<u>127,408,672</u>
Total capital assets	<u>125,998,123</u>	<u>2,131,556</u>	<u>325,313</u>	<u>127,804,366</u>
Less accumulated depreciation:				
Source of supply	(847,910)	(693,714)	-	(1,541,624)
Pumping	(4,607,859)	(604,399)	4,800	(5,207,458)
Water treatment	(7,610,209)	(551,815)	-	(8,162,024)
Transmission and distribution	(16,094,820)	(1,014,770)	223,483	(16,886,107)
General	(2,585,295)	(229,535)	97,030	(2,717,800)
Total accumulated depreciation	<u>(31,746,093)</u>	<u>(3,094,233)</u>	<u>325,313</u>	<u>(34,515,013)</u>
Construction in progress	<u>836,972</u>	<u>1,381,477</u>	<u>1,748,850</u>	<u>469,599</u>
Net capital assets	<u>\$ 95,089,002</u>			<u>\$ 93,758,952</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

A summary of changes in water capital assets for 2024 follows:

	Balance 1/1/24	Increases	Decreases	Balance 12/31/24
Capital assets, not being depreciated:				
Land and land rights	\$ 395,694	\$ -	\$ -	\$ 395,694
Capital assets being depreciated:				
Source of supply	627,615	33,548,294	-	34,175,909
Pumping	6,422,090	12,614,266	-	19,036,356
Water treatment	13,599,786	1,051,499	79,280	14,572,005
Transmission and distribution	53,955,915	523,793	122,690	54,357,018
General	2,900,567	615,209	54,635	3,461,141
Total capital assets being depreciated	77,505,973	48,353,061	256,605	125,602,429
Total capital assets	77,901,667	48,353,061	256,605	125,998,123
Less accumulated depreciation:				
Source of supply	(496,574)	(351,336)	-	(847,910)
Pumping	(4,228,436)	(379,423)	-	(4,607,859)
Water treatment	(7,167,911)	(521,578)	79,280	(7,610,209)
Transmission and distribution	(15,221,863)	(995,647)	122,690	(16,094,820)
General	(2,442,515)	(197,415)	54,635	(2,585,295)
Total accumulated depreciation	(29,557,299)	(2,445,399)	256,605	(31,746,093)
Construction in progress	42,661,708	8,026,238	49,850,974	836,972
Net capital assets	\$ 91,006,076			\$ 95,089,002

5. Long-Term Obligations

Revenue Debt - Water

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/25
04/03/2013	Plant expansion	05/01/2033	2.00 %	\$ 3,000,000	\$ 1,425,000
05/13/2015	UV disinfecting project	05/01/2035	1.65	3,122,030	1,652,559 *
05/01/2018	Revenue refunding	05/01/2033	4.00	4,705,000	2,375,000
06/22/2022	Raw water intake project	05/01/2052	2.15	35,836,136	34,109,162 *
01/29/2025	Lead service line replacement (noncapital)	05/01/2034	0.25	846,365	846,365 *
08/27/2025	Lead service line replacement (noncapital)	05/01/2035	0.25	121,879	121,879 *

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

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

Revenue bonds debt service requirements to maturity follows:

Years Ending December 31:	Bonds		Direct Placement		Total
	Principal	Interest	Principal	Interest	
2026	\$ 555,000	\$ 118,163	\$ 1,099,084	\$ 749,915	\$ 2,522,162
2027	575,000	97,187	1,240,181	726,719	2,639,087
2028	415,000	78,956	1,263,770	702,886	2,460,612
2029	420,000	64,881	1,287,846	678,561	2,451,288
2030	440,000	51,538	1,312,420	653,732	2,457,690
2031-2035	1,395,000	68,550	6,841,898	2,878,006	11,183,454
2036-2040	-	-	6,102,928	2,218,477	8,321,405
2041-2045	-	-	6,786,156	1,527,922	8,314,078
2046-2050	-	-	7,545,871	760,059	8,305,930
2051-2052	-	-	3,249,811	70,078	3,319,889
Total	\$ 3,800,000	\$ 479,275	\$ 36,729,965	\$ 10,966,355	\$ 51,975,595

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 2025 and 2024 were \$2,739,101 and \$2,522,162, respectively. Total customer net revenues as defined for the same periods were \$8,601,869 and \$4,218,628. Annual principal and interest payments are expected to require 23% 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 12/31/25
01/30/2008	Unfunded retirement obligation	03/15/2027	2.00 %	\$ 302,304	\$ 49,982

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

Years Ending December 31:	Principal	Interest	Total
2026	\$ 24,263	\$ 2,564	\$ 26,827
2027	25,719	1,350	27,069
Total	\$ 49,982	\$ 3,914	\$ 53,896

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

Long-Term Obligations Summary - Water

Long-term obligation activity for the year ended December 31, 2025 is as follows:

	<u>1/1/25 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/25 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 41,361,694	\$ 995,005	\$ 1,826,734	\$ 40,529,965	\$ 1,654,084
Advance from Municipality	72,871	-	22,889	49,982	24,263
Accrued sick leave	712,426	39,598	48,060	703,964	48,060
Unamortized premium, net of discount	100,498	-	24,501	75,997	-
Net pension liability	212,821	11,344	-	224,165	-
Total other postemployment benefits liability, health insurance	47,439	-	1,158	46,281	-
Net other postemployment benefits liability, life insurance	392,183	-	1,274	390,909	-
Total	<u>\$ 42,899,932</u>	<u>\$ 1,045,947</u>	<u>\$ 1,924,616</u>	<u>\$ 42,021,263</u>	<u>\$ 1,726,407</u>

Long-term obligation activity for the year ended December 31, 2024 is as follows:

	<u>1/1/24 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/24 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 33,448,209	\$ 9,598,004	\$ 1,684,519	\$ 41,361,694	\$ 1,826,028
Advance from Municipality	94,450	-	21,579	72,871	22,890
Accrued sick leave	667,470	144,423	99,467	712,426	99,467
Unamortized premium, net of discount	133,370	-	32,872	100,498	-
Net pension liability	683,427	-	470,606	212,821	-
Total other postemployment benefits liability, health insurance	48,424	-	985	47,439	-
Net other postemployment benefits liability, life insurance	103,389	288,794	-	392,183	-
Unearned revenue	270,987	-	270,987	-	-
Total	<u>\$ 35,449,726</u>	<u>\$ 10,031,221</u>	<u>\$ 2,581,015</u>	<u>\$ 42,899,932</u>	<u>\$ 1,948,385</u>

Bond Covenant Disclosures

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

Insurance

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

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

The Utility is covered under the following insurance policies at December 31, 2025:

Type	Coverage	Expiration
General Liability	\$ 2,000,000	7/1/26
Automobile liability	1,000,000	7/1/26
Contractors equipment	648,162	7/1/26
Position Bond (Employee dishonestly)	250,000	7/1/26
Forgery/alteration	250,000	7/1/26
Extra expense	250,000	7/1/26
Employee benefits	2,000,000	7/1/26
Public officials liability	1,000,000	7/1/26
Theft of money and securities	25,000	7/1/26
Buildings	91,150,289	7/1/26
Flood	10,000,000	7/1/26
Earthquake	10,000,000	7/1/26

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 2025 and 2024 as follows:

	<u>2025</u>	<u>2024</u>
Operating revenues	\$ 13,274,560	\$ 11,691,482
Investment income	140,234	163,859
Miscellaneous nonoperating income	3,608,136	293,487
Less miscellaneous nonoperating expense	(2,132,546)	(1,233,213)
Less operation and maintenance expenses	<u>(6,675,653)</u>	<u>(6,696,987)</u>
Net defined earnings	<u>\$ 8,214,731</u>	<u>\$ 4,218,628</u>
Minimum required earnings per resolution:		
Annual debt service, principal	\$ 1,826,734	\$ 1,684,519
Annual debt service, interest	<u>912,367</u>	<u>837,643</u>
Subtotal	2,739,101	2,522,162
Coverage factor	<u>1.20</u>	<u>1.20</u>
Minimum required earnings	<u>\$ 3,286,921</u>	<u>\$ 3,026,594</u>
Actual debt coverage	<u>3.00</u>	<u>1.67</u>

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

Number of Customers and Billed Volumes - Water

The Utility has the following number of customers and billed volumes for 2025 and 2024:

	Customers		Sales (000 gals)	
	2025	2024	2025	2024
Residential	17,150	17,110	712,853	707,424
Multifamily residential	296	297	129,009	124,814
Commercial	1,308	1,304	221,319	228,929
Industrial	153	152	2,186,965	2,241,005
Public authority	119	119	47,013	48,600
Interdepartmental	3	2	542,395	562,638
Total	<u>19,029</u>	<u>18,984</u>	<u>3,839,554</u>	<u>3,913,410</u>

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.

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

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

	<u>2025</u>	<u>2024</u>
Construction work in progress	\$ 469,599	\$ 836,972
Plant in service	127,804,366	125,998,123
Accumulated depreciation	<u>(34,515,013)</u>	<u>(31,746,093)</u>
Subtotal	<u>93,758,952</u>	<u>95,089,002</u>
Less capital related debt:		
Current portion of revenue bonds	1,654,084	1,826,028
Revenue bonds	37,907,637	39,535,666
Unamortized premium	<u>75,997</u>	<u>100,498</u>
Subtotal	<u>39,637,718</u>	<u>41,462,192</u>
Add unspent debt proceeds:		
Reserve from borrowing	<u>534,909</u>	<u>574,394</u>
Subtotal	<u>\$ 54,656,143</u>	<u>\$ 54,201,204</u>

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

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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.

Postretirement 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>
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
2023	1.6	(21.0)
2024	3.6	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 \$185,800 and \$174,875 in contributions from the Utility during the current and prior reporting periods, respectively.

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Contribution rates for the plan year reported as of December 31, 2025 and December 31, 2024 are:

	2025		2024	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.90 %	6.90 %	6.80 %	6.80 %
Protective with Social Security	6.90	14.30	6.80	13.20
Protective without Social Security	6.90	19.10	6.80	18.10

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

At December 31, 2025, the Utility reported a liability (asset) of \$224,165 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2024, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2023 rolled forward to December 31, 2024. 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, 2024, the Utility's proportion was 0.01364229%, which was a decrease of 0.00067170% from its proportion measured as of December 31, 2023.

At December 31, 2024, the Utility reported a liability (asset) of \$212,821 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2022 rolled forward to December 31, 2023. 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, 2023, the Utility's proportion was 0.01431399%, which was an increase of 0.00141355% from its proportion measured as of December 31, 2022.

For the years ended December 31, 2025 and 2024, the Utility recognized pension expense (revenue) of \$32,543 and \$350,895, respectively.

At December 31, 2025, 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 projected and actual experience	\$ 696,156	\$ (654,168)
Changes in assumption	66,514	-
Net differences between project and actual earnings on pension plan	340,631	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,123	(174,279)
Employer contributions subsequent to the measurement date	198,948	-
Total	<u>\$ 1,304,372</u>	<u>\$ (828,447)</u>

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At December 31, 2024, 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 expected and actual experience	\$ 858,093	\$ (1,136,549)
Changes in assumption	92,762	-
Net differences between project and actual earnings on pension plan	741,648	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(244,630)
Employer contributions subsequent to the measurement date	<u>185,800</u>	<u>-</u>
Total	<u>\$ 1,878,303</u>	<u>\$ (1,381,179)</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:

2026	\$ 65,324
2027	395,042
2028	(147,926)
2029	(35,463)
2030	-
Thereafter	<u>-</u>
Total	<u>\$ 276,977</u>

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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>2025</u>	<u>2024</u>
Actuarial Valuation Date:	December 31, 2023	December 31, 2022
Measurement Date of Net Pension Liability (Asset):	December 31, 2024	December 31, 2023
Experience Study:	January 1, 2021 - December 31, 2023, Published November 19, 2024	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%-5.7%	0.1%-5.6%
Mortality:	2020 WRS Experience Mortality Table	2020 WRS Experience Mortality Table
Postretirement Adjustments: *	1.7%	1.7%

* *No postretirement 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 postretirement discount rate. Includes the impact of known Market Recognition Account deferred gains/losses on the liability for dividend payments.*

Actuarial assumptions are based upon an experience study conducted in 2024 that covered a three-year period from January 1, 2021 to December 31, 2023. The total pension liability for December 31, 2024 is based upon a roll-forward of the liability calculated from the December 31, 2023 actuarial valuation. The total pension liability for December 31, 2023 is based upon a roll-forward of the liability calculated from the December 31, 2022 actuarial valuation.

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Notes to Financial Statements

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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, 2025 are summarized in the following table:

Asset Allocation Targets and Expected Returns¹ as of the Measurement Date December 31, 2024

Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Public Equity	38 %	7.0 %	4.3 %
Public Fixed Income	27	6.1	3.4
Inflation Sensitive	19	4.8	2.1
Real Estate	8	6.5	3.8
Private Equity/Debt	20	9.5	6.7
Leverage ³	(12)	3.7	1.1
Total Core Fund ³	100	7.5	4.8
Variable Fund Asset			
U.S. Equities	70	6.5	3.8
International Equities	30	7.4	4.7
Total Variable Fund	100	6.9	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 U.S. CPI (Inflation) Forecast: 2.6%.

³ The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. Currently, an asset allocation target of 12% policy leverage is used subject to an allowable range of up to 20%.

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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, 2024 are summarized in the following table:

Asset Allocation Targets and Expected Returns¹ as of the Measurement Date December 31, 2023			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Public Equity	40 %	7.3 %	4.5 %
Public Fixed Income	27	5.8	3.0
Inflation Sensitive	19	4.4	1.7
Real Estate	8	5.8	3.0
Private Equity/Debt	18	9.6	6.7
Leverage ³	(12)	3.7	1.0
Total Core Fund ³	100	7.4	4.6
Variable Fund Asset			
U.S. Equities	70	6.8	4.0
International Equities	30	7.6	4.8
Total Variable Fund	100	7.3	4.5

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

² New England Pension Consultants' Long-Term U.S. CPI (Inflation) Forecast: 2.7%.

³ The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. Currently, an asset allocation target of 12% policy leverage is used subject to an allowable range of up to 20%.

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Single Discount Rate

A single discount rate of 6.80% was used to measure the total pension liability as of December 31, 2025 and December 31, 2024. As of December 31, 2025, 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 4.08% (Source: "20-Bond GO Index" is the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality as of December 31, 2024. In describing this index, the Bond Buyer notes that the bonds' average quality is roughly equivalent to Moody's Investors Services' Aa2 rating and Standard and Poor's Corp.'s AA.) As of December 31, 2024, 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 3.77%. (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, 2023. 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.

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, 2025 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 position liability (asset)	\$ 2,102,964	\$ 224,165	\$ (1,110,667)

The sensitivity analysis as of December 31, 2024 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 position liability (asset)	\$ 2,057,020	\$ 212,821	\$ (1,077,642)

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>.

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8. Other Postemployment Benefits

General Information About the OPEB Plan

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

Total OPEB Liability

At December 31, 2025, the Utility's total OPEB liability of \$46,281 was measured as of December 31, 2024, and was determined by an actuarial valuation as of that date. At December 31, 2024, the Utility's total OPEB liability of \$47,439 was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2025</u>	<u>2024</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	3.50% decreasing by 0.10% per year down to 5.0%, and level thereafter	3.50% 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 4.28% for 2024 and 4.00% for 2023.

Mortality rates were based on the Wisconsin 2020 Mortality Table.

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period 2018-20.

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Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at January 1, 2024	\$ 48,424
Changes for the year:	
Service cost	3,133
Interest	2,038
Differences between expected and actual experience	(4,496)
Changes in assumptions or other inputs	2,433
Benefit payments	<u>(4,093)</u>
Net changes	<u>(985)</u>
Balances at December 31, 2024	<u>47,439</u>
Changes for the year:	
Service cost	2,827
Interest	1,851
Changes in assumptions or other inputs	(699)
Benefit payments	<u>(5,137)</u>
Net changes	<u>(1,158)</u>
Balances at December 31, 2025	<u>\$ 46,281</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 4.00% in 2023 to 4.28% in 2024.

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, 2025:

	1% Decrease (3.28%)	Discount Rate (4.28%)	1% Increase (5.28%)
Total OPEB liability	\$ 48,824	\$ 46,281	\$ 43,872

As of December 31, 2024:

	1% Decrease (3.00%)	Discount Rate (4.00%)	1% Increase (5.00%)
Total OPEB liability	\$ 49,935	\$ 47,439	\$ 45,061

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

As of December 31, 2025:

	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	\$ 42,185	\$ 46,281	\$ 51,114

As of December 31, 2024:

	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	\$ 43,774	\$ 47,439	\$ 51,745

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

For the year ended December 31, 2025 and 2024, the Utility recognized OPEB expense of \$1,588 and \$19, respectively. At December 31, 2025 and 2024, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2025		2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,755	\$ (5,463)	\$ 2,195	\$ (6,225)
Changes of assumptions or other inputs	9,333	(9,322)	11,260	(10,313)
Employer contributions subsequent to the measurement date	11,485	-	5,137	-
Total	<u>\$ 22,573</u>	<u>\$ (14,785)</u>	<u>\$ 18,592</u>	<u>\$ (16,538)</u>

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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:

2026	\$	(85)
2027		(85)
2028		(85)
2029		465
2030		(1,002)
Thereafter		(2,905)

Local Retiree Life Insurance Fund (LRLIF)

Plan Description

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

OPEB Plan Fiduciary Net Position

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.

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 postretirement 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.

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Notes to Financial Statements
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Contribution rates for the plan year reported as of December 31, 2025 and 2024 are:

Coverage Type	Employer Contribution
50% Postretirement Coverage	40% of Member Contribution
25% Postretirement 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 \$2,101 and \$1,737 in contributions from the employer during the current and prior reporting periods, respectively.

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

At December 31, 2025, the Utility reported a liability of \$390,909 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2024 rolled forward to December 31, 2024. 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, 2024, the Utility's proportion was 0.09991900%, which was an increase of 0.01467400% from its proportion measured as of December 31, 2023.

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Notes to Financial Statements
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At December 31, 2024, the Utility reported a liability of \$392,183 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2023 rolled forward to December 31, 2023. 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, 2023, the Utility's proportion was 0.08524500%, which was an increase of 0.05810764% from its proportion measured as of December 31, 2022.

For the year ended December 31, 2025 and 2024, the Utility recognized OPEB expense (revenue) of \$91,589 and \$(45,805), respectively.

At December 31, 2025 and 2024, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2025		2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (40,669)	\$ -	\$ (34,709)
Net differences between projected and actual investment earnings on plan investments	5,368	-	5,298	-
Changes in actuarial assumptions	95,917	(219,252)	122,677	(154,434)
Changes in proportion and differences between employer contributions and proportionate share of contributions	368,061	-	363,456	-
Total	\$ 469,346	\$ (259,921)	\$ 491,431	\$ (189,143)

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>
2026	\$ 60,045
2027	41,667
2028	27,652
2029	29,726
2030	54,124
Thereafter	(3,789)

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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>2025</u>	<u>2024</u>
Actuarial Valuation Date	January 1, 2024	January 1, 2023
Measurement Date of Net OPEB Liability (Asset)	December 31, 2024	December 31, 2023
Experience Study	January 1, 2021 - December 31, 2023, Published November 19, 2024	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 *	4.08%	3.26%
Long-Term Expected Rate of Return	4.25%	4.25%
Discount Rate:	4.09%	3.32%
Salary Increases:		
Wage Inflation	3.00%	3.00%
Seniority/Merit	0.10%-5.7%	0.10%-5.6%
Mortality	2020 WRS Experience Mortality Table	2020 WRS Experience Mortality Table

* Based on the Bond Buyers GO 20-Bond Municipal index.

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 the measurement date December 31, 2024

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
U.S. Intermediate Credit Bonds	Bloomberg U.S. Interm Credit	40%	2.41%
U.S. Mortgages	Bloomberg U.S. MBS	60	2.71
Inflation			2.30
Long-Term Expected Rate of Return			4.25

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

State OPEB Life Insurance Asset Allocation Targets and Expected Returns As of the measurement date December 31, 2023

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return
U.S. Intermediate Credit Bonds	Bloomberg U.S. Interm Credit	40%	2.32%
U.S. Mortgages	Bloomberg U.S. MBS	60	2.52
Inflation			2.30
Long-Term Expected Rate of Return			4.25

Single Discount Rate

A single discount rate was used to measure the total OPEB liability (4.09% for 2025 and 3.32% for 2024). The significant change in the discount rate was primarily caused by the increase in the municipal bond rate from 3.26% as of December 31, 2023 to 4.08% as of December 31, 2024. 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, 2037.

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, 2025:

	1% Decrease to Discount Rate (3.09%)	Current Discount Rate (4.09%)	1% Increase to Discount Rate (5.09%)
The Utility's proportionate share of the net OPEB liability (asset)	\$ 522,504	\$ 390,909	\$ 289,503

Sheboygan Water Utility

Notes to Financial Statements
December 31, 2025 and 2024

As of December 31, 2024:

	<u>1% Decrease to Discount Rate (2.32%)</u>	<u>Current Discount Rate (3.32%)</u>	<u>1% Increase to Discount Rate (4.32%)</u>
The Utility's proportionate share of the net OPEB liability (asset)	\$ 526,952	\$ 392,183	\$ 289,310

At December 31, 2025, the Utility reported a payable to the OPEB plan of \$0, which represents contractually required contributions outstanding as of the end of the year.

9. Commitments and Contingencies

Claims and Judgments

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

Grants

The Utility has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such 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 26% and 27% of operating revenues in 2025 and 2024, respectively.

12. Subsequent Events

The Utility evaluated subsequent events through April 3, 2026, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

Sheboygan Water Utility

Notes to Financial Statements

December 31, 2025 and 2024

Lead Service Line Replacement Grant

Sheboygan Water Utility submitted three applications to the WDNR Safe Drinking Water Loan Program on June 16, 2025, to provide \$3,413,000 in principal forgiveness and \$1,037,000 in loans to property owners for lead service line replacement in the City of Sheboygan disadvantaged census tracts. Closing of the SDWLP Financial Assistance Agreements is scheduled for the third quarter in 2026.

Water Treatment Plant Filters and Roofing Grant

Sheboygan Water Utility submitted a DNR SDWLP application on June 30, 2024 for funding replacement of filters 7, 8, and 9, along with filter building roof beam reconstruction in the amount of \$4,232,414. The loan is scheduled to close May 2026.

REQUIRED SUPPLEMENTARY INFORMATION

Sheboygan Water Utility

Schedule of Proportionate Share of the Net Pension Asset (Liability) -
 Wisconsin Retirement System
 Year Ended December 31, 2025
 (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
12/31/15	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%
12/31/23	0.01431399%	212,821	2,571,695	8.28%	98.85%
12/31/24	0.01364229%	224,165	2,692,752	8.32%	98.79%

Schedule of Employer Contributions -
 Wisconsin Retirement System
 Year Ended December 31, 2025

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
12/31/16	\$ 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%
12/31/24	185,800	185,800	-	2,692,753	6.90%
12/31/25	198,948	198,948	-	2,862,566	6.95%

See notes to required supplementary information

Sheboygan Water Utility

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

December 31, 2025

(Unaudited)

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability								
Service cost	\$ 2,827	\$ 3,133	\$ 4,249	\$ 15,276	\$ 13,754	\$ 10,029	\$ 10,894	\$ 10,894
Interest	1,851	2,038	1,184	4,708	5,674	7,886	7,203	7,184
Differences between expected and actual experience	-	(4,496)	-	-	-	4,395	-	-
Changes in assumptions	(699)	2,433	(6,457)	(160,130)	6,555	10,279	(5,560)	-
Benefit payments	<u>(5,137)</u>	<u>(4,093)</u>	<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	(1,158)	(985)	(3,112)	(160,021)	(1,763)	9,784	(6,184)	1,722
Total OPEB Liability, Beginning	<u>47,439</u>	<u>48,424</u>	<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>\$ 46,281</u>	<u>\$ 47,439</u>	<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	\$ 2,862,566	\$ 2,640,045	\$ 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	1.62%	1.80%	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, 2025
 (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%
12/31/23	0.08524500%	392,183	2,571,695	15.25%	33.90%
12/31/24	0.09991900%	390,909	2,692,753	14.52%	37.20%

Schedule of Employer Contributions -
 Wisconsin Life Insurance Plan
 Year Ended December 31, 2025

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%
12/31/24	1,737	1,737	-	2,692,753	0.06%
12/31/25	2,101	2,101	-	2,862,566	0.07%

See notes to required supplementary information

Sheboygan Water Utility

Notes to Required Supplementary Information
Year Ended December 31, 2025

Wisconsin Retirement System

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

Changes of assumptions.

	2015 - 2018	2019 - 2021	2022 - 2025
Long-term expected rate of return	7.2%	7.0%	6.8%
Discount rate	7.2%	7.0%	6.8%
Salary increases			
Inflation	3.2%	3.0%	3.0%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table	2020 WRS Experience Mortality Table
Postretirement adjustments	2.10%	1.90%	1.70%

Health Insurance

Changes of benefit terms. There were no changes of benefit terms.

Changes of assumptions.

	2018	2019	2020 - 2021	2022	2023	2024	2025
Discount rate	3.5%	4.0%	2.3%	2.0%	4.3%	4.0%	4.3%
Salary increases							
Inflation	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Seniority/Merit	5.0% - 7.5%	5.0% - 7.5%	5.0% - 6.5%	5.0% - 6.5%	5.0% - 6.5%	3.5% - 5.0%	3.5% - 5.0%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table	Wisconsin 2018 Mortality Table	Wisconsin 2018 Mortality Table	Wisconsin 2020 Mortality Table	Wisconsin 2020 Mortality Table

Local Retiree Life Insurance Fund (LRLIF)

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

Changes of benefit terms. In addition to the rate changes detailed in the tables above, the State of Wisconsin Employee Trust Fund Board adopted economic and demographic assumption changes based on a three year experience study performed for the Wisconsin Retirement System. These assumptions are used in the actuarial valuations of OPEB liabilities (assets) for the retiree life insurance programs and are summarized below.

	2017	2018 - 2020	2021 - 2024
Long-term expected rate of return	5.0%	4.3%	4.3%
Price inflation	2.7%	2.5%	2.4%
Salary inflation	3.2%	3.0%	3.0%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table	2020 WRS Experience

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.