

Item 12-1



August 8, 2007

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

Dear Commissioners:

The following are comments on matters that came to our attention during the course of the audit of the financial statements of the Madison Water Utility (utility) for the years ended December 31, 2006 and 2005, which we reported on August 8, 2007.

This letter is written to highlight certain items or bring other matters of attention to the Commissioners. The comments and recommendations in this letter are not intended to reflect in any way on the integrity or ability of the personnel of the utility. They are made solely in the interest of establishing sound internal control practices and improving utility operations.

This letter is intended solely for the information and use of the commissioners, management and is not intended to be, and should not be, used by anyone other than these specified parties.

2006 FINANCIAL HIGHLIGHTS

The management discussion and analysis section of the utility's financial statements highlights financial and operating information useful to management. It contains an excellent discussion of the major financial and operational events for the year.

COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROL

In planning and performing our audit of the financial statements of the Madison Water Utility for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the Madison Water Utility internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

To the Board of Water Commissioners
Madison Water Utility

August 8, 2007
Page 2

COMMENTS AND RECOMMENDATIONS (cont.)

INTERNAL CONTROL (cont.)

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- *Internal control documentation*
- *Financial reporting* – auditor preparation of financial statements
- *Financial reporting* – auditor preparation of material journal entries

INTERNAL CONTROL DOCUMENTATION AND FINANCIAL REPORTING

Recently a new auditing standard was issued that focuses on internal control, and what we communicate to you regarding your utility's controls. Those requirements are set out in Statement in Auditing Standards No. 112, "*Communicating Internal Control Matters Identified in an Audit.*"

The new standard clarifies some definitions and will promote more consistency in how weak areas in internal control are communicated by auditors to their clients.

How does this affect your organization? The new standard required us to review many factors to determine if a material weakness exists within your organization. There are two factors in particular which will require us to report a material weakness that affects your government.

- *Internal Control Documentation* - there is a lack of complete documentation of your system of internal control,
- *Financial Reporting* - the auditor finds material journal entries not detected by the client,
- *Financial Reporting* - the auditor prepares the annual financial statements and footnotes rather than the client

Internal Control Documentation

Many of our clients do not have adequate written documentation of the various internal control processes that take place within their organization. You should have all of your major processes contained in written documents in enough detail that another person could come in and fulfill the requirements of a particular process by following the explanations. Absence of this documentation results in a material weakness in your internal control.

To the Board of Water Commissioners
Madison Water Utility

August 8, 2007
Page 3

COMMENTS AND RECOMMENDATIONS (cont.)

INTERNAL CONTROL (cont.)

INTERNAL CONTROL DOCUMENTATION AND FINANCIAL REPORTING (cont.)

Internal Control Documentation (cont.)

Because of more new auditing standards that become effective next year, we will be required to ask you for complete documentation of your internal control systems. Therefore, you should plan now to complete that documentation during 2007, so that we can evaluate your compliance with the new rules during our audit of your 2007 financial statements. We will be able to provide you with forms and other resources to assist you with meeting the new requirements.

Financial Reporting

The new standard makes it clear that the definition of a material weakness in internal control should now include consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

- Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures. This is very rare for most of our clients.
- Prepare a complete set of year end financial statements for the auditor to test. Currently, almost all of our clients have us prepare the financial statement document. This includes drafting the financial statements and preparing footnote disclosures. Your staff would need to present the auditor with a set of complete financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit.

To accomplish such a high level of internal control over financial reporting is a difficult task for most governments. Many large organizations, such as SEC companies, have been required by law to prepare their own statements for years, and are staffed appropriately to do so. Most governments operate with only enough staff to process monthly transactions and reports, and so rely on us to prepare certain year end audit entries and handle the year end financial reporting. Under the new auditing standards, we must, therefore, inform you that these are material weaknesses in your internal control.

If you have any questions on these new disclosures, please contact your audit team.

To the Board of Water Commissioners
Madison Water Utility

August 8, 2007
Page 4

PRIOR YEAR COMMENTS

INVENTORY PHYSICAL COUNT

In the process of our 2003 audit we found the utility's physical inventory count was \$24,000 higher than the book value. After discussions with management we believe this may be due to the field operators not adequately recording materials they return to stores as amounts added back to the inventory balance. This results in an understated inventory balance. In 2004 the utility will be implementing a new accounting system which includes an inventory module. We suggest the utility take this opportunity for increased diligence in tracking returned inventory items.

Status 12/31/2006

The 2006 and 2005 year end adjustment to inventory was \$500 and \$23,000, respectively. Per discussions with utility management, the improvement in record keeping is due to another year of experience with the inventory system and consistency with the inventory clerk position.

COMMUNICATION TO AUDIT COMMITTEE OR ITS EQUIVALENT

We have audited the financial statements of Madison Water Utility for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 8, 2007. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions there is a risk that material misstatements may exist and not be detected by us.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Madison Water Utility are discussed in Note 1 to the financial statements. We noted no transactions entered into by Madison Water Utility during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

To the Board of Water Commissioners
Madison Water Utility

August 8, 2007
Page 5

COMMUNICATION TO AUDIT COMMITTEE OR ITS EQUIVALENT (cont.)

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Madison Water Utility's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. All audit and bookkeeping adjustments we prepared were included in your financial statements. Copies of the adjustments are available from management.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the utility's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO THIS YEAR'S AUDIT

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Madison Water Utility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

To the Board of Water Commissioners
Madison Water Utility

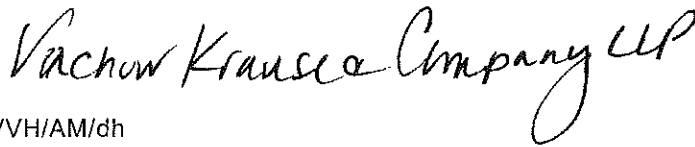
August 8, 2007
Page 6

CLOSING COMMENTS

We appreciate the assistance provided to us by utility personnel during the audit. As always, it is a pleasure working with the City of Madison Water Utility. If you have any questions or comments, please contact us.

Sincerely,

VIRCHOW, KRAUSE & COMPANY, LLP

A handwritten signature in cursive script that reads "Virchow Krause & Company LLP". The signature is written in black ink and is positioned below the printed name of the firm.

VVH/AM/dh

Item 12-7

MADISON WATER UTILITY

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

December 31, 2006 and 2005

MADISON WATER UTILITY
An Enterprise Fund of the City of Madison, Wisconsin

TABLE OF CONTENTS
December 31, 2006 and 2005

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Financial Statements	
Statements of Net Assets	10 – 11
Statements of Revenues, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 31
Supplemental Information	
Revenue Bond Debt Repayment Schedules	32
Operating Revenues and Expenses	33 – 34

Item 12-9



INDEPENDENT AUDITORS' REPORT

To the Board of Water Commissioners
Madison Water Utility
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of December 31, 2006 and 2005, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of utility management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Madison Water Utility enterprise fund and are not intended to present fairly the financial position of the City of Madison, Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Management's Discussion and Analysis section is required to include the past three years of financial information. However, Madison Water Utility has chosen to include additional financial information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Water Commissioners
Madison Water Utility

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Vinchow Krause & Company, LLP

Madison, Wisconsin
August 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Item 12-12

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

Madison Water Utility is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the years ending December 31, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the utility's financial statements and notes to the financial statements in order to enhance their understanding of the utility's financial performance.

2006 FINANCIAL HIGHLIGHTS

- The utility's operating revenues increased \$1,146,189 or 6.94% from 2005. Water pumped was down 5.7%, new customers increased 1.53%, and the utility was granted an average 7.6% rate increase by the Public Service Commission of Wisconsin.
 - The utility's operating expenses increased by \$1,393,480 or 10.81% from the prior year. This increase can be attributed to increased power for pumping costs, additional water sample testing for manganese, and additional costs for unidirectional flushing program.
 - The utility's total assets increased \$16.201 million and total liabilities increased \$11.652 million, resulting in total net assets increasing \$4.549 million or 4.58% from 2005.
 - Investment income increased by \$191,754 or 65.73%; interest rates were higher in 2006 and the utility had funds to invest, as the 2006 bond proceeds were available for investment.
-

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

Madison recognized the need for a central water supply early in its history. Several proposals from private companies were evaluated, and a committee from the common council visited several cities to evaluate municipal systems. The result was a report outlining the construction of a city waterworks. The common council of the City of Madison then directed the 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 the Board of Water Commissioners. Mr. John Heim, a member of the committee was elected Superintendent. This Board of Water Commissioners arrangement continues today, with the exception of a period of time after World War II when the City of Madison employed the city manager system of governance. The Madison Waterworks achieved department status in the early 1960's and became the Madison Water Utility (utility) under a General Manager.

The system has always been a groundwater utility in spite of being surrounded by lakes. The system currently has 24 deep wells with a daily capacity of over 71 million gallons per day. In common with the rest of Wisconsin's water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules, and levels of service.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

RATES

The utility last received a rate increase from the PSCW in January of 2006. After the rate increase, the utility is the sixth lowest of the 73 utilities classified as AB (over 4,000 customers) in the state and has the third lowest rates in Dane County. The utility filed an application to increase rates with the PSCW on February 26, 2007.

UTILITY FINANCIAL ANALYSIS

The Statements of Net Assets 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 Assets is presented in Table 1.

Table 1

Condensed Statements of Net Assets (000's)

	2006	2005	2004
Current and Other Assets	\$ 20,151	\$ 17,686	\$ 21,150
Capital Assets	141,715	127,978	120,250
Total Assets	161,866	145,664	141,400
Current Liabilities	7,218	8,558	4,577
Long-Term Debt Outstanding	46,885	33,770	35,730
Long-Term Liabilities	3,842	3,964	3,786
Total Liabilities	57,945	46,292	44,093
Invested in Capital Assets, Net of Related Debt	92,345	92,411	84,778
Restricted	8,495	6,473	6,891
Unrestricted	3,081	488	5,638
Total Net Assets	\$ 103,921	\$ 99,372	\$ 97,307

Net Assets increased \$4.549 million from 2005 to 2006, an increase of 4.58%. Net Assets have increased 6.80% since 2004.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	2006	2005	2004
Operating Revenues	\$ 17,351	\$ 16,197	\$ 15,361
Other Operating Revenues	322	330	364
Total Revenues	17,673	16,527	15,725
Operation and Maintenance Expense	11,268	10,068	8,699
Depreciation Expense	3,015	2,822	2,659
Non-operating Expense	1,569	1,244	1,402
Total Expense	15,852	14,134	12,760
Income Before Capital Contributions and Transfers	1,821	2,393	2,965
Capital Contributions	5,458	2,386	2,651
Transfers - Tax Equivalent	(2,730)	(2,714)	(2,643)
Changes in Net Assets	4,549	2,065	2,973
Beginning Net Assets	99,372	97,307	94,334
Ending Net Assets	\$ 103,921	\$ 99,372	\$ 97,307

The utility's operating revenues increased \$1.146 million or 6.94% in 2006. This is attributed to the rate increase that began phase in with the April 1 billing.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

**Operating Revenues and Expenses
(000's)**

	2006	2005	2004
OPERATING REVENUES			
Unmetered Sales	\$ 44	\$ 43	\$ 40
Metered Sales			
Residential	7,068	6,666	6,301
Commercial	5,420	4,892	4,730
Industrial	856	709	442
Public Authorities	1,652	1,714	1,766
Sales for Resale	251	199	177
Total Metered Sales	15,247	14,180	13,416
Private Fire Protection	253	242	228
Public Fire Protection	1,808	1,732	1,677
Total Sales of Water	17,352	16,197	15,361
Forfeited Discounts	137	117	154
Miscellaneous	43	57	60
Other	141	156	150
Total Operating Revenues	17,673	16,527	15,725
OPERATING EXPENSES			
Source of Supply	104	310	48
Pumping	2,938	2,750	2,471
Water Treatment	866	535	457
Transmission and Distribution	3,935	3,455	2,930
Customer Accounts	325	303	316
Administrative and General	2,979	2,711	2,357
Total Operation and Maintenance	11,147	10,064	8,579
Depreciation	3,015	2,822	2,659
Taxes	121	4	120
Total Operating Expenses	14,283	12,890	11,358
OPERATING INCOME	\$ 3,390	\$ 3,637	\$ 4,367

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

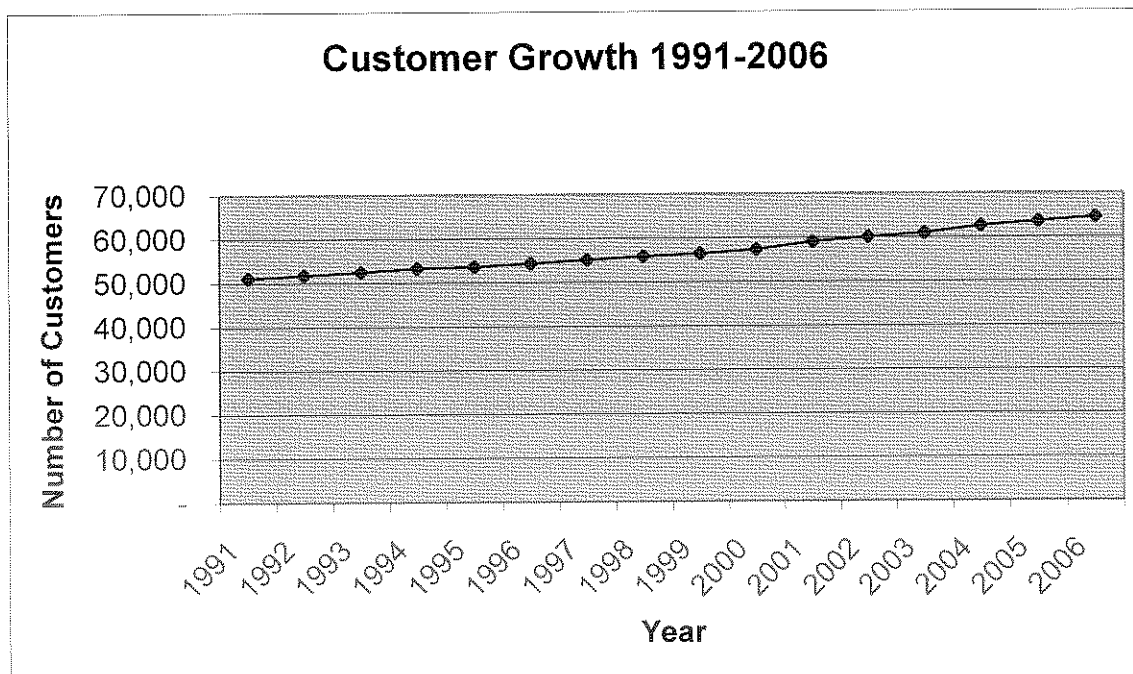
Revenues

Total operating revenues increased from \$16.527 million in 2005 to \$17.673 million in 2006, an increase of 6.94%. This increase was due to the rate increase that became effective January 10, 2006. The utility added 969 new customers in 2006 and pumped 5.72% less water.

Expenses

Operation and maintenance expenses totaled \$11.147 million in 2006 compared to \$10.064 million in 2005. This represents an increase of 10.76% over 2005. Major increases were noted in water sample testing which increased \$233,549 over 2005, power for pumping expense increased \$160,718 over 2005, operation of distribution lines \$452,287 due to the implementation of a unidirectional flushing program to more thoroughly clean of distribution mains, and health insurance which increased \$94,753.

Chart 1



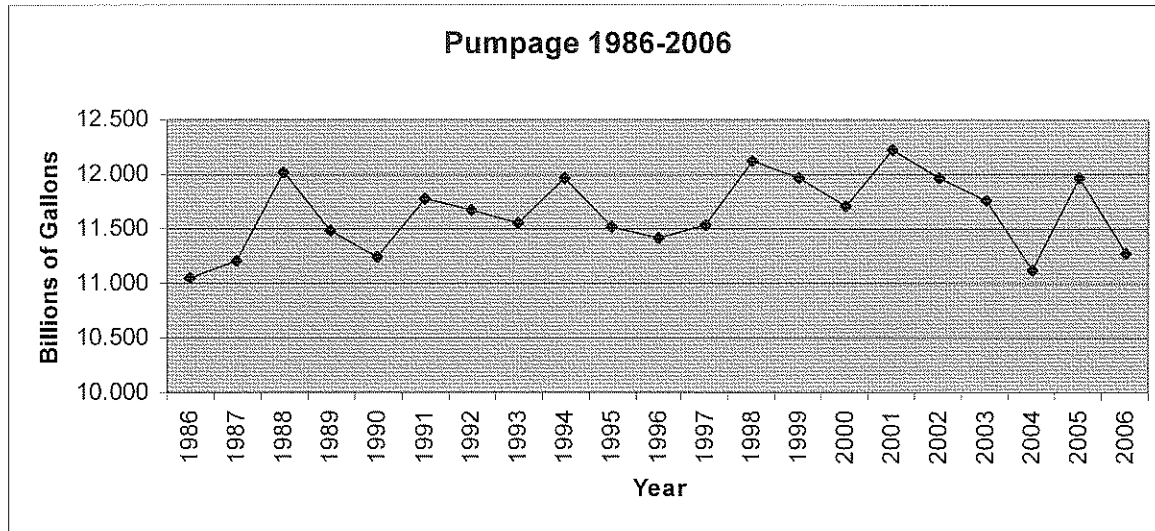
The utility continues to see strong customer growth. The utility received 1,087 new applications for service in 2006; the record number of new applications was 1,442 in 2002. 2005 produced 1,250 new applications for service.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year decreased from 11.966 billion gallons in 2005 to 11.284 billion in 2006 due to wetter weather than in 2005.

CAPITAL EXPENDITURES

The utility added a net \$10,880,077 of plant in 2006. Of this amount, \$5,398,000 was contributed by developers, contractors, and by special assessment. The utility is operating under a consent order from the Wisconsin Department of Natural Resources that requires the utility to replace all of the lead services in the system. The utility stopped using lead as a service material in 1928. At that time it was estimated there were about 11,000 lead services in the system. Over time, many of these have been replaced. It was estimated that there were about 7,000 lead services remaining in 2000. By the end of 2006, it was estimated there were 1,016 lead services remaining in the system. The utility is on schedule for compliance with the consent order by 2011.

Capital projects completed in 2006 and paid for by the utility include \$1.004 million for the lead service replacement program, \$3,241,895 for unit well #30, and \$1,226,116 for water main replacement projects.

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

Item 12-18

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

CAPITAL BORROWING

The policy of the utility has been to maintain depreciation and net revenues such that depreciation funds can be used for capital projects, and 'bottom line' can be used for debt retirement. Due to the lead service replacement mandate required to be completed over a 10 year period, funds available for other infrastructure maintenance and replacement will need to be borrowed along with net additions to the system. The utility borrowed \$15.955 million in 2006. The 2006 borrowing was to fund the 2006 capital projects. The utility entered into a short term borrowing agreement with the City of Madison to provide funds for 2007 capital projects while the utility pursued a rate increase from the Public Service Commission of Wisconsin. The utility plans to borrow in 2007 for its 2007 capital needs. The utility has stepped up its borrowing patterns in the last 6 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 versus the national economy. Consider the fact that, while the nation was undergoing an economic contraction, the utility set a record for new customers. Significant growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that the current financial structure of the utility is well prepared to handle these challenges. This is evidenced by the fact that, after our last rate case (December of 2005) utility rates are among the lowest in the state.

Our two largest customers, the University of Wisconsin and Oscar Mayer, have indicated significant growth plans that will require additional water from the utility. While rates are expected to increase over time, management expects utility rates will remain below the statewide average.

UTILITY CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Robin Piper, Finance/Accounting Manager, Madison Water Utility, 119 East Olin Ave, Madison, Wisconsin 53713 or by phone at (608) 266-4656 or e-mail at rpiper@madisonwater.org.

Item 12-19

MADISON WATER UTILITY

STATEMENTS OF NET ASSETS December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 294,682	\$ 461,443
Restricted cash and investments	3,980,998	2,795,519
Customer accounts receivable	2,615,540	2,500,697
Accrued revenue	3,333,011	3,476,138
Materials and supplies	892,943	801,499
Current portion of special assessments	61,163	83,517
Other current assets	279,259	275,810
Total Current Assets	<u>11,457,596</u>	<u>10,394,623</u>
NON-CURRENT ASSETS		
Restricted cash and investments	5,654,806	4,480,962
Other Assets		
Special assessments receivable	1,602,286	1,546,103
Unamortized debt issuance costs	394,329	229,922
Property held for future use	843,046	843,046
Non-utility property (net of accumulated depreciation)	198,751	192,134
Capital Assets		
Plant in service	163,358,918	152,478,841
Accumulated depreciation	(37,546,067)	(35,261,696)
Construction work in progress	15,902,495	10,760,568
Total Non-Current Assets	<u>150,408,564</u>	<u>135,269,880</u>
Total Assets	<u>161,866,160</u>	<u>145,664,503</u>

	2006	2005
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 903,840	\$ 742,328
Other current liabilities	267,887	215,383
Payable to other funds	774,276	166,286
Accrued interest	59,524	60,027
Short term loan from municipality	1,215,000	4,573,000
Current portion of advance	16,219	12,091
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	2,840,000	1,985,000
Accrued interest	1,140,998	803,753
Total Current Liabilities	<u>7,217,744</u>	<u>8,557,868</u>
NON-CURRENT LIABILITIES		
Revenue bonds	46,885,000	33,770,000
Unamortized debt premium	75,510	86,483
Unamortized loss on advance refunding	(35,753)	(45,335)
Accrued compensated absences	1,633,732	1,467,862
Advance from municipality	1,415,939	1,432,158
Customer advances for construction	753,086	1,023,045
Total Non-Current Liabilities	<u>50,727,514</u>	<u>37,734,213</u>
Total Liabilities	<u>57,945,258</u>	<u>46,292,081</u>
NET ASSETS		
Invested in capital assets, net of related debt	92,344,918	92,411,487
Restricted for debt service	8,494,806	6,472,728
Unrestricted	3,081,178	488,207
TOTAL NET ASSETS	<u>\$ 103,920,902</u>	<u>\$ 99,372,422</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Sales of water	\$ 17,351,379	\$ 16,197,118
Other	321,699	329,771
Total Operating Revenues	17,673,078	16,526,889
OPERATING EXPENSES		
Operation and maintenance	11,267,897	10,067,456
Depreciation	3,015,448	2,822,409
Total Operating Expenses	14,283,345	12,889,865
Operating Income	3,389,733	3,637,024
NON-OPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(25,413)	(39,777)
Investment income	483,493	291,739
Interest and amortization expense	(2,116,895)	(1,788,299)
Interest charged to construction	88,734	265,057
Other	1,486	27,404
Total Non-Operating Revenues (Expenses)	(1,568,595)	(1,243,876)
Income Before Capital Contributions and Transfers	1,821,138	2,393,148
CAPITAL CONTRIBUTIONS	5,457,657	2,386,376
TRANSFERS - TAX EQUIVALENT	(2,730,315)	(2,714,348)
Change in Net Assets	4,548,480	2,065,176
NET ASSETS - Beginning of Year	99,372,422	97,307,246
NET ASSETS - END OF YEAR	\$ 103,920,902	\$ 99,372,422

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 18,291,944	\$ 16,040,828
Paid to suppliers for goods and services	(6,371,000)	(6,177,387)
Paid to employees for services	(4,383,091)	(4,056,415)
Net Cash Flows from Operating Activities	<u>7,537,853</u>	<u>5,807,026</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(2,730,315)	(2,714,348)
Short-term loan received	1,877,000	-
Short-term loan paid	(662,000)	-
Interest paid on short-term loan	(34,573)	-
Received on advances to other funds	-	450,000
Repayment of advances from other funds	(12,091)	(30,227)
Interest paid on advances from other funds	(75,823)	(54,505)
Net Cash Flows from Noncapital Financing Activities	<u>(1,637,802)</u>	<u>(2,349,080)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(12,163,237)	(9,193,001)
Special assessments received	365,328	290,377
Contributions in aid of construction	81,749	220,305
Short term borrowing paid to city	(4,573,000)	4,573,000
Proceeds received as part of advance refunding	-	25,000
Proceeds from debt issued	15,955,000	-
Debt issuance costs	(208,193)	(122,020)
Debt premium received	-	31,748
Debt retired	(1,985,000)	(1,835,000)
Interest paid	(1,653,104)	(1,677,654)
Net Cash Flows from Capital and Related Financing Activities	<u>(4,180,457)</u>	<u>(7,687,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(13,040,925)	(10,728,971)
Marketable securities sold	11,877,548	11,047,254
Investment income	472,968	285,573
Net Cash Flows from Investing Activities	<u>(690,409)</u>	<u>603,856</u>
Net Change in Cash and Cash Equivalents	1,029,185	(3,625,443)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>4,147,418</u>	<u>7,772,861</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 5,176,603</u>	<u>\$ 4,147,418</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	<u>\$ 5,337,648</u>	<u>\$ 2,157,894</u>
Special assessments levied to customers	<u>\$ 321,796</u>	<u>\$ 247,690</u>
Long-term debt advance refunded	<u>\$ -</u>	<u>\$ 3,538,333</u>
Loss on advanced refunding	<u>\$ -</u>	<u>\$ 53,998</u>

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 3,389,733	\$ 3,637,024
Nonoperating loss	(23,927)	(47,555)
Noncash items included in operating income		
Depreciation	3,015,448	2,822,409
Depreciation charged to other accounts	454,677	434,626
Changes in Assets and Liabilities		
Customer accounts receivable	(114,843)	(511,175)
Receivable from other funds	472,082	93,297
Materials and supplies	(91,444)	(38,254)
Accrued revenues	143,127	(182,326)
Other current assets	47,419	(22,955)
Accounts payable and other current liabilities	(4,577)	(46,555)
Payable to other funds	84,288	(407,351)
Accrued compensated absences	165,870	75,841
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 7,537,853</u>	<u>\$ 5,807,026</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 294,682	\$ 461,443
Restricted cash and investments	9,635,804	7,276,481
Total Cash and Investments	9,930,486	7,737,924
Less: Noncash equivalents	4,753,883	3,590,506
CASH AND CASH EQUIVALENTS	<u>\$ 5,176,603</u>	<u>\$ 4,147,418</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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 units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utilities 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 and 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 a five member Board of Water Commissioners comprised of one Common Council member and four citizen members, 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.

The utility follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

ASSETS, LIABILITIES AND NET ASSETS

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 or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

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

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

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.

Receivables/Payables

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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.

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.

Non-Utility Property

This balance includes the previous utility building, sewer meters and land holding abandoned property owned by the utility.

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 the 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	34 – 44
Pumping	25 – 31
Water treatment	15
Transmission and distribution	2 – 84
General	6 – 20

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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 six month 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, as well as issuance costs, 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.

REVENUES AND EXPENSES

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

Charges for Services

Utility billings are rendered and recorded based on actual service rendered with billings made to customers semi-annually utilizing six separate billing cycles. The utility accrues revenues beyond these billing dates.

Current rates were authorized by the PSCW in an order dated December 15, 2005 and are designed to earn a 6.70% return on rate base. The utility placed the new rates into effect on January 10, 2006.

The utility filed for a rate increase with the PSCW on February 26, 2007.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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

REVENUES AND EXPENSES (cont.)

Transfers

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 portion of the mill rate. In addition, current legislation requires that the computed payment be greater than or equal to the 1994 PILOT payment. Transfers include the payment in lieu of taxes to the municipality.

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 assets.

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2006	2005	
Checking and Savings	\$ 275,043	\$ 246,155	Custodial credit (A)
Other Investment Pools	4,894,910	3,894,613	
U.S. Treasuries	4,753,883	3,590,506	Interest rate risk
Working Funds – Petty Cash	<u>6,650</u>	<u>6,650</u>	None
Totals	<u>\$ 9,930,486</u>	<u>\$ 7,737,924</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing 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.

- (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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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

Custodial Credit Risk

Deposits

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

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

	2006		2006	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	\$ 513,470	\$ 275,043	\$ 420,782	\$ 246,155

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.

Investments

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

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

The municipality's investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits 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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Investments (cont.)

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

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2006, the utility's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
U.S. Treasury Bill	\$ 4,753,883	2/22/07

As of December 31, 2005, the utility's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
U.S. Treasury Bill	\$ 3,590,506	2/23/06

The municipality's investment policy addresses this risk by obtaining investments with durations which coincide with cash requirements of the municipality to meet current operating needs. Within this framework, investments should generally mature within one year. However, since the municipality's cash flow is such that a substantial balance is always available, investment in authorized long-term securities may be made as long as the total of such investments in the portfolio does not exceed 33% of the anticipated average balance. In no case shall single investments maturing in excess of two years exceed \$10 million.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2006 and 2005:

Due To	Due From	2006		2005	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 774,276	Sewer/storm receipts and joint meter allocation	\$ 166,286	Sewer/storm receipts and joint meter allocation

The following is a schedule of transfer balances as of December 31, 2006 and 2005:

Due To	Due From	2006		2005	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$2,730,315	Tax equivalent	\$2,714,348	Tax equivalent

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 assets 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
December 31, 2006 and 2005

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net assets:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Restricted Assets		
Operation and maintenance reserve	\$ 150,000	\$ 150,000
Principal and interest	3,980,998	2,795,519
Reserve	4,754,806	3,580,962
Depreciation	<u>750,000</u>	<u>750,000</u>
Total Restricted Assets	9,635,804	7,276,481
Current Liabilities Payable From Restricted Assets	<u>(1,140,998)</u>	<u>(803,753)</u>
Total Restricted Net Assets	<u>\$ 8,494,806</u>	<u>\$ 6,472,728</u>

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2006 follows:

	<u>Balance</u> <u>1/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/06</u>
Capital assets, not being depreciated				
Land and land rights	\$ 1,579,995	\$ 276,011	\$ 88	\$ 1,855,918
Capital assets being depreciated				
Source of supply	8,429,274	1,170,338	121,890	9,477,722
Pumping	8,803,241	1,770,910	255,225	10,318,926
Water treatment	331,447	38,342	30,399	339,390
Transmission and distribution	116,679,125	8,177,135	298,656	124,557,604
General	<u>16,655,759</u>	<u>602,200</u>	<u>448,601</u>	<u>16,809,358</u>
Total Capital Assets				
Being Depreciated	<u>150,898,846</u>	<u>11,758,925</u>	<u>1,154,771</u>	<u>161,503,000</u>
Total Capital Assets	<u>152,478,841</u>	<u>12,034,936</u>	<u>1,154,859</u>	<u>163,358,918</u>
Less: Accumulated Depreciation				
Source of supply	(3,500,037)	(228,682)	(165,526)	(3,563,193)
Pumping	(4,379,679)	(350,978)	(270,963)	(4,459,694)
Water treatment	(76,164)	(22,848)	(30,399)	(68,613)
Transmission and distribution	(21,160,744)	(2,113,261)	(338,972)	(22,935,033)
Administration and general assets	<u>(6,145,072)</u>	<u>(823,063)</u>	<u>(448,601)</u>	<u>(6,519,534)</u>
Total Accumulated Depreciation	<u>(35,261,696)</u>	<u>(3,538,832)</u>	<u>(1,254,461)</u>	<u>(37,546,067)</u>
Construction in progress	<u>10,760,568</u>	<u>18,995,839</u>	<u>13,853,912</u>	<u>15,902,495</u>
Net Capital Assets	<u>\$ 127,977,713</u>			<u>\$ 141,715,346</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2005 follows:

	Balance 1/01/05	Increases	Decreases	Balance 12/31/05
Capital assets, not being depreciated				
Land and land rights	\$ 2,030,585	\$ 677,910	\$ 1,128,500	\$ 1,579,995
Capital assets being depreciated				
Source of supply	6,662,364	1,766,910	-	8,429,274
Pumping	7,397,497	1,537,161	131,417	8,803,241
Water treatment	313,580	27,745	9,878	331,447
Transmission and distribution	111,209,836	5,807,844	338,555	116,679,125
General	10,353,127	7,708,168	1,405,536	16,655,759
Total Capital Assets				
Being Depreciated	<u>135,936,404</u>	<u>16,847,828</u>	<u>1,885,386</u>	<u>150,898,846</u>
Total Capital Assets	<u>137,966,989</u>	<u>17,525,738</u>	<u>3,013,886</u>	<u>152,478,841</u>
Less: Accumulated Depreciation				
Source of supply	(3,283,965)	(216,072)	-	(3,500,037)
Pumping	(4,234,791)	(286,076)	(141,188)	(4,379,679)
Water treatment	(62,958)	(23,083)	(9,877)	(76,164)
Transmission and distribution	(19,690,645)	(1,911,584)	(441,485)	(21,160,744)
Administration and general assets	(6,291,697)	(1,258,915)	(1,405,540)	(6,145,072)
Total Accumulated Depreciation	<u>(33,564,056)</u>	<u>(3,695,730)</u>	<u>(1,998,090)</u>	<u>(35,261,696)</u>
Construction in progress	<u>15,847,022</u>	<u>13,670,078</u>	<u>18,756,532</u>	<u>10,760,568</u>
Net Capital Assets	<u>\$ 120,249,955</u>			<u>\$ 127,977,713</u>

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The municipality, on behalf of the utility, has issued the following revenue bonds:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount 12/31/06
12/01/99	System improvement	1/01/18	4.70 – 5.60	\$ 5,000,000	\$ 3,790,000
4/01/01	System improvement	1/01/21	4.00 – 5.05	5,000,000	4,100,000
12/04/01	Refunding debt used for system improvement	1/01/08	3.00 – 4.00	3,305,000	405,000

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005NOTE 6 – LONG-TERM OBLIGATIONS*REVENUE BONDS* (cont.)

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount 12/31/06
5/01/02	System improvement	1/01/22	3.50 – 5.10	\$ 4,500,000	\$ 3,990,000
8/15/03	System improvement	1/01/24	2.50 – 5.25	19,055,000	18,295,000
3/15/05	Refunding debt used for system improvement	1/01/15	3.00 – 4.00	3,630,000	3,190,000
6/15/06	System improvement	1/01/26	4.00 – 4.13	15,955,000	15,955,000
Totals				<u>\$ 56,445,000</u>	<u>\$ 49,725,000</u>

The 1995 and 1998 issues were advance refunded as part of the 2005 debt issue.

Revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2007	\$ 2,840,000	\$ 1,878,977	\$ 4,718,977
2008	2,610,000	2,084,082	4,694,082
2009	2,480,000	1,989,494	4,469,494
2010	2,580,000	1,891,713	4,471,713
2011	2,420,000	1,791,371	4,211,371
2012	2,520,000	1,687,861	4,207,861
2013	2,625,000	1,578,085	4,203,085
2014	2,750,000	1,461,245	4,211,245
2015	2,760,000	1,337,015	4,097,015
2016	2,665,000	1,210,300	3,875,300
2017	2,795,000	1,079,733	3,874,733
2018	2,915,000	942,537	3,857,537
2019	2,605,000	810,287	3,415,287
2020	2,725,000	684,122	3,409,122
2021	2,810,000	553,042	3,363,042
2022	2,585,000	422,930	3,007,930
2023	2,350,000	301,988	2,651,988
2024	2,445,000	184,800	2,629,800
2025	1,095,000	101,025	1,196,025
2026	1,150,000	51,750	1,201,750
Totals	<u>\$ 49,725,000</u>	<u>\$ 22,042,357</u>	<u>\$ 71,767,357</u>

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on all utility plant.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/06
7/01/04	Payoff unfunded pension liability	3/15/24	5.25%	\$ 1,474,476	\$ 1,432,158

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2007	\$ 16,219	\$ 75,188	\$ 91,407
2008	20,790	74,540	95,330
2009	25,656	73,245	98,901
2010	31,111	71,898	103,009
2011	36,714	70,265	106,979
2012	42,907	68,525	111,432
2013	49,690	66,085	115,775
2014	57,210	63,476	120,686
2015	65,319	60,473	125,792
2016	74,019	57,200	131,219
2017	83,750	53,157	136,907
2018	93,924	48,761	142,685
2019	105,278	43,830	149,108
2020	117,516	38,407	155,923
2021	130,639	32,133	162,772
2022	144,794	25,274	170,068
2023	159,833	17,673	177,506
2024	176,789	9,307	186,096
Totals	\$ 1,432,158	\$ 949,437	\$ 2,381,595

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2006 is as follows:

	1/01/06 Balance	Additions	Reductions	12/31/06 Balance	Due Within One Year
Revenue bonds	\$ 35,755,000	\$ 15,955,000	\$ 1,985,000	\$ 49,725,000	\$ 2,840,000
Accrued compensated absences	1,467,862	280,872	115,002	1,633,732	-
Customer advances for construction	1,023,045	218,905	488,864	753,086	-
Advance from municipality	1,444,249	-	12,091	1,432,158	16,219
Unamortized debt premium	86,483	-	10,973	75,510	10,147
Unamortized loss on advanced refunding	(45,335)	-	(9,582)	(35,753)	(8,411)
Totals	\$ 39,731,304	\$ 16,454,777	\$ 2,602,348	\$ 53,583,733	\$ 2,857,955

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2005 is as follows:

	1/01/05 Balance	Additions	Reductions	12/31/05 Balance	Due Within One Year
Revenue bonds	\$ 37,565,000	\$ 3,630,000	\$ 5,440,000	\$ 35,755,000	\$ 1,985,000
Accrued compensated absences	1,392,021	190,179	114,338	1,467,862	-
Customer advances for construction	884,967	344,900	206,822	1,023,045	-
Advance from municipality	1,474,476	-	30,227	1,444,249	12,091
Unamortized debt premium	65,214	31,748	10,479	86,483	10,973
Unamortized loss on advanced refunding	-	(53,877)	(8,542)	(45,335)	(9,582)
Totals	\$ 41,381,678	\$ 4,142,950	\$ 5,793,324	\$ 39,731,304	\$ 1,998,482

ADVANCE REFUNDING

On March 1, 2005, bonds in the amount of \$3,630,000 were issued with an average interest rate of 3.5347 percent to advance refund two series of bonds issued in 1995 and 1998 in the outstanding aggregate principal amount of \$3,605,000. The 1995 Series had an average interest rate of 5.3283 percent, and the 1998 Series had an average interest rate of 5.0026 percent. The net proceeds of \$3,592,330 (after payment of \$68,143 in underwriting fees and other issuance costs) plus an additional \$96,796 of monies previously deposited for payment of debt service on the two refunded series were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the statement of net assets.

The cash flow requirements on the old bonds prior to the advance refunding was \$4,525,369 from 2005 through 2015. The cash flow requirements on the new bonds are \$4,242,382 from 2006 through 2015. The advance refunding resulted in a cash flow savings of \$282,986 through the final maturity, and an economic savings of \$192,180 on a present value basis, discounted at the interest rate paid on the refunding bonds.

The bonds are callable on January 1, 2015. At December 31, 2006, \$3,190,000 of bonds outstanding are considered defeased.

MADISON WATER UTILITY**NOTES TO FINANCIAL STATEMENTS**
December 31, 2006 and 2005

NOTE 7 – SHORT-TERM LOAN FROM MUNICIPALITY

On August 4, 2005 the Common Council approved a loan from the municipality to the utility to be used as temporary financing prior to the receipt of revenue bond proceeds expected in 2006. The maximum loan approved is \$6 million with interest charged monthly at .25% higher than the monthly rate earned through the utility's commingled cash account.

During 2005 the utility borrowed \$4,573,000 from the city. During 2006, the utility borrowed another \$1,877,000 and paid back \$5,235,000 leaving an outstanding balance of \$1,215,000 as of December 31, 2006. The utility paid \$627,000 of the short-term loan in January of 2007 and expects to repay the remaining amount in 2007.

NOTE 8 – NET ASSETS

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

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

Restricted - This component of net assets consists of constraints placed on net asset 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 assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 8 – NET ASSETS (cont.)

The following calculation supports the net assets invested in capital assets, net of related debt:

	<u>2006</u>	<u>2005</u>
Plant in Service	\$ 163,358,918	\$ 152,478,841
Accumulated Depreciation	(37,546,067)	(35,261,696)
Construction Work in Progress	<u>15,902,495</u>	<u>10,760,568</u>
Sub-Totals	<u>141,715,346</u>	<u>127,977,713</u>
Less: Capital Related Debt		
Current portion of capital related long-term debt	2,840,000	1,985,000
Long-term portion capital related long-term debt	46,885,000	33,770,000
Unamortized debt issuance costs	(394,329)	(229,922)
Unamortized debt premium	75,510	86,483
Unamortized loss on advance refunding	<u>(35,753)</u>	<u>(45,335)</u>
Sub-Totals	<u>49,370,428</u>	<u>35,566,226</u>
 Total Net Assets Invested in Capital Assets, Net of Related Debt	 <u>\$ 92,344,918</u>	 <u>\$ 92,411,487</u>

NOTE 9 – EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the utility participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 5.8% and 5.6% of their salary to the plan in 2006 and 2005, respectively. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

	<u>Year Ended December 31</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Utility Payroll	<u>\$ 6,133,000</u>	<u>\$ 5,859,000</u>	<u>\$ 5,809,000</u>
Total Covered Employee Payroll	<u>\$ 5,426,000</u>	<u>\$ 5,204,000</u>	<u>\$ 5,165,600</u>
Total Required Contributions	<u>\$ 564,300</u>	<u>\$ 530,800</u>	<u>\$ 506,200</u>
Total Required Contributions (%)	<u>10.4%</u>	<u>10.2%</u>	<u>9.8%</u>

Details of the plan are disclosed in the general purpose financial statements of the municipality.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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, 2006 has been accrued in these financial statements.

NOTE 11 – BOND COVENANT DISCLOSURES

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is in compliance with bond funding requirements.

NUMBER OF CUSTOMERS

At December 31, 2006 and 2005, the utility served the following number of customers:

	<u>2006</u>	<u>2005</u>
Residential	54,831	53,923
Commercial	8,634	8,728
Industrial	57	58
Public authority	<u>489</u>	<u>486</u>
Totals	<u>64,011</u>	<u>63,195</u>

WATER PUMPED AND BILLED

During 2006 and 2005, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2006</u>	<u>2005</u>
Water pumped	<u>11,283,778</u>	<u>11,965,719</u>
Water billed	<u>10,500,035</u>	<u>10,438,639</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 11 – BOND CONVENANT DISCLOSURES (cont.)

RISK MANAGEMENT

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

SCHEDULE OF INSURANCE IN FORCE

Type of Coverage and Name of Company	Policy Period From	To	Details of Coverage *	Liability Limits
Automobile Comprehensive Local Government Property Insurance Fund	140337 01/01/06 to 01/01/07		\$ 2,444,563 \$ 3,000 deductible	Replacement
Automobile Liability per occurrence Wisconsin Municipal Mutual Insurance Company	WI2006CS03A 01/01/06 to 01/01/07		Automobile liability	\$ 5,000,000 \$ 300,000 Self-Insured Retention
Boiler and Machinery CHUBB	7834-76-48 01/01/06 to 01/01/07		Repair and Replace Boiler and Machinery	\$ 12,500,000 \$ 25,000 deductible
Blanket Bond Fidelity and Deposit	CCP0060387		Blanket Bond	\$ 250,000 limit
Fire and Extended Local Government Property Insurance Fund	140337 01/01/06 to 01/01/07		\$ 37,642,316 \$ 5,000 deductible	Replacement
General Liability per occurrence Wisconsin Municipal Mutual Insurance Company	WI2006S03A 01/01/06 to 01/01/07		General liability, personal injury liability and errors and omission liability	\$ 5,000,000 \$ 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.

SUPPLEMENTAL INFORMATION

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES
December 31, 2006

Year	1999 MRB's			2001A MRB's			2001B MRB's			2002A MRB's		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 235,000	\$ 195,486	\$ 430,486	\$ 190,000	\$ 187,185	\$ 377,185	\$ 195,000	\$ 12,056	\$ 207,056	\$ 180,000	\$ 183,805	\$ 363,805
2008	245,000	183,724	428,724	200,000	179,385	379,385	210,000	4,200	214,200	185,000	176,273	361,273
2009	260,000	171,160	431,160	210,000	171,054	381,054	-	-	-	190,000	168,305	358,305
2010	270,000	157,843	427,843	220,000	162,102	382,102	-	-	-	200,000	160,017	360,017
2011	285,000	143,686	428,686	230,000	152,538	382,538	-	-	-	210,000	151,147	361,147
2012	300,000	128,548	428,548	240,000	142,313	382,313	-	-	-	215,000	141,797	356,797
2013	320,000	112,268	432,268	255,000	131,231	386,231	-	-	-	225,000	132,061	357,061
2014	335,000	94,742	429,742	265,000	119,269	384,269	-	-	-	235,000	121,709	356,709
2015	355,000	75,935	430,935	280,000	106,458	386,458	-	-	-	245,000	110,666	355,666
2016	375,000	55,766	430,766	295,000	92,728	387,728	-	-	-	260,000	98,731	358,731
2017	395,000	34,300	429,300	310,000	79,052	389,052	-	-	-	270,000	85,875	355,875
2018	415,000	11,620	426,620	325,000	62,413	387,413	-	-	-	285,000	72,135	357,135
2019	-	-	-	340,000	45,870	385,870	-	-	-	300,000	57,510	357,510
2020	-	-	-	360,000	28,280	388,280	-	-	-	315,000	42,135	357,135
2021	-	-	-	380,000	9,595	389,595	-	-	-	330,000	25,928	355,928
2022	-	-	-	-	-	-	-	-	-	345,000	8,798	353,798
2023	-	-	-	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 3,790,000	\$ 1,365,078	\$ 5,155,078	\$ 4,100,000	\$ 1,668,473	\$ 5,768,473	\$ 405,000	\$ 16,256	\$ 421,256	\$ 3,990,000	\$ 1,736,892	\$ 5,726,892

Year	2003A MRB's			2005A MRB's			2006A MRB's			2006B MRB's		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 775,000	\$ 829,969	\$ 1,604,969	\$ 440,000	\$ 101,469	\$ 541,469	\$ 825,000	\$ 369,007	\$ 1,194,007	\$ 2,840,000	\$ 1,878,977	\$ 4,718,977
2008	785,000	807,537	1,592,537	445,000	88,194	533,194	540,000	644,769	1,184,769	2,610,000	2,084,082	4,694,082
2009	800,000	781,762	1,581,762	460,000	74,044	534,044	560,000	623,169	1,183,169	2,480,000	1,989,494	4,469,494
2010	825,000	752,294	1,577,294	485,000	58,688	543,688	580,000	600,769	1,180,769	2,580,000	1,891,713	4,471,713
2011	850,000	719,825	1,569,825	240,000	48,606	288,606	605,000	577,569	1,182,569	2,420,000	1,791,371	4,211,371
2012	875,000	684,231	1,559,231	265,000	37,603	302,603	625,000	553,369	1,178,369	2,520,000	1,687,861	4,207,861
2013	900,000	646,512	1,546,512	275,000	27,644	302,644	650,000	528,369	1,178,369	2,625,000	1,578,085	4,203,085
2014	950,000	606,012	1,556,012	285,000	17,144	302,144	680,000	502,369	1,182,369	2,750,000	1,461,245	4,211,245
2015	880,000	563,737	1,443,737	295,000	5,900	300,900	705,000	474,319	1,179,319	2,760,000	1,337,015	4,097,015
2016	1,000,000	517,837	1,517,837	-	-	-	735,000	445,238	1,180,238	2,665,000	1,210,300	3,875,300
2017	1,050,000	486,587	1,536,587	-	-	-	770,000	414,919	1,184,919	2,795,000	1,079,733	3,874,733
2018	1,085,000	413,213	1,498,213	-	-	-	805,000	383,156	1,188,156	2,915,000	942,537	3,857,537
2019	1,125,000	357,963	1,482,963	-	-	-	840,000	348,944	1,188,944	2,605,000	810,287	3,415,287
2020	1,175,000	300,463	1,475,463	-	-	-	875,000	313,244	1,188,244	2,725,000	684,122	3,409,122
2021	1,185,000	241,463	1,426,463	-	-	-	915,000	276,056	1,191,056	2,810,000	553,042	3,363,042
2022	1,285,000	178,107	1,463,107	-	-	-	955,000	236,025	1,191,025	2,585,000	422,930	3,007,930
2023	1,350,000	108,938	1,458,938	-	-	-	1,000,000	193,050	1,193,050	2,350,000	301,988	2,651,988
2024	1,400,000	36,750	1,436,750	-	-	-	1,045,000	148,050	1,193,050	2,445,000	184,800	2,629,800
2025	-	-	-	-	-	-	1,095,000	101,025	1,196,025	1,095,000	101,025	1,196,025
2026	-	-	-	-	-	-	1,150,000	51,750	1,201,750	1,150,000	51,750	1,201,750
Total	\$ 18,295,000	\$ 9,013,200	\$ 27,308,200	\$ 3,190,000	\$ 457,292	\$ 3,647,292	\$ 15,955,000	\$ 7,785,166	\$ 23,740,166	\$ 49,725,000	\$ 22,042,357	\$ 71,767,357

12-42

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Unmetered Sales	\$ 43,923	\$ 43,359
Metered Sales		
Residential	7,067,686	6,665,544
Commercial	5,419,810	4,892,097
Industrial	856,041	708,827
Public authorities	1,651,678	1,714,450
Sales for resale	251,118	199,023
Total Metered Sales	15,246,333	14,179,941
Private fire protection	253,115	242,116
Public fire protection	1,808,008	1,731,702
Total Sales of Water	17,351,379	16,197,118
Forfeited discounts	137,405	116,937
Miscellaneous	43,198	57,121
Other	141,096	155,713
Total Operating Revenues	17,673,078	16,526,889
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	16,101	19,665
Collecting and impounding reservoirs	43,569	15,792
Wells and springs	44,525	274,639
Total Source of Supply	104,195	310,096
Pumping		
Operation supervision and engineering	7,237	32,991
Power purchased for pumping	1,926,565	1,765,847
Pumping labor	295,729	279,589
Miscellaneous	280,314	262,735
Maintenance		
Supervision and engineering	50,556	56,617
Structures and improvements	94,042	78,778
Pumping equipment	283,010	273,648
Total Pumping	2,937,453	2,750,205
Water Treatment		
Operation supervision and engineering	15,248	35,562
Chemicals	157,312	118,115
Operation labor	535,747	302,198
Miscellaneous	79,856	11,852
Maintenance		
Supervision and engineering	11,515	10,517
Water treatment equipment	65,898	56,738
Total Water Treatment	865,576	534,982

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 97,334	\$ 111,093
Storage facilities	66,078	64,094
Transmission and distribution lines	576,808	138,266
Meter	123,134	144,280
Customer installation	86,328	116,567
Miscellaneous	576,172	532,385
Maintenance		
Reservoirs	8,161	3,864
Mains	1,294,285	1,236,108
Services	706,240	721,849
Meters	147,200	134,390
Hydrants	253,251	251,903
Total Transmission and Distribution	3,934,991	3,454,799
Customer Accounts		
Supervision	16,912	16,029
Meter reading	98,467	94,854
Customer records and collection	209,924	191,940
Total Customer Accounts	325,303	302,823
Administrative and General		
Salaries	696,473	685,490
Office supplies	313,171	251,500
Outside services employed	217,945	301,604
Property insurance	16,070	16,725
Injuries and damages	322,881	264,798
Employees pensions and benefits	1,268,250	1,050,277
Regulatory commission	-	8,631
Miscellaneous	138,762	128,957
Maintenance of general plant	5,382	2,648
Total Administrative and General	2,978,934	2,710,630
Total Operation and Maintenance	11,146,452	10,063,535
Depreciation	3,015,448	2,822,409
Taxes	121,445	3,921
Total Operating Expenses	14,283,345	12,889,865
OPERATING INCOME	\$ 3,389,733	\$ 3,637,024