

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, 2011 and 2010

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

We have audited the accompanying statements of net assets of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. 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 do not purport to, and do not 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 as they apply to the enterprise funds of governmental entities.

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, 2011 and 2010, 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 they apply to enterprise funds of governmental entities.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, 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.

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

To the Water Utility Board
Madison Water Utility

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. 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 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tilly Vinchow Krause, LLP

Madison, Wisconsin
July 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

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 the Board of Water Commissioners. This Board of Water Commissioners arrangement continues today. The Madison Waterworks achieved department status in the early 1960's and, at that time, became the Madison Water Utility (utility) under a General Manager leadership.

The utility has always been a groundwater system in spite of being surrounded by lakes. The utility currently has 23 deep wells with a capacity of over 70 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.

2011 FINANCIAL HIGHLIGHTS

- > Operating revenues increased \$1.417 million or 5.31% from 2010. The higher revenues were due to a 9% rate increase effective May 3, 2011, that was prorated in beginning with the August 1, 2011 customer billing. As the number of customers increased 0.28%, water pumped increased 0.63%.
- > Operating income increased \$427,770 or 5.17% from the prior year. The increase was due to the increase in operating revenue and a lower percentage increase (4.7%) in operation, maintenance and taxes expense, offset by a higher percentage increase (7.65%) in depreciation charges.
- > Gain from property disposal decreased \$581,304 in 2011 - as the utility recognized \$48,080 gain on the disposal of vacant land - compared to 2010, when the utility recognized gains totaling \$629,384.
- > Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$405,884 or 9.86% to \$4,519,771 in 2011, from \$4,113,887 in 2010.
- > Cash and investments increased to \$4,421,853 in 2011, from \$174,248 in 2010. The utility made its 2011 PILOT payment to the municipality in 2012. The 2010 PILOT payment was made in 2010.

2010 FINANCIAL HIGHLIGHTS

- > Operating revenues increased \$4.734 million or 21.57% from 2009. The higher revenues were due to the rate increase effective December 29, 2009, that was prorated in beginning with the April 1, 2010 customer billing. While the number of customers increased 0.38%, water pumped was down 0.97%.
- > Operating expenses increased \$421,607 or 2.34% from the prior year. This increase was due to increased maintenance of mains, services and hydrants, offset by a decrease in maintenance of distribution reservoirs. In 2009, the reservoir tower at unit well #26 was painted.
- > The utility disposed of two properties in 2010, its former main office building and an elevated reservoir damaged by fire, with gain totaling \$629,384.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

RATES

The utility was granted a 9% rate increase effective May 3, 2011. The rate increase was prorated in beginning with the August 1, 2011 customer billing. The full rate increase was included on the January 1, 2012 bills. After this last rate increase, the utility is now ranked twenty-ninth for nonresidential rates and forty-seventh for residential rates out of 80 rates for utilities classified as AB (over 4,000 customers) in Wisconsin, and has the thirteenth lowest nonresidential rates in Dane County.

UTILITY FINANCIAL ANALYSIS

The Statement 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 as of December 31:

Table 1

Condensed Statements of Net Assets (000's)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 45,210	\$ 32,245	\$ 26,179
Capital Assets	<u>188,438</u>	<u>178,867</u>	<u>168,487</u>
Total Assets	<u>233,648</u>	<u>211,112</u>	<u>194,666</u>
Current Liabilities	12,252	7,860	11,978
Long-term Debt Outstanding	100,415	84,240	73,670
Long-term Liabilities	<u>9,111</u>	<u>9,892</u>	<u>2,874</u>
Total Liabilities	<u>121,778</u>	<u>101,992</u>	<u>88,522</u>
Invested in Capital Assets, Net of Related Debt	105,249	105,984	106,396
Restricted	4,261	3,535	1,895
Unrestricted	<u>2,360</u>	<u>(399)</u>	<u>(2,147)</u>
Total Net Assets	<u>\$ 111,870</u>	<u>\$ 109,120</u>	<u>\$ 106,144</u>

Total assets increased \$22.536 million and total liabilities increased \$19.786 million, resulting in net assets increasing \$2.75 million or 2.52% in 2011. In 2010, total assets increased \$16.446 million and total liabilities increased \$13.47 million, resulting in net assets increasing \$2.976 million or 2.8%.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	Year Ended December 31,		
	2011	2010	2009
Operating Revenues	\$ 27,620	\$ 26,217	\$ 21,558
Other Operating Revenues	480	466	391
Total Revenues	28,100	26,683	21,949
Operation & Maintenance Expense	14,861	14,194	14,049
Depreciation Expense	4,542	4,219	3,943
Nonoperating Expense	3,297	2,780	2,888
Total Expenses	22,700	21,193	20,880
Income before Capital Contributions and Transfers	5,400	5,490	1,069
Capital Contributions	1,722	1,279	3,070
Transfers	(4,372)	(3,793)	(3,577)
Change in Net Assets	2,750	2,976	562
Beginning Net Assets	109,120	106,144	105,582
Ending Net Assets	\$ 111,870	\$ 109,120	\$ 106,144

The utility's operating revenues increased \$1.417 million or 5.31% in 2011. This is attributed to the rate increase effective May 3, 2011, that was prorated in beginning with the August 1, 2011 customer billing and fully included on the January 1, 2012 bills.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses (000's)

	Year Ended December 31,		
	2011	2010	2009
OPERATING REVENUES			
Unmetered Sales	\$ 84	\$ 78	\$ 73
Metered Sales			
Residential	11,276	10,442	8,617
Commercial	8,728	8,361	6,987
Industrial	1,282	1,276	1,071
Public authority	2,722	2,547	2,134
Sales for resale	267	368	168
Total Metered Sales	24,275	22,994	18,977
Private Fire Protection	369	344	288
Public Fire Protection	2,892	2,801	2,220
Total Sales of Water	27,620	26,217	21,558
Customer Late Payment Penalties	279	240	196
Miscellaneous	20	21	26
Other	181	205	169
Total Operating Revenues	28,100	26,683	21,949
OPERATING EXPENSES			
Source of Supply	192	81	190
Pumping	3,478	3,329	3,215
Water Treatment	763	780	769
Transmission and Distribution	5,754	5,835	5,699
Customer Accounts	633	698	612
Administrative and General	3,705	3,371	3,374
Total Operation and Maintenance	14,525	14,094	13,859
Depreciation	4,542	4,219	3,943
Taxes	336	100	190
Total Operating Expenses	19,403	18,413	17,992
OPERATING INCOME	\$ 8,697	\$ 8,270	\$ 3,957

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

UTILITY FINANCIAL ANALYSIS (cont.)

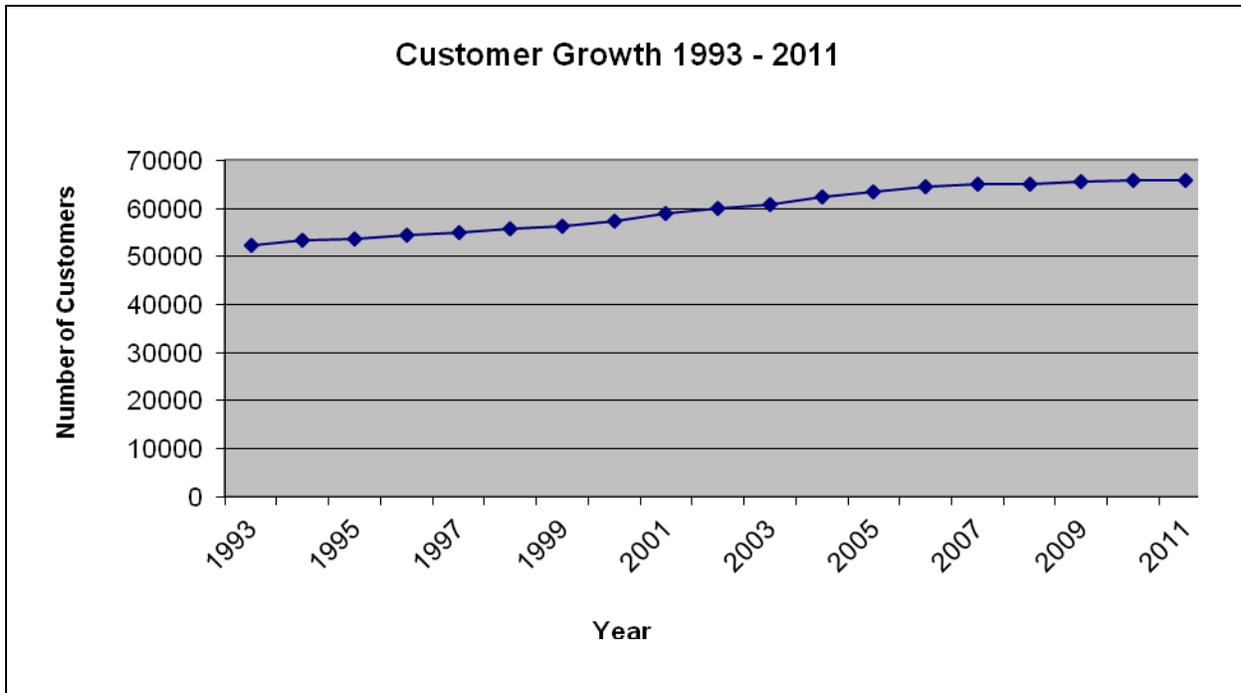
Revenues

Total operating revenues were \$28.1 million in 2011, compared with \$26.683 million in 2010, an increase of 5.31%. The higher revenues were due to the 9% rate increase effective May 3, 2011, that was prorated in beginning with the August 1, 2011 customer billing. While the utility added 183 new customers in 2011, it only pumped 0.63% more water – continuing a nonincrease trend since 2005.

Expenses

Operation and maintenance expenses totaled \$14.525 million in 2011, compared to \$14.094 million in 2010, an increase of \$431,000 or 3.06%. Major changes were noted in water pumping expense which increased \$148,000 due to the higher cost of electricity purchased for pumping, miscellaneous general expenses which increased \$114,000 for University of Wisconsin – Madison graduate student research from September 2008 through August 2011, on drinking water quality; employee pension and health insurance benefits expense which increased \$94,000 in 2011, and workers compensation insurance claims which increased \$80,000 due to a higher incidence of workers compensation injuries. Interest and amortization expense was \$3.853 million in 2011, compared to \$3.54 million in 2010, an increase of \$313,000 or 8.84% due to increased borrowing.

Chart 1



Customer growth slowed again in 2011, as the utility received 293 new applications for service. In years 2010, 2009 and 2008, the utility received 346, 403 and 524 new applications for service, respectively. The record number of new applications was 1,442 in 2002.

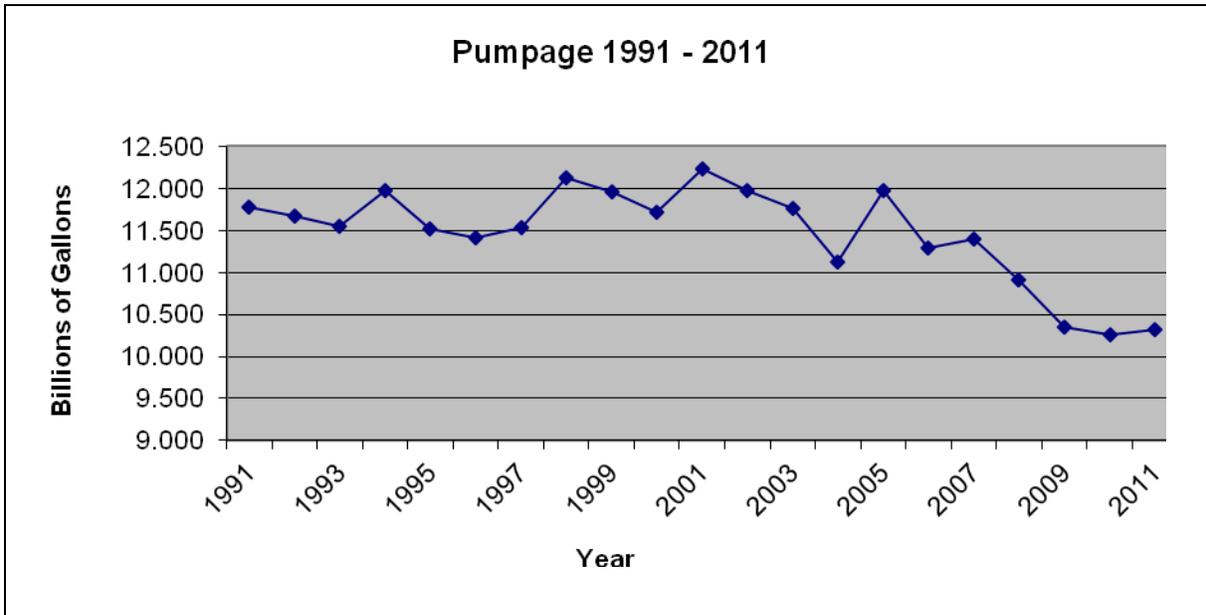
See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011 and 2010

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year increased only slightly (0.63%) from 10.255 billion gallons in 2010 to 10.320 billion gallons in 2011, due to the economy and an increase in water conservation efforts by customers.

CAPITAL EXPENDITURES

The utility added a net \$12,195,925 of plant in 2011. Of this amount, \$1,722,086 was contributed by developers, contractors, through a federal grant and by special assessment. Through the end of 2011, the utility operated under a consent order from the Wisconsin Department of Natural Resources that required the utility to replace all of the lead services in its system. The utility stopped using lead as a service material back in 1928. At that time, it was estimated there were about 11,000 lead services in the system. Over time, many of these were replaced. In 2000, it was estimated that there were about 6,000 lead services remaining. The utility completed its replacement work in compliance with the consent order by the end of 2011.

Capital projects completed in 2011 and paid for by the utility include \$62,447 for the lead service replacement program; \$262,036 for the Arbor Hills Supplemental Fire Flow Supply; \$261,878 for the East Side Water Supply Project, and \$10.847 million for new and replacement water main projects.

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

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

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 all of its capital budget needs exclusively through the sale of revenue bonds. The utility borrowed \$19.37 million in December 2011, \$13.25 million in November 2010 and \$48.54 million in December 2009. \$10.9 million of the 2009 borrowing was used to fund 2009 and 2010 capital projects, while the other \$37.64 million refunded the outstanding 2001, 2002, 2003 and 2006 revenue bonds, and the 2005 refunding bond issue. The utility plans a sale of revenue bonds in 2012 to fund the balance of its 2012 capital budget and part of the 2013 capital budget. The utility has stepped up its borrowing patterns in the last eight years by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 42,000 students, versus the national economy. Consider the fact that, while customer growth has slowed, the utility added a net 12.8 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 the current and future rate increases 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 the last rate increase effective May 2011, the utility's rates remain below the median average rate of large utilities in the state.

The utility's largest customer, the University of Wisconsin – Madison, is nearing the end of fulfilling its growth plans requiring additional water from the utility. While rates are expected to increase over time, management expects utility rates will remain near the statewide median average.

In 2012, the utility began implementing an Advanced Metering Infrastructure called *Project H₂O*, to retrofit all existing water meters with a device that will allow the automated collection of meter readings via a fixed network system. This will allow customers to closely monitor and control their own water use and thereby conserve water, reducing system demands. The utility will be able to implement water conservation rates, monitor the system for leaks, evaluate and optimize system operation, and improve customer service. In addition, the utility plans to convert its semiannual metered accounts to monthly, which will help customers in budgeting for a lower monthly billing. The total cost of the project is planned at \$14 million. *Project H₂O* is expected to be fully operational in 2013.

UTILITY CONTACT INFORMATION

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

MADISON WATER UTILITY

STATEMENTS OF NET ASSETS As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 4,421,853	\$ 174,248
Restricted cash and investments	4,869,877	4,238,859
Customer accounts receivable	4,163,976	3,792,532
Accrued revenue	5,495,643	5,248,292
Receivable from other funds	-	237,010
Materials and supplies	951,616	712,307
Current portion of special assessments	118,509	102,172
Other current assets	<u>205,872</u>	<u>212,305</u>
Total Current Assets	<u>20,227,346</u>	<u>14,717,725</u>
NONCURRENT ASSETS		
Restricted cash and investments	20,483,065	13,375,387
Other Assets		
Special assessments receivable	2,380,927	2,260,137
Unamortized debt issuance costs	1,008,570	782,299
Preliminary survey and investigation	284,217	284,217
Property held for future use	660,653	659,573
Nonutility property (net of accumulated depreciation)	165,453	165,319
Capital Assets		
Plant in service	238,652,347	226,456,422
Accumulated depreciation	(54,036,991)	(49,710,898)
Construction work in progress	<u>3,822,677</u>	<u>2,121,900</u>
Total Noncurrent Assets	<u>213,420,918</u>	<u>196,394,356</u>
Total Assets	<u>233,648,264</u>	<u>211,112,081</u>

	<u>2011</u>	<u>2010</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,943,476	\$ 1,868,493
Other current liabilities	310,643	282,452
Payable to other funds	4,279,009	-
Accrued interest	10,224	9,270
Current portion of loan from municipality	765,000	1,360,000
Current portion of advance from municipality	57,717	55,106
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	3,195,000	2,680,000
Accrued interest	1,691,028	1,604,396
Total Current Liabilities	<u>12,252,097</u>	<u>7,859,717</u>
NONCURRENT LIABILITIES		
Revenue bonds	100,415,000	84,240,000
Unamortized debt premium	2,763,185	2,289,227
Unamortized loss on advance refunding	(2,774,576)	(3,068,569)
Accrued compensated absences	1,624,526	1,601,531
Other postemployment benefit obligation	299,782	235,281
Advance from municipality	1,715,031	1,767,707
Loan from municipality	5,355,000	6,885,000
Customer advances for construction	127,915	182,477
Total Noncurrent Liabilities	<u>109,525,863</u>	<u>94,132,654</u>
Total Liabilities	<u>121,777,960</u>	<u>101,992,371</u>
NET ASSETS		
Invested in capital assets, net of related debt	105,249,049	105,984,452
Restricted for debt service	4,260,859	3,534,463
Unrestricted (deficit)	2,360,396	(399,205)
TOTAL NET ASSETS	<u>\$ 111,870,304</u>	<u>\$ 109,119,710</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Sales of water	\$ 27,620,040	\$ 26,217,212
Other	480,243	465,675
Total Operating Revenues	28,100,283	26,682,887
OPERATING EXPENSES		
Operation and maintenance	14,861,349	14,194,328
Depreciation	4,541,620	4,219,015
Total Operating Expenses	19,402,969	18,413,343
Operating Income	8,697,314	8,269,544
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(2,504)	(9,776)
Investment income	263,986	125,825
Interest and amortization expense	(3,852,967)	(3,540,266)
Interest charged to construction	46,832	13,268
Gain from property disposal	48,080	629,384
Other	199,463	1,875
Total Nonoperating Revenues (Expenses)	(3,297,110)	(2,779,690)
Income before Capital Contributions and Transfers	5,400,204	5,489,854
CAPITAL CONTRIBUTIONS	1,722,086	1,279,071
TRANSFERS	148,075	321,000
TRANSFERS - TAX EQUIVALENT	(4,519,771)	(4,113,887)
Change in Net Assets	2,750,594	2,976,038
NET ASSETS - Beginning of Year	109,119,710	106,143,672
NET ASSETS - END OF YEAR	\$ 111,870,304	\$ 109,119,710

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 27,631,050	\$ 24,938,864
Paid to suppliers for goods and services	(9,002,497)	(7,959,744)
Paid to employees for services	(5,439,029)	(5,507,960)
Net Cash Flows from Operating Activities	13,189,524	11,471,160
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	-	(4,113,887)
Loan from municipality receipts (payments) - operating portion	(1,450,000)	1,220,000
Proceeds from (repayment of) advances from other funds	(50,065)	41,235
Interest paid on advances and loans from other funds	(115,798)	(230,106)
Transfers to other funds	(113,218)	(103,000)
Transfers - tower rental from special revenue fund	261,293	424,000
Net Cash Flows from Noncapital Financing Activities	(1,467,788)	(2,761,758)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(13,449,973)	(12,817,379)
Special assessments received	296,773	157,458
Contributions in aid of construction	135,623	111,269
Loan from municipality receipts (payments) - capital portion	(675,000)	(2,045,000)
Interest paid on loan from municipality - capital portion	(3,780)	(24,876)
Proceeds from debt issued	19,370,000	13,250,000
Premium on debt issued	684,316	-
Debt issuance costs	(306,525)	(195,192)
Build America Bond interest credit received	111,060	-
Debt retired	(2,680,000)	(1,115,000)
Interest paid	(3,481,915)	(2,249,028)
Net Cash Flows from Capital and Related Financing Activities	579	(4,927,748)
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(7,879,875)	(6,922,497)
Marketable securities sold	7,696,697	-
Investment income	263,986	125,825
Net Cash Flows from Investing Activities	80,808	(6,796,672)
Net Change in Cash and Cash Equivalents	11,803,123	(3,015,018)
CASH AND CASH EQUIVALENTS – Beginning of Year	10,865,997	13,881,015
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 22,669,120	\$ 10,865,997

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 8,697,314	\$ 8,269,544
Nonoperating income (loss)	85,899	(7,901)
Noncash items included in operating income		
Depreciation	4,541,620	4,219,015
Depreciation charged to other accounts	614,936	579,272
Changes in Assets and Liabilities		
Customer accounts receivable	(398,015)	(787,120)
Receivable from other funds	(180,159)	(261,004)
Materials and supplies	(239,309)	19,959
Accrued revenues	(247,351)	(916,536)
Other current assets	16,383	(9,329)
Accounts payable and other current liabilities	10,898	107,024
Payable to other funds	199,812	224,404
Other postemployment benefit obligation	64,501	66,839
Accrued compensated absences	22,995	(33,007)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 13,189,524	\$ 11,471,160
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 4,421,853	\$ 174,248
Restricted cash and investments - current	4,869,877	4,238,859
Restricted cash and investments - non-current	20,483,065	13,375,387
Total Cash and Investments	29,774,795	17,788,494
Less: Noncash equivalents	7,105,675	6,922,497
CASH AND CASH EQUIVALENTS	\$ 22,669,120	\$ 10,865,997
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 1,081,784	\$ 703,743
Capital additions assessed to customers	\$ 465,149	\$ 480,672
Capital contributions accrued or applied	\$ 39,530	\$ 65,231
Interest capitalized	\$ 46,832	\$ 13,268

See accompanying notes to financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

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 polices utilized by the utility are described below.

REPORTING ENTITY

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality portions of the Town of Madison and the Town of Burke, 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 an eight member Water Utility Board comprised of two Madison Common Council members, 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.

The utility follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board guidance 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
As of and for the Years Ended December 31, 2011 and 2010

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

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

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

Restricted Assets

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

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

As of and for the Years Ended December 31, 2011 and 2010

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.

Other Current Assets

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

Preliminary Survey and Investigation

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

Property Held for Future Use

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

Nonutility Property

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

Capital Assets

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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.

Accrued Compensated Absences

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

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

Customer Advances for Construction

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

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, 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 provided with billings made to customers semi-annually utilizing six separate billing cycles. The utility accrues revenues beyond these billing dates.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

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

REVENUES AND EXPENSES (cont.)

Charges for Services (cont.)

Current rates were authorized by the PSCW in an order dated May 3, 2011, and are designed to earn a 6.90% return on rate base.

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.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2011	2010	
Checking and Savings	\$ 244,507	\$ 140,962	Custodial credit
Other Investment Pool	21,139,876	10,697,441	(A)
Money Market	1,277,712	20,569	Custodial credit
U.S. Agencies	7,105,675	6,922,497	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	7,025	7,025	None
Totals	\$ 29,774,795	\$ 17,788,494	

(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), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest bearing transaction accounts as of December 31, 2011. Coverage as of December 31, 2010 included \$250,000 for interest bearing accounts and unlimited amounts 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.

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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Deposits (cont.)

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:

	2011		2010	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
The Park Bank	\$ 213,803	\$ 244,507	\$ 264,572	\$ 140,962
US Bank, NA	1,277,712	1,277,712	20,569	20,569
Totals	\$ 1,491,515	\$ 1,522,219	\$ 285,141	\$ 161,531

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 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 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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2011, 86.91% of the U.S. Agency investments were rated AAA, and 13.09 % were not rated by Moody's Investors Service. All of the U.S. Agency investments were rated AA+ or AAA by S&P. As of December 31, 2010, the U.S. Agency investments were rated AAA by Moody's.

Concentration risk is the risk of loss attributable to the magnitude of a government's investments in a single issuer. As of December 31, 2011, the utility had 9% of its portfolio in Federal Home Loan Mortgage Corp. securities and 14% in Federal National Mortgage Association securities. As of December 31, 2010, the utility had 24% of its portfolio in Federal Home Loan Bank securities and 16% in Federal National Mortgage Association 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, 2011 and 2010

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2011 and 2010:

Due To	Due From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
Water	Municipality	\$ -		\$ 237,010	Items on tax roll and Sewer billing
Municipality	Water	\$ 4,279,009	Tax Equivalent less items on tax roll and Sewer billing	-	

The following is a schedule of transfer balances as of December 31, 2011 and 2010:

To	From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 4,519,771	Tax equivalent	\$ 4,113,887	Tax equivalent
Water	Municipality	261,294	Tower rental received by special revenue fund	424,000	Tower rental received by special revenue fund
Municipality	Water	113,219	Lead service replacement program	103,000	Lead service replacement program

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

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 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.

The following calculation supports the amount of restricted net assets:

	December 31,	
	2011	2010
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 4,869,877	\$ 4,238,859
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	8,383,387	6,943,066
Construction	11,199,678	5,532,321
Depreciation	750,000	750,000
Total Restricted Assets	25,352,942	17,614,246
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(8,201,377)	(6,943,066)
Construction fund	(11,199,678)	(5,532,321)
Current Liabilities Payable from Restricted Assets	(1,691,028)	(1,604,396)
Total Restricted Net Assets	\$ 4,260,859	\$ 3,534,463

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 follows:

	1/1/11 Balance	Increases	Decreases	12/31/11 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,071,474	\$ 182,637	\$ 144,538	\$ 2,109,573
Capital assets being depreciated				
Source of supply	9,744,045	-	-	9,744,045
Pumping	11,139,688	157,349	72,588	11,224,449
Water treatment	2,269,148	9,788	3,293	2,275,643
Transmission and distribution	168,134,415	9,890,338	560,348	177,464,405
General	17,846,439	573,429	289,278	18,130,590
Completed construction not classified	15,251,213	11,176,480	8,724,051	17,703,642
Total Capital Assets	224,384,948	21,807,384	9,649,558	236,542,774
Being Depreciated	224,384,948	21,807,384	9,649,558	236,542,774
Total Capital Assets	226,456,422	21,990,021	9,794,096	238,652,347
Less: Accumulated Depreciation				
Source of supply	(4,382,050)	(218,407)	-	(4,600,457)
Pumping	(5,846,160)	(424,253)	(74,556)	(6,195,857)
Water treatment	(156,177)	(86,805)	(3,293)	(239,689)
Transmission and distribution	(32,274,551)	(3,417,163)	(600,488)	(35,091,226)
General	(6,933,763)	(959,291)	(289,278)	(7,603,776)
Completed construction not classified	(118,197)	(255,399)	(67,610)	(305,986)
Total Accumulated Depreciation	(49,710,898)	(5,361,318)	(1,035,225)	(54,036,991)
Construction in progress	2,121,900	17,090,552	15,389,775	3,822,677
Net Capital Assets	\$ 178,867,424			\$ 188,438,033

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2010 follows:

	1/1/10 Balance	Increases	Decreases	12/31/10 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,071,034	\$ 440	\$ -	\$ 2,071,474
Capital assets being depreciated				
Source of supply	9,726,250	78,671	60,876	9,744,045
Pumping	10,822,429	386,313	69,054	11,139,688
Water treatment	2,145,502	131,313	7,667	2,269,148
Transmission and distribution	160,100,271	8,741,808	707,664	168,134,415
General	17,369,660	2,208,232	1,731,453	17,846,439
Completed construction not classified	-	15,251,213	-	15,251,213
Total Capital Assets				
Being Depreciated	<u>200,164,112</u>	<u>26,797,550</u>	<u>2,576,714</u>	<u>224,384,948</u>
Total Capital Assets	<u>202,235,146</u>	<u>26,797,990</u>	<u>2,576,714</u>	<u>226,456,422</u>
Less: Accumulated Depreciation				
Source of supply	(4,224,548)	(218,378)	(60,876)	(4,382,050)
Pumping	(5,502,465)	(417,076)	(73,381)	(5,846,160)
Water treatment	(91,343)	(72,501)	(7,667)	(156,177)
Transmission and distribution	(29,720,390)	(3,222,788)	(668,627)	(32,274,551)
General	(7,721,382)	(957,489)	(1,745,108)	(6,933,763)
Completed construction not classified	-	(118,197)	-	(118,197)
Total Accumulated Depreciation	<u>(47,260,128)</u>	<u>(5,006,429)</u>	<u>(2,555,659)</u>	<u>(49,710,898)</u>
Construction in progress	<u>13,511,345</u>	<u>17,002,648</u>	<u>28,392,093</u>	<u>2,121,900</u>
Net Capital Assets	<u>\$ 168,486,363</u>			<u>\$ 178,867,424</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/11 Amount Outstanding
12/01/07	Refunding debt and system improvements	1/01/28	4.00 - 4.75%	\$ 27,185,000	\$ 23,965,000
12/09/09	Refunding debt and system improvements	1/01/30	2.00 - 5.00%	48,540,000	47,025,000
11/10/10	System improvements	1/01/31	0.90 - 5.25%	13,250,000	13,250,000
12/22/11	System improvements	1/01/32	2.00 - 4.00%	19,370,000	19,370,000
Totals				<u>\$ 108,345,000</u>	<u>\$ 103,610,000</u>

Revenue bond debt service requirements to maturity follows:

<u>Bond Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,195,000	\$ 3,814,003	\$ 7,009,003
2013	3,975,000	4,015,835	7,990,835
2014	4,115,000	3,894,441	8,009,441
2015	4,230,000	3,756,259	7,986,259
2016	4,330,000	3,605,488	7,935,488
2017	4,815,000	3,436,918	8,251,918
2018	4,965,000	3,250,014	8,215,014
2019	5,040,000	3,056,641	8,096,641
2020	5,145,000	2,848,608	7,993,608
2021	5,330,000	2,618,632	7,948,632
2022	5,720,000	2,373,239	8,093,239
2023	5,970,000	2,115,333	8,085,333
2024	6,030,000	1,846,534	7,876,534
2025	6,150,000	1,585,676	7,735,676
2026	6,345,000	1,331,084	7,676,084
2027	6,110,000	1,072,034	7,182,034
2028	6,360,000	806,240	7,166,240
2029	6,870,000	523,926	7,393,926
2030	5,460,000	262,023	5,722,023
2031	2,130,000	99,350	2,229,350
2032	1,325,000	26,500	1,351,500
Totals	<u>\$ 103,610,000</u>	<u>\$ 46,338,778</u>	<u>\$ 149,948,778</u>

The 2010 bonds are Build America Bonds. See page 37 - 38 for the details of the anticipated federal interest credit.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

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 2011 and 2010 were \$6,474,273 and \$4,922,351, respectively. Total customer net revenues as defined for 2011 and 2010 were \$13,502,920 and \$12,291,900, respectively. Annual principal and interest payments are expected to require 53% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/11 Amount Outstanding
10/19/10	Payoff unfunded pension liability	10/01/24	3.41%	\$ 1,404,052	\$ 1,348,946
1/01/08	Advance from City, Burke Utility District #1	(A)	1.20%	393,762	423,802

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2012	\$ 57,717	\$ 40,897	\$ 98,614
2013	62,357	40,406	102,763
2014	68,158	39,783	107,941
2015	74,249	38,897	113,146
2016	81,499	37,598	119,097
2017	89,040	35,764	124,804
2018	97,451	33,538	130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,588	12,936	167,524
2024	168,800	6,752	175,552
Totals	<u>\$ 1,348,946</u>	<u>\$ 385,660</u>	<u>\$ 1,734,606</u>

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LOAN FROM MUNICIPALITY

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

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

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

Through May 31, 2012, the utility made payments of \$318,750. The utility anticipates making payments totaling \$765,000 in 2012. No formal schedule for repayment has been established.

The year-end balance is comprised of the following:

	December 31,	
	2011	2010
Operations	\$ 6,120,000	\$ 7,570,000
Capital	-	675,000
Totals	\$ 6,120,000	\$ 8,245,000

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2011, is as follows:

	1/1/11 Balance	Additions	Reductions	12/31/11 Balance	Due Within One Year
Revenue bonds	\$ 86,920,000	\$ 19,370,000	\$ 2,680,000	\$ 103,610,000	\$ 3,195,000
Compensated absences	1,601,531	258,505	235,510	1,624,526	-
Other postemployment benefit obligation	235,281	64,501	-	299,782	-
Customer advances for construction	182,477	28,300	82,862	127,915	-
Advance from municipality	1,822,813	5,042	55,107	1,772,748	57,717
Loan from municipality – operating	7,570,000	-	1,450,000	6,120,000	765,000
Loan from municipality – capital	675,000	-	675,000	-	-
Unamortized debt premium	2,289,227	684,317	210,359	2,763,185	-
Unamortized loss on advance refunding	(3,068,569)	-	(293,993)	(2,774,576)	-
Totals	\$ 98,227,760	\$ 20,410,665	\$ 5,094,845	\$ 113,543,580	\$ 4,017,717

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2010, is as follows:

	1/1/10 Balance	Additions	Reductions	12/31/10 Balance	Due Within One Year
Revenue bonds	\$ 74,785,000	\$ 13,250,000	\$ 1,115,000	\$ 86,920,000	\$ 2,680,000
Compensated absences	1,634,538	246,722	279,729	1,601,531	-
Other postemployment benefit obligation	168,442	66,839	-	235,281	-
Customer advances for construction	192,873	39,300	49,696	182,477	-
Advance from municipality	1,781,578	72,346	31,111	1,822,813	55,106
Loan from municipality – operating	6,350,000	1,220,000	-	7,570,000	685,000
Loan from municipality – capital	2,720,000	-	2,045,000	675,000	675,000
Unamortized debt premium	2,517,374	-	228,147	2,289,227	-
Unamortized loss on advance refunding	(3,390,182)	-	(321,613)	(3,068,569)	-
Totals	<u>\$ 86,759,623</u>	<u>\$ 14,895,207</u>	<u>\$ 3,427,070</u>	<u>\$ 98,227,760</u>	<u>\$ 4,095,106</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, 2011, \$1,150,000 of bonds outstanding are considered defeased.

In 2009, the utility defeased \$38,745,000 of the 2001, 2002, 2003, 2005 and 2006 bonds by placing the proceeds of the 2009 A and 2009 B bonds in a irrevocable trust to provide for all future debt service payments on the 2001, 2002, 2003, 2005 and 2006 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds are callable as follows: 2001 bonds on January 1, 2010; 2002 bonds on January 1, 2012; 2003 and 2005 bonds on January 1, 2013; 2006 bonds on January 1, 2016. At December 31, 2011, \$31,250,000 of the bonds outstanding are considered defeased.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 7 – 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 is 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 assets consisting 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:

	December 31,	
	2011	2010
Plant in Service	\$ 238,652,347	\$ 226,456,422
Accumulated Depreciation	(54,036,991)	(49,710,898)
Construction Work in Progress	3,822,677	2,121,900
Sub-totals	188,438,033	178,867,424
Less: Capital Related Debt		
Current portion of capital related long-term debt	3,195,000	2,680,000
Long-term portion of capital related long-term debt	100,415,000	84,240,000
Unamortized debt issuance costs	(1,008,570)	(782,299)
Unamortized debt premium	2,763,185	2,289,227
Unamortized loss on advance refunding	(2,774,576)	(3,068,569)
Sub-totals	102,590,039	85,358,359
Add: Borrowed Funds on Hand		
Reserve fund	8,201,377	6,943,066
Construction fund	11,199,678	5,532,321
	19,401,055	12,475,387
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 105,249,049	\$ 105,984,452

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 8 – 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 (1,200 hours for employees hired on or after July 1, 2011) are eligible to participate in the system. Covered employees in the general category were required by statute to contribute 6.2% of their salary to the plan in 2010, 6.5% of their salary through August 6, 2011 and 5.8% of their salary beginning August 7, 2011. Employers generally made these contributions to the plan on behalf of employees through August 6, 2011. Thereafter, employees are required to fund their contribution, subject to terms of employment contracts and which employee group they are a member of. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. Covered payroll listed below is substantially the same as total payroll.

	Year Ended December 31,		
	2011	2010	2009
Total Utility Payroll	<u>\$ 7,103,120</u>	<u>\$ 7,142,328</u>	<u>\$ 7,102,983</u>
Total Covered Employee Payroll	<u>\$ 6,495,766</u>	<u>\$ 6,515,000</u>	<u>\$ 6,496,000</u>
Total Required Contributions	<u>\$ 753,509</u>	<u>\$ 716,650</u>	<u>\$ 675,584</u>
Total Required Contributions (%)	<u>11.6%</u>	<u>11.0%</u>	<u>10.4%</u>

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

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The municipality administers a single-employer defined benefit healthcare plan, (the plan) in which the utility participates. The plan provides healthcare coverage to active and eligible retired municipal employees and their spouses. The plan is affiliated with the Wisconsin Public Employer's Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. Benefit provisions are established through collective bargaining agreements. The 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 AFSCME union members 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 audit report of the municipality for complete details of all benefits offered.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 9 – 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 ended December 31:

	Municipality		Water Utility	
	2011	2010	2011	2010
Annual required contribution	\$ 6,042,623	\$ 5,872,509	\$ 132,325	\$ 127,282
Contributions made	(2,706,755)	(2,565,125)	(67,824)	(60,443)
Net Change in OPEB obligation	3,335,868	3,307,384	64,501	66,839
Net OPEB Obligation – 1/1	11,787,496	8,480,112	235,281	168,442
Net OPEB Obligation – 12/31	<u>\$ 15,123,364</u>	<u>\$ 11,787,496</u>	<u>\$ 299,782</u>	<u>\$ 235,281</u>

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2010, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2011	\$ 6,042,623	40%	\$ 15,123,364
Municipality	2010	5,872,509	44%	11,787,496
Water Utility	2011	132,325	44%	299,782
Water Utility	2010	127,282	47%	235,281

The funded status of the plan (overall municipality) as of December 31, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 48,786,392
Actuarial value of plan assets	<u>1,479,283</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 47,307,109</u>
Funded ratio (actuarial value of plan assets/AAL)	3.0%
Covered payroll (active plan members)	\$ 157,095,230
UAAL as a percentage of covered payroll	30.1%

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 9 – 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 in the municipality's financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2012, reduced by decrements to an ultimate rate of 4.5% for 2019 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2011, was 30 years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

CLAIMS AND JUDGMENTS

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

OPEN CONTRACTS

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2011, has been accrued in these financial statements.

The utility has entered into a contract with Itron, Inc. and North Star Utilities Solutions for \$11,935,500 for the purchase, implementation and maintenance of an Advanced Metering Infrastructure (AMI) system. This project, named Project H2O, will take place during 2012 and 2013.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 11 – BOND COVENANT DISCLOSURES

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is in compliance with bond funding requirements.

NUMBER OF CUSTOMERS

At December 31, 2011 and 2010, the utility served the following number of customers:

	<u>2011</u>	<u>2010</u>
Residential	56,541	56,346
Commercial	8,867	8,873
Industrial	48	51
Public Authority	<u>487</u>	<u>490</u>
Totals	<u><u>65,943</u></u>	<u><u>65,760</u></u>

WATER PUMPED AND BILLED

During the years ended December 31, 2011 and 2010, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2011</u>	<u>2010</u>
Water pumped	<u>10,319,608</u>	<u>10,255,367</u>
Water billed	<u>9,147,751</u>	<u>9,425,919</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.

SUPPLEMENTAL INFORMATION

MADISON WATER UTILITY

City of Madison, Wisconsin

SCHEDULE OF INSURANCE IN FORCE

For the Year Ended December 31, 2011

<u>Type of Coverage and Name of Company</u>	<u>Policy Number Policy Period From To</u>	<u>Details of Coverage*</u>	<u>Liability Limits</u>
Automobile Comprehensive LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 01/01/11 to 01/01/12	\$113,808,714	Replacement Cost \$3,000 deductible
Automobile Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2011CS03A 01/01/11 to 01/01/12	Automobile liability	\$10,000,000 per occurrence \$300,000 Self-insured Retention
Boiler & Machinery CHUBB	7834-76-48 01/01/11 to 01/01/12	Repair & Replace Boiler & Machinery	\$50,000,000 \$25,000 deductible
Employee Theft FIDELITY & DEPOSIT	CCP 0060387 07 01/01/11 to 01/01/12	Blanket Bond	\$500,000 limit \$10,000 deductible
Fire & Extended Coverage on all structures LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 01/01/11 to 01/01/12	\$545,731,515	Replacement Cost \$25,000 deductible
General Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2011CS03A 01/01/11 TO 01/01/12	General liability, personal injury liability, and errors & omission liability	\$10,000,000 per occurrence \$300,000 Self-insured Retention

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

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES
For the Year Ended December 31, 2011

Year	2007A MRB's			2007B MRB's			2009A Refunding			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2012	\$ 895,000	\$ 908,100	\$ 1,803,100	\$ 315,000	\$ 93,500	\$ 408,500	\$ 955,000	\$ 1,504,181	\$ 2,459,181	
2013	930,000	871,600	1,801,600	330,000	80,600	410,600	885,000	1,476,581	2,361,581	
2014	965,000	833,700	1,798,700	340,000	67,200	407,200	920,000	1,449,506	2,369,506	
2015	1,005,000	794,300	1,799,300	360,000	53,200	413,200	930,000	1,417,106	2,347,106	
2016	1,045,000	753,300	1,798,300	370,000	38,600	408,600	1,215,000	1,374,206	2,589,206	
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406	
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406	
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238	
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570	
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820	
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320	
2023	1,395,000	402,728	1,797,728	-	-	-	2,955,000	723,695	3,678,695	
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320	
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820	
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420	
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320	
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,760	2,316,760	
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450	
2030	-	-	-	-	-	-	-	-	-	
Totals	\$ 21,470,000	\$ 9,083,170	\$ 30,553,170	\$ 2,495,000	\$ 364,500	\$ 2,859,500	\$ 35,185,000	\$ 16,376,125	\$ 51,561,125	
Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2012	\$ 285,000	\$ 35,263	\$ 320,263	\$ 245,000	\$ 441,514	\$ 686,514	\$ 500,000	\$ 492,265	\$ (172,293)	\$ 819,972
2013	295,000	27,275	322,275	260,000	433,938	693,938	560,000	486,935	(170,427)	876,508
2014	310,000	17,425	327,425	265,000	426,063	691,063	565,000	480,041	(168,014)	877,027
2015	320,000	6,000	326,000	280,000	416,488	696,488	570,000	471,383	(164,984)	876,399
2016	-	-	-	345,000	403,988	748,988	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	-	-	-	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	-	-	-	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	-	-	-	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	-	-	-	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 1,210,000	\$ 85,963	\$ 1,295,963	\$ 10,630,000	\$ 6,246,435	\$ 16,876,435	\$ 13,250,000	\$ 6,441,521	\$ (2,254,530)	\$ 17,436,991

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES

For the Year Ended December 31, 2011

Year	2011 Revenue Bonds			TOTAL			Total	Total w/o Federal Credit
	Principal	Interest	Total	Principal	Interest	Federal Credit		
2012	\$ -	\$ 339,180	\$ 339,180	\$ 3,195,000	\$ 3,814,003	\$ (172,293)	\$ 6,836,710	\$ 7,009,003
2013	715,000	638,906	1,353,906	3,975,000	4,015,835	(170,427)	7,820,408	7,990,835
2014	750,000	620,506	1,370,506	4,115,000	3,894,441	(168,014)	7,841,427	8,009,441
2015	765,000	597,782	1,362,782	4,230,000	3,756,259	(164,984)	7,821,275	7,986,259
2016	780,000	574,606	1,354,606	4,330,000	3,605,488	(161,276)	7,774,212	7,935,488
2017	795,000	547,006	1,342,006	4,815,000	3,436,918	(156,806)	8,095,112	8,251,918
2018	815,000	514,806	1,329,806	4,965,000	3,250,014	(151,590)	8,063,424	8,215,014
2019	840,000	485,906	1,325,906	5,040,000	3,056,641	(145,390)	7,951,251	8,096,641
2020	865,000	460,331	1,325,331	5,145,000	2,848,608	(138,151)	7,855,457	7,993,608
2021	890,000	429,556	1,319,556	5,330,000	2,618,632	(130,186)	7,818,446	7,948,632
2022	920,000	397,956	1,317,956	5,720,000	2,373,239	(121,526)	7,971,713	8,093,239
2023	950,000	369,906	1,319,906	5,970,000	2,115,333	(112,167)	7,973,166	8,085,333
2024	985,000	339,650	1,324,650	6,030,000	1,846,534	(102,087)	7,774,447	7,876,534
2025	1,020,000	308,344	1,328,344	6,150,000	1,585,676	(91,259)	7,644,417	7,735,676
2026	1,055,000	276,560	1,331,560	6,345,000	1,331,084	(79,618)	7,596,466	7,676,084
2027	1,090,000	242,363	1,332,363	6,110,000	1,072,034	(66,701)	7,115,333	7,182,034
2028	1,135,000	205,497	1,340,497	6,360,000	806,240	(52,690)	7,113,550	7,166,240
2029	1,175,000	165,781	1,340,781	6,870,000	523,926	(38,220)	7,355,706	7,393,926
2030	1,225,000	123,016	1,348,016	5,460,000	262,023	(23,290)	5,698,733	5,722,023
2031	1,275,000	76,906	1,351,906	2,130,000	99,350	(7,855)	2,221,495	2,229,350
2032	1,325,000	26,500	1,351,500	1,325,000	26,500	-	1,351,500	1,351,500
Totals	\$ 19,370,000	\$ 7,741,064	\$ 27,111,064	\$ 103,610,000	\$ 46,338,778	\$ (2,254,530)	\$ 147,694,248	\$ 149,948,778

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Unmetered Sales	\$ 84,361	\$ 77,953
Metered Sales		
Residential	11,276,176	10,441,951
Commercial	8,728,065	8,361,047
Industrial	1,281,860	1,276,284
Public authority	2,721,500	2,546,685
Sales for resale	<u>267,400</u>	<u>368,094</u>
Total Metered Sales	24,275,001	22,994,061
Private fire protection	368,866	343,682
Public fire protection	<u>2,891,812</u>	<u>2,801,516</u>
Total Sales of Water	27,620,040	26,217,212
Customer late payment penalties	279,237	240,083
Miscellaneous	19,753	20,374
Other	<u>181,253</u>	<u>205,218</u>
Total Operating Revenues	<u>28,100,283</u>	<u>26,682,887</u>
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	22,773	23,686
Collecting and impounding reservoirs	54,512	27,263
Wells and springs	<u>115,291</u>	<u>30,348</u>
Total Source of Supply	<u>192,576</u>	<u>81,297</u>
Pumping		
Operation supervision and engineering	69,863	77,558
Power purchased for pumping	2,216,402	2,070,665
Pumping labor	322,792	324,855
Miscellaneous	366,151	378,107
Maintenance		
Supervision and engineering	66,157	68,078
Structures and improvements	108,754	129,729
Pumping equipment	<u>327,475</u>	<u>280,465</u>
Total Pumping	<u>3,477,594</u>	<u>3,329,457</u>
Water Treatment		
Operation supervision and engineering	72,507	67,358
Chemicals	177,728	227,995
Operation labor	409,390	353,689
Miscellaneous	9,896	20,308
Maintenance		
Supervision and engineering	22,790	24,005
Water treatment equipment	<u>70,298</u>	<u>86,624</u>
Total Water Treatment	<u>762,609</u>	<u>779,979</u>

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 219,529	\$ 191,907
Storage facilities	81,690	82,582
Transmission and distribution lines	376,705	364,100
Meter	62,899	59,701
Customer installation	243,586	189,260
Miscellaneous	625,895	645,180
Maintenance		
Reservoirs	7,700	10,923
Mains	2,231,215	2,257,807
Services	1,403,056	1,496,831
Meters	158,781	107,550
Hydrants	343,002	429,051
Total Transmission and Distribution	5,754,058	5,834,892
Customer Accounts		
Supervision	19,284	19,053
Meter reading	80,675	94,315
Customer records and collection	226,178	224,079
Conservation	306,616	360,282
Total Customer Accounts	632,753	697,729
Administrative and General		
Salaries	629,832	633,656
Office supplies	426,525	391,474
Outside services employed	102,428	109,085
Property insurance	18,525	15,355
Injuries and damages	433,398	340,863
Employee pensions and benefits	1,895,868	1,801,514
Regulatory commission	10,292	15,064
Miscellaneous	183,649	59,333
Maintenance of general plant	4,893	4,383
Total Administrative and General	3,705,410	3,370,727
Total Operation and Maintenance	14,525,000	14,094,081
Depreciation	4,541,620	4,219,015
Taxes	336,349	100,247
Total Operating Expenses	19,402,969	18,413,343
OPERATING INCOME	\$ 8,697,314	\$ 8,269,544