

MADISON WATER UTILITY

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

December 31, 2007 and 2006

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

TABLE OF CONTENTS
December 31, 2007 and 2006

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Financial Statements	
Statements of Net Assets	10 – 11
Statements of Revenues, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 35
Supplemental Information	
Revenue Bond Debt Repayment Schedules	36
Operating Revenues and Expenses	37 – 38



INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of December 31, 2007 and 2006, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the footnotes, Madison Water Utility adopted the provision of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension (OPEB)* effective January 1, 2007.

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

To the Water Utility Board
Madison Water Utility

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

Vinchow Krause & Company, LLP

Madison, Wisconsin
October 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

Madison Water Utility is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the years ending December 31, 2007, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the utility's financial statements and notes to the financial statements in order to enhance their understanding of the utility's financial performance.

2007 FINANCIAL HIGHLIGHTS

- The utility's operating revenues increased \$910,576 or 5.15% from 2006. Water pumped was up 0.96%, new customers increased 0.83%, and the utility was granted an average 16% rate increase by the Public Service Commission of Wisconsin.
 - The utility's operating expenses increased by \$2,010,616 or 14.08% from the prior year. This increase can be attributed to increased costs related to maintenance of mains and services and the closing of some projects that were completed by outside service providers.
 - The utility's total assets increased \$27.950 million and total liabilities increased \$27.097 million, resulting in total net assets increasing \$0.852 million or 0.82% from 2006.
 - Investment income decreased by \$59,794 or 12.37%; interest rates were higher in 2007 but the utility had fewer funds to invest, as the 2007 bond proceeds were not available for investment until December 2007.
-

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

Madison recognized the need for a central water supply early in its history. Several proposals from private companies were evaluated, and a committee from the common council visited several cities to evaluate municipal systems. The result was a report outlining the construction of a city waterworks. The common council of the City of Madison then directed the waterworks committee to establish the Madison Waterworks on September 5, 1881. Financing was obtained and contracts let in spring of 1882. Pumping commenced on December 7, 1882.

Early management was vested in the common council through its committee, and on March 2, 1884 general management was transferred to the Board of Water Commissioners. Mr. John Heim, a member of the committee was elected Superintendent. This Board of Water Commissioners arrangement continues today, with the exception of a period of time after World War II when the City of Madison employed the city manager system of governance. The Madison Waterworks achieved department status in the early 1960's and became the Madison Water Utility (utility) under a General Manager.

The system has always been a groundwater utility in spite of being surrounded by lakes. The system currently has 23 deep wells with a daily capacity of over 70 million gallons per day. In common with the rest of Wisconsin's water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules, and levels of service.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

RATES

The utility last received a rate increase from the PSCW in August of 2007. After the rate increase, the utility is the fourteenth lowest of the 73 utilities classified as AB (over 4,000 customers) in the state and has the third lowest rates in Dane County. The utility filed an application to increase rates with the PSCW on April 14, 2008.

UTILITY FINANCIAL ANALYSIS

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

A summary of the utility's Statements of Net Assets is presented in Table 1.

Table 1

Condensed Statements of Net Assets (000's)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 37,175	\$ 20,151	\$ 17,686
Capital Assets	<u>152,641</u>	<u>141,715</u>	<u>127,978</u>
Total Assets	<u>189,816</u>	<u>161,866</u>	<u>145,664</u>
Current Liabilities	13,157	7,218	8,558
Long-Term Debt Outstanding	68,150	46,885	33,770
Long-Term Liabilities	<u>3,736</u>	<u>3,842</u>	<u>3,964</u>
Total Liabilities	<u>85,043</u>	<u>57,945</u>	<u>46,292</u>
Invested in Capital Assets, Net of Related Debt	90,662	92,345	92,411
Restricted	12,922	8,495	6,473
Unrestricted	<u>1,189</u>	<u>3,081</u>	<u>488</u>
Total Net Assets	<u>\$ 104,773</u>	<u>\$ 103,921</u>	<u>\$ 99,372</u>

Net Assets increased \$852 thousand from 2006 to 2007, an increase of .82%. Net Assets have increased 5.44% since 2005.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007 and 2006

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	2007	2006	2005
Operating Revenues	\$ 18,258	\$ 17,351	\$ 16,197
Other Operating Revenues	326	322	330
Total Revenues	<u>18,584</u>	<u>17,673</u>	<u>16,527</u>
Operation and Maintenance Expense	13,105	11,268	10,068
Depreciation Expense	3,189	3,015	2,822
Non-operating Expense	1,991	1,569	1,244
Total Expense	<u>18,285</u>	<u>15,852</u>	<u>14,134</u>
Income Before Capital Contributions and Transfers	299	1,821	2,393
Capital Contributions	3,581	5,458	2,386
Transfers - Tax Equivalent	<u>(3,028)</u>	<u>(2,730)</u>	<u>(2,714)</u>
Changes in Net Assets	852	4,549	2,065
Beginning Net Assets	<u>103,921</u>	<u>99,372</u>	<u>97,307</u>
Ending Net Assets	<u>\$ 104,773</u>	<u>\$ 103,921</u>	<u>\$ 99,372</u>

The utility's operating revenues increased \$.911 million or 5.15% in 2007. This is attributed to the increased pumpage and the rate increase that began phase in with the November 1 billing.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses (000's)

	2007	2006	2005
OPERATING REVENUES			
Unmetered Sales	\$ 50	\$ 44	\$ 43
Metered Sales			
Residential	7,468	7,068	6,666
Commercial	5,740	5,420	4,892
Industrial	858	856	709
Public authorities	1,857	1,652	1,714
Sales for resale	226	251	199
Total Metered Sales	16,149	15,247	14,180
Private fire protection	266	253	242
Public fire protection	1,797	1,808	1,732
Total Sales of Water	18,262	17,352	16,197
Forfeited discounts	141	137	117
Miscellaneous	38	43	57
Other	143	141	156
Total Operating Revenues	18,584	17,673	16,527
OPERATING EXPENSES			
Source of Supply	163	104	310
Pumping	3,045	2,938	2,750
Water Treatment	707	866	535
Transmission and Distribution	5,426	3,935	3,455
Customer Accounts	313	325	303
Administrative and General	3,382	2,979	2,711
Total Operation and Maintenance	13,036	11,147	10,064
Depreciation	3,189	3,015	2,822
Taxes	69	121	4
Total Operating Expenses	16,294	14,283	12,890
OPERATING INCOME	<u>\$ 2,290</u>	<u>\$ 3,390</u>	<u>\$ 3,637</u>

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

UTILITY FINANCIAL ANALYSIS (cont.)

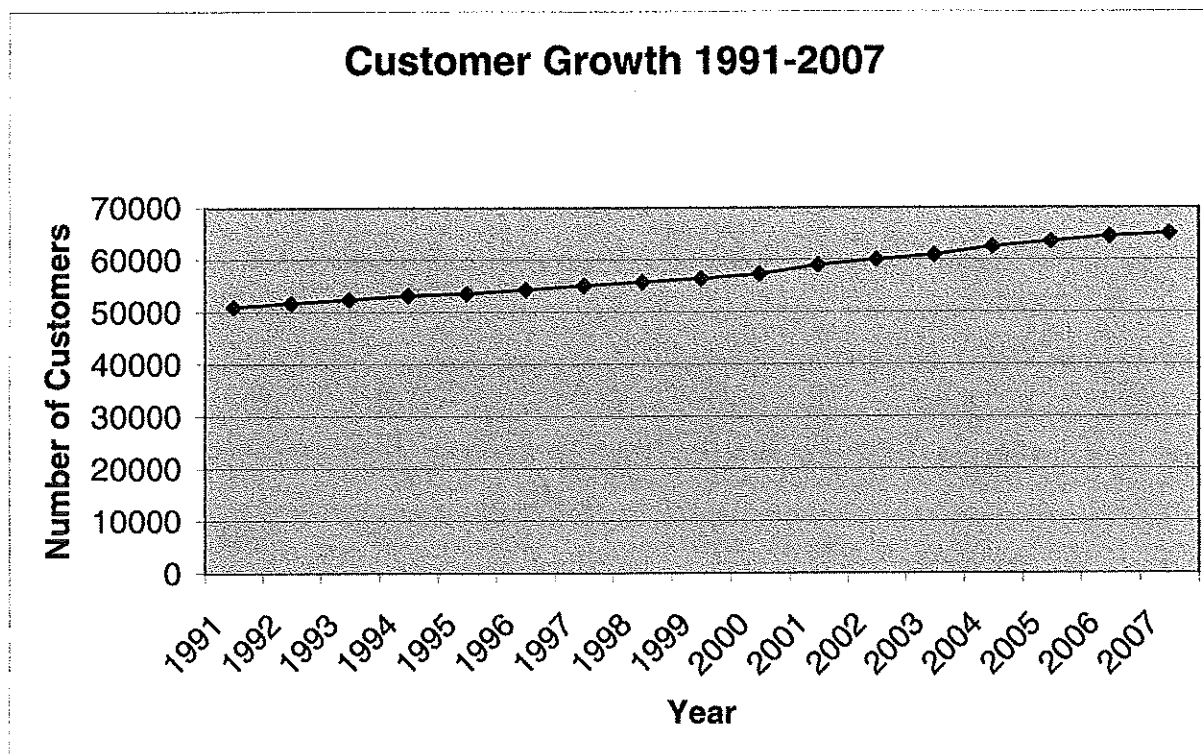
Revenues

Total operating revenues increased from \$17.673 million in 2006 to \$18.584 million in 2007, an increase of 5.15%. This increase was due to the rate increase that became effective August 13, 2007. The utility added 536 new customers in 2007 and pumped 0.96% more water.

Expenses

Operation and maintenance expenses totaled \$13.036 million in 2007 compared to \$11.147 million in 2006. This represents an increase of 16.95% over 2006. Major increases were noted in maintenance of mains which increased \$672,852 over 2006 due to an increased number of main leaks - 292 in 2007 versus 106 in 2006, maintenance of services expense increased \$780,096 over 2006 due to the closing of a large number of work orders with expenses in excess of allowable cost of removals, and outside services employed increased \$372,148 over 2006 due to the closing of 5 projects in 2007 that were completed and had work supplied by outside service providers.

Chart 1



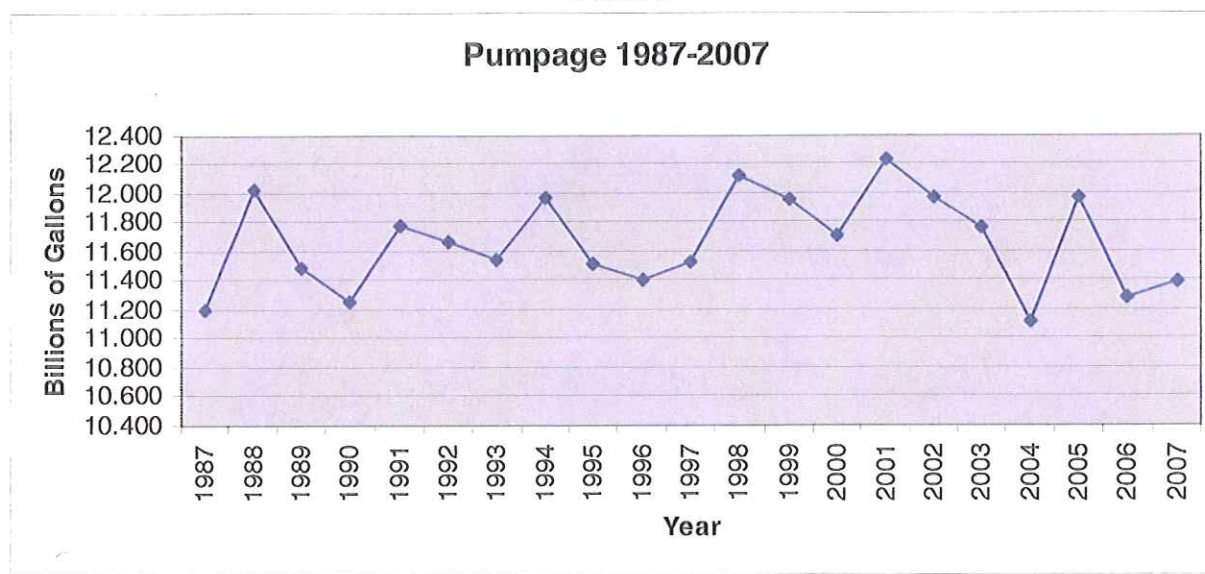
Customer growth has slowed in 2007. The utility received 663 new applications for service in 2007; the record number of new applications was 1,442 in 2002. 2006 produced 1,087 new applications for service.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year increased from 11.284 billion gallons in 2006 to 11.392 billion gallons in 2007 due to a drier summer in 2007 than 2006.

CAPITAL EXPENDITURES

The utility added a net \$17,323,543 of plant in 2007. Of this amount, \$3,139,032 was contributed by developers, contractors, and by special assessment. The utility is operating under a consent order from the Wisconsin Department of Natural Resources that requires the utility to replace all of the lead services in the system. The utility stopped using lead as a service material in 1928. At that time it was estimated there were about 11,000 lead services in the system. Over time, many of these have been replaced. It was estimated that there were about 7,000 lead services remaining in 2000. By the end of 2007, it was estimated there were 640 lead services remaining in the system. The utility is on schedule for compliance with the consent order by 2011.

Capital projects completed in 2007 and paid for by the utility include \$273,267 for the lead service replacement program, \$4,066,659 for the Feland Road Reservoir, \$4.009 million for three phases of E Washington Ave main replacements, \$540,408 for two phases of State Street main replacement, and \$4.624 million for other water main replacement projects.

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, 2007 and 2006

CAPITAL BORROWING

The policy of the utility has been to maintain depreciation and net revenues such that depreciation funds can be used for capital projects, and 'bottom line' can be used for debt retirement. Due to the lead service replacement mandate which is required to be completed over a 10 year period, funds available for other infrastructure maintenance and replacement will need to be borrowed along with net additions to the system. The utility borrowed \$27.185 million in December of 2007. \$23.9 million of the 2007 borrowing is being used to fund the 2007 and 2008 capital projects, while the other \$3.3 million refunded the outstanding 1999 revenue bonds. The utility entered into a short term borrowing agreement with the City of Madison to provide funds for 2007 capital projects, during this time the utility pursued a rate increase from the Public Service Commission of Wisconsin. This rate increase was approved in August of 2007. The utility repaid the City of Madison for its short term borrowing for capital projects in December of 2007 from proceeds of its revenue bond issue. The utility has stepped up its borrowing patterns in the last 6 years, by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin and its 44,000 students, versus the national economy. Consider the fact that, while customer growth has slowed, the utility has added 14.32 miles of water main in the last two 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 the current and future rate increase requests will create a stable financial structure to ensure that the utility is well prepared to handle these challenges. This is evidenced by the fact that, after our last rate case (August of 2007) utility rates are among the lowest in the state.

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

UTILITY CONTACT INFORMATION

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

MADISON WATER UTILITY

STATEMENTS OF NET ASSETS

December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 373,021	\$ 294,682
Restricted cash and investments	6,996,400	3,980,998
Customer accounts receivable	2,854,618	2,615,540
Accrued revenue	3,773,237	3,333,011
Materials and supplies	853,542	892,943
Current portion of special assessments	26,733	61,163
Other current assets	594,130	279,259
Total Current Assets	<u>15,471,681</u>	<u>11,457,596</u>
NON-CURRENT ASSETS		
Restricted cash and investments	18,786,330	5,654,806
Other Assets		
Special assessments receivable	1,406,266	1,602,286
Unamortized debt issuance costs	646,312	394,329
Property held for future use	660,694	843,046
Non-utility property (net of accumulated depreciation)	203,752	198,751
Capital Assets		
Plant in service	180,682,461	163,358,918
Accumulated depreciation	(40,212,261)	(37,546,067)
Construction work in progress	<u>12,170,611</u>	<u>15,902,495</u>
Total Non-Current Assets	<u>174,344,165</u>	<u>150,408,564</u>
Total Assets	<u>189,815,846</u>	<u>161,866,160</u>

	2007	2006
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 625,836	\$ 903,840
Other current liabilities	239,256	267,887
Payable to other funds	872,816	774,276
Accrued interest	59,011	59,524
Short term loan from municipality	4,263,000	1,215,000
Current portion of advance	20,790	16,219
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	5,920,000	2,840,000
Accrued interest	1,156,580	1,140,998
Total Current Liabilities	<u>13,157,289</u>	<u>7,217,744</u>
NON-CURRENT LIABILITIES		
Revenue bonds	68,150,000	46,885,000
Unamortized debt premium	286,670	75,510
Unamortized loss on advance refunding	(27,342)	(35,753)
Compensated absences	1,510,136	1,633,732
Other postemployment benefit obligation	51,256	-
Advance from municipality	1,395,149	1,415,939
Customer advances for construction	519,358	753,086
Total Non-Current Liabilities	<u>71,885,227</u>	<u>50,727,514</u>
Total Liabilities	<u>85,042,516</u>	<u>57,945,258</u>
NET ASSETS		
Invested in capital assets, net of related debt	90,662,358	92,344,918
Restricted for debt service	12,921,587	8,494,806
Unrestricted	<u>1,189,385</u>	<u>3,081,178</u>
TOTAL NET ASSETS	<u>\$ 104,773,330</u>	<u>\$ 103,920,902</u>

MADISON WATER UTILITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Sales of water	\$ 18,262,410	\$ 17,351,379
Other	<u>321,244</u>	<u>321,699</u>
Total Operating Revenues	<u>18,583,654</u>	<u>17,673,078</u>
OPERATING EXPENSES		
Operation and maintenance	13,104,805	11,267,897
Depreciation	<u>3,189,156</u>	<u>3,015,448</u>
Total Operating Expenses	<u>16,293,961</u>	<u>14,283,345</u>
Operating Income	<u>2,289,693</u>	<u>3,389,733</u>
NON-OPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(38,980)	(25,413)
Investment income	423,699	483,493
Interest and amortization expense	(2,489,826)	(2,116,895)
Interest charged to construction	112,522	88,734
Other	<u>1,575</u>	<u>1,486</u>
Total Non-Operating Revenues (Expenses)	<u>(1,991,010)</u>	<u>(1,568,595)</u>
Income Before Capital Contributions and Transfers	298,683	1,821,138
CAPITAL CONTRIBUTIONS	3,581,322	5,457,657
TRANSFERS - TAX EQUIVALENT	<u>(3,027,577)</u>	<u>(2,730,315)</u>
Change in Net Assets	852,428	4,548,480
NET ASSETS - Beginning of Year	<u>103,920,902</u>	<u>99,372,422</u>
NET ASSETS - END OF YEAR	<u>\$ 104,773,330</u>	<u>\$ 103,920,902</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 17,999,108	\$ 18,291,944
Paid to suppliers for goods and services	(8,204,104)	(6,371,000)
Paid to employees for services	(4,518,961)	(4,383,091)
Net Cash Flows from Operating Activities	<u>5,276,043</u>	<u>7,537,853</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(3,027,577)	(2,730,315)
Short-term loan received	-	1,877,000
Short-term loan paid	(1,215,000)	(662,000)
Interest paid on short-term loan	(8,011)	(34,573)
Repayment of advances from other funds	(16,219)	(12,091)
Interest paid on advances from other funds	(75,188)	(75,823)
Net Cash Flows from Noncapital Financing Activities	<u>(4,341,995)</u>	<u>(1,637,802)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(11,841,684)	(12,163,237)
Special assessments received	261,719	365,328
Contributions in aid of construction	238,569	81,749
Short-term loan received	10,305,169	-
Short term borrowing paid to municipality	(6,042,169)	(4,573,000)
Interest paid on short-term loan	(160,845)	-
Proceeds from debt issued	27,185,000	15,955,000
Debt issuance costs	(299,106)	(208,193)
Debt premium received	221,307	-
Debt retired	(2,840,000)	(1,985,000)
Interest paid	(2,185,326)	(1,653,104)
Net Cash Flows from Capital and Related Financing Activities	<u>14,842,634</u>	<u>(4,180,457)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(15,700,792)	(13,040,925)
Marketable securities sold	14,246,589	11,877,548
Investment income	448,583	472,968
Net Cash Flows from Investing Activities	<u>(1,005,620)</u>	<u>(690,409)</u>
Net Change in Cash and Cash Equivalents	14,771,062	1,029,185
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>5,176,603</u>	<u>4,147,418</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 19,947,665</u>	<u>\$ 5,176,603</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	<u>\$ 3,038,670</u>	<u>\$ 5,337,648</u>
Special assessments levied to customers	<u>\$ 12,779</u>	<u>\$ 321,796</u>

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLows FROM OPERATING ACTIVITIES		
Operating income	\$ 2,289,693	\$ 3,389,733
Nonoperating loss	(37,405)	(23,927)
Noncash items included in operating income		
Depreciation	3,189,156	3,015,448
Depreciation charged to other accounts	471,587	454,677
Other non-cash items in operations	11,196	-
Changes in Assets and Liabilities		
Customer accounts receivable	(233,664)	(114,843)
Receivable from other funds	(21,858)	472,082
Materials and supplies	39,401	(91,444)
Accrued revenues	(440,226)	143,127
Other current assets	(41,086)	47,419
Accounts payable and other current liabilities	19,681	(4,577)
Payable to other funds	101,908	84,288
Other postemployment benefit obligation	51,256	-
Accrued compensated absences	(123,596)	165,870
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 5,276,043</u>	<u>\$ 7,537,853</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 373,021	\$ 294,682
Restricted cash and investments - current	6,996,400	3,980,998
Restricted cash and investments - noncurrent	<u>18,786,330</u>	<u>5,654,806</u>
Total Cash and Investments	26,155,751	9,930,486
Less: Noncash equivalents	<u>6,208,086</u>	<u>4,753,883</u>
CASH AND CASH EQUIVALENTS	<u>\$ 19,947,665</u>	<u>\$ 5,176,603</u>

MADISON WATER UTILITY**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

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

The utility is managed by a seven member Water Utility Board comprised of one Common Council member and six citizen members, each serving a five year term.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

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

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

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

MADISON WATER UTILITY**NOTES TO FINANCIAL STATEMENTS**
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS***Deposits and Investments***

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

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

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

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

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

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Receivables/Payables

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Materials and Supplies

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

Property Held for Future Use

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

Non-Utility Property

This balance includes the previous utility building, sewer meters and land holding abandoned property owned by the utility. This is being amortized over an average period of 20 years.

Capital Assets

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

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

	Years	
Plant in Service		
Source of supply	34	– 44
Pumping	25	– 31
Water treatment		15
Transmission and distribution	2	– 84
General	6	– 20

Special Assessments Receivable

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

MADISON WATER UTILITY**NOTES TO FINANCIAL STATEMENTS**
December 31, 2007 and 2006

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)***Compensated Absences***

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

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

Customer Advances for Construction

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

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

REVENUES AND EXPENSES

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

Charges for Services

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

Current rates were authorized by the PSCW in an order dated August 9, 2007 and are designed to earn a 6.50% return on rate base. The utility placed the new rates into effect on August 13, 2007.

The utility filed for a rate increase with the PSCW on April 14, 2008.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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

REVENUES AND EXPENSES (cont.)

Transfers

The utility records an annual payment in lieu of taxes (PILOT) expense based on the value of its capital assets times the current assessment ratio and local and school portion of the mill rate. In addition, current legislation requires that the computed payment be greater than or equal to the 1994 PILOT payment. Transfers include the payment in lieu of taxes to the municipality.

Capital Contributions

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

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2007	2006	
Checking and Savings	\$ 245,470	\$ 275,043	Custodial credit
Other Investment Pools	19,695,445	4,894,910	(A)
U.S. Treasuries	6,208,086	4,753,883	Interest rate risk
Working Funds – Petty Cash	6,750	6,650	None
Totals	<u>\$ 26,155,751</u>	<u>\$ 9,930,486</u>	

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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

Custodial Credit Risk

Deposits

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

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

	2007		2006	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	\$ 400,410	\$ 245,470	\$ 513,470	\$ 275,043

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

Investments

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

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

The municipality's investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits be secured by some form of collateral. The municipality will accept for collateral any of the following assets: obligations of the United States government or an agency or instrumentality of the United States government; obligations of the State of Wisconsin; investment grade obligations of Wisconsin local jurisdictions; obligations of the City of Madison.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Investments (cont.)

The fair market value of all collateral pledged will be not less than 110% of the amount of public funds to be secured at each institution. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly and additional collateral will be requested when this ratio declines below the level required. Pledged collateral will be held in safekeeping by a third party. All collateral agreements will be written so as to preclude release of the assets without an authorized signature from the municipality. The municipality will allow for even exchange of collateral.

Interest Rate Risk

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

As of December 31, 2007, the utility's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
U.S. Treasury Bill	\$ 6,208,086	6/26/08

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2007 and 2006:

Due To	Due From	2007		2006	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 872,816	Sewer/storm receipts and joint meter allocation	\$ 774,276	Sewer/storm receipts and joint meter allocation

The following is a schedule of transfer balances as of December 31, 2007 and 2006:

Due To	Due From	2007		2006	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$3,027,577	Tax equivalent	\$2,730,315	Tax equivalent

NOTE 4 – RESTRICTED ASSETS

Restricted Accounts

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

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

MADISON WATER UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net assets:

	December 31	
	2007	2006
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 6,996,400	\$ 3,980,998
Non-current Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	6,181,767	4,754,806
Construction	11,704,563	-
Depreciation	750,000	750,000
Total Restricted Assets	25,782,730	9,635,804
Borrowed funds on hand	(11,704,563)	-
Current Liabilities Payable From Restricted Assets	(1,156,580)	(1,140,998)
Total Restricted Net Assets	<u>\$ 12,921,587</u>	<u>\$ 8,494,806</u>

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2007 follows:

	Balance 1/01/07	Increases	Decreases	Balance 12/31/07
Capital assets, not being depreciated				
Land and land rights	\$ 1,855,918	\$ 209,934	\$ 11,195	\$ 2,054,657
Capital assets being depreciated				
Source of supply	9,477,722	99,036	7,870	9,568,888
Pumping	10,318,926	8,807	94,260	10,233,473
Water treatment	339,390	5,760	6,152	338,998
Transmission and distribution	124,557,604	17,698,885	671,423	141,585,066
General	16,809,358	337,941	245,920	16,901,379
Total Capital Assets				
Being Depreciated	161,503,000	18,150,429	1,025,625	178,627,804
Total Capital Assets	163,358,918	18,360,363	1,036,820	180,682,461
Less: Accumulated Depreciation				
Source of supply	(3,563,193)	(243,335)	(7,870)	(3,798,658)
Pumping	(4,459,694)	(384,531)	(94,260)	(4,749,965)
Water treatment	(68,613)	(23,098)	(6,151)	(85,560)
Transmission and distribution	(22,935,033)	(2,324,076)	(702,921)	(24,556,188)
Administration and general assets	(6,519,534)	(748,276)	(245,920)	(7,021,890)
Total Accumulated Depreciation	(37,546,067)	(3,723,316)	(1,057,122)	(40,212,261)
Construction in progress	15,902,495	17,418,927	21,150,811	12,170,611
Net Capital Assets	<u>\$ 141,715,346</u>			<u>\$ 152,640,811</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2006 follows:

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

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The utility has issued the following revenue bonds outstanding:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount 12/31/07
12/01/99	System improvement	1/01/18	4.70 – 5.60%	\$ 5,000,000	\$ 3,555,000
4/01/01	System improvement	1/01/21	4.00 – 5.05	5,000,000	3,910,000
12/04/01	Refunding debt used for system improvement	1/01/08	3.00 – 4.00	3,305,000	210,000

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS (cont.)

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount 12/31/07
5/01/02	System improvement	1/01/22	3.50 – 5.10%	\$ 4,500,000	\$ 3,810,000
8/15/03	System improvement	1/01/24	2.50 – 5.25	19,055,000	17,520,000
3/15/05	Refunding debt used for system improvement	1/01/15	3.00 – 4.00	3,630,000	2,750,000
6/15/06	System improvement	1/01/26	4.00 – 4.13	15,955,000	15,130,000
12/01/07	Refunding debt and used for system improvement	1/01/28	3.00 – 4.00	<u>27,185,000</u>	<u>27,185,000</u>
Totals				<u>\$ 83,630,000</u>	<u>\$ 74,070,000</u>

Revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2008	\$ 5,920,000	\$ 2,084,082	\$ 8,004,082
2009	3,160,000	3,069,151	6,229,151
2010	3,425,000	2,850,870	6,275,870
2011	3,300,000	2,720,085	6,020,085
2012	3,430,000	2,585,113	6,015,113
2013	3,565,000	2,443,217	6,008,217
2014	3,720,000	2,293,503	6,013,503
2015	3,770,000	2,135,880	5,905,880
2016	3,705,000	1,974,734	5,679,734
2017	3,870,000	1,809,033	5,679,033
2018	4,025,000	1,635,717	5,660,717
2019	3,780,000	1,454,087	5,234,087
2020	3,955,000	1,279,453	5,234,453
2021	4,090,000	1,097,636	5,187,636
2022	3,925,000	913,124	4,838,124
2023	3,745,000	735,232	4,480,232
2024	3,905,000	557,013	4,462,013
2025	2,620,000	407,538	3,027,538
2026	2,745,000	287,731	3,032,731
2027	1,670,000	162,213	1,832,213
2028	<u>1,745,000</u>	<u>82,888</u>	<u>1,827,888</u>
Totals	<u>\$ 74,070,000</u>	<u>\$ 32,578,300</u>	<u>\$ 106,648,300</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on all utility plant. Principal and interest paid for 2007 and 2006 were \$5,025,326 and \$3,638,104, respectively. Total customer net revenues as defined for the same periods were \$5,953,804 and \$6,888,674, respectively.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/07
7/01/04	Payoff unfunded pension liability	3/15/24	5.25%	\$ 1,474,476	\$ 1,415,939

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2008	\$ 20,790	\$ 74,540	\$ 95,330
2009	25,656	73,245	98,901
2010	31,111	71,898	103,009
2011	36,714	70,265	106,979
2012	42,907	68,525	111,432
2013	49,690	66,085	115,775
2014	57,210	63,476	120,686
2015	65,319	60,473	125,792
2016	74,019	57,200	131,219
2017	83,750	53,157	136,907
2018	93,924	48,761	142,685
2019	105,278	43,830	149,108
2020	117,516	38,407	155,923
2021	130,639	32,133	162,772
2022	144,794	25,274	170,068
2023	159,833	17,673	177,506
2024	176,789	9,307	186,096
Totals	\$ 1,415,939	\$ 874,249	\$ 2,290,188

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2007 is as follows:

	1/01/07 Balance	Additions	Reductions	12/31/07 Balance	Due Within One Year
Revenue bonds	\$ 49,725,000	\$ 27,185,000	\$ 2,840,000	\$ 74,070,000	\$ 5,920,000
Compensated absences	1,633,732	49,012	172,608	1,510,136	-
Other postemployment benefit obligation	-	94,792	43,536	51,256	-
Customer advances for construction	753,086	109,200	342,928	519,358	-
Advance from municipality	1,432,158	-	16,219	1,415,939	20,790
Unamortized debt premium	75,510	221,307	10,147	286,670	33,178
Unamortized loss on advanced refunding	(35,753)	-	(8,411)	(27,342)	(7,465)
Totals	<u>\$ 53,583,733</u>	<u>\$ 27,659,311</u>	<u>\$ 3,417,027</u>	<u>\$ 77,826,017</u>	<u>\$ 5,966,503</u>

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

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

PRIOR YEAR DEFEASANCE OF DEBT

In 2005, the utility defeased \$3,605,000 of the 1995 and 1998 bonds by placing the proceeds of the 2005 bonds in an irrevocable trust to provide for all future debt service payments on the 1995 and 1998 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the utility's financial statements. The bonds are callable on January 1, 2015. At December 31, 2007 \$2,770,000 of bonds outstanding are considered defeased.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

CURRENT REFUNDING

On December 1, 2007, bonds in the amount of \$3,295,000 were issued with an average interest rate of 4.0 percent to refund \$3,555,000 of outstanding 1999 bonds with an average interest rate of 5.5 percent. The net proceeds of \$3,307,048 (after payment of \$35,877 in underwriting fees and other issuance costs) plus an additional \$431,676 of sinking fund monies were set aside to prepay the outstanding debt service requirements on the old bonds when they come due on January 1, 2008.

The cash flow requirements on the old bonds prior to the advance refunding was \$4,724,591 from 2008 through 2018. The cash flow requirements on the new bonds are \$4,078,178 from 2008 through 2018. The refunding resulted in an economic savings of \$595,488 on a present value basis, discounted at the interest rate paid on the refunding bonds.

NOTE 7 – SHORT-TERM LOAN FROM MUNICIPALITY

On August 4, 2005 the Common Council approved a loan from the municipality to the utility to be used as temporary financing prior to the receipt of revenue bond proceeds expected in 2007. The maximum loan approved is \$6 million with interest charged monthly at .25% higher than the monthly rate earned through the utility's commingled cash account.

During 2005, the utility borrowed \$4,573,000 from the municipality. During 2006, the utility borrowed another \$1,877,000 and paid back \$5,235,000 leaving an outstanding balance of \$1,215,000 as of December 31, 2006. During 2007, the utility borrowed another \$10,305,169 and paid back \$7,257,169 leaving an outstanding balance of \$4,263,000 as of December 31, 2007. The utility paid \$688,000 in January of 2008. No formal schedule for repayment has been established.

	<u>1/01/07</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/07</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Short term loan	\$ 1,215,000	\$ 10,305,169	\$ 7,257,169	\$ 4,263,000	\$ 4,263,000
	<u>1/01/06</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Short term loan	\$ 4,573,000	\$ 1,877,000	\$ 5,235,000	\$ 1,215,000	\$ 1,215,000

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 8 – NET ASSETS

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

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

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

Unrestricted net assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

	2007	2006
Plant in Service	\$ 180,682,461	\$ 163,358,918
Accumulated Depreciation	(40,212,261)	(37,546,067)
Construction Work in Progress	12,170,611	15,902,495
Sub-Totals	<u>152,640,811</u>	<u>141,715,346</u>
Less: Capital Related Debt		
Current portion of capital related long-term debt	5,920,000	2,840,000
Long-term portion capital related long-term debt	68,150,000	46,885,000
Unamortized debt issuance costs	(646,312)	(394,329)
Unamortized debt premium	286,670	75,510
Unamortized loss on advance refunding	(27,342)	(35,753)
Sub-Totals	<u>73,683,016</u>	<u>49,370,428</u>
Add back borrowed funds on hand	<u>11,704,563</u>	<u>-</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 90,662,358</u>	<u>\$ 92,344,918</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 9 – EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the utility participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 5.9% and 5.8% of their salary to the plan in 2007 and 2006, respectively. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

	Year Ended December 31		
	2007	2006	2005
Total Utility Payroll	<u>\$ 6,679,806</u>	<u>\$ 6,133,000</u>	<u>\$ 5,859,000</u>
Total Covered Employee Payroll	<u>\$ 5,904,000</u>	<u>\$ 5,426,000</u>	<u>\$ 5,204,000</u>
Total Required Contributions	<u>\$ 625,824</u>	<u>\$ 564,300</u>	<u>\$ 530,800</u>
Total Required Contributions (%)	<u>10.6%</u>	<u>10.4%</u>	<u>10.2%</u>

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

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

The municipality administers a single-employer defined benefit healthcare plan, (the Retiree Health Plan) in which the utility participates. The Plan provides healthcare coverage to eligible retired municipal employees and their spouses, which covers both active and retired members. 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 Retiree Health Plan does not issue a publicly available financial report.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the municipality and the union. The Plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for teamsters who contribute the difference between the rate paid by the municipality and current year rate. As the eligibility requirements for different classes of employees vary, please see the City of Madison audit report for complete details of all benefits offered.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

	<u>Municipality</u>	<u>Water Utility</u>
Annual required contribution	\$ 5,255,087	\$ 94,792
Contributions made	<u>(2,113,303)</u>	<u>(43,536)</u>
Net OPEB Obligation – End of Year	<u>\$ 3,141,784</u>	<u>\$ 51,256</u>

The municipality's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 were as follows:

	<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Municipality	2007	\$ 5,255,087	40%	\$ 3,141,784
Water Utility	2007	94,792	46%	51,256

The funded status of the plan as of December 31, 2007, the most recent actuarial valuation date, was as follows (overall municipality):

Actuarial accrued liability (AAL)	\$ 46,367,443
Actuarial value of plan assets	<u>(3,032,738)</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 43,334,705</u>
Funded ratio (actuarial value of plan assets/AAL)	6.5%
Covered payroll (active plan members)	\$135,001,349
UAAL as a percentage of covered payroll	32.1%

MADISON WATER UTILITY**NOTES TO FINANCIAL STATEMENTS**
December 31, 2007 and 2006

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7.5% investment rate of return and an annual healthcare cost trend rate of 11.03% initially, reduced by decrements to an ultimate rate of 4.5% after nine years. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, was 29 years.

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, 2007 has been accrued in these financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 12 – SUBSEQUENT EVENTS

RATE INCREASE

The utility filed an application on April 14, 2008 with the Public Service Commission of Wisconsin to increase water rates.

BURKE UTILITY DISTRICT

In April of 2007 the utility began providing operation services to the Burke Utility District. In October of 2007 the utility and the Town of Burke filed a joint application with the Public Service Commission of Wisconsin (PSCW) for Burke to sell its water utility facilities and transfer its municipal water utility service obligations to the Madison Water Utility. The PSCW approved the sale effective January 1, 2008.

NOTE 13 – WELL NO. 29

During 2007 the service utility of Well No. 29 became impaired as a result of increased levels of manganese in the groundwater. At this time management is in the process of contracting for improvements to the well, specifically a filter system, which will allow it to perform at full capacity again. As such the impairment is considered temporary and no adjustment to the asset value has been recorded.

NOTE 14 – BOND COVENANT DISCLOSURES

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is in compliance with bond funding requirements.

NUMBER OF CUSTOMERS

At December 31, 2007 and 2006, the utility served the following number of customers:

	<u>2007</u>	<u>2006</u>
Residential	55,500	54,831
Commercial	8,718	8,634
Industrial	54	57
Public authority	<u>492</u>	<u>489</u>
Totals	<u><u>64,764</u></u>	<u><u>64,011</u></u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

NOTE 14 – BOND COVENANT DISCLOSURES (cont.)

WATER PUMPED AND BILLED

During 2007 and 2006, the following amounts of water were pumped and billed:

	(000 gallons)	
	2007	2006
Water pumped	<u>11,392,166</u>	<u>11,283,778</u>
Water billed	<u>10,169,930</u>	<u>10,500,035</u>

RISK MANAGEMENT

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 14 – BOND CONVENANT DISCLOSURES (cont.)

SCHEDULE OF INSURANCE IN FORCE					Liability Limits
Type of Coverage and Name of Company	Policy Period From	To	Details of Coverage *		
Automobile Comprehensive Local Government Property Insurance Fund	140337 01/01/07 to 01/01/08		\$ 2,444,563 \$ 3,000 deductible	Replacement	
Automobile Liability per occurrence Wisconsin Municipal Mutual Insurance Company	WI2006CS03A 01/01/07 to 01/01/08		Automobile liability	\$ 5,000,000 \$ 300,000 Self-Insured Retention	
Boiler and Machinery CHUBB	7834-76-48 01/01/07 to 01/01/08		Repair and Replace Boiler and Machinery	\$ 12,500,000 \$ 25,000 deductible	
Blanket Bond Fidelity and Deposit	CCP0060387		Blanket Bond	\$ 250,000 limit	
Fire and Extended Local Government Property Insurance Fund	140337 01/01/07 to 01/01/08		\$ 37,642,316 \$ 5,000 deductible	Replacement	
General Liability per occurrence Wisconsin Municipal Mutual Insurance Company	WI2006S03A 01/01/07 to 01/01/08		General liability, personal injury liability and errors and omission liability	\$ 5,000,000 \$ 300,000 Self-Insured Retention	

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

SUPPLEMENTAL INFORMATION

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES December 31, 2007

Year	1999 MRB's			2001A MRB's			2001B MRB's			2002A MRB's			2003A MRB's		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 3,555,000	\$ 183,724	\$ 3,738,724	\$ 200,000	\$ 179,385	\$ 379,385	\$ 210,000	\$ 4,200	\$ 214,200	\$ 185,000	\$ 176,273	\$ 361,273	\$ 785,000	\$ 807,537	\$ 1,592,537
2009	-	-	-	210,000	171,054	381,054	-	-	-	190,000	168,305	358,305	800,000	781,762	1,581,762
2010	-	-	-	220,000	162,102	382,102	-	-	-	200,000	160,017	360,017	825,000	752,294	1,577,294
2011	-	-	-	230,000	152,538	382,538	-	-	-	210,000	151,147	361,147	850,000	719,825	1,569,825
2012	-	-	-	240,000	142,313	382,313	-	-	-	215,000	141,797	356,797	875,000	684,231	1,559,231
2013	-	-	-	255,000	131,231	386,231	-	-	-	225,000	132,061	357,061	900,000	646,512	1,546,512
2014	-	-	-	265,000	119,269	384,269	-	-	-	235,000	121,709	356,709	950,000	606,012	1,556,012
2015	-	-	-	280,000	106,458	386,458	-	-	-	245,000	110,666	355,666	880,000	563,737	1,443,737
2016	-	-	-	295,000	92,728	387,728	-	-	-	260,000	98,731	358,731	1,000,000	517,837	1,517,837
2017	-	-	-	310,000	78,052	388,052	-	-	-	270,000	85,875	355,875	1,050,000	466,587	1,516,587
2018	-	-	-	325,000	62,413	387,413	-	-	-	285,000	72,135	357,135	1,085,000	413,213	1,498,213
2019	-	-	-	340,000	45,870	385,870	-	-	-	300,000	57,510	357,510	1,125,000	357,963	1,482,963
2020	-	-	-	360,000	28,280	388,280	-	-	-	315,000	42,135	357,135	1,175,000	300,463	1,475,463
2021	-	-	-	380,000	9,595	389,595	-	-	-	330,000	25,928	355,928	1,185,000	241,463	1,426,463
2022	-	-	-	-	-	-	-	-	-	345,000	8,798	353,798	1,285,000	178,107	1,463,107
2023	-	-	-	-	-	-	-	-	-	-	-	-	1,350,000	108,938	1,458,938
2024	-	-	-	-	-	-	-	-	-	-	-	-	1,400,000	36,750	1,436,750
2025	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ -	\$ -	\$ -	\$ 3,910,000	\$ 1,481,288	\$ 5,391,288	\$ 210,000	\$ 4,200	\$ 214,200	\$ 3,810,000	\$ 1,553,087	\$ 5,363,087	\$ 17,520,000	\$ 8,183,231	\$ 25,703,231

Year	2005A MRB's			2006A MRB's			2007A MRB's			2007B MRB's			TOTAL		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 445,000	\$ 88,194	\$ 533,194	\$ 540,000	\$ 644,769	\$ 1,184,769	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,920,000	\$ 2,084,082	\$ 8,004,082
2009	460,000	74,044	534,044	560,000	623,169	1,183,169	720,000	1,108,033	1,828,033	220,000	142,783	362,783	3,160,000	3,069,151	6,229,151
2010	485,000	58,688	543,688	580,000	600,769	1,180,769	835,000	994,000	1,829,000	280,000	123,000	403,000	3,425,000	2,850,870	6,275,870
2011	240,000	46,606	286,606	605,000	577,569	1,182,569	885,000	960,600	1,825,600	300,000	111,800	411,800	3,300,000	2,720,085	6,020,085
2012	265,000	37,603	302,603	625,000	553,369	1,178,369	895,000	926,000	1,821,000	315,000	99,800	414,800	3,430,000	2,585,113	6,015,113
2013	275,000	27,644	302,644	650,000	528,369	1,178,369	930,000	890,200	1,820,200	330,000	87,200	417,200	3,565,000	2,443,217	6,008,217
2014	285,000	17,144	302,144	680,000	502,369	1,182,369	965,000	853,000	1,818,000	340,000	74,000	414,000	3,720,000	2,293,503	6,013,503
2015	295,000	5,900	300,900	705,000	474,319	1,179,319	1,005,000	814,400	1,819,400	360,000	60,400	420,400	3,770,000	2,135,880	5,905,880
2016	-	-	-	735,000	445,238	1,180,238	1,045,000	774,200	1,819,200	370,000	46,000	416,000	3,705,000	1,974,734	5,679,734
2017	-	-	-	770,000	414,919	1,184,919	1,085,000	732,400	1,817,400	385,000	31,200	416,200	3,870,000	1,809,033	5,679,033
2018	-	-	-	805,000	383,156	1,188,156	1,130,000	689,000	1,819,000	395,000	15,800	410,800	4,025,000	1,635,717	5,660,717
2019	-	-	-	840,000	348,944	1,188,944	1,175,000	643,800	1,818,800	-	-	-	3,780,000	1,454,087	5,234,087
2020	-	-	-	875,000	313,244	1,188,244	1,230,000	595,331	1,825,331	-	-	-	3,955,000	1,279,453	5,234,453
2021	-	-	-	915,000	276,056	1,191,056	1,280,000	544,594	1,824,594	-	-	-	4,090,000	1,097,636	5,187,636
2022	-	-	-	955,000	236,025	1,191,025	1,340,000	490,194	1,830,194	-	-	-	3,925,000	913,124	4,838,124
2023	-	-	-	1,000,000	193,050	1,193,050	1,395,000	433,244	1,828,244	-	-	-	3,745,000	735,232	4,480,232
2024	-	-	-	1,045,000	148,050	1,193,050	1,460,000	372,213	1,832,213	-	-	-	3,905,000	557,013	4,462,013
2025	-	-	-	1,095,000	101,025	1,196,025	1,525,000	306,513	1,831,513	-	-	-	2,620,000	407,538	3,027,538
2026	-	-	-	1,150,000	51,750	1,201,750	1,595,000	235,981	1,830,981	-	-	-	2,745,000	287,731	3,032,731
2027	-	-	-	-	-	-	1,670,000	162,213	1,832,213	-	-	-	1,670,000	162,213	1,832,213
2028	-	-	-	-	-	-	1,745,000	82,888	1,827,888	-	-	-	1,745,000	82,888	1,827,888
Totals	\$ 2,750,000	\$ 355,823	\$ 3,105,823	\$ 15,130,000	\$ 7,416,159	\$ 22,546,159	\$ 23,890,000	\$ 12,608,802	\$ 36,498,802	\$ 3,295,000	\$ 791,983	\$ 4,086,983	\$ 74,070,000	\$ 32,578,297	\$ 106,648,297

15B-40

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Unmetered Sales	\$ 50,340	\$ 43,923
Metered Sales		
Residential	7,468,398	7,067,686
Commercial	5,740,246	5,419,810
Industrial	857,429	856,041
Public authorities	1,857,014	1,651,678
Sales for resale	225,946	251,118
Total Metered Sales	16,149,033	15,246,333
Private fire protection	266,144	253,115
Public fire protection	1,796,893	1,808,008
Total Sales of Water	18,262,410	17,351,379
Forfeited discounts	140,889	137,405
Miscellaneous	37,217	43,198
Other	143,138	141,096
Total Operating Revenues	18,583,654	17,673,078
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	21,750	16,101
Collecting and impounding reservoirs	79,758	43,569
Wells and springs	61,249	44,525
Total Source of Supply	162,757	104,195
Pumping		
Operation supervision and engineering	4,491	7,237
Power purchased for pumping	1,960,626	1,926,565
Pumping labor	302,720	295,729
Miscellaneous	297,901	280,314
Maintenance		
Supervision and engineering	63,349	50,556
Structures and improvements	85,901	94,042
Pumping equipment	329,904	283,010
Total Pumping	3,044,892	2,937,453
Water Treatment		
Operation supervision and engineering	24,865	15,248
Chemicals	178,729	157,312
Operation labor	293,509	535,747
Miscellaneous	74,482	79,856
Maintenance		
Supervision and engineering	22,118	11,515
Water treatment equipment	113,396	65,898
Total Water Treatment	707,099	865,576

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.) Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 119,963	\$ 97,334
Storage facilities	74,290	66,078
Transmission and distribution lines	487,719	576,808
Meter	93,983	123,134
Customer installation	99,735	86,328
Miscellaneous	647,235	576,172
Maintenance		
Reservoirs	5,462	8,161
Mains	1,967,137	1,294,285
Services	1,486,336	706,240
Meters	129,394	147,200
Hydrants	314,374	253,251
Total Transmission and Distribution	<u>5,425,628</u>	<u>3,934,991</u>
Customer Accounts		
Supervision	18,629	16,912
Meter reading	83,299	98,467
Customer records and collection	210,885	209,924
Total Customer Accounts	<u>312,813</u>	<u>325,303</u>
Administrative and General		
Salaries	723,595	696,473
Office supplies	330,647	313,171
Outside services employed	590,093	217,945
Property insurance	17,339	16,070
Injuries and damages	232,827	322,881
Employees pensions and benefits	1,354,594	1,268,250
Regulatory commission	6,806	-
Miscellaneous	119,837	138,762
Maintenance of general plant	6,748	5,382
Total Administrative and General	<u>3,382,486</u>	<u>2,978,934</u>
Total Operation and Maintenance	<u>13,035,675</u>	<u>11,146,452</u>
Depreciation	3,189,156	3,015,448
Taxes	69,130	121,445
Total Operating Expenses	<u>16,293,961</u>	<u>14,283,345</u>
 OPERATING INCOME	 <u>\$ 2,289,693</u>	 <u>\$ 3,389,733</u>