

Waukesha Water Utility

An Enterprise Fund of the City of Waukesha, Wisconsin

Financial Statements and
Supplementary Information

December 31, 2022 and 2021

Waukesha Water Utility

An Enterprise Fund of the City of Waukesha, Wisconsin

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Independent Auditors' Report

To the Utility Commission of
Waukesha Water Utility

Opinion

We have audited the financial statements of the Waukesha Water Utility (Utility), an enterprise fund of the City of Waukesha, Wisconsin, as of and for the years ended December 31, 2022 and 2021 and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2022 and 2021 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements of the Utility of the City of Waukesha, Wisconsin, are intended to present the financial position, the changes in the financial position and cash flows of only the Utility. They do not purport to and do not, present fairly the financial position of the City of Waukesha, Wisconsin, as of December 31, 2022, and 2021, and the changes in financial position or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Utility adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented. 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Baker Tilly US, LLP

Madison, Wisconsin
July 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

The management of Waukesha Water Utility (Utility) offers all persons interested in the financial position of the Utility this narrative overview and analysis of the Utility's financial performance during the years ending December 31, 2022 and 2021. You are invited to read this narrative in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ Total net position increased by \$2,037,000 to \$78,740,000 in 2022, an increase of 2.66%. In 2022, the increase was a result of stable revenues and expenses and an increase in investment income. Net position increased in 2021 because of increased revenues and stable expenses.
- ❖ Operating revenues, generated mostly by rate payers, remained stable, decreasing by \$47,000, or .35% in 2022. This is primarily a result of decreased consumption from continued conservation efforts. An increase in rates was granted by the Public Service Commission of Wisconsin (PSCW) effective September 1, 2022. Because the effective date was later in the year, there was not as much of an impact on 2022 revenues.
- ❖ Operation and maintenance expenses also remained stable in 2022, increasing by \$5,000 or 0.10%. Non-operating expenses increased by \$717,000, due to an increase in interest expense from the new water supply project currently being constructed and debt issuance costs from a refinance of variable interest rate debt.
- ❖ Year-end Cash and Equivalents decreased by \$5,482,000 in 2022 as a result of an increase in capital related expenditures, including those related to the Great Water Alliance (GWA) project which will provide Lake Michigan water to the City of Waukesha.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Financial statements for the year ending 2021 were restated to retroactively reflect the provisions of GASB Statement No. 87, Leases, which the Utility adopted effective January 1, 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

UTILITY FINANCIAL ANALYSIS

An analysis of the Utility's financial position begins with a review of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. These two statements report the Utility's net assets and changes therein. The Utility's net assets (the difference between assets, deferred outflows, liabilities, and deferred inflows) are key to measuring the financial health of the Utility. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that financial position could also be affected by other non-financial factors including economic conditions, population growth and new regulations. The Utility's overall financial position has remained stable for the years ended December 31, 2022 and 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

NET POSITION

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

Table 1
Condensed Statement of Net Position
2022, 2021, and 2020
(000's)

	2022	2021 (Restated)	2020	2022 v. 2021 Change		2021 v. 2020 Change	
Current Assets	\$ 45,333	\$ 53,052	\$ 44,469	\$ (7,719)	(14.55) %	\$ 8,583	19.30 %
Net Capital Assets	180,639	145,070	118,958	35,569	24.52	26,112	21.95
Other Noncurrent Assets	8,511	9,473	7,206	(962)	(10.16)	2,267	31.46
Total Assets	234,483	207,595	170,633	26,888	12.95	36,962	21.66
Deferred Outflows of Resources	3,802	3,329	2,850	473	14.21	479	16.81
Long Term Debt Outstanding	134,168	104,856	83,552	29,312	27.95	21,304	25.50
Other Liabilities	18,985	23,945	14,604	(4,960)	(20.71)	9,341	63.96
Total Liabilities	153,153	128,801	98,156	24,352	18.91	30,645	31.22
Deferred Inflows of Resources	6,391	5,421	1,377	970	17.89	4,044	293.68
Net Investment in Capital Assets	50,079	45,319	37,951	4,760	10.50	7,368	19.41
Restricted Net Position	2,901	2,266	1,654	635	28.02	612	37.00
Unrestricted Net Position	25,760	29,118	34,345	(3,358)	(11.53)	(5,227)	(15.22)
Total Net Position	\$ 78,740	\$ 76,703	\$ 73,950	\$ 2,037	2.66 %	\$ 2,753	3.72 %

As shown in Table 1, Total net position increased by \$2,037,000 to \$78,740,000 in 2022, an increase of 2.66%. Revenues in excess of expenses and capital contributions account for the increase in net position.

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

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

REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position
2022, 2021, and 2020
(000's)

	2022	2021 (Restated)	2020	2022 v. 2021 Change		2021 v. 2020 Change	
Operating Revenues	\$ 13,456	\$ 13,503	\$ 11,510	\$ (47)	(0.35) %	\$ 1,993	17.32 %
Non-operating Revenues	802	127	205	675	531.50	(78)	(38.05)
Total Revenues	14,258	13,630	11,715	628	4.61	1,915	16.35
Depreciation Expense	2,839	2,815	2,708	24	0.85	107	3.95
Other Operating Expense	5,041	5,036	5,061	5	0.10	(25)	(0.49)
Non-operating Expense	2,474	1,757	4,622	717	40.81	(2,865)	(61.99)
Total Expense	10,354	9,608	12,391	746	7.76	(2,783)	(22.46)
Income before Capital Contributions and Transfers	3,904	4,022	(676)	(118)	(2.93)	4,698	694.97
Capital Contributions	331	873	508	(542)	(62.08)	365	71.85
Capital Contributions - Municipal	-	4	31	(4)	(100.00)	(27)	(87.10)
Transfers - Tax Equivalent	(2,198)	(2,146)	(2,024)	(52)	(2.42)	(122)	(6.03)
Changes in Net Assets	2,037	2,753	(2,161)	(716)	(26.01)	4,914	227.39
Beginning Net Assets	76,703	73,950	76,111	2,753	3.72	(2,161)	(2.84)
Ending Net Assets	<u>\$ 78,740</u>	<u>\$ 76,703</u>	<u>\$ 73,950</u>	<u>\$ 2,037</u>	<u>2.66 %</u>	<u>\$ 2,753</u>	<u>3.72 %</u>

Operating revenues decreased in 2022 by \$47,000, as a result of decreased consumption due to conservation efforts. An increase in rates was granted by the Public Service Commission of Wisconsin (PSCW) effective September 1, 2022. Non-operating revenues increased by \$675,000, or 531.50%, primarily due to an increase in investment income. Interest rates have increased significantly from December 2021 through December 2022.

Operating revenues increased in 2021 by \$1,993,000, as a result of an increase in water rates that the Public Service Commission of Wisconsin (PSCW) granted on February 1, 2021. Non-operating revenues decreased by \$78,000, or 38.05%, primarily due to a decrease in investment income. Interest rates decreased drastically from mid-2019 through November 2021.

Depreciation expense in 2022 increased by \$24,000, or 0.85%, due to the addition of capital assets. Other operating expenses were consistent with the previous year and increased only \$5,000. Non-operating expenses increased by \$717,000, due to an increase in debt from the new water supply project currently being constructed and a refinance of variable interest debt.

Depreciation expense in 2021 increased by \$107,000, or 3.95%, due to the addition of capital assets. Other operating expenses were consistent with the previous year and decreased only \$25,000. Non-operating expenses decreased by \$2,865,000, due to a non-capital write-off from the new water supply project in 2020. Interest expense was also lower in 2021 because a portion of debt that had higher interest rates was refinanced at the end of 2020 and in April of 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

Capital contributions decreased in 2022 by \$542,000 or 62.08% due to less developer-funded water projects being completed. In keeping with the negotiated schedule, the payment in lieu of taxes to the City increased \$52,000.

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

CASH FLOWS

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

Table 3
Condensed Statement of Cash Flows
2022, 2021, and 2020
(000's)

	2022	2021 (Restated)	2020	2022 v. 2021 Change		2021 v. 2020 Change	
Cash Flows From:							
Operating Activities	\$ 8,644	\$ 11,260	\$ 6,798	\$ (2,616)	(23.23) %	\$ 4,462	65.64 %
Paid to Municipality - Tax Equivalent	(2,146)	(2,023)	(2,059)	(123)	(6.08)	36	1.75
Capital and Related Financing Activities	(12,759)	(3,500)	(5,639)	(9,259)	(264.54)	2,139	37.93
Investing Activities	<u>778</u>	<u>114</u>	<u>189</u>	<u>664</u>	<u>582.46</u>	<u>(75)</u>	<u>(39.68)</u>
Net Change in Cash and Equivalents	(5,483)	5,851	(711)	(11,334)	(193.71)	6,562	922.93
Cash and Equivalents Beginning of Year	<u>42,081</u>	<u>36,230</u>	<u>36,941</u>	<u>5,851</u>	<u>16.15</u>	<u>(711)</u>	<u>(1.92)</u>
Cash and Equivalents End of Year	<u><u>\$ 36,598</u></u>	<u><u>\$ 42,081</u></u>	<u><u>\$ 36,230</u></u>	<u><u>\$ (5,483)</u></u>	<u><u>(13.03) %</u></u>	<u><u>\$ 5,851</u></u>	<u><u>16.15 %</u></u>

Year-end Cash and Equivalents decreased by \$5,483,000 in 2022 as a result of an increase in capital expenditures, including those for the water supply project currently being constructed.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

CAPITAL ASSETS

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

Table 4
Capital Assets
2022, 2021, and 2020
(000's)

	2022	2021 (Restated)	2020	2022 v. 2021 Change		2021 v. 2020 Change	
Land & Land Rights	\$ 566	\$ 566	\$ 566	\$ -	- %	\$ -	- %
Intangible	436	430	201	6	1.40	229	113.93
Source of Supply	2,591	2,592	2,592	(1)	(0.04)	-	-
Pumping	10,224	10,052	9,951	172	1.71	101	1.01
Water Treatment	5,238	5,245	5,245	(7)	(0.13)	-	-
Transmission and Distribution	118,080	115,199	112,083	2,881	2.50	3,116	2.78
General	6,594	6,569	6,438	25	0.38	131	2.03
Total Capital Assets	143,729	140,653	137,076	3,076	2.19	3,577	2.61
Accumulated Depreciation	(42,215)	(39,849)	(37,556)	(2,366)	(5.94)	(2,293)	(6.11)
Construction in Progress	79,125	44,266	19,438	34,859	78.75	24,828	127.73
Net Capital Assets	<u>\$ 180,639</u>	<u>\$ 145,070</u>	<u>\$ 118,958</u>	<u>\$ 35,569</u>	<u>24.52 %</u>	<u>\$ 26,112</u>	<u>21.95 %</u>

The Utility's capital assets increased by \$3.076 million, or 2.19% in 2022. Increases in developer contributions totaled \$330,904. The balance of the increase relates to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$609,444 in assets were retired.

The Utility's capital assets increased by \$3.577 million, or 2.61% in 2021. Increases in developer contributions totaled \$873,498. The balance of the increase relates to projects financed by the Utility that were put into service (including those transferred out of construction in progress), while \$722,000 in assets were retired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2022 and 2021

(Unaudited)

LONG-TERM DEBT

At the end of 2022, the Utility had revenue bonds of \$88.53 million outstanding, which included \$11.27 million in Safe Drinking Water (SDW) Loans issued in 2013, 2018 and 2019 and \$77.26 million in Water Infrastructure Finance and Innovation Act (WIFIA) Loans issued in 2020, 2021 and 2022 through the U.S. Environmental Protection Agency. At the end of 2021, the Utility had revenue bonds of \$74.84 million outstanding, which included \$11.88 million in SDW Loans and \$48.07 million in WIFIA Loans. The SDW and WIFIA loans were, and still are, being used to finance capital improvement projects necessary to secure an alternate source of water. The Utility had General Obligation (GO) debt outstanding of \$45.64 million in 2022 and \$30.02 million in 2021. The debt originated from offerings issued in 2013, 2014, 2015, and 2016, along with debt refinancings in 2020, 2021, & 2022. The GO debt funded past routine capital replacements and Great Water Alliance improvements.

For further detail, please refer to *Note 7 – Long Term Obligations* in the *Notes for Financial Statements*.

ECONOMIC FACTORS AND FUTURE PLANNING

The Utility's service area is located in southeast Wisconsin. Waukesha County is the third largest county in the State. The service area was experiencing a commercial and residential boom prior to the economic down-turn in late 2008. The economy began to stabilize in 2012 and has continued to improve since. The Coronavirus Pandemic did have a short-term impact on the Utility's financials in 2020, but the impact did lessen as the year progressed in 2021 and 2022.

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

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

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Cortney Nagel, Administrative Services Manager, Waukesha Water Utility, 115 Delafield Street, P.O. 1648, Waukesha, Wisconsin 53187-1648, by phone at (262) 409-4426, or by email cnagel@waukesha-water.com.

Waukesha Water Utility

Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 18,231,952	\$ 24,994,200
Other special accounts	16,355,143	15,482,804
Restricted assets:		
Redemption account	2,011,063	1,603,536
Customer accounts receivable	2,598,680	2,473,146
Unbilled revenues	1,323,207	1,232,654
Other accounts receivable	2,267,013	126,628
Due from municipality	-	325,500
Due from sewer utility	1,697,353	6,005,974
Materials and supplies	396,982	377,839
Prepayments	195,235	181,441
Current portion of lease receivable	256,171	248,712
Total current assets	<u>45,332,799</u>	<u>53,052,434</u>
Noncurrent Assets		
Restricted assets:		
Net pension asset	1,071,154	818,011
Other assets:		
Preliminary survey and investigation	1,917,285	2,875,617
Lease receivable	2,587,557	2,843,728
Property held for future use	2,935,090	2,935,090
Capital assets:		
Plant in service	143,729,143	140,652,910
Accumulated depreciation/amortization	(42,214,943)	(39,848,637)
Construction work in progress	79,124,461	44,266,074
Total noncurrent assets	<u>189,149,747</u>	<u>154,542,793</u>
Total assets	<u>234,482,546</u>	<u>207,595,227</u>
Deferred Outflows of Resources		
Unamortized loss on advance refunding	553,786	651,595
Deferred outflows related to pension	2,160,516	1,449,930
Deferred outflows related to OPEB	1,087,635	1,227,740
Total deferred outflows of resources	<u>3,801,937</u>	<u>3,329,265</u>

See notes to the financial statements.

Waukesha Water Utility

Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 6,220,447	\$ 11,358,829
Due to municipality	2,198,386	2,146,102
Due to sewer utility	3,264,266	2,863,867
Customer deposits	160,422	164,825
Accrued wages	57,621	59,380
Accrued interest	358,524	284,913
Accrued vacation leave	198,337	207,759
Conservation programs	105,675	121,296
Current portion of general obligation debt	2,015,000	1,855,000
Current portion of lease liability	36,782	34,855
Current liabilities payable from restricted assets:		
Current portion of revenue bonds	619,607	608,025
Accrued interest	<u>181,181</u>	<u>155,963</u>
Total current liabilities	<u>15,416,248</u>	<u>19,860,814</u>
Noncurrent Liabilities		
General obligation debt	43,625,000	28,165,000
Revenue bonds	87,908,027	74,228,074
Lease liability	106,502	143,284
Unamortized bond premium	1,654,900	1,179,123
Customer advances for construction	-	50,221
Other post-employment benefits liability	<u>4,442,722</u>	<u>5,174,100</u>
Total noncurrent liabilities	<u>137,737,151</u>	<u>108,939,802</u>
Total liabilities	<u>153,153,399</u>	<u>128,800,616</u>
Deferred Inflows of Resources		
Deferred inflows related to pension	2,606,689	1,893,017
Deferred inflows related to OPEB	940,921	435,449
Deferred inflows related to leases	<u>2,843,728</u>	<u>3,092,440</u>
Total deferred inflows of resources	<u>6,391,338</u>	<u>5,420,906</u>
Net Position		
Total net investment in capital assets	50,079,004	45,319,288
Restricted for:		
Debt service	1,829,882	1,447,573
Pension	1,071,154	818,011
Unrestricted	<u>25,759,706</u>	<u>29,118,098</u>
Total net position	<u>\$ 78,739,746</u>	<u>\$ 76,702,970</u>

See notes to the financial statements.

Waukesha Water Utility

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Operating Revenues		
Sales of water	\$ 12,884,573	\$ 13,316,326
Other	<u>571,763</u>	<u>186,750</u>
Total operating revenues	<u>13,456,336</u>	<u>13,503,076</u>
Operating Expenses		
Operation and maintenance	5,041,025	5,035,672
Depreciation and amortization	<u>2,839,226</u>	<u>2,815,086</u>
Total operating expenses	<u>7,880,251</u>	<u>7,850,758</u>
Operating Income	<u>5,576,085</u>	<u>5,652,318</u>
Nonoperating Expenses		
Investment income	778,414	114,349
Income from merchandising and jobbing	14,552	6,193
Other nonoperating revenues	9,143	5,710
Interest expense	(2,139,026)	(1,618,971)
Amortization of premium	129,656	179,725
Amortization of loss on advance refunding	(97,809)	(97,809)
Debt issuance costs	(253,860)	(108,832)
Lobbying expense	<u>(112,897)</u>	<u>(110,967)</u>
Total nonoperating expenses	<u>(1,671,827)</u>	<u>(1,630,602)</u>
Income before contributions and transfers	3,904,258	4,021,716
Capital Contributions	330,904	873,498
Capital Contributions, Municipal	-	3,786
Transfers, Tax Equivalent	<u>(2,198,386)</u>	<u>(2,146,102)</u>
Change in net position	2,036,776	2,752,898
Net Position, Beginning	76,702,970	73,950,072
Net Position, Ending	<u>\$ 78,739,746</u>	<u>\$ 76,702,970</u>

See notes to the financial statements.

Waukesha Water Utility

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Cash Flows From Operating Activities		
Received from customers	\$ 13,657,628	\$ 15,834,429
Paid to suppliers for goods and services	(3,061,815)	(2,630,272)
Paid to employees for operating payroll	<u>(1,951,309)</u>	<u>(1,944,593)</u>
Net cash flows from operating activities	<u>8,644,504</u>	<u>11,259,564</u>
Cash Flows From Noncapital Financing Activities		
Paid to municipality for tax equivalent	<u>(2,146,102)</u>	<u>(2,023,579)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(40,298,294)	(24,333,810)
Received from the sale of capital assets	-	877,418
Cost of removal of capital assets	(74,788)	(46,003)
Salvage on retirement of plant	25,828	65,592
Lease payments	(34,855)	(34,855)
Premium on long term debt	605,433	219,525
Debt retired	(20,308,026)	(10,666,662)
Interest paid	(2,040,197)	(1,443,302)
Proceeds from debt issue	49,619,561	31,970,455
Debt issuance costs	<u>(253,860)</u>	<u>(108,832)</u>
Net cash flows from capital and related financing activities	<u>(12,759,198)</u>	<u>(3,500,474)</u>
Cash Flows From Investing Activities		
Investment income	<u>778,414</u>	<u>114,349</u>
Net change in cash and cash equivalents	(5,482,382)	5,849,860
Cash and Cash Equivalents, Beginning	<u>42,080,540</u>	<u>36,230,680</u>
Cash and Cash Equivalents, Ending	<u>\$ 36,598,158</u>	<u>\$ 42,080,540</u>
Noncash Capital and Related Financing Activities		
Municipality financed additions to utility plant	<u>\$ -</u>	<u>\$ 3,786</u>
Contributed capital assets	<u>\$ 330,904</u>	<u>\$ 873,498</u>
Amortization of premium	<u>\$ 129,656</u>	<u>\$ 179,725</u>

See notes to the financial statements.

Waukesha Water Utility

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income	\$ 5,576,085	\$ 5,652,318
Nonoperating revenue (expense)	(89,203)	(99,064)
Noncash items in operating income:		
Depreciation	2,839,226	2,815,086
Depreciation charged to clearing and other utilities	185,484	180,142
Other post-employment benefit obligation	-	36,884
Amortization of preliminary survey and investigation	958,332	958,332
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Customer accounts receivable	(216,087)	2,431,403
Materials and supplies	(19,143)	(23,488)
Prepayments	(13,794)	(13,139)
Pension related deferrals and assets	(335,858)	(218,600)
Conservation programs	(15,621)	43,168
Accounts payable	(935,232)	6,608,774
Customer deposits	(4,403)	(101,258)
Accrued liabilities	(11,181)	537
Due from/to municipality/sewer	<u>725,899</u>	<u>(7,011,531)</u>
Net cash flows from operating activities	<u>\$ 8,644,504</u>	<u>\$ 11,259,564</u>
Reconciliation of Cash and Cash Equivalents to Statements of Net Position Accounts		
Cash and investments	\$ 18,231,952	\$ 24,994,200
Redemption account	2,011,063	1,603,536
Other special accounts	<u>16,355,143</u>	<u>15,482,804</u>
Cash and cash equivalents	<u>\$ 36,598,158</u>	<u>\$ 42,080,540</u>

See notes to the financial statements.

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

The financial statements of Waukesha 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 Waukesha (Municipality). The Utility is managed by a utility commission. The Utility provides water service to properties within the Municipality.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Utility's leasing activities. The Utility adopted this statement effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented.

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

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

Deposits and Investments

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

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

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.

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. Fair 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.

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

Other Special Accounts

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

	<u>2022</u>	<u>2021</u>
Equipment replacement account	\$ 13,520,257	\$ 13,267,738
Tax equivalent account	<u>2,834,886</u>	<u>2,215,066</u>
Total	<u>\$ 16,355,143</u>	<u>\$ 15,482,804</u>

Prepayments

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

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to Utility plant construction. The balance will be capitalized upon commencement of the project or is amortized over a useful life established by the PSCW. The Utility amortized \$958,332 in 2022 and 2021.

Property Held for Future Use

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

Capital Assets

Capital assets, including right-to-use lease assets, are generally defined by the Utility as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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	34-55
Pumping	23-31
Water treatment	30-31
Transmission and distribution	18-77
General	4-34

Lease assets are typically amortized over the lease term.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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

Deferred Outflow of Resources

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

Accrued Vacation Leave

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

Customer Advances for Construction

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

Customer Deposits

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

Conservation Programs

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

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

Long-Term Obligations

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

Leases

The Utility is a lessor because it leases capital assets to other entities. As a lessor, the Utility reports a lease receivable and corresponding deferred inflow of resources in the financial statements. The Utility continues to report and depreciate the capital assets being leased as capital assets.

The Utility is a lessee because it leases capital assets from other entities. As a lessee, the Utility reports a lease liability and an intangible right-to-use capital asset (known as the lease asset) in the financial statements.

Deferred Inflows of Resources

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

Revenues and Expenses

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

Sales of Water

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

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

Capital Contributions

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

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

Effect of New Accounting Standards on Current Period Financial Statements

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

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*

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

Comparative Data

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

2. Deposits and Investments

	Carrying Value as of December 31,		Risks
	2022	2021	
Checking, savings and sweep	\$ 2,062,718	\$ 5,366,975	Custodial credit risk
Local Government Investment	34,534,077	36,712,520	Credit risk
Pool			
Petty cash	<u>1,363</u>	<u>1,045</u>	N/A
Total	<u>\$ 36,598,158</u>	<u>\$ 42,080,540</u>	

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

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

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

In addition, the Utility has collateral or depository insurance agreements in the amount of \$3,720,652 and \$6,299,599 at December 31, 2022 and 2021 respectively.

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2022 and 2021, the fair value of the LGIP's assets were substantially equal to the Utility's share.

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

Custodial Credit Risk

Deposits

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

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

	2022		2021	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Waukesha State Bank	\$ 4,370,651	\$ 2,027,638	\$ 5,694,904	\$ 5,359,134
Chase Bank	35,080	35,080	7,841	7,841
Total	<u>\$ 4,405,731</u>	<u>\$ 2,062,718</u>	<u>\$ 5,702,745</u>	<u>\$ 5,366,975</u>

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

Investments

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

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

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

Credit Risk

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

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

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

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

3. Interfund Receivables/Payables and Transfers

The following is a schedule of interfund balances for the years ending December 31, 2022 and 2021:

Due To	Due From	2022		2021	
		Amount	Principal Purpose	Amount	Principal Purpose
Water Utility	Municipality	\$ -		\$ 325,500	Capital projects
Water Utility	Sewer Utility	1,697,353	Capital project	6,005,974	Capital projects
Municipality	Water Utility	2,198,386	Tax equivalent	2,146,102	Tax equivalent
Sewer Utility	Water Utility	3,264,266	Amounts billed for sewer utility	2,863,867	Amounts billed for sewer utility

The following is a schedule of transfer balances for the years ending December 31, 2022 and 2021:

To	From	2022		2021	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water Utility	\$ 2,198,386	Tax equivalent	\$ 2,146,102	Tax equivalent

4. Restricted Assets

Restricted Accounts

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

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

Net Pension Asset

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

Restricted Net Position

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

	2022	2021
Restricted assets:		
Restricted assets:	\$ 2,011,063	\$ 1,603,536
	<u>1,071,154</u>	<u>818,011</u>
Total restricted assets	3,082,217	2,421,547
Current liabilities payable from restricted assets	<u>(181,181)</u>	<u>(155,963)</u>
Total restricted net position as calculated	<u>\$ 2,901,036</u>	<u>\$ 2,265,584</u>

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

The purpose of the restricted net position is as follows:

	<u>2022</u>	<u>2021</u>
Debt service	\$ 1,829,882	\$ 1,447,573
Net pension asset	<u>1,071,154</u>	<u>818,011</u>
Total restricted net position	<u>\$ 2,901,036</u>	<u>\$ 2,265,584</u>

5. Changes in Capital Assets

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

	<u>Balance 1/1/22</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/22</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	<u>217,429</u>	<u>5,226</u>	<u>-</u>	<u>222,655</u>
Total capital assets not being depreciated	<u>782,987</u>	<u>5,226</u>	<u>-</u>	<u>788,213</u>
Capital assets being depreciated:				
Lease assets	212,994	-	-	212,994
Source of supply	2,591,773	-	-	2,591,773
Pumping	10,052,490	266,190	94,309	10,224,371
Water treatment	5,244,634	-	6,699	5,237,935
Transmission and distribution	115,199,103	3,366,615	486,187	118,079,531
General	<u>6,568,929</u>	<u>47,646</u>	<u>22,249</u>	<u>6,594,326</u>
Total capital assets being depreciated	<u>139,869,923</u>	<u>3,680,451</u>	<u>609,444</u>	<u>142,940,930</u>
Total capital assets	<u>140,652,910</u>	<u>3,685,677</u>	<u>609,444</u>	<u>143,729,143</u>
Less accumulated depreciation:				
Lease assets	(34,855)	(34,855)	-	(69,710)
Source of supply	(1,834,667)	(19,515)	-	(1,854,182)
Pumping	(4,184,573)	(389,898)	123,111	(4,451,360)
Water treatment	(2,967,273)	(209,877)	6,699	(3,170,451)
Transmission and distribution	(26,600,557)	(2,070,801)	528,784	(28,142,574)
General	<u>(4,226,712)</u>	<u>(322,203)</u>	<u>22,249</u>	<u>(4,526,666)</u>
Total accumulated depreciation	<u>(39,848,637)</u>	<u>(3,047,149)</u>	<u>680,843</u>	<u>(42,214,943)</u>
Construction in progress	<u>44,266,074</u>	<u>38,066,186</u>	<u>3,207,799</u>	<u>79,124,461</u>
Net capital assets	<u>\$145,070,347</u>			<u>\$180,638,661</u>

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

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

	Balance 1/1/21	Increases	Decreases	Balance 12/31/21
Capital assets, not being depreciated:				
Land and land rights	\$ 565,558	\$ -	\$ -	\$ 565,558
Intangible	<u>200,739</u>	<u>16,690</u>	<u>-</u>	<u>217,429</u>
Total capital assets not being depreciated	<u>766,297</u>	<u>16,690</u>	<u>-</u>	<u>782,987</u>
Capital assets being depreciated:				
Lease asset	-	212,994	-	212,994
Source of supply	2,591,773	-	-	2,591,773
Pumping	9,951,371	127,636	26,517	10,052,490
Water treatment	5,244,634	-	-	5,244,634
Transmission and distribution	112,083,280	3,671,390	555,567	115,199,103
General	<u>6,438,224</u>	<u>270,877</u>	<u>140,172</u>	<u>6,568,929</u>
Total capital assets being depreciated	<u>136,309,282</u>	<u>4,282,897</u>	<u>722,256</u>	<u>139,869,923</u>
Total capital assets	<u>137,075,579</u>	<u>4,299,587</u>	<u>722,256</u>	<u>140,652,910</u>
Less accumulated depreciation:				
Lease asset	-	(34,855)	-	(34,855)
Source of supply	(1,782,936)	(51,731)	-	(1,834,667)
Pumping	(3,825,927)	(385,163)	26,517	(4,184,573)
Water treatment	(2,757,195)	(210,078)	-	(2,967,273)
Transmission and distribution	(25,156,240)	(2,034,666)	590,349	(26,600,557)
General	<u>(4,033,778)</u>	<u>(344,327)</u>	<u>151,393</u>	<u>(4,226,712)</u>
Total accumulated depreciation	<u>(37,556,076)</u>	<u>(3,060,820)</u>	<u>768,259</u>	<u>(39,848,637)</u>
Construction in progress	<u>19,438,574</u>	<u>27,013,728</u>	<u>2,186,228</u>	<u>44,266,074</u>
Net capital assets	<u>\$118,958,077</u>			<u>\$145,070,347</u>

Additional disclosures of the lease assets are included in the Lease Disclosure note.

Waukesha Water Utility

Notes to Financial Statements
December 31, 2022 and 2021

6. Lease Disclosures

Lessee - Lease Assets

	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Water Utility				
Lease assets being amortized:				
Easement, leased	\$ 212,994	\$ -	\$ -	\$ 212,994
Total lease assets being amortized	212,994	-	-	212,994
Less accumulated amortization for lease assets:				
Easement, leased	(34,855)	(34,855)	-	(69,710)
Total accumulated amortization	(34,855)	(34,855)	-	(69,710)
Total governmental activities lease assets, net of accumulated amortization	\$ 178,139	\$ (34,855)	\$ -	\$ 143,284

	Balance 1/1/2021	Adjustments*	Additions	Deletions	Balance 12/31/2021
Water Utility					
Lease assets being amortized:					
Easement, leased	\$ -	\$ 212,994	\$ -	\$ -	\$ 212,994
Total lease assets being amortized	-	212,994	-	-	212,994
Less accumulated amortization for lease assets:					
Easement, leased	-	-	(34,855)	-	(34,855)
Total accumulated amortization	-	-	(34,855)	-	(34,855)
Total governmental activities lease assets, net of accumulated amortization	\$ -	\$ 212,994	\$ (34,855)	\$ -	\$ 178,139

*Implementation of GASB 87 in current year

Lessee - Lease Liabilities

Lease Liabilities Description	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/22
Water tower easement	2012	2027	2.15%	\$ -	\$ 81,795
Water tower easement	2011	2025	2.15	-	61,489
Total lease liabilities					\$ 143,284

Waukesha Water Utility

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Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 36,782	\$ 3,060	\$ 39,842
2024	38,321	2,270	40,591
2025	39,924	1,447	41,371
2026	20,488	590	21,078
2027	7,769	150	7,919
Total	<u>\$ 143,284</u>	<u>\$ 7,517</u>	<u>\$ 150,801</u>

Lessor - Lease Receivables and Deferred Inflows of Resources

<u>Lease Receivables Description</u>	<u>Date of Inception</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Receivable Balance 12/31/22</u>	<u>Receivable Balance 12/31/21</u>
Water tower lease	2015	2044	2.15%	\$ 1,290,013	\$ 1,306,490
Water tower lease	2012	2026	2.15	169,430	209,585
Water tower lease	2012	2027	2.15	206,492	245,169
Water tower lease	2015	2030	2.15	345,951	380,848
Water tower lease	2015	2030	2.15	340,062	375,084
Water tower lease	2015	2030	2.15	340,062	375,084
Water tower lease	2011	2025	2.15	151,718	200,180
Total activities				<u>\$ 2,843,728</u>	<u>\$ 3,092,440</u>

The Utility recognized \$252,897 and \$248,713 of lease revenue during 2022 and 2021, respectively.

The Utility recognized \$60,820 and 60,820 of interest revenue during 2022 and 2021, respectively.

7. Long-Term Obligations

General Obligation Debt

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/22</u>
05/23/2013	2013 G.O. Refunding Bonds	10/01/2032	2 %	\$ 10,085,000	\$ 865,000
04/08/2014	2014 G.O. Refunding Bonds	10/01/2033	2	4,600,000	520,000
05/12/2015	2015 G.O. Refunding Bonds	10/01/2034	2	5,415,000	4,340,000
05/10/2016	2016 G.O. Refunding Bonds	10/01/2035	3	6,280,000	5,620,000
12/03/2020	2020 G.O. Refunding Bonds	10/01/2033	2	9,050,000	8,700,000
04/20/2021	2021 G.O. Refunding Bonds	10/01/2040	2	8,120,000	8,120,000
10/20/2022	2022 G.O. Refunding Bonds	10/01/2042	5	17,475,000	17,475,000

Waukesha Water Utility

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Revenue bonds debt service requirements to maturity follows:

<u>Years Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,015,000	\$ 1,474,793	\$ 3,489,793
2024	2,085,000	1,442,952	3,527,952
2025	2,850,000	1,397,761	4,247,761
2026	2,930,000	1,322,151	4,252,151
2027	3,015,000	1,237,579	4,252,579
2028-2032	10,775,000	4,882,054	15,657,054
2033-2037	12,185,000	2,982,106	15,167,106
2038-2042	9,785,000	842,231	10,627,231
Total	<u>\$ 45,640,000</u>	<u>\$ 15,581,627</u>	<u>\$ 61,221,627</u>

Revenue Debt - Direct Placement

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/22</u>
05/07/2013	Capital improvements	05/01/2033	2 %	\$ 1,117,601	\$ 668,533
06/27/2018	Capital improvements	05/01/2038	2	679,774	563,189
03/27/2019	Capital improvements	03/27/2038	2	8,863,261	7,673,676
12/11/2019	Capital improvements	05/01/2039	2	2,333,343	2,364,001
08/06/2020	Capital improvements (WIFIA Loan)	5/1/2058	1	137,100,000	77,258,235
04/02/2018	Bond Anticipation Notes - cap. improve.	04/01/2023	-	32,800,000	-

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

Revenue bonds debt service requirements to maturity follows:

<u>Years Ending December 31:</u>	<u>Revenue Debt - Direct Placement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 619,607	\$ 1,100,731	\$ 1,720,338
2024	631,410	1,092,724	1,724,134
2025	720,697	1,080,132	1,800,829
2026	732,956	1,066,859	1,799,815
2027	745,450	1,053,350	1,798,800
2028-2032	7,708,841	4,953,773	12,662,614
2033-2037	8,551,629	4,340,186	12,891,815
2038-2042	11,128,320	3,723,134	14,851,454
2043-2047	16,718,682	2,866,302	19,584,984
2048-2052	17,877,556	1,863,370	19,740,926
2053-2057	19,113,687	790,893	19,904,580
2058	3,978,799	23,077	4,001,876
Total	<u>\$ 88,527,634</u>	<u>\$ 23,954,531</u>	<u>\$112,482,165</u>

Waukesha Water Utility

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Revenue Debt - Direct Placement

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 2022 and 2021 were \$828,162 and \$828,271, respectively. Total customer gross revenues as defined for the same periods were \$14,258,445 and \$13,629,328. Annual principal and interest payments are expected to require 23% of gross revenues on average.

Bond Anticipation Notes - Variable Rate

On April 2, 2018, the Water Utility issued \$32.8 million of Bond Anticipation Notes (BAN) to fund \$31.1 million of permitting and design costs for the Great Water Alliance project through 2019 and to refund \$1.7 million of 2008 revenue bonds, when the bonds became callable in 2018. The BAN is considered a draw-bond debt instrument where the Utility can be reimbursed for project costs as incurred. The BAN has a final maturity of April 1, 2023 and has a variable interest rate, reset monthly, tied to the 30-day LIBOR rate. At December 31, 2022, the amount outstanding from this debt issue is \$0. The average interest rate from January 2022 through December 2022 is 0.9224%. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available loan amount at the average annual interest rate.

Long-Term Obligations - Summary

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

	<u>1/1/22 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/22 Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ 30,020,000	\$ 17,475,000	\$ 1,855,000	\$ 45,640,000	\$ 2,015,000
Revenue bonds, direct borrowings	74,836,099	32,144,561	18,453,026	88,527,634	619,607
Customer advances for construction	50,221	-	50,221	-	-
Unamortized premium on debt	1,179,123	605,433	129,656	1,654,900	-
Other post-employment benefits liability	5,174,100	-	731,378	4,442,722	-
Lease liability	<u>178,139</u>	<u>-</u>	<u>34,855</u>	<u>143,284</u>	<u>36,782</u>
Total	<u>\$111,437,682</u>	<u>\$ 50,224,994</u>	<u>\$ 21,254,136</u>	<u>\$140,408,540</u>	<u>\$ 2,671,389</u>

Waukesha Water Utility

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

	<u>1/1/21 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/21 Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ 31,970,000	\$ 8,120,000	\$ 10,070,000	\$ 30,020,000	\$ 1,855,000
Revenue bonds, direct borrowings	51,582,306	23,850,455	596,662	74,836,099	608,025
Customer advances for construction	21,102	50,221	21,102	50,221	-
Unamortized premium on debt	1,139,323	219,525	179,725	1,179,123	-
Other post-employment benefits liability	5,349,159	503,517	678,576	5,174,100	-
Lease liability	-	212,994	34,855	178,139	34,855
Total	<u>\$ 90,061,890</u>	<u>\$ 32,956,712</u>	<u>\$ 11,580,920</u>	<u>\$ 111,437,682</u>	<u>\$ 2,497,880</u>

Bond Covenant Disclosures

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

Insurance

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

The Utility is covered under the following insurance policies at December 31, 2022:

<u>Type</u>	<u>Coverage</u>
General liability	\$ 10,000,000 Each occurrence
Automobile	10,000,000

Waukesha Water Utility

Notes to Financial Statements
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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 1.1 times the subsequent year debt service in 2022 and 2021 respectively. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2022 and 2021 respectively as follows:

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 13,456,336	\$ 13,503,076
Investment income	778,414	114,349
Miscellaneous nonoperating income	14,552	6,193
Other nonoperating revenues	9,143	5,710
Less operation and maintenance expenses	<u>(5,041,025)</u>	<u>(5,035,672)</u>
Net defined earnings	<u>\$ 9,217,420</u>	<u>\$ 8,593,656</u>
Minimum required earnings per resolution:		
2013 SDWLP rev bonds subsequent year debt service	\$ 67,487	\$ 67,497
2018 SDWLP rev. bonds subsequent year debt service	40,768	40,773
2019B SDWLP rev. bonds subsequent year debt service	560,190	560,269
2019E SDWLP rev. bonds subsequent year debt service	159,606	159,622
2020 WIFIA rev. bonds subsequent year debt service	892,287	550,011
2018 revenue bond anticipation noted calculated debt service 1	<u>-</u>	<u>683,647</u>
Subtotal	1,720,338	2,061,819
Coverage factor	<u>1.10</u>	<u>1.10</u>
Minimum required earnings	<u>\$ 1,892,372</u>	<u>\$ 2,268,001</u>
Actual debt coverage	<u>5.36</u>	<u>4.17</u>

1 - Loan is a variable rate draw bond debt instrument with a total availability of \$17.845 million remaining. For debt coverage requirements, net revenues must cover 110% of a 30-year amortization of the total available amount at the average annual interest rate. Average interest rate for January - October 2022 was 1.87%.

Number of Customers and Billed Volumes - Water

The Utility has the following number of customers and billed volumes for 2022 and 2021:

	<u>Customers</u>		<u>Sales (000 gals)</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Residential	18,109	17,958	831,323	927,702
Multifamily residential	956	1,026	350,955	394,207
Commercial	1,272	1,272	307,740	319,490
Industrial	142	146	132,963	137,808
Public authority	118	118	54,601	62,241
Irrigation	<u>150</u>	<u>142</u>	<u>6,485</u>	<u>11,538</u>
Total	<u>20,747</u>	<u>20,662</u>	<u>1,684,067</u>	<u>1,852,986</u>

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WIFIA Loan

On August 6, 2020, the Utility closed on a \$137,100,000 revenue debt issue through the Water Infrastructure Financing and Innovation Act (WIFIA) with the U.S. Environmental Agency. The loan will finance capital assets that will bring a new water supply to Waukesha, as noted in Note 11. For the years ended December 31, 2022, and 2021, the total amount of loan available for future project costs was reported at \$59,841,764 and \$89,030,357 respectively.

8. Net Position

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

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

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

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

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

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

	<u>2022</u>	<u>2021</u>
Total construction work in progress	\$ 79,124,461	\$ 44,266,074
Plant in service	143,729,143	140,652,910
Accumulated depreciation/amortization	(42,214,943)	(39,848,637)
Property held for future use	<u>2,935,090</u>	<u>2,935,090</u>
Subtotal	<u>183,573,751</u>	<u>148,005,437</u>
Less capital related debt:		
Current portion of capital related long-term debt	2,671,389	2,497,880
Long-term portion of capital related long-term debt	131,639,529	102,536,358
Preliminary survey and investigation funded with borrowing	(1,917,285)	(2,875,617)
Deferred Outflows of Resources	(553,786)	(651,595)
Unamortized premium	<u>1,654,900</u>	<u>1,179,123</u>
	<u>133,494,747</u>	<u>102,686,149</u>
	<u>\$ 50,079,004</u>	<u>\$ 45,319,288</u>

9. 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 December 31, 2016) are entitled to retirement benefit based on a formula factor, their average earnings and creditable service.

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

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

The WRS also provides death and disability benefits for employees.

Waukesha Water Utility

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

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2012	(7.0)	(7.0)
2013	(9.6)	9.0
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	(5.0)
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	(10.0)
2020	1.7	21.0
2021	5.1	13.0

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 \$155,310 and \$152,885 in contributions from the Utility during the current and prior reporting periods, respectively.

Contribution rates for the plan year reported as of December 31, 2022 and December 31, 2021 are:

	<u>2022</u>		<u>2021</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
General (including executives and elected officials)	6.75 %	6.75 %	6.75 %	6.75 %
Protective with Social Security	6.75	11.75	6.75	11.65
Protective without Social Security	6.75	16.35	6.75	16.25

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

At December 31, 2022, the Utility reported a liability (asset) of \$(1,071,154) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2020 rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net pension liability (asset) was based on the Utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2021, the City of Waukesha's proportion was .373075%, which was an increase of .00169% from its proportion measured as of December 31, 2020.

At December 31, 2021, the Utility reported a liability (asset) of \$(818,011) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net pension liability (asset) was based on the Utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the City of Waukesha's proportion was .37138%, which was an increase of .00830% from its proportion measured as of December 31, 2019.

For the years ended December 31, 2022 and 2021, the Utility recognized pension expense (revenue) of \$(94,747) and \$(65,715), respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	\$ 1,795,555	\$ 182,054
Changes in assumption	211,421	-
Net differences between project and actual earnings on pension plan	-	2,422,608
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,772	2,027
Employer contributions subsequent to the measurement date	150,768	-
Total	<u>\$ 2,160,516</u>	<u>\$ 2,606,689</u>

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

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

Waukesha Water Utility

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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:

2023	\$ (50,078)
2024	(293,423)
2025	(129,199)
2026	(124,241)
2027	-
Thereafter	-
Total	<u>\$ (596,941)</u>

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

	2022	2021
Actuarial Valuation Date:	December 31, 2020	December 31, 2019
Measurement Date of Net Pension Liability (Asset):	December 31, 2021	December 31, 2020
Experience Study:	January 1, 2018 - December 31, 2020, Published November 19, 2021	January 1, 2015 - December 31, 2017
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	Fair Value	Fair Value
Long-Term Expected Rate of Return:	6.8%	7.0%
Discount Rate:	6.8%	7.0%
Salary Increases:		
Wage Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table	Wisconsin 2018 Mortality Table
Post-Retirement Adjustments: *	1.7%	1.9%

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

Actuarial assumptions for the December 31, 2020 actuarial valuation are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from the prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, price inflation, mortality and separation rates. The total pension liability for December 31, 2021 is based upon a roll-forward of the liability calculated from the December 31, 2020 actuarial valuation.

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

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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, 2022 are summarized in the following table:

Asset Allocation Targets and Expected Returns¹ As of December 31, 2022			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Global Equities	52 %	6.8 %	4.2 %
Fixed Income	25	4.3	1.8
Inflation Sensitive	19	2.7	0.2
Real Estate	7	5.6	3.0
Private Equity/Debt	12	9.7	7.0
Total Core Fund ³	115	6.6	4.0
Variable Fund Asset			
U.S Equities	70	6.3	3.7
International Equities	30	7.2	4.6
Total Variable Fund	100	6.8	4.2

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

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

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

Waukesha Water Utility

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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, 2021 are summarized in the following table:

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

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

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

Single discount rate: A single discount rate of 6.80% and 7.00% was used to measure the total pension liability as of December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022, this single discount rate was based on the expected rate of return on pension plan investments of 6.80% and a long term bond rate of 1.84%. As of December 31, 2021, the single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a long term bond rate of 2.0%. (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, 2021 and 2020, respectively. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 6.80% (7.00% for 2021) expected rate of return implies that a dividend of approximately 1.7% (1.9% for 2021) 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.

Waukesha Water Utility

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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, 2022 follows:

	1% Decrease to Discount Rate (5.80%)	Current Discount Rate (6.80%)	1% Increase to Discount Rate (7.80%)
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 760,052	\$ (1,071,154)	\$ (2,389,263)

The sensitivity analysis as of December 31, 2021 follows:

	1% Decrease to Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase to Discount Rate (8.00%)
Waukesha Water Utility's proportionate share of the net position liability (asset)	\$ 778,663	\$ (818,011)	\$ (1,990,735)

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>.

10. Other Postemployment Benefits

General Information About the OPEB Plan

Plan description: The Utility's defined benefit OPEB plan, Waukesha Water Retiree Benefits 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.

Employees covered by benefit terms: At December 31, 2022 and 2021, the following employees were covered by the benefit terms:

	2022	2021
Inactive plan members or beneficiaries currently receiving benefit payments	14	14
Active plan members	27	27
	<u>41</u>	<u>41</u>

Waukesha Water Utility

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Total OPEB Liability

At December 31, 2022, the Utility's total OPEB liability of \$4,128,419 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date. At December 31, 2021, the Utility's total OPEB liability of \$4,929,768 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

	<u>2022</u>	<u>2021</u>
Discount rate	3.72%	2.06%
Salary increases	2.0%	2.0%
Actuarial cost method	Entry age	Entry age
Retirees' share of benefit-related costs	6.0% for 2022, decreasing 0.5% every two years to an ultimate rate of 5.0%	6.0% for 2022, decreasing 0.5% every two years to an ultimate rate of 5.0%

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances at December 31, 2020	<u>\$ 5,110,572</u>
Changes for the year:	
Service cost	32,691
Interest	137,955
Differences between expected and actual experience	(468,268)
Changes in assumptions or other inputs	304,873
Benefit payments	<u>(188,055)</u>
Net changes	<u>(180,804)</u>
Balances at December 31, 2021	<u>4,929,768</u>
Changes for the year:	
Service cost	37,101
Interest	99,468
Changes in assumptions or other inputs	(735,480)
Benefit payments	<u>(202,438)</u>
Net changes	<u>(801,349)</u>
Balances at December 31, 2022	<u><u>\$ 4,128,419</u></u>

Waukesha Water Utility

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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, 2022:

	1% Decrease to Discount Rate (2.7%)	Current Discount Rate (3.7%)	1% Increase to Discount Rate (4.7%)
Total OPEB liability	\$ 4,678,683	\$ 4,128,419	\$ 3,674,444

As of December 31, 2021:

	1% Decrease to Discount Rate (1.1%)	Current Discount Rate (2.1%)	1% Increase to Discount Rate (3.1%)
Total OPEB liability	\$ 5,662,762	\$ 4,929,768	\$ 4,330,821

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, 2022:

	1% Decrease (5.0% Decreasing to 4.0%)	Healthcare Cost Trend Rates (6.0% Decreasing to 5.0%)	1% Increase (7.0% Decreasing to 6.0%)
Total OPEB liability	\$ 3,635,511	\$ 4,128,419	\$ 4,718,117

As of December 31, 2021:

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

Waukesha Water Utility

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

For the year ended December 31, 2022 and 2021, the Utility recognized OPEB expense of \$506,457 and \$240,293, respectively. At December 31, 2022 and 2021, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2022</u>		<u>2021</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 69,314	\$ 324,846	\$ 77,978	\$ 396,557
Changes of assumptions or other inputs	<u>899,536</u>	<u>578,661</u>	<u>1,032,230</u>	<u>-</u>
Total	<u>\$ 968,850</u>	<u>\$ 903,507</u>	<u>\$ 1,110,208</u>	<u>\$ 396,557</u>

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

Years Ending December 31:

2023	\$ (87,172)
2024	(87,172)
2025	(87,172)
2026	(38,557)
2027	81,406
Thereafter	284,010

Local Retiree Life Insurance Fund (LRLIF)

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

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

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

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.

Waukesha Water Utility

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

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

Contribution rates for the plan year reported as of December 31, 2022 and 2021 are:

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

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

Life Insurance Member Contribution Rates* For the Plan Year		
Attained Age	Basic	Supplemental
Under 30	\$0.05	\$0.05
30-34	0.06	0.06
35-39	0.07	0.07
40-44	0.08	0.08
45-49	0.12	0.12
50-54	0.22	0.22
55-59	0.39	0.39
60-64	0.49	0.49
65-69	0.57	0.57

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

The LRLIF recognized \$1,089 and \$1,073 in contributions from the employer during the current and prior reporting periods, respectively.

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

At December 31, 2022, the Utility reported a liability of \$314,303 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020 rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2021, the Utility's proportion was 0.76090200%, which was an increase of 0.05286600% from its proportion measured as of December 31, 2020.

At December 31, 2021, the Utility reported a liability of \$244,331 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net OPEB liability was based on the Utility's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2020, the Utility's proportion was 0.70803600%, which was a decrease of 0.02172000% from its proportion measured as of December 31, 2019.

For the year ended December 31, 2022 and 2021, the Utility recognized OPEB expense (revenue) of \$38,285 and \$27,513, respectively.

At December 31, 2022 and 2021, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 16,305	\$ -	\$ 13,305
Net differences between projected and investment earnings on plan investments	4,362	-	4,235	-
Changes in actuarial assumptions	99,642	16,797	110,567	20,239
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,692	4,312	1,657	5,348
Employer contributions subsequent to the measurement date	1,089	-	1,073	-
Total	<u>\$ 118,785</u>	<u>\$ 37,414</u>	<u>\$ 117,532</u>	<u>\$ 38,892</u>

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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>
2023	\$ 17,584
2024	17,089
2025	15,690
2026	19,012
2027	8,855
Thereafter	2,052

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>2022</u>	<u>2021</u>
Actuarial Valuation Date:	January 1, 2021	January 1, 2020
Measurement Date of Net OPEB Liability (Asset):	December 31, 2021	December 31, 2020
Experience Study:	January 1, 2018 - December 31, 2020, Published November 19, 2021	January 1, 2015 - December 31, 2017
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield:	2.06%	2.12%
Long-Term Expected Rate of Return:	4.25%	4.25%
Discount Rate:	2.17%	2.25%
Salary Increases:		
Wage Inflation	3.00%	3.00%
Seniority/Merit	0.10% - 5.6%	0.10% - 5.6%
Mortality:	2020 WRS Experience Mortality Table	Wisconsin 2018 Mortality Table

Actuarial assumptions for the January 1, 2021 actuarial valuation are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the Total OPEB Liability changed from the prior year, including the price inflation, mortality and separation rates. The Total OPEB Liability for December 31, 2021 is based upon a roll-forward of the liability calculated from the January 1, 2021 actuarial valuation.

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

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

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

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

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

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

The long-term expected rate of return remained unchanged from the prior year at 4.25%. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The expected inflation rate increased from 2.20% as of December 31, 2020 to 2.30% as of December 31, 2021.

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Single discount rate: A single discount rate was used to measure the total OPEB liability (2.17% for 2022 and 2.25% for 2021). The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.12% as of December 31, 2020 to 2.06% as of December 31, 2021. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

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

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

As of December 31, 2022:

	<u>1% Decrease to Discount Rate (1.17%)</u>	<u>Current Discount Rate (2.17%)</u>	<u>1% Increase to Discount Rate (3.17%)</u>
The Utility's proportionate share of the net OPEB liability (asset)	\$ 426,393	\$ 314,303	\$ 229,956

As of December 31, 2021:

	<u>1% Decrease to Discount Rate (1.25%)</u>	<u>Current Discount Rate (2.25%)</u>	<u>1% Increase to Discount Rate (3.25%)</u>
The Utility's proportionate share of the net OPEB liability (asset)	\$ 332,260	\$ 244,332	\$ 177,757

11. 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.

Compliance With Drinking Water Standards

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

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

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

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

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

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

Waukesha Water Utility

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

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

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

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

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

The Utility entered into construction contracts related to the water supply project totaling \$83,117,389, net of change orders. As of December 31, 2022 and 2021, \$51,607,901 and \$21,988,912 has been completed on those contracts, respectively.

Intergovernmental Agreement for Construction

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

In return, the City of Waukesha will receive the necessary permits required to construct pipeline through the City of New Berlin in a timely manner and a total intergovernmental payment of \$2.0 million. This amount will be paid in three annual payments from 2021 through 2023. With construction beginning, the first and second annual payment was received by the Waukesha Water Utility in 2021 and 2022, respectively.

12. Subsequent Events

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

Waukesha Water Utility

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13. Restatement of Net Position

The Utility adopted GASB No. 87 effective January 1, 2022. The cumulative effect of implementation is reflected as a change in the following balances at January 1, 2021.

	As Originally Reported 12/31/21	Adjustment for GASB No. 87	As Restated 12/31/21
Current portion of lease receivable	\$ -	\$ 248,712	\$ 248,712
Lease receivable	-	2,843,728	2,843,728
Deferred inflows related to leases	-	3,092,440	3,092,440
Plant in service	140,439,916	212,994	140,652,910
Accumulated depreciation/amortization	39,813,782	34,855	39,848,637
Current portion of lease liability	-	34,855	34,855
Lease liability	-	143,284	143,284
Depreciation	2,780,231	34,855	2,815,086
Investment income	53,529	60,820	114,349
Interest expense	1,615,294	3,677	1,618,971
Other operating revenue	209,038	22,288	186,750

REQUIRED SUPPLEMENTARY INFORMATION

Waukesha Water Utility

Schedule of Changes in Total OPEB Liability and Related Ratios

Health Insurance

Years Ended December 31, 2022 and 2021

(Unaudited)

	2022	2021	2020	2019	2018	2017
Total OPEB Liability						
Service cost	\$ 37,101	\$ 32,691	\$ 36,128	\$ 41,084	\$ 32,988	\$ 35,013
Interest	99,468	137,955	142,201	109,623	137,865	135,768
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	-	(468,268)	-	103,970	-	-
Changes in assumptions or other inputs	(735,480)	304,873	-	1,032,061	-	-
Benefit payments	(202,438)	(188,055)	(168,393)	(131,291)	(136,107)	(104,412)
Net change in Total OPEB Liability	(801,349)	(180,804)	9,936	1,155,447	34,746	66,369
Total OPEB Liability, Beginning	4,929,768	5,110,572	5,100,636	3,945,189	3,910,443	3,844,074
Total OPEB Liability, Ending	<u>\$ 4,128,419</u>	<u>\$ 4,929,768</u>	<u>\$ 5,110,572</u>	<u>\$ 5,100,636</u>	<u>\$ 3,945,189</u>	<u>\$ 3,910,443</u>
Covered Employee Payroll	\$ 2,319,502	\$ 2,320,086	\$ 2,233,436	\$ 2,276,756	\$ 2,233,038	\$ 2,118,960
Total OPEB liability as a percentage of covered-employee payroll	177.99%	212.48%	228.82%	224.03%	176.67%	184.55%

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

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

See notes to required supplementary information

Waukesha Water Utility

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

Local Retiree Life Insurance Fund (LRLIF)

Years Ended December 31, 2022 and 2021

(Unaudited)

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

WRS Year End Date	Proportion of the Net OPEB Liability (Asset) - City	Utility's Proportionate Share of the Net OPEB Liability (Asset)	Covered Payroll	Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
12/31/22	0.76090200%	\$ 314,303	2,300,885	13.66%	29.57%
12/31/21	0.70803600%	244,331	2,264,947	10.79%	31.36%
12/31/20	0.72975400%	238,586	2,253,048	10.59%	37.58%
12/31/19	0.73424800%	139,353	2,184,218	6.38%	48.69%
12/31/18	0.72034700%	159,404	2,145,520	7.43%	44.81%

Schedule of Employer Contributions - OPEB

Local Retiree Life Insurance Fund (LRLIF)

Years Ended December 31, 2022 and 2021

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
12/31/22	\$ 1,111	\$ 1,111	\$ -	\$ 2,319,502	0.05%
12/31/21	1,073	1,073	-	2,300,885	0.05%
12/31/20	887	887	-	2,264,947	0.04%
12/31/19	1,111	1,111	-	2,253,048	0.05%
12/31/18	1,044	1,044	-	2,184,218	0.05%

Waukesha Water Utility

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

Wisconsin Retirement System

Years Ended December 31, 2022 and 2021

(Unaudited)

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

WRS Year End Date	Proportion of the Net Pension Liability (Asset) - City	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
12/31/22	0.37307520%	\$ (1,071,154)	\$ 2,300,885	46.55%	106.02%
12/31/21	0.37138155%	(818,011)	2,264,947	36.12%	105.26%
12/31/20	0.36307909%	(437,465)	2,253,044	19.42%	102.96%
12/31/19	0.35375569%	478,201	2,184,218	21.89%	96.45%
12/31/18	0.34296598%	(403,325)	2,145,520	18.80%	102.93%
12/31/17	0.33494529%	120,942	2,171,284	5.57%	99.12%
12/31/16	0.33038575%	225,396	1,979,742	11.39%	98.20%
12/31/15	0.33058285%	(344,769)	1,956,957	17.62%	102.74%

Schedule of Employer Contributions - Wisconsin Retirement System

Years Ended December 31, 2022 and 2021

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
12/31/22	\$ 150,768	\$ 150,768	\$ -	\$ 2,319,502	6.50%
12/31/21	155,310	155,310	-	2,300,885	6.75%
12/31/20	152,885	152,885	-	2,264,947	6.75%
12/31/19	147,575	147,575	-	2,253,044	6.55%
12/31/18	146,343	146,343	-	2,184,218	6.70%
12/31/17	145,898	145,898	-	2,145,520	6.80%
12/31/16	143,305	143,305	-	2,171,284	6.60%
12/31/15	134,622	134,622	-	1,979,742	6.80%

See notes to required supplementary information

Waukesha Water Utility

Notes to Required Supplementary Information
Years Ended December 31, 2022 and 2021
(Unaudited)

Health Insurance

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

Methods and assumptions used to determine the total OPEB liability:

Actuarial cost method	Entry age normal
Asset valuation	Fair market value
Inflation	2.25%
Healthcare cost trend rates	6.0% in 2022, decreasing 0.5% every 2 years to an ultimate rate of 5.0%
Salary increases	2.0%, average, including inflation
Investment rate of return	3.72%
Retirement age	Expected retirement ages of employees were developed from a 2018 Experience Study
Mortality	Wisconsin 2020 WRS Experience Mortality Table

Local Retiree Life Insurance Fund (LRLIF)

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

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

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

Changes in assumptions.

	2018	2019	2020	2021	2022
20 Year tax-exempt municipal bond yield	3.4%	4.1%	2.7%	2.1%	2.1%
Salary increases					
Inflation	3.2%	3.0%	3.0%	3.0%	3.0%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%	0.1% - 5.6%	0.1% - 5.6%	0.2% - 5.6% Wisconsin 2020 WRS Experience
Mortality (Wisconsin)	2012 Mortality Table	2018 Mortality Table	2018 Mortality Table	2018 Mortality Table	Mortality Table
Discount rate	3.63%	4.22%	2.87%	2.25%	2.17%

Wisconsin Retirement System

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

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

	2015 - 2018	2019 - 2021	2022
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	Wisconsin 2020 WRS Experience Mortality Table
Post-retirement adjustments	2.10%	1.90%	1.70%

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

SUPPLEMENTAL INFORMATION

Waukesha Water Utility

Water Utility Plant

Year Ended December 31, 2022

	Balance 1/1/22	Additions	Retirements	Adjustments	Balance 12/31/22
Intangible					
Lease asset	\$ 212,994	\$ -	\$ -	\$ -	\$ 212,994
Miscellaneous intangible plant	<u>217,429</u>	<u>5,226</u>	<u>-</u>	<u>-</u>	<u>222,655</u>
Total intangible	<u>430,423</u>	<u>5,226</u>	<u>-</u>	<u>-</u>	<u>435,649</u>
Source of Supply					
Land and land rights	204,625	-	-	-	204,625
Wells and springs	1,507,630	-	-	-	1,507,630
Supply mains	<u>1,084,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,084,143</u>
Total source of supply	<u>2,796,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,796,398</u>
Pumping					
Land and land rights	181,670	-	-	-	181,670
Structures and improvements	4,627,378	195,162	84,444	-	4,738,096
Electric pumping equipment	<u>5,425,112</u>	<u>71,028</u>	<u>9,865</u>	<u>-</u>	<u>5,486,275</u>
Total pumping	<u>10,234,160</u>	<u>266,190</u>	<u>94,309</u>	<u>-</u>	<u>10,406,041</u>
Water Treatment					
Structures and improvements	2,785,733	-	-	-	2,785,733
Water treatment equipment	<u>2,458,901</u>	<u>-</u>	<u>6,699</u>	<u>-</u>	<u>2,452,202</u>
Total water treatment	<u>5,244,634</u>	<u>-</u>	<u>6,699</u>	<u>-</u>	<u>5,237,935</u>
Transmission and Distribution					
Land and land rights	110,083	-	-	-	110,083
Distribution reservoirs and standpipes	6,443,436	54,559	16,419	-	6,481,576
Transmission and distribution mains	80,975,840	2,122,198	150,670	-	82,947,368
Services	15,755,435	567,448	40,521	-	16,282,362
Meters	4,094,441	368,405	241,648	(98,501)	4,122,697
Hydrants	<u>7,929,951</u>	<u>352,506</u>	<u>36,929</u>	<u>-</u>	<u>8,245,528</u>
Total transmission and distribution	<u>115,309,186</u>	<u>3,465,116</u>	<u>486,187</u>	<u>(98,501)</u>	<u>118,189,614</u>
General					
Land and land rights	69,180	-	-	-	69,180
Structures and improvements	2,387,296	1,240	-	-	2,388,536
Office furniture and equipment	183,658	10,613	600	-	193,671
Computer equipment	576,036	-	-	-	576,036
Transportation equipment	1,051,275	25,636	14,368	-	1,062,543
Stores equipment	9,764	-	-	-	9,764
Tools, shop and garage equipment	438,189	-	-	-	438,189
Laboratory equipment	5,842	-	-	-	5,842
Power-operated equipment	1,024,838	10,157	-	-	1,034,995
Communication equipment	64,714	-	-	-	64,714
SCADA equipment	<u>827,317</u>	<u>-</u>	<u>7,281</u>	<u>-</u>	<u>820,036</u>
Total general	<u>6,638,109</u>	<u>47,646</u>	<u>22,249</u>	<u>-</u>	<u>6,663,506</u>
Total water utility plant	<u>\$ 140,652,910</u>	<u>\$ 3,784,178</u>	<u>\$ 609,444</u>	<u>\$ (98,501)</u>	<u>\$ 143,729,143</u>

Waukesha Water Utility

Water Utility Operating Revenues and Expenses
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Sales of water:		
Metered:		
Residential	\$ 5,626,716	\$ 5,914,197
Multifamily residential	1,830,793	1,896,400
Commercial	1,659,681	1,640,643
Industrial	599,384	592,157
Public authorities	288,350	308,504
Irrigation	<u>66,171</u>	<u>100,565</u>
Total metered sales	10,071,095	10,452,466
Private fire protection	308,095	311,686
Public fire protection	<u>2,505,383</u>	<u>2,552,174</u>
Total sales of water	<u>12,884,573</u>	<u>13,316,326</u>
Other operating revenues:		
Forfeited discounts	119,546	142,304
Rents from water property	252,280	246,916
Other	<u>199,937</u>	<u>(202,470)</u>
Total operating revenues	<u>13,456,336</u>	<u>13,503,076</u>
Operating Expenses		
Operation and maintenance:		
Source of supply:		
Miscellaneous	958,332	958,374
Maintenance:		
Supervision and engineering	17,472	17,619
Wells and springs	<u>-</u>	<u>7,761</u>
Total source of supply	<u>975,804</u>	<u>983,754</u>
Pumping:		
Operation supervision and engineering	13,136	18,371
Fuel or purchased power for pumping	753,238	697,003
Pumping labor	38,267	32,561
Miscellaneous	29,850	31,147
Maintenance:		
Supervision and engineering	21,846	19,203
Structures and improvements	42,611	56,603
Pumping equipment	<u>66,346</u>	<u>45,547</u>
Total pumping	<u>965,294</u>	<u>900,435</u>
Water treatment:		
Operation supervision and engineering	9,315	17,190
Chemicals	202,029	154,412
Operation labor	306,007	299,146
Miscellaneous	408	418
Maintenance:		
Structures and improvements	2,801	129
Water treatment equipment	<u>32,826</u>	<u>29,498</u>
Total water treatment	<u>553,386</u>	<u>500,793</u>

Waukesha Water Utility

Water Utility Operating Revenues and Expenses
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Transmission and distribution:		
Operation supervision and engineering	\$ 13,836	\$ 46,172
Storage facilities	11,500	20,770
Transmission and distribution lines	110,175	108,809
Meters	55,511	60,648
Customer installations	29,796	547
Miscellaneous	147,947	128,295
Maintenance:		
Supervision and engineering	25,510	30,190
Reservoirs and standpipes	5,625	13,150
Fire mains	335,199	437,249
Services	135,012	42,854
Meters	3,329	6,163
Hydrants	27,994	61,586
Miscellaneous	<u>34,932</u>	<u>30,684</u>
Total transmission and distribution	<u>936,366</u>	<u>987,117</u>
Customer accounts:		
Supervision	6,829	6,911
Meter reading	16,515	16,219
Accounting and collecting labor	185,321	205,104
Uncollectible accounts	9,406	2,006
Miscellaneous	<u>6,870</u>	<u>10,151</u>
Total customer accounts	<u>224,941</u>	<u>240,391</u>
Sales	<u>62,270</u>	<u>62,271</u>
Administrative and general:		
Salaries	246,662	222,692
Office supplies	165,397	142,432
Outside services employed	34,420	31,206
Property insurance	88,207	80,696
Injuries and damages	24,763	18,575
Employee pensions and benefits	409,968	535,400
Regulatory commission	25,896	6,558
Miscellaneous	50,812	31,785
Maintenance	<u>151,105</u>	<u>167,063</u>
Total administrative and general	<u>1,197,230</u>	<u>1,236,407</u>
Taxes	<u>125,734</u>	<u>124,504</u>
Total operation and maintenance	5,041,025	5,035,672
Depreciation	<u>2,839,226</u>	<u>2,815,086</u>
Total operating expenses	<u>7,880,251</u>	<u>7,850,758</u>
Operating income	<u>\$ 5,576,085</u>	<u>\$ 5,652,318</u>