

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, 2023 and 2022

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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Independent Auditors' Report

To the Water Utility Board of the
Madison Water Utility

Opinion

We have audited the financial statements of the Madison Water Utility (Utility), an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements of the Utility are intended to present the financial position, the changes in financial position, and cash flows of only the Utility. They do not purport to, and do not, present fairly the financial position of the City of Madison as of December 31, 2023, and 2022, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Utility adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangement*, effective January 1, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
June 26, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

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 1960s 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 in service with a total capacity of 67.7 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.

2023 FINANCIAL HIGHLIGHTS

- > Total operating revenues increased \$9,656,000 or 20.1% from 2022 to 2023, and pumpage increased 1.7% for that same period.
- > Income before capital contributions and transfers increased \$9.4 million or 59.6% from the prior year. The increase was due largely to an increase of \$9.7 million in Operating Revenues.
- > Capital assets increased by \$9.7 million in 2023, which were financed with the issuance of 2019 Bond Anticipation Notes (BANs) and reserves. BANs in the amount of \$20 million were issued in 2019 to cover capital projects from 2019 through 2023, \$1.4 million in SDWL, and \$2.2 million due to the implementation of Expense Depreciation of replacement water mains.
- > Safe Drinking Water Loan approved for \$4.7 million via the DNR to partially redeem 2019 BANs.

2022 FINANCIAL HIGHLIGHTS

- > Total operating revenues increased \$49,000 or .1% from 2021 to 2022, and pumpage increased 1.1% for that same period.
- > Income before capital contributions and transfers decreased \$1.7 million or 9.5% from the prior year. The decrease was due largely to an increase of \$1.7 million in Operating and Maintenance costs.
- > Capital assets increased by \$3.8 million in 2022, which were financed with the issuance of 2019 Bond Anticipation Notes (BANs) and reserves. BANs in the amount of \$20 million were issued in 2019 to cover capital projects from 2019 through 2022.
- > Tyler Utility Billing was implemented in December 2022, along with a new payment portal.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

RATES

Current rates became effective March 1, 2023. The Utility filed an application to review rates with the Public Service Commission of Wisconsin on November 30, 2021. The rate order for the most recent case was issued on December 29, 2022. The utility is currently ranked fifth for residential rates out of eighty 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)

	2023	2022	Restated 2021
Current and Other Assets	\$ 78,119	\$ 73,102	\$ 73,236
Capital Assets	304,030	302,935	306,174
Total Assets	382,148	376,037	379,410
Deferred Outflows of Resources	11,146	9,371	6,759
Current Liabilities	33,869	18,131	17,577
Long-term Debt Outstanding	137,515	165,595	185,230
Long-term Liabilities	18,455	16,659	17,470
Total Liabilities	189,840	200,385	220,277
Deferred Inflows of Resources	12,315	17,248	11,377
Net Investment in Capital Assets	145,506	136,416	127,492
Restricted	15,974	19,332	19,900
Unrestricted	29,660	12,026	7,122
Total Net Position	\$ 191,140	\$ 167,775	\$ 154,515

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

UTILITY FINANCIAL ANALYSIS (cont.)

In 2023, total assets combined with deferred outflows of resources increased \$7.9 million and total liabilities with deferred inflows of resources decreased \$15.5 million, resulting in an increase in net position of \$23.4 million from 2022. The change was primarily due to an increase of \$5 million in total cash and other assets, increase of \$1.1 million increase in net capital assets, increase in net pension asset and pension related deferred outflows of \$1.8 million, decrease in debt of \$10.5 million and decrease in net pension asset and pension related deferred inflows of \$4.9 million. In 2022, total assets combined with deferred outflows of resources decreased \$761,000 and total liabilities with deferred inflows of resources decreased \$14.0 million, resulting in an increase in net position of \$13.3 million from 2021. The change was primarily due to a decrease in debt of \$19.9 million and an increase in net pension asset and pension related deferred outflows of \$3.5 million offset by an increase in deferred inflows of \$5.9 million due to the implementation of GASB 87 and a decrease in cash of \$4.2 million.

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

	2023	2022	Restated 2021
Operating Revenues	\$ 56,709	\$ 47,114	\$ 47,149
Non-operating Revenues	1,088	1,026	941
Total Revenues	<u>57,796</u>	<u>48,140</u>	<u>48,091</u>
Operation & Maintenance Expense	19,609	17,606	15,927
Depreciation Expense	10,813	8,462	8,378
Non-operating Expense	2,092	6,226	6,272
Total Expense	<u>32,515</u>	<u>32,295</u>	<u>30,577</u>
Income Before Capital Contributions and Transfers	25,282	15,845	17,514
Capital Contributions	4,390	4,117	2,440
Transfers, net	<u>(6,307)</u>	<u>(6,702)</u>	<u>(7,424)</u>
Change in Net Position	23,365	13,260	12,530
Beginning Net Position	<u>167,775</u>	<u>154,515</u>	<u>141,984</u>
Ending Net Assets	<u>\$ 191,140</u>	<u>\$ 167,775</u>	<u>\$ 154,515</u>

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

UTILITY FINANCIAL ANALYSIS (cont.)

The Utility's total revenues increased \$9.7 million 20.1% from 2022 to 2023 as a result of the rate increase implemented on March 1, 2023 and an increase of 1.7% in pumpage from 2022 to 2023. The Utility's total revenues increased \$49,000 or .1% from 2021 to 2022 as a result of the implementation of GASB 87 in 2022.

Table 3
Operating Revenues and Expenses
(000's)

	2023	2022	Restated 2021
OPERATING REVENUES			
Unmetered Sales	\$ 541	\$ 414	\$ 375
Metered Sales			
Residential	24,001	20,466	21,555
Duplex	917	819	804
Multi-Family	11,065	9,356	9,126
Commercial	10,836	8,401	8,277
Industrial	1,135	992	1,071
Public authorities	7,490	6,124	5,357
Sales for resale	600	417	454
Total Metered Sales	56,044	46,575	46,644
Public fire protection	124	124	131
Total Sales of Water	56,709	47,114	47,150
Customer Late Payment Penalties	286	201	207
Miscellaneous	68	65	74
Rents from Water Property	399	375	276
Other	335	385	385
Total Operating Revenues	57,796	48,140	48,091
OPERATING EXPENSES			
Source of Supply	61	170	104
Pumping	4,679	4,203	3,951
Water Treatment	936	771	719
Transmission and Distribution	7,135	6,987	6,232
Customer Accounts	659	819	761
Administrative and General	5,485	4,028	3,570
Total Operation and Maintenance	18,954	16,977	15,337
Depreciation	10,813	8,462	8,377
Taxes	655	629	591
Total Operating Expenses	30,423	26,068	24,305
OPERATING INCOME	<u>\$ 27,374</u>	<u>\$ 22,072</u>	<u>\$ 23,786</u>

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

UTILITY FINANCIAL ANALYSIS (cont.)

Revenues

Total operating revenues were \$57.8 million for 2023. Pumpage increased by 1.7% in 2023 over 2022. New rates became effective March 1, 2023. All classes experienced an increase in revenue in 2023.

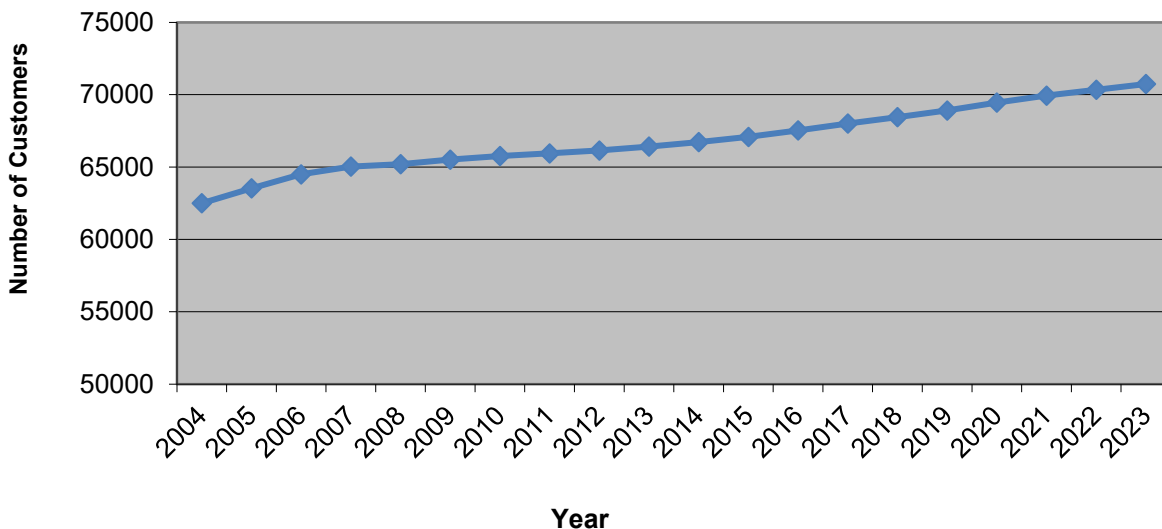
Total operating revenues were \$48.1 million for 2022 and 2021. Pumpage increased by 1.1% in 2022 over 2021.

Expenses

Operation and maintenance expenses (including taxes) totaled \$19.6 million in 2023, compared to \$17.6 million in 2022, an increase of \$2 million, or 11.4%. The increase is primarily due to an increase in total operating expenses. Depreciation Expense increased \$2.4 million from 2022 to 2023 due mostly to the implementation of Expense Depreciation for replacement water mains in our most recent rate order.

Operation and maintenance expenses (including taxes) totaled \$17.6 million in 2022, compared to \$15.9 million in 2021, an increase of \$1.7 million, or 10.5%. The increase is primarily due to an increase in costs across all expenses. Depreciation expense increased \$85,000 or 1.0% to \$8.5 million in 2022 from \$8.4 million in 2021 as a result of an additional \$3.8 million in capital assets placed into service.

Customer Growth 2004 - 2023



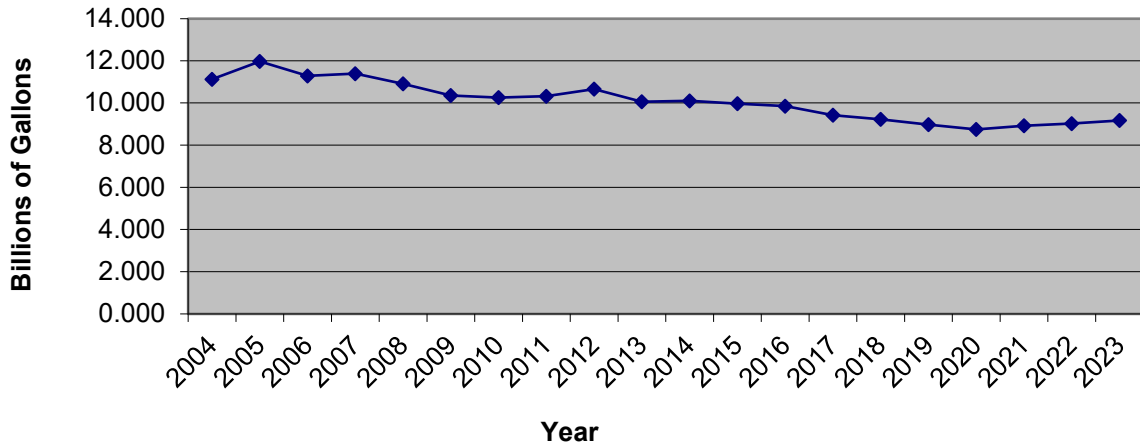
The Utility added 499 new customers in 2023 compared with 522, 496, and 627 new customers added in 2022, 2021 and 2020, respectively. The Utility added the most new customers (1,442) in 2002.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

UTILITY FINANCIAL ANALYSIS (cont.)

Pumpage 2004 - 2023



Pumping for the year increased 1.7% from 9.021 billion gallons in 2022 to 9.172 billion gallons in 2023.

CAPITAL EXPENDITURES

The Utility added \$11.1 million of plant in 2023. Of this amount, approximately \$4.4 million was contributed by developers and contractors or received by special assessment.

Capital projects paid for by the Utility in 2023 included; \$4.5 million for new and replacement water mains, laterals, and hydrants, \$1.1 million for pumping plant, general plant, and telemetry equipment, \$605,000 for power equipment and tools, and \$380,000 for our meter program.

The Utility added \$4.6 million of plant in 2022. Of this amount, approximately \$2.8 million was contributed by developers and contractors or received by special assessment.

Capital projects paid for by the Utility in 2022 included; \$639,000 for new and replacement water mains, laterals, and hydrants, \$588,000 for pumping plant and telemetry equipment: motor control center (MCC) SCADA upgrades, programmable logic controllers (PLC), transformers, and variable frequency drives (VFDs), \$115,000 for vehicles, and \$411,000 for 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, 2023 and 2022

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 or general obligation bonds. The Utility borrowed \$4.7 million of revenue bonds in 2023, \$20.3 million in general obligation bonds in 2022, \$66.7 million of revenue bonds in 2019, \$40.2 million of revenue bonds in 2018, \$38.4 million of revenue bonds in 2016 and \$41.6 million of revenue bonds in 2015. The 2023 borrowing was used to partially redeem the \$20 million BAN in 2023. The 2022 borrowing was used to refund \$29.4 million of 2012 and 2013 revenue bonds. The 2019 borrowing included \$20 million of bond anticipation notes (BAN) to fund the remainder of the 2019 capital projects and all of 2020, 2021 and 2022 capital projects, \$33.7 million to refund 2009A and 2010 bonds and \$13.0 million to advance refund 2011 bonds.

Management envisions a reduction in their capital borrowing in order to improve the debt to equity ratio. With that in mind, the Utility included expense depreciation in its 2021 rate case filed with the PSC on November 30, 2021. Expense depreciation is an alternative way to fund the Utility's main replacement program by effectuating a "pay as you go" funding for the main replacement program thereby reducing the amount of capital borrowing. The PSC approved expense depreciation of \$5 million annually for the Utility in its final rate order issued December 29, 2022. These funds may only be used for main replacement. The new rates were put into effect on March 1, 2023.

On June 29, 2022, the Utility filed an application with the Wisconsin Department of Natural Resources for the state fiscal year 2023 Safe Drinking Water Loan Program (SDWLP) for \$5.8 million of 2020 and 2021 main replacement projects. This program offers low interest loans to municipalities for qualifying drinking water infrastructure projects. On November 14, 2022 the Utility was placed on the Final Funding List at an estimated loan amount of \$5.8 million. On October 13, 2023, the Utility was approved and received a \$4.7 million 20-year loan with an interest rate of 2.145%.

On October 31, 2022, the Utility filed Intent to Apply for four program/projects totaling \$17.1 million with the Wisconsin Department of Natural Resources for the state fiscal year 2024 Safe Drinking Water Loan Program (SDWLP). Included in the Intent to Apply are \$3.3 million of 2021 and 2022 main replacement projects, \$1.0 million of operational resiliency projects, \$6.8 million for unit well 19 treatment system addition, and \$6.0 million for unit well 15 PFAS treatment project. The Utility is applying for principal forgiveness for the unit well 15 project.

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 49,000 students, versus the national economy. While customer growth has slowed, the Utility added a net 11.4 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will ensure that the Utility is well prepared to handle these challenges. While rates are expected to increase over time, management works within the Water Utility Board Policy for affordability, O-2D, maintaining increases that do not exceed 9% annualized per year.

The Utility included a two year pilot Customer Assistance Program in the 2021 rate case filed on November 30, 2021. This program was approved by the PSC of Wisconsin on December 29, 2022 and

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2023 and 2022

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES (cont.)

became effective on March 1, 2023. The program is a city-wide program being offered to Madison Municipal Services customers making at or below 50% of the area median income for the Madison area calculated by the Department of Housing and Urban Development (HUD).

The Utility experienced a significant decline in consumption starting in 2015 due to loss of industry, water conservation and changes in weather patterns. In 2023, consumption was up 1.7% over 2022. In 2022, consumption was up 1% over 2021. Management will continue to monitor these trends and revise financial goals accordingly.

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 the Madison Water Utility at 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4651 or e-mail at water@madisonwater.org.

FINANCIAL STATEMENTS

MADISON WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 29,457,401	\$ 17,537,363
Restricted Assets		
Principal and interest account	13,191,166	13,164,827
Customer accounts receivable	3,628,368	3,736,177
Prepays	231,152	232,909
Materials and supplies	1,482,163	1,481,911
Due from municipality	854,545	939,323
Current portion of special assessments	149,512	211,624
Current portion of lease receivable	187,105	221,495
Other current assets, net	521,632	211,515
Total Current Assets	<u>49,703,044</u>	<u>37,737,144</u>
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	12,190,068	12,631,436
Depreciation account	750,000	750,000
Assessment account	1,858,134	1,504,541
Construction account	2,548,254	6,420,832
Net pension asset	-	4,074,884
Expense Depreciation account	1,966,423	-
Other Assets		
Special assessments receivable (net of current portion)	2,720,347	3,082,424
Preliminary survey and investigation	477,248	477,248
Property held for future use	112,429	112,429
Nonutility property (net of accumulated depreciation)	558,105	943,558
Lease receivable (net of current portion)	4,189,638	4,376,743
Capital Assets		
Plant in service	433,050,076	423,100,692
Accumulated depreciation	(131,932,271)	(121,128,049)
Construction work in progress	3,956,980	1,953,288
Total Noncurrent Assets	<u>332,445,431</u>	<u>338,300,026</u>
Total Assets	<u>382,148,475</u>	<u>376,037,170</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding	420,889	499,009
Deferred outflows related to pension	10,205,400	8,532,851
Deferred outflows related to OPEB	519,906	339,233
Total Deferred Outflows of Resources	<u>11,146,195</u>	<u>9,371,093</u>
	<u>393,294,670</u>	<u>385,408,263</u>

	2023	2022
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,284,005	\$ 1,242,967
Other current liabilities	1,852,959	1,832,655
Current portion of GO debt	1,730,000	1,690,000
Current portion of advance from municipality	161,533	153,138
Current portion of lease liability	50,244	47,511
Current portion of SBITA liability	65,743	-
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	26,349,645	10,575,000
Accrued interest	2,374,736	2,589,827
Total Current Liabilities	<u>33,868,865</u>	<u>18,131,098</u>
NONCURRENT LIABILITIES		
Revenue bonds	118,900,355	145,250,000
Unamortized debt premium	9,690,362	10,793,478
Accrued sick leave	2,178,540	2,044,005
Total OPEB liability	2,875,795	2,532,950
GO debt	18,615,000	20,345,000
Advance from municipality	-	161,533
Lease liability (net of current portion)	928,475	978,719
SBITA liability (net of current portion)	26,046	-
Customer advances for construction	113,749	148,592
Net pension liability	2,642,509	-
Total Noncurrent Liabilities	<u>155,970,831</u>	<u>182,254,277</u>
Total Liabilities	<u>189,839,696</u>	<u>200,385,375</u>
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on refunding	1,398,290	1,543,850
Deferred inflows related to OPEB's	754,592	956,365
Deferred inflows related to pension	5,923,835	10,190,964
Deferred inflows related to leases	4,238,548	4,557,179
Total Deferred Inflows of Resources	<u>12,315,265</u>	<u>17,248,358</u>
NET POSITION		
Net investment in capital assets	145,480,387	136,416,185
Restricted for:		
Debt service	13,365,880	13,003,010
Capital repairs and replacement	2,608,134	2,254,541
Pension	-	4,074,884
Unrestricted	<u>29,685,308</u>	<u>12,025,910</u>
TOTAL NET POSITION	<u>191,139,709</u>	<u>\$ 167,774,530</u>

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Sales of water	\$ 56,708,747	\$ 47,113,949
Other	1,087,670	1,025,994
Total Operating Revenues	<u>57,796,417</u>	<u>48,139,943</u>
OPERATING EXPENSES		
Operation and maintenance	19,609,119	17,606,116
Depreciation	10,813,385	8,462,252
Total Operating Expenses	<u>30,422,504</u>	<u>26,068,368</u>
Operating Income	<u>27,373,913</u>	<u>22,071,575</u>
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(81,292)	(62,804)
Bond issuance costs	(18,000)	(25,863)
Investment income	2,432,543	(289,082)
Interest and amortization expense	(5,033,446)	(5,848,579)
Gain on sale of property	758,696	-
Other	(150,691)	-
Total Nonoperating Revenues (Expenses)	<u>(2,092,190)</u>	<u>(6,226,328)</u>
Income before Capital Contributions and Transfers	25,281,723	15,845,247
CAPITAL CONTRIBUTIONS	4,390,162	4,117,037
TRANSFERS IN / (OUT)	298,247	143,183
TRANSFERS - TAX EQUIVALENT	(6,639,371)	(6,849,831)
CAPITALIZED TAX EQUIVALENT	34,418	4,394
Change in Net Position	23,365,179	13,260,030
NET POSITION - Beginning of Year	<u>167,774,530</u>	<u>154,514,500</u>
NET POSITION - END OF YEAR	<u><u>\$ 191,139,709</u></u>	<u><u>\$ 167,774,530</u></u>

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 57,821,916	\$ 48,408,513
Paid to suppliers for goods and services	(9,790,764)	(10,457,436)
Paid to employees for services	(8,219,162)	(7,871,038)
Net Cash Flows from Operating Activities	<u>39,811,990</u>	<u>30,080,039</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(6,604,953)	(6,845,437)
Principal paid on operating loan	(1,005,000)	(975,000)
Interest paid on operating loan	(204,301)	(234,999)
Repayment of advances from other funds	(153,138)	(142,101)
Interest paid on advances and loans from other funds	(1,189)	(1,522)
Transfers from (to) other funds	298,247	143,183
Net Cash Flows from Noncapital Financing Activities	<u>(7,670,334)</u>	<u>(8,055,876)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(7,458,001)	(3,504,354)
Special assessments received	362,420	307,605
Contributions in aid of construction (advances refunded)	(34,844)	32,216
Debt issued - new revenue bonds	4,675,000	-
Debt issued - refunded bonds	-	22,035,000
Premium on debt issued	-	2,320,506
Debt issuance costs	(18,000)	(25,863)
Net interest on leases	(9,218)	(9,383)
Net interest on SBITA	(65,980)	-
Debt retired	(15,935,000)	(39,955,000)
Interest paid	(6,071,777)	(7,095,395)
Net Cash Flows from Capital and Related Financing Activities	<u>(24,555,400)</u>	<u>(25,894,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities sold	2,618,541	1,195,019
Investment income	2,366,191	(355,085)
Net Cash Flows from Investing Activities	<u>4,984,732</u>	<u>839,934</u>
Net Change in Cash and Cash Equivalents	12,570,988	(3,030,571)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>39,080,403</u>	<u>42,110,974</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 51,651,391</u>	<u>\$ 39,080,403</u>

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 27,373,913	\$ 22,071,575
Nonoperating income	(231,982)	(62,804)
Noncash items included in operating income		
Depreciation	10,813,385	8,462,252
Depreciation charged to other accounts	1,095,073	1,067,745
Changes in Assets and Liabilities		
Customer accounts receivable	107,809	(1,027,384)
Receivable from other funds	84,778	104,666
Materials and supplies	(252)	(503,436)
Other current assets	(308,637)	81,012
Accounts payable and other current liabilities	5,254	360,362
Other postemployment benefit deferrals and liabilities	(39,601)	174,346
Pension related deferrals and liabilities	777,715	(750,367)
Accrued compensated absences	134,535	102,072
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 39,811,990	\$ 30,080,039
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 29,457,401	\$ 17,537,363
Redemption account	13,191,166	13,164,827
Reserve account	12,190,068	12,631,436
Depreciation account	750,000	750,000
Assessment account	1,858,134	1,504,541
Construction account	2,548,254	6,420,832
Expense Depreciation account	1,966,423	-
Total Cash and Investments	61,961,446	52,008,999
Less: Noncash equivalents	(10,310,055)	(12,928,596)
CASH AND CASH EQUIVALENTS	\$ 51,651,391	\$ 39,080,403
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 4,390,162	\$ 4,102,906
Gain on sale of property	\$ 758,696	\$ -
Capital additions assessed to customers	\$ (149,855)	\$ (1,319,173)
Adjustments to special assessments	\$ 211,624	\$ 66,094

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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 Burke, wholesale water service to 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.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, which is effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet the definition. This Statement defines a SBITA; establishes that a SBITA results in a tangible right-to-use subscription asset and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases. This Statement was implemented for fiscal year end December 31, 2023.

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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

Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

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

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

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

The Utility, 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. Fair 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, 2023 and 2022

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, 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.

Prepaid Expenses

Prepaid expenses include the cost of insurance and other expenses paid in the current year and attributable to future periods.

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 and miscellaneous receivables.

The Utility adopted the city's collection policy in 2019. All receivables greater than 90 days are evaluated and written off if deemed uncollectable. The allowance balance was \$-0- in 2023 and 2022.

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.

Special Assessments Receivable

The municipality and Utility assess the cost of system improvements and extensions to benefited properties. This account represents the long-term portion of special assessments to be collected over various periods of time. Interest is charged on the unpaid balance at various rates.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to Utility plant construction or costs incurred for the assessment of future capital facilities. The balance will be transferred as a capital asset or expense upon commencement of the project.

Property Held for Future Use

These amounts represent land, 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 or held for future sale.

Capital Assets

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

Capital assets of the Utility are recorded at cost or estimated acquisition cost at the time of contribution to the Utility. 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	17–31
Transmission and distribution	18–77
General	4–34

Deferred Outflows 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.

Other Current Liabilities

The balance represents amounts payable relating to accrued wages, comp time, vacation time, sick time, payroll taxes and other benefits payable and accrued interest not payable from restricted assets.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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

Accrued Sick Leave and Vacation Leave

Utility employees with a sick leave value greater than \$2,000 are allowed to convert, at retirement, their accumulated days to a sick leave escrow account maintained in the municipality's trust and agency fund. Utility employees that have a sick leave value equal to or less than \$2,000, at retirement, will receive the value of their sick leave on their last paycheck. 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 straight line method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. 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 and gains on refunding are presented as a deferred inflow of resources.

Leases

Leases are defined as a contract that conveys control of the right to use another entity's underlying asset for a specified period. The Utility is a lessee and lessor for various noncancellable leases.

The Utility is a lessor because it leases the right-to-use our water towers to cell companies. As a lessor, the Utility reports a lease receivable and a corresponding deferred inflow of resources in the financial statements. The Utility continues to report and depreciate the capital assets being leased as capital assets.

The Utility is a lessee because it leases an easement to use land. As a lessee, the Utility reports a lease liability and an intangible right-to-use leased asset.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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

Leases (cont.)

Measurement of Lease Amounts (Lessee)

The Utility's lease liability is recorded at the present value of future minimum lease payments as of the date of inception. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Utility is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Measurement of Lease Amounts (Lessor)

The Utility's lease receivable is measured at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments collected. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, plus lease payments received from the lease at or before the commencement of the lease term that related to future periods. Subsequently, the deferred inflow of resources is recognized as lease revenue on a straight-line basis over the lease term.

Key Estimates and Judgments

Key estimates and judgments include how the Utility determines (a) the discount rate it used to calculate the present value of the expected lease payments, (b) lease terms, and (c) lease payments

- The Utility uses the interest rate in the lease, if one is included, otherwise it uses the City's incremental borrowing rate for general obligation bonds for the current year for the discount rate.
- The lease term includes any noncancellable period of the lease.
- Lease payments are evaluated by the Utility to determine if they should be included in the measurement of the lease receivable or lease liabilities.

Remeasurement of Lease

The Utility monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability, the receivable or liability is remeasured and a corresponding adjustment is made to the deferred inflow of resources or lease asset, respectively.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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

Subscription-Based Information Technology Arrangements

SBITA arrangements are defined as a contract that conveys control of the right to use another entity's underlying information technology software alone or in combination with tangible capital assets for a specified period.

Measurement of SBITAs

The Utility's subscription liability is measured at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made. The Utility's subscription asset is initially measured at the initial amount of the subscription liability, adjusted for subscriptions payments made at or before the subscription commencement date, plus capitalizable initial implementation costs. Subsequently, the Utility's subscription asset is amortized on a straight-line basis over its useful life which matches the term of the subscription. Key estimates and judgements related to SBITAs are the same as those for leases.

Key Estimates and Judgments

The Utility recognizes subscription-based information technology arrangements (SBITAs) greater than one year, and with a present value of the minimum payments greater than \$10,000. SBITAs are recorded as a liability and an intangible right-to-use asset in the statement of net position.

Remeasurement of SBITAs

The Utility monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability. Subscription assets are reported with other capital assets and subscription liabilities are reported with current and long-term liabilities on the statement of net position.

Total OPEB Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information has been determined on the same basis as they are reported by the municipality's OPEB Plan. For this purpose, the municipality OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

REVENUES AND EXPENSES

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

Charges for Services

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

Capital Contributions

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

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.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 99 *Omnibus 2022*, GASB Statement No. 100, *Accounting Changes and Error Corrections* – an Amendment of GASB Statement No. 62, GASB Statement No. 101, *Compensated Absences* and *GASB Statement No. 102, Certain Risk Disclosures*. 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, 2023 and 2022

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2023	2022	
Other Investment Pool	\$ 47,271,189	\$ 38,017,488	(A)
Money Market Mutual Funds	4,359,102	1,041,815	Custodial credit, interest rate
U.S. Agencies – implicitly guaranteed	10,215,930	12,703,290	Custodial credit, credit, concentration and interest rate risks
State and Local Bonds	94,125	225,306	Custodial credit, credit, concentration and interest rate risks
Working Funds – Petty Cash	21,100	21,100	None
Totals	<u>\$ 61,961,446</u>	<u>\$ 52,008,999</u>	

(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.

\$500,000 of the utilities' investments have coverage from the Securities Investor Protection Corporation (SIPC).

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

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, 2023 and 2022, the Utility had investments in US Agency and State and Local Bond Securities of \$10,310,055 and \$12,928,596, respectively. These investments were valued using Level 2 input. These inputs are derived from or corroborated by observable market data through correlation or by other means, e.g., "market-corroborated" inputs. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Market-corroborated inputs

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

FAIR VALUE (cont.)

In addition to US Agency, State and Local Bond 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:

	2023		2022	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	\$ 4,359,102	\$ 4,359,102	\$ 1,041,815	\$ 1,041,815

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 \$10,310,055 and \$12,928,596 of U.S. Agencies and State and Local Bond securities which were exposed to custodial credit risk as of December 31, 2023 and 2022, 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, 2023 and 2022

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, State and Local Bond securities and Money Market Mutual Funds mature within six years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2023 and 2022, all of the U.S. Agency investments were rated Aaa by Moody's Investors Service. All of the State and Local Bond investments were rated Aaa or Aa1 by Moody's Investors Service or 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, 2023, the Utility had 12% of its portfolio in Federal Farm Credit Bank system securities, 11% of its portfolio in Federal Home Loan Bank system securities and 9% of its portfolio in Federal National Mortgage Association ("Fannie Mae") system securities. As of December 31, 2022, the Utility had 19% of its portfolio in Federal Farm Credit Bank system securities, 10% of its portfolio in Federal Home Loan Bank system securities and 8% of its portfolio in Federal National Mortgage Association ("Fannie Mae") 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, 2023 and 2022

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2023 and 2022:

Due To	Due From	2023		2022	
		Amount	Principal Purpose	Amount	Principal Purpose
Water	Municipality	\$ 854,545	Delinquent water bills and special assessments on tax roll	\$ 939,323	Delinquent water bills and special assessments on tax roll

The following is a schedule of transfer balances as of December 31, 2023 and 2022:

To	From	2023		2022	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 6,639,371	Tax equivalent	\$ 6,849,831	Tax equivalent
Water	Sewer	298,247	Operating expenses	143,183	Operating expenses

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:

- 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.
- Assessment fund – Used for the purpose of paying construction costs for projects special assessed to customers.
- 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.
- Pension – Used to report value of future benefits owed to employees for retirement benefits
- Expense Depreciation – Used to fund water main replacement in construction.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 4 – RESTRICTED ASSETS (cont.)

RESTRICTED ACCOUNTS (cont.)

The following calculation supports the amount of restricted net position:

	December 31,	
	2023	2022
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 13,191,166	\$ 13,164,827
Noncurrent Restricted Assets		
Reserve – See Note (A)	12,190,068	12,631,436
Construction	2,548,254	6,420,832
Assessment fund	1,858,134	1,504,541
Depreciation	750,000	750,000
Net pension asset	-	4,074,884
Expense Depreciation	1,966,423	-
Total Noncurrent Restricted Assets	19,312,879	25,381,693
Total Restricted Assets	32,504,045	38,546,520
Less: Restricted Assets not Funded by Revenues		
Reserve – See Note (A)	(9,640,618)	(10,203,426)
Construction	(2,548,254)	(6,420,832)
Current Liabilities Payable from Restricted Assets	(2,374,736)	(2,589,827)
Total Restricted Net Position	\$ 17,940,437	\$ 19,332,435
The purpose of the restricted net position is as follows:		
Debt service	\$ 13,365,880	\$ 13,003,010
Capital repairs and replacement	4,574,557	2,254,541
Pension	-	4,074,884
Total	\$ 17,940,437	\$ 19,332,435

Note (A) – The Reserve Fund consists of both proceeds received from prior bond issuances earmarked for the Reserve Fund and funds contributed by the Utility. Only those proceeds contributed specifically from bond proceeds are classified as restricted assets in the Reserve Fund.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2023 follows:

	1/1/23 Balance	Increases	Decreases	12/31/23 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 3,144,738	\$ 936	\$ 16,034	\$ 3,129,640
Capital assets being depreciated				
Source of supply	14,386,109	284,214	140,094	14,530,229
Pumping	25,351,084	849,913	113,739	26,087,258
Water treatment	5,792,110	58,688	33,775	5,817,023
Transmission and distribution	334,387,098	9,477,758	719,273	343,145,583
General	40,039,553	724,030	423,240	40,340,343
Total Capital Assets				
Being Depreciated	419,955,954	11,394,603	1,430,121	429,920,436
Total Capital Assets	423,100,692	11,395,539	1,446,155	433,050,076
Less: Accumulated Depreciation				
Source of supply	(7,314,142)	(470,326)	6,094	(7,778,374)
Pumping	(11,680,855)	(968,532)	123,690	(12,525,697)
Water treatment	(1,782,584)	(210,817)	35,981	(1,957,420)
Transmission and distribution	(82,979,208)	(8,702,271)	759,396	(90,922,083)
General	(17,371,260)	(1,800,919)	423,482	(18,748,697)
Total Accumulated Depreciation	(121,128,049)	(12,152,865)	1,348,643	(131,932,271)
Construction in progress	1,953,288	8,624,694	6,621,002	3,956,980
Net Capital Assets	\$ 303,925,931			\$ 305,074,785

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2022 follows:

	1/1/22 Balance	Increases	Decreases	12/31/22 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 3,119,262	\$ 25,476	\$ -	\$ 3,144,738
Capital assets being depreciated				
Source of supply	14,415,649	-	29,540	14,386,109
Pumping	25,191,446	437,657	278,019	25,351,084
Water treatment	5,784,808	35,685	28,383	5,792,110
Transmission and distribution	330,834,246	3,887,070	334,218	334,387,098
General	39,996,193	202,469	159,109	40,039,553
Total Capital Assets Being Depreciated	<u>416,222,342</u>	<u>4,562,881</u>	<u>829,269</u>	<u>419,955,954</u>
Total Capital Assets	<u>419,341,604</u>	<u>4,588,357</u>	<u>829,269</u>	<u>423,100,692</u>
Less: Accumulated Depreciation				
Source of supply	(6,964,131)	(378,264)	28,252	(7,314,142)
Pumping	(11,015,832)	(958,565)	293,542	(11,680,855)
Water treatment	(1,601,403)	(209,850)	28,669	(1,782,584)
Transmission and distribution	(76,913,855)	(6,414,760)	349,407	(82,979,208)
General	(15,851,760)	(1,679,160)	159,660	(17,371,260)
Total Accumulated Depreciation	<u>(112,346,981)</u>	<u>(9,640,599)</u>	<u>859,530</u>	<u>(121,128,049)</u>
Construction in progress	<u>236,689</u>	<u>3,466,318</u>	<u>1,749,719</u>	<u>1,953,288</u>
Net Capital Assets	<u>\$ 307,231,312</u>			<u>\$ 303,925,931</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2023 Amount Outstanding
12/17/15	System improvements	1/1/36	2.85-5.00%	\$ 41,610,000	\$ 30,120,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24-3.82	38,420,000	26,140,000
12/20/18	Series A – System Improvements	1/1/39	4.00	30,765,000	26,405,000
12/20/18	Series B - Operations	1/1/28	3.00-3.55	9,390,000	5,550,000
12/19/19	Series A - Refunding 2009A and 2010 bonds	1/1/31	2.00-5.00	33,680,000	26,895,000
12/19/19	Series B – Refunding 2011 bonds	1/1/32	1.70-2.65	13,055,000	10,140,000
12/19/19	Bond anticipation notes – system improvements	11/1/24	1.50	20,000,000	15,325,000
10/11/23	Safe Drinking Water Revenue Bond	5/1/43	2.15	4,675,000	4,675,000
	Totals			<u>\$ 191,595,000</u>	<u>\$ 145,250,000</u>

Revenue bond debt service requirements to maturity follows:

Year Ending December 31:	Principal	Interest	Total
2024	\$ 26,349,645	\$ 4,927,339	\$ 31,276,984
2025	11,243,713	4,183,594	15,427,307
2026	11,682,868	3,697,938	15,380,806
2027	11,692,112	3,221,743	14,913,855
2028	12,191,448	2,736,427	14,927,875
2029-2033	42,960,594	8,336,084	51,296,678
2034-2038	25,588,807	2,584,671	28,173,478
2039-2043	3,540,813	117,812	3,658,625
Total	<u>\$ 145,250,000</u>	<u>\$ 29,805,608</u>	<u>\$ 175,055,608</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

GENERAL OBLIGATION BONDS

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
10/06/2022	Refunding – System Improvements	10/01/2033	4.00-5.00%	\$ 22,035,000	\$ 20,345,000

General obligation bond debt service requirements to maturity follows:

Year Ending December 31:	Principal	Interest	Total
2024	\$ 1,730,000	\$ 977,700	\$ 2,707,700
2025	1,805,000	891,200	2,696,200
2026	1,895,000	800,950	2,695,950
2027	1,985,000	706,200	2,691,200
2028	2,080,000	606,950	2,686,950
2029-2033	10,850,000	1,390,650	12,240,650
Total	\$ 20,345,000	\$ 5,373,650	\$ 25,718,650

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 2023 and 2022 were \$15,817,486 and \$18,358,129, respectively. Total customer net revenues as defined for 2023 and 2022 were \$40,619,841 and \$30,244,745, respectively. Annual principal and interest payments are expected to require 22% of net revenues.

REVENUE BOND ANTICIPATION NOTES (BANS)

Included in long-term debt is \$20,000,000 of revenue bond anticipation notes maturing November 1, 2024. The proceeds from the BANS provide funding for certain capital and system improvements for fiscal years 2019 through 2023. The Notes bear interest payable on May 1 and November 1 of each year, commencing May 1, 2020 with the full principal payment due on November 1, 2024 if not refinanced at an earlier date. The BANS are subordinate debt to all outstanding senior revenue debt and include similar bond covenants to the senior bonds. The Utility anticipates repaying a portion of the BANS from reserves and refinancing the remaining BANS with permanent financing over the course of the five-year life of the debt with the earliest available redemption date of November 1, 2020. Permanent financing will depend on the availability of funds within eligible State of Wisconsin Revolving Loan programs or traditional revenue bond financings.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/23 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	0.34%	\$ 1,404,052	\$ 161,533

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2024	\$ 161,533	\$ 760	\$ 162,293
Totals	\$ 161,533	\$ 760	\$ 162,293

OTHER CONTRACT LIABILITY

The Utility has entered into a long-term easement for land. The terms and conditions for this obligation correlate to the water tower lease agreements for Northport Dr water tower, expiring May 31, 2037 and February 28, 2038.

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
1/1/2021	Use of land	5/31/2037- 2/28/2037	0.935864%	\$ 1,123,944	\$ 978,719

Future annual contract payments for the year ended December 31, 2023 follows:

Year Ending December 31:	Principal	Interest	Total
2024	\$ 50,244	\$ 8,754	\$ 58,998
2025	53,094	8,264	61,358
2026	56,066	7,747	63,813
2027	59,165	7,200	66,365
2028	62,395	6,624	69,019
2029-2033	365,443	23,342	388,785
2034-2037	332,312	4,932	337,244
Total	\$ 978,719	\$ 66,863	\$ 1,045,582

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

The Utility has also recorded a right to use asset to be recognized consistent with the revenues on the corresponding leases.

SBITA LIABILITY

The Utility, as a lessee, has entered into multiple SBITAs. As of December 31, 2023 the SBITA obligation was \$91,789. The SBITAs have interest rates between 2.81% and 3.57% and have an estimated life of 3 to 6 years. The Utility made \$60,032 of principal and \$3,314 of interest payments related to these SBITAs for the fiscal year ended December 31, 2023.

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
8/1/2020-7/28/2023	SBITA Obligations	7/31/2025-1/6/2028	2.81-3.57%	\$ 213,513	\$ 91,789

The Utility's total SBITA payments are as follows:

Year Ending December 31:	Principal Amount	Interest Amount	Total
2024	\$ 65,743	\$ 1,703	\$ 67,446
2025	10,510	473	40,983
2026	8,585	193	8,778
2027	6,951	-	6,951
	91,789	2,369	94,158
Less current portion	(65,743)	(1,703)	(67,446)
Long-term portion as of December 31, 2023	\$ 26,046	\$ 666	\$ 26,712

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2023, is as follows:

	1/1/23 Balance	Additions	Reductions	12/31/23 Balance	Due Within One Year
Revenue bonds	\$ 155,825,000	\$ 4,675,000	\$ 15,250,000	\$ 145,250,000	\$ 26,349,645
General obligation bonds	22,035,000	-	1,690,000	20,345,000	1,730,000
Accrued sick leave	2,044,005	310,181	175,646	2,178,540	-
Customer advances for construction	148,592	511,893	546,736	113,749	-
Advance from municipality	314,671	-	153,138	161,533	161,533
Other Contract Liability	1,026,230	-	47,511	978,719	50,244
SBITA Liability	-	154,151	60,032	94,119	65,743
Unamortized debt premium	10,793,478	-	1,103,116	9,690,362	-
Totals	\$ 172,355,476	\$ 5,651,225	\$ 19,026,179	\$ 178,812,022	\$ 28,357,165

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

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

	1/1/22 Balance	Additions	Reductions	12/31/22 Balance	Due Within One Year
Revenue bonds	\$ 196,755,000	\$ -	\$ 40,930,000	\$ 155,825,000	\$ 10,575,000
General obligation bonds	-	22,035,000	-	22,035,000	1,690,000
Accrued sick leave	1,941,933	293,317	191,245	2,044,005	-
Other postemployment benefit obligation	3,015,304	-	482,354	2,532,950	-
Customer advances for construction	130,508	531,863	513,779	148,592	-
Advance from municipality	456,772	-	142,101	314,671	153,138
Other Contract Liability	1,071,121	-	44,891	1,026,230	47,511
Unamortized debt premium	11,041,320	2,320,506	2,568,348	10,793,478	-
Totals	\$ 214,411,958	\$ 25,180,686	\$ 44,872,718	\$ 194,719,926	\$ 12,465,649

CURRENT REFUNDING

On October 11, 2023, the Utility obtained a Safe Drinking Water Loan from the Wisconsin Department of Natural Resources in the amount of \$4,675,000 with an average interest rate of 2.15% utilized to redeem a partial bond anticipation note in the amount of \$20,000,000 due to mature on November 1, 2024. The new bond anticipation note principal amount as of October 13, 2023 is now \$15,325,000.

On October 6, 2022, general obligation bonds in the amount of \$22,035,000 were issued with an average interest rate of 4.70% to refund \$12,880,000 of outstanding Series 2012 bonds with an average interest rate of 3.21% and \$16,525,000 of outstanding Series 2013 bonds with an average interest rate of 4.19%. The net proceeds were used to purchase U.S. government securities and pay issuance costs of the transaction. 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 2013 bonds were called on January 3, 2023.

The cash flow requirements on the old bonds prior to the current refunding was \$35,979,375 from 2023 to 2034. The cash flow requirements on the new bonds are \$28,453,323 from 2023 through 2034. The current refunding resulted in an economic gain of \$1,013,348.

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 2023 and 2022.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

NUMBER OF CUSTOMERS

At December 31, 2023 and 2022, the Utility served the following number of customers:

	<u>2023</u>	<u>2022</u>
Residential	59,273	58,656
Multifamily	4,908	4,725
Duplex	2,173	2,177
Commercial	5,558	5,063
Industrial	94	76
Public Authority	<u>857</u>	<u>675</u>
Totals	<u><u>72,863</u></u>	<u><u>71,372</u></u>

WATER PUMPED AND BILLED

During the years ended December 31, 2023 and 2022, the following amounts of water were pumped and billed:

	<u>(000 gallons)</u>	<u>2022</u>
	<u>2023</u>	<u>2022</u>
Water pumped	<u><u>9,272,248</u></u>	<u><u>9,021,090</u></u>
Water billed	<u><u>8,262,477</u></u>	<u><u>7,832,404</u></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.

NOTE 7 – NET POSITION

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 7 – NET POSITION (cont.)

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

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

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

The following calculation supports the net investment in capital assets:

	December 31,	
	2023	2022
Plant in Service	\$ 433,050,076	\$ 423,100,692
Accumulated Depreciation	(131,932,271)	(121,128,049)
Construction in Progress	3,956,980	1,953,288
Subtotal	305,074,785	303,925,931
Less: Capital Related Debt		
Current portion of capital related long-term debt – see Note (A)	27,039,645	11,260,000
Current portion of lease liability	50,244	47,511
Current portion of SBITA liability	65,743	-
Lease liability (net of current portion)	928,475	978,719
SBITA liability (net of current portion)	26,046	-
Long-term portion of capital related long-term debt – see Note (A)	133,005,354	160,045,000
Unamortized debt premium	9,690,362	10,793,478
Unamortized gain on advance refunding	1,398,290	1,543,850
Unamortized loss on advance refunding	(420,889)	(499,009)
Subtotal	171,783,270	184,169,549
Add: Borrowed Funds on Hand		
Reserve funds	9,640,618	10,203,426
Construction fund	2,548,254	6,420,832
Subtotal	12,188,872	16,624,258
Total net investment in capital assets	\$ 145,480,387	\$ 136,380,640

Note (A) – The 2018 Series B bonds are not included in this calculation as the debt was for operating purposes and not capital.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

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

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.

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:

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

General Information About the Pension Plan (cont.)

Year	Core Fund Adjustment	Variable Fund Adjustment
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	(10.0)
2020	1.7	21
2021	5.1	13
2022	7.4	15

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees, including teachers, and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$656,253 and \$591,424 in contributions from the Utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2023 and December 31, 2022 are:

	2023		2022	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.80%	6.80%	6.50%	6.50%
Protective with Social Security	6.80	13.20	6.50	12.00
Protective without Social Security	6.80	18.10	6.50	16.40

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2023, the Utility reported a liability (asset) of \$2,642,509 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2021, rolled forward to December 31, 2022. 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, 2022, the municipality's proportion was 1.86503864%, which was an increase of 0.016987% from its proportion measured as of December 31, 2021.

At December 31, 2022, the Utility reported a liability (asset) of (\$4,074,884) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2020, rolled forward to December 31, 2021. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Utility's proportion of the net pension liability (asset) was based on the Utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2021, the municipality's proportion was 1.8285%, which was an increase of 0.01862% from its proportion measured as of December 31, 2020.

For the years ended December 31, 2023, and 2022, the Utility recognized pension expense of (\$777,715) and (\$750,637), respectively.

At December 31, 2023, 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	\$ 4,885,238	\$ (5,903,381)
Changes in assumptions	594,677	-
Net differences between projected and actual earnings on pension plan investments	4,062,171	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,061	(20,454)
Employer contributions subsequent to the measurement date	656,253	-
Totals	<u>\$ 10,205,400</u>	<u>\$ (5,923,835)</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,112,205	\$ (838,179)
Changes in assumptions	818,296	-
Net differences between projected and actual earnings on pension plan investments	-	(9,338,979)
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,926	(13,806)
Employer contributions subsequent to the measurement date	591,424	-
Totals	<u>\$ 8,532,851</u>	<u>\$ (10,190,964)</u>

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

	2023
Year Ending December 31:	Water Utility
2024	\$ 149,109
2025	749,678
2026	767,624
2027	1,958,901
2028	-
Total	<u>\$ 3,625,312</u>

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

	2023	2022
Actuarial valuation date	December 31, 2021	December 31, 2020
Measurement date of net Pension liability (Asset)	December 31, 2022	December 31, 2021
Actuarial cost method	Entry Age Normal	Entry Age Normal
Asset valuation method	Fair value	Fair value
Long-term expected rate of return	6.8%	6.8%
Discount rate	6.8%	6.8%
Salary increases		
Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2022 Mortality Table	2020 WRS Experience Mortality Table
Post-retirement adjustments*	1.7%	1.7%

* No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.7% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate. Starting with 2015, this item includes the impact of known Market Recognition Account deferred gains/losses on the liability for dividend payments.

Actuarial assumptions used in the December 2021 actuarial valuation is based upon an experience study conducted in 2021 using experience from 2018-2020. There were no changes in the actuarial assumptions used to measure the total pension liability (asset) from prior year. The total pension liability (asset) for December 31, 2022 is based upon a roll-forward of the liability (asset) calculated from the December 31, 2021 actuarial valuation.

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

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2023 are summarized in the following table:

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	48.0%	7.6%	5.0%
Fixed Income	25.0	5.3	2.7
Inflation Sensitive Assets	19.0	3.6	1.1
Real Estate	8.0	5.2	2.6
Private Equity/Debt	15.0	9.6	6.9
<i>Total Core Fund</i>	115.0	7.4	4.8
<u>Variable Fund Asset Class</u>			
US Equities	70.0	7.2	4.6
International Equities	30.0	8.1	5.5
<i>Total Variable Fund</i>	100.0	7.7	5.1

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2022 are summarized in the following table:

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

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

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

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

Single discount rate. A single discount rate of 6.80 percent was used to measure the total pension liability (asset) as of December 31, 2023 and December 31, 2022. This single discount rate was based on the expected rate of return on pension plan investments of 6.80 and a municipal bond rate of 4.05 percent and 1.84 percent, in 2023 and 2022 respectively. (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2022 and 2021, respectively. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 6.80 percent expected rate of return implies that a dividend of approximately 1.7 percent 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, 2023 and 2022

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

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

The sensitivity analysis as of December 31, 2023 is as follows:

	1% Decrease to Discount Rate (5.80%)	Current Discount Rate (6.80%)	1% Increase to Discount Rate (7.80%)
Utility's proportionate share of the net pension liability (asset)	\$ 8,755,677	\$ 2,642,509	\$ (1,570,315)

The sensitivity analysis as of December 31, 2022 is as follows:

	1% Decrease to Discount Rate (5.80%)	Current Discount Rate (6.80%)	1% Increase to Discount Rate (7.80%)
Utility's proportionate share of the net pension liability (asset)	\$ 2,896,046	\$ (4,074,884)	\$ (9,103,871)

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

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

GENERAL INFORMATION ABOUT THE OPEB PLAN

The Utility implemented GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective January 1, 2018. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2018. The prior year balances for deferred outflows of resources, deferred inflows of resources, and the total OPEB liability were not restated due to the measurement date used for the calculation of the balances and the timing of the information received by the Plan.

The municipality sponsors 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. Benefit provisions are established through collective bargaining agreements. The plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Contribution requirements are established by statute and employee handbooks. Eligible retirees and spouses contribute the full amount of the premiums. 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. See the municipality's Comprehensive Annual Financial Report for more information on the Plan.

Employees covered by benefit terms. At December 31, 2023 and 2022, the following employees were covered by the benefit terms:

	Water Utility	
	2023	2022
Inactive plan members or beneficiaries currently receiving benefit payments	27	9
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	111	105
	<u>138</u>	<u>114</u>

TOTAL OPEB LIABILITY

At December 31, 2023, the Utility's total OPEB liability of \$2,875,795 was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date. At December 31, 2022, the Utility's total OPEB liability was \$2,532,950 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2023	2022
Actuarial valuation date	December 31, 2023	December 31, 2022
Inflation	2.50% per year	2.50% per year
Salary increases	3.00%	3.00%
Investment rate of return	4.31% as of January 1, 2023 and 4.00% as of December 31, 2023	2.25% as of January 1, 2022 and 4.31% as of December 31, 2022
Healthcare cost trend rates	8% initially reduced by decrements to an ultimate rate of 4.5% after 7 years	7.5% initially reduced by decrements to an ultimate rate of 4.5% after 7 years
Retirees' share of benefit-related costs	100%	100%
Discount rate	4.00%	4.31%

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The discount rate was based on the yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) as of the measurement date.

Mortality Rates are based on SOA RPH-2020 Total Dataset Mortality Table fully generational using Scale MP-2020

Other assumptions are based on a City-determined analysis of past trends and future expectations.

CHANGES IN THE TOTAL OPEB LIABILITY

	Total OPEB Liability
Balances at January 1, 2023	\$ 2,532,950
Changes for the year:	
Allocation changes	(117,074)
Service cost	169,425
Interest	108,843
Change in benefit terms	-
Differences between expected and actual experience	127,168
Changes in assumptions	175,656
Benefit payments	(121,173)
Net changes	342,845
Balances at December 31, 2023	\$ 2,875,795
	Total OPEB Liability
Balances at January 1, 2022	\$ 3,015,304
Changes for the year:	
Allocation changes	84,861
Service cost	234,723
Interest	73,513
Change in benefit terms	11,644
Differences between expected and actual experience	(358,458)
Changes in assumptions	(392,615)
Benefit payments	(136,022)
Net changes	(482,354)
Balances at December 31, 2022	\$ 2,532,950

There was a change in the discount rate from 4.31% to 4.00% from December 31, 2022 to December 31, 2023.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

As of December 31, 2023:

	1% Decrease (3.00%)	Discount Rate (4.00%)	1% Increase (5.00%)
Total OPEB liability	\$ 3,108,524	\$ 2,875,795	\$ 2,663,846

As of December 31, 2022:

	1% Decrease (3.31%)	Discount Rate (4.31%)	1% Increase (5.31%)
Total OPEB liability	\$ 2,739,910	\$ 2,532,950	\$ 2,344,889

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Utility, as well as what the Utility's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

As of December 31, 2023:

	1% Decrease (7.00%)	Healthcare Cost Trend Rates (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 2,588,975	\$ 2,875,975	\$ 3,214,090

As of December 31, 2022:

	1% Decrease (6.50%)	Healthcare Cost Trend Rates (7.50%)	1% Increase (8.50%)
Total OPEB liability	\$ 2,300,167	\$ 2,532,950	\$ 2,806,321

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2023 and 2022, the Utility recognized OPEB expense of \$225,044 and \$224,534, respectively. At December 31, 2023 and 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ 519,906	\$ (312,152)	\$ 339,233	\$ (386,610)
Differences between expected and actual experience	-	(442,440)	-	(569,755)
Total	\$ 519,906	\$ (754,592)	\$ 339,233	\$ (956,365)

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

Year Ended December 31:

2024	\$ (51,096)
2025	(51,097)
2026	(22,581)
2027	(32,061)
2028	(64,012)
Thereafter	(13,839)

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 10 – Leases

Water Utility as Lessor

The Utility has leased the right to place cellular antennas on water towers to various cellular companies.

A summary of lease activities for December 31, 2023 follows:

Lessee	Date of Inception	Final Maturity	Interest Rate	Receivable Balance December 31, 2023	Deferred Inflow Balance December 31, 2023
Verizon Wireless (Primeco)	6/1/1997	5/31/2027	0.935864 %	\$ 629,231	\$ 602,089
New Cingular Wireless ATT Mobility	1/12/1998	1/11/2023	0.935864	664,621	621,087
Sprint Spectrum LP	3/1/1998	2/28/2028	0.935864	663,586	624,934
Sprint Spectrum LP	6/1/2004	5/31/2024	0.935864	-	18,189
Verizon Wireless Personal Communications LP	10/10/2016	10/9/2026	0.935864	502,363	493,283
New Cingular Wireless PCS LLC	12/5/2021	12/4/2031	2.813855	632,819	628,205
New Cingular Wireless PCS LLC	4/1/2022	5/31/2027	2.813855	633,078	610,181
New Cingular Wireless PCS LLC	7/1/2022	6/30/2027	2.813855	651,046	640,580
				<u>\$ 4,376,744</u>	<u>\$ 4,238,548</u>

A summary of lease activities for December 31, 2022 follows:

Lessee	Date of Inception	Final Maturity	Interest Rate	Receivable Balance December 31, 2023	Deferred Inflow Balance December 31, 2023
Verizon Wireless (Primeco)	6/1/1997	5/31/2027	0.935864 %	\$ 662,035	\$ 646,966
New Cingular Wireless ATT Mobility	1/12/1998	1/11/2023	0.935864	695,754	665,357
Sprint Spectrum LP	3/1/1998	2/28/2028	0.935864	694,670	669,047
New Cingular Wireless PCS LLC	4/1/2002	3/31/2022	0.935864	-	-
New Cingular Wireless PCS LLC	7/1/2002	6/30/2022	0.935864	-	-
Sprint Spectrum LP	6/1/2004	5/31/2024	0.935864	46,170	61,843
Verizon Wireless Personal Communications LP	10/10/2016	10/9/2026	0.935864	531,660	531,898
New Cingular Wireless PCS LLC	12/5/2021	12/4/2031	2.813855	651,003	663,247
New Cingular Wireless PCS LLC	4/1/2022	5/31/2027	2.813855	649,259	643,615
New Cingular Wireless PCS LLC	7/1/2022	6/30/2027	2.813855	667,686	675,206
				<u>\$ 4,598,237</u>	<u>\$ 4,557,179</u>

The Utility recognized \$318,631 and \$319,197 of lease revenue as of December 31, 2023 and 2022, respectively.

The Utility recognized \$78,321 and \$66,903 of interest revenue as of December 31, 2023 and 2022, respectively.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2023 and 2022

NOTE 11 – COMMITMENTS AND CONTINGENCIES

CLAIMS AND JUDGMENTS

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

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, 2023 and 2022 has been accrued in these financial statements.

NOTE 12 – SUBSEQUENT EVENTS

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

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, 2023

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
12/31/23	1.84596%	\$ 2,642,509	\$ 9,098,831	29.04%	95.72%
12/31/22	1.82854%	(4,074,884)	8,744,178	46.60%	106.02%
12/31/21	1.80992%	(3,317,731)	9,215,274	36.00%	105.26%
12/31/20	1.78515%	(1,803,263)	9,089,634	19.84%	102.96%
12/31/19	1.74728%	2,015,781	8,837,448	22.81%	96.45%
12/31/18	1.68891%	(1,594,540)	8,270,529	19.28%	102.93%
12/31/17	1.62005%	438,906	7,895,803	5.56%	99.12%
12/31/16	1.58205%	880,490	7,765,706	11.34%	98.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2023

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
12/31/23	\$ 656,253	\$ 656,253	\$ -	\$ 9,650,779	6.80%
12/31/22	591,424	591,424	-	9,098,831	6.50%
12/31/21	590,232	590,232	-	8,744,178	6.75%
12/31/20	622,031	622,031	-	9,215,274	6.75%
12/31/19	595,371	595,371	-	9,089,634	6.55%
12/31/18	592,109	592,109	-	8,837,448	6.70%
12/31/17	562,396	562,396	-	8,270,529	6.80%
12/31/16	521,123	521,123	-	7,895,803	6.60%
12/31/15	528,068	528,068	-	7,765,706	6.80%

MADISON WATER UTILITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2023

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

Changes of assumptions.

	2015 - 2018	2019 - 2021
Long-term expected rate of return	7.00%	7.00%
Discount rate	7.00%	7.00%
Salary increases		
Inflation	3.00%	3.00%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments	1.90%	1.90%

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.

MADISON WATER UTILITY

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS (LAST TEN FISCAL YEARS) *

	2023	2022	2021	2020
Total OPEB Liability				
Allocation changes	\$ (117,074)	\$ 84,861	\$ (67,393)	\$ (98,467)
Service Cost	169,425	234,723	230,069	178,623
Interest on Total OPEB Liability	108,843	73,513	65,889	88,516
Changes in benefits terms	-	11,644	-	(2,792)
Difference between expected and actual experience	127,168	(358,458)	(68,576)	(142,947)
Changes in assumptions	175,656	(392,615)	(31,930)	409,586
Employee Contributions	(121,173)	-	-	-
Benefit payments, including employee refunds	-	(136,022)	(115,485)	(128,683)
Administrative expense	-	-	-	-
Net Change in total OPEB Liability	342,845	(482,354)	12,574	303,836
Total OPEB Liability - Beginning	2,532,950	3,015,304	3,002,730	2,698,894
Total OPEB Liability - Ending	\$ 2,875,795	\$ 2,532,950	\$ 3,015,304	\$ 3,002,730
 Covered-employee payroll	 \$ 8,754,323	 \$ 8,472,381	 \$ 7,953,849	 \$ 7,573,090
 Total OPEB liability as a percentage of covered-employee payroll	 32.85%	 29.90%	 37.91%	 39.65%

Notes to OPEB Schedule:

Changes in Assumptions

Changes in assumptions:

Discount Rate - The discount rate has been updated from 2.25% to 4.31% in the December 31, 2022 valuation.

Health Care and Subsidy Trend Rates - No change in the health care and subsidy trend rates -

an initial rate of 7.50% decreasing by 0.05% annually to an ultimate rate of 4.50% for the December 31, 2022 valuation.

Inflation - The inflation rate remained the same, 2.50%, in the December 31, 2021 valuation.

* Measurement fiscal year 2018 was the first year of GASB 75 implementation, therefore only three years are presented.

SUPPLEMENTAL INFORMATION

MADISON WATER UTILITY

REVENUE BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES As of December 31, 2023

Year	2015 Revenue Bonds			2016A Revenue Bonds			2016B Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 1,855,000	\$ 960,079	\$ 2,815,079	\$ 980,000	\$ 791,900	\$ 1,771,900	\$ 1,340,000	\$ 336,250	\$ 1,676,250
2025	1,930,000	865,454	2,795,454	1,025,000	741,775	1,766,775	1,405,000	267,625	1,672,625
2026	2,005,000	787,129	2,792,129	1,080,000	689,150	1,769,150	1,475,000	195,625	1,670,625
2027	2,090,000	725,704	2,815,704	1,135,000	633,775	1,768,775	1,550,000	120,000	1,670,000
2028	2,170,000	663,431	2,833,431	1,190,000	575,650	1,765,650	1,625,000	40,625	1,665,625
2029	2,235,000	598,983	2,833,983	1,250,000	514,650	1,764,650	-	-	-
2030	2,305,000	529,731	2,834,731	1,310,000	457,200	1,767,200	-	-	-
2031	2,380,000	455,924	2,835,924	1,365,000	403,700	1,768,700	-	-	-
2032	2,460,000	379,406	2,839,406	1,420,000	348,000	1,768,000	-	-	-
2033	2,540,000	301,281	2,841,281	1,475,000	290,100	1,765,100	-	-	-
2034	2,625,000	220,578	2,845,578	1,535,000	229,900	1,764,900	-	-	-
2035	2,715,000	135,444	2,850,444	1,595,000	167,300	1,762,300	-	-	-
2036	2,810,000	45,661	2,855,661	1,660,000	102,200	1,762,200	-	-	-
2037	-	-	-	1,725,000	34,500	1,759,500	-	-	-
Totals	\$ 30,120,000	\$ 6,668,805	\$ 36,788,805	\$ 18,745,000	\$ 5,979,800	\$ 24,724,800	\$ 7,395,000	\$ 960,125	\$ 8,355,125
Year	2018A Revenue Bonds			2018B Taxable Revenue Bonds (Operating)			2019A Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 1,210,000	\$ 1,032,000	\$ 2,242,000	\$ 1,040,000	\$ 171,832	\$ 1,211,832	\$ 3,395,000	\$ 1,009,050	\$ 4,404,050
2025	1,260,000	982,600	2,242,600	1,070,000	137,537	1,207,537	3,320,000	892,100	4,212,100
2026	1,310,000	931,200	2,241,200	1,110,000	101,012	1,211,012	3,440,000	723,100	4,163,100
2027	1,360,000	877,800	2,237,800	1,145,000	62,105	1,207,105	3,120,000	559,100	3,679,100
2028	1,415,000	822,300	2,237,300	1,185,000	21,034	1,206,034	3,280,000	399,100	3,679,100
2029	1,470,000	764,600	2,234,600	-	-	-	5,515,000	206,800	5,721,800
2030	1,530,000	704,600	2,234,600	-	-	-	4,045,000	56,050	4,101,050
2031	1,595,000	642,100	2,237,100	-	-	-	780,000	7,800	787,800
2032	1,655,000	577,100	2,232,100	-	-	-	-	-	-
2033	1,720,000	509,600	2,229,600	-	-	-	-	-	-
2034	1,790,000	439,400	2,229,400	-	-	-	-	-	-
2035	1,865,000	366,300	2,231,300	-	-	-	-	-	-
2036	1,935,000	290,300	2,225,300	-	-	-	-	-	-
2037	2,015,000	211,300	2,226,300	-	-	-	-	-	-
2038	2,095,000	129,100	2,224,100	-	-	-	-	-	-
2039	2,180,000	43,600	2,223,600	-	-	-	-	-	-
Totals	\$ 26,405,000	\$ 9,323,900	\$ 35,728,900	\$ 5,550,000	\$ 493,520	\$ 6,043,520	\$ 26,895,000	\$ 3,853,100	\$ 30,748,100

REVENUE BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES
As of December 31, 2023

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MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Unmetered Sales	\$ 540,703	\$ 414,271
Metered Sales		
Residential	24,001,175	20,465,839
Duplex	916,667	819,138
Multi-Family	11,065,432	9,356,211
Commercial	10,836,069	8,401,264
Industrial	1,135,101	992,148
Public authority	7,489,586	6,123,855
Sales for resale	600,320	416,957
Total Metered Sales	56,044,350	46,575,412
Public Fire Protection	123,694	124,266
Total Sales of Water	56,708,747	47,113,949
Customer Late Payment Penalties	286,079	200,945
Miscellaneous	67,921	65,313
Rents from water property	398,532	375,103
Other	335,138	384,633
Total Operating Revenues	57,796,417	48,139,943
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	17,353	13,874
Collecting and impounding reservoirs	9,934	56,736
Wells and springs	33,422	99,182
Total Source of Supply	60,709	169,792
Pumping		
Operation supervision and engineering	52,815	51,175
Power purchased for pumping	2,419,199	2,095,612
Pumping labor	506,042	437,020
Miscellaneous	539,135	431,234
Maintenance		
Supervision and engineering	199,895	201,087
Structures and improvements	550,367	519,901
Pumping equipment	411,644	466,512
Total Pumping	4,679,097	4,202,541
Water Treatment		
Operation supervision and engineering	126,300	133,521
Chemicals	202,965	167,748
Operation labor	262,958	259,787
Miscellaneous	175,637	83,578
Maintenance		
Supervision and engineering	17,353	13,874
Water treatment equipment	150,479	112,119
Total Water Treatment	935,692	770,627

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 268,225	\$ 292,009
Storage facilities	103,399	99,317
Transmission and distribution lines	429,907	405,691
Meter	188,267	158,883
Customer installation	444,032	435,112
Miscellaneous	1,804,114	1,606,752
Maintenance		
Reservoirs	57,812	63,491
Mains	2,134,691	2,257,263
Services	1,261,114	1,227,719
Meters	119,195	104,144
Hydrants	324,154	336,154
Total Transmission and Distribution	<u>7,134,910</u>	<u>6,986,535</u>
Customer Accounts		
Supervision	12,358	19,678
Meter reading	71,869	63,902
Customer records and collection	396,056	577,056
Conservation	178,556	158,819
Total Customer Accounts	<u>658,839</u>	<u>819,455</u>
Administrative and General		
Salaries	1,164,154	1,054,323
Office, building, and supplies	403,951	442,830
Outside services employed	665,823	692,475
Property insurance	46,516	549
Injuries and damages	279,816	328,199
Employee pensions and benefits	2,850,292	1,354,908
Miscellaneous	69,765	151,126
Maintenance of general plant	4,567	3,528
Total Administrative and General	<u>5,484,884</u>	<u>4,027,938</u>
Total Operation and Maintenance	18,954,131	16,976,887
Depreciation	10,813,385	8,462,252
Taxes	654,988	629,229
Total Operating Expenses	<u>30,422,504</u>	<u>26,068,368</u>
 OPERATING INCOME	 <u>\$ 27,373,913</u>	 <u>\$ 22,071,575</u>