

RACINE WATER AND WASTEWATER UTILITIES

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2022 AND 2021

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**RACINE WATER AND WASTEWATER UTILITIES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	16
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	22
STATEMENTS OF CASH FLOWS	24
NOTES TO FINANCIAL STATEMENTS	28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF THE UTILITIES' ALLOCATION OF THE CITY OF RACINE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	82
SCHEDULE OF THE UTILITIES' PENSION CONTRIBUTIONS	82
SCHEDULE OF CHANGES IN THE UTILITIES' TOTAL OPEB HEALTH INSURANCE LIABILITY AND RELATED RATIOS	83
SCHEDULE OF THE UTILITIES' ALLOCATION OF THE CITY OF RACINE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	84
SCHEDULE OF THE UTILITIES' OPEB CONTRIBUTIONS	84
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	85
SUPPLEMENTARY INFORMATION	
WATER UTILITY	
SCHEDULES OF OPERATING INCOME	89
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES	90
WASTEWATER UTILITY	
SCHEDULES OF OPERATING INCOME	91
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES	92

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Racine Water and Wastewater Utilities
Racine, Wisconsin

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Racine Water and Wastewater Utilities, enterprise funds of the City of Racine, Wisconsin, which collectively comprise the Water and Wastewater Utilities statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprise the Racine Water and Wastewater Utilities' basic 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 respective financial position of the Racine Water and Wastewater Utilities, enterprise funds of the City of Racine, Wisconsin as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis-of-Matter

As discussed in Note 1, the financial statements present only the Racine Water and Wastewater Utilities, and do not purport to and do not present fairly the financial position of the City of Racine, Wisconsin, as of December 31, 2022 and 2021 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note K, during 2022, the Racine Water and Wastewater adopted new accounting guidance, Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the utilities' allocation of the City of Racine's proportionate share of the net pension liability (asset), schedule of the utilities' pension contributions, schedule of changes in the utilities' total OPEB health insurance liability and related ratios, schedule of the utilities' allocation of the City of Racine's proportionate share of the net OPEB liability, schedule of the utilities' OPEB contributions, and noted to the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Racine Water and Wastewater Utilities' basic financial statements. The schedules of operating income and schedules of operation and maintenance expenses for the Water Utility and the Wastewater Utility, as presented in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedules of operating income and schedules of operation and maintenance expenses for the Water Utility and the Wastewater Utility, as presented in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Wauwatosa, Wisconsin
REPORT DATE

Management's Discussion and Analysis (Racine Water)

The management discussion and analysis of the Racine Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2022 and 2021. This information should be read in conjunction with the financial statements. Rates for the Racine Water Utility are set by the Wisconsin Public Service Commission (PSC) based upon a complicated cost of service study (COSS) depicting all expenses of the Utility. These expenses must be matched by rates in order for the Utility to remain financially viable. Sales have gone down from nearly 6 billion gallons 10 years ago, to around 5.5 billion gallons just 10 years later. The drop is based mainly on the loss of industrial sales along with slight drops in commercial and residential flows through self-imposed conservation due to rising rates. The Utility last received approval on an application with the Public Service Commission to increase rates on October 26, 2020. Sales of water in 2022 were 2.2% lower than 2021.

2022 Financial Highlights

The Racine Water Utility's net position increased to \$189.2 from \$159.8 million.

The Racine Water Utility celebrated 136 years in business in 2022. In 2021, physical construction continued on the estimated \$128 million infrastructure needed to support the Village of Mt. Pleasant TID#5 and related development's future needs. Mt. Pleasant will fund roughly \$100 million of the infrastructure cost, with the remaining \$28 million funded by Utility rate payers. Only three water main installation projects remain to complete this infrastructure. The Utility continues to slowly replace lead services in its service area and this will be an ongoing initiative for many years. \$828,117 of Utility funds were used to replace lead service lines on the public side. The Utility has also made significant efforts since 2020 to detect and repair leaking mains and services resulting in roughly a 5% decrease in non-revenue water.

2021 Financial Highlights

The Racine Water Utility's net position increased to \$159.7 from \$137.2 million.

The Racine Water Utility celebrated 135 years in business in 2021. In 2021, physical construction continued on the estimated \$128 million infrastructure needed to support the Foxconn and related development's future needs. The Village of Mt. Pleasant will fund roughly \$100 million of the cost, with the remaining \$28 million funded by Utility rate payers. The Utility continues to replace lead services in its service area. \$1,092,812 of Utility funds were used to replace lead service lines on the public side.

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors report and the basic financial statements of the Utility. The financial statements include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report contains information about the Utility using full accrual accounting methods as utilized by similar activities in the private sector. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows, and notes to the financial statements.

The **statement of net position** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net position presents information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets and deferred outflows of resources) and the obligations to Utility creditors (liabilities and deferred inflows of resources). Over time, increases and decreases in net position is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net position provides information about the nature and amount of resources and obligations at year end, the **statement of revenues, expenses, and changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It 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.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **supplemental schedules** provide more detail than the preceding statements. Detailed information regarding the funded status of the Other Post Employment Benefit Plan and Pension Plan are provided. Detailed operating revenue and expense schedules are provided.

Summary of Organization and Business

The Racine Water Works Commission and its associated Racine Water Utility provide water treatment and distribution services to more than 100,000 people residing in the greater Racine area including, the City of Racine, Village of Mt Pleasant, Village of Caledonia, Village of Sturtevant, Village of North Bay, Village of Wind Point, Village of Elmwood Park and the Town of Somers.

The Racine Water Utility is a municipally owned fiscally independent Public Utility organized under the authority of Section 68.0805 of the Wisconsin State Statutes and the municipal code of the City of Racine under Chapter 98. The Utility is solely financed by service charges operating like a private business entity. The utility has no taxing powers and receives no tax revenues from the City of Racine. Operational and maintenance costs are funded from rates established by the PSC. The acquisition and construction of capital assets are funded by capital contributions from customers, developers, federal or state loans, revenue bond sales and utility revenues. The Utility is currently paying off approximately \$54 million in loans and bond issues as a result of major distribution system (mains, tanks, & booster station) improvements.

The Board of Water Works Commissioners is made up of seven Racine members appointed by the Mayor. The management and operations of the Water Utility is under the direction of the Water Director who is appointed by the Board of Water Works Commissioners.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets as determined and allowed by the PSC, reliable up to date facilities, and systems to meet demand. Management feels that the current financial condition, technical expertise and operating plans will meet the needs of the current and future customer base. Impact fees support the financing of growth-related infrastructure improvements. The residential real estate market is currently warming up with new home startups and young buyers looking for existing homes. The local area is beginning to see redevelopment and new business ventures cropping up and this is a good sign for the local economy. A 2018 amendment to the Mount Pleasant Retail Water agreement sets forth a process that if revenue from new water connections is insufficient to cover deficiency debt that was borrowed over the next twenty years, the Village makes up the difference. If the revenue from new water connections exceeds the scheduled deficiency debt payments, the Village gets paid back anything they had contributed in previous years.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statement and associated notes.

	December 31			Variance of 2022 to 2021	
	2022	2021	2020	Increase (decrease) Dollars	%
Capital assets:					
Net plant in service	\$222,122,134	\$192,009,324	\$173,264,835	\$30,112,810	15.7%
Construction in progress	6,340,359	11,880,033	12,580,062	(\$5,539,674)	-46.6%
Other capital assets	1,843,341	1,843,341	1,843,341	\$0	0.0%
Current, restricted & other assets	48,463,406	50,515,634	26,823,943	(2,052,228)	-4.1%
Total assets	\$278,769,240	\$256,248,332	\$214,512,181	\$22,520,908	8.8%
Deferred outflows	\$6,541,291	\$5,574,468	\$4,287,196	\$966,823	17.3%
Current liabilities	\$16,971,679	\$17,443,485	\$19,489,336	(\$471,806)	-2.7%
Long-term Liabilities	69,680,020	75,632,346	57,166,065	(5,952,326)	-7.9%
Total Liabilities	\$86,651,699	\$93,075,831	\$76,655,401	(\$6,424,132)	-6.9%
Deferred inflows	\$9,501,543	\$8,958,142	\$4,894,269	\$543,401	6.1%
Net position:					
Invested in capital net of related debt	\$186,956,944	\$165,259,297	\$145,820,921	\$21,697,647	13.1%
Restricted for debt service	4,281,173	3,875,605	3,274,237	\$405,568	10.5%
Unrestricted	(2,080,828)	(9,346,075)	(11,845,451)	7,265,247	-77.7%
Total net position	\$189,157,289	\$159,788,827	\$137,249,707	\$29,368,462	18.4%

In 2022, net position of the Water Utility increased by \$29.4 million.

	December 31			Variance of 2022 to 2021	
	2022	2021	2020	Increase (decrease) Dollars	%
Revenues:					
Operating Revenue:					
Residential	\$9,517,852	\$9,781,900	\$9,032,853	(\$264,048)	-2.7%
Multi Family Residential	1,726,067	1,711,790	1,493,913	14,277	0.8%
Commercial	2,044,745	2,005,101	1,617,504	39,644	2.0%
Industrial	4,713,185	4,764,667	3,460,030	(51,482)	-1.1%
Public Authority	947,084	990,371	809,997	(43,287)	-4.4%
Fire Protection	2,449,249	2,543,506	2,917,757	(94,257)	-3.7%
Wholesale	1,896,646	1,721,036	1,291,673	175,610	10.2%
All Other	1,182,798	1,090,060	798,577	92,738	8.5%
Non-Operating Revenue:					
Interest Income	139,621	62,651	83,001	76,970	122.9%
Residential equivalent connection fees	305,466	146,372	298,802	159,094	108.7%
Gain/(loss) on disposal of fixed asset	0	0	0	0	
Developer capital donations	23,504,421	18,786,829	33,966,616	4,717,592	25.1%
Total Revenue	\$48,427,134	\$43,604,283	\$55,770,723	4,822,851	11.1%
Expenses:					
Operating Expenses					
Operation and Maintenance	\$7,384,490	\$9,007,786	\$10,187,348	(\$1,623,296)	-18.0%
Depreciation	6,616,768	6,150,100	5,495,192	466,668	7.6%
Non-Operating Expenses					
Bond Interest and amortization	1,642,217	2,149,503	1,563,085	(507,286)	-23.6%
Total Expenses	\$15,643,475	\$17,307,389	\$17,245,625	(\$1,663,914)	-9.6%
Transfers to the City of Racine	\$3,415,197	\$3,757,774	\$3,544,144	(\$342,577)	-9.1%
Net Position:					
Change in Net Position	\$29,368,462	\$22,539,120	\$34,980,954	\$6,829,342	30.3%
Net Position, Beginning of Year	159,788,827	137,249,707	102,268,753	22,539,120	16.4%
Prior Period Adjustment					
Net Position, End of Year	\$189,157,289	\$159,788,827	\$137,249,707	\$29,368,462	18.4%

The Water Utility Administrative staff continues to monitor the financial condition of the Utility. The Public Service Commission also did a thorough review with a submitted rate application and approved new rates on October 26, 2020.

Debt Administration

All scheduled bond payments in 2022 and 2021 were made on time. All requirements of the revenue bond ordinances have also been met as of December 31, 2022. The Utility funds part of the bonds principal and interest payments through the collection of residential equivalent connection charges (Impact fees) and front foot charges. In 2018, the Village of Mount Pleasant has taken over collection of impact fees and has guaranteed a revenue stream to the Racine Utility to cover previous impact fee debt. Additional details on debt can be found in Note 6.

Water Utility Summary of Outstanding Revenue Bonds

	Principal Balance December 31		Increase (decrease)		Due Within One Year
	2022	2021	Dollars	%	
2005 State Safe Water Revenue Bonds	\$ 2,138,415	\$ 3,170,712	\$ (1,032,297)	-33%	\$ 1,056,711
2012 Mortgage Revenue Bonds	2,845,000	4,115,000	(1,270,000)	-31%	1,390,000
2015 Mortgage Revenue Bonds	2,790,000	3,430,000	(640,000)	-19%	655,000
2015 State Safe Water Revenue Bonds	1,283,024	1,370,871	(87,847)	-6%	89,296
2017 Mortgage Revenue Bonds	5,305,000	5,815,000	(510,000)	-9%	535,000
2019 Mortgage Revenue Bonds	19,950,000	19,975,000	(25,000)	0%	25,000
2021 Mortgage Revenue Bonds	19,865,000	19,890,000	(25,000)	0%	25,000
Total Revenue Bonds	\$ 54,176,439	\$ 57,766,583	\$ (3,590,144)	-6%	\$ 3,776,007

Capital Assets

The Utility funds capital asset additions through a combination of revenue bonds, contributions from developers, capital grants and resources generated through operations. In 2022 the Utility received \$23,504,421 in developer donations mostly from the Village of Mt. Pleasant funding the Foxconn TID #5 development.

Water Utility

	2022			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated	13,723,374	5,469,212	11,008,886	8,183,700
Capital Assets Being Depreciated	273,798,707	36,873,179	1,216,669	309,455,217
Accumulated Depreciation	(81,789,383)	(6,760,369)	(1,216,669)	(87,333,083)
Capital Assets Being Depreciated, Net	192,009,324	30,112,810	-	222,122,134
Total Capital Assets	205,732,698	35,582,022	11,008,886	230,305,834
	2021			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated	14,423,403	3,176,204	3,876,233	13,723,374
Capital Assets Being Depreciated	249,770,254	25,037,272	1,008,819	273,798,707
Accumulated Depreciation	(76,505,419)	(6,292,783)	(1,008,819)	(81,789,383)
Capital Assets Being Depreciated, Net	173,264,835	18,744,489	-	192,009,324
Total Capital Assets	187,688,238	21,920,693	3,876,233	205,732,698

Economic factors influencing the Utility’s Future

While it has been reality that the large Foxconn development will be greatly scaled back from the original plan, much of the new expanded water infrastructure is in place and the potential exists for an increase in industrial development. With the end of the pandemic near, we believe an economic upswing is in the immediate future. The Racine area has already experienced an increase in the construction of large multi-residential building complexes.

Contacting the Utility Management

If you have questions about this report or need additional information, please contact the Racine Water Utility, Administrative Manager, 800 Center Street, Racine, Wisconsin 53403.

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Management's Discussion and Analysis (Racine Wastewater)

The management discussion and analysis of the Racine Wastewater Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2022 and 2021. This information should be read in conjunction with the financial statements. The Racine Wastewater Utility has a unique annual analysis based upon the 2002 Intergovernmental Sanitary Sewer Service and Revenue Sharing Agreement. The Utility's financial structure is set up by budgeting an anticipated expenditure for the budget year based upon past experience and any near-term changes. A rate is set for the users of the system based upon this expenditure need. Revenues are highly dependent upon flow received at the wastewater treatment plant, which is highly dependent upon the amount and intensity of rainfall in any given year. An anticipated flow is projected (forecasted) for the upcoming year based upon historical precipitation trends and experience. At the end of the fiscal year, and the end of the year audit, a calculation called a true-up is computed. Revenues can either exceed the forecasted projection or fall short. Expenditures can also exceed or fall short of budgeted amounts. A comparison of actual revenues compared to forecasted and actual expenditures vs. projected expenditures is made at the end of the audited period. If a positive result is experienced, the exceedance is used to reduce rates necessary in the next fiscal budget and rate making process. If a revenue shortfall is experienced, then it is made up in the subsequent fiscal year in rates. This scenario is called the annual true up and is a required exercise from the 2002 sewer agreement. This process keeps the Utility's earnings neutral from year to year and limits any profits or losses the Utility can make or suffer in any given year. Future rates are heavily dependent upon annual flow (revenue) which is controlled by Mother Nature and rainfall ups and downs bringing excess or deficit flows to the treatment plant. Flows for year 2021 were way below average due to drought like conditions. In 2022, rainfall was still a little below average but higher than the previous year impacting flows and revenues.

2022 Financial Highlights

The Wastewater Utility's net position increased to \$34.6 from \$32.8 million.

During 2022 the Utility focused on deficiency / replacement projects that need to be addressed at the treatment plant. These projects being part of the Utility 20-year (2020-2040) Facilities Plan, which was approved by WDNR in July 2022. These projects include replacement of the UV disinfectant system, biogas engines and generators and an aeration blower upgrade (phase 1), and a new biogas treatment system. Construction at the plant is expected to begin on these projects in 2023 and be completed in 2024. Additional project requirements are needed in the wastewater collection system to address peak flow events. These projects are still in design and engineering. Included is the Chicory Road area on the southwest side, which will be two-phased with a sanitary sewer interceptor replacement in 2023, and then a storage tank project to be constructed in 2024-2025. There are also plans for an interceptor project on the northeast side around the Main St/Goold St area estimated to be built in 2025-2026. These multiple projects are to be financed by the State of Wisconsin Clean Water Loan Program.

2021 Financial Highlights

The Wastewater Utility's net position increased to \$32.8 from \$31.7 million.

During 2021 the Utility focused on deficiency / replacement projects that need to be addressed. This includes engineering and design of the replacement of the UV disinfectant system, biogas engines and generators, and an aeration blower upgrade. Construction at the plant is expected to begin on these projects in 2023. Additional project requirements will be needed in the wastewater collection system to address peak flow events. These projects are still in design and engineering and include the Chicory Road tank and interceptor project on the southside and an interceptor project for the northside around Main & Goold Streets.

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors report and the basic financial statements of the Utility. The financial statements include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report contains information about the Utility using full accrual accounting methods as utilized by similar activities in the private sector. The financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements.

The **statement of net position** presents the financial position of the Utility on a full accrual historical cost basis. The statement of net position presents information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and amount of investments in resources (assets and deferred outflows of resources) and the obligations to Utility creditors (liabilities and deferred inflows of resources). Over time, increases and decreases in net position is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net position provides information about the nature and amount of resources and obligations at year end, the **statement of revenues, expenses, and changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It 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.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The **supplemental schedules** provide more detail than the preceding statements. Detailed information regarding the funded status of the Other Post Employment Benefit Plan and Pension Plan are provided. Detailed operating revenue and expense schedules are provided.

Summary of Organization and Business

The Racine Wastewater Utility provides wastewater treatment and conveyance services to more than 100,000 people residing in the greater Racine area including; the City of Racine, Villages of Mt Pleasant, Caledonia, Sturtevant, North Bay, Wind Point, Elmwood Park, and the Town of Somers. The Wastewater Utility also provides a household hazardous waste (HHW) collection service between the months of April and October each year. The HHW program is funded by a separate annual fee of \$3.00 in 2022 per residential property. The goal of this HHW effort is to break even each year. The beginning balance for the HHW effort in 2022 was \$228,809, revenues were \$169,348, and expenses were \$203,655. This results in a net designed loss of \$34,307 in 2022 with the ending fund balance at \$194,502. The state grant that was received decreased from \$37,613 in 2021 to \$34,069 in 2022.

The Racine Wastewater Utility is a municipally owned fiscally independent Public Utility organized under the authority of Section 68.0805 of the Wisconsin State Statutes and the municipal code of the City of Racine under Chapter 98. The utility has no taxing powers and receives no tax revenues from the City of Racine. Operational and maintenance costs are funded from user fees set as rates by the Commission and approved by the Racine City Council on an annual basis. The acquisition and construction of capital assets are funded by capital contributions from parties, customers, federal or state loans, revenue bond sales and utility revenues. The Utility is currently paying off approximately \$14.3 million in state revolving fund loans.

The Board of Wastewater Commissioners is made up of representatives of the largest contributors of the area to the wastewater plant. There are seven Racine members, two members from Mt. Pleasant, one from Caledonia and one from Sturtevant. The management and operations of the Wastewater Utility is under the direction of the Wastewater Director who is appointed by the Board of Wastewater Commissioners.

The Wastewater Treatment Plant provides primary and secondary treatment with disinfection in accordance with permits issued by the Wisconsin DNR under the control of the USEPA. Treated wastewater is discharged to Lake Michigan and biosolids are land applied onto farmers' fields. A 5-year WPDES operating permit was issued on January 1, 2020.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as reasonable level of unrestricted net position. Management feels that the current financial condition, technical expertise and operating plans will meet the needs of the current and future customer base. The Utility does not receive a Return on Investment (R.O.I.) on assets for future growth that were constructed as part of the plant expansion as these assets are paid for by the individual communities that paid for plant capacity.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statement and associated notes.

	December 31			Variance of 2022 to 2021	
	2022	2021	2020	Increase (decrease) Dollars	%
Capital assets:					
Net plant in service	\$76,625,933	\$80,075,428	\$79,550,671	(\$3,449,495)	-4.3%
Construction in progress	3,385,000	1,716,826	1,191,567	\$1,668,174	97.2%
Other capital assets	316,798	316,798	316,798	\$0	0.0%
Current, restricted & other assets	34,820,311	39,882,194	45,573,216	(5,061,883)	-12.7%
Total assets	\$115,148,042	\$121,991,246	\$126,632,252	(\$6,843,204)	-5.6%
Deferred outflows	\$5,819,388	\$3,400,510	\$2,009,531	\$2,418,878	71.1%
Current liabilities	\$11,037,297	\$15,972,874	\$13,517,864	(\$4,935,577)	-30.9%
Long-term Liabilities	70,619,908	71,866,342	77,336,663	(1,246,434)	-1.7%
Total Liabilities	\$81,657,205	\$87,839,216	\$90,854,527	(\$6,182,011)	-7.0%
Deferred inflows	\$4,744,638	\$4,773,027	\$6,123,907	(\$28,389)	-0.6%
Net position:					
Invested in capital net of related debt	\$64,274,941	\$59,531,646	\$54,568,072	\$4,743,295	8.0%
Restricted for debt service	5,588,554	8,819,882	8,165,437	(\$3,231,328)	-36.6%
Unrestricted	(35,297,908)	(35,572,015)	(31,070,160)	274,107	-0.8%
Total net position	\$34,565,587	\$32,779,513	\$31,663,349	\$1,786,074	5.4%

In 2022, net position of the Wastewater Utility increased by \$1.8 million.

	December 31			Variance of 2022 to 2021	
	2022	2021	2020	Increase (decrease) Dollars	%
Revenues:					
Operating Revenue:					
Residential	\$3,401,889	\$4,218,832	\$3,364,516	(\$816,943)	-19.4%
Multi family residential	734,531	742,375	844,617	(7,844)	-1.1%
Commercial	833,216	827,584	892,311	5,632	0.7%
Industrial	671,436	408,056	453,979	263,380	64.5%
Public Authority	302,076	300,916	352,756	1,160	0.4%
Other Municipalities	5,238,606	4,419,759	6,507,759	818,847	18.5%
All Other	555,379	534,461	451,214	20,918	3.9%
Non-Operating Revenue:					
Interest Income	117,456	19,432	49,833	98,024	504.4%
Intergovernmental plant capacity income	1,816,820	1,927,750	2,237,444	(110,930)	-5.8%
Household Hazardous Waste Revenue	169,348	172,375	167,727	(3,027)	-1.8%
Other Revenue	16,522	10,727	19,149	5,795	54.0%
Developer Capital donations	555,612	1,362,721	1,535,490	(807,109)	-59.2%
Total Revenue	\$14,412,891	\$14,944,988	\$16,876,795	(532,097)	-3.6%
Expenses:					
Operating Expenses					
Operation and Maintenance	\$7,488,597	\$8,015,960	\$8,848,097	(\$527,363)	-6.6%
Depreciation	3,973,896	3,943,845	3,940,649	30,051	0.8%
Non-Operating Expenses					
Household Hazardous Waste Expenses	203,655	195,642	176,941	8,013	4.1%
(Gain)/loss on disposal of fixed asset	8,979	0	(1,350)	8,979	
Bond Interest and amortization	383,597	551,857	668,325	(168,260)	-30.5%
Total Expenses	\$12,058,724	\$12,707,304	\$13,632,662	(648,580)	-5.1%
Transfers to the City of Racine	\$568,093	\$1,121,520	\$1,113,078	(\$553,427)	-49.3%
Net Position:					
Change in Net Position	\$1,786,074	\$1,116,164	\$2,131,055	\$669,910	60.0%
Net Position, Beginning of Year	32,779,513	31,663,349	29,532,294	\$1,116,164	3.5%
Prior Period Adjustment					
Net Position, End of Year	\$34,565,587	\$32,779,513	\$31,663,349	\$1,786,074	5.4%

As stated previously the goal of the Wastewater Utility is to break even on an annual basis. The goal is for expenditures to meet revenues on an annual basis. If the balance of these two accounts is positive or negative, a true up is instituted into the next fiscal year's budget revenue expectations in accordance with the 2002 intergovernmental agreement. This financial method assures that no party to the sewer agreement is unfairly charged for sewer service costs provided by the utility. The Utility's ability to show a profit or to show that rates exceed annual anticipated costs is extremely difficult and can provide challenges for future bond financing or being able to meet the revenue requirements of the state revolving loan fund as administered by the State Department of Administration.

Debt Administration

All scheduled bond payments in 2022 and 2021 were made on time. All requirements of the revenue bond ordinances have also been met as of December 31, 2022. The Utility has a surcharge for only City of Racine residents to fund sewer infrastructure projects within the City limits. In accordance with the 2002 intergovernmental agreement, other municipalities are continuing to contribute on an annual basis to the principal and interest payments of the 2008, 2010, 2018a, 2018b, and the 2021 issues. Additional information regarding long-term debt is available in Note 6. The Utility has established a rate stabilization fund to be used to bolster the impacts of annual fluctuations as a result of the true up provisions in order to maintain required bond coverage. Due to the extreme lack of rainfall in 2021, the Utility used the full \$1.2 million balance previously set aside in the rate stabilization fund. As of December 31, 2022, the fund balance is \$0 with a \$1,600,000 cap.

Wastewater Utility Summary of Outstanding Revenue Bonds

	Principal Balance December 31		Increase (decrease)		Due Within One Year
	2022	2021	Dollars	%	
2002b State Clean Water Revenue Bonds	\$ -	\$ 1,218,740	\$ (1,218,740)	-100%	\$ -
2002c State Clean Water Revenue Bonds	-	4,347,294	(4,347,294)	-100%	-
2008 State Clean Water Revenue Bonds	1,040,111	1,233,307	(193,196)	-16%	197,977
2010 State Clean Water Revenue Bonds	1,076,320	1,217,129	(140,809)	-12%	143,906
2018a State Clean Water Revenue Bonds	432,081	455,068	(22,987)	-5%	23,416
2018b State Clean Water Revenue Bonds	10,875,693	11,454,269	(578,576)	-5%	589,396
2021 State Clean Water Revenue Bonds	864,281	761,990	102,291	13%	39,707
Total Revenue Bonds	\$ 14,288,486	\$ 20,687,797	\$ (6,399,311)	-31%	\$ 994,402

Capital Assets

The Utility funds capital asset additions through a combination of revenue bonds, contributions from developers, capital grants and resources generated through operations.

Wastewater Utility

	2022			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets Not Being Depreciated	2,033,624	2,209,067	540,893	3,701,798
Capital Assets Being Depreciated	179,584,495	536,777	1,433,427	178,687,845
Accumulated Depreciation	(99,509,067)	(3,973,896)	(1,421,051)	(102,061,912)
Capital Assets Being Depreciated, Net	80,075,428	(3,437,119)	12,376	76,625,933
Total Capital Assets	82,109,052	(1,228,052)	553,269	80,327,731

	2021			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets Not Being Depreciated	1,508,365	2,063,806	1,538,547	2,033,624
Capital Assets Being Depreciated	177,434,550	2,699,032	549,087	179,584,495
Accumulated Depreciation	(96,114,309)	(3,943,845)	(549,087)	(99,509,067)
Capital Assets Being Depreciated, Net	81,320,241	(1,244,813)	-	80,075,428
Total Capital Assets	82,828,606	818,993	1,538,547	82,109,052

Economic Factors influencing the Utility's Future

While it has been reality that the large Foxconn development will be greatly scaled back from the original plan, much of the new expanded wastewater infrastructure is in place with funding provided by the Village of Mt Pleasant and the potential exists for an increase in industrial development. With the end of the pandemic near, we believe an economic upswing is in the immediate future. The Racine area has already experienced an increase in the construction of large multi-residential building complexes.

Contacting the Utility Management

If you have questions about this report or need additional information, please contact the Racine Wastewater Utility, Administrative Manager, 800 Center Street, Racine, Wisconsin 53403.

RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION
DECEMBER 31, 2022

ASSETS	Water Utility	Wastewater Utility	Total
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 15,161,954	\$ 10,711,796	\$ 25,873,750
Accounts Receivable, Net:			
Consumers	4,797,348	1,635,862	6,433,210
Other	161,319	120,797	282,116
Delinquent Billings Receivable - Tax Roll	3,178,649	1,685,308	4,863,957
Leases Receivable, Current Portion	196,054	-	196,054
Due from Other Governments	1,545,884	1,235,368	2,781,252
Due from Other Funds	889,436	1,623,536	2,512,972
Inventories	572,970	152,618	725,588
Total Current Assets	<u>26,503,614</u>	<u>17,165,285</u>	<u>43,668,899</u>
RESTRICTED ASSETS			
Cash and Cash Equivalents	16,739,250	4,281,004	21,020,254
Net Pension Asset	1,805,248	1,353,169	3,158,417
Plant Capacity Receivable, Current Portion	-	824,737	824,737
Plant Capacity Receivable, Long-Term Portion	-	11,196,116	11,196,116
Total Restricted Assets	<u>18,544,498</u>	<u>17,655,026</u>	<u>36,199,524</u>
NONCURRENT ASSET			
Leases Receivable, Long-Term Portion	3,415,294	-	3,415,294
Utility Plant in Service	309,455,217	178,687,845	488,143,062
Less: Accumulated Depreciation and Amortization	87,333,083	102,061,912	189,394,995
Net Depreciated and Amortized Value	<u>222,122,134</u>	<u>76,625,933</u>	<u>298,748,067</u>
Land	1,843,341	316,798	2,160,139
Construction in Progress	6,340,359	3,385,000	9,725,359
Total Noncurrent Assets	<u>233,721,128</u>	<u>80,327,731</u>	<u>314,048,859</u>
 Total Assets	 <u>278,769,240</u>	 <u>115,148,042</u>	 <u>393,917,282</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Refunding	309,039	-	309,039
Deferred Amounts Related to OPEB	2,646,490	3,084,201	5,730,691
Deferred Amounts Related to Pension	3,585,762	2,735,187	6,320,949
Total Deferred Outflows of Resources	<u>6,541,291</u>	<u>5,819,388</u>	<u>12,360,679</u>

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2022**

	Water Utility	Wastewater Utility	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 754,938	\$ 547,638	\$ 1,302,576
Retainage Payable	154,596	-	154,596
Due to Other Funds	7,521,878	7,381,638	14,903,516
Due to Other Governments	3,015,125	-	3,015,125
Accrued Compensated Absences, Current Portion	59,239	-	59,239
Other Postemployment Benefits, Current Portion	587,486	402,212	989,698
Leases Payable, Current Portion	-	6,215	6,215
Accrued Liabilities	160,392	108,516	268,908
Total Current Liabilities	<u>12,253,654</u>	<u>8,446,219</u>	<u>20,699,873</u>
CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS			
Accrued Interest Payable	601,839	45,619	647,458
Long-Term Debt, Current Portion	4,116,186	994,402	5,110,588
Unearned Capacity Revenue, Current Portion	-	1,551,057	1,551,057
Total Current Liabilities - Payable from Restricted Assets	<u>4,718,025</u>	<u>2,591,078</u>	<u>7,309,103</u>
NONCURRENT LIABILITIES			
Accrued Compensated Absences, Less Current Portion Above	439,472	207,741	647,213
Other Postemployment Benefits, Less Current Portion Above	16,346,358	11,946,088	28,292,446
Leases Payable, Less Current Portion	-	1,758,089	1,758,089
Unearned Capacity Revenue, Less Current Portion Above	-	43,413,906	43,413,906
Long-Term Debt, Less Current Portion Above	52,894,190	13,294,084	66,188,274
Total Noncurrent Liabilities	<u>69,680,020</u>	<u>70,619,908</u>	<u>140,299,928</u>
Total Liabilities	86,651,699	81,657,205	168,308,904
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts Related to Leases	3,447,864	-	3,447,864
Deferred Amounts Related to OPEB	1,610,835	1,286,599	2,897,434
Deferred Amounts Related to Pension	4,442,844	3,458,039	7,900,883
Total Deferred Inflows of Resources	<u>9,501,543</u>	<u>4,744,638</u>	<u>14,246,181</u>
NET POSITION			
Net Investment in Capital Assets	186,956,944	64,274,941	251,231,885
Restricted	4,281,173	5,588,554	9,869,727
Unrestricted	<u>(2,080,828)</u>	<u>(35,297,908)</u>	<u>(37,378,736)</u>
Total Net Position	<u>\$ 189,157,289</u>	<u>\$ 34,565,587</u>	<u>\$ 223,722,876</u>

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2022**

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**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 (RESTATED)**

ASSETS	Water Utility	Wastewater Utility	Total
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 9,571,024	\$ 9,641,100	\$ 19,212,124
Accounts Receivable, Net:			
Consumers	4,786,038	1,591,392	6,377,430
Other	150,517	313,034	463,551
Delinquent Billings Receivable - Tax Roll	2,911,875	1,476,977	4,388,852
Leases Receivable, Current Portion	182,312	-	182,312
Due from Other Governments	2,239,037	996,047	3,235,084
Due from Other Funds	827,213	822,348	1,649,561
Inventories	521,706	78,805	600,511
Total Current Assets	21,189,722	14,919,703	36,109,425
RESTRICTED ASSETS			
Cash and Cash Equivalents	24,238,721	7,725,830	31,964,551
Net Pension Asset	1,475,843	1,169,093	2,644,936
Plant Capacity Receivable, Current Portion	-	4,087,619	4,087,619
Plant Capacity Receivable, Long-Term Portion	-	11,979,949	11,979,949
Total Restricted Assets	25,714,564	24,962,491	50,677,055
NONCURRENT ASSET			
Leases Receivable, Long-Term Portion	3,611,348	-	3,611,348
Utility Plant in Service	273,798,707	179,584,495	453,383,202
Less: Accumulated Depreciation and Amortization	81,789,383	99,509,067	181,298,450
Net Depreciated and Amortized Value	192,009,324	80,075,428	272,084,752
Land	1,843,341	316,798	2,160,139
Construction in Progress	11,880,033	1,716,826	13,596,859
Total Noncurrent Assets	209,344,046	82,109,052	291,453,098
 Total Assets	 256,248,332	 121,991,246	 378,239,578
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Refunding	355,220	-	355,220
Deferred Amounts Related to OPEB	2,810,792	1,542,206	4,352,998
Deferred Amounts Related to Pension	2,408,456	1,858,304	4,266,760
Total Deferred Outflows of Resources	5,574,468	3,400,510	8,974,978

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2021 (RESTATED)**

	Water Utility	Wastewater Utility	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 1,017,287	\$ 450,627	\$ 1,467,914
Retainage Payable	975,500	-	975,500
Due to Other Funds	6,723,916	6,053,920	12,777,836
Due to Other Governments	3,266,628	-	3,266,628
Accrued Compensated Absences, Current Portion	8,946	40,148	49,094
Other Postemployment Benefits, Current Portion	678,015	1,140,530	1,818,545
Leases Payable, Current Portion	-	4,395	4,395
Accrued Liabilities	168,490	122,554	291,044
Total Current Liabilities	<u>12,838,782</u>	<u>7,812,174</u>	<u>20,650,956</u>
CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS			
Accrued Interest Payable	674,380	75,041	749,421
Long-Term Debt, Current Portion	3,930,323	6,534,602	10,464,925
Unearned Capacity Revenue, Current Portion	-	1,551,057	1,551,057
Total Current Liabilities - Payable from Restricted Assets	<u>4,604,703</u>	<u>8,160,700</u>	<u>12,765,403</u>
NONCURRENT LIABILITIES			
Accrued Compensated Absences, Less Current Portion Above	490,809	259,707	750,516
Other Postemployment Benefits, Less Current Portion Above	18,028,939	10,724,714	28,753,653
Leases Payable, Less Current Portion	-	1,764,304	1,764,304
Due to Other Governments, Less Current Portion Above	102,265	-	102,265
Unearned Capacity Revenue, Less Current Portion Above	-	44,964,422	44,964,422
Long-Term Debt, Less Current Portion Above	57,010,333	14,153,195	71,163,528
Total Noncurrent Liabilities	<u>75,632,346</u>	<u>71,866,342</u>	<u>147,498,688</u>
Total Liabilities	93,075,831	87,839,216	180,915,047
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts Related to Leases	3,722,953	-	-
Deferred Amounts Related to OPEB	1,951,310	2,183,720	4,135,030
Deferred Amounts Related to Pension	3,283,879	2,589,307	5,873,186
Total Deferred Inflows of Resources	<u>8,958,142</u>	<u>4,773,027</u>	<u>13,731,169</u>
NET POSITION			
Net Investment in Capital Assets	165,259,297	59,531,646	224,790,943
Restricted	3,875,605	8,819,882	12,695,487
Unrestricted	(9,346,075)	(35,572,015)	(44,918,090)
Total Net Position	<u>\$ 159,788,827</u>	<u>\$ 32,779,513</u>	<u>\$ 192,568,340</u>

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2021 (RESTATED)**

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RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2022

	Water Utility	Wastewater Utility	Total
OPERATING REVENUES	\$ 24,477,626	\$ 11,737,133	\$ 36,214,759
OPERATING EXPENSES			
Operation and Maintenance Expenses	7,037,655	7,238,188	14,275,843
Bad Debt	15,292	27,187	42,479
Depreciation	6,616,768	3,973,896	10,590,664
Taxes	331,543	223,222	554,765
Total Operating Expenses	<u>14,001,258</u>	<u>11,462,493</u>	<u>25,463,751</u>
OPERATING INCOME	10,476,368	274,640	10,751,008
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	139,621	117,456	257,077
Interest Expense	(1,936,173)	(383,597)	(2,319,770)
Intergovernmental Interest Reimbursement	-	265,763	265,763
Plant Capacity Income	-	1,551,057	1,551,057
Amortization of Premiums and Refunding Loss	293,956	-	293,956
Household Hazardous Waste Revenue	-	169,348	169,348
Household Hazardous Waste Expense	-	(203,655)	(203,655)
Gain on Disposal of Capital Assets	-	(8,979)	(8,979)
Miscellaneous Income	-	16,522	16,522
Total Nonoperating Revenues (Expenses)	<u>(1,502,596)</u>	<u>1,523,915</u>	<u>21,319</u>
Income Before Capital Contributions and Transfers	8,973,772	1,798,555	10,772,327
CAPITAL CONTRIBUTIONS			
Residential Equivalent Connection Fees	305,466	-	305,466
Capital Asset Donations	23,504,421	555,612	24,060,033
Total Capital Contributions	<u>23,809,887</u>	<u>555,612</u>	<u>24,365,499</u>
TRANSFERS OUT	<u>(3,415,197)</u>	<u>(568,093)</u>	<u>(3,983,290)</u>
CHANGE IN NET POSITION	29,368,462	1,786,074	31,154,536
Net Position - Beginning of Year	<u>159,788,827</u>	<u>32,779,513</u>	<u>192,568,340</u>
NET POSITION - END OF YEAR	<u>\$ 189,157,289</u>	<u>\$ 34,565,587</u>	<u>\$ 223,722,876</u>

See accompanying Notes to Financial Statements.

RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021 (RESTATED)

	Water Utility	Wastewater Utility	Total
OPERATING REVENUES	\$ 24,608,431	\$ 11,451,983	\$ 36,060,414
OPERATING EXPENSES			
Operation and Maintenance Expenses	8,668,597	7,765,435	16,434,032
Bad Debt	14,879	24,224	39,103
Depreciation and Amortization	6,150,100	3,943,845	10,093,945
Taxes	324,310	226,301	550,611
Total Operating Expenses	<u>15,157,886</u>	<u>11,959,805</u>	<u>27,117,691</u>
OPERATING INCOME (LOSS)	9,450,545	(507,822)	8,942,723
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	62,651	19,432	82,083
Interest Expense	(2,407,888)	(551,857)	(2,959,745)
Intergovernmental Interest Reimbursement	-	376,693	376,693
Plant Capacity Income	-	1,551,057	1,551,057
Amortization of Premiums and Refunding Loss	258,385	-	258,385
Household Hazardous Waste Revenue	-	172,375	172,375
Household Hazardous Waste Expense	-	(195,642)	(195,642)
Miscellaneous Income	-	10,727	10,727
Total Nonoperating Revenues (Expenses)	<u>(2,086,852)</u>	<u>1,382,785</u>	<u>(704,067)</u>
Income Before Capital Contributions and Transfers	7,363,693	874,963	8,238,656
CAPITAL CONTRIBUTIONS			
Residential Equivalent Connection Fees	146,372	-	146,372
Capital Asset Donations	18,786,829	1,362,721	20,149,550
Total Capital Contributions	<u>18,933,201</u>	<u>1,362,721</u>	<u>20,295,922</u>
TRANSFERS OUT	<u>(3,757,774)</u>	<u>(1,121,520)</u>	<u>(4,879,294)</u>
CHANGE IN NET POSITION	22,539,120	1,116,164	23,655,284
Net Position - Beginning of Year	<u>137,249,707</u>	<u>31,663,349</u>	<u>168,913,056</u>
NET POSITION - END OF YEAR	<u>\$ 159,788,827</u>	<u>\$ 32,779,513</u>	<u>\$ 192,568,340</u>

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022**

	Water Utility	Wastewater Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from Customers and Users	\$ 25,454,312	\$ 10,848,194	\$ 36,302,506
Paid to Supplier	(5,999,360)	(3,750,752)	(9,750,112)
Paid to Employee	(5,558,173)	(4,866,709)	(10,424,882)
Stormwater Fees Collected for Other Funds	6,323,537	-	6,323,537
Stormwater Fees Disbursed to Other Funds	(5,795,176)	-	(5,795,176)
Net Cash Provided by Operating Activities	14,425,140	2,230,733	16,655,873
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(3,415,197)	(568,093)	(3,983,290)
Principal Paid on Noncapital Debt	-	(58,505)	(58,505)
Interest Paid on Noncapital Debt	-	(804)	(804)
Fiscal Agent Receipts from Other Governments	693,153	(239,321)	453,832
Household Hazardous Waste Program	-	(34,307)	(34,307)
Miscellaneous Receipts	-	16,522	16,522
Net Cash Used by Noncapital Financing Activities	(2,722,044)	(884,508)	(3,606,552)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Utility Plant	(8,457,867)	(1,396,811)	(9,854,678)
Proceeds from Sale of Capital Assets	-	3,397	3,397
Long-Term Debt Issued	-	141,417	141,417
Principal Paid on Long-Term Debt	(3,590,144)	(6,482,223)	(10,072,367)
Interest Paid on Long-Term Debt	(2,008,713)	(361,713)	(2,370,426)
Principal Paid on Leases	-	(4,395)	(4,395)
Interest Paid on Leases	-	(50,502)	(50,502)
Proceeds from REC and Other Fees	305,466	-	305,466
Intergovernmental Interest Reimbursement	-	265,763	265,763
Proceeds from Plant Capacity Charges	-	4,047,256	4,047,256
Net Cash Used by Capital and Related Financing Activities	(13,751,258)	(3,837,811)	(17,589,069)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	139,621	117,456	257,077
NET CHANGE IN CASH AND CASH EQUIVALENTS			
	(1,908,541)	(2,374,130)	(4,282,671)
Cash and Cash Equivalents - Beginning of Year	33,809,745	17,366,930	51,176,675
CASH AND CASH EQUIVALENTS - END OF YEAR			
	\$ 31,901,204	\$ 14,992,800	\$ 46,894,004

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022**

Cash and cash equivalents are presented on the Statements of Net Position as follows:

	Water Utility	Wastewater Utility	Total
Unrestricted	\$ 15,161,954	\$ 10,711,796	\$ 25,873,750
Restricted	16,739,250	4,281,004	21,020,254
Total	<u>\$ 31,901,204</u>	<u>\$ 14,992,800</u>	<u>\$ 46,894,004</u>

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ 10,476,368	\$ 274,640	\$ 10,751,008
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	6,616,768	3,973,896	10,590,664
Depreciation Charged to other Funds	143,598	-	143,598
Effects of Changes in Operating Assets and Liabilities:			
Accounts Receivable	(288,886)	(60,564)	(349,450)
Leases Receivable	182,312	-	182,312
Deferred Inflows of Resources Related to Leases	(275,089)	-	(275,089)
Inventories	(51,264)	(73,813)	(125,077)
Due from Other Funds	(62,223)	(801,188)	(863,411)
Compensated Absences	(1,044)	(92,114)	(93,158)
Other Postemployment Benefits	(1,773,110)	483,056	(1,290,054)
Deferred Outflows of Resources Related to OPEB	164,302	(1,541,995)	(1,377,693)
Deferred Inflows of Resources Related to OPEB	(340,475)	(897,121)	(1,237,596)
Pension Benefits	(329,405)	(184,076)	(513,481)
Deferred Outflows of Resources Related to Pension	(1,177,306)	(876,883)	(2,054,189)
Deferred Inflows of Resources Related to Pension	1,158,965	868,732	2,027,697
Accounts Payable	(454,467)	(155,517)	(609,984)
Accrued Liabilities	(8,098)	(14,038)	(22,136)
Due to Other Funds	797,962	1,327,718	2,125,680
Due to Other Governments	(353,768)	-	(353,768)
Net Cash Provided by Operating Activities	<u>\$ 14,425,140</u>	<u>\$ 2,230,733</u>	<u>\$ 16,655,873</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Estimated cost of Water and Wastewater Utility plant installed or financed by developers or customers was \$23,504,421 and \$555,612, respectively.

Water and Wastewater Utilities reported \$423,758 and \$373,438, respectively, of capital assets in accounts and retainage payable.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021 (RESTATED)**

	Water Utility	Wastewater Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from Customers and Users	\$ 25,909,895	\$ 10,232,843	\$ 36,142,738
Paid to Suppliers	(3,247,729)	(2,434,433)	(5,682,162)
Paid to Employees	(5,938,928)	(5,169,183)	(11,108,111)
Stormwater Fees Collected for Other Funds	6,047,024	-	6,047,024
Stormwater Fees Disbursed to Other Funds	(5,534,399)	-	(5,534,399)
Net Cash Provided by Operating Activities	17,235,863	2,629,227	19,865,090
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(3,757,774)	(1,121,520)	(4,879,294)
Principal Paid on Noncapital Debt	-	(58,505)	(58,505)
Interest Paid on Noncapital Debt	-	(804)	(804)
Fiscal Agent Receipts from Other Governments	1,658,914	295,692	1,954,606
Household Hazardous Waste Program	-	(23,267)	(23,267)
Miscellaneous Receipts	-	10,727	10,727
Net Cash Used by Noncapital Financing Activities	(2,098,860)	(897,677)	(2,996,537)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Utility Plant	(8,788,079)	(1,764,142)	(10,552,221)
Long-Term Debt Issued	24,005,000	761,990	24,766,990
Premium on Long-Term Debt Issued	1,750,458	-	1,750,458
Principal Paid on Long-Term Debt	(9,204,868)	(6,541,675)	(15,746,543)
Interest Paid on Long-Term Debt	(2,250,247)	(528,882)	(2,779,129)
Principal Paid on Leases	-	(871)	(871)
Interest Paid on Leases	-	(50,620)	(50,620)
Proceeds from REC and Other Fees	146,372	-	146,372
Intergovernmental Interest Reimbursement	-	376,693	376,693
Proceeds From Plant Capacity Charges	-	4,066,518	4,066,518
Net Cash Provided (Used) by Capital and Related Financing Activities	5,658,636	(3,680,989)	1,977,647
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	62,651	19,432	82,083
NET CHANGE IN CASH AND CASH EQUIVALENTS			
	20,858,290	(1,930,007)	18,928,283
Cash and Cash Equivalents - Beginning of Year	12,951,455	19,296,937	32,248,392
CASH AND CASH EQUIVALENTS - END OF YEAR			
	<u>\$ 33,809,745</u>	<u>\$ 17,366,930</u>	<u>\$ 51,176,675</u>

See accompanying Notes to Financial Statements.

**RACINE WATER AND WASTEWATER UTILITIES
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021 (RESTATED)**

Cash and cash equivalents are presented on the Statements of Net Position as follows:

	Water Utility	Wastewater Utility	Total
Unrestricted	\$ 9,571,024	\$ 9,641,100	\$ 19,212,124
Restricted	24,238,721	7,725,830	31,964,551
Total	<u>\$ 33,809,745</u>	<u>\$ 17,366,930</u>	<u>\$ 51,176,675</u>

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income (Loss)	\$ 9,450,545	\$ (507,822)	\$ 8,942,723
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and amortization	6,150,100	3,943,845	10,093,945
Depreciation Charged to Other Funds	142,683	-	142,683
Effects of Changes in Operating Assets and Liabilities:			
Accounts Receivable	105,941	21,489	127,430
Leases Receivable	169,005	-	169,005
Deferred Inflows of Resources Related to Leases	(239,712)	-	(239,712)
Inventories	(31,047)	12,305	(18,742)
Due from Other Funds	(17,608)	(16,405)	(34,013)
Compensated Absences	(112,189)	(73,948)	(186,137)
Other Postemployment Benefits	1,635,150	958,569	2,593,719
Deferred Outflows of Resources Related to OPEB	(1,045,742)	(855,033)	(1,900,775)
Deferred Inflows of Resources Related to OPEB	(668,611)	(950,584)	(1,619,195)
Pension Benefits	(755,941)	(618,043)	(1,373,984)
Deferred Outflows of Resources Related to Pension	(690,457)	(535,946)	(1,226,403)
Deferred Inflows of Resources Related to Pension	1,009,531	799,704	1,809,235
Rate Stabilization Deferred Inflow	-	(1,200,000)	(1,200,000)
Accounts Payable	(625,062)	38,001	(587,061)
Accrued Liabilities	(9,111)	(98,964)	(108,075)
Due to Other Funds	503,574	1,712,059	2,215,633
Due to Other Governments	2,264,814	-	2,264,814
Net Cash Provided by Operating Activities	<u>\$ 17,235,863</u>	<u>\$ 2,629,227</u>	<u>\$ 19,865,090</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Estimated cost of Water and Wastewater Utility plant installed or financed by developers or customers was \$18,786,829 and \$1,362,721, respectively.

Water and Wastewater Utilities reported \$1,052,544 and \$120,910, respectively, of capital assets in accounts and retainage payable.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Racine Water and Wastewater Utilities are Enterprise Funds of the City of Racine, Wisconsin. These financial statements present the financial position, results of operations, and cash flows of the City of Racine Water and Wastewater Utilities only and do not include transactions of any other City of Racine Funds.

The Wastewater Utility provides sewer service to the territory which includes the corporate limits of the City of Racine, Village of Mount Pleasant, Village of North Bay, Village of Elmwood Park, Village of Sturtevant, and Village of Caledonia. The Wastewater Utility is managed by eleven Commissioners. Rates are established through the budget process on an annual basis to recover operating expenses, debt service, and replacement charges. Any surpluses or deficits determined after a current year audit is complete are rolled into future year rates per a sewer agreement with the above municipalities. The rates are billed to the municipal entities in proportion to each user's contribution to total wastewater flow and loading into the treatment system.

The Water Utility provides retail water service to the City of Racine, Village of Elmwood Park, Village of Mount Pleasant, Village of North Bay, and Village of Sturtevant. Wholesale service is provided to the Village of Caledonia. The Water Utility is managed by seven Commissioners. Rates are established and approved by the Public Service Commission of Wisconsin. Retail customers are billed based on readings from individual meters. Wholesale customers are billed based on master meter readings.

The Utilities share common members of the respective Commissions. In addition, the Utilities share common management and administrative personnel and functions. The significant accounting principles and policies utilized by the Utilities are described below.

Basis of Accounting

The Utilities prepare their financial statements in accordance with accounting principles generally accepted in the United States of America as formulated by the Government Accounting Standards Board (GASB). The Utilities are reported as governmental enterprise funds. Enterprise funds are used to account for activities which are financed and operated in a manner similar to a private business enterprise. Accordingly, the financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting whereby revenues are recognized when earned and expenses, including depreciation, are recorded when incurred.

Use of Estimates

The 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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include any highly liquid investments with a maturity of three months or less when acquired.

Investments

Investments, with the exception of the Local Government Investment Pool (LGIP) are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair value is determined by quoted market prices. The Local Government Investment Pool is reported at the per share value as reported by LGIP. No investments are reported at amortized cost.

The Wisconsin 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 Utilities' share of the LGIP's assets was substantially equal to the amount as reported in these statements.

Accounts Receivable

Accounts receivable is composed of charges to customers for water and sewer services and sundry bill charges that cannot be attached to the property. The year-end balance includes unpaid charges and an estimate of the charges to December 31 that will be billed in the first quarter of the subsequent year. The Water Utility also records accounts receivable for charges to customers for stormwater services. These charges are collected by the Water Utility on behalf of the City of Racine's Stormwater Utility, and the Water Utility disburses these collections to the City of Racine within three months or less.

Customer accounts receivable are stated at amounts billed plus accrued interest. Unpaid accounts over 20 days bear interest at 1% per month. Interest continues to accrue on customer delinquent accounts until it is placed in the tax roll at which time a 10% penalty is assessed to the account. Payments to an accounts receivable are applied to specific bills identified on the customer's remittance advice or, if unspecified, to the earliest unpaid bills.

The Utilities have the right under Wisconsin Statutes to place delinquent bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Sundry bill charges bear no interest. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of sundry bill charges that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due from Other Governments

Racine Water and Wastewater Utilities serve as the fiscal agent for certain limited expansion and improvement projects to the surrounding municipalities pursuant to intergovernmental agreements. Amounts paid by the Utility pursuant to these agreements are recognized as due from other governments at the time expansion and improvement payments are made by the Utilities.

Inventories

Inventories of materials and supplies are stated at cost, determined on a first in, first out (FIFO) basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

Interfund Transactions

Transactions between the Utilities and other funds of the City of Racine, Wisconsin, that are representative of lending/borrowing arrangements are reported as advances to/from other funds. All other balances between the Utilities and other funds of the City are reported as due to/from other funds.

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.

Operations

Metered service to sewer customers is billed at rates determined by the Wastewater Utility Commissioners. Metered service sales to water customers are billed at rates determined by the Public Service Commission. Most customers, with exception of industrial customers, are billed every three months for services rendered. Industrial customers are billed monthly. The month billed is dependent on the district in which the customer resides. All delinquent accounts receivable balances less than \$7,500 at the time of the property tax lien date are placed on the customer's tax bill and collected through the normal collection process.

Capital Assets

Capital assets are generally defined by the Utilities as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of five years.

Capital assets are capitalized and reported at cost or estimated historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed in Note X. below). The costs of normal maintenance and repairs that do not add to the value of the asset or materiality extend its life are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

**RACINE WATER AND WASTEWATER UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The Wastewater Utility capital assets in service are depreciated using the straight-line method over useful lives as follows:

Interceptors	25 to 100 Years
Lift Station Structures	20 to 50 Years
Treatment Equipment	5 to 40 Years
Other Structures	20 to 40 Years
Other Equipment	5 to 20 Years
Right-of-Use Land and Improvements	25 to 50 Years

The Water Utility capital assets in service are depreciated using composite rates developed by the Public Service Commission to the capital asset balances except for vehicles and power equipment which are depreciated on an individual asset basis.

Intakes	59 Years
Structures	31 to 34 Years
Membrane Filtration	10 Years
Standpipes	53 Years
Mains, Services, and Hydrants	34 to 77 Years
Meters	18 Years
Equipment	4 to 30 Years

Long-Term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Bond issue costs are expensed in the year incurred.

Compensated Absences

Vacation is recorded as expense when paid. Vacation pay is earned on a monthly basis during the calendar year and is forfeited if not taken by the end of the year. Sick leave is earned at a rate of one day per month. Unused sick pay is allowed to accumulate to 156 working days. In general, upon death, retirement or total disability, an employee is entitled to a sum equal to 50% of total sick leave accumulated. Accumulated sick leave earned but not taken and any salary related benefits thereon have been reported as accrued compensated absences.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Lessee

The Wastewater Utility is a lessee for noncancellable leases land and improvements. The Wastewater Utility recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The Wastewater Utility recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the Wastewater Utility initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Wastewater Utility determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Wastewater Utility uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Wastewater Utility generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Wastewater Utility is reasonably certain to exercise.

The Wastewater Utility monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long- term debt on the statement of net position.

Lessor

The Water Utility is a lessor for a noncancellable lease of a equipment. The Water Utility recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Water Utility initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Lessor (Continued)

Key estimates and judgments include how the Water Utility determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Water Utility uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Water Utility monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Pensions

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

Other Postemployment Benefits (OPEB)

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 postemployment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from the LRLIFs fiduciary net position have been determined on the same basis as they are reported by the 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.

The Utilities will pay a portion of health insurance premiums for employees retiring under certain conditions. Eligibility and benefit provisions are based on contractual agreements with employee union contracts or employee benefit policies. The Utilities funds these benefits on a pay-as-you-go basis. The Utilities have obtained an actuarial evaluation to determine the cost of these benefits, including the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

The Utilities distinguish 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 principal ongoing operations. The principal operating revenues of the Utilities 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.

Transfers

As described in Note 11, the Wastewater Utility collects revenue sharing payments. Transfers include payments made from its reserve accounts to the City of Racine, Wisconsin, with respect to the Racine Public Library, Racine Zoo, and the Charles A. Wustum Museum of Fine Arts under the terms of the intergovernmental sanitary sewer service agreement and the Wastewater Utility's share of payment in lieu of taxes.

Water Utility transfers include the payments in lieu of taxes to the municipality.

Equity Classifications

The difference between all other elements in a statement of net position is net position. Net position is displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unspent related debt proceeds or deferred inflows of resources are excluded from the calculation of net investment in capital assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Account Standards

GASB Statement No. 87, Leases

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It 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 this standard, 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.

The Utilities adopted the requirements of the guidance effective January 1, 2022 and have applied the provisions of this standard to the beginning of the earliest comparative period presented. *See Note 19 for the restatement as a result of this implementation.*

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Utilities had the following deposits as of December 31, 2022.

	Water Utility	Wastewater Utility	Total
Petty Cash	\$ 1,250	\$ -	\$ 1,250
Demand Deposits	27,445,531	8,457,546	35,903,077
Local Government Investment Pool	4,454,423	6,535,254	10,989,677
Total Cash and Cash Equivalents	\$ 31,901,204	\$ 14,992,800	\$ 46,894,004
Reconciliation to the Financial Statements:			
Cash and Cash Equivalents:			
Unrestricted	\$ 15,161,954	\$ 10,711,796	\$ 25,873,750
Restricted	16,739,250	4,281,004	21,020,254
Total Cash and Cash Equivalents	\$ 31,901,204	\$ 14,992,800	\$ 46,894,004

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

The Utilities had the following deposits as of December 31, 2021.

	Water Utility	Wastewater Utility	Total
Petty Cash	\$ 1,250	\$ -	\$ 1,250
Demand Deposits	29,424,388	10,934,242	40,358,630
Local Government Investment Pool	4,384,107	6,432,688	10,816,795
Total Cash and Cash Equivalents	<u>\$ 33,809,745</u>	<u>\$ 17,366,930</u>	<u>\$ 51,176,675</u>

Reconciliation to the Financial Statements:

Cash and Cash Equivalents:

Unrestricted	\$ 9,571,024	\$ 9,641,100	\$ 19,212,124
Restricted	24,238,721	7,725,830	31,964,551
Total Cash and Cash Equivalents	<u>\$ 33,809,745</u>	<u>\$ 17,366,930</u>	<u>\$ 51,176,675</u>

Deposits of governmental entities held by an official custodian in banks located in the same state as the governmental entity are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per financial institution. Any losses caused by failure of public depositories are also covered by the State Deposit Guarantee Fund. The fund provides coverage of \$400,000 in each financial institution and the Local Government Investment Pool above the applicable insurance coverage provided by the FDIC. However, although the fund had reserves available at December 31, 2022 and 2021, the future availability of resources to cover the losses cannot be projected because provisions of the 1985 Wisconsin Act 25 provided that the amount in the fund will be used to repay public depositors for losses until the appropriation is exhausted, at which time the fund is abolished. This coverage has not been considered in computing custodial credit risk.

Investment Policy

The Utilities have not adopted a formal investment policy; however, the Utilities invest in accordance with Wisconsin State Statutes. Under state statute, investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association authorized to transact business in the State, which matures in not more than three years.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state, the University of Wisconsin Hospitals and Clinics Authority, and the Wisconsin Aerospace Authority.
- Bonds or securities issued or guaranteed by the federal government.
- The state 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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Utilities will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Utilities do not have a formal policy addressing this type of deposit risk.

As of December 31, 2022 and 2021, the Water Utility's carrying value of the deposits was \$27,445,531 and \$29,424,388, respectively, as compared to bank balances of \$28,561,708 and \$29,479,672, respectively. Of the bank balances at December 31, 2022 and 2021, \$500,000 and \$500,000, respectively, was covered by federal depository insurance, and \$28,061,708 and \$28,979,672, respectively, was collateralized by pledged securities. As of December 31, 2022 and 2021, there was no uncollateralized cash.

As of December 31, 2022 and 2021, the Wastewater Utility's carrying value of the deposits was \$8,457,546 and \$10,934,242, respectively, as compared to bank balances of \$8,503,452 and \$10,943,335, respectively. Of the bank balances at December 31, 2022 and 2021, \$500,000 and \$500,000, respectively, was covered by federal depository insurance, and \$8,003,452 and \$10,443,335, respectively, was collateralized by pledged securities. There was no uncollateralized cash as of December 31, 2022 and 2021.

Custodial Risk for Investments

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Utilities will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal policy addressing this type of investment risk. The LGIP is not subject to the custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Utilities. The Utilities do not have a formal policy addressing this type of investment risk. As of December 31, 2022 and 2021, the Utilities held investments in the Local Government Investment Pool which is not rated.

Concentration of Credit Risk

Concentration of credit risk refers to risk of loss attributed to the investment in a single issuer. The Utilities do not have a formal policy addressing this type of investment risk. As of December 31, 2022 and 2021, there were no Utility investments subject to credit risk representing greater than 5% of the investment balance.

Interest Rate Risk

Interest rate risk is the risk that, changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal policy addressing this type of investment risk.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

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 Utilities' share of the LGIP's assets was substantially equal to the amount as reported in these statements. Certificates of deposit held in the LGIP are covered by FDIC insurance, which applies to the proportionate public unit share of accounts. The average maturity of the LGIP is 0.5 and 2.0 months for the years ended December 31, 2022 and 2021, respectively.

Fair Value Measurements

The Utilities use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Utilities follow an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Utilities have categorized their investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date for identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The Utilities do not have any assets that are subject to fair value measurements.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 RESTRICTED ASSETS

Certain proceeds of the Utilities' revenue bonds, 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 by applicable bond covenants. In addition, certain funds have been set aside for equipment replacement or capital improvement in accordance with the bond resolutions. The Utilities also report restricted resources for funds received that are restricted for uses as designated by intergovernmental agreements. The following accounts are reported as restricted assets:

Bond Redemption Fund – Used to segregate resources accumulated for debt service payments over the next 12 months.

Reserve Fund – Used to report resources set aside to be used in the event of deficiencies in the redemption account.

Depreciation Fund – Used to report resources set aside to fund plant renewals and replacement. These resources could also be used in the event of deficiencies in the redemption account.

Replacement Fund – As a condition of receiving state and federal funds for wastewater plant construction, the Wastewater Utility has established an account for replacement of certain mechanical equipment.

Impact Fund – Residential Equivalent Connections and Other Fees – Used to report resources set aside to fund future projects designed to serve future growth of the Water Utility.

Capital Improvement Fund – Used to report funds set aside for capital improvements.

The Pension Asset has been reported as restricted. This asset represents funds held by the Plan Trust, which can only be used to settle Plan obligations.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

The Plant Capacity Receivables have been reported as restricted assets. The uses of future receipts are limited by the governing agreement.

The Utilities had the following restricted assets as of December 31, 2022:

	Water Utility	Wastewater Utility	Total
Cash and Cash Equivalents:			
Bond Redemption	\$ 2,277,764	\$ 1,013,418	\$ 3,291,182
Reserve Fund	4,454,423	-	4,454,423
Depreciation Fund	800,000	-	800,000
Capital Improvement Fund	9,207,063	-	9,207,063
Replacement Fund	-	3,267,586	3,267,586
Total Restricted Cash and Cash Equivalents	16,739,250	4,281,004	21,020,254
Pension Asset	1,805,248	1,353,169	3,158,417
Plant Capacity Receivable	-	12,020,853	12,020,853
Total Restricted Assets	18,544,498	17,655,026	36,199,524
Reconciliation to Restricted Net Position:			
Plant Capacity Receivable Included in			
Unearned Capacity Revenue	-	(12,020,853)	(12,020,853)
Accrued Interest Payable	(601,839)	(45,619)	(647,458)
Unspent Bond Proceeds in Capital Improvement Fund	(9,207,063)	-	(9,207,063)
Bond Reserve Fund Financed by Bond Proceeds	(4,454,423)	-	(4,454,423)
Restricted Net Position	\$ 4,281,173	\$ 5,588,554	\$ 9,869,727

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 RESTRICTED ASSETS (CONTINUED)

The Utilities had the following restricted assets as of December 31, 2021:

	Water Utility	Wastewater Utility	Total
Cash and Cash Equivalents:			
Bond Redemption	\$ 2,274,142	\$ 4,509,538	\$ 6,783,680
Reserve Fund	4,384,107	-	4,384,107
Depreciation Fund	800,000	-	800,000
Capital Improvement Fund	16,780,472	-	16,780,472
Replacement Fund	-	3,216,292	3,216,292
Total Restricted Cash and Cash Equivalents	24,238,721	7,725,830	31,964,551
Pension Asset	1,475,843	1,169,093	2,644,936
Plant Capacity Receivable	-	16,067,568	16,067,568
Total Restricted Assets	25,714,564	24,962,491	50,677,055
Reconciliation to Restricted Net Position:			
Plant Capacity Receivable Included in Unearned Capacity Revenue	-	(16,067,568)	(16,067,568)
Accrued Interest Payable	(674,380)	(75,041)	(749,421)
Unspent Bond Proceeds in Capital Improvement Fund	(16,780,472)	-	(16,780,472)
Bond Redemption Fund Financed by Bond Proceeds	(4,384,107)	-	(4,384,107)
Restricted Net Position	<u>\$ 3,875,605</u>	<u>\$ 8,819,882</u>	<u>\$ 12,695,487</u>

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the Utilities for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 1,843,341	\$ -	\$ -	\$ 1,843,341
Construction in Progress	11,880,033	5,469,212	11,008,886	6,340,359
Total Capital Assets Not Being Depreciated/Amortized	13,723,374	5,469,212	11,008,886	8,183,700
Capital Assets Being Depreciated/Amortized:				
Buildings and System	40,932,460	52,920	690,088	40,295,292
Improvements Other Than Buildings	191,879,451	35,949,079	130,275	227,698,255
Machinery and Equipment	40,986,796	871,180	396,306	41,461,670
Total Capital Assets Being Depreciated	273,798,707	36,873,179	1,216,669	309,455,217
Accumulated Depreciation/Amortization:				
Buildings and System	20,246,692	1,300,542	690,088	20,857,146
Improvements Other Than Buildings	35,032,959	3,435,702	130,275	38,338,386
Machinery and Equipment	26,509,732	2,024,125	396,306	28,137,551
Total Accumulated Depreciation/Amortization	81,789,383	6,760,369	1,216,669	87,333,083
Total Capital Assets Being Depreciated/Amortized, Net	192,009,324	30,112,810	-	222,122,134
Total Capital Assets	205,732,698	35,582,022	11,008,886	230,305,834
Wastewater Utility				
Capital Assets Not Being Depreciated/Amortized:				
Land	316,798	-	-	316,798
Construction in Progress	1,716,826	2,209,067	540,893	3,385,000
Total Capital Assets Not Being Depreciated/Amortized	2,033,624	2,209,067	540,893	3,701,798
Capital Assets Being Depreciated/Amortized:				
Buildings and System	94,356,650	66,361	-	94,423,011
Improvements Other Than Buildings	33,872,864	307,837	-	34,180,701
Machinery and Equipment	49,585,411	162,579	1,433,427	48,314,563
Right of Use Lease Land and Improvements	1,769,570	-	-	1,769,570
Total Capital Assets Being Depreciated	179,584,495	536,777	1,433,427	178,687,845
Accumulated Depreciation/Amortization:				
Buildings and System	47,041,737	1,842,268	-	48,884,005
Improvements Other Than Buildings	13,357,165	306,835	-	13,664,000
Machinery and Equipment	39,054,866	1,769,494	1,421,051	39,403,309
Right of Use Lease Land and Improvements	55,299	55,299	-	110,598
Total Accumulated Depreciation/Amortization	99,509,067	3,973,896	1,421,051	102,061,912
Total Capital Assets Being Depreciated/Amortized, Net	80,075,428	(3,437,119)	12,376	76,625,933
Total Capital Assets	82,109,052	(1,228,052)	553,269	80,327,731
Total	\$ 287,841,750	\$ 34,353,970	\$ 11,562,155	\$ 310,633,565

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the Utilities for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility				
Capital Assets Not Being Depreciated:				
Land	\$ 1,843,341	\$ -	\$ -	\$ 1,843,341
Construction in Progress	12,580,062	3,176,204	3,876,233	11,880,033
Total Capital Assets Not Being Depreciated	14,423,403	3,176,204	3,876,233	13,723,374
Capital Assets Being Depreciated:				
Buildings and System	38,757,558	2,258,869	83,967	40,932,460
Improvements Other Than Buildings	171,231,387	21,073,499	425,435	191,879,451
Machinery and Equipment	39,781,309	1,704,904	499,417	40,986,796
Total Capital Assets Being Depreciated	249,770,254	25,037,272	1,008,819	273,798,707
Accumulated Depreciation:				
Buildings and System	19,054,733	1,275,926	83,967	20,246,692
Improvements Other Than Buildings	32,431,696	3,026,698	425,435	35,032,959
Machinery and Equipment	25,018,990	1,990,159	499,417	26,509,732
Total Accumulated Depreciation	76,505,419	6,292,783	1,008,819	81,789,383
Total Capital Assets Being Depreciated, Net	173,264,835	18,744,489	-	192,009,324
Total Capital Assets	187,688,238	21,920,693	3,876,233	205,732,698
Wastewater Utility				
Capital Assets Not Being Depreciated:				
Land	316,798	-	-	316,798
Construction in Progress	1,191,567	2,063,806	1,538,547	1,716,826
Total Capital Assets Not Being Depreciated	1,508,365	2,063,806	1,538,547	2,033,624
Capital Assets Being Depreciated:				
Buildings and System	94,316,532	40,118	-	94,356,650
Improvements Other Than Buildings	31,493,413	2,393,276	13,825	33,872,864
Machinery and Equipment	49,855,035	265,638	535,262	49,585,411
Right of Use Lease Land and Improvements	1,769,570	-	-	1,769,570
Total Capital Assets Being Depreciated	177,434,550	2,699,032	549,087	179,584,495
Accumulated Depreciation:				
Buildings and System	45,201,672	1,840,065	-	47,041,737
Improvements Other Than Buildings	13,084,561	286,429	13,825	13,357,165
Machinery and Equipment	37,828,076	1,762,052	535,262	39,054,866
Right of Use Lease Land and Improvements	-	55,299	-	55,299
Total Accumulated Depreciation	96,114,309	3,943,845	549,087	99,509,067
Total Capital Assets Being Depreciated, Net	81,320,241	(1,244,813)	-	80,075,428
Total Capital Assets	82,828,606	818,993	1,538,547	82,109,052
Total	\$ 270,516,844	\$ 22,739,686	\$ 5,414,780	\$ 287,841,750

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 5 RATE STABILIZATION FUND

On September 27, 2017, the Racine Wastewater Utility's Board of Commissioners established a rate stabilization fund effective starting with the 2018 fiscal year in accordance with GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Board of Commissioners established a user rate that will fund a rate stabilization fund. Amounts collected from this charge will be held in a deferred inflow of resources on the statement of net position. The terms of the rate stabilization fund focus on a desired rate of return each year, allowing for adjustments for variances in rainfall that affect usage, and establishes rates each year without severe fluctuations. In the years ended December 31, 2022 and 2021, Racine Wastewater Utility deferred \$-0- and \$-0-, respectively, of revenue into the rate stabilization fund. In the years ended December 31, 2022 and 2021, Racine Wastewater Utility recognized \$-0- and \$1,200,000, respectively, of operating revenue from the rate stabilization fund. As of December 31, 2022 and 2021, the Racine Wastewater Utility had deferred inflows of resources related to the rate stabilization fund of \$-0- and \$-0-, respectively.

NOTE 6 LONG-TERM LIABILITIES

Long-term debt activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Water Utility					
Long-Term Debt:					
Revenue Bonds	\$ 53,225,000	\$ -	\$ 2,470,000	\$ 50,755,000	\$ 2,630,000
Notes from Direct Borrowings and Direct Placements	4,541,583	-	1,120,144	3,421,439	1,146,007
Total	57,766,583	-	3,590,144	54,176,439	3,776,007
(Discounts) or Premiums	3,174,073	-	340,136	2,833,937	340,179
Total Long-Term Debt	60,940,656	-	3,930,280	57,010,376	4,116,186
Other Postemployment Benefits	18,706,954	-	1,773,110	16,933,844	587,486
Due to Other Governments	102,265	-	102,265	-	-
Compensated Absences	499,755	-	1,044	498,711	59,239
Total Long-Term Liabilities	<u>\$ 80,249,630</u>	<u>\$ -</u>	<u>\$ 5,806,699</u>	<u>\$ 74,442,931</u>	<u>\$ 4,762,911</u>
Wastewater Utility					
Long-Term Debt:					
Notes from Direct Borrowings and Direct Placements	\$ 20,687,797	\$ 141,417	\$ 6,540,728	\$ 14,288,486	\$ 994,402
Leases Payable	1,768,699	-	4,395	1,764,304	6,215
Other Postemployment Benefits	11,865,244	532,369	49,313	12,348,300	402,212
Compensated Absences	299,855	-	92,114	207,741	-
Unearned Capacity Revenue	46,515,479	-	1,550,516	44,964,963	1,551,057
Total Long-Term Liabilities	<u>\$ 81,137,074</u>	<u>\$ 673,786</u>	<u>\$ 8,237,066</u>	<u>\$ 73,573,794</u>	<u>\$ 2,953,886</u>

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Long-term debt activity for the year ended December 31, 2021 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Water Utility					
Long-Term Debt:					
Revenue Bonds	\$ 37,330,000	\$ 24,005,000	\$ 8,110,000	\$ 53,225,000	\$ 2,470,000
Notes from Direct Borrowings and Direct Placements	5,636,451	-	1,094,868	4,541,583	1,120,144
Total	42,966,451	24,005,000	9,204,868	57,766,583	3,590,144
(Discounts) or Premiums	2,130,928	1,750,458	707,313	3,174,073	340,179
Total Long-Term Debt	45,097,379	25,755,458	9,912,181	60,940,656	3,930,323
Other Postemployment Benefits	17,071,804	2,437,833	802,683	18,706,954	678,015
Due to Other Governments	-	102,265	-	102,265	-
Compensated Absences	611,944	-	112,189	499,755	8,946
Total Long-Term Liabilities	\$ 62,781,127	\$ 28,295,556	\$ 10,827,053	\$ 80,249,630	\$ 4,617,284
Wastewater Utility					
Long-Term Debt:					
Notes from Direct Borrowings and Direct Placements	\$ 26,525,987	\$ 761,990	\$ 6,600,180	\$ 20,687,797	\$ 6,534,602
Leases Payable	1,769,570	-	871	1,768,699	4,395
Other Postemployment Benefits	10,906,675	1,300,155	341,586	11,865,244	1,140,530
Compensated Absences	373,803	-	73,948	299,855	40,148
Unearned Capacity Revenue	48,065,995	-	1,550,516	46,515,479	1,551,057
Total Long-Term Liabilities	\$ 87,642,030	\$ 2,062,145	\$ 8,567,101	\$ 81,137,074	\$ 9,270,732

The following issues are outstanding as of December 31, 2022 and 2021:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/2022	Balance 12/31/2021
Water Utility						
<u>Notes from Direct Borrowings</u>						
Safe Drinking Water Loan	12/22/2004	5/1/2024	2.365%	#####	\$ 2,138,415	\$ 3,170,712
Safe Drinking Water Loan	5/27/2015	5/1/2035	1.650%	1,230,346	1,283,024	1,370,871
<u>Revenue Bonds</u>						
Mortgage Revenue Refunding Bonds	9/8/2015	9/1/2026	2.00 - 4.00%	6,590,000	2,790,000	3,430,000
Mortgage Revenue Bonds	12/28/2017	9/1/2031	3.00 - 5.00%	6,135,000	5,305,000	5,815,000
Mortgage Revenue Bonds	2/19/2019	9/1/2039	3.00 - 5.00%	20,000,000	19,950,000	19,975,000
Mortgage Revenue Refunding Bonds	2/11/2021	9/1/2041	1.00 - 5.00%	19,890,000	19,865,000	19,890,000
Mortgage Revenue Refunding Bonds	6/3/2021	9/1/2024	5.00%	4,115,000	2,845,000	4,115,000
Total Water Utility					#####	#####
Wastewater Utility						
Clean Water Fund Loans	7/24/2002	5/1/2022	2.860%	#####	\$ -	\$ 1,218,740
Clean Water Fund Loans	11/27/2002	5/1/2022	2.867%	60,724,848	-	4,347,294
Clean Water Fund Loans	1/23/2008	5/1/2027	2.480%	3,481,931	1,040,111	1,233,307
Clean Water Fund Loans	3/24/2010	5/1/2029	2.200%	2,524,712	1,076,320	1,217,129
Clean Water Fund Loans	5/23/2018	5/1/2038	1.870%	521,546	432,081	455,068
Clean Water Fund Loans	6/27/2018	5/1/2038	1.870%	13,088,291	10,875,693	11,454,269
Clean Water Fund Loans	11/10/2021	5/1/2041	1.485%	761,990	864,281	761,990
Total Wastewater Utility					#####	#####

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

The debt service requirements for all debt outstanding as of December 31, 2022 is as follows:

Year	Water Utility					
	Notes from Direct Borrowing			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 1,146,007	\$ 58,511	\$ 1,204,518	\$ 2,630,000	\$ 1,924,038	\$ 4,554,038
2024	1,172,472	31,739	1,204,211	2,745,000	1,769,644	4,514,644
2025	92,267	17,438	109,705	3,170,000	1,651,544	4,821,544
2026	93,790	15,903	109,693	3,310,000	1,528,194	4,838,194
2027	95,337	14,342	109,679	2,675,000	1,395,194	4,070,194
2028-2032	500,808	47,391	548,199	14,030,000	5,007,669	19,037,669
2033-2037	320,758	7,997	328,755	13,485,000	2,800,519	16,285,519
2038-2042	-	-	-	8,710,000	778,163	9,488,163
Total	<u>\$ 3,421,439</u>	<u>\$ 193,321</u>	<u>\$ 3,614,760</u>	<u>\$ 50,755,000</u>	<u>\$ 16,854,965</u>	<u>\$ 67,609,965</u>

Year	Wastewater Utility		
	Principal	Interest	Total
2023	\$ 994,401	\$ 360,976	\$ 1,355,377
2024	1,014,517	261,692	1,276,209
2025	1,035,046	241,163	1,276,209
2026	1,055,998	220,817	1,276,815
2027	1,077,382	199,745	1,277,127
2028-2032	4,034,148	719,796	4,753,944
2033-2037	4,065,268	251,353	4,316,621
2038-2042	1,011,726	38,088	1,049,814
Total	<u>\$ 14,288,486</u>	<u>\$ 2,293,630</u>	<u>\$ 16,582,116</u>

Revenue Debt

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

The Water Utility has pledged future customer revenues, net of specified operating expenses, to repay \$74.6 million in water system revenue bonds and safe drinking water loans issued between 2004 and 2021. Proceeds from the bonds provided financing for various extension, replacement, repair, and improvement projects throughout the water treatment and distribution system, acquiring equipment, and refunding. The bonds are payable solely from water customer net revenues and are payable through 2041. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$71,224,725. Principal and interest paid for the current year and total customer net revenues were \$5,758,556 and \$16,912,130, respectively. Principal and interest paid for the prior year and total net revenues were \$11,455,115 and \$15,446,217, respectively.

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Revenue Debt (Continued)

The Wastewater Utility has pledged future customer revenues, net of specified operating expenses, to repay \$99.0 million in clean water fund loans issued between 2002 and 2021. Proceeds from the loans provided financing for the construction of certain projects in the wastewater treatment system. The loans are payable solely from wastewater customer net revenues and are payable through 2041. Annual principal and interest payments on the loans are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$16,582,116. Principal and interest paid for the current year and total customer net revenues were \$1,258,056 and \$10,163,001, respectively. Principal and interest paid for the prior year and total net revenues were \$7,129,866 and \$7,894,648, respectively.

There are a number of limitations and restrictions contained in the various Wastewater Utility bond indentures and loan agreements. One such covenant requires that the Utility will produce each year Net Revenues, as defined by the agreement, equivalent to not less than 110% of annual principal and interest requirements of all bonds or similar obligations payable from the revenues of the Utility. The Utility has determined that annual cash receipts under the Sanitary Sewer Services Agreement, rather than annual revenue recognized should be utilized in this calculation. The receipts of payments from the Sanitary Sewer Services Agreement participants are planned to meet debt service requirements. However, the revenue is recognized over the life of the agreement, which is substantially longer than the repayment terms. As such, the Utility believes the cash flows better represent the Utility's ability to meet debt services requirements. The calculation used to determine compliance with the covenant at December 31 is below:

	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 11,737,133	\$ 11,451,983
Investment Earnings	117,456	19,432
Household Hazardous Waste Revenues	169,348	172,375
Miscellaneous Income	16,522	10,727
Cash Payments Received Under the Intergovernmental Sanitary Sewer Service Agreement	<u>5,827,175</u>	<u>4,503,224</u>
Gross Revenues	17,867,634	16,157,741
Less: Operation and Maintenance Expense	(9,198,184)	(8,637,971)
Other Postemployment Benefit Expense	1,959,996	872,536
Bad Debt	(27,187)	(24,224)
Taxes	(223,222)	(226,301)
Household Hazardous Waste Expense	<u>(203,655)</u>	<u>(195,642)</u>
Net Revenues	<u>\$ 10,175,382</u>	<u>\$ 7,946,139</u>
 Annual Debt Service Payment	 <u>\$ 1,355,377</u>	 <u>\$ 6,895,570</u>
 Coverage Ratio	 7.51	 1.15

At December 31, 2022 and 2021, the Wastewater Utility was in compliance with the covenant based on the above calculation.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 7 NET POSITION

Net position for the year ended December 31, 2022 is as follows:

	Water Utility	Wastewater Utility
Invested in Capital Assets, Net of Related Debt:		
Capital Assets, Net of Accumulated Depreciation	\$ 230,305,834	\$ 80,327,731
Capital Related Long-Term Debt and Other		
Borrowings Outstanding	(43,348,890)	(16,052,790)
Total Invested in Capital Assets	186,956,944	64,274,941
Restricted:		
Debt Service	1,675,925	967,799
Depreciation Fund	800,000	-
DNR Equipment Replacement Fund	-	3,267,586
Pension Asset	1,805,248	1,353,169
Total Restricted	4,281,173	5,588,554
Unrestricted	(2,080,828)	(35,297,908)
Total Net Position	\$ 189,157,289	\$ 34,565,587

Net position for the year ended December 31, 2021 is as follows:

	Water Utility	Wastewater Utility
Invested in Capital Assets, Net of Related Debt:		
Capital Assets, Net of Accumulated Depreciation	\$ 205,732,698	\$ 80,394,781
Capital Related Long-Term Debt and Other		
Borrowings Outstanding	(40,473,401)	(20,808,707)
Total Invested in Capital Assets	165,259,297	59,586,074
Restricted:		
Debt Service	1,599,762	4,434,497
Depreciation Fund	800,000	-
DNR Equipment Replacement Fund	-	3,216,292
Pension Asset	1,475,843	1,169,093
Total Restricted	3,875,605	8,819,882
Unrestricted	(9,346,075)	(35,572,015)
Total Net Position	\$ 159,788,827	\$ 32,833,941

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM

General Information about the Pension Plan

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

ETF issued a standalone WRS Financial Report, which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Additionally, ETF issued a standalone Wisconsin Retirement System Financial Report, which can also 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 occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before 12/31/2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. 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 or after age 55 (50 for protective occupations) 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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

General Information about the Pension Plan (Continued)

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

Year	Core Fund Adjustment (%)	Variable Fund Adjustment (%)
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, Executives and Elected Officials. Starting on 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 Water Utility participates in the Plan as part of the City of Racine. The City has determined that Water Utility’s allocation of the City’s share of participation in the Pension, to be 4.57% and 4.77%, respectively, for the years ended December 31, 2022 and 2021.

The Wastewater Utility participates in the Plan as part of the City of Racine. The City has determined that Wastewater Utility’s allocation of the City’s proportional share of participation in the Pension, to be 3.42% and 3.78%, respectively, for the years ended December 31, 2022 and 2021.

During the reporting period for the years ended December 31, 2022 and 2021, the WRS recognized contributions from the City of Racine that included \$263,946 and \$258,385 in contributions from Water Utility, respectively.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

General Information about the Pension Plan (Continued)

During the reporting period for the years ended December 31, 2022 and 2021, the WRS recognized contributions from the City of Racine that included \$192,249 and \$193,679 in contributions from Wastewater Utility, respectively.

Contribution rates as of December 31, 2022 are:

Employee Category	Employee	Employer
General (Including Teachers)	6.75 %	6.75 %
Executives and Elected Officials	6.75 %	6.75 %
Protective with Social Security	6.75 %	11.75 %
Protective without Social Security	6.75 %	16.35 %

Contribution rates as of December 31, 2021 are:

Employee Category	Employee	Employer
General (Including Teachers)	6.75 %	6.75 %
Executives and Elected Officials	6.75 %	6.75 %
Protective with Social Security	6.75 %	11.65 %
Protective without Social Security	6.75 %	16.25 %

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

At December 31, 2022, the Water and Wastewater Utilities reported a liability (asset) of (\$1,805,248) and (\$1,353,169), respectively, for its allocation of the City of Racine's 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 City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. The Water and Wastewater's allocation of the City's proportion was determined by the City. At December 31, 2021, the Water and Wastewater Utilities allocated proportion was 0.02239710% and 0.01678832% respectively, which was an decrease of 0.00124234% and 0.00193773%, respectively, from its proportion measured as of December 31, 2020.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

At December 31, 2021, the Water and Wastewater Utilities reported a liability (asset) of (\$1,475,843) and (\$1,169,093), respectively, for its allocation of the City of Racine's 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 City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. The Water and Wastewater's allocation of the City's proportion was determined by the City. At December 31, 2020, the Water and Wastewater Utilities allocated proportion was 0.02363945% and 0.01872604%, respectively, which was an increase of 0.00131314% and 0.00163634%, respectively, from its proportion measured as of December 31, 2019.

For the years ended December 31, 2022 and 2021, the Water Utility recognized pension expense of (\$147,695) and (\$148,715), respectively.

For the years ended December 31, 2022 and 2021, the Wastewater Utility recognized pension expense of (\$110,709) and (\$117,805), respectively.

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,971,905	\$ 251,714
Changes in Assumptions	349,479	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	4,185,427
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	432	5,703
Employer Contributions Subsequent to the Measurement Date	263,946	-
Total	<u>\$ 3,585,762</u>	<u>\$ 4,442,844</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,284,338	\$ 162,638
Changes in Assumptions	258,819	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	3,291,166
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	(219)	4,235
Employer Contributions Subsequent to the Measurement Date	192,249	-
Total	<u>\$ 2,735,187</u>	<u>\$ 3,458,039</u>

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**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

The \$263,946 and \$192,249 reported as deferred outflows related to pension resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction (increase) of the net pension liability (asset) in the year ended December 31, 2023 for the Water and Wastewater Utilities, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	Water Utility Net Amortization of Deferred Outflows and Inflows of Resources
2023	\$ (346,175)
2024	(175,209)
2025	(430,103)
2026	(182,321)

<u>Year Ended December 31,</u>	Wastewater Utility Wastewater Utility Net Amortization of Deferred Outflows and Inflows of Resources
2023	\$ (285,799)
2024	(149,038)
2025	(343,993)
2026	(145,852)

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**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

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

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,101,652	\$ 482,130
Changes in Assumptions	44,746	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	2,801,011
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	3,673	738
Employer Contributions Subsequent to the Measurement Date	258,385	-
Total	<u>\$ 2,408,456</u>	<u>\$ 3,283,879</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,632,017	\$ 335,352
Changes in Assumptions	30,399	-
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	-	2,253,443
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,209	512
Employer Contributions Subsequent to the Measurement Date	193,679	-
Total	<u>\$ 1,858,304</u>	<u>\$ 2,589,307</u>

Actuarial Assumption – For the year ended December 31, 2022, the total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2020
Measurement Date of Net Pension Liability (Asset):	December 31, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	6.8%
Discount Rate:	6.8%
Salary Increases	
Inflation:	3.0%
Seniority/Merit:	0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Tabl
Postretirement Adjustments:	1.7%*

*No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.7% is the assumed annual adjustment based on the investment return assumption and the postretirement discount rate.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

Actuarial assumptions are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the Total Pension Liability changed from prior year, including the discount rate, long-term expected rate of return, postretirement 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.

For the year ended December 31, 2021, the total pension asset in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2019
Measurement Date of Net Pension Liability (Asset):	December 31, 2020
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	7.0%
Discount Rate:	7.0%
Salary Increases	
Inflation:	3.0%
Seniority/Merit:	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table
Postretirement Adjustments:	1.9%*

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

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from the prior year, including the discount rate, long-term expected rate of return, postretirement adjustment, wage inflation rate, mortality and separation rates. 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.

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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of December 31, 2021:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	52.0%	6.8%	4.2%
Fixed Income	25.0	4.3	1.8
Inflation Sensitive Assets	19.0	2.7	0.2
Real Estate	7.0	5.6	3.0
Private Equity/Debt	12.0	9.7	7.0
Total Core Fund	115.0%	6.6%	4.0%
<u>Variable Fund Asset Class</u>			
U.S. Equities	70.0%	6.3%	3.7%
International Equities	30.0	7.2	4.6
Total Variable Funds	100.0%	6.8%	4.2%

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.5%

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

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

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	51.0%	7.2%	4.7%
Fixed Income	25.0	3.2	0.8
Inflation Sensitive Assets	16.0	2.0	(0.4)
Real Estate	8.0	5.6	3.1
Private Equity/Debt	11.0	10.2	7.6
Multi-Asset	4.0	5.8	3.3
Total Core Fund	115.0%	6.6%	4.1%
<u>Variable Fund Asset Class</u>			
U.S. Equities	70.0%	6.6%	4.1%
International Equities	30.0	7.4	4.9
Total Variable Funds	100.0%	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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

Single Discount Rate – A single discount rate of 6.80% was used to measure the Total Pension Liability, as opposed to a discount rate of 7.00% for the prior year. This single discount rate is based on the expected rate of return on pension plan investments of 6.80% and a municipal bond rate of 1.84% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2021. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.). Because of the unique structure of WRS, the 6.80% expected rate of return implies that a dividend of approximately 1.7% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities’ allocation of the City’s Proportionate Share of the Net Pension Liability (Asset) – The following presents the Utilities’ proportionate share of the net pension liability (asset) as of December 31, 2021 calculated using the discount rate of 6.80%, as well as what the Utilities’ proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.80%) or 1-percentage-point higher (7.80%) than the current rate:

	1% Decrease to Discount Rate (5.80%)	Current Discount Rate (6.80%)	1% Increase to Discount Rate (7.80%)
Water Utility's Allocation of the City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,280,951	\$ (1,805,248)	\$ (4,026,737)
Wastewater Utility's Allocation of the City's Proportionate Share of the Net Pension Liability (Asset)	\$ 960,169	\$ (1,353,169)	\$ (3,018,342)

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

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

The following presents the Utilities' proportionate share of the net pension liability (asset), as of December 31, 2020 calculated using the discount rate of 7.00%, as well as what the Utilities' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease to Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase to Discount Rate (8.00%)
Water Utility's Allocation of the City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,404,798	\$ (1,475,843)	\$ (3,951,653)
Wastewater Utility's Allocation of the City's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,112,814	\$ (1,169,093)	\$ (2,845,136)

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

NOTE 9 INTERFUND RECEIVABLES/PAYABLES

The Utilities had the following interfund receivables and payables with affiliated entities as of December 31, 2022 as follows:

	Water Utility	Wastewater Utility
Due from City of Racine	\$ 83,729	\$ 44,485
Due from Wastewater Utility	805,707	-
Due from Water Utility	-	1,579,051
Total Due From Other Funds	\$ 889,436	\$ 1,623,536
Due to City of Racine	\$ 5,942,827	\$ 6,575,931
Due to Wastewater Utility	1,579,051	-
Due to Water Utility	-	805,707
Total Due to Other Funds	\$ 7,521,878	\$ 7,381,638

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 9 INTERFUND RECEIVABLES/PAYABLES (CONTINUED)

The Utilities had the following interfund receivables and payables with affiliated entities as of December 31, 2021 as follows:

	Water Utility	Wastewater Utility
Due from City of Racine	\$ 53,844	\$ 18,525
Due from Wastewater Utility	773,369	-
Due from Water Utility	-	803,823
Total Due From Other Funds	\$ 827,213	\$ 822,348
Due to City of Racine	\$ 5,920,093	\$ 5,280,551
Due to Wastewater Utility	803,823	-
Due to Water Utility	-	773,369
Total Due to Other Funds	\$ 6,723,916	\$ 6,053,920

NOTE 10 RISK MANAGEMENT

The Utilities are exposed to various risks of losses including general liability, property and casualty, workers' compensation, and employee health and accident. The Utilities are involved in an intergovernmental insurance commission for general liability and auto insurance. There is a \$175,000 self-insured retention for each occurrence with this agreement. The Utilities purchase commercial insurance for property and casualty claims.

The Utilities participate in the City of Racine, Wisconsin, self-insurance plan for employee health insurance benefits. Additional details for the plan are available in the City of Racine, Wisconsin's Annual Comprehensive Financial Report. The plan is responsible for a specified amount of covered claims. Claims in excess of that amount are covered by purchased insurance. At December 31, 2022 and 2021, the Wastewater Utility has accrued a liability of \$38,374 and \$63,144, respectively, to cover future claims. At December 31, 2022 and 2021, the Water Utility has accrued a liability of \$66,666 and \$96,988, respectively, to cover future claims.

In the ordinary course of conducting business, the Utilities occasionally become involved in legal proceedings relating to contracts, environmental issues, or other matters. While any proceedings or litigation has an element of uncertainty, management of the Utilities believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Utilities.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 11 INTERGOVERNMENTAL SANITARY SEWER SERVICE AGREEMENT

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

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

Interest payments under the agreement are recorded as revenue when earned. Principal payments are recorded as reductions of the accounts receivable – capacity rights account. The unearned capacity revenue will be amortized on a straight-line basis over the term of the agreement. The capacity revenue recognized was \$1,551,057 and \$1,551,057 for the years ended December 31, 2022 and 2021, respectively.

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

The agreement also requires the Wastewater Utility to make payments from its reserve accounts to the City of Racine, Wisconsin, with respect to the Racine Public Library, Racine Zoo, and the Charles A. Wustum Museum of Fine Arts, which were determined to be regional cultural services and facilities which benefit the outlying parties. These payments in the amount of \$516,361 and \$1,062,814 for 2022 and 2021, respectively, are reported as transfers to other funds in the statement of revenues, expenses, and changes in net position.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 12 INTERGOVERNMENTAL RETAIL WATER SERVICE AGREEMENT

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

The REC fees are deposited in an interest-bearing segregated account and are restricted to pay for future growth costs. REC fees are recorded as revenue when received. The Water Utility recognized \$305,466 and \$146,372 of REC fee revenue for years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the Water Utility did not have restricted net position related to REC fee deposits.

In 2018, the Water Utility amended the intergovernmental agreement with the Village of Mount Pleasant. As part of the amendment, the Water Utility facilitates engineering and construction costs for Village development projects. Amounts paid by the Utility for such projects are billed to the Village, and the Village reimburses the Utility. The Village maintains ownership of these assets during construction. At December 31, 2022 and 2021, the Utility reported an outstanding receivable from the Village in due from other governments on the statements of net position of \$0 and \$1,255,174, respectively.

The amendment also establishes minimum required annual future growth revenues that are required to finance future growth project-related debt service payments. In the event that the designated annual revenues are below the established thresholds, the Village of Mount Pleasant is required to remit the designated shortfall to the Utility. These payments are recoverable in the event annual revenues exceed established thresholds. During the years ended December 31, 2022 and 2021, the Utility received \$-0- and \$-0- of shortfall payments from the Village, which are included in due to other governments on the statements of net position at December 31, 2022 and 2021, respectively.

The amendment also decreased annual REC fees for all classes of customers and guarantees cash flows sufficient to meet existing debt service requirements for related debt. In the event annual collections of REC fees are less than agreed upon amounts, payments will be made to the Utility. These payments are recoverable in the event future receipts exceed debt service requirements. The Utility held \$3,015,125 and \$2,334,890 of REC fees, which are included in due to other governments on the statements of net position at December 31, 2022 and 2021, respectively.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 13 COMMITMENTS

There were no significant commitments at December 31, 2022 and 2021 for the Water and Wastewater Utilities.

NOTE 14 INFILTRATION/INFLOW REMOVAL AGREEMENT

In 1994, the Wastewater Utility entered into an agreement with the City of Racine, Wisconsin, to periodically replace the manholes and upgrade other structures to promote infiltration/inflow removal in the City of Racine, Wisconsin. As part of the agreement, the Utility paid the construction costs for the manhole replacement and upgrades and was allowed to place a special charge on the bills of City residents to recover its costs. At December 31, 2022 and 2021, the Wastewater Utility had unrecovered cost/(excess collections) of (\$5,769,503) and (\$3,964,969), respectively, which was reported as part of the due to the City of Racine, Wisconsin.

NOTE 15 LEASE RECEIVABLES

The Water Utility, acting as lessor, leases water tower space and related equipment under long-term, noncancelable lease agreements. The leases expire at various dates through 2046 and provide for renewal options ranging from one to five years. During the year ended December 31, 2022, the Water Utility recognized \$239,712 and \$107,035 in lease revenue and interest revenue, respectively, pursuant to these contracts. During the year ended December 31, 2021, the Water Utility recognized \$275,089 and \$104,898 in lease revenue and interest revenue, respectively, pursuant to these contracts.

Certain leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Total future minimum lease payments to be received under lease agreements are as follows:

Year	Water Utility		
	Principal	Interest	Total
2023	\$ 196,055	\$ 101,544	\$ 297,599
2024	213,665	95,617	309,282
2025	142,975	90,627	233,602
2026	153,685	86,331	240,016
2027	163,570	81,732	245,302
2028-2032	675,667	346,474	1,022,141
2033-2037	795,444	241,166	1,036,610
2038-2042	952,734	115,797	1,068,531
2043-2057	317,552	10,490	328,042
Total	\$ 3,611,347	\$ 1,169,778	\$ 4,781,125

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 16 LEASE PAYABLE

The Wastewater Utility leases land and improvements under long-term, noncancelable lease agreement that expires in 2053. The lease agreement does not include any renewal terms and provides for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index.

Total future minimum lease payments under lease agreement are as follows:

Year	Wastewater Utility		
	Principal	Interest	Total
2023	\$ 6,215	\$ 50,329	\$ 56,544
2024	8,140	50,101	58,241
2025	10,173	49,814	59,987
2026	12,320	49,467	61,787
2027	14,586	49,055	63,641
2028-2032	111,432	236,582	348,014
2033-2037	189,060	214,383	403,443
2038-2042	288,384	179,317	467,701
2043-2047	414,313	127,880	542,193
2048-2052	572,767	55,784	628,551
2053-2057	136,914	331	137,245
Total	\$ 1,764,304	\$ 1,063,043	\$ 2,827,347

NOTE 17 MAJOR CUSTOMERS

Two major customers accounted for 15.2% and 12.4% of Wastewater Utility gross sales aggregating \$3,238,769 in 2022. Total customer accounts receivable from these customers were not significant to the Utility's operations as of December 31, 2022.

Two major customers accounted for 20.2% and 12.2% of Wastewater Utility gross sales aggregating \$3,946,399 in 2021. Total customer accounts receivable from these customers were not significant to the Utility's operations as of December 31, 2021.

One major customer accounted for 15.5% of Water Utility gross sales aggregating \$3,784,514 and 15.7% of gross sales aggregating \$3,861,402 in 2022 and 2021, respectively. Total accounts receivable from this customer were not significant to the Utility's operations as of December 31, 2022 and 2021.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE

General Information

The Racine Water and Wastewater Utilities participate in a single-employer defined benefit health care and life benefit plan, City of Racine Retiree Medical Benefits (the Retiree Health Plan) administered by the City of Racine, Wisconsin. The plan provides health insurance benefits for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established through personnel policy guidelines, or past practice and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates. The Retiree Health Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria of paragraph 4 of the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The benefits vary depending upon the age and years of service of the retiree. Benefit provisions are established through personnel policies established by the City and generally result in the employer paying 100% of the health care costs for employees who retire with a combination of age and years of service between 75 and 80 years. The employer also pays 100% of Medicare premiums for those individuals. Life insurance premiums are paid to age 65 for those who retire prior to age 65 and who meet the age and years of service criteria above. In 2006, various groups of retirees began paying a portion of the health care premiums. Required contributions range from 0%-7.5% based on labor negotiations and retirement date.

Contribution requirements are established through personnel policies established by the City. Personnel policy guidelines may be amended by action of the City's Common Council. The employer makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The amount of the employer's contribution ranges from 95%-100% based on the employee's year of retirement and bargaining unit. For the year ended December 31, 2022, the Water and Wastewater Utilities contributed \$587,487 and \$678,015 to the plan, respectively. For the year ended December 31, 2021, the Water and Wastewater Utilities contributed \$402,211 and \$871,326 to the plan, respectively. Eligible plan member contributions vary based on the specific collective bargaining agreement. Plan member contributions range from 0%-7.5% of their premium costs.

At December 31, 2022, the Water and Wastewater reported OPEB liabilities of \$16,464,136 and \$11,949,831, respectively, that were measured by an actuarial valuation as of December 31, 2019.

At December 31, 2021, the Water and Wastewater reported OPEB liabilities of \$18,237,796 and \$11,417,462, respectively, that were measured by an actuarial valuation as of December 31, 2020.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified, for the year ended December 31, 2021:

Actuarial Valuation Date:	December 31, 2021
Measurement Date of Net OPEB Liability:	December 31, 2021
Salary Increases	
Inflation:	3.0%
Seniority/Merit:	0.4% - 3.5%
Mortality:	2020 WRS Experience Table
Actuarial Cost Method	Entry Age Normal

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified, for the year ended December 31, 2020:

Actuarial Valuation Date:	December 31, 2019
Measurement Date of Net OPEB Liability:	December 31, 2020
Salary Increases	
Inflation:	3.0%
Seniority/Merit:	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table
Actuarial Cost Method	Entry Age Normal

The actuarial assumptions used in the December 31, 2021 were based upon an experience study conducted in 2020 that covered a three-year period from January 1, 2018 to December 31, 2020.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

Changes in the Total OPEB Liability

The following presents the changes in the total OPEB liability of the Utility for the year ended December 31, 2022:

	Water Utility	Wastewater Utility	Total
Balance as of December 31, 2021	\$ 18,237,796	\$ 11,417,462	\$ 29,655,258
Changes for the Year:			
Service Cost	377,181	207,938	585,119
Interest on Total OPEB Liability	387,309	232,349	619,658
Effect of Economic/Demographic (Gains) or Losses	(2,599,812)	1,039,897	(1,559,915)
Effect of Assumptions Changes or Inputs	716,640	390,194	1,106,834
Benefit Payments	(694,978)	(1,338,009)	(2,032,987)
Balance as of December 31, 2022	<u>\$ 16,424,136</u>	<u>\$ 11,949,831</u>	<u>\$ 28,373,967</u>

The following presents the changes in the total OPEB liability of the Utility for the year ended December 31, 2021:

	Water Utility	Wastewater Utility	Total
Balance as of December 31, 2020	\$ 16,691,132	\$ 10,534,616	\$ 27,225,748
Changes for the Year:			
Service Cost	311,472	175,199	486,671
Interest on Total OPEB Liability	454,015	287,366	741,381
Effect of Economic/Demographic (Gains) or Losses	-	-	-
Effect of Assumptions Changes or Inputs	1,652,503	867,243	2,519,746
Benefit Payments	(871,326)	(446,962)	(1,318,288)
Balance as of December 31, 2021	<u>\$ 18,237,796</u>	<u>\$ 11,417,462</u>	<u>\$ 29,655,258</u>

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Water and Wastewater Utilities as of December 31, 2022, as well as what the Utilities' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.06%) or 1-percentage-point higher (3.06%) than the current discount rate:

	1% Decrease to Discount Rate (1.06%)	Current Discount Rate (2.06%)	1% Increase to Discount Rate (3.06%)
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 19,295,100	\$ 16,464,135	\$ 14,194,997
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 13,656,595	\$ 11,949,831	\$ 10,540,222

The following presents the net OPEB liability of the Water and Wastewater Utilities as of December 31, 2021, as well as what the Utilities' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.12%) or 1-percentage-point higher (3.12%) than the current discount rate:

	1% Decrease to Discount Rate (1.12%)	Current Discount Rate (2.12%)	1% Increase to Discount Rate (3.12%)
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 21,465,159	\$ 18,237,795	\$ 15,680,737
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 13,055,518	\$ 11,417,462	\$ 10,066,615

The following presents the net OPEB liability of the Water and Wastewater Utilities as of December 31, 2022, as well as what the Utilities' 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:

	1% Decrease	Current Trend Rate	1% Increase
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 14,248,865	\$ 16,464,135	\$ 19,273,806
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 10,660,992	\$ 11,949,831	\$ 13,502,403

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

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

The following presents the net OPEB liability of the Water and Wastewater Utilities as of December 31, 2021, as well as what the Utilities' 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:

	1% Decrease	Current Trend Rate	1% Increase
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 15,305,464	\$ 18,237,795	\$ 22,017,381
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 9,896,420	\$ 11,417,462	\$ 13,281,231

For the year ended December 31, 2022, the Water Utility recognized total net OPEB expense (benefit) of (\$1,347,561), of which (\$1,406,025) was recognized from the Retiree Health Plan.

For the year ended December 31, 2022, the Wastewater Utility recognized total net OPEB expense (benefit) of (\$772,521), of which (\$822,118) was recognized from the Retiree Health Plan.

For the year ended December 31, 2021, the Water Utility recognized total OPEB expense (benefit) of (\$79,203), of which (\$114,490) was recognized from the Retiree Health Plan.

For the year ended December 31, 2021, the Wastewater Utility recognized total OPEB expense (benefit) of (\$1,385,235), of which (\$1,410,723) was recognized from the Retiree Health Plan.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 199,365	\$ 313,962
Changes in Assumptions	1,687,079	1,223,458
Employer Contributions Subsequent to the Measurement Date	587,487	-
Total	<u>\$ 2,473,931</u>	<u>\$ 1,537,420</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,697,590	\$ 659,665
Changes in Assumptions	812,097	556,810
Employer Contributions Subsequent to the Measurement Date	402,219	-
Total	<u>\$ 2,911,906</u>	<u>\$ 1,216,475</u>

The \$587,487 and \$402,219 reported as deferred outflows related to OPEB resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2022 for the Water and Wastewater Utilities, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense (benefit) as follows:

Year Ended December 31,	Water Utility Net Amortization of Deferred Outflows and Inflows of Resources
2023	\$ (222,567)
2024	81,172
2025	151,243
2026	276,229
2027	55,706
2028	7,241

Year Ended December 31,	Wastewater Utility Net Amortization of Deferred Outflows and Inflows of Resources
2023	\$ 157,526
2024	257,975
2025	807,226
2026	70,485

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 18 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – HEALTH INSURANCE
(CONTINUED)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 348,749	\$ -
Changes in Assumptions	1,564,600	1,891,668
Employer Contributions Subsequent to the Measurement Date	678,015	-
Total	<u>\$ 2,591,364</u>	<u>\$ 1,891,668</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 1,038,653
Changes in Assumptions	725,995	1,086,626
Employer Contributions Subsequent to the Measurement Date	602,343	-
Total	<u>\$ 1,328,338</u>	<u>\$ 2,125,279</u>

NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

Contributions

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

Contributions (Continued)

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

Contribution rates as of both December 31, 2022 and 2021 are:

Coverage Type	Employer Contribution
50% Postretirement Coverage	40% Postretirement Coverage
25% Postretirement Coverage	20% Postretirement Coverage

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the years ended December 31, 2021 and 2020 are as listed below:

Life Insurance
Employee Contribution Rates
For the years ended December 31, 2022 and 2021

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 age 70 receive a waiver of premium benefit

During the reporting period ended December 31, 2022, the LRLIF recognized \$1,443 and \$1,269 in contributions from the Water and Wastewater Utilities, respectively.

During the reporting period ended December 31, 2021, the LRLIF recognized \$1,589 and \$1,348 in contributions from the Water and Wastewater Utilities, respectively.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

**Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and
Deferred Inflows of Resources**

At December 31, 2022, the Water and Wastewater Utilities reported a liability of \$469,708 and \$398,469, respectively, 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 Utilities' proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. The Water and Wastewater's allocation of the City's proportion was determined by the City. At December 31, 2021, the Water and Wastewater Utilities allocated proportion was 0.08528591% and 0.08140010%, respectively, which was a decrease of 0.00408794% and 0.00595171% from its proportion measured as of December 31, 2020, respectively.

At December 31, 2021, the Water and Wastewater Utilities reported a liability of \$469,158 and \$447,782, respectively, 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 Utilities' proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. The Water and Wastewater's allocation of the City's proportion was determined by the City. At December 31, 2020, the Water and Wastewater Utilities allocated proportion was 0.08937385% and 0.08735181%, respectively, which was an increase of 0.00089272% and 0.00089935% from its proportion measured as of December 31, 2019, respectively.

For the year ended December 31, 2022, the Water Utility recognized total net OPEB expense (benefit) of (\$1,347,561), of which \$58,464 was from the LRLIF plan.

For the year ended December 31, 2022, the Wastewater Utility recognized total net OPEB expense (benefit) of (\$772,521), of which \$49,597 was from the LRLIF plan.

For the year ended December 31, 2021, the Water Utility recognized total net OPEB expense (benefit) of (\$79,203), of which \$35,287 was from the LRLIF plan.

For the year ended December 31, 2021, the Wastewater Utility recognized total net OPEB expense (benefit) of (\$1,385,235), of which \$25,488 was from the LRLIF plan.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

**Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and
Deferred Inflows of Resources (Continued)**

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

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Projected and Actual Experiences	\$ -	\$ 25,106
Changes of Actuarial Assumptions	150,550	26,113
Net Differences Between Projected and Actual Investment		
Earnings on OPEB Plan Investment	6,688	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	13,887	22,196
Employer Contributions Subsequent to the Measurement Date	1,434	-
Total	<u>\$ 172,559</u>	<u>\$ 73,415</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Projected and Actual Experiences	\$ -	\$ 24,375
Changes of Actuarial Assumptions	152,491	26,920
Net Differences Between Projected and Actual Investment		
Earnings on OPEB Plan Investment	6,760	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	11,782	18,829
Employer Contributions Subsequent to the Measurement Date	1,262	-
Total	<u>\$ 172,295</u>	<u>\$ 70,124</u>

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

**Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and
Deferred Inflows of Resources (Continued)**

\$1,434 and \$1,262 reported as deferred outflows for Water and Wastewater, respectively, related to OPEB resulting from the LRLIF Employer’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Water Utility Net Amortization of Deferred Outflows and Inflows of Resources</u>
2023	\$ 24,262
2024	23,513
2025	20,731
2026	24,734
2027	8,246
Thereafter	(3,776)

<u>Year Ended December 31,</u>	<u>Wastewater Utility Net Amortization of Deferred Outflows and Inflows of Resources</u>
2023	\$ 25,024
2024	24,275
2025	21,482
2026	25,131
2027	8,546
Thereafter	(3,549)

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

**Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and
Deferred Inflows of Resources (Continued)**

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

	Water Utility Deferred Outflows of Resources	Water Utility Deferred Inflows of Resources
Differences Between Projected and Actual Experiences	\$ -	\$ 23,806
Changes of Actuarial Assumptions	192,842	35,836
Net Differences Between Projected and Actual Investment		
Earnings on OPEB Plan Investment	7,470	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	17,527	-
Employer Contributions Subsequent to the Measurement Date	1,589	-
Total	<u>\$ 219,428</u>	<u>\$ 59,642</u>
	Wastewater Utility Deferred Outflows of Resources	Wastewater Utility Deferred Inflows of Resources
Differences Between Projected and Actual Experiences	\$ -	\$ 23,273
Changes of Actuarial Assumptions	188,367	35,168
Net Differences Between Projected and Actual Investment		
Earnings on OPEB Plan Investment	7,424	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	16,729	-
Employer Contributions Subsequent to the Measurement Date	1,348	-
Total	<u>\$ 213,868</u>	<u>\$ 58,441</u>

Actuarial Assumptions

The total OPEB liability in the January 1, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2021
Measurement Date of Net OPEB Liability:	December 31, 2021
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	2.06%
Long-Term Expected Rate of Return:	4.25%
Discount Rate:	2.17%
Salary Increases	
Inflation:	3.00%
Seniority/Merit:	0.1% - 5.6%
Mortality:	2020 WRS Experience Table

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

Actuarial Assumptions (Continued)

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

The total OPEB liability in the January 1, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Actuarial assumptions are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. 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.

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.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

Long-Term Expected Return on Plan Assets (Continued)

**Local 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
U.S. Intermediate Credit Bonds	Bloomberg US Interm Credit	45%	1.68%
U.S. Credit Bonds	Bloomberg US Long Credit	5%	1.82%
U.S. Mortgages	Bloomberg US MBS	50%	1.94%
Inflation			2.30%
Long-Term Expected Rate of Return			4.25%

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

**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
U.S. Credit Bonds	Barclays Credit	50%	1.47%
U.S. Mortgages	Barclays MBS	50%	0.82%
Inflation			2.20%
Long-Term Expected Rate of Return			4.25%

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
(CONTINUED)**

Single Discount Rate

A single discount rate of 2.17% was used to measure the Total OPEB Liability for the current year, as opposed to a discount rate of 2.25% for the prior year. 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 members. 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 Utilities' Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the utilities' proportionate share of the net OPEB liability as of December 31, 2021 calculated using the discount rate of 2.17%, as well as what the Utilities' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.17%) or 1-percentage-point higher (3.17%) than the current rate:

	1% Decrease to Discount Rate (1.17%)	Current Discount Rate (2.17%)	1% Increase to Discount Rate (3.17%)
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 637,225	\$ 469,709	\$ 343,659
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 540,578	\$ 398,469	\$ 291,537

**RACINE WATER AND WASTEWATER UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2022 AND 2021**

**NOTE 19 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – LIFE INSURANCE
 (CONTINUED)**

**Sensitivity of the Utilities’ Proportionate Share of the Net OPEB Liability (Asset) to
 Changes in the Discount Rate (Continued)**

The following presents the Utilities’ proportionate share of the net OPEB liability as of December 31, 2020 calculated using the discount rate of 2.25%, as well as what the Utilities’ proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25%) or 1-percentage-point higher (3.25%) than the current rate:

	1% Decrease to Discount Rate (1.25%)	Current Discount Rate (2.25%)	1% Increase to Discount Rate (3.25%)
Water Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 638,156	\$ 469,158	\$ 341,307
Wastewater Utility's Allocation of the City's Proportionate Share of the Net OPEB Liability	\$ 609,081	\$ 447,782	\$ 325,757

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**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 20 RESTATEMENT OF NET POSITION

During the year ended December 31, 2022, beginning net position of the Water Utility and Wastewater Utility were restated for the implementation of GASB Statement No. 87 to record the impact of recording right-to-use lease assets and related lease liabilities and the lease receivable and deferred inflows related to leases.

The impacted balances within statement of Net Position and Statement of Revenues, Expense and Changes in Net Position for the year ended December 31, 2021 have been restated for the impact of the restatements noted above. The details of the restatement are as follows:

	Balances Previously Reported	Net Impact of Adoption of GASB Statement No. 87-Leases	Restated Balances
Water Utility			
Assets:			
Leases Receivable, Current Portion	\$ -	\$ 182,312	\$ 182,312
Leases Receivable, Long-Term Portion	-	3,611,348	3,611,348
Deferred Inflow of Resources:			
Deferred Amounts Related to Leases	-	3,722,953	3,722,953
Net Position:			
Unrestricted	(9,416,782)	70,707	(9,346,075)
Operating Revenues	24,537,724	70,707	24,608,431
Wastewater Utility			
Assets:			
Utility Plant in Service	\$ 177,814,925	\$ 1,769,570	\$ 179,584,495
Less: Accumulated Depreciation and Amortization	99,453,768	55,299	99,509,067
Liabilities:			
Leases Payable, Current Portion	-	4,395	4,395
Leases Payable, Less Current Portion Above	-	1,764,304	1,764,304
Net Position:			
Net Investment in Capital Assets	59,586,074	(54,428)	59,531,646
Operating Expense:			
Operation and Maintenance Expense	7,816,926	(51,491)	7,765,435
Depreciation and Amortization	3,888,546	55,299	3,943,845
Nonoperating Revenues (Expense):			
Interest Expense	(501,237)	(50,620)	(551,857)

**RACINE WATER AND WASTEWATER UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Schedule of the Utilities' Allocation of the City of Racine's Proportionate Share of the Net Pension Liability (Asset)
Wisconsin Retirement System
Last Ten Measurement Periods*

	2022	2021	2020	2019	2018	2017	2016	2015
Water Utility:								
The Utility's Allocation of the City of Racine's Proportion of the Net Pension Liability (Asset)	0.02239710%	0.02363945%	0.02232631%	0.02194546%	0.02214081%	0.02329492%	0.02314786%	0.01625163%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net Pension Liability (Asset)	\$ (1,805,248)	\$ (1,475,843)	\$ (719,902)	\$ 780,751	\$ (657,387)	\$ 192,006	\$ 376,148	\$ (399,185)
The Utility's Covered Payroll	\$ 3,911,408	\$ 3,976,995	\$ 3,570,145	\$ 3,941,246	\$ 3,624,036	\$ 3,539,267	\$ 3,490,508	\$ 3,486,176
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	106.02%	105.26%	102.96%	96.45%	102.93%	99.12%	98.20%	102.74%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	-46.15%	-37.11%	-20.16%	19.81%	-18.14%	5.43%	10.78%	-11.45%
Wastewater Utility:								
The Utility's Allocation of the City of Racine's Proportion of the Net Pension Liability (Asset)	0.01678832%	0.01872604%	0.01708970%	0.01623157%	0.01699093%	0.01753476%	0.01738688%	0.01158267%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net Pension Liability (Asset)	\$ (1,353,169)	\$ (1,169,093)	\$ (551,050)	\$ 577,468	\$ (504,481)	\$ 144,528	\$ 282,533	\$ (284,502)
The Utility's Covered Payroll	\$ 2,477,228	\$ 3,238,039	\$ 2,755,064	\$ 2,905,858	\$ 2,738,653	\$ 2,664,692	\$ 2,614,742	\$ 2,463,494
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	106.02%	105.26%	102.96%	96.45%	102.93%	99.12%	98.20%	102.74%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	-54.62%	-36.10%	-20.00%	19.87%	-18.42%	5.42%	10.81%	-11.55%

Schedule of the Utilities' Pension Contributions
Wisconsin Retirement System
Last Ten Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015
Water Utility:								
Contractually Required Contributions	\$ 263,946	\$ 258,385	\$ 276,260	\$ 254,689	\$ 252,869	\$ 250,844	\$ 233,614	\$ 236,715
Contributions in Relation to the Contractually Required Contributions	\$ (263,946)	\$ (258,385)	\$ (276,260)	\$ (254,689)	\$ (252,869)	\$ (250,844)	\$ (233,614)	\$ (236,715)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's Covered - Employee Payroll	\$ 4,032,574	\$ 3,911,408	\$ 3,976,995	\$ 3,570,145	\$ 3,941,246	\$ 3,624,036	\$ 3,539,267	\$ 3,490,508
Contributions as a Percentage of Covered Payroll	6.55%	6.61%	6.95%	7.13%	6.42%	6.92%	6.60%	6.78%
Wastewater Utility:								
Contractually Required Contributions	\$ 192,249	\$ 193,679	\$ 218,840	\$ 194,952	\$ 187,030	\$ 192,498	\$ 175,848	\$ 177,802
Contributions in Relation to the Contractually Required Contributions	\$ (192,249)	\$ (193,679)	\$ (218,840)	\$ (194,952)	\$ (187,030)	\$ (192,498)	\$ (175,848)	\$ (177,802)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's Covered Payroll	\$ 2,784,405	\$ 2,477,228	\$ 3,238,039	\$ 2,755,064	\$ 2,905,858	\$ 2,738,653	\$ 2,664,692	\$ 2,614,742
Contributions as a Percentage of Covered Payroll	6.90%	7.82%	6.76%	7.08%	6.44%	7.03%	6.60%	6.80%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

**RACINE WATER AND WASTEWATER UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

**Schedule of Changes in the Utilities'
Total OPEB Health Insurance Liability and Related Ratios
Last Ten Fiscal Years***

Total OPEB Liability	2022	2021	2020	2019	2018
Water Utility:					
Service Cost	\$ 377,181	\$ 311,472	\$ 323,382	\$ 450,916	\$ 395,004
Interest on Total OPEB Liability	387,309	454,015	736,778	675,144	686,060
Effect of Economic/Demographic (Gains) or Losses	(2,559,812)	-	332,565	181,652	280,752
Effect of Assumption Changes or Inputs	716,640	1,652,503	(1,762,749)	(1,828,047)	961,925
Benefit Payments	(694,978)	(871,326)	(1,159,613)	(861,236)	(943,479)
Net Change in Total OPEB Liability	(1,773,660)	1,546,664	(1,529,637)	(1,381,571)	1,380,262
Total OPEB Liability, Beginning	18,237,796	16,691,132	18,220,769	19,602,340	18,222,078
Total OPEB Liability, Ending	<u>\$ 16,464,136</u>	<u>\$ 18,237,796</u>	<u>\$ 16,691,132</u>	<u>\$ 18,220,769</u>	<u>\$ 19,602,340</u>
Covered - Employee Payroll	\$ 4,299,987	\$ 4,205,306	\$ 4,375,234	\$ 4,190,746	\$ 3,941,246
Utility's Net OPEB Liability as a Percentage of Covered Payroll	382.89%	433.69%	381.49%	434.79%	497.36%
Wastewater Utility:					
Service Cost	\$ 207,938	\$ 175,199	\$ 178,650	\$ 253,093	\$ 223,562
Interest on Total OPEB Liability	232,349	287,366	538,183	488,258	506,413
Effect of Economic/Demographic (Gains) or Losses	1,039,897	-	(1,655,781)	(135,863)	(227,428)
Effect of Assumption Changes or Inputs	390,194	867,243	(1,251,752)	(1,171,443)	624,425
Benefit Payments	(1,338,009)	(446,962)	(440,467)	(413,929)	(306,959)
Net Change in Total OPEB Liability	532,369	882,846	(2,631,167)	(979,884)	820,013
Total OPEB Liability, Beginning	11,417,462	10,534,616	13,165,783	14,145,667	13,325,654
Total OPEB Liability, Ending	<u>\$ 11,949,831</u>	<u>\$ 11,417,462</u>	<u>\$ 10,534,616</u>	<u>\$ 13,165,783</u>	<u>\$ 14,145,667</u>
Covered - Employee Payroll	\$ 3,042,482	\$ 3,214,643	\$ 3,337,077	\$ 3,099,532	\$ 2,905,858
Utility's Net OPEB Liability as a Percentage of Covered Payroll	392.77%	355.17%	315.68%	424.77%	486.80%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

**RACINE WATER AND WASTEWATER UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Schedule of the Utilities' Allocation of the City of Racine's Proportionate Share of the Net OPEB Liability

Local Retiree Life Insurance Fund
Last Ten Measurement Periods*

	2022	2021	2020	2019	2018
Water Utility:					
The Utility's Allocation of the City of Racine's Proportion of the Net OPEB Liability	0.07947190%	0.08528591%	0.08937385%	0.08848113%	0.08781457%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net OPEB Liability	\$ 469,709	\$ 469,158	\$ 380,672	\$ 228,312	\$ 264,199
The Utility's Covered Payroll	\$ 3,911,408	\$ 3,976,995	\$ 3,570,145	\$ 3,941,246	\$ 3,220,627
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	31.36%	31.36%	37.58%	48.69%	44.81%
Wastewater Utility:					
The Utility's Allocation of the City of Racine's Proportion of the Net OPEB Liability	0.08140010%	0.08140010%	0.08735181%	0.08645246%	0.08949624%
The Utility's Allocation of the City of Racine's Proportionate Share of the Net OPEB Liability	\$ 398,469	\$ 447,782	\$ 372,059	\$ 223,076	\$ 269,257
The Utility's Covered Payroll	\$ 2,477,228	\$ 3,238,039	\$ 2,755,064	\$ 2,905,858	\$ 2,525,814
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	31.36%	31.36%	37.58%	48.69%	44.81%

Schedule of the Utilities' OPEB Contributions

Local Retiree Life Insurance Fund
Last Ten Fiscal Years*

	2022	2021	2020	2019	2018
Water Utility:					
Contractually Required Contributions	\$ 1,589	\$ 1,434	\$ 1,690	\$ 1,768	\$ 1,702
Contributions in Relation to the Contractually Required Contributions	\$ (1,589)	\$ (1,434)	\$ (1,690)	\$ (1,768)	\$ (1,702)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's Covered Payroll	\$ 3,911,408	\$ 3,976,995	\$ 3,570,145	\$ 3,941,246	\$ 3,220,627
Contributions as a Percentage of Covered Payroll	0.04%	0.04%	0.05%	0.04%	0.05%
Wastewater Utility:					
Contractually Required Contributions	\$ 1,348	\$ 1,262	\$ 1,613	\$ 1,728	\$ 1,662
Contributions in Relation to the Contractually Required Contributions	\$ (1,348)	\$ (1,262)	\$ (1,613)	\$ (1,728)	\$ (1,662)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's Covered Payroll	\$ 2,477,228	\$ 3,238,039	\$ 2,755,064	\$ 2,905,858	\$ 2,525,814
Contributions as a Percentage of Covered Payroll	0.05%	0.04%	0.06%	0.06%	0.07%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Changes in Benefit Terms and Assumptions Related to Pension Liabilities (Assets)

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

Changes of assumptions:

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

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

Based on a three-year experience study conducted in 2018 covering January 1, 2015 through December 31, 2017, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-ended December 31, 2018, including the following:

- Lowering the long-term expected rate of return from 7.2% to 7.0%
- Lowering the discount rate from 7.2% to 7.0%
- Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Lowering the postretirement adjustments from 2.1% to 1.9%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality Table to the Wisconsin 2018 Mortality Table.

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Changes in Benefit Terms and Assumptions Related to Pension Liabilities (Assets) (Continued)

Significant methods and assumptions used in calculating Wisconsin Retirement System Actuarially Determined Contributions:

	2021	2020	2019	2018	2017
Valuation Date:	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Actuarial Cost Method:	Frozen Entry Age				
Amortization Method:	Level Percent of Payroll-Closed Amortization Period				
Amortization Period:	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS	30 Year closed from date of participation in WRS
Asset Valuation Method:	Five Year Smoothed Market (Closed)				
Actuarial Assumptions					
Net Investment Rate of Return:	5.4%	5.4%	5.5%	5.5%	5.5%
Weighted based on assumed rate for:					
Pre-retirement:	7.0%	7.0%	7.2%	7.2%	7.2%
Post-retirement:	5.0%	5.0%	5.0%	5.0%	5.0%
Salary Increases					
Wage Inflation:	3.0%	3.0%	3.2%	3.2%	3.2%
Seniority/Merit:	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Post-retirement Benefit Adjustments*:	1.9%	1.9%	2.1%	2.1%	2.1%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015 - 2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012 - 2014.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012 - 2014.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012 - 2014.
Mortality:	Wisconsin 2018 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%).	Wisconsin 2018 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%).	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%).	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%).	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%).

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Changes in Benefit Terms and Assumptions Related to Pension Liabilities (Assets) (Continued)

Significant methods and assumptions used in calculating Wisconsin Retirement System Actuarially Determined Contributions (continued):

	2016	2015	2014	2013
Valuation Date:	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Actuarial Cost Method:	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method:	Level Percent of Payroll-Closed Amortization Period	Level Percent of Payroll-Closed Amortization Period	Level Percent of Payroll-Closed Amortization Period	Level Percent of Payroll-Closed Amortization Period
Amortization Period:	30 Year closed from date of participation in WRS			
Asset Valuation Method:	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)
Actuarial Assumptions				
Net Investment Rate of Return:	5.5%	5.5%	5.5%	5.5%
Weighted based on assumed rate for:				
Pre-retirement:	7.2%	7.2%	7.2%	7.2%
Post-retirement:	5.0%	5.0%	5.0%	5.0%
Salary Increases				
Wage Inflation:	3.2%	3.2%	3.2%	3.2%
Seniority/Merit:	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Post-retirement Benefit Adjustments:	2.1%	2.1%	2.1%	2.1%
Retirement Age:	Experience- based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009 - 2011.	Experience- based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009 - 2011.	Experience- based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009 - 2011.	Experience- based table of rates that are specific to the type of eligibility condition. Last updated for the 2009 valuation pursuant to an experience study of the period 2006 - 2008.
Mortality:	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future Improvements (margin) in mortality.	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future Improvements (margin) in mortality.	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future Improvements (margin) in mortality.	Wisconsin Projected Experience Table - 2005 for women and 90% of the Wisconsin Projected Experience Table - 2005 for men.

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

**RACINE WATER AND WASTEWATER UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2022**

Changes in Benefit Terms and Assumptions Related to LRLIF OPEB Liabilities (Assets)

Benefit Terms: There were no recent changes in benefit terms.

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

The assumption changes that were used to measure the December 31, 2021 total OPEB liabilities, including the following:

- Lowering the price inflation rate from 2.5% to 2.4%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table.

The assumption changes that were used to measure the December 31, 2018 total OPEB liabilities, including the following:

- Lowering the long-term expected rate of return from 5.00% to 4.25%
- Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality Table to the Wisconsin 2018 Mortality Table.

Changes in Benefit Terms and Assumptions related to Health OPEB Liabilities (Assets)

Changes of benefit terms – Health. There were no changes of benefit terms in the OPEB health insurance fund.

Changes of assumptions – Health. No significant change in assumptions were noted from the prior year.

Health Insurance OPEB. No assets are accumulated in a trust that meets the criteria of paragraph 4 of the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**RACINE WATER AND WASTEWATER UTILITIES
SCHEDULES OF OPERATING INCOME
WATER UTILITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
OPERATING REVENUES		
Sales of Water:		
Metered Sales to General Customers:		
Residential	\$ 9,517,852	\$ 9,781,900
Multi-Family Residential	1,726,067	1,711,790
Commercial	2,044,745	2,005,101
Industrial	4,713,185	4,764,667
Public Authorities	947,084	990,371
Total Metered Sales	18,948,933	19,253,829
Unmetered Sales	204,591	213,899
Private Fire Protection	299,978	293,802
Public Fire Protection	2,149,271	2,249,704
Sales for Resale	1,896,646	1,721,036
Total Sales of Water	23,499,419	23,732,270
Other Operating Revenues:		
Forfeited Discounts	434,290	411,397
Miscellaneous Service Revenues	64,698	66,167
Search Revenues	36,540	38,662
Other Water Revenues	442,679	359,935
Total Other Operating Revenues	978,207	876,161
Total Operating Revenues	24,477,626	24,608,431
OPERATING EXPENSES		
Operation and Maintenance Expenses:		
Personnel Services	3,583,286	3,544,055
Contractual Services	2,872,967	2,745,234
Materials and Supplies	1,162,547	960,329
Administrative and General	(581,145)	1,418,979
Total Operation and Maintenance Expenses	7,037,655	8,668,597
Bad Debt	15,292	14,879
Depreciation	6,616,768	6,150,100
Taxes	331,543	324,310
Total Operating Expenses	14,001,258	15,157,886
OPERATING INCOME	\$ 10,476,368	\$ 9,450,545

**RACINE WATER AND WASTEWATER UTILITIES
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
WATER UTILITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Personnel Services	\$ 3,583,286	\$ 3,544,055
Contractual Services:		
Equipment Maintenance	147,989	90,160
Building Maintenance	40,343	40,771
Vehicle Maintenance	67,963	71,063
Telephone	22,924	23,227
Natural Gas	149,244	124,589
Electric Services	812,445	804,795
Water and Wastewater Services	337,471	326,381
Street Repairs	351,282	301,855
Main Maintenance	150,695	142,951
Meter Maintenance	53,000	38,073
Professional Services	326,110	343,808
Computer Maintenance	153,873	137,586
Water Storage Maintenance	259,628	299,975
Total Contractual Services	2,872,967	2,745,234
Materials and Supplies:		
Operating Chemicals	420,861	345,070
Pipe and Fittings	121,492	89,385
Meter Parts	8,942	14,173
Gasoline and Diesel Fuel	99,870	65,413
Office Supplies	22,952	32,418
Custodial Supplies	14,962	13,109
Laboratory Supplies	35,898	31,803
Equipment Supplies	80,182	75,642
Building Supplies	61,052	64,026
Construction and Meter Supplies	44,395	40,282
Street Repair Supplies	123,701	81,487
Postage	44,223	43,118
Safety Supplies	26,294	19,288
Computer Supplies	57,723	45,115
Total Materials and Supplies	1,162,547	960,329
Administrative and General:		
Property and Liability Insurance	96,665	82,191
Workers' Compensation Insurance	129,080	131,776
Medical Expenses	1,138,628	1,370,162
Impact of OPEB Actuarial Estimates	(1,949,283)	(79,203)
Life Insurance	12,869	15,625
Wisconsin Retirement	264,039	258,385
Impact of WRS Actuarial Estimates	(347,746)	(436,867)
Training Programs	13,139	11,543
Dues, Publications, and Travel	11,913	16,728
Office Rent	34,313	32,664
Stormwater Fees	15,238	15,975
Total Administrative and General	(581,145)	1,418,979
 Total Operation and Maintenance Expenses	 \$ 7,037,655	 \$ 8,668,597

**RACINE WATER AND WASTEWATER UTILITIES
SCHEDULES OF OPERATING INCOME
WASTEWATER UTILITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
OPERATING REVENUES		
Metered Sales to General Customers:		
Residential	\$ 3,401,889	\$ 4,218,832
Multi-Family Residential	734,531	742,375
Commercial	833,216	827,584
Industrial	671,436	408,056
Municipal	5,238,606	4,419,759
Public Authorities	302,076	300,916
Total Metered Sales to General Customers	11,181,754	10,917,522
Other Operating Revenues:		
Forfeited Discounts	324,025	279,953
Other Sewer Revenues	231,354	254,508
Total Operating Revenues	11,737,133	11,451,983
OPERATING EXPENSES		
Operation and Maintenance Expenses:		
Personnel Services	3,046,294	2,908,600
Contractual Services	2,932,573	2,694,452
Materials and Supplies Expense	1,043,108	810,457
Customer Account Expenses	585,043	600,629
Administrative and General	(368,830)	751,297
Total Operation and Maintenance Expenses	7,238,188	7,765,435
Bad Debt	27,187	24,224
Depreciation and Amortization	3,973,896	3,943,845
Taxes	223,222	226,301
Total Operating Expenses	11,462,493	11,959,805
OPERATING INCOME (LOSS)	\$ 274,640	\$ (507,822)

**RACINE WATER AND WASTEWATER UTILITIES
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
WASTEWATER UTILITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Personnel Services	\$ 3,046,294	\$ 2,908,600
Contractual Services:		
Building Maintenance	87,928	103,783
Vehicle Maintenance	22,997	19,002
Telephone	9,873	8,340
Natural Gas	309,361	232,743
Electric Services	929,646	787,253
Water and Wastewater Service	345,566	344,534
Sewer System Repairs	5,942	5,432
Interceptor Maintenance	76,998	67,082
Professional Services	358,877	445,987
Sludge and Grit Disposal	785,385	680,296
Total Contractual Services	2,932,573	2,694,452
Materials and Supplies:		
Operating Chemicals	574,512	462,241
Gasoline and Diesel Fuel	33,476	23,585
Office Supplies	15,088	10,519
Custodial Supplies	21,107	16,118
Laboratory Supplies	83,724	81,010
Plant and System Supplies	237,401	163,892
Sewer Maintenance Supplies	8,662	8,505
Lubricants	28,090	29,554
Computer Supplies	41,048	15,033
Total Materials and Supplies	1,043,108	810,457
Customer Account Expenses:		
Meter Operations	182,368	178,597
Meter Maintenance	31,366	29,450
Meter Reading	28,076	29,545
Customer Records and Collections	134,937	154,187
Depreciation on Meters	143,598	142,683
Return on Meter Investment	64,698	66,167
Total Customer Account Expenses	585,043	600,629

**RACINE WATER AND WASTEWATER UTILITIES
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES (CONTINUED)
WASTEWATER UTILITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Administrative and General:		
Property and Liability Insurance	\$ 129,542	\$ 133,613
Workers' Compensation Insurance	78,248	70,452
Life Insurance	9,834	9,807
Wisconsin Retirement	192,249	193,737
Impact of WRS Actuarial Estimates	(192,227)	(353,674)
Dues, Publications, and Travel	27,272	16,834
Office Rent	33,780	32,163
Stormwater Fees	41,296	37,909
Medical Expenses	990,407	1,203,544
Impact of OPEB Actuarial Estimates	(1,956,060)	(847,048)
Safety Programs	35,532	21,389
City Departmental Charges	90,300	86,000
DNR Permit Fee	137,473	139,541
Training Programs	13,524	7,030
Total Administrative and General	<u>(368,830)</u>	<u>751,297</u>
Total Operation and Maintenance Expenses	<u>\$ 7,238,188</u>	<u>\$ 7,765,435</u>

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