

**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, 2022 and 2021

# MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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As of and for the Years Ended December 31, 2022 and 2021

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## Independent Auditors' Report

To the Water Utility Board of the  
Madison Water Utility

### Opinion

We have audited the financial statements of the Madison Water Utility (Utility), an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2022 and 2021, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Emphasis of Matters

As discussed in Note 1, the financial statements of the Utility of the City of Madison, Wisconsin, are intended to present the financial position, the changes in financial position, and cash flows of only the Utility. They do not purport to, and do not, present fairly the financial position of the City of Madison as of December 31, 2022, and 2021, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Utility adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

## **Required Supplementary Information**

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

## Supplementary Information

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

*Baker Tilly US, LLP*

Madison, Wisconsin  
June 26, 2023

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)***

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### GENERAL INFORMATION ABOUT MADISON WATER UTILITY

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Madison recognized the need for a central water supply early in its history. The common council of the City of Madison (municipality) directed its waterworks committee to establish the Madison Waterworks on September 5, 1881. Financing was obtained and contracts let in spring of 1882. Pumping commenced on December 7, 1882. Early management was vested in the common council through its committee, and on March 2, 1884, general management was transferred to a Board of Water Commissioners. The Madison Waterworks achieved department status in the early 1960s and, at that time, became the Madison Water Utility (Utility) under a General Manager leadership with a Water Utility Board that continues today.

The Utility has always been a groundwater system in spite of being surrounded by lakes. The Utility currently has 22 deep wells in service with a total capacity of 67.7 million gallons per day. In common with other Wisconsin water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the Utility in matters of rates, rules, and levels of service.

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### 2022 FINANCIAL HIGHLIGHTS

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

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### 2021 FINANCIAL HIGHLIGHTS

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- > Total operating revenues increased \$3.1 million or 7.1% from 2020 to 2021, and pumpage increased 2.0% for that same period.
  - > Income before capital contributions and transfers increased \$3.9 million or 28.8% from the prior year. The increase was due largely to an increase in rates effective July 2, 2020 along with a \$1.1 million decrease in Operating and Maintenance costs.
  - > Capital assets increased by \$6.8 million in 2021, which were primarily financed with the issuance of 2019 Bond Anticipation Notes (BANs). BANs in the amount of \$20 million were issued in 2019 to cover capital projects from 2019 through 2022.
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# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### RATES

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Current rates became effective July 2, 2020. The Utility filed an application to review rates with the Public Service Commission of Wisconsin on November 30, 2021. The rate order for the most recent case was issued on December 29, 2022 and the rates became effective March 1, 2023. The utility is currently ranked fourth for residential rates out of eighty utilities classified as AB (over 4,000 customers) in Wisconsin.

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### UTILITY FINANCIAL ANALYSIS

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

A summary of the Utility's Statements of Net Position is presented in Table 1 as of December 31:

**Table 1**  
**Condensed Statements of Net Position**  
(000's)

	2022	Restated 2021	2020
Current and Other Assets	\$ 73,102	\$ 73,236	\$ 65,068
Capital Assets	302,935	306,174	307,460
Total Assets	<u>376,037</u>	<u>379,410</u>	<u>372,528</u>
Deferred Outflows of Resources	<u>9,371</u>	<u>6,759</u>	<u>5,399</u>
Current Liabilities	18,131	17,577	15,709
Long-term Debt Outstanding	145,250	185,230	196,755
Long-term Liabilities	<u>37,004</u>	<u>17,470</u>	<u>17,828</u>
Total Liabilities	<u>200,385</u>	<u>220,277</u>	<u>230,292</u>
Deferred Inflows of Resources	<u>17,248</u>	<u>11,377</u>	<u>5,651</u>
Net Investment in Capital Assets	136,416	127,492	123,527
Restricted	19,332	19,900	16,084
Unrestricted	<u>12,027</u>	<u>7,123</u>	<u>2,373</u>
Total Net Position	<u>\$ 167,775</u>	<u>\$ 154,515</u>	<u>\$ 141,984</u>



# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

### UTILITY FINANCIAL ANALYSIS (cont.)

In 2022, total assets combined with deferred outflows of resources decreased \$761,000 and total liabilities with deferred inflows of resources decreased \$14.0 million, resulting in an increase in net position of \$13.3 million from 2021. The change was primarily due to a decrease in debt of \$19.9 million and an increase in net pension asset and pension related deferred outflows of \$3.5 million offset by an increase in deferred inflows of \$5.9 million due to the implementation of GASB 87 and a decrease in cash of \$4.2 million. In 2021, total assets combined with deferred outflows of resources increased \$8.2 million and total liabilities with deferred inflows of resources decreased \$4.3 million, resulting in an increase in net position of \$12.5 million from 2020. The change was primarily due to an increase of \$2.7 million in restricted and non-restricted cash, an increase of \$3.5 million lease receivables and \$1.1 million in right to use asset, a \$1.3 million decrease in net capital assets, an increase of \$2.9 million in net pension assets and deferred outflows of resources, a decrease of \$10.5 million of revenue bonds outstanding, and an increase of \$10.8 million of deferred inflows.

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

	2022	Restated 2021	2020
Operating Revenues	\$ 47,114	\$ 47,149	\$ 44,042
Non-operating Revenues	1,026	942	888
Total Revenues	48,140	48,091	44,930
Operation & Maintenance Expense	17,606	15,927	16,979
Depreciation Expense	8,463	8,377	8,203
Non-operating Expense	6,226	6,272	6,093
Total Expense	32,295	30,576	31,275
Income Before Capital Contributions and Transfers	15,845	17,515	13,655
Capital Contributions	4,117	2,440	2,873
Transfers, net	(6,702)	(7,424)	(7,095)
Change in Net Position	13,260	12,531	9,433
Beginning Net Position	154,515	141,984	132,551
Ending Net Position	\$ 167,775	\$ 154,515	\$ 141,984

See Independent Auditors' Report

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

### UTILITY FINANCIAL ANALYSIS (cont.)

The Utility's total revenues increased \$49,000 or .1% from 2021 to 2022 as a result of the implementation of GASB 87 in 2022. The Utility's total revenues increased \$3.1 million or 7.1% from 2020 to 2021 as a result of a July 2, 2020 rate increase and an increase of 2.0% in pumpage from 2020 to 2021.

**Table 3**  
**Operating Revenues and Expenses**  
**(000's)**

	2022	Restated 2021	2020
<b>OPERATING REVENUES</b>			
Unmetered Sales	\$ 414	\$ 375	\$ 367
Metered Sales			
Residential	20,466	21,555	20,007
Duplex	819	804	765
Multi-Family	9,356	9,126	8,639
Commercial	8,401	8,277	7,560
Industrial	992	1,071	920
Public authorities	6,124	5,357	5,286
Sales for resale	417	454	360
Total Metered Sales	46,575	46,644	43,537
Public fire protection	125	131	138
Total Sales of Water	47,114	47,150	44,042
Customer Late Payment Penalties	201	207	132
Miscellaneous	65	74	72
Rents from Water Property	375	276	289
Other	385	384	395
Total Operating Revenues	48,140	48,091	44,930
<b>OPERATING EXPENSES</b>			
Source of Supply	170	104	59
Pumping	4,202	3,951	3,975
Water Treatment	771	719	679
Transmission and Distribution	6,987	6,232	6,649
Customer Accounts	819	761	757
Administrative and General	4,028	3,570	4,266
Total Operation and Maintenance	16,977	15,337	16,385
Depreciation	8,462	8,377	8,203
Taxes	629	591	595
Total Operating Expenses	26,068	24,305	25,183
<b>OPERATING INCOME</b>	<b>\$ 22,072</b>	<b>\$ 23,786</b>	<b>\$ 19,747</b>

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### ***Revenues***

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

Total operating revenues for 2021 were \$48.1 million compared to \$44.9 million in 2020. New rates became effective July 2, 2020. Pumpage increased by 2.0% in 2021 over 2020. All classes experienced an increase in revenue in 2021.

#### ***Expenses***

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

Operation and maintenance expenses (including taxes) totaled \$15.9 million in 2021, compared to \$17.0 million in 2020, a decrease of \$1.0 million, or 6.2%. The decrease is primarily due to a decrease in conservation expenses, and a decrease in employee pensions and benefits expenses related to GASB 68. Depreciation expense increased \$175,000 or 2.1% to \$8.4 million in 2021 from \$8.2 million in 2020 as a result of an additional \$6.8 million in capital assets placed into service.

# MADISON WATER UTILITY

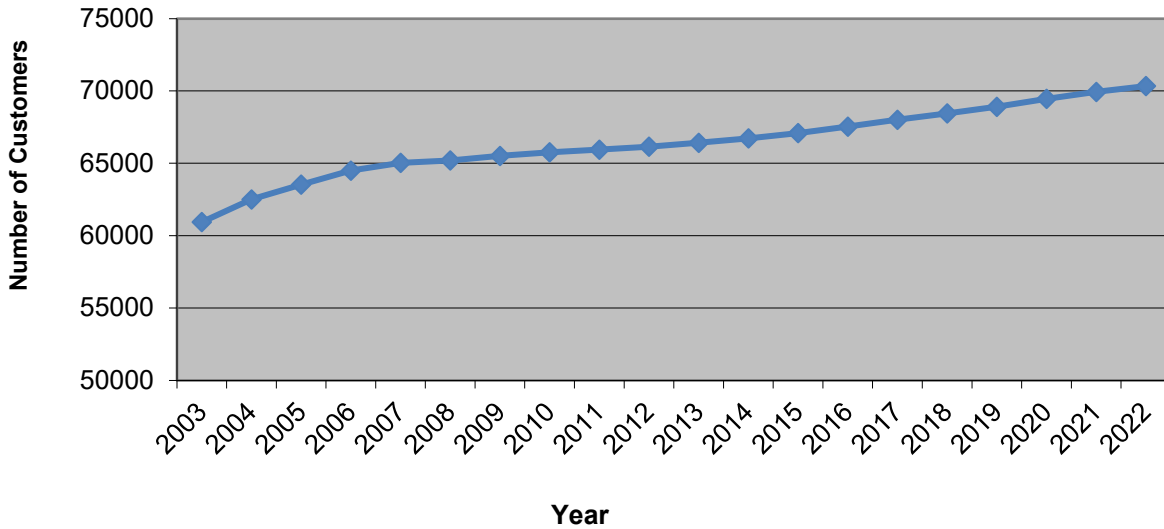
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2022 and 2021

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### Customer Growth 2003 - 2022



The Utility added 522 new customers in 2022 compared with 496, 627, and 606 new customers added in 2021, 2020 and 2019, respectively.

# MADISON WATER UTILITY

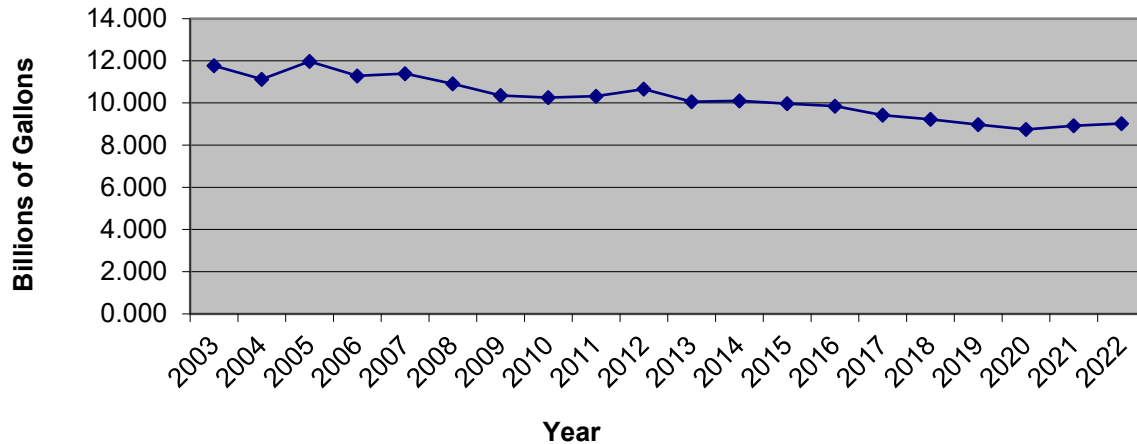
## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### Pumpage 2003 - 2022



Pumping for the year increased 1.1% from 8.921 billion gallons in 2021 to 9.021 billion gallons in 2022.

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### CAPITAL EXPENDITURES

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

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

The Utility added \$9.1 million of plant in 2021. Of this amount, approximately \$3.0 million was contributed by developers and contractors or received by special assessment.

Capital projects paid for by the Utility in 2021 included; \$4.3 million for new and replacement water mains, laterals, and hydrants, \$986,000 for pumping plant and telemetry equipment: motor control center (MCC) SCADA upgrades, programmable logic controllers (PLC), transformers, and variable frequency drives (VFDs), \$296,000 for transportation and power equipment, and \$291,000 for our meter program.

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### **CAPITAL BORROWING**

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The previous policy of the Utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the Utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The Utility borrowed \$20.3 million in general obligation bonds in 2022, \$66.7 million of revenue bonds in 2019, \$40.2 million of revenue bonds in 2018, \$38.4 million of revenue bonds in 2016, and \$41.6 million of revenue bonds in 2015. The 2022 borrowing was used to refund \$29.4 million of 2012 and 2013 revenue bonds. The 2019 borrowing included \$20 million of bond anticipation notes (BAN) to fund the remainder of the 2019 capital projects and all of 2020, 2021 and 2022 capital projects, \$33.7 million to refund 2009A and 2010 bonds and \$13.0 million to advance refund 2011 bonds.

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

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

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

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### **ECONOMIC FACTORS AND FUTURE BUDGET ISSUES**

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Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. While customer growth has slowed, the Utility added a net 18.7 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will ensure that the Utility is well prepared to handle these challenges. While rates are expected to increase over time, management works within the Water Utility Board Policy for affordability, O-2D, maintaining increases that do not exceed 9% annualized per year.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2022 and 2021

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### **ECONOMIC FACTORS AND FUTURE BUDGET ISSUES (cont.)**

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The Utility included a two year pilot Customer Assistance Program in the 2021 rate case filed on November 30, 2021. This program was approved by the PSC of Wisconsin on December 29, 2022 and became effective on March 1, 2023. The program is a city-wide program being offered to Madison Municipal Services customers making at or below 50% of the area median income for the Madison area calculated by the Department of Housing and Urban Development (HUD).

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

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### **UTILITY CONTACT INFORMATION**

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This financial report is designed to provide customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Madison Water Utility at 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4651 or e-mail at [water@madisonwater.org](mailto:water@madisonwater.org).

## **FINANCIAL STATEMENTS**



## MADISON WATER UTILITY

### STATEMENTS OF NET POSITION As of December 31, 2022 and 2021

	2022	Restated 2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 17,537,363	\$ 15,133,156
Restricted Assets		
Principal and interest account	13,164,827	14,917,677
Customer accounts receivable	3,736,177	2,708,793
Prepays	232,909	217,413
Materials and supplies	1,481,911	978,475
Due from municipality	939,323	1,043,988
Current portion of special assessments	211,624	66,095
Current portion of lease receivable	221,495	178,104
Other current assets, net	211,515	308,923
Total Current Assets	37,737,144	35,552,624
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Reserve account	12,631,436	15,738,047
Depreciation account	750,000	750,000
Assessment account	1,504,541	1,351,770
Construction account	6,420,832	8,343,939
Net pension asset	4,074,884	3,317,731
Other Assets		
Special assessments receivable (net of current portion)	3,082,424	2,282,480
Preliminary survey and investigation	477,248	477,248
Property held for future use	112,429	112,429
Nonutility property (net of accumulated depreciation)	943,558	971,196
Lease receivable (net of current portion)	4,376,743	3,281,293
Other contractual asset (net)	990,685	1,057,314
Capital Assets		
Plant in service	421,976,748	418,217,660
Accumulated depreciation	(120,994,790)	(112,280,351)
Construction work in progress	1,953,288	236,689
Total Noncurrent Assets	338,300,026	343,857,446
 Total Assets	 376,037,170	 379,410,069
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunding	499,009	577,128
Deferred outflows related to pension	8,532,851	5,781,876
Deferred outflows related to OPEB	339,233	399,922
Total Deferred Outflows of Resources	9,371,093	6,758,926

	2022	Restated 2021
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,242,967	\$ 1,059,030
Other current liabilities	1,832,655	1,363,242
Current portion of GO debt	1,690,000	-
Current portion of advance from municipality	153,138	142,101
Current portion of contract liability	47,511	44,891
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	10,575,000	11,525,000
Accrued interest	2,589,827	3,443,057
Total Current Liabilities	<u>18,131,098</u>	<u>17,577,321</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds	145,250,000	185,230,000
Unamortized debt premium	10,793,478	11,041,320
Accrued sick leave	2,044,005	1,941,933
Total OPEB liability	2,532,950	3,015,304
GO debt	20,345,000	-
Advance from municipality	161,533	314,671
Contract liability (net of current portion)	978,719	1,026,230
Customer advances for construction	148,592	130,508
Total Noncurrent Liabilities	<u>182,254,277</u>	<u>202,699,966</u>
Total Liabilities	<u>200,385,375</u>	<u>220,277,287</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized gain on refunding	1,543,850	68,485
Deferred inflows related to OPEB's	956,365	360,354
Deferred inflows related to pension	10,190,964	7,433,203
Deferred inflows related to leases	4,557,179	3,515,166
Total Deferred Inflows of Resources	<u>17,248,358</u>	<u>11,377,208</u>
<b>NET POSITION</b>		
Net investment in capital assets	136,416,185	127,492,429
Restricted for:		
Debt service	13,003,010	14,480,498
Capital repairs and replacement	2,254,541	2,101,770
Pension	4,074,884	3,317,731
Unrestricted	12,025,910	7,122,072
<b>TOTAL NET POSITION</b>	<u>\$ 167,774,530</u>	<u>\$ 154,514,500</u>

## MADISON WATER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2022 and 2021

	2022	Restated 2021
<b>OPERATING REVENUES</b>		
Sales of water	\$ 47,113,949	\$ 47,149,392
Other	1,025,994	941,440
Total Operating Revenues	48,139,943	48,090,832
<b>OPERATING EXPENSES</b>		
Operation and maintenance	17,606,116	15,927,457
Depreciation	8,462,252	8,377,801
Total Operating Expenses	26,068,368	24,305,258
Operating Income	22,071,575	23,785,574
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Merchandising and jobbing	(62,804)	(55,011)
Bond issuance costs	(25,863)	-
Investment income	(289,082)	(3,432)
Interest and amortization expense	(5,848,579)	(6,195,414)
Other	-	(18,180)
Total Nonoperating Revenues (Expenses)	(6,226,328)	(6,272,037)
Income before Capital Contributions and Transfers	15,845,247	17,513,537
<b>CAPITAL CONTRIBUTIONS</b>	4,117,037	2,440,456
<b>TRANSFERS IN / (OUT)</b>	143,183	189,337
<b>TRANSFERS - TAX EQUIVALENT</b>	(6,849,831)	(7,625,394)
<b>CAPITALIZED TAX EQUIVALENT</b>	4,394	12,485
<b>Change in Net Position</b>	13,260,030	12,530,421
NET POSITION - Beginning of Year	154,514,500	141,984,079
<b>NET POSITION - END OF YEAR</b>	\$ 167,774,530	\$ 154,514,500

# MADISON WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2022 and 2021

	2022	Restated 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 48,408,513	\$ 48,736,076
Paid to suppliers for goods and services	(10,457,436)	(9,520,247)
Paid to employees for services	(7,871,038)	(7,142,523)
Net Cash Flows from Operating Activities	30,080,039	32,073,306
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers - paid to municipality for tax equivalent	(6,845,437)	(7,612,909)
Principal paid on operating loan	(975,000)	(950,000)
Interest paid on operating loan	(234,999)	(264,117)
Repayment of advances from other funds	(142,101)	(137,216)
Interest paid on advances and loans from other funds	(1,522)	(1,700)
Transfers from (to) other funds	143,183	189,337
Net Cash Flows from Noncapital Financing Activities	(8,055,876)	(8,776,605)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(3,504,354)	(5,375,478)
Special assessments received	307,605	345,940
Contributions in aid of construction (advances refunded)	32,216	99,685
Debt issued - refunded bonds	22,035,000	-
Premium on debt issued	2,320,506	-
Debt issuance costs	(25,863)	-
Net interest/amortization on leases	(9,383)	(48,513)
Debt retired	(39,955,000)	(8,555,000)
Interest paid	(7,095,395)	(7,013,388)
Net Cash Flows from Capital and Related Financing Activities	(25,894,668)	(20,546,754)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities purchased	-	(7,120,991)
Marketable securities sold	1,195,019	7,353,763
Investment income (loss)	(355,085)	(23,209)
Net Cash Flows from Investing Activities	839,934	209,563
<b>Net Change in Cash and Cash Equivalents</b>	(3,030,571)	2,959,510
CASH AND CASH EQUIVALENTS – Beginning of Year	42,110,974	39,151,464
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	\$ 39,080,403	\$ 42,110,974

	2022	Restated 2021
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 22,071,575	\$ 23,785,574
Nonoperating income	(62,804)	(73,191)
Noncash items included in operating income		
Depreciation	8,462,252	8,377,801
Depreciation charged to other accounts	1,067,745	1,075,308
Changes in Assets and Liabilities		
Customer accounts receivable	(1,027,384)	79,601
Receivable from other funds	104,666	34,097
Materials and supplies	(503,436)	(132,339)
Other current assets	81,012	13,784
Accounts payable and other current liabilities	360,362	(80,501)
Other postemployment benefit deferrals and liabilities	174,346	116,916
Pension related deferrals and liabilities	(750,367)	(838,231)
Accrued compensated absences	102,072	(285,513)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 30,080,039</u></b>	<b><u>\$ 32,073,306</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 17,537,363	\$ 15,133,156
Redemption account	13,164,827	14,917,677
Reserve account	12,631,436	15,738,047
Depreciation account	750,000	750,000
Assessment account	1,504,541	1,351,770
Construction account	6,420,832	8,343,939
Total Cash and Investments	52,008,999	56,234,589
Less: Noncash equivalents	(12,928,596)	(14,123,615)
<b>CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 39,080,403</u></b>	<b><u>\$ 42,110,974</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Municipality, customer and developer financed additions to utility plant	<u>\$ 4,102,906</u>	<u>\$ 2,405,019</u>
Capital additions assessed to customers	<u>\$ (1,319,173)</u>	<u>\$ 214,253</u>
Adjustments to special assessments	<u>\$ 66,094</u>	<u>\$ 370,869</u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

#### ***REPORTING ENTITY***

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality, portions of the Town of Burke, wholesale water service to the Villages of Maple Bluff and Shorewood Hills, and portions of Fitchburg Water Utility.

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

The utility is managed by an eight member Water Utility Board comprised of two Madison Common Council members (each serving a two year term), five citizen members, and the Director, Public Health Madison and Dane County (ex-officio), each serving a five year term.

#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION***

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

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

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the utility's leasing activities. The utility adopted this statement effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented.

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, 2022 and 2021

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

---

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

##### ***Deposits and Investments***

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

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

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

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 2. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year-end.

##### ***Restricted Assets***

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

---

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

##### ***Receivables/Payables***

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

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

##### ***Prepaid Expenses***

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

##### ***Materials and Supplies***

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

##### ***Other Current Assets***

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

The utility adopted the city's collection policy in 2019. All receivables greater than 90 days are evaluated and written off if deemed uncollectable. The allowance balance was \$-0- in 2022 and 2021.

##### ***Pensions***

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

##### ***Special Assessments Receivable***

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



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

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

##### ***Preliminary Survey and Investigation***

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

##### ***Property Held for Future Use***

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

##### ***Nonutility Property***

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

##### ***Capital Assets***

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

Capital assets of the utility are recorded at cost or estimated acquisition cost at the time of contribution to the utility. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Plant in Service	
Source of supply	22–58
Pumping	23–31
Water treatment	17–31
Transmission and distribution	18–77
General	4–34

##### ***Deferred Outflows of Resources***

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

##### ***Other Current Liabilities***

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

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

##### ***Accrued Sick Leave and Vacation Leave***

Utility employees with a sick leave value greater than \$2,000 are allowed to convert, at retirement, their accumulated days to a sick leave escrow account maintained in the municipality's trust and agency fund. Utility employees that have a sick leave value equal to or less than \$2,000, at retirement, will receive the value of their sick leave on their last paycheck. No payment is made if the employee resigns or is terminated. The balance on the financial statements is based on the probability employees will be employed by the utility at the time of retirement. The liability is liquidated from general operating revenues of the utility.

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

Employees received 40 hours of emergency paid leave in 2022 to be used for Covid-19 related time off. An unused balance was allowed to be carried over into the next year to be used by December 9, 2023. All unused time was shown as a liability as of December 31, 2022. There was no emergency paid leave accrual for 2021.

##### ***Customer Advances for Construction***

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

##### ***Long-Term Obligations***

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year-end for premiums and discounts is shown as an increase or decrease in the liability section of the statements of net position. The balance at year-end for the loss on refunding is shown as a deferred outflow in the statements of net position and gains on refunding are presented as a deferred inflow of resources.

##### ***Leases***

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

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

##### ***Measurement of Lease Amounts (Lessor)***

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

##### ***Key Estimates and Judgments***

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

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

##### ***Remeasurement of Lease***

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

##### ***Contractual Right to Use Asset and Contractual Liability***

The utility has entered into an agreement with Dane County providing the utility with a perpetual easement for land in exchange for one half of the revenue from the cellular towers placed on the land. The amounts known based on existing leases of space has been recognized as a contractual right to use asset and contractual liability. This does not qualify as a lease under GASB No. 87.

##### ***Total OPEB Liability***

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

##### ***Deferred Inflows of Resources***

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

#### **REVENUES AND EXPENSES**

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

#### **Charges for Services**

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

#### **Capital Contributions**

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

#### **Transfers – Tax Equivalent**

The utility records an annual payment in lieu of taxes (PILOT) expense based on the value of its capital assets times the current assessment ratio and local and school portions of the mill rate.

#### **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

GASB issued Statement No. 87, Leases in June 2017 and it is effective for periods ending December 31, 2022. The utility adopted the provisions of Statement No. 87 for year ending December 31, 2022. In conjunction with recording the lease receivables the utility recognized an inter-related contractual right to use asset. As a result of adoption, the cumulative effect of applying this Statement is recorded as beginning balances for the following accounts as of January 1, 2022:

<b>Account</b>	<b>1/1/2021 Beginning Balance</b>	<b>2021 Activity</b>	<b>12/31/2021 Ending Balance</b>
Current portion of lease receivable	\$ -	\$ 178,104	\$ 178,104
Lease receivable (net of current portion)	3,104,183	177,110	3,281,293
Other contractual asset (net)	1,123,944	(66,630)	1,057,314
Deferred inflows related to leases	(3,104,183)	(410,983)	(3,515,166)
Current portion of contract liability	(52,823)	7,932	(44,891)
Contract liability (net of current portion)	(1,071,121)	44,891	(1,026,230)
Revenues	-	(7,124)	(7,124)
Expenses	-	76,700	76,700
Increase (Decrease) to Net Position	<u>\$ -</u>	<u>\$ 69,576</u>	<u>\$ 69,576</u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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

#### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS (cont.)***

GASB has approved Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96, *Subscription-Based Information Technology Arrangements*, Statement No. 99, *Omnibus 2022*, Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*, and Statement No. 101, *Compensated Absences*. When they become effective, application of these standards may restate portions of these financial statements.

#### ***COMPARATIVE DATA***

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

### NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2022	2021	
Other Investment Pool	\$ 38,017,488	\$ 38,918,115	(A)
Money Market Mutual Funds	1,041,815	3,171,759	Custodial credit, interest rate
U.S. Agencies – implicitly guaranteed	12,703,290	13,767,060	Custodial credit, credit, concentration and interest rate risks
State and Local Bonds	225,306	356,555	Custodial credit, credit, concentration and interest rate risks
Working Funds – Petty Cash	21,100	21,100	None
Totals	\$ 52,008,999	\$ 56,234,589	

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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#### *FAIR VALUE*

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

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

At December 31, 2022 and 2021, the utility had investments in US Agency and State and Local Bond Securities of \$12,928,596 and \$14,123,615, respectively. These investments were valued using Level 2 input. These inputs are derived from or corroborated by observable market data through correlation or by other means, e.g., "market-corroborated" inputs. Level 2 inputs include:

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

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

#### *CUSTODIAL CREDIT RISK*

##### *Deposits*

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

The utility maintains certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utility's resources at these institutions cannot be determined individually for those accounts. The following is a summary of the utility's total deposit balances at these institutions on December 31:

	2022		2021	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	<u>\$ 1,041,815</u>	<u>\$ 1,041,815</u>	<u>\$ 3,171,759</u>	<u>\$ 3,171,759</u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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#### *CUSTODIAL CREDIT RISK* (cont.)

##### *Deposits* (cont.)

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

##### *Investments*

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

The utility's investments included \$12,928,596 and \$14,123,615 of U.S. Agencies and State and Local Bond securities which were exposed to custodial credit risk as of December 31, 2022 and 2021, respectively, because the investments were neither insured nor registered and are held by counterparty.

The municipality's investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits to be secured by some form of collateral. The municipality will accept for collateral any of the following assets: obligations of the United States government or an agency or instrumentality of the United States government; obligations of the State of Wisconsin; investment grade obligations of Wisconsin local jurisdictions; obligations of the City of Madison. The fair market value of all collateral pledged will be not less than 110% of the amount of public funds to be secured at each institution. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly and additional collateral will be requested when this ratio declines below the level required. Pledged collateral will be held in safekeeping by a third party. All collateral agreements will be written so as to preclude release of the assets without an authorized signature from the municipality. The municipality will allow for even exchange of collateral.

#### *INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK*

Interest rate risk is the risk changes in interest rates will adversely affect the fair market value of an investment. All U.S. Agency, State and Local Bond securities and Money Market Mutual Funds mature within six years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2022 and 2021, all of the U.S. Agency investments were rated Aaa by Moody's Investors Service. All of the State and Local Bond investments were rated Aaa or Aa1 by Moody's Investors Service or AA+ by S&P.

Concentration risk is the risk of loss attributable to the magnitude of a government's investments in a single issuer. As of December 31, 2022, the utility had 19% of its portfolio in Federal Farm Credit Bank system securities, 10% of its portfolio in Federal Home Loan Bank system securities and 8% of its portfolio in Federal National Mortgage Association ("Fannie Mae") system securities. As of December 31, 2021, the utility had 17% of its portfolio in Federal Farm Credit Bank system securities, 10% of its portfolio in Federal Home Loan Bank system securities and 7% of its portfolio in Federal National Mortgage Association ("Fannie Mae") system securities.

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

#### *INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK (cont.)*

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.

### NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2022 and 2021:

Due To	Due From	2022		2021	
		Amount	Principal Purpose	Amount	Principal Purpose
Water	Municipality	\$ 939,323	Delinquent water bills and special assessments on tax roll	\$ 1,043,988	Delinquent water bills and special assessments on tax roll

The following is a schedule of transfer balances as of December 31, 2022 and 2021:

To	From	2022		2021	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 6,849,831	Tax equivalent	\$ 7,625,394	Tax equivalent
Water	Sewer	143,183	Operating expenses	189,337	Operating expenses



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 4 – RESTRICTED ASSETS

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#### *RESTRICTED ACCOUNTS*

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

- |                        |  |
|------------------------|--|
| Principal and interest | – Used solely for the purpose of paying principal and interest on the bonds or parity bonds.   |
| Reserve                | – Used solely for the purpose of paying principal and interest on the bonds or parity bonds whenever the balance in the principal and interest account is insufficient for that purpose.   |
| Assessment fund        | – Used for the purpose of paying construction costs for projects special assessed to customers.  |
| Depreciation           | – Used for the payment of principal and interest on the bonds and parity bonds whenever the balance in the principal and interest account is insufficient for that purpose, to remedy any deficiency in the principal and interest account, or to make extraordinary repairs or improvements to the utility. |
| Construction           | – Used to report bond proceeds restricted for use in construction.   |
| Pension                | – Used to report value of future benefits owed to employees for retirement benefits  |

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2022 and 2021

### NOTE 4 – RESTRICTED ASSETS (cont.)

#### *RESTRICTED ACCOUNTS* (cont.)

The following calculation supports the amount of restricted net position:

	December 31,	
	2022	2021
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 13,164,827	\$ 14,917,677
Noncurrent Restricted Assets		
Reserve – See Note (A)	12,631,436	15,738,047
Construction	6,420,832	8,343,939
Assessment fund	1,504,541	1,351,770
Depreciation	750,000	750,000
Net pension asset	4,074,884	3,317,731
Total Noncurrent Restricted Assets	25,381,693	29,501,487
Total Restricted Assets	38,546,520	44,419,164
Less: Restricted Assets not Funded by Revenues		
Reserve – See Note (A)	(10,203,426)	(12,732,169)
Construction	(6,420,832)	(8,343,939)
Current Liabilities Payable from Restricted Assets	(2,589,827)	(3,443,057)
Total Restricted Net Position	\$ 19,332,435	\$ 19,899,999
The purpose of the restricted net position is as follows:		
Debt service	\$ 13,003,010	\$ 14,480,498
Capital repairs and replacement	2,254,541	2,101,770
Pension	4,074,884	3,317,731
Total	\$ 19,332,435	\$ 19,899,999

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2022 and 2021

### **NOTE 5 – CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for 2022 follows:

	1/1/22 Balance	Increases	Decreases	12/31/22 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 3,119,262	\$ 25,476	\$	\$ 3,144,738
Capital assets being depreciated				
Source of supply	13,291,705	-	29,540	13,262,165
Pumping	25,191,446	437,657	278,019	25,351,084
Water treatment	5,784,808	35,685	28,383	5,792,110
Transmission and distribution	330,834,246	3,887,070	334,218	334,387,098
General	39,996,193	202,469	159,109	40,039,553
Total Capital Assets				
Being Depreciated	415,098,398	4,562,881	829,269	418,832,010
Total Capital Assets	418,217,660	4,588,357	829,269	421,976,748
Less: Accumulated Depreciation				
Source of supply	(6,897,501)	(311,634)	28,252	(7,180,883)
Pumping	(11,015,832)	(958,565)	293,542	(11,680,855)
Water treatment	(1,601,403)	(209,850)	28,669	(1,782,584)
Transmission and distribution	(76,913,855)	(6,414,760)	349,407	(82,979,208)
General	(15,851,760)	(1,679,160)	159,660	(17,371,260)
Total Accumulated Depreciation	(112,280,351)	(9,573,969)	859,530	(120,994,790)
Construction in progress	236,689	3,466,318	1,749,719	1,953,288
Net Capital Assets	\$ 306,173,998			\$ 302,935,246

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2021 follows:

	1/1/21 Balance	Increases	Decreases	12/31/21 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 3,121,529	\$ 15,860	\$ 18,127	\$ 3,119,262
Capital assets being depreciated				
Source of supply	13,175,427	140,094	23,816	13,291,705
Pumping	24,948,752	715,432	472,738	25,191,446
Water treatment	5,814,958	155,107	185,257	5,784,808
Transmission and distribution	324,303,824	7,458,102	927,680	330,834,246
General	40,069,335	720,995	794,137	39,996,193
Total Capital Assets Being Depreciated	408,312,296	9,189,730	2,403,628	415,098,398
Total Capital Assets	411,433,825	9,205,590	2,421,755	418,217,660
Less: Accumulated Depreciation				
Source of supply	(6,628,528)	(310,199)	41,226	(6,897,501)
Pumping	(10,588,187)	(939,908)	512,263	(11,015,832)
Water treatment	(1,421,016)	(297,538)	117,151	(1,601,403)
Transmission and distribution	(71,213,197)	(6,289,099)	588,441	(76,913,855)
General	(14,840,519)	(1,748,649)	737,408	(15,851,760)
Total Accumulated Depreciation	(104,691,447)	(9,585,393)	1,996,489	(112,280,351)
Construction in progress	717,262	5,696,603	6,177,176	236,689
Net Capital Assets	\$ 307,459,640			\$ 306,173,998

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 6 – LONG-TERM OBLIGATIONS

#### REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2022 Amount Outstanding
12/19/12	System improvements	1/1/33	2.00 – 4.00%	\$ 21,095,000	\$ -
12/18/13	System improvements	1/1/34	3.00 – 5.00	24,335,000	-
12/17/15	System improvements	1/1/36	2.85 – 5.00	41,610,000	31,905,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24 – 3.82	38,420,000	28,340,000
12/20/18	Series A – System Improvements	1/1/39	4.00	30,765,000	27,570,000
12/20/18	Series B – Operations	1/1/28	3.00 – 3.55	9,390,000	6,555,000
12/19/19	Series A – Refunding 2009A and 2010 bonds	1/1/31	2.00 – 5.00	33,680,000	30,325,000
12/19/19	Series B – Refunding 2011 bonds	1/1/32	1.70 – 2.65	13,055,000	11,130,000
12/19/19	Bond anticipation notes – system improvements	11/1/24	1.50	20,000,000	20,000,000
Totals				<u>\$ 232,350,000</u>	<u>\$ 155,825,000</u>

Revenue bond debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ 10,575,000	\$ 5,245,992	\$ 15,820,994
2024	30,835,000	4,823,523	35,658,523
2025	11,050,000	4,089,461	15,139,461
2026	11,485,000	3,608,004	15,093,004
2027	11,490,000	3,136,099	14,626,099
2028 - 2032	48,110,000	9,553,047	57,663,047
2033 - 2037	28,005,000	3,343,864	31,348,864
2038 -2039	4,275,000	172,700	4,447,700
Totals	<u>\$ 155,825,000</u>	<u>\$ 33,972,690</u>	<u>\$ 189,797,690</u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2022 and 2021

### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

#### REVENUE BONDS (cont.)

##### General Obligation Bonds

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2022 Amount Outstanding
10/6/2022	Refunding – System Improvements	10/1/2033	4.00-5.00%	\$ 22,035,000	\$ 22,035,000

General obligation bond debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ 1,690,000	\$ 1,047,447	\$ 2,737,447
2024	1,730,000	977,700	2,707,700
2025	1,805,000	891,200	2,696,200
2026	1,895,000	800,950	2,695,950
2027	1,985,000	706,200	2,691,200
2028-2032	11,515,000	1,941,000	13,456,000
2033	1,415,000	56,600	1,471,600
Totals	<u>\$ 22,035,000</u>	<u>\$ 6,421,097</u>	<u>\$ 28,456,097</u>

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on utility plant. Principal and interest paid for 2022 and 2021 were \$18,358,129 and \$16,782,505, respectively. Total customer net revenues as defined for 2022 and 2021 were \$30,244,745 and \$32,159,943, respectively. Annual principal and interest payments are expected to require 44% of net revenues.

#### REVENUE BOND ANTICIPATION NOTES (BANS)

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

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

#### *ADVANCE FROM MUNICIPALITY*

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/22 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	0.34%	\$ 1,404,052	\$ 314,671

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2023	\$ 153,138	\$ 1,188	\$ 154,326
2024	161,533	760	162,293
Totals	<u>\$ 314,671</u>	<u>\$ 1,948</u>	<u>\$ 316,619</u>

#### *OTHER CONTRACT LIABILITY*

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

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/22 Amount Outstanding
1/1/2021	Use of land	5/31/2037 – 2/28/2038	0.935864%	\$ 1,123,944	\$ 1,026,230

Future annual contract payments for the year ended December 31, 2022 follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ 47,511	\$ 9,218	\$ 56,729
2024	50,244	8,754	58,998
2025	53,094	8,264	61,358
2026	56,066	7,747	63,813
2027	59,165	7,200	66,365
2028 - 2032	347,115	26,717	373,832
2033 - 2037	<u>413,035</u>	<u>8,181</u>	<u>421,216</u>
	<u>\$ 1,026,230</u>	<u>\$ 76,081</u>	<u>\$ 1,102,311</u>

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

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

#### **NOTE 6 – LONG-TERM OBLIGATIONS (cont.)**

##### ***LONG-TERM OBLIGATIONS SUMMARY***

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

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

Long-term obligation activity for the year ended December 31, 2021, is as follows:

	1/1/21 Balance	Additions	Reductions	12/31/21 Balance	Due Within One Year
Revenue bonds	\$ 206,260,000	\$ -	\$ 9,505,000	\$ 196,755,000	\$ 11,525,000
Accrued sick leave	2,227,446	289,365	574,878	1,941,933	-
Other postemployment benefit obligation	3,002,730	12,574	-	3,015,304	-
Customer advances for construction	66,260	557,253	493,005	130,508	-
Advance from municipality	593,988	-	137,216	456,772	142,101
Other Contract Liability	1,123,943	-	52,822	1,071,121	44,891
Unamortized debt premium	12,074,794	-	1,033,474	11,041,320	-
<b>Totals</b>	<b>\$ 225,349,161</b>	<b>\$ 859,192</b>	<b>\$ 11,796,395</b>	<b>\$ 214,411,958</b>	<b>\$ 11,711,992</b>

##### ***CURRENT REFUNDING***

On October 6, 2022, general obligation bonds in the amount of \$22,035,000 were issued with an average interest rate of 4.70% to refund \$12,880,000 of outstanding Series 2012 bonds with an average interest rate of 3.21% and \$16,525,000 of outstanding Series 2013 bonds with an average interest rate of 4.19%. The net proceeds were used to purchase U.S. government securities and pay issuance costs of the transaction. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position. The 2013 bonds were called on January 3, 2023.

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



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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#### *COMPLIANCE WITH FUNDING REQUIREMENTS*

The utility is required to comply with various debt covenants as a result of issuing revenue bonds. One such requirement states that net revenues earned must be at least 1.25 times the highest combined annual principal and interest requirements on outstanding revenue bonds. The utility met this requirement in 2022 and 2021.

#### *NUMBER OF CUSTOMERS*

At December 31, 2022 and 2021, the utility served the following number of customers:

	<u>2022</u>	<u>2021</u>
Residential	58,656	58,109
Multifamily	4,725	4,754
Duplex	2,177	2,119
Commercial	5,063	5,075
Industrial	76	73
Public Authority	<u>675</u>	<u>673</u>
Totals	<u><u>71,372</u></u>	<u><u>70,803</u></u>

#### *WATER PUMPED AND BILLED*

During the years ended December 31, 2022 and 2021, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2022</u>	<u>2021</u>
Water pumped	<u>9,021,090</u>	<u>8,921,090</u>
Water billed	<u>7,832,404</u>	<u>7,811,815</u>

#### *RISK MANAGEMENT*

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### **NOTE 7 – NET POSITION**

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

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2022 and 2021

### NOTE 7 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	December 31,	
	2022	2021
Plant in Service	\$ 421,976,748	\$ 418,217,660
Accumulated Depreciation	(120,994,790)	(112,280,351)
Construction Work in Progress	1,953,288	236,689
Subtotals	302,935,246	306,173,998
 Less: Capital Related Debt		
Current portion of capital related long-term debt – See Note (A)	11,260,000	10,550,000
Long-term portion of capital related long-term debt – See Note (A)	160,045,000	178,675,000
Unamortized debt premium	10,793,478	11,041,320
Unamortized gain on advance refunding	1,543,850	68,485
Unamortized loss on advance refunding	(499,009)	(577,128)
Subtotals	183,143,319	199,757,677
 Add: Borrowed Funds on Hand		
Reserve fund	10,203,426	12,732,169
Construction fund	6,420,832	8,343,939
Subtotals	16,624,258	21,076,108
Total Net Investment in Capital Assets	\$ 136,416,185	\$ 127,492,429

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

### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

#### **GENERAL INFORMATION ABOUT THE PENSION PLAN**

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

### **NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)**

#### **GENERAL INFORMATION ABOUT THE PENSION PLAN (cont.)**

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

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

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

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

The WRS also provides death and disability benefits for employees.

**Postretirement adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

#### *GENERAL INFORMATION ABOUT THE PENSION PLAN (cont.)*

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

During the reporting period, the WRS recognized \$591,424 and \$590,232 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2022 and December 31, 2021 are:

	2022		2021	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.75%	6.75%	6.75%	6.75%
Protective with Social Security	6.75%	11.75%	6.75%	11.65%
Protective without Social Security	6.75%	16.35%	6.75%	16.25%

#### ***PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS***

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

At December 31, 2021, the utility reported a liability (asset) of (\$3,317,731) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2019, rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the municipality's proportion was 1.8099%, which was an increase of 0.02477% from its proportion measured as of December 31, 2019.

For the years ended December 31, 2022, and 2021, the utility recognized pension expense of (\$750,367) and (\$838,231), respectively.

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

***PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)***

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

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

At December 31, 2021, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,047,891	\$ (1,336,757)
Changes in assumptions	128,874	-
Net differences between projected and actual earnings on pension plan investments	-	(6,084,380)
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,879	(12,066)
Employer contributions subsequent to the measurement date	590,232	-
Totals	\$ 5,781,876	\$ (7,433,203)

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

#### **NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)**

***PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)***

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

2022	
Year Ended December 31	Water Utility
2023	\$ (191,503)
2024	(1,104,072)
2025	(486,215)
2026	(467,746)
2027	-
Total	\$ (2,249,536)

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

	2022	2021
Actuarial valuation date	December 31, 2020	December 31, 2019
Measurement date of net Pension liability (Asset)	December 31, 2021	December 31, 2020
Actuarial cost method	Entry Age Normal	Entry Age Normal
Asset valuation method	Fair value	Fair value
Long-term expected rate of return	6.8%	7.0%
Discount rate	6.8%	7.0%
Salary increases		
Inflation	3.0%	3.0%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%
Mortality	2020 WRS Experience Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments*	1.7%	1.9%

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

#### **PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)**

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

Actuarial assumptions used in the December 31, 2019 actuarial valuation is based upon an experience study conducted in 2020 using experience from 2017– 2019. There were no changes in the actuarial assumptions used to measure the total pension liability (asset) from prior year. The total pension liability (asset) for December 31, 2020 is based upon a roll-forward of the liability (asset) calculated from the December 31, 2019 actuarial valuation.

**Long-term expected return on plan assets.** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2022 are summarized in the following table:

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

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

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

The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%.

Currently, an asset allocation target of 15% policy leverage is used, subject to an allowable range of up to 20%



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

### **NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)**

***PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)***

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2021 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	51.0%	7.2%	4.7%
Fixed Income	25.0	3.2	0.8
Inflation Sensitive Assets	16.0	2.0	(0.4)
Real Estate	8.0	5.6	3.1
Private Equity/Debt	11.0	10.2	7.6
Multi-Asset	4.0	5.8	3.3
<i>Total Core Fund</i>	115.0	6.6	4.1
<u>Variable Fund Asset Class</u>			
US Equities	70.0	6.6	4.1
International Equities	30.0	7.4	4.9
<i>Total Variable Fund</i>	100.0	7.1	4.6

New England Pension Consultants Long-Term US CPI (Inflation) Forecast: 2.4%

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

**Single discount rate.** A single discount rate of 6.80 and 7.00 percent was used to measure the total pension liability (asset) as of December 31, 2022 and December 31, 2021. This single discount rate was based on the expected rate of return on pension plan investments of 6.80 and 7.00 percent and a municipal bond rate of 1.84 percent and 2.0 percent, in 2022 and 2021, respectively. (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2021 and 2020, respectively. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 6.80 percent expected rate of return implies that a dividend of approximately 1.7 percent will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

## NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

***PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)***

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

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

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

The sensitivity analysis as of December 31, 2021 is as follows:

	1% Decrease to Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase to Discount Rate (8.00%)
Utility’s proportionate share of the net pension liability (asset)	\$ 3,161,112	\$ (3,317,731)	\$ (8,082,028)

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

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#### **GENERAL INFORMATION ABOUT THE OPEB PLAN**

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

The municipality sponsors a single-employer defined benefit healthcare plan, (the plan) in which the utility participates. The plan provides healthcare coverage to active and eligible retired municipal employees and their spouses. The plan is affiliated with the Wisconsin Public Employer's Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. Benefit provisions are established through collective bargaining agreements. The plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Contribution requirements are established by statute and employee handbooks. Eligible retirees and spouses contribute the full amount of the premiums. As the eligibility requirements for different classes of employees vary, please see the audit report of the municipality for complete details of all benefits offered as well as the funding policy and required contribution rates. See the municipality's Comprehensive Annual Financial Report for more information on the Plan.

**Employees covered by benefit terms.** At December 31, 2022 and 2021, the following employees were covered by the benefit terms:

	Water Utility	
	2022	2021
Inactive plan members or beneficiaries currently receiving benefit payments	9	22
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	105	104
	<u>114</u>	<u>126</u>

#### **TOTAL OPEB LIABILITY**

At December 31, 2022, the utility's total OPEB liability of \$2,532,950 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date. At December 31, 2021, the utility's total OPEB liability was \$3,015,304 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

#### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

##### *TOTAL OPEB LIABILITY* (cont.)

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

	2022	2021
Actuarial valuation date	December 31, 2022	December 31, 2021
Inflation	2.50% per year	2.50% per year
Salary increases	3.00%	3.00%
Investment rate of return	2.25% as of January 1, 2022 and 4.31% as of December 31, 2022	2.12% as of January 1, 2021 and 2.25% as of December 31, 2021
Healthcare cost trend rates	7.5% initially reduced by decrements to an ultimate rate of 4.5% after 7 years	7.5% initially reduced by decrements to an ultimate rate of 4.5% after 7 years
Retirees' share of benefit-related costs	100%	100%
Discount rate	4.31%	2.25%

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

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

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

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

## NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

### CHANGES IN THE TOTAL OPEB LIABILITY

	<u>Total OPEB Liability</u>
Balances at January 1, 2022	\$ 3,015,304
Changes for the year:	
Allocation changes	84,861
Service cost	234,723
Interest	73,513
Change in benefit terms	11,644
Differences between expected and actual experience	(358,458)
Changes in assumptions	(392,615)
Benefit payments	(136,022)
Net changes	<u>(482,354)</u>
Balances at December 31, 2022	<u>\$ 2,532,950</u>
	<u>Total OPEB Liability</u>
Balances at January 1, 2021	\$ 3,002,730
Changes for the year:	
Allocation changes	(67,393)
Service cost	230,069
Interest	65,889
Differences between expected and actual experience	(68,576)
Changes in assumptions	(31,930)
Benefit payments	(115,485)
Net changes	<u>12,574</u>
Balances at December 31, 2021	<u>\$ 3,015,304</u>

There was a change in the discount rate from 2.25% to 4.31% from December 31, 2021 to December 31, 2022.

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

	1% Decrease (3.31%)	Discount Rate (4.31%)	1% Increase (5.31%)
As of December 31, 2022:			
Total OPEB liability	\$ 2,739,910	\$ 2,532,950	\$ 2,344,889

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

#### *CHANGES IN THE TOTAL OPEB LIABILITY* (cont.)

As of December 31, 2021:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total OPEB liability	\$ 3,272,281	\$ 3,015,304	\$ 2,783,243

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

As of December 31, 2022:

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

As of December 31, 2021:

	1% Decrease (6.50%)	Healthcare Cost Trend Rates (7.50%)	1% Increase (8.50%)
Total OPEB liability	\$ 2,694,273	\$ 3,015,304	\$ 3,400,103

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

For the year ended December 31, 2022 and 2021, the utility recognized OPEB expense of \$224,534 and \$294,222, respectively. At December 31, 2022 and 2021, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ 339,233	\$ (386,610)	\$ 399,922	\$ (51,865)
Differences between expected and actual experience	-	(569,755)	-	(308,489)
Total	\$ 339,233	\$ (956,365)	\$ 399,922	\$ (360,354)

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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#### *OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (cont.)*

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

Year Ended December 31:

2023	\$	(93,261)
2024		(93,261)
2025		(93,261)
2026		(63,362)
2027		(73,302)
Thereafter		(200,685)

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 10 – LEASES

#### *WATER UTILITY AS LESSOR*

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

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

Lessee	Date of Inception	Final Maturity	Interest Rate	Receivable Balance 12/31/2022	Deferred Inflow Balance 12/31/2022
Verizon Wireless (Primeco) *	6/1/1997	5/31/2027	0.935864%	\$ 662,036	\$ 646,966
New Cingular Wireless ATT Mobility *	1/12/1998	1/11/2023	0.935864	695,754	665,357
Sprint Spectrum LP *	3/1/1998	2/28/2028	0.935864	694,670	669,047
New Cingular Wireless PCS LLC	4/1/2002	3/31/2022	0.935864	-	-
New Cingular Wireless PCS LLC	7/1/2002	6/30/2022	0.935864	-	-
Sprint Spectrum LP	6/1/2004	5/31/2024	0.935864	46,170	61,843
Verizon Wireless Personal Communications LP	10/10/2016	10/9/2026	0.935864	531,660	531,898
New Cingular Wireless PCS LLC	12/5/2021	12/4/2031	2.813855	651,003	663,247
New Cingular Wireless PCS LLC	4/1/2022	5/31/2027	2.813855	649,259	643,615
New Cingular Wireless PCS LLC	7/1/2022	6/30/2027	2.813855	667,686	675,206
				<u>\$ 4,598,238</u>	<u>\$ 4,557,179</u>

\*There is a related liability with Dane County related to these lease agreements as discussed in Note 6.



## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2022 and 2021

### NOTE 10 – LEASES (cont.)

#### *WATER UTILITY AS LESSOR* (cont.)

A summary of lease activities for December 31, 2021 follows:

Lessee	Date of Inception	Final Maturity	Interest Rate	Receivable Balance 12/31/2022	Deferred Inflow Balance 12/31/2022
Verizon Wireless (Primeco) *	6/1/1997	5/31/2027	0.935864%	\$ 693,048	\$ 691,842
New Cingular Wireless ATT Mobility *	1/12/1998	1/11/2023	0.935864	725,162	709,627
Sprint Spectrum LP *	3/1/1998	2/28/2028	0.935864	724,032	713,160
New Cingular Wireless PCS LLC	4/1/2002	3/31/2022	0.935864	-	9,651
New Cingular Wireless PCS LLC	7/1/2002	6/30/2022	0.935864	-	16,586
Sprint Spectrum LP	6/1/2004	5/31/2024	0.935864	90,135	105,498
Verizon Wireless Personal Communications LP	10/10/2016	10/9/2026	0.935864	559,378	570,514
New Cingular Wireless PCS LLC	12/5/2021	12/4/2031	2.813855	667,642	698,288
				<u>\$ 3,459,397</u>	<u>\$ 3,515,166</u>

\*There is a related liability with Dane County related to these lease agreements as discussed in Note 6.

The utility recognized \$319,197 and \$202,667 of lease revenue as of December 31, 2022 and 2021, respectively.

The utility recognized \$66,903 and \$28,185 of interest revenue as of December 31, 2022 and 2021, respectively.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

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### **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

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#### ***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, 2022 and 2021 has been accrued in these financial statements.

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### **NOTE 12 – SUBSEQUENT EVENTS**

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The utility submitted rate case 3280-WR-116 to the Wisconsin Public Service Commission (PSC) on November 30, 2021. The new rates were approved by the PSC on December 29, 2022 and went into effect on March 1, 2023 for an overall average increase of 18.22%. The rates were designed to include \$5,000,000 for cash funding for main replacement projects and \$148,714 (two year average) cost for a first ever Customer Assistance Program for low-income residential customers.

**REQUIRED SUPPLEMENTARY INFORMATION**

## MADISON WATER UTILITY

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2022

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
12/31/22	1.82854%	\$ (4,074,884)	\$ 8,744,178	46.60%	106.02%
12/31/21	1.80992%	(3,317,731)	9,215,274	36.00%	105.26%
12/31/20	1.78515%	(1,803,263)	9,089,634	19.84%	102.96%
12/31/19	1.74728%	2,015,781	8,837,448	22.81%	96.45%
12/31/18	1.68891%	(1,594,540)	8,270,529	19.28%	102.93%
12/31/17	1.62005%	438,906	7,895,803	5.56%	99.12%
12/31/16	1.58205%	880,490	7,765,706	11.34%	98.20%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2022

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/22	\$ 591,424	\$ 591,424	\$ -	\$ 9,098,831	6.50%
12/31/21	590,232	590,232	-	8,744,178	6.75%
12/31/20	622,031	622,031	-	9,215,274	6.75%
12/31/19	595,371	595,371	-	9,089,634	6.55%
12/31/18	592,109	592,109	-	8,837,448	6.70%
12/31/17	562,396	562,396	-	8,270,529	6.80%
12/31/16	521,123	521,123	-	7,895,803	6.60%
12/31/15	528,068	528,068	-	7,765,706	6.80%

*See independent auditors' report and accompanying notes to the required supplementary information.*

## MADISON WATER UTILITY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2022

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

*Changes of assumptions.*

	2015 - 2018	2019 - 2021	2022
Long-term expected rate of return	7.00%	7.00%	6.80%
Discount rate	7.00%	7.00%	6.80%
Salary increases			
Inflation	3.00%	3.00%	3.00%
Seniority/Merit	0.1% - 5.6%	0.1% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table	2020 WRS Experience Mortality Table
Post-retirement adjustments	1.90%	1.90%	1.70%

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

## MADISON WATER UTILITY

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

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

#### Notes to OPEB Schedule:

##### Changes in Assumptions

###### *Changes in assumptions:*

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

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

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

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

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

**SUPPLEMENTARY INFORMATION**

**MADISON WATER UTILITY**

REVENUE AND GENERAL OBLIGATION BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES  
As of December 31, 2022

Year	2015 Revenue Bonds			2016A Revenue Bonds			2016B Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 1,785,000	\$ 1,051,079	\$ 2,836,079	\$ 930,000	\$ 839,650	\$ 1,769,650	\$ 1,270,000	\$ 401,500	\$ 1,671,500
2024	1,855,000	960,079	2,815,079	980,000	791,900	1,771,900	1,340,000	336,250	1,676,250
2025	1,930,000	865,454	2,795,454	1,025,000	741,775	1,766,775	1,405,000	267,625	1,672,625
2026	2,005,000	787,129	2,792,129	1,080,000	689,150	1,769,150	1,475,000	195,625	1,670,625
2027	2,090,000	725,704	2,815,704	1,135,000	633,775	1,768,775	1,550,000	120,000	1,670,000
2028	2,170,000	663,431	2,833,431	1,190,000	575,650	1,765,650	1,625,000	40,625	1,665,625
2029	2,235,000	598,983	2,833,983	1,250,000	514,650	1,764,650	-	-	-
2030	2,305,000	529,731	2,834,731	1,310,000	457,200	1,767,200	-	-	-
2031	2,380,000	455,924	2,835,924	1,365,000	403,700	1,768,700	-	-	-
2032	2,460,000	379,406	2,839,406	1,420,000	348,000	1,768,000	-	-	-
2033	2,540,000	301,281	2,841,281	1,475,000	290,100	1,765,100	-	-	-
2034	2,625,000	220,578	2,845,578	1,535,000	229,900	1,764,900	-	-	-
2035	2,715,000	135,444	2,850,444	1,595,000	167,300	1,762,300	-	-	-
2036	2,810,000	45,661	2,855,661	1,660,000	102,200	1,762,200	-	-	-
2037	-	-	-	1,725,000	34,500	1,759,500	-	-	-
<b>Totals</b>	<b>\$ 31,905,000</b>	<b>\$ 7,719,884</b>	<b>\$ 39,624,884</b>	<b>\$ 19,675,000</b>	<b>\$ 6,819,450</b>	<b>\$ 26,494,450</b>	<b>\$ 8,665,000</b>	<b>\$ 1,361,625</b>	<b>\$ 10,026,625</b>

Year	2018A Revenue Bonds			2018B Taxable Revenue Bonds (Operating)			2019A Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 1,165,000	\$ 1,079,500	\$ 2,244,500	\$ 1,005,000	\$ 204,301	\$ 1,209,301	\$ 3,430,000	\$ 1,128,750	\$ 4,558,750
2024	1,210,000	1,032,000	2,242,000	1,040,000	171,832	1,211,832	3,395,000	1,009,050	4,404,050
2025	1,260,000	982,600	2,242,600	1,070,000	137,537	1,207,537	3,320,000	892,100	4,212,100
2026	1,310,000	931,200	2,241,200	1,110,000	101,012	1,211,012	3,440,000	723,100	4,163,100
2027	1,360,000	877,800	2,237,800	1,145,000	62,105	1,207,105	3,120,000	559,100	3,679,100
2028	1,415,000	822,300	2,237,300	1,185,000	21,034	1,206,034	3,280,000	399,100	3,679,100
2029	1,470,000	764,600	2,234,600	-	-	-	5,515,000	206,800	5,721,800
2030	1,530,000	704,600	2,234,600	-	-	-	4,045,000	56,050	4,101,050
2031	1,595,000	642,100	2,237,100	-	-	-	780,000	7,800	787,800
2032	1,655,000	577,100	2,232,100	-	-	-	-	-	-
2033	1,720,000	509,600	2,229,600	-	-	-	-	-	-
2034	1,790,000	439,400	2,229,400	-	-	-	-	-	-
2035	1,865,000	366,300	2,231,300	-	-	-	-	-	-
2036	1,935,000	290,300	2,225,300	-	-	-	-	-	-
2037	2,015,000	211,300	2,226,300	-	-	-	-	-	-
2038	2,095,000	129,100	2,224,100	-	-	-	-	-	-
2039	2,180,000	43,600	2,223,600	-	-	-	-	-	-
<b>Totals</b>	<b>\$ 27,570,000</b>	<b>\$ 10,403,400</b>	<b>\$ 37,973,400</b>	<b>\$ 6,555,000</b>	<b>\$ 697,821</b>	<b>\$ 7,252,821</b>	<b>\$ 30,325,000</b>	<b>\$ 4,981,850</b>	<b>\$ 35,306,850</b>



**MADISON WATER UTILITY**

REVENUE AND GENERAL OBLIGATION BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES  
As of December 31, 2022

Year	2019B Refunding Bonds			2019 Bond Anticipation Notes			TOTAL (All Revenue Debt)		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 990,000	\$ 241,212	\$ 1,231,212	\$ -	\$ 300,000	\$ 300,000	\$ 10,575,000	\$ 5,245,992	\$ 15,820,992
2024	1,015,000	222,412	1,237,412	20,000,000	300,000	20,300,000	30,835,000	4,823,523	35,658,523
2025	1,040,000	202,370	1,242,370	-	-	-	11,050,000	4,089,461	15,139,461
2026	1,065,000	180,788	1,245,788	-	-	-	11,485,000	3,608,004	15,093,004
2027	1,090,000	157,615	1,247,615	-	-	-	11,490,000	3,136,099	14,626,099
2028	1,120,000	133,025	1,253,025	-	-	-	11,985,000	2,655,165	14,640,165
2029	1,150,000	106,912	1,256,912	-	-	-	11,620,000	2,191,945	13,811,945
2030	1,185,000	78,884	1,263,884	-	-	-	10,375,000	1,826,465	12,201,465
2031	1,220,000	48,813	1,268,813	-	-	-	7,340,000	1,558,337	8,898,337
2032	1,255,000	16,629	1,271,629	-	-	-	6,790,000	1,321,135	8,111,135
2033	-	-	-	-	-	-	5,735,000	1,100,981	6,835,981
2034	-	-	-	-	-	-	5,950,000	889,878	6,839,878
2035	-	-	-	-	-	-	6,175,000	669,044	6,844,044
2036	-	-	-	-	-	-	6,405,000	438,161	6,843,161
2037	-	-	-	-	-	-	3,740,000	245,800	3,985,800
2038	-	-	-	-	-	-	2,095,000	129,100	2,224,100
2039	-	-	-	-	-	-	2,180,000	43,600	2,223,600
<b>Totals</b>	<b>\$ 11,130,000</b>	<b>\$ 1,388,660</b>	<b>\$ 12,518,660</b>	<b>\$ 20,000,000</b>	<b>\$ 600,000</b>	<b>\$ 20,600,000</b>	<b>\$ 155,825,000</b>	<b>\$ 33,972,690</b>	<b>\$ 189,797,690</b>

Year	2022 General Obligation Bonds			TOTAL (All General Obligation Debt)		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 1,690,000	\$ 1,047,447	\$ 2,737,447	\$ 1,690,000	\$ 1,047,447	\$ 2,737,447
2024	1,730,000	977,700	2,707,700	1,730,000	977,700	2,707,700
2025	1,805,000	891,200	2,696,200	1,805,000	891,200	2,696,200
2026	1,895,000	800,950	2,695,950	1,895,000	800,950	2,695,950
2027	1,985,000	706,200	2,691,200	1,985,000	706,200	2,691,200
2028	2,080,000	606,950	2,686,950	2,080,000	606,950	2,686,950
2029	2,180,000	502,950	2,682,950	2,180,000	502,950	2,682,950
2030	2,300,000	393,950	2,693,950	2,300,000	393,950	2,693,950
2031	2,415,000	278,950	2,693,950	2,415,000	278,950	2,693,950
2032	2,540,000	158,200	2,698,200	2,540,000	158,200	2,698,200
2033	1,415,000	56,600	1,471,600	1,415,000	56,600	1,471,600
2034	-	-	-	-	-	-
<b>Totals</b>	<b>\$ 22,035,000</b>	<b>\$ 6,421,097</b>	<b>\$ 28,456,097</b>	<b>\$ 22,035,000</b>	<b>\$ 6,421,097</b>	<b>\$ 28,456,097</b>

## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2022 and 2021

	2022	Restated 2021
<b>OPERATING REVENUES</b>		
Unmetered Sales	\$ 414,271	\$ 374,588
Metered Sales		
Residential	20,465,839	21,555,254
Duplex	819,138	804,490
Multi-Family	9,356,211	9,125,543
Commercial	8,401,264	8,276,635
Industrial	992,148	1,070,622
Public authority	6,123,855	5,357,024
Sales for resale	416,957	454,069
Total Metered Sales	46,575,412	46,643,637
Public Fire Protection	124,266	131,167
Total Sales of Water	47,113,949	47,149,392
Customer Late Payment Penalties	200,945	206,653
Miscellaneous	65,313	74,018
Rents from water property	375,103	276,255
Other	384,633	384,514
Total Operating Revenues	48,139,943	48,090,832
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	13,874	54,585
Collecting and impounding reservoirs	56,736	22,933
Wells and springs	99,182	26,653
Total Source of Supply	169,792	104,171
Pumping		
Operation supervision and engineering	51,175	48,509
Power purchased for pumping	2,095,612	1,911,631
Pumping labor	437,020	544,946
Miscellaneous	431,234	498,642
Maintenance		
Supervision and engineering	201,087	183,067
Structures and improvements	519,901	344,735
Pumping equipment	466,512	419,200
Total Pumping	4,202,541	3,950,730
Water Treatment		
Operation supervision and engineering	133,521	97,592
Chemicals	167,748	124,195
Operation labor	259,787	224,299
Miscellaneous	83,578	83,467
Maintenance		
Supervision and engineering	13,874	15,945
Water treatment equipment	112,119	173,527
Total Water Treatment	770,627	719,025

## MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)  
For the Years Ended December 31, 2022 and 2021

	2022	Restated 2021
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 292,009	\$ 272,289
Storage facilities	99,317	109,606
Transmission and distribution lines	405,691	335,781
Meter	158,883	106,291
Customer installation	435,112	379,512
Miscellaneous	1,606,752	1,438,366
Maintenance		
Reservoirs	63,491	51,431
Mains	2,257,263	1,891,484
Services	1,227,719	1,173,366
Meters	104,144	134,600
Hydrants	336,154	338,937
Total Transmission and Distribution	6,986,535	6,231,663
Customer Accounts		
Supervision	19,678	14,657
Meter reading	63,902	94,526
Customer records and collection	577,056	452,851
Conservation	158,819	199,304
Total Customer Accounts	819,455	761,338
Administrative and General		
Salaries	1,054,323	959,093
Office, building, and supplies	442,830	988,851
Outside services employed	692,475	102,577
Property insurance	549	45,691
Injuries and damages	328,199	299,542
Employee pensions and benefits	1,354,908	1,047,692
Miscellaneous	151,126	122,395
Maintenance of general plant	3,528	3,784
Total Administrative and General	4,027,938	3,569,625
Total Operation and Maintenance	16,976,888	15,336,552
Depreciation	8,462,252	8,377,801
Taxes	629,228	590,905
Total Operating Expenses	26,068,368	24,305,258
 OPERATING INCOME	 \$ 22,071,575	 \$ 23,785,574