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June 30, 2015

To the Water Utility Board
Madison Water Utility
119 East Olin Avenue
Madison, WI 53713

Dear Board Members:

Please find enclosed twenty-two (22) copies of the financial statements and management letter of Madison Water Utility for the years ended December 31, 2014 and 2013. An Independent Auditors' Report describing the scope of our work is included with the financial statements.

Please feel free to contact our office should you have any questions regarding the enclosed statements.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

A handwritten signature in black ink that reads "Vicki Hellenbrand". The signature is written in a cursive, flowing style.

Vicki V. Hellenbrand, CPA, Partner

Enclosures

MADISON WATER UTILITY

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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As of and for the Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Madison Water Utility's preparation and fair presentation of the financial statements 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 Madison Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Water Utility Board
Madison Water Utility

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Madison Water Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 12 to the financial statements, net position as of December 31, 2013 and January 1, 2013 has been restated to correct a material misstatement related to certain revenues and expenses that related to prior periods. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Madison Water Utility has not presented the Schedule of Funding Progress for the post-employment benefit program that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the financial statements. Our opinion on the financial statements is not affected by this missing information. We note that this information is included in the City of Madison's financial statements.

Supplementary Information

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

Baker Tilly Vinchow Krause, LLP

Madison, Wisconsin
June 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

Madison recognized the need for a central water supply early in its history. The common council of the City of Madison (municipality) directed its waterworks committee to establish the Madison Waterworks on September 5, 1881. Financing was obtained and contracts let in spring of 1882. Pumping commenced on December 7, 1882. Early management was vested in the common council through its committee, and on March 2, 1884, general management was transferred to a Board of Water Commissioners. The Madison Waterworks achieved department status in the early 1960's and, at that time, became the Madison Water Utility (utility) under a General Manager leadership with a Water Utility Board that continues today.

The utility has always been a groundwater system in spite of being surrounded by lakes. The utility currently has 22 deep wells with a capacity of over 65 million gallons per day. In common with other Wisconsin water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules and levels of service.

2014 FINANCIAL HIGHLIGHTS

- > Total revenues increased \$1 million or 3.6% from 2013 to 2014, higher than the utility's slight increase (0.43%) in pumping during 2014.
- > Income before capital contributions and transfers increased \$3.2 million or 221% from the prior year. The increase was due to the comparison with the utility's 2013 recording of a \$1.9 million loss on the early retirement of plant in service as part of its implementation of an Advanced Metering Infrastructure, a \$1.7 million increase in amortization expense including a total of \$1.4 million in current and unamortized prior year debt issuance costs expensed under the utility's required enactment of Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, and the \$1 million increase in revenue partially offset by higher operation and maintenance expense in 2014.

2013 FINANCIAL HIGHLIGHTS

- > Total revenues decreased \$1.1 million or 3.7% from 2012. The decrease was due to the comparison with 2012's higher revenues, which resulted from the warm weather and drought conditions that existed in the utility's service area, increasing the consumption of water during 2012.
- > Income before capital contributions and transfers decreased \$5.4 million or 78.6% from the prior year. The decrease was due to the utility's recording a \$1.9 million loss on the early retirement of plant in service as part of its implementation of an Advanced Metering Infrastructure, a \$1.7 million increase in amortization expense including a total of \$1.4 million in current and unamortized prior year debt issuance costs expensed under the utility's required enactment of Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, the \$1.1 million decrease in revenue, and higher depreciation, operation and maintenance expense.
- > Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$564,000 or 11.3% to \$5.6 million in 2013 from \$5.0 million in 2012, due primarily to the utility's ongoing investment in its water system infrastructure.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

RATES

The utility was granted a 9% rate increase by the PSCW, which became fully effective January 1, 2012. The utility is currently ranked twenty-first for nonresidential rates and fifty-first for residential rates out of 78 rates for utilities classified as AB (over 4,000 customers) in Wisconsin, and has the tenth lowest nonresidential rates in Dane County. The utility filed for a 30% rate increase on October 20, 2014.

UTILITY FINANCIAL ANALYSIS

The Statement of Net Position includes all of the utility's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

A summary of the utility's Statements of Net Position is presented in Table 1 as of December 31:

Table 1

Condensed Statements of Net Position (000's)

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
Current and Other Assets	\$ 38,610	\$ 59,457	\$ 51,868
Capital Assets	<u>228,817</u>	<u>214,048</u>	<u>204,512</u>
Total Assets	<u>267,427</u>	<u>273,505</u>	<u>256,380</u>
Deferred Outflows of Resources	<u>1,959</u>	<u>2,218</u>	<u>2,491</u>
Current Liabilities	14,657	14,006	13,637
Long-term Debt Outstanding	131,000	136,935	117,535
Long-term Liabilities	<u>12,243</u>	<u>13,278</u>	<u>12,683</u>
Total Liabilities	<u>157,900</u>	<u>164,219</u>	<u>143,855</u>
Net Investment in Capital Assets	101,068	99,948	105,984
Restricted	7,251	5,974	5,100
Unrestricted	<u>3,167</u>	<u>5,582</u>	<u>3,932</u>
Total Net Position	<u>\$ 111,486</u>	<u>\$ 111,504</u>	<u>\$ 115,016</u>

Total assets combined with deferred outflows of resources decreased \$6.3 million and total liabilities decreased \$6.3 million, resulting in net position as unchanged from 2013. In 2013, total assets combined with deferred outflows of resources increased \$16.9 million and total liabilities increased \$20.4 million, resulting in net position decreasing \$3.5 million or 3.1%.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position (000's)

	Year Ended December 31,		
	2014	Restated 2013	Restated 2012
Operating Revenues	\$ 28,658	\$ 27,636	\$ 29,410
Other Operating Revenues	1,208	1,206	536
Total Revenues	29,866	28,842	29,946
Operation & Maintenance Expense	15,092	14,298	14,352
Depreciation Expense	5,622	5,420	4,810
Nonoperating Expense	4,451	7,657	3,934
Total Expenses	25,165	27,375	23,096
Income before Capital Contributions and Transfers	4,701	1,467	6,850
Capital Contributions	858	646	1,065
Transfers, net	(5,577)	(5,625)	(4,769)
Change in Net Position	(18)	(3,512)	3,146
Beginning Net Position	111,504	115,016	111,870
Ending Net Position	\$ 111,486	\$ 111,504	\$ 115,016

The utility's total revenues increased \$1 million or 3.6% from 2013 to 2014, higher than the utility's slight increase (0.43%) in pumping during 2014. Total revenues decreased \$1.1 million or 3.7% in 2013 from 2012. The decrease was due to the comparison with 2012's higher revenue, which resulted from the warm weather and drought conditions that existed in the utility's service area, increasing the consumption of water.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses (000's)

	Year Ended December 31,		
	2014	Restated 2013	Restated 2012
OPERATING REVENUES			
Unmetered Sales	\$ 110	\$ 72	\$ 111
Metered Sales			
Residential	11,607	11,124	12,545
Commercial	9,421	8,885	9,232
Industrial	1,098	1,154	1,136
Public authority	2,603	2,754	2,815
Sales for resale	355	344	330
Total Metered Sales	25,084	24,261	26,058
Private Fire Protection	372	377	368
Public Fire Protection	3,092	2,926	2,873
Total Sales of Water	28,658	27,636	29,410
Customer Late Payment Penalties	221	260	262
Miscellaneous	55	41	31
Rents from water property	410	396	-
Other	522	509	243
Total Operating Revenues	<u>29,866</u>	<u>28,842</u>	<u>29,946</u>
OPERATING EXPENSES			
Source of Supply	124	86	122
Pumping	3,748	3,754	3,595
Water Treatment	732	775	748
Transmission and Distribution	5,827	5,605	5,741
Customer Accounts	854	719	618
Administrative and General	3,778	3,319	3,228
Total Operation and Maintenance	15,063	14,258	14,052
Depreciation	5,621	5,420	4,810
Taxes	30	40	300
Total Operating Expenses	<u>20,714</u>	<u>19,718</u>	<u>19,162</u>
Operating Income	<u>\$ 9,152</u>	<u>\$ 9,124</u>	<u>\$ 10,784</u>

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

UTILITY FINANCIAL ANALYSIS (cont.)

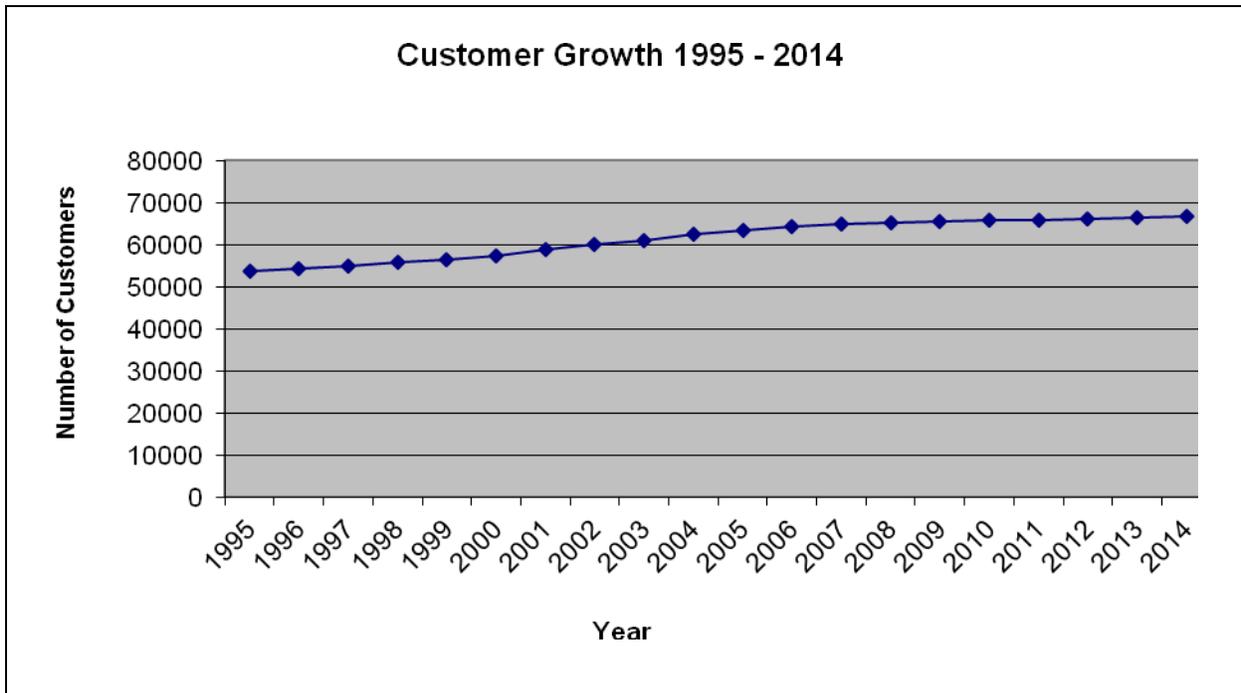
Revenues

Total revenues were \$29.9 million in 2014, compared with \$28.8 million in 2013, an increase of \$1 million or 3.6%. Although pumping increased slightly (0.43%), the utility added 306 new customers in 2014, the highest number of new customers added since 2009 (314).

Expenses

Operation and maintenance expenses totaled \$15.1 million in 2014, compared to \$14.3 million in 2013, an increase of \$800,000 or 5.6%. Depreciation expense increased \$200,000 or 3.7% to \$5.6 million in 2014 from 5.4 million in 2013. Interest and amortization expense was \$5.3 million in 2014, compared with \$6 million in 2013, a decrease of \$700,000 or 12.0% due to primarily to the utility's compliance with GASB Statement No. 65 in 2013, which required the utility to expense a total of \$1.4 million in current and unamortized prior year debt issuance costs. In 2013, the utility also recorded a \$1.9 million loss on the early retirement of plant in service as part of its implementation of the Advanced Metering Infrastructure/Project H₂O.

Chart 1



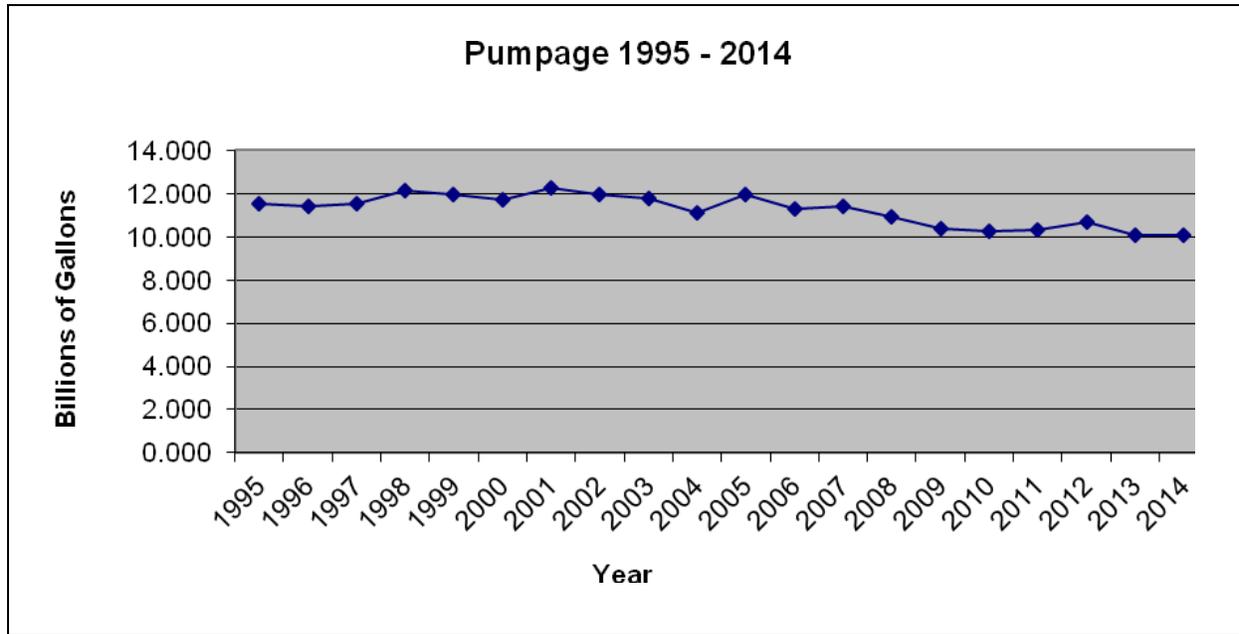
In 2014, the utility received 529 new applications for service, compared with 478, 354 and 293 new applications received in 2013, 2012 and 2011, respectively. 2014, 2013 and 2012 continued the first increase in consecutive years since a record number of new applications (1,442) was received in 2002, following 1,405 new applications in 2001.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014 and 2013

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year increased only slightly (0.43%) from 10.057 billion gallons in 2013 to 10.100 billion gallons in 2014, due to moderate weather conditions and continued water conservation efforts by customers.

CAPITAL EXPENDITURES

The utility added a net \$20.3 million of plant in 2014. Of this amount, approximately \$900,000 was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2014 included \$11.5 million for new and replacement water mains, \$2.5 million for system-wide miscellaneous pump station/pressure reducing valve/facility projects, \$2.3 million for Unit Well 7 iron and manganese filtration, \$1.8 million for the Booster Pump Station 106 rebuild, \$593,000 for Pressure Zone 4 fire flow supply augmentation, and \$228,000 for the start of Lakeview Reservoir 113 reconstruction.

Capital projects paid for by the utility in 2013 included \$6.5 million for the Advanced Metering Infrastructure/*Project H₂O*, \$6.4 million for new and replacement water mains, \$2.2 million for Unit Well 15 volatile organic compound mitigation, \$870,000 for the Booster Pump Station 106 rebuild, \$589,000 for Unit Well 7 iron and manganese filtration, and \$520,000 for Pressure Zone 4 fire flow supply augmentation.

Please refer to the notes to the financial statements for further details of the utility's capital assets.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

CAPITAL BORROWING

The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The utility borrowed \$24.3 million in 2013, \$21.1 million in 2012, \$19.4 million in 2011, \$13.2 million in 2010, and \$48.5 million in 2009. \$10.9 million of the 2009 borrowing was used to fund 2009 and 2010 capital projects, while the other \$37.6 million refunded the outstanding 2001, 2002, 2003 and 2006 revenue bonds, and the 2005 refunding bond issue. The utility plans a sale of revenue bonds in 2015 to fund its 2015 capital budget. The utility has stepped up its borrowing patterns in the last eleven years by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. However, even as the utility's largest customer, the University of Wisconsin – Madison, is nearing the end of fulfilling its growth plans requiring additional water from the utility. While customer growth has slowed, the utility added a net 6.4 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will ensure that the utility is well prepared to handle these challenges. While rates are expected to increase over time, management expects utility rates will remain near the statewide median average.

In 2012, the utility began implementing an Advanced Metering Infrastructure called *Project H₂O*, to retrofit all existing water meters with a device that allows the automated collection of meter readings via a fixed network system. This allows customers to closely monitor and control their own water use and thereby conserve water, reducing system demands. The utility is able to implement water conservation rates, monitor the system for leaks, evaluate and optimize system operation, and improve customer service. The total cost of the project was \$13.9 million. *Project H₂O* became operational at the end of 2013. In addition, effective September 2014, the utility converted its semiannual metered accounts to monthly, which helps customers in budgeting for a lower monthly billing.

UTILITY CONTACT INFORMATION

This financial report is designed to provide customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Michael L. Krentz, Financial Manager, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4645 or e-mail at mkrentz@madisonwater.org.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013

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MADISON WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 5,694,499	\$ 2,874,856
Restricted cash and investments	8,690,764	7,243,803
Customer accounts receivable	5,623,299	7,120,701
Accrued revenue	-	5,455,229
Materials and supplies	653,200	713,450
Current portion of special assessments	120,191	103,054
Other current assets	<u>238,273</u>	<u>256,659</u>
Total Current Assets	<u>21,020,226</u>	<u>23,767,752</u>
NONCURRENT ASSETS		
Restricted cash and investments	13,577,045	32,210,263
Other Assets		
Special assessments receivable	2,814,270	2,334,105
Preliminary survey and investigation	380,445	284,217
Property held for future use	568,796	663,602
Nonutility property (net of accumulated depreciation)	249,505	196,677
Capital Assets		
Plant in service	279,727,717	259,394,964
Accumulated depreciation	(66,977,963)	(61,570,769)
Construction work in progress	<u>16,066,863</u>	<u>16,224,052</u>
Total Noncurrent Assets	<u>246,406,678</u>	<u>249,737,111</u>
Total Assets	<u>267,426,904</u>	<u>273,504,863</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	<u>1,959,025</u>	<u>2,218,502</u>
Total Deferred Outflows of Resources	<u>1,959,025</u>	<u>2,218,502</u>

	2014	Restated 2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,126,666	\$ 2,650,517
Other current liabilities	421,343	338,853
Payable to other funds	2,569,383	2,892,689
Accrued interest	9,724	9,946
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	74,249	68,158
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	5,935,000	4,935,000
Accrued interest	2,755,764	2,346,324
Total Current Liabilities	<u>14,657,129</u>	<u>14,006,487</u>
NONCURRENT LIABILITIES		
Revenue bonds	131,000,000	136,935,000
Unamortized debt premium	5,033,952	5,582,311
Accrued compensated absences	1,680,163	1,640,793
Other postemployment benefit obligation	482,144	424,115
Advance from municipality	1,522,067	1,592,722
Loan from municipality	3,060,000	3,825,000
Customer advances for construction	464,254	213,014
Total Noncurrent Liabilities	<u>143,242,580</u>	<u>150,212,955</u>
Total Liabilities	<u>157,899,709</u>	<u>164,219,442</u>
NET POSITION		
Net investment in capital assets	101,068,219	99,948,208
Restricted for:		
Debt service	6,350,516	5,073,972
Capital repairs and replacement	900,000	900,000
Unrestricted	<u>3,167,485</u>	<u>5,581,743</u>
TOTAL NET POSITION	<u>\$ 111,486,220</u>	<u>\$ 111,503,923</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUES		
Sales of water	\$ 28,658,183	\$ 27,635,710
Other	<u>1,207,837</u>	<u>1,205,912</u>
Total Operating Revenues	<u>29,866,020</u>	<u>28,841,622</u>
OPERATING EXPENSES		
Operation and maintenance	15,092,223	14,297,651
Depreciation	<u>5,621,261</u>	<u>5,419,760</u>
Total Operating Expenses	<u>20,713,484</u>	<u>19,717,411</u>
 Operating Income	 <u>9,152,536</u>	 <u>9,124,211</u>
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(16,339)	7,157
Investment income	466,713	42,199
Interest and amortization expense	(5,301,068)	(6,024,705)
Interest charged to construction	204,713	77,491
Loss on early retirement of plant in service	-	(1,950,438)
Other	<u>194,743</u>	<u>190,841</u>
Total Nonoperating Revenues (Expenses)	<u>(4,451,238)</u>	<u>(7,657,455)</u>
 Income before Capital Contributions and Transfers	 4,701,298	 1,466,756
CAPITAL CONTRIBUTIONS	858,436	646,272
TRANSFERS IN / (OUT)	10,414	(43,400)
TRANSFERS - TAX EQUIVALENT	<u>(5,587,851)</u>	<u>(5,581,435)</u>
 Change in Net Position	 (17,703)	 (3,511,807)
 NET POSITION - Beginning of Year	 <u>111,503,923</u>	 <u>115,015,730</u>
 NET POSITION - END OF YEAR	 <u>\$ 111,486,220</u>	 <u>\$ 111,503,923</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 37,217,671	\$ 29,257,920
Paid to suppliers for goods and services	(8,381,298)	(8,321,870)
Paid to employees for services	(6,091,460)	(5,489,623)
Net Cash Flows from Operating Activities	22,744,913	15,446,427
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(5,587,851)	(5,581,435)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Repayment of advances from other funds	(68,157)	(62,357)
Interest paid on advances and loans from other funds	(75,050)	(82,219)
Transfers from (to) other funds	10,414	(43,400)
Net Cash Flows from Noncapital Financing Activities	(6,485,644)	(6,534,411)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(21,697,287)	(18,063,728)
Special assessments received	259,945	178,723
Contributions in aid of construction	227,240	221,816
Proceeds from debt issued	-	24,335,000
Premium on debt issued	-	1,665,836
Debt issuance costs	-	(221,444)
Build America Bond interest credit received	231,934	240,379
Debt retired	(4,935,000)	(3,975,000)
Interest paid	(5,179,428)	(4,367,205)
Net Cash Flows from Capital and Related Financing Activities	(31,092,596)	14,377
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(4,200,000)	(2,114,246)
Marketable securities sold	1,975,922	798,946
Investment income	466,713	205,638
Net Cash Flows from Investing Activities	(1,757,365)	(1,109,662)
Net Change in Cash and Cash Equivalents	(16,590,692)	7,816,731
CASH AND CASH EQUIVALENTS – Beginning of Year	32,734,366	24,917,635
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 16,143,674	\$ 32,734,366

	2014	Restated 2013
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 9,152,536	\$ 9,124,211
Nonoperating income	23,809	43,382
Noncash items included in operating income		
Depreciation	5,621,261	5,419,760
Depreciation charged to other accounts	913,691	627,718
Changes in Assets and Liabilities		
Customer accounts receivable	6,975,200	37,139
Receivable from other funds	(31,363)	94,811
Materials and supplies	60,251	(46,381)
Accrued revenues	-	11,399
Other current assets	(4,184)	(5,529)
Accounts payable and other current liabilities	229,682	(5,731)
Payable to other funds	(293,368)	39,547
Other postemployment benefit obligation	58,029	60,289
Accrued compensated absences	39,369	45,812
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 22,744,913	\$ 15,446,427
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 5,694,499	\$ 2,874,856
Restricted cash and investments - current	8,690,764	7,243,803
Restricted cash and investments - noncurrent	13,577,045	32,210,263
Total Cash and Investments	27,962,308	42,328,922
Less: Noncash equivalents	11,818,634	9,594,556
CASH AND CASH EQUIVALENTS	\$ 16,143,674	\$ 32,734,366
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 882,436	\$ 468,030
Capital additions assessed to customers	\$ 805,793	\$ 26,798
Interest capitalized	\$ 204,713	\$ 77,491
Increase (decrease) in fair value of investments	\$ 124,077	\$ (163,439)

See accompanying notes to financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality, portions of the Town of Madison and the Town of Burke, wholesale water service to Waunona Sanitary District No. 2, the Villages of Maple Bluff and Shorewood Hills, and portions of Fitchburg Utility District No. 1.

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

The utility is managed by an eight member Water Utility Board comprised of two Madison Common Council members (each serving a two year term), five citizen members, and the Director, Public Health Madison and Dane County (ex-officio), each serving a five year term.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION

Deposits and Investments

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

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

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

The utility, as part of the municipality, has adopted an investment policy. The policy follows the state statute for allowable investments.

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

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION (cont.)

Receivables/Payables

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

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

There has been an allowance account set up relating to other accounts receivable. The balance was \$83,160 and \$60,591 in 2014 and 2013, respectively.

Materials and Supplies

Materials and supplies inventories are generally used for construction, operation and maintenance work, not for resale. They are valued at average cost and charged to construction and expense when used.

Other Current Assets

The balance represents amounts due from other municipalities, miscellaneous receivables, and prepaid expenses.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance will be transferred as a capital asset upon commencement of the project.

Property Held for Future Use

These amounts represent tower and well sites which are owned by the utility but not currently used during the course of operation.

Nonutility Property

This balance includes sewer meters which are being amortized over an average period of 20 years as well as certain parcels of land related to abandoned facilities.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION (cont.)

Capital Assets

Capital assets are defined by the utility as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

Capital assets of the utility are recorded at cost or fair market value at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Plant in Service	
Source of supply	22 – 58
Pumping	23 – 31
Water treatment	16 – 31
Transmission and distribution	18 – 77
General	4 – 34
Completed construction not classified	65

Special Assessments Receivable

The utility assesses the cost of system extensions to benefited properties. This account represents the long-term portion of special assessments to be collected. Interest is charged on the unpaid balance at various rates.

Other Current Liabilities

The balance represents amounts payable relating to comp time, vacation time, and payroll taxes payable.

Accrued Compensated Absences

Utility employees are allowed to convert, at retirement, the lesser of 100% of accumulated days or 150 days, to a sick leave escrow account maintained in the municipality's trust and agency fund. No payment is made if the employee resigns or is terminated. The balance on the financial statements is based on the probability employees will be employed by the utility at the time of retirement. The liability is liquidated from general operating revenues of the utility.

After the satisfactory employee completion of a probationary period, vacation leave is accrued on the basis of continuous service, including periods of paid absent time. The vacation leave is granted at a rate dependent on the employee's length of service.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION (cont.)

Customer Advances for Construction

The balance represents customer advances for construction and meters which may be refundable in part or in whole pursuant to rules prescribed and on file with the PSCW.

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 effective interest 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. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statements of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statements of net position.

Revenues and Expenses

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

Charges for Services

Utility billings are rendered and recorded based on actual service provided. The utility converted from semi-annual to a monthly billing process with four cycles beginning in July, 2014. As a result of the change in the billing process, the utility no longer accrues revenues beyond the billing date.

Current rates were authorized by the PSCW in an order dated May 5, 2011 and are designed to earn a 6.90% return on rate base.

Transfers – Tax Equivalent

The utility records an annual payment in lieu of taxes (PILOT) expense based on the value of its capital assets times the current assessment ratio and local and school portions of the mill rate.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Capital Contributions

The municipality has invested capital in the utility at various times. This capital is not currently subject to repayment on demand or at a fixed future date by the utility. Certain utility plant has been contributed by utility customers. These contributions are not subject to repayment. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses and changes in net position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68.

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2014	2013	
Checking and Savings	\$ 1,453,071	\$ 603,686	Custodial credit
Other Investment Pool	14,545,421	30,014,337	(A)
Money Market	124,262	2,109,317	Custodial credit
U.S. Agencies	11,818,634	9,594,557	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	20,920	7,025	None
Totals	\$ 27,962,308	\$ 42,328,922	

(A)– The other investment pool is commingled with the municipality; therefore, the risk pertaining specifically to the utility cannot be determined individually. Please refer to the municipality's financial statements.

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

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

CUSTODIAL CREDIT RISK

Deposits

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

The utility maintains certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utility's resources at these institutions cannot be determined individually for those accounts. The following is a summary of the utility's total deposit balances at these institutions on December 31:

	2014		2013	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	\$ 1,149,645	\$ 1,453,071	\$ 11,749	\$ 603,686
US Bank	124,262	124,262	2,109,317	2,109,317
Totals	\$ 1,273,907	\$ 1,577,333	\$ 2,121,066	\$ 2,713,003

The municipality's investment policy addresses this risk by requiring security for all cash and investments maintained in any financial institution designated as a depository. The municipality exercises this authority under Sec. 34.07 of the Wisconsin Statutes which states that security may be required of any public depository for any public deposits that exceed the amount of deposit insurance provided by an agency of the United States or by the Wisconsin public deposit guarantee program. The utility is covered under the municipality's collateral agreements.

Investments

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

The utility's investments included \$11,818,634 and \$9,594,557 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2014 and 2013, respectively because the investments were neither insured nor registered and are held by counterparty.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

The municipality’s investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits to be secured by some form of collateral. The municipality will accept for collateral any of the following assets: obligations of the United States government or an agency or instrumentality of the United States government; obligations of the State of Wisconsin; investment grade obligations of Wisconsin local jurisdictions; obligations of the City of Madison. The fair market value of all collateral pledged will be not less than 110% of the amount of public funds to be secured at each institution. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly and additional collateral will be requested when this ratio declines below the level required. Pledged collateral will be held in safekeeping by a third party. All collateral agreements will be written so as to preclude release of the assets without an authorized signature from the municipality. The municipality will allow for even exchange of collateral.

INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK

Interest rate risk is the risk changes in interest rates will adversely affect the fair market value of an investment. All U.S. Agency securities mature within two to five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2014, 89.8% of the U.S. Agency investments were rated AAA and 10.2% were unrated by Moody’s Investors Service. All of the U.S. Agency investments were rated AA+ by S&P. As of December 31, 2013, all of the U.S. Agency investments were rated AAA by Moody’s Investors Service. All of the U.S. Agency investments were rated AA+ by S&P.

Concentration risk is the risk of loss attributable to the magnitude of a government’s investments in a single issuer. As of December 31, 2014, the utility had 10% of its portfolio in Federal Farm Credit Bank securities, and 5% in Federal Home Loan Bank system securities. As of December 31, 2013, the utility had 6% of its portfolio in Federal Farm Credit Bank securities.

The investment policy addresses these risks by permitting investments which mature to meet cash requirements, following state statutes as to allowable investments and limiting certificates with any one institution to 25% of the overall portfolio.

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2014 and 2013:

Due To	Due From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 2,569,383	Items due to Sewer and Storm less items on tax roll	\$ 2,892,689	Items due to Sewer and Storm less items on tax roll

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of transfer balances as of December 31, 2014 and 2013:

To	From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	5,587,851	Tax equivalent	\$ 5,581,435	Tax equivalent
Water	Municipality	22,841	Refund of wage insurance	21,288	Refund of wage insurance
Water	Municipality	8,345	Operations	-	
Municipality	Water	20,772	Project costs	39,688	Lead service replacement program
Municipality	Water	-		25,000	Contribution to Reservoir Park

NOTE 4 – RESTRICTED ASSETS

RESTRICTED ACCOUNTS

Certain proceeds of the utility's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond covenants. The following accounts are reported as restricted assets:

- Operation and Maintenance Reserve – Used to remedy any deficiency in the operation account, make extraordinary repairs or replacements, or pay principal and interest on the bonds or parity bonds.
- Principal and Interest – Used solely for the purpose of paying principal and interest on the bonds or parity bonds.
- Reserve – Used solely for the purpose of paying principal and interest on the bonds or parity bonds whenever the balance in the principal and interest account is insufficient for that purpose.
- Depreciation – Used for the payment of principal and interest on the bonds and parity bonds whenever the balance in the principal and interest account is insufficient for that purpose, to remedy any deficiency in the principal and interest account, or to make extraordinary repairs or improvements to the utility.
- Construction – Used to report bond proceeds restricted for use in construction.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net position:

	December 31,	
	2014	2013
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 8,690,764	\$ 7,243,803
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	11,942,896	11,703,873
Construction	734,149	19,606,390
Depreciation	750,000	750,000
Total Noncurrent Restricted Assets	13,577,045	32,210,263
Total Restricted Assets	22,267,809	39,454,066
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(11,527,380)	(11,527,380)
Construction fund	(734,149)	(19,606,390)
Current Liabilities Payable from Restricted Assets	(2,755,764)	(2,346,324)
Total Restricted Net Position	\$ 7,250,516	\$ 5,973,972
The purpose of the restricted net position is as follows:		
Debt service	\$ 6,350,516	\$ 5,073,972
Capital repairs and replacement	900,000	900,000
Total	\$ 7,250,516	\$ 5,973,972

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 follows:

	1/1/14 Balance	Increases	Decreases	12/31/14 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,118,582	\$ 7,663	\$ -	\$ 2,126,245
Capital assets being depreciated				
Source of supply	9,945,647	-	41,134	9,904,513
Pumping	11,421,775	271,292	226,305	11,466,762
Water treatment	2,280,103	-	9,928	2,270,175
Transmission and distribution	200,529,133	2,968,650	562,998	202,934,785
General	19,432,849	969,579	619,447	19,782,981
Completed construction not classified	13,666,875	19,340,100	1,764,719	31,242,256
Total Capital Assets Being Depreciated	<u>257,276,382</u>	<u>23,549,621</u>	<u>3,224,531</u>	<u>277,601,472</u>
Total Capital Assets	<u>259,394,964</u>	<u>23,557,284</u>	<u>3,224,531</u>	<u>279,727,717</u>
Less: Accumulated Depreciation				
Source of supply	(5,045,707)	(223,543)	(104,010)	(5,165,240)
Pumping	(6,755,190)	(434,998)	(213,376)	(6,976,812)
Water treatment	(400,357)	(86,971)	(11,200)	(476,128)
Transmission and distribution	(39,688,744)	(4,261,633)	(328,686)	(43,621,691)
General	(9,126,303)	(1,339,328)	(619,446)	(9,846,185)
Completed construction not classified	(554,468)	(396,374)	(58,935)	(891,907)
Total Accumulated Depreciation	<u>(61,570,769)</u>	<u>(6,742,847)</u>	<u>(1,335,653)</u>	<u>(66,977,963)</u>
Construction in progress (as restated)	<u>16,224,052</u>	<u>23,651,174</u>	<u>23,808,363</u>	<u>16,066,863</u>
Net Capital Assets	<u>\$ 214,048,247</u>			<u>\$ 228,816,617</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2013 follows:

	1/1/13 Balance	Increases	Decreases	12/31/13 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,115,663	\$ 2,919	\$ -	\$ 2,118,582
Capital assets being depreciated				
Source of supply	9,936,162	9,485	-	9,945,647
Pumping	11,333,196	112,345	23,766	11,421,775
Water treatment	2,275,643	17,925	13,465	2,280,103
Transmission and distribution	186,439,417	18,731,169	4,641,453	200,529,133
General	18,591,706	1,134,523	293,380	19,432,849
Completed construction not classified	21,409,484	1,389,334	9,131,943	13,666,875
Total Capital Assets Being Depreciated	249,985,608	21,394,781	14,104,007	257,276,382
Total Capital Assets	252,101,271	21,397,700	14,104,007	259,394,964
Less: Accumulated Depreciation				
Source of supply	(4,821,649)	(224,058)	-	(5,045,707)
Pumping	(6,349,091)	(431,636)	(25,537)	(6,755,190)
Water treatment	(326,689)	(87,133)	(13,465)	(400,357)
Transmission and distribution	(38,245,798)	(3,895,300)	(2,452,354)	(39,688,744)
General	(8,204,878)	(1,137,508)	(216,083)	(9,126,303)
Completed construction not classified	(518,188)	(271,842)	(235,562)	(554,468)
Total Accumulated Depreciation	(58,466,293)	(6,047,477)	(2,943,001)	(61,570,769)
Construction in progress (as restated)	11,520,270	19,043,978	14,340,196	16,224,052
Net Capital Assets	\$ 205,155,248			\$ 214,048,247

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/14 Amount Outstanding
12/1/07	Refunding debt and system improvements	1/1/28	4.00 - 4.75%	\$ 27,185,000	\$ 20,190,000
12/9/09	Refunding debt and system improvements	1/1/30	2.00 - 5.00%	48,540,000	42,605,000
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	11,625,000
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	17,905,000
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	20,275,000
12/18/13	System improvements	1/1/34	3.00 - 5.00%	24,335,000	24,335,000
Totals				<u>\$ 153,775,000</u>	<u>\$ 136,935,000</u>

Revenue bond debt service requirements to maturity follows:

Bond Year	Principal	Interest	Total
2015	\$ 5,935,000	\$ 5,416,434	\$ 11,351,434
2016	6,120,000	5,221,938	11,341,938
2017	6,645,000	4,998,593	11,643,593
2018	6,845,000	4,746,089	11,591,089
2019	6,970,000	4,475,866	11,445,866
2020	7,115,000	4,179,758	11,294,758
2021	7,355,000	3,859,507	11,214,507
2022	7,795,000	3,521,414	11,316,414
2023	8,100,000	3,168,408	11,268,408
2024	8,220,000	2,801,884	11,021,884
2025	8,405,000	2,446,376	10,851,376
2026	8,680,000	2,105,459	10,785,459
2027	8,525,000	1,762,509	10,287,509
2028	8,860,000	1,409,840	10,269,840
2029	9,455,000	1,037,601	10,492,601
2030	8,135,000	682,648	8,817,648
2031	4,905,000	423,525	5,328,525
2032	4,200,000	250,625	4,450,625
2033	2,980,000	120,400	3,100,400
2034	1,690,000	33,800	1,723,800
Totals	<u>\$ 136,935,000</u>	<u>\$ 52,662,674</u>	<u>\$ 189,597,674</u>

The 2010 bonds are Build America Bonds. Sees pages 38 - 39 for the details of the anticipated federal interest credit. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2014 interest subsidies were reduced by 7.2% and during the federal fiscal year 2015, the subsidy payments have been reduced by 7.3%. This amount may continue to change based on sequestration.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on utility plant. Principal and interest paid for 2014 and 2013 were \$9,882,492 and \$8,342,205, respectively. Total customer net revenues as defined for 2014 and 2013 were \$15,240,510 and \$14,841,648, respectively. Annual principal and interest payments are expected to require 62% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/14 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	3.41%	\$ 1,404,052	\$ 1,160,714
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	435,602

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2015	\$ 74,249	\$ 38,897	\$ 113,146
2016	81,499	37,598	119,097
2017	89,040	35,764	124,804
2018	97,451	33,538	130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,588	12,936	167,524
2024	168,800	6,752	175,552
Totals	<u>\$ 1,160,714</u>	<u>\$ 264,574</u>	<u>\$ 1,425,288</u>

(A) – No repayment schedule has been established for this advance. Accrued interest is added to the advance balance based on the municipality’s pooled investment rate plus 0.25%.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LOAN FROM MUNICIPALITY

On August 4, 2005, the Madison Common Council approved a loan from the municipality to the utility to be used as financing for capital and operating expenses with interest charged monthly at 0.25% higher than the monthly rate earned through the utility's other investment pool.

The following table shows the activity since the inception of this loan:

Year	Beginning Balance	Additions	Reductions	Ending Balance
2005	\$ -	\$ 4,573,000	\$ -	\$ 4,573,000
2006	4,573,000	1,877,000	5,235,000	1,215,000
2007	1,215,000	10,305,169	7,257,169	4,263,000
2008	4,263,000	1,830,000	688,000	5,405,000
2009	5,405,000	4,520,000	855,000	9,070,000
2010	9,070,000	1,220,000	2,045,000	8,245,000
2011	8,245,000	-	2,125,000	6,120,000
2012	6,120,000	-	765,000	5,355,000
2013	5,355,000	-	765,000	4,590,000
2014	4,590,000	-	765,000	3,825,000

The utility anticipates making principal payments totaling \$765,000 in 2015. No formal schedule for repayment has been established. At December 31, 2014 and 2013, the outstanding balance pertains to operating activities.

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2014, is as follows:

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Revenue bonds	\$ 141,870,000	\$ -	\$ 4,935,000	\$ 136,935,000	\$ 5,935,000
Accrued compensated absences	1,640,793	274,663	235,293	1,680,163	-
Other postemployment benefit obligation	424,115	128,867	70,838	482,144	-
Customer advances for construction	213,014	251,240	-	464,254	-
Advance from municipality	1,660,880	3,594	68,158	1,596,316	74,249
Loan from municipality – operating	4,590,000	-	765,000	3,825,000	765,000
Unamortized debt premium	5,582,311	-	548,359	5,033,952	-
Totals	\$ 155,981,113	\$ 658,364	\$ 6,622,648	\$ 150,016,829	\$ 6,774,249

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2013, is as follows:

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within One Year
Revenue bonds	\$ 121,510,000	\$ 24,335,000	\$ 3,975,000	\$ 141,870,000	\$ 4,935,000
Accrued compensated absences	1,594,983	269,718	223,908	1,640,793	-
Other postemployment benefit obligation	363,826	130,139	69,850	424,115	-
Customer advances for construction	142,642	102,900	32,528	213,014	-
Advance from municipality	1,719,710	3,526	62,356	1,660,880	68,158
Loan from municipality – operating	5,355,000	-	765,000	4,590,000	765,000
Unamortized debt premium	4,334,415	1,665,836	417,940	5,582,311	-
Totals	<u>\$ 135,020,576</u>	<u>\$ 26,507,119</u>	<u>\$ 5,546,582</u>	<u>\$ 155,981,113</u>	<u>\$ 5,768,158</u>

PRIOR YEAR DEFEASANCE OF DEBT

In 2005, the utility defeased \$3,605,000 of the 1995 and 1998 bonds by placing the proceeds of the 2005 bonds in an irrevocable trust to provide for all future debt service payments on the 1995 and 1998 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the utility's financial statements. The bonds are callable on January 1, 2015. At December 31, 2014, \$310,000 of bonds outstanding are considered defeased.

In 2009, the utility defeased \$38,745,000 of the 2001, 2002, 2003, 2005 and 2006 bonds by placing the proceeds of the 2009 A and 2009 B bonds in a irrevocable trust to provide for all future debt service payments on the 2001, 2002, 2003, 2005 and 2006 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds are callable as follows: 2001 bonds on January 1, 2010; 2002 bonds on January 1, 2012; 2003 and 2005 bonds on January 1, 2013; 2006 bonds on January 1, 2016. At December 31, 2014, \$10,890,000 of the bonds outstanding are considered defeased.

NOTE 7 – NET POSITION

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 7 – NET POSITION (cont.)

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

Unrestricted net position – The component of net position consisting of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

The following calculation supports the net investment in capital assets:

	December 31,	
	2014	Restated 2013
Plant in Service	\$ 279,727,717	\$ 259,394,964
Accumulated Depreciation	(66,977,963)	(61,570,769)
Construction Work in Progress (as restated)	16,066,863	16,224,052
Sub-totals	228,816,617	214,048,247
Less: Capital Related Debt		
Current portion of capital related long-term debt	5,935,000	4,935,000
Long-term portion of capital related long-term debt	131,000,000	136,935,000
Unamortized debt premium	5,033,952	5,582,311
Unamortized loss on advance refunding	(1,959,025)	(2,218,502)
Sub-totals	140,009,927	145,233,809
Add: Borrowed Funds on Hand		
Reserve fund	11,527,380	11,527,380
Construction fund	734,149	19,606,390
Sub-totals	12,261,529	31,133,770
Total Net Investment in Capital Assets (as restated)	\$ 101,068,219	\$ 99,948,208

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

All eligible city employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system (PERS). All employees initially employed by a participating WRS employer prior to July 1, 2011, expected to work over 600 hours a year, and expected to be employed for at least one year from the employee's date of hire are eligible to participate in the WRS. All employees initially employed by a participating WRS employer on or after July 1, 2011, expected to work at least 1,200 hours a year, and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Effective the first day of the first pay period on or after June 29, 2011, the employee required contribution was changed to one-half of the actuarially determined contribution rate for employees in the General Employment category and Executives and Elected Officials. 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. Contribution rates for 2014 were:

	<u>Employees</u>	<u>Employer</u>
2014 General Category	7.00%	7.00%
2013 General Category	6.65%	6.65%

Covered payroll listed below is substantially the same as total payroll.

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Utility Payroll	<u>\$ 7,837,970</u>	<u>\$ 7,622,231</u>	<u>\$ 7,287,434</u>
Total Covered Employee Payroll	<u>\$ 7,175,031</u>	<u>\$ 6,883,411</u>	<u>\$ 6,625,542</u>
Total Required Contributions	<u>\$ 1,004,504</u>	<u>\$ 915,494</u>	<u>\$ 781,814</u>
Total Required Contributions (%)	<u>14%</u>	<u>13.3%</u>	<u>11.8%</u>

Details of the plan are disclosed in the audit report of the municipality.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The municipality administers a single-employer defined benefit healthcare plan, (the plan) in which the utility participates. The plan provides healthcare coverage to active and eligible retired municipal employees and their spouses. The plan is affiliated with the Wisconsin Public Employer's Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. The plan does not issue a publicly available financial report.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for AFSCME union members who contribute the difference between the rate paid by the municipality and the current year rate. As the eligibility requirements for different classes of employees vary, please see the audit report of the municipality for complete details of all benefits offered.

The municipality's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year ended December 31:

	Municipality		Water Utility	
	2014	2013	2014	2013
Annual required contribution	\$ 7,072,914	\$ 7,027,727	\$ 128,867	\$ 130,139
Contributions made	(3,446,421)	(3,538,477)	(70,838)	(69,850)
Net Change in OPEB obligation	3,626,493	3,489,250	58,029	60,289
Net OPEB Obligation – 1/1	<u>21,922,357</u>	<u>18,433,107</u>	<u>424,115</u>	<u>363,826</u>
Net OPEB Obligation – 12/31	<u>\$ 25,548,850</u>	<u>\$ 21,922,357</u>	<u>\$ 482,144</u>	<u>\$ 424,115</u>

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and 2013, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2014	\$ 7,072,914	49%	\$ 25,548,850
Municipality	2013	7,027,727	50%	21,922,357
Water Utility	2014	128,867	55%	482,144
Water Utility	2013	130,139	54%	424,115

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan (overall municipality) as of December 31, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 56,716,147
Actuarial value of plan assets	<u>1,661,992</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 55,054,155</u>
Funded ratio (actuarial value of plan assets/AAL)	2.9%
Covered payroll (active plan members)	\$ 165,796,254
UAAL as a percentage of covered payroll	33.2%

Please see the required supplemental information for the entire plan included in the municipality audit report.

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the municipality's financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8% for 2014, reduced by decrements to an ultimate rate of 4.5% for 2021 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2014, was 30 years.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 10 – COMMITMENTS AND CONTINGENCIES

CLAIMS AND JUDGMENTS

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

OPEN CONTRACTS

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2014, has been accrued in these financial statements.

NOTE 11 – BOND COVENANT DISCLOSURES

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is required to comply with various debt covenants as a result of issuing revenue bonds. One such requirement states that net revenues earned must be at least 1.25 times the highest combined annual principal and interest requirements on all outstanding bonds.

NUMBER OF CUSTOMERS

At December 31, 2014 and 2013, the utility served the following number of customers:

	<u>2014</u>	<u>2013</u>
Residential	57,246	56,980
Commercial	8,946	8,902
Industrial	48	48
Public Authority	<u>482</u>	<u>486</u>
Totals	<u>66,722</u>	<u>66,416</u>

WATER PUMPED AND BILLED

During the years ended December 31, 2014 and 2013, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2014</u>	<u>2013</u>
Water pumped	<u>10,099,843</u>	<u>10,057,545</u>
Water billed	<u>8,655,054</u>	<u>8,863,612</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

RISK MANAGEMENT

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

NOTE 12 – RESTATEMENT OF NET POSITION

The balances of December 31, 2012 and 2013 net position have been restated to adjust for expenses incurred in prior periods that were included in construction work in progress (CWIP) in error. The prior period adjustment is necessary to recognize the expenses in the period the costs were incurred. In addition, the December 31, 2013 balance has been restated to recognize a timing difference related to utility billings to a customer. During 2013, thirteen months of billings were recorded for this customer. The prior period adjustment properly recognizes twelve months of revenue in each year.

The adjustment to December 31, 2012 net position is as follows:

Net Position – December 31, 2012 (as reported)	\$ 115,659,058
Expense 2012 costs charged to CWIP	<u>(643,328)</u>
Net Position – December 31, 2012 (as restated)	<u>\$ 115,015,730</u>

The adjustment to the comparative statements shown for 2013 is as follows:

Net Position – December 31, 2013 (as reported)	\$ 112,402,429
Expense 2012 costs charged to CWIP	(643,328)
Expense 2013 costs charged to CWIP	(174,818)
Adjustment of revenues from 2013 into 2014	<u>(80,660)</u>
Net Position – December 31, 2013 (as restated)	<u>\$ 111,503,623</u>

SUPPLEMENTAL INFORMATION

MADISON WATER UTILITY

City of Madison, Wisconsin

SCHEDULE OF INSURANCE IN FORCE

For the Year Ended December 31, 2014

<u>Type of Coverage and Name of Company</u>	<u>Policy Number Policy Period From To</u>	<u>Details of Coverage*</u>	<u>Liability Limits</u>
Automobile Comprehensive LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 1/1/14 to 1/1/15	\$121,909,585	Replacement Cost \$3,000 deductible
Automobile Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2014LP03A 1/1/14 to 1/1/15	Automobile Liability	\$10,000,000 per occurrence \$300,000 Self-insured retention
Boiler & Machinery CHUBB	7834-76-48 1/1/14 to 1/1/15	Repair & Replace Boiler & Machinery	\$50,000,000 \$25,000 deductible
Employee Theft FIDELITY & DEPOSIT	CCP 0060387 10 1/1/14 to 1/1/15	Blanket Bond	\$1,000,000 limit \$10,000 deductible
Fire & Extended Coverage on all structures LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 1/1/14 to 1/1/15	\$595,475,822	Replacement Cost \$25,000 deductible
General Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2014LP03A 1/1/14 TO 1/1/15	General Liability, Personal Injury Liability, and Errors & Omission Liability	\$10,000,000 per occurrence \$300,000 Self-insured retention

*The "Details of Coverage" for the indicated types of coverage apply to the City of Madison as a whole. It is normal policy for the City of Madison Insurance Fund to acquire insurance or provide self-insurance coverage for all of its related entities.

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES As of December 31, 2014

Year	2007A MRB's			2007B MRB's			2009A Refunding		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,005,000	\$ 794,300	\$ 1,799,300	\$ 360,000	\$ 53,200	\$ 413,200	\$ 930,000	\$ 1,417,106	\$ 2,347,106
2016	1,045,000	753,300	1,798,300	370,000	38,600	408,600	1,215,000	1,374,206	2,589,206
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320
2023	1,395,000	402,728	1,797,728	-	-	-	2,955,000	723,695	3,678,695
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,760	2,316,760
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450
2030	-	-	-	-	-	-	-	-	-
Totals	\$ 18,680,000	\$ 6,469,770	\$ 25,149,770	\$ 1,510,000	\$ 123,200	\$ 1,633,200	\$ 32,425,000	\$ 11,945,857	\$ 44,370,857

Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit (1)	Total
2015	\$ 320,000	\$ 6,000	\$ 326,000	\$ 280,000	\$ 416,488	\$ 696,488	\$ 570,000	\$ 471,383	\$ (164,984)	\$ 876,399
2016	-	-	-	345,000	403,988	748,988	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	-	-	-	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	-	-	-	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	-	-	-	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	-	-	-	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 320,000	\$ 6,000	\$ 326,000	\$ 9,860,000	\$ 4,944,920	\$ 14,804,920	\$ 11,625,000	\$ 4,982,280	\$ (1,743,796)	\$ 14,863,484

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2014 interest subsidies were reduced by 7.2% and during federal fiscal year 2015, the subsidy payments have been reduced by 7.3%. This amount may continue to change based on sequestration.

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES As of December 31, 2014

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 765,000	\$ 597,782	\$ 1,362,782	\$ 860,000	\$ 633,800	\$ 1,493,800	\$ 845,000	\$ 1,026,375	\$ 1,871,375
2016	780,000	574,606	1,354,606	880,000	616,400	1,496,400	910,000	1,000,050	1,910,050
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	935,000	963,025	1,898,025
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	965,000	915,525	1,880,525
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	995,000	866,525	1,861,525
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	1,020,000	816,150	1,836,150
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	1,055,000	764,275	1,819,275
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	1,085,000	710,775	1,795,775
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	1,115,000	655,775	1,770,775
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	1,150,000	599,150	1,749,150
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	1,190,000	546,600	1,736,600
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	1,240,000	498,000	1,738,000
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	1,290,000	447,400	1,737,400
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	1,340,000	394,800	1,734,800
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	1,390,000	340,200	1,730,200
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	1,440,000	283,600	1,723,600
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	1,500,000	224,800	1,724,800
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	1,560,000	163,600	1,723,600
2033	-	-	-	1,360,000	20,400	1,380,400	1,620,000	100,000	1,720,000
2034	-	-	-	-	-	-	1,690,000	33,800	1,723,800
Totals	\$ 17,905,000	\$ 6,142,472	\$ 24,047,472	\$ 20,275,000	\$ 6,697,750	\$ 26,972,750	\$ 24,335,000	\$ 11,350,425	\$ 35,685,425

TOTAL

Year	Principal	Interest	Federal Credit	Total
2015	\$ 5,935,000	\$ 5,416,434	\$ (164,984)	\$ 11,186,450
2016	6,120,000	5,221,938	(161,276)	11,180,662
2017	6,645,000	4,998,593	(156,806)	11,486,787
2018	6,845,000	4,746,089	(151,590)	11,439,499
2019	6,970,000	4,475,866	(145,390)	11,300,476
2020	7,115,000	4,179,758	(138,151)	11,156,607
2021	7,355,000	3,859,507	(130,186)	11,084,321
2022	7,795,000	3,521,414	(121,526)	11,194,888
2023	8,100,000	3,168,408	(112,167)	11,156,241
2024	8,220,000	2,801,884	(102,087)	10,919,797
2025	8,405,000	2,446,376	(91,259)	10,760,117
2026	8,680,000	2,105,459	(79,618)	10,705,841
2027	8,525,000	1,762,509	(66,701)	10,220,808
2028	8,860,000	1,409,840	(52,690)	10,217,150
2029	9,455,000	1,037,601	(38,220)	10,454,381
2030	8,135,000	682,648	(23,290)	8,794,358
2031	4,905,000	423,525	(7,855)	5,320,670
2032	4,200,000	250,625	-	4,450,625
2033	2,980,000	120,400	-	3,100,400
2034	1,690,000	33,800	-	1,723,800
Totals	\$ 136,935,000	\$ 52,662,674	\$ (1,743,796)	\$ 187,853,878

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2014 and 2013

	2014	Restated 2013
OPERATING REVENUES		
Unmetered Sales	\$ 110,563	\$ 72,497
Metered Sales		
Residential	11,606,990	11,124,051
Commercial	9,421,148	8,884,500
Industrial	1,097,771	1,153,442
Public authority	2,602,780	2,754,274
Sales for resale	354,883	344,064
Total Metered Sales	25,083,572	24,260,331
Private Fire Protection	372,447	377,184
Public Fire Protection	3,091,601	2,925,698
Total Sales of Water	28,658,183	27,635,710
Customer Late Payment Penalties	220,743	260,382
Miscellaneous	55,263	41,290
Rents from water property	410,107	395,803
Other	521,724	508,437
Total Operating Revenues	29,866,020	28,841,622
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	13,724	16,620
Collecting and impounding reservoirs	60,001	43,467
Wells and springs as restated	50,117	25,662
Total Source of Supply	123,842	85,749
Pumping		
Operation supervision and engineering	38,328	67,225
Power purchased for pumping	2,105,690	2,333,071
Pumping labor	355,417	344,876
Miscellaneous	399,789	412,934
Maintenance		
Supervision and engineering	112,170	44,183
Structures and improvements	359,239	327,075
Pumping equipment as restated	377,066	224,350
Total Pumping	3,747,699	3,753,714
Water Treatment		
Operation supervision and engineering	77,022	75,029
Chemicals	178,478	164,136
Operation labor	199,593	293,904
Miscellaneous	140,641	103,312
Maintenance		
Supervision and engineering	30,716	21,027
Water treatment equipment	105,239	117,636
Total Water Treatment	731,689	775,044

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2014 and 2013

	2014	Restated 2013
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 213,553	\$ 234,384
Storage facilities	93,734	90,347
Transmission and distribution lines	323,322	363,697
Meter	72,066	59,520
Customer installation	323,140	274,957
Miscellaneous (as restated)	753,848	676,261
Maintenance		
Reservoirs	36,444	13,430
Mains	2,357,420	1,949,074
Services	1,273,821	1,576,187
Meters	87,738	36,787
Hydrants	291,552	330,510
Total Transmission and Distribution	5,826,638	5,605,154
Customer Accounts		
Supervision	24,214	26,535
Meter reading	67,142	89,744
Customer records and collection	535,222	293,055
Conservation	227,732	309,325
Total Customer Accounts	854,310	718,659
Administrative and General		
Salaries	782,258	676,412
Office, building, and supplies	467,686	425,273
Outside services employed	121,108	70,257
Property insurance	18,165	23,898
Injuries and damages	446,311	396,443
Employee pensions and benefits	1,795,468	1,601,155
Miscellaneous	143,641	119,287
Maintenance of general plant	3,797	6,119
Total Administrative and General	3,778,434	3,318,844
Total Operation and Maintenance	15,062,612	14,257,164
Depreciation	5,621,261	5,419,760
Taxes	29,611	40,487
Total Operating Expenses	20,713,484	19,717,411
 OPERATING INCOME	 \$ 9,152,536	 \$ 9,124,211