

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, 2016 and 2015

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015 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.

Other Matters

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

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 68 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.

2016 FINANCIAL HIGHLIGHTS

- > Total revenues increased \$6.0 million or 20.5% from 2015 to 2016, while pumpage decreased 1.2%. In September 2015, the utility implemented a rate increase which increased revenue.
- > Income before capital contributions and transfers increased \$4.8 million or 139.6% from the prior year. The increase was due to the \$6.0 million increase in revenue and higher depreciation, nonoperating expense and operation and maintenance expense.

2015 FINANCIAL HIGHLIGHTS

- > Total revenues decreased \$.4 million or 1.2% from 2014 to 2015, which is a smaller decrease than the utility's decrease (-5.69%) in pumping during 2015.
- > Income before capital contributions and transfers decreased \$1.3 million or 26.7% from the prior year. The decrease was due to the \$400,000 decrease in revenue and higher depreciation, nonoperating expense and operation and maintenance expense.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

RATES

The utility was granted a 31% rate increase by the PSCW, which became fully effective September 29, 2015. The utility is currently ranked thirty-sixth for residential rates out of 78 rates for utilities classified as AB (over 4,000 customers) in Wisconsin.

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>2016</u>	<u>2015</u>	<u>Restated 2014</u>
Current and Other Assets	\$ 62,207	\$ 59,727	\$ 38,610
Capital Assets	<u>266,711</u>	<u>244,982</u>	<u>227,395</u>
Total Assets	<u>328,918</u>	<u>304,709</u>	<u>266,005</u>
Deferred Outflows of Resources	<u>6,888</u>	<u>3,098</u>	<u>1,959</u>
Current Liabilities	15,643	14,879	14,657
Long-term Debt Outstanding	180,840	166,490	131,000
Long-term Liabilities	<u>16,561</u>	<u>13,819</u>	<u>12,243</u>
Total Liabilities	<u>213,044</u>	<u>195,188</u>	<u>157,900</u>
Deferred Inflows of Resources	<u>1,864</u>	<u>-</u>	<u>-</u>
Net Investment in Capital Assets	106,282	98,847	99,646
Restricted	7,964	8,369	7,251
Unrestricted	<u>6,652</u>	<u>5,403</u>	<u>3,167</u>
Total Net Position	<u>\$ 120,898</u>	<u>\$ 112,619</u>	<u>\$ 110,064</u>

Total assets combined with deferred outflows of resources increased \$28.0 million and total liabilities with deferred inflows of resources increased \$19.7 million, resulting in an increase in net position of \$8.3 million from 2015. In 2015, total assets combined with deferred outflows of resources increased \$39.8 million and total liabilities increased \$37.3 million, resulting in an increase in net position of \$2.5 million.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	Year Ended December 31,		
	2016	2015	Restated 2014
Operating Revenues	\$ 34,588	\$ 28,381	\$ 28,658
Other Operating Revenues	964	1,132	1,208
Total Revenues	35,552	29,513	29,866
Operation & Maintenance Expense	15,357	15,250	15,107
Depreciation Expense	6,328	5,776	5,621
Nonoperating Expense	5,623	5,053	4,451
Total Expenses	27,308	26,079	25,179
Income before Capital Contributions and Transfers	8,244	3,434	4,687
Capital Contributions	5,789	2,311	858
Transfers, net	(5,754)	(5,910)	(5,577)
Change in Net Position	8,279	(165)	(32)
Beginning Net Position	112,619	110,064	110,096
Cumulative effect of change in accounting principle	-	2,720	-
Ending Net Position	\$ 120,898	\$ 112,619	\$ 110,064

The utility's total revenues increased \$6.0 million or 20.5% from 2015 to 2016. Although pumping decreased slightly (1.2%), the utility added 448 new customers in 2016. In addition, the utility implemented a rate increase on September 29, 2015. This increase was in effect for all of 2016. Total revenues decreased \$0.4 million or 1.2% in 2015 from 2014, which is a smaller decrease than the utility's decrease (-5.69%) in pumping during 2015.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses (000's)

	Year Ended December 31,		
	2016	2015	Restated 2014
OPERATING REVENUES			
Unmetered Sales	\$ 175	\$ 91	\$ 110
Metered Sales			
Residential	12,377	11,168	11,607
Commercial	11,534	9,395	9,421
Industrial	1,060	960	1,098
Public authority	4,502	2,848	2,603
Sales for resale	262	333	355
Total Metered Sales	29,735	24,704	25,084
Private Fire Protection	585	424	372
Public Fire Protection	4,094	3,162	3,092
Total Sales of Water	34,589	28,381	28,658
Customer Late Payment Penalties	176	163	221
Miscellaneous	100	91	55
Rents from water property	214	383	410
Other	473	495	522
Total Operating Revenues	35,552	29,513	29,866
OPERATING EXPENSES			
Source of Supply	75	53	124
Pumping	3,584	3,422	3,748
Water Treatment	742	744	732
Transmission and Distribution	5,460	6,180	5,841
Customer Accounts	847	735	854
Administrative and General	4,172	3,633	3,778
Total Operation and Maintenance	14,880	14,767	15,077
Depreciation	6,328	5,776	5,621
Taxes	477	483	30
Total Operating Expenses	21,685	21,026	20,728
Operating Income	\$ 13,867	\$ 8,487	\$ 9,138

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Revenues

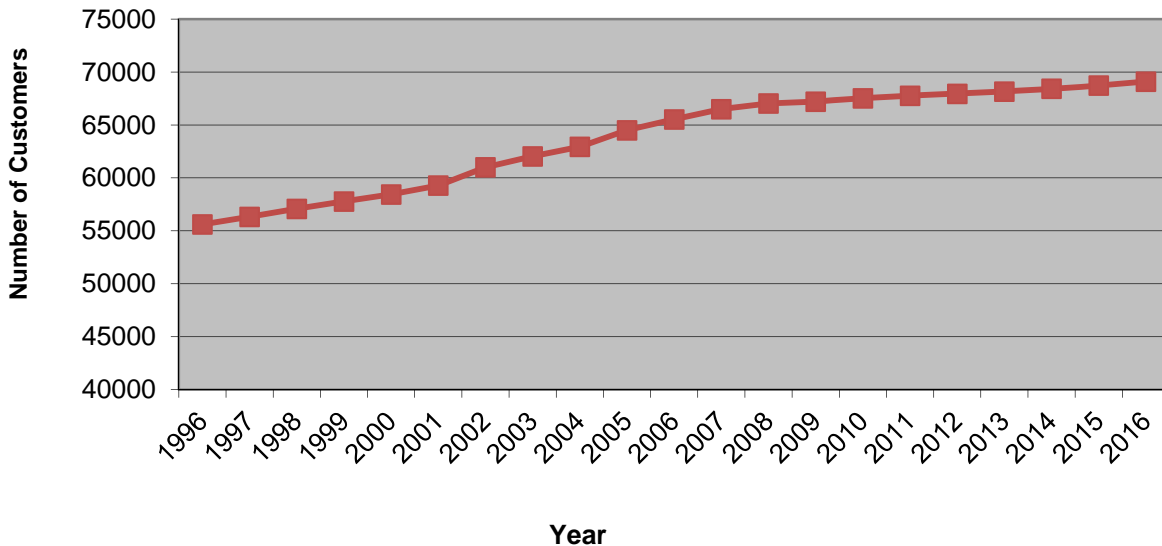
Total revenues were \$35.5 million in 2016, compared with \$29.5 million in 2015, an increase of \$6.0 million or 20.5%. Although pumping decreased slightly (1.2%), the utility added 448 new customers in 2016, the highest number of new customers added since 2007 (536). In addition, the utility implemented a rate increase on September 29, 2015. This increase was in effect for all of 2016.

Expenses

Operation and maintenance expenses totaled \$14.9 million in 2016, compared to \$14.8 million in 2015, an increase of \$100,000 or 1.0%. In 2016, the utility changed their method of accounting for service lateral rehook expenses in relation to main replacements. These expenses are now being capitalized with the cost of the main replacement. This resulted in \$700,000 of capitalized rehook expenses in 2016. Depreciation expense increased \$552,000 or 9.6% to \$6.3 million in 2016 from 5.8 million in 2015. Interest and amortization expense was \$5.9 million in 2016, compared with \$5.2 million in 2015, an increase of \$700,000 or 13.5%.

Chart 1

Customer Growth 1996 - 2016



In 2016, the utility received 630 new applications for service, compared with 604, 529 and 478 new applications received in 2015, 2014 and 2013, respectively. 2016, 2015 and 2014 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.

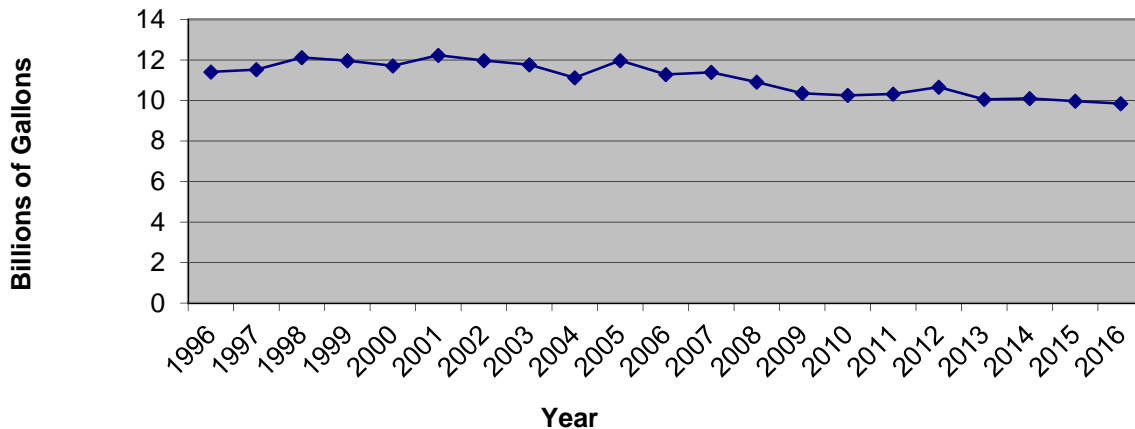
MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016 and 2015

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2

Pumpage 1996 - 2016



Pumping for the year decreased slightly (1.2%) from 9.969 billion gallons in 2015 to 9.848 billion gallons in 2016, due to moderate weather conditions and continued water conservation efforts by customers.

CAPITAL EXPENDITURES

The utility added a net \$21.7 million of plant in 2016. Of this amount, approximately \$5,789,000 was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2016 included \$9.35 million for new and replacement water mains, \$2.6 million for Lakeview Reservoir reconstruction, \$9.4 million for the Operations Center Building Remodel, \$944,000 for miscellaneous pumping station work and our meter program.

Capital projects paid for by the utility in 2015 included \$12.4 million for new and replacement water mains, \$3.1 million for Lakeview Reservoir reconstruction, \$2.2 million for Unit Well 7 reconstruction, \$2.8 million for the Operations Center Building Remodel, \$1.9 million for Unit Well # 31 well drilling, design and construction, \$1.1 million to upgrade Booster Station 115, \$980,000 for miscellaneous pumping station work and our meter program.

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

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016 and 2015

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 \$38.4 million in 2016, \$41.6 million in 2015, \$24.3 million in 2013, \$21.1 million in 2012, \$19.4 million in 2011, and \$13.2 million in 2010. The 2016 borrowing included \$23.8 million to fund 2016 and 2017 capital projects and \$14.6 million to advance refund 2007 revenue bonds. The utility plans a sale of revenue bonds in late 2017 to fund its 2017 & 2018 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 30.2 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 Robin G. Piper, Chief Administrative Officer, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4656 or e-mail at rpiper@madisonwater.org.

FINANCIAL STATEMENTS

MADISON WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 1,898,987	\$ 3,926,490
Restricted cash and investments	9,542,889	8,759,929
Customer accounts receivable	5,947,548	6,548,157
Materials and supplies	718,568	640,734
Current portion of special assessments	85,883	88,730
Other current assets, net	<u>438,687</u>	<u>363,637</u>
Total Current Assets	<u>18,632,562</u>	<u>20,327,677</u>
NONCURRENT ASSETS		
Restricted Assets		
Cash and investments	36,683,104	32,788,073
Net pension asset	-	1,359,015
Other Assets		
Special assessments receivable	2,233,195	2,289,806
Preliminary survey and investigation	394,466	394,466
Property held for future use	4,009,072	2,312,305
Nonutility property (net of accumulated depreciation)	254,832	255,645
Capital Assets		
Plant in service	332,737,945	293,185,703
Accumulated depreciation	(75,673,321)	(70,925,150)
Construction work in progress	<u>9,645,941</u>	<u>22,721,204</u>
Total Noncurrent Assets	<u>310,285,234</u>	<u>284,381,067</u>
Total Assets	<u>328,917,796</u>	<u>304,708,744</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	1,973,323	1,715,018
Deferred outflows related to pension	<u>4,915,123</u>	<u>1,383,183</u>
Total Deferred Outflows of Resources	<u>6,888,446</u>	<u>3,098,201</u>

	<u>2016</u>	<u>2015</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,034,472	\$ 518,076
Other current liabilities	893,649	561,300
Payable to other funds	3,214,909	4,102,234
Accrued interest	8,941	9,400
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	89,040	81,500
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	6,660,000	6,120,000
Accrued interest	2,976,857	2,721,572
Total Current Liabilities	<u>15,642,868</u>	<u>14,879,082</u>
NONCURRENT LIABILITIES		
Revenue bonds	180,840,000	166,490,000
Unamortized debt premium	10,186,093	7,056,207
Accrued compensated absences	1,757,251	1,864,158
Other postemployment benefit obligation	636,434	556,940
Advance from municipality	1,358,504	1,443,957
Loan from municipality	1,530,000	2,295,000
Customer advances for construction	211,807	601,935
Net pension liability	880,490	-
Total Noncurrent Liabilities	<u>197,400,579</u>	<u>180,308,197</u>
Total Liabilities	<u>213,043,447</u>	<u>195,187,279</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	<u>1,864,058</u>	<u>290</u>
NET POSITION		
Net investment in capital assets	106,282,192	98,847,032
Restricted for:		
Debt service	7,064,739	6,109,966
Capital repairs and replacement	900,000	900,000
Pension	-	1,359,015
Unrestricted	<u>6,651,806</u>	<u>5,403,363</u>
TOTAL NET POSITION	<u>\$ 120,898,737</u>	<u>\$ 112,619,376</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, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sales of water	\$ 34,588,398	\$ 28,381,185
Other	964,093	1,132,378
Total Operating Revenues	35,552,491	29,513,563
 OPERATING EXPENSES		
Operation and maintenance	15,356,637	15,250,082
Depreciation	6,328,463	5,775,814
Total Operating Expenses	21,685,100	21,025,896
 Operating Income	13,867,391	8,487,667
 NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(15,941)	(13,134)
Bond issuance costs	(222,252)	(274,497)
Investment income	357,059	231,063
Interest and amortization expense	(6,255,982)	(5,171,717)
Interest charged to construction	385,952	-
Other	128,204	174,654
Total Nonoperating Revenues (Expenses)	(5,622,960)	(5,053,631)
 Income before Capital Contributions and Transfers	8,244,431	3,434,036
 CAPITAL CONTRIBUTIONS	5,789,485	2,311,000
TRANSFERS IN / (OUT)	169,967	139,026
TRANSFERS - TAX EQUIVALENT	(6,415,680)	(6,049,329)
CAPITALIZED TAX EQUIVALENT	491,158	-
 Change in Net Position	8,279,361	(165,267)
 NET POSITION - Beginning of Year	112,619,376	110,064,260
 Cumulative effect of a change in accounting principle	-	2,720,383
 NET POSITION - END OF YEAR	\$ 120,898,737	\$ 112,619,376

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 36,530,782	\$ 29,509,970
Paid to suppliers for goods and services	(8,572,513)	(7,618,869)
Paid to employees for services	(5,978,193)	(5,894,138)
Net Cash Flows from Operating Activities	21,980,076	15,996,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(6,415,680)	(6,049,329)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Repayment of advances from other funds	(81,499)	(74,249)
Interest paid on advances and loans from other funds	(59,479)	(66,078)
Transfers from (to) other funds	169,967	139,026
Net Cash Flows from Noncapital Financing Activities	(7,151,691)	(6,815,630)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(24,166,390)	(25,282,559)
Special assessments received	229,458	565,497
Contributions in aid of construction	(390,128)	137,681
Payments to escrow during refunding	(18,361,196)	-
Debt issued	38,420,000	41,610,000
Premium on debt issued	4,026,144	2,545,929
Debt issuance costs	(222,252)	(274,497)
Build America Bond interest credit received	111,149	151,776
Debt retired	(6,120,000)	(5,935,000)
Interest paid	(6,065,327)	(5,422,429)
Advances from other funds	3,586	3,390
Net Cash Flows from Capital and Related Financing Activities	(12,534,956)	8,099,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(6,019,850)	(10,327,876)
Marketable securities sold	4,111,640	12,123,670
Investment income	357,059	231,063
Net Cash Flows from Investing Activities	(1,551,151)	2,026,857
Net Change in Cash and Cash Equivalents	742,278	19,307,978
CASH AND CASH EQUIVALENTS – Beginning of Year	35,451,652	16,143,674
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 36,193,930	\$ 35,451,652

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 13,867,391	\$ 8,487,667
Nonoperating income	1,114	12,351
Noncash items included in operating income		
Depreciation	6,328,463	5,775,814
Depreciation charged to other accounts	1,005,696	944,298
Changes in Assets and Liabilities		
Customer accounts receivable	551,338	(907,611)
Receivable from other funds	(49,117)	432,416
Materials and supplies	(77,834)	12,466
Other current assets	(25,779)	(142,610)
Accounts payable and other current liabilities	761,800	54,043
Payable to other funds	(926,916)	1,090,863
Other postemployment benefit obligation	79,494	74,796
Pension related deferrals and liabilities	571,333	(21,525)
Accrued compensated absences	(106,907)	183,995
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 21,980,076</u>	<u>\$ 15,996,963</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 1,898,987	\$ 3,926,490
Restricted cash and investments - current	9,542,889	8,759,929
Restricted cash and investments - noncurrent	36,683,104	32,788,073
Total Cash and Investments	48,124,980	45,474,492
Less: Noncash equivalents	(11,931,050)	(10,022,840)
CASH AND CASH EQUIVALENTS	<u>\$ 36,193,930</u>	<u>\$ 35,451,652</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 4,577,803	\$ 2,311,000
Capital additions assessed to customers	\$ 170,000	\$ -
Adjustments to special assessments	\$ (54,944)	\$ -
Interest capitalized	\$ 385,952	\$ -
Net changes in loss on refundings	\$ (569,396)	\$ -

See accompanying notes to financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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.

GASB issued 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*, in June 2012 and November 2014, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 11.

In February 2015, the GASB issued statement No. 72 - *Fair Value Measurement and Application*. The statement addresses accounting and financial reporting issues to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (cont.)

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS 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 methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year-end.

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, 2016 and 2015

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS 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.

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.

There has been an allowance account set up relating to miscellaneous accounts receivable. The allowance balance was \$51,136 and \$100,406 in 2016 and 2015, respectively.

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, 2016 and 2015

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS 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

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 WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Outflow of Resources

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

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 accrued wages, comp time, vacation time, and payroll taxes payable.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

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

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.

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.

Deferred Inflows of Resources

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

Revenues and Expenses

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

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

Charges for Services

Utility billings are rendered and recorded based on actual service provided. The utility does not accrue revenues beyond billing dates.

Current rates were authorized by the PSCW in an order dated September 29, 2015 and are designed to earn a 6.5% 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.

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

GASB has approved GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus 2017*, and Statement No. 86, *Certain Debt Extinguishment Issues*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2016	2015	
Other Investment Pool	\$ 32,067,240	\$ 33,385,764	(A) Custodial credit, interest rate
Money Market Mutual Funds	4,105,770	2,044,968	
U.S. Agencies	11,931,050	10,022,840	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	20,920	20,920	None
Totals	\$ 48,124,980	\$ 45,474,492	

(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.

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.

FAIR VALUE

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

At December 31, 2016 and 2015, the utility had investments in US Agency Securities of \$11,931,050 and \$10,022,840, respectively. These investments were valued using institutional bond quotes (Level 2 input) at December 31, 2016 and December 31, 2015. The utility also had investments in Money Market Mutual Funds of \$4,105,770 and \$2,044,968 at December 31, 2016 and 2015, respectively. These investments were valued using broker information (Level 2 input).

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

FAIR VALUE (cont.)

In addition to US Agency Securities and Money Market Mutual Funds, the utility maintains certain investments commingled with the municipality. The fair value hierarchy pertaining specifically to the utility's resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on the fair value measurements.

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:

	2016		2015	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	<u>\$ 4,105,770</u>	<u>\$ 4,105,770</u>	<u>\$ 2,044,968</u>	<u>\$ 2,044,968</u>

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 \$11,931,050 and \$10,022,840 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2016 and 2015, 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, 2016 and 2015

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

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 and Money Market Mutual Funds mature within 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, 2016 and 2015, 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, 2016, the utility had 15% of its portfolio in Federal Farm Credit Bank securities. As of December 31, 2015, the utility had 14% of its portfolio in Federal Farm Credit Bank securities, and 5% in Federal Home Loan Bank system 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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2016 and 2015:

Due To	Due From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 3,214,909	Items due to Sewer, Storm, Landfill, and Urban Forestry less items on tax roll	\$ 4,102,234	Items due to Sewer and Storm less items on tax roll

The following is a schedule of transfer balances as of December 31, 2016 and 2015:

To	From	2016		2015	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 6,415,680	Tax equivalent	\$ 6,049,329	Tax equivalent
Municipality	Water	16,000	Capital projects	39,551	Lead service replacement program
Water	Sewer	185,967	Tax equivalent	178,577	Tax equivalent

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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, 2016 and 2015

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net position:

	December 31,	
	2016	2015
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 9,542,889	\$ 8,759,929
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	15,915,407	14,509,378
Construction	19,867,697	17,378,695
Depreciation	750,000	750,000
Net pension asset	-	1,359,015
Total Noncurrent Restricted Assets	<u>36,683,104</u>	<u>34,147,088</u>
Total Restricted Assets	46,225,993	42,907,017
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(15,416,700)	(14,437,769)
Construction fund	(19,867,697)	(17,378,695)
Current Liabilities Payable from Restricted Assets	<u>(2,976,857)</u>	<u>(2,721,572)</u>
Total Restricted Net Position	<u>\$ 7,964,739</u>	<u>\$ 8,368,981</u>
The purpose of the restricted net position is as follows:		
Debt service	\$ 7,064,739	\$ 6,109,966
Capital repairs and replacement	900,000	900,000
Pension	-	1,359,015
Total	<u>\$ 7,964,739</u>	<u>\$ 8,368,981</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2016 follows:

	1/1/16 Balance	Increases	Decreases	12/31/16 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,549,608	\$ 55,535	\$ 3,826	\$ 2,601,317
Capital assets being depreciated				
Source of supply	10,797,925	-	99,037	10,698,888
Pumping	20,594,797	1,637,316	77,901	22,154,212
Water treatment	4,039,104	11,833	3,466	4,047,471
Transmission and distribution	232,132,572	29,174,749	1,065,068	260,242,253
General	20,770,915	13,666,729	1,443,840	32,993,804
Completed construction not classified	2,300,782	-	2,300,782	-
Total Capital Assets Being Depreciated	290,636,095	44,490,627	4,990,094	330,136,628
Total Capital Assets	293,185,703	44,546,162	4,993,920	332,737,945
Less: Accumulated Depreciation				
Source of supply	(5,291,359)	(237,292)	-	(5,528,651)
Pumping	(6,807,510)	(980,455)	85,692	(7,702,273)
Water treatment	(577,846)	(149,473)	3,813	(723,506)
Transmission and distribution	(46,367,058)	(5,903,992)	1,118,604	(51,152,446)
General	(10,685,994)	(1,410,041)	1,529,590	(10,566,445)
Completed construction not classified	(1,195,383)	-	1,195,383	-
Total Accumulated Depreciation	(70,925,150)	(8,681,253)	3,933,082	(75,673,321)
Construction in progress	22,721,204	32,536,372	45,611,635	9,645,941
Net Capital Assets	\$ 244,981,757			\$ 266,710,565

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2015 follows:

	1/1/15 Balance	Increases	Decreases	12/31/15 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,126,245	\$ 423,363	\$ -	\$ 2,549,608
Capital assets being depreciated				
Source of supply	9,904,513	988,340	94,928	10,797,925
Pumping	11,466,762	10,027,825	899,790	20,594,797
Water treatment	2,270,175	1,783,682	14,753	4,039,104
Transmission and distribution	202,934,785	30,791,032	1,593,245	232,132,572
General	19,782,981	1,261,293	273,359	20,770,915
Completed construction not classified	31,242,256	-	28,941,474	2,300,782
Total Capital Assets Being Depreciated	<u>277,601,472</u>	<u>44,852,172</u>	<u>31,817,549</u>	<u>290,636,095</u>
Total Capital Assets	<u>279,727,717</u>	<u>45,275,535</u>	<u>31,817,549</u>	<u>293,185,703</u>
Less: Accumulated Depreciation				
Source of supply	(5,165,240)	(230,540)	104,421	(5,291,359)
Pumping	(6,976,812)	(599,281)	768,583	(6,807,510)
Water treatment	(476,128)	(117,947)	16,229	(577,846)
Transmission and distribution	(43,621,691)	(4,420,124)	1,674,757	(46,367,058)
General	(9,846,185)	(1,120,284)	280,475	(10,685,994)
Completed construction not classified	(891,907)	(303,476)	-	(1,195,383)
Total Accumulated Depreciation	<u>(66,977,963)</u>	<u>(6,791,652)</u>	<u>2,844,465</u>	<u>(70,925,150)</u>
Construction in progress	<u>14,644,903</u>	<u>26,646,875</u>	<u>18,570,574</u>	<u>22,721,204</u>
Net Capital Assets	<u>\$ 227,394,657</u>			<u>\$ 244,981,757</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/16 Amount Outstanding
12/1/07	Refunding debt and system improvements	1/1/28	4.00 - 4.75%	\$ 27,185,000	\$ -
12/9/09	Refunding debt and system improvements	1/1/30	2.00 - 5.00%	48,540,000	39,515,000
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	10,480,000
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	16,360,000
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	18,535,000
12/18/13	System improvements	1/1/34	3.00 - 5.00%	24,335,000	22,580,000
12/17/15	System improvements	1/1/36	2.85 - 5.00%	41,610,000	41,610,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24 - 3.82%	38,420,000	38,420,000
Totals				<u>\$ 195,385,000</u>	<u>\$ 187,500,000</u>

Revenue bond debt service requirements to maturity follows:

Bond Year	Principal	Interest	Total
2017	\$ 6,660,000	\$ 7,535,483	\$ 14,195,483
2018	9,055,000	7,172,993	16,227,993
2019	9,255,000	6,803,854	16,058,854
2020	9,460,000	6,398,874	15,858,874
2021	9,770,000	5,967,717	15,737,717
2022	10,290,000	5,494,924	15,784,924
2023	10,690,000	5,002,909	15,692,909
2024	10,935,000	4,492,751	15,427,751
2025	11,240,000	3,989,233	15,229,233
2026	11,645,000	3,514,391	15,159,391
2027	11,630,000	3,052,313	14,682,313
2028	12,100,000	2,577,727	14,677,727
2029	12,940,000	2,119,984	15,059,984
2030	11,750,000	1,643,379	13,393,379
2031	8,650,000	1,255,849	9,905,849
2032	8,080,000	949,631	9,029,631
2033	6,995,000	682,281	7,677,281
2034	5,850,000	453,578	6,303,578
2035	4,310,000	270,844	4,580,844
2036	4,470,000	114,661	4,584,661
2037	1,725,000	-	1,725,000
Totals	<u>\$ 187,500,000</u>	<u>\$ 69,493,376</u>	<u>\$ 256,993,376</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS (cont.)

The 2010 bonds are Build America Bonds. See pages 45 - 46 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 2016 interest subsidies were reduced by 6.8% and during the federal fiscal year 2015, the subsidy payments had been reduced by 7.3%. This amount may change based on sequestration.

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 2016 and 2015 were \$12,567,693 and \$11,423,507, respectively. Total customer net revenues as defined for 2016 and 2015 were \$20,552,913 and \$14,494,544, respectively. Annual principal and interest payments are expected to require 60% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/16 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	3.41%	\$ 1,404,052	\$ 1,004,966
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	442,578

Advance debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	154,587	12,936	167,523
2024	168,801	6,752	175,553
Totals	<u>\$ 1,004,966</u>	<u>\$ 188,079</u>	<u>\$ 1,193,045</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, 2016 and 2015

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
2015	3,825,000	-	765,000	3,060,000
2016	3,060,000	-	765,000	2,295,000

The utility anticipates making principal payments totaling \$765,000 in 2017. No formal schedule for repayment has been established. At December 31, 2016 and 2015, the outstanding balance pertains to operating activities.

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2016, is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 172,610,000	\$ 38,420,000	\$ 23,530,000	\$ 187,500,000	\$ 6,660,000
Accrued compensated absences	1,864,158	456,588	563,495	1,757,251	-
Net pension liability	-	1,401,613	521,123	880,490	-
Other postemployment benefit obligation	556,940	282,179	202,685	636,434	-
Customer advances for construction	601,935	156,272	546,400	211,807	-
Advance from municipality	1,525,457	3,587	81,500	1,447,544	89,040
Loan from municipality – operating	3,060,000	-	765,000	2,295,000	765,000
Unamortized debt premium	7,056,207	3,950,579	820,693	10,186,093	-
Totals	\$ 187,274,697	\$ 44,670,818	\$ 27,030,896	\$ 204,914,619	\$ 7,514,040

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2015, is as follows:

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Due Within One Year
Revenue bonds	\$ 136,935,000	\$ 41,610,000	\$ 5,935,000	\$ 172,610,000	\$ 6,120,000
Accrued compensated absences	1,680,163	622,025	438,030	1,864,158	-
Other postemployment benefit obligation	482,144	144,004	69,208	556,940	-
Customer advances for construction	464,254	239,625	101,944	601,935	-
Advance from municipality	1,596,316	3,390	74,249	1,525,457	81,500
Loan from municipality – operating	3,825,000	-	765,000	3,060,000	765,000
Unamortized debt premium	5,033,952	2,545,929	523,674	7,056,207	-
Totals	<u>\$ 150,016,829</u>	<u>\$ 45,164,973</u>	<u>\$ 7,907,105</u>	<u>\$ 187,274,697</u>	<u>\$ 6,966,500</u>

ADVANCE REFUNDING

On December 28, 2016, bonds in the amount of \$14,645,000 were issued with an average interest rate of 2.57% to advance refund \$17,410,000 of outstanding bonds with an average interest rate of 4.28%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$22,363,569 from 2017 through 2028. The cash flow requirements on the new bonds are \$19,161,155 from 2017 through 2037. The advance refunding resulted in an economic gain of \$2,984,959.

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 were called on January 1, 2015.

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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 outstanding revenue bonds. The utility met this requirement in 2016 but did not for 2015.

NUMBER OF CUSTOMERS

At December 31, 2016 and 2015, the utility served the following number of customers:

	<u>2016</u>	<u>2015</u>
Residential	57,997	57,598
Multifamily	4,200	4,165
Commercial	4,944	4,863
Industrial	48	48
Public Authority	<u>483</u>	<u>477</u>
Totals	<u><u>67,672</u></u>	<u><u>67,151</u></u>

WATER PUMPED AND BILLED

During the years ended December 31, 2016 and 2015, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2016</u>	<u>2015</u>
Water pumped	<u>9,848,137</u>	<u>9,524,963</u>
Water billed	<u>8,340,542</u>	<u>8,242,860</u>

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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.

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,	
	2016	2015
Plant in Service	\$ 332,737,945	\$ 293,185,703
Accumulated Depreciation	(75,673,321)	(70,925,150)
Construction Work in Progress	9,645,941	22,721,204
Subtotals	266,710,565	244,981,757
Less: Capital Related Debt		
Current portion of capital related long-term debt	6,660,000	6,120,000
Long-term portion of capital related long-term debt	180,840,000	166,490,000
Unamortized debt premium	10,186,093	7,056,207
Unamortized loss on advance refunding	(1,973,323)	(1,715,018)
Subtotals	195,712,770	177,951,189
Add: Borrowed Funds on Hand		
Reserve fund	15,416,700	14,437,769
Construction fund	19,867,697	17,378,695
Subtotals	35,284,397	31,816,464
Total Net Investment in Capital Assets	\$ 106,282,192	\$ 98,847,032

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 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.

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

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

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

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 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.

During the reporting period, the WRS recognized \$528,068 and \$550,476 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31 are:

	2016		2015	
	Employee	Employer	Employee	Employer
General (including teachers)	6.6%	6.6%	6.8%	6.8%
Executives & Elected Officials	6.6%	6.6%	7.7%	7.7%
Protective with Social Security	6.6%	9.4%	6.8%	9.5%
Protective without Social Security	6.6%	13.2%	6.8%	13.1%

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2016, the utility reported a liability (asset) of \$880,490 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Madison's proportion was 1.598%, which was an increase of 0.118% from its proportion measured as of December 31, 2014.

For the years ended December 31, 2016 and 2015, the utility recognized pension expense of \$1,098,742 and \$512,617, respectively.

At December 31, 2016, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 154,491	\$ 1,852,973
Changes in assumptions	616,028	-
Net differences between projected and actual earnings on pension plan investments	3,623,481	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,085
Employer contributions subsequent to the measurement date	521,123	-
Totals	\$ 4,915,123	\$ 1,864,058

At December 31, 2015, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 197,014	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	658,101	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	290
Employer contributions subsequent to the measurement date	528,068	-
Totals	\$ 1,383,183	\$ 290

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Deferred outflows related to pension resulting from WRS Employer’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. \$521,123 is reported for the utility. 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>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 1,140,854	\$ 451,117
2018	1,140,854	451,117
2019	1,140,854	451,117
2020	951,621	451,078
2021	19,817	59,629
Total	\$ 4,394,000	\$ 1,864,058

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Postretirement Adjustments*:	2.1%

** No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% 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 2012 using experience from 2009–2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Core Fund Asset Class	Long-Term Real Rate of Return	Current Asset Allocation	Target Allocation
US Equities	4.7%	27.0%	23.0%
International Equities	5.6	24.5	22.0
Fixed Income	1.6	27.5	37.0
Inflation Sensitive Assets	1.4	10.0	20.0
Real Estate	3.6	7.0	7.0
Private Equity/Debt	6.5	7.0	7.0
Multi-Asset	<u>3.8</u>	<u>4.0</u>	<u>6.0</u>
<i>Total Core Fund</i>	<u>4.5%</u>	<u>107.0%</u>	<u>120.0%</u>

Variable Fund Asset Class	Long-Term Real Rate of Return	Current Asset Allocation	Target Allocation
US Equities	4.7%	70.0%	70.0%
International Equities	<u>5.6</u>	<u>30.0</u>	<u>30.0</u>
<i>Total Variable Fund</i>	<u>5.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Sensitivity of the utility's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the utility's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utility's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

The sensitivity analysis as of December 31, 2016 is as follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Utility's proportionate share of the net pension liability (asset)	\$ 6,175,769	\$ 880,490	\$ (3,255,219)

The sensitivity analysis as of December 31, 2015 is as follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Utility's proportionate share of the net pension liability (asset)	\$ 3,834,014	\$ (1,359,015)	\$ (5,460,259)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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.

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 as well as the funding policy and required contribution rates.

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	
	2016	2015	2016	2015
Annual required contribution	\$ 7,922,687	\$ 7,227,619	\$ 257,117	\$ 144,004
Interest on net OPEB obligation	1,323,596	1,149,698	25,062	21,696
Adjustment to the ARC	<u>(1,805,724)</u>	<u>(1,568,483)</u>	<u>(34,895)</u>	<u>(29,699)</u>
Annual OPEB Cost	7,440,559	6,808,834	247,284	136,001
Contributions made	<u>(3,920,348)</u>	<u>(2,944,435)</u>	<u>(167,790)</u>	<u>(61,205)</u>
Net Change in OPEB obligation	3,520,211	3,864,399	79,494	74,796
Net OPEB Obligation – 1/1	<u>29,413,249</u>	<u>25,548,850</u>	<u>556,940</u>	<u>482,144</u>
Net OPEB Obligation – 12/31	<u>\$ 32,933,461</u>	<u>\$ 29,413,249</u>	<u>\$ 636,434</u>	<u>\$ 556,940</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 2016 and 2015, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2016	\$ 7,440,559	52.7%	\$ 32,933,461
Municipality	2015	6,808,834	43.2%	29,413,249
Municipality	2014	6,713,573	46.0%	25,548,850
Water Utility	2016	247,284	67.9%	636,434
Water Utility	2015	136,001	45.0%	556,940
Water Utility	2014	122,544	52.7%	482,144

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The funded status of the plan (overall municipality) as of December 31, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 64,414,957
Actuarial value of plan assets	<u>(1,639,640)</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 62,775,317</u>
Funded ratio (actuarial value of plan assets/AAL)	2.6%
Covered payroll (active plan members)	\$ 181,997,047
UAAL as a percentage of covered payroll	34.5%

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 with linear proration to decrement actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 7.5% for 2017, reduced by decrements to an ultimate rate of 4.5% for 2023 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, 2016, was 30 years.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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, 2016 and 2015 has been accrued in these financial statements.

NOTE 11 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utility adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in 2015 net position as follows:

Net pension asset, January 1, 2014	\$ 2,171,084
Deferred outflows, January 1, 2014	<u>549,299</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 2,720,383</u>

NOTE 12 – SUBSEQUENT EVENT

ACQUISITION OF WAUNONA SANITARY DISTRICT No. 2

On May 22, 2017, the water utility and the Waunona Sanitary District No. 2 filed a joint application with the PSCW for the utility to acquire water utility facilities and assume operations in the Waunona Sanitary District service area. Final approval of the filing is expected in August 2017.

SUPPLEMENTAL INFORMATION

**CITY OF MADISON, WISCONSIN
MADISON WATER UTILITY**

**SCHEDULE OF INSURANCE IN FORCE
December 31, 2016**

<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 INTEGRITY MUTUAL INSURANCE	01/01/16 to 01/01/17	\$62,984,720	Replacement Cost \$2,500 deductible
Automobile Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2016LP03A 01/01/16 to 01/01/17	Automobile liability	\$10,000,000 per occurrence \$300,000 Self-Insured Retention
Boiler & Machinery FEDERAL INSURANCE COMPANY	7834-76-48 01/01/16 to 01/01/17	Repair & Replace	\$100,000,000 \$25,000 deductible
Employee Theft FIDELITY & DEPOSIT COMPANY OF MARYLAND	CCP 0060387 12 01/01/16 to 01/01/17	Employee Theft	\$1,000,000 limit \$10,000 deductible
Property Coverage on all structures MUNICIPAL PROPERTY INSURANCE COMPANY	MP-01-240056 01/01/16 to 01/01/17	\$666,993,986	Replacement Cost \$5,000 deductible
General Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2016LP03A 01/01/16 TO 01/01/17	General liability, personal injury liability, and errors & omission liability	\$10,000,000 per occurrence \$30,000,000 aggregate \$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 or its related entities.

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES

As of December 31, 2016

Year	2009A Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit (1)	Total
2017	1,625,000	1,317,406	2,942,406	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	1,675,000	1,251,406	2,926,406	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	2,055,000	1,174,238	3,229,238	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	2,040,000	1,079,570	3,119,570	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	2,110,000	975,820	3,085,820	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	2,510,000	860,320	3,370,320	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	2,955,000	723,695	3,678,695	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	2,900,000	577,320	3,477,320	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	2,900,000	446,820	3,346,820	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	2,970,000	329,420	3,299,420	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	2,085,000	228,320	2,313,320	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	2,175,000	141,760	2,316,760	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	2,280,000	48,450	2,328,450	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	<u>\$ 30,280,000</u>	<u>\$ 9,154,545</u>	<u>\$ 39,434,545</u>	<u>\$ 9,235,000</u>	<u>\$ 4,124,444</u>	<u>\$ 13,359,444</u>	<u>\$ 10,480,000</u>	<u>\$ 4,050,109</u>	<u>\$ (1,417,536)</u>	<u>\$ 13,112,573</u>

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2015 interest subsidies were reduced by 7.1% and during federal fiscal year 2016, the subsidy payments have been reduced by 7.1%. This amount may continue to change based on sequestration.

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	<u>\$ 16,360,000</u>	<u>\$ 4,970,084</u>	<u>\$ 21,330,084</u>	<u>\$ 18,535,000</u>	<u>\$ 5,447,550</u>	<u>\$ 23,982,550</u>	<u>\$ 22,580,000</u>	<u>\$ 9,324,000</u>	<u>\$ 31,904,000</u>

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES

As of December 31, 2016

Year	2015 Revenue Bonds			2016A Revenue Bonds			2016B Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	1,485,000	1,536,404	3,021,404	-	1,044,381	1,044,381	-	690,305	690,305
2018	1,570,000	1,467,454	3,037,454	750,000	1,005,750	1,755,750	1,415,000	628,000	2,043,000
2019	1,600,000	1,388,204	2,988,204	790,000	974,150	1,764,150	1,070,000	585,200	1,655,200
2020	1,635,000	1,307,329	2,942,329	820,000	941,350	1,761,350	1,120,000	540,400	1,660,400
2021	1,680,000	1,224,454	2,904,454	855,000	907,150	1,762,150	1,160,000	494,000	1,654,000
2022	1,735,000	1,139,079	2,874,079	885,000	862,900	1,747,900	1,215,000	433,250	1,648,250
2023	1,785,000	1,051,079	2,836,079	930,000	816,400	1,746,400	1,270,000	369,750	1,639,750
2024	1,855,000	960,079	2,815,079	980,000	767,400	1,747,400	1,340,000	302,750	1,642,750
2025	1,930,000	865,454	2,795,454	1,025,000	716,150	1,741,150	1,405,000	232,500	1,637,500
2026	2,005,000	787,129	2,792,129	1,080,000	662,150	1,742,150	1,475,000	158,750	1,633,750
2027	2,090,000	725,704	2,815,704	1,135,000	605,400	1,740,400	1,550,000	81,250	1,631,250
2028	2,170,000	663,431	2,833,431	1,190,000	545,900	1,735,900	1,625,000	-	1,625,000
2029	2,235,000	598,983	2,833,983	1,250,000	483,400	1,733,400	-	-	-
2030	2,305,000	529,731	2,834,731	1,310,000	431,000	1,741,000	-	-	-
2031	2,380,000	455,924	2,835,924	1,365,000	376,400	1,741,400	-	-	-
2032	2,460,000	379,406	2,839,406	1,420,000	319,600	1,739,600	-	-	-
2033	2,540,000	301,281	2,841,281	1,475,000	260,600	1,735,600	-	-	-
2034	2,625,000	220,578	2,845,578	1,535,000	199,200	1,734,200	-	-	-
2035	2,715,000	135,444	2,850,444	1,595,000	135,400	1,730,400	-	-	-
2036	2,810,000	45,661	2,855,661	1,660,000	69,000	1,729,000	-	-	-
2037	-	-	-	1,725,000	-	1,725,000	-	-	-
Totals	<u>\$ 41,610,000</u>	<u>\$ 15,782,808</u>	<u>\$ 57,392,808</u>	<u>\$ 23,775,000</u>	<u>\$ 12,123,681</u>	<u>\$ 35,898,681</u>	<u>\$ 14,645,000</u>	<u>\$ 4,516,155</u>	<u>\$ 19,161,155</u>

TOTAL

Year	Principal	Interest	Federal Credit	Total
2017	6,660,000	7,535,483	(156,806)	14,038,677
2018	9,055,000	7,172,993	(151,590)	16,076,403
2019	9,255,000	6,803,854	(145,390)	15,913,464
2020	9,460,000	6,398,874	(138,151)	15,720,723
2021	9,770,000	5,967,717	(130,186)	15,607,531
2022	10,290,000	5,494,924	(121,526)	15,663,398
2023	10,690,000	5,002,909	(112,167)	15,580,742
2024	10,935,000	4,492,751	(102,087)	15,325,664
2025	11,240,000	3,989,233	(91,259)	15,137,974
2026	11,645,000	3,514,391	(79,618)	15,079,773
2027	11,630,000	3,052,313	(66,701)	14,615,612
2028	12,100,000	2,577,727	(52,690)	14,625,037
2029	12,940,000	2,119,984	(38,220)	15,021,764
2030	11,750,000	1,643,379	(23,290)	13,370,089
2031	8,650,000	1,255,849	(7,855)	9,897,994
2032	8,080,000	949,631	-	9,029,631
2033	6,995,000	682,281	-	7,677,281
2034	5,850,000	453,578	-	6,303,578
2035	4,310,000	270,844	-	4,580,844
2036	4,470,000	114,661	-	4,584,661
2037	1,725,000	-	-	1,725,000
Totals	<u>\$ 187,500,000</u>	<u>\$ 69,493,376</u>	<u>\$ (1,417,536)</u>	<u>\$ 255,575,840</u>

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Unmetered Sales	\$ 174,588	\$ 90,522
Metered Sales	-	
Residential	12,376,966	11,167,449
Commercial	11,533,643	9,395,278
Industrial	1,059,706	959,928
Public authority	4,502,230	2,848,298
Sales for resale	261,632	333,203
Total Metered Sales	29,734,177	24,704,156
Private Fire Protection	585,190	424,307
Public Fire Protection	4,094,443	3,162,200
Total Sales of Water	34,588,398	28,381,185
Customer Late Payment Penalties	176,249	162,875
Miscellaneous	100,271	91,312
Rents from water property	214,107	383,048
Other	473,466	495,143
Total Operating Revenues	35,552,491	29,513,563
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	12,158	19,643
Collecting and impounding reservoirs	60,251	16,104
Wells and springs	2,903	16,904
Total Source of Supply	75,312	52,651
Pumping		
Operation supervision and engineering	41,406	39,103
Power purchased for pumping	2,101,069	2,163,722
Pumping labor	384,262	371,211
Miscellaneous	381,362	389,072
Maintenance		
Supervision and engineering	102,356	73,713
Structures and improvements	246,504	137,956
Pumping equipment	327,166	247,097
Total Pumping	3,584,125	3,421,874
Water Treatment		
Operation supervision and engineering	82,882	79,522
Chemicals	154,448	163,747
Operation labor	224,656	230,388
Miscellaneous	149,037	148,703
Maintenance		
Supervision and engineering	12,005	16,526
Water treatment equipment	118,855	104,959
Total Water Treatment	741,883	743,845

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 252,246	\$ 225,759
Storage facilities	92,172	90,478
Transmission and distribution lines	313,643	315,565
Meter	41,346	66,145
Customer installation	324,345	353,105
Miscellaneous	1,113,474	905,939
Maintenance		
Reservoirs	37,381	21,771
Mains	1,699,776	1,870,723
Services	1,147,856	1,912,487
Meters	144,788	83,418
Hydrants	292,996	335,146
Total Transmission and Distribution	5,460,023	6,180,536
Customer Accounts		
Supervision	20,055	22,529
Meter reading	37,736	33,202
Customer records and collection	485,068	461,708
Conservation	303,644	217,842
Total Customer Accounts	846,503	735,281
Administrative and General		
Salaries	809,790	846,246
Office, building, and supplies	486,143	480,993
Outside services employed	24,578	49,280
Property insurance	23,053	23,011
Injuries and damages	439,614	456,822
Employee pensions and benefits	2,143,113	1,730,676
Miscellaneous	243,033	42,941
Maintenance of general plant	2,965	3,095
Total Administrative and General	4,172,289	3,633,064
Total Operation and Maintenance	14,880,135	14,767,251
Depreciation	6,328,463	5,775,814
Taxes	476,502	482,831
Total Operating Expenses	21,685,100	21,025,896
 OPERATING INCOME	 \$ 13,867,391	 \$ 8,487,667

REQUIRED SUPPLEMENTARY INFORMATION

MADISON WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2016

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
12/31/16	1.59818%	\$ 880,490	\$ 7,765,706	11.34%	98.20%
12/31/15	1.58639%	(1,359,015)	7,847,129	-17.32%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2016

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/16	\$ 521,123	\$ 521,123	-	\$ 7,895,803	6.60%
12/31/15	528,068	528,068	-	7,765,706	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2016

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

Changes of assumptions. There were no changes in the assumptions.

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