

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, 2012 and 2011

MADISON WATER UTILITY

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Madison Water Utility's preparation and fair presentation of the financial statements 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 Madison Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Water Utility Board
Madison Water Utility

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Madison Water Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2012 and 2011 and the changes in its financial position and its 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, Madison Water Utility adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

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

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

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The insurance in force, debt repayment, and operating revenue and expenses schedules are 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 insurance in force, debt repayment, and operating revenue and expenses schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tilly Vine & Krause, LLP

Madison, Wisconsin
June 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

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

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

2012 FINANCIAL HIGHLIGHTS

- > Operating revenues increased \$1.846 million or 6.57% from 2011. The higher revenues were due to a 9% rate increase effective May 3, 2011, that was fully included beginning with the January 1, 2012 customer bills, as well as the high heat and drought conditions that existed in the utility's service area, increasing the demand for water during 2012.
- > Operating income increased \$2.73 million or 31.39% from the prior year. The increase was due primarily to the increase in operating revenue and lower operation, maintenance and taxes expense.
- > Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$497,000 or 11% to \$5.017 million in 2012 from \$4.52 million in 2011, due primarily to the utility's ongoing investment in its water system infrastructure.
- > Cash and investments decreased to \$2.67 million in 2012 from \$4.422 million in 2011. The municipality elected to receive its 2012 PILOT payment from the utility in 2012. The 2011 PILOT payment was made in 2012.

2011 FINANCIAL HIGHLIGHTS

- > Operating revenues increased \$1.417 million or 5.31% from 2010. The higher revenues were due to the 9% rate increase effective May 3, 2011, that was fully included beginning with the January 1, 2012 customer billing. As the number of customers increased 0.28%, water pumped was up 0.63%
- > Operating income increased \$428,000 or 5.18% from the prior year. The increase was due to the increase in operating revenue and a lower percentage increase (4.7%) in operation, maintenance and taxes expense, offset by a higher percentage increase (7.65%) in depreciation charges.
- > Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$406,000 or 9.87% to \$4.52 million in 2011 from \$4.114 million in 2010.

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

RATES

The utility was granted a 9% rate increase effective May 3, 2011. The rate increase was prorated in beginning with the August 1, 2011 customer billing, and the full rate increase was included on the January 1, 2012 bills. After this last rate increase, the utility is now ranked twenty-ninth for nonresidential rates and forty-eighth for residential rates out of 82 rates for utilities classified as AB (over 4,000 customers) in Wisconsin, and has the ninth lowest nonresidential rates in Dane County.

UTILITY FINANCIAL ANALYSIS

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

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

Table 1

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 51,868	\$ 45,210	\$ 32,245
Capital Assets	<u>205,155</u>	<u>188,438</u>	<u>178,867</u>
Total Assets	<u>257,023</u>	<u>233,648</u>	<u>211,112</u>
Current Liabilities	13,637	12,252	7,860
Long-term Debt Outstanding	117,535	100,415	84,240
Long-term Liabilities	<u>10,192</u>	<u>9,111</u>	<u>9,892</u>
Total Liabilities	<u>141,364</u>	<u>121,778</u>	<u>101,992</u>
Net Investment in Capital Assets	106,627	105,249	105,984
Restricted	5,100	4,261	3,535
Unrestricted	<u>3,932</u>	<u>2,360</u>	<u>(399)</u>
Total Net Position	<u>\$ 115,659</u>	<u>\$ 111,870</u>	<u>\$ 109,120</u>

Total assets increased \$23.375 million and total liabilities increased \$19.586 million, resulting in net position increasing \$3.789 million or 3.39% in 2012. In 2011, total assets increased \$22.536 million and total liabilities increased \$19.786 million, resulting in net position increasing \$2.75 million or 2.52%.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	Year Ended December 31,		
	2012	2011	2010
Operating Revenues	\$ 29,410	\$ 27,620	\$ 26,217
Other Operating Revenues	536	480	466
Total Revenues	<u>29,946</u>	<u>28,100</u>	<u>26,683</u>
Operation & Maintenance Expense	13,709	14,861	14,194
Depreciation Expense	4,810	4,542	4,219
Nonoperating Expense	3,935	3,297	2,780
Total Expenses	<u>22,454</u>	<u>22,700</u>	<u>21,193</u>
Income before Capital Contributions and Transfers	7,492	5,400	5,490
Capital Contributions	1,065	1,722	1,279
Transfers	<u>(4,768)</u>	<u>(4,372)</u>	<u>(3,793)</u>
Change in Net Position	3,789	2,750	2,976
Beginning Net Position	<u>111,870</u>	<u>109,120</u>	<u>106,144</u>
Ending Net Position	<u>\$ 115,659</u>	<u>\$ 111,870</u>	<u>\$ 109,120</u>

The utility's operating revenues increased \$1.846 million or 6.57% in 2012 from 2011. This is attributed to the rate increase effective May 3, 2011, that was fully included beginning on the January 1, 2012 customer bills, as well as the high heat and drought conditions that existed in the utility's service area, increasing the demand for water during 2012.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses (000's)

	Year Ended December 31,		
	2012	2011	2010
OPERATING REVENUES			
Unmetered Sales	\$ 111	\$ 84	\$ 78
Metered Sales			
Residential	12,545	11,276	10,442
Commercial	9,232	8,728	8,361
Industrial	1,136	1,282	1,276
Public authority	2,815	2,722	2,547
Sales for resale	330	267	368
Total Metered Sales	26,058	24,275	22,994
Private Fire Protection	368	369	344
Public Fire Protection	2,873	2,892	2,801
Total Sales of Water	29,410	27,620	26,217
Customer Late Payment Penalties	262	279	240
Miscellaneous	31	20	21
Other	243	181	205
Total Operating Revenues	29,946	28,100	26,683
OPERATING EXPENSES			
Source of Supply	71	192	81
Pumping	3,595	3,478	3,329
Water Treatment	748	763	780
Transmission and Distribution	5,149	5,754	5,835
Customer Accounts	618	633	698
Administrative and General	3,228	3,705	3,371
Total Operation and Maintenance	13,409	14,525	14,094
Depreciation	4,810	4,542	4,219
Taxes	300	336	100
Total Operating Expenses	18,519	19,403	18,413
OPERATING INCOME	\$ 11,427	\$ 8,697	\$ 8,270

See accompanying independent auditors' report.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

UTILITY FINANCIAL ANALYSIS (cont.)

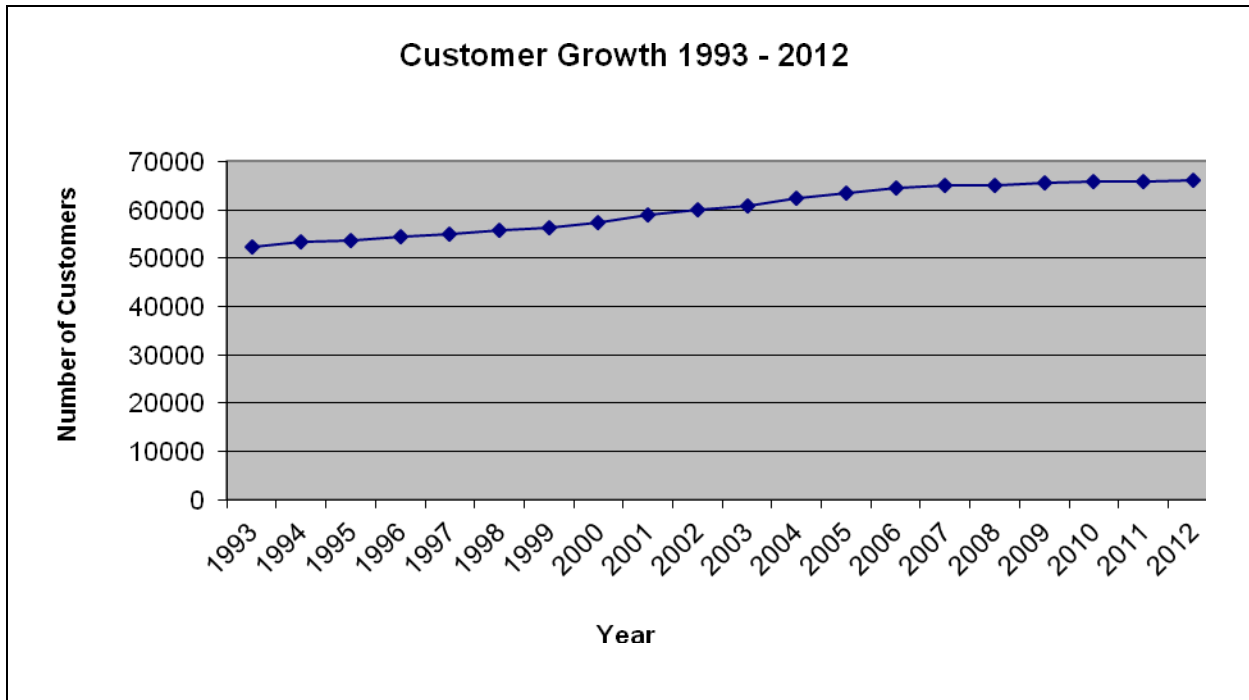
Revenues

Total operating revenues were \$29.946 million in 2012, compared with \$28.1 million in 2011, an increase of 6.57%. The higher revenues were due to the 9% rate increase effective May 3, 2011, that was fully included beginning with the January 1, 2012 customer billing, as well as the high heat and drought conditions that existed in the utility's service area, increasing the demand for water during 2012. As the utility added 203 new customers in 2012, it pumped 3.28% more water, the first year over year increase since 2007, and the highest increase since 2005.

Expenses

Operation and maintenance expenses totaled \$13.709 million in 2012, compared to \$14.861 million in 2011, a decrease of \$1.152 million or 7.75%. Major changes noted were in maintenance of water mains and services expense, which decreased \$649,000 due to fewer water main and services breaks during the mild winter and spring of 2011-2012; employee pension and health insurance benefits expense which decreased \$341,000 due primarily to the enactment of Wisconsin Legislative Act 10; and a \$122,000 decrease in well maintenance expense. Interest and amortization expense was \$4.325 million in 2012, compared with \$3.853 million in 2011, an increase of \$472,000 or 12.25% due to increased borrowing.

Chart 1



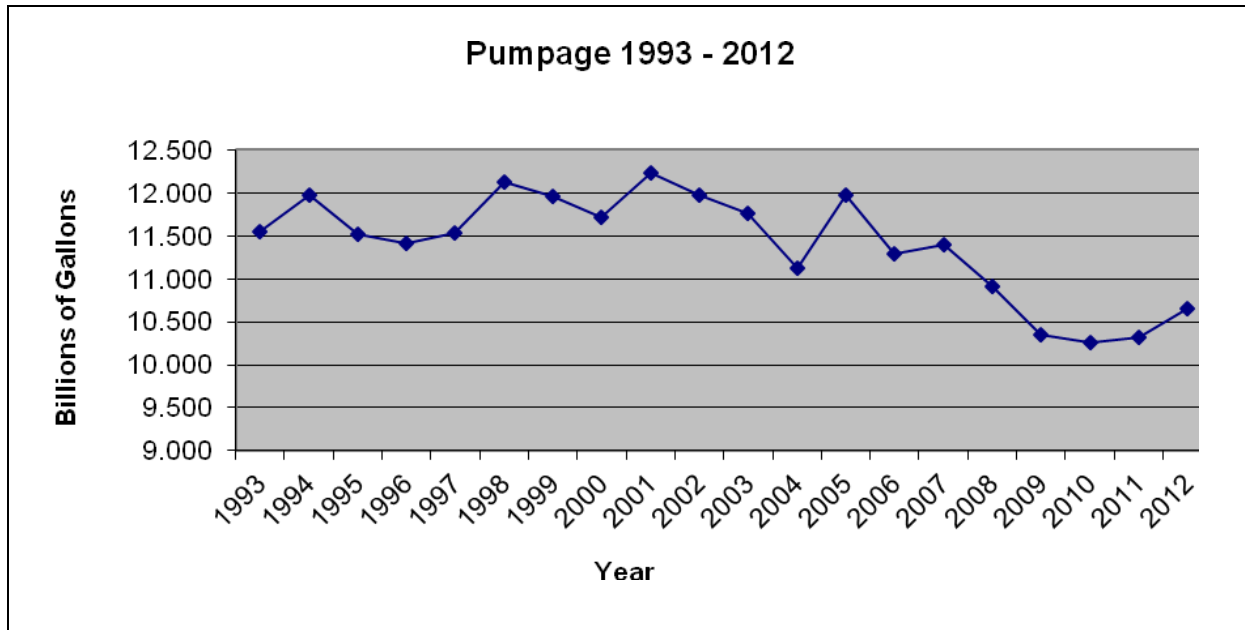
In 2012, the utility received 354 new applications for service, compared with 293 new applications received in 2011, the first year over year increase since a record number of new applications (1,442) was received in 2002.

MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year increased 3.28% from 10.320 billion gallons in 2011 to 10.659 billion gallons in 2012, due primarily to the high heat and drought conditions that existed in the utility's service area, increasing the demand for water during 2012.

CAPITAL EXPENDITURES

The utility added a net \$13,448,924 of plant in 2012. Of this amount, \$1,064,951 was contributed by developers and contractors, received through a federal grant, and by special assessment.

Capital projects completed in 2012 and paid for by the utility include \$7.852 million for new and replacement water mains, \$7.095 million for the Advanced Metering Infrastructure/Project H₂O, \$1.492 million for Arbor Hills Supplemental Fire Flow Supply/Booster Pump Station #118, \$654,160 for the East Side Water Supply Project, and \$648,596 for Pressure Zone 4 Fire Flow Supply Augmentation.

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, 2012 and 2011

CAPITAL BORROWING

The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund all of its capital budget needs exclusively through the sale of revenue bonds. The utility borrowed \$21.095 million in December 2012, \$19.37 million in December 2011, \$13.25 million in November 2010 and \$48.54 million in December 2009. \$10.9 million of the 2009 borrowing was used to fund 2009 and 2010 capital projects, while the other \$37.64 million refunded the outstanding 2001, 2002, 2003 and 2006 revenue bonds, and the 2005 refunding bond issue. The utility plans a sale of revenue bonds in 2013 to fund the balance of its 2013 capital budget and part of the 2014 capital budget. The utility has stepped up its borrowing patterns in the last nine years by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. Consider the fact that, while customer growth has slowed, the utility added a net 10.3 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that the current and future rate increases will create a stable financial structure to ensure that the utility is well prepared to handle these challenges. This is evidenced by the fact that, after the last rate increase effective May 2011, the utility's rates remain below the median average rate of large utilities in the state.

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

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

UTILITY CONTACT INFORMATION

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

MADISON WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 2,669,923	\$ 4,421,853
Restricted cash and investments	5,925,680	4,869,877
Customer accounts receivable	7,159,842	4,163,976
Accrued revenue	5,466,629	5,495,643
Materials and supplies	667,070	951,616
Current portion of special assessments	97,690	118,509
Other current assets	249,128	205,872
Total Current Assets	<u>22,235,962</u>	<u>20,227,346</u>
NONCURRENT ASSETS		
Restricted cash and investments	24,764,727	20,483,065
Other Assets		
Special assessments receivable	2,533,769	2,380,927
Unamortized debt issuance costs	1,208,074	1,008,570
Preliminary survey and investigation	284,217	284,217
Property held for future use	662,145	660,653
Nonutility property (net of accumulated depreciation)	179,054	165,453
Capital Assets		
Plant in service	252,101,271	238,652,347
Accumulated depreciation	(58,466,293)	(54,036,991)
Construction work in progress	11,520,270	3,822,677
Total Noncurrent Assets	<u>234,787,234</u>	<u>213,420,918</u>
Total Assets	<u>257,023,196</u>	<u>233,648,264</u>

	<u>2012</u>	<u>2011</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 3,756,179	\$ 1,943,476
Other current liabilities	294,849	310,643
Payable to other funds	2,800,705	4,279,009
Accrued interest	10,102	10,224
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	62,357	57,717
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	3,975,000	3,195,000
Accrued interest	1,972,639	1,691,028
Total Current Liabilities	<u>13,636,831</u>	<u>12,252,097</u>
NONCURRENT LIABILITIES		
Revenue bonds	117,535,000	100,415,000
Unamortized debt premium	4,334,415	2,763,185
Unamortized loss on advance refunding	(2,490,912)	(2,774,576)
Accrued compensated absences	1,594,983	1,624,526
Other postemployment benefit obligation	363,826	299,782
Advance from municipality	1,657,353	1,715,031
Loan from municipality	4,590,000	5,355,000
Customer advances for construction	142,642	127,915
Total Noncurrent Liabilities	<u>127,727,307</u>	<u>109,525,863</u>
Total Liabilities	<u>141,364,138</u>	<u>121,777,960</u>
NET POSITION		
Net investment in capital assets	106,627,399	105,249,049
Restricted for:		
Debt service	4,200,188	3,360,859
Capital repairs and replacement	900,000	900,000
Unrestricted	3,931,471	2,360,396
TOTAL NET POSITION	<u>\$ 115,659,058</u>	<u>\$ 111,870,304</u>

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Sales of water	\$ 29,409,758	\$ 27,620,040
Other	536,230	480,243
Total Operating Revenues	29,945,988	28,100,283
OPERATING EXPENSES		
Operation and maintenance	13,709,476	14,861,349
Depreciation	4,809,543	4,541,620
Total Operating Expenses	18,519,019	19,402,969
 Operating Income	 11,426,969	 8,697,314
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	513	(2,504)
Investment income	198,779	263,986
Interest and amortization expense	(4,325,011)	(3,852,967)
Interest charged to construction	9,977	46,832
Gain from property disposal	-	48,080
Other	181,240	199,463
Total Nonoperating Revenues (Expenses)	(3,934,502)	(3,297,110)
 Income before Capital Contributions and Transfers	 7,492,467	 5,400,204
CAPITAL CONTRIBUTIONS	1,064,951	1,722,086
TRANSFERS	248,796	148,075
TRANSFERS - TAX EQUIVALENT	(5,017,460)	(4,519,771)
 Change in Net Position	 3,788,754	 2,750,594
 NET POSITION - Beginning of Year	 111,870,304	 109,119,710
 NET POSITION - END OF YEAR	 \$ 115,659,058	 \$ 111,870,304

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 30,178,813	\$ 27,631,050
Paid to suppliers for goods and services	(7,558,424)	(9,002,497)
Paid to employees for services	<u>(5,367,243)</u>	<u>(5,439,029)</u>
Net Cash Flows from Operating Activities	<u>17,253,146</u>	<u>13,189,524</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(9,537,231)	-
Loan from municipality receipts (payments) - operating portion	(765,000)	(1,450,000)
Proceeds from (repayment of) advances from other funds	(53,038)	(50,065)
Interest paid on advances and loans from other funds	(103,168)	(115,798)
Transfers to other funds	(33,375)	(113,218)
Transfers from other funds	<u>282,171</u>	<u>261,293</u>
Net Cash Flows from Noncapital Financing Activities	<u>(10,209,641)</u>	<u>(1,467,788)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(19,883,334)	(13,449,973)
Special assessments received	192,717	296,773
Contributions in aid of construction	247,327	135,623
Loan from municipality receipts (payments) - capital portion	-	(675,000)
Interest paid on loan from municipality - capital portion	-	(3,780)
Proceeds from debt issued	21,095,000	19,370,000
Premium on debt issued	1,834,021	684,316
Debt issuance costs	(301,093)	(306,525)
Build America Bond interest credit received	171,505	111,060
Debt retired	(3,195,000)	(2,680,000)
Interest paid	<u>(3,817,892)</u>	<u>(3,481,915)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(3,656,749)</u>	<u>579</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(9,464,342)	(7,879,875)
Marketable securities sold	8,127,322	7,696,697
Investment income	<u>198,779</u>	<u>263,986</u>
Net Cash Flows from Investing Activities	<u>(1,138,241)</u>	<u>80,808</u>
Net Change in Cash and Cash Equivalents	2,248,515	11,803,123
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>22,669,120</u>	<u>10,865,997</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 24,917,635</u>	<u>\$ 22,669,120</u>

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 11,426,969	\$ 8,697,314
Nonoperating income	10,248	85,899
Noncash items included in operating income		
Depreciation	4,809,543	4,541,620
Depreciation charged to other accounts	636,906	614,936
Changes in Assets and Liabilities		
Customer accounts receivable	(2,995,866)	(398,015)
Receivable from other funds	-	(180,159)
Materials and supplies	284,546	(239,309)
Accrued revenues	29,014	(247,351)
Other current assets	(83,059)	16,383
Accounts payable and other current liabilities	60,733	10,898
Payable to other funds	3,039,611	199,812
Other postemployment benefit obligation	64,044	64,501
Accrued compensated absences	(29,543)	22,995
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 17,253,146</u>	<u>\$ 13,189,524</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 2,669,923	\$ 4,421,853
Restricted cash and investments - current	5,925,680	4,869,877
Restricted cash and investments - noncurrent	24,764,727	20,483,065
Total Cash and Investments	33,360,330	29,774,795
Less: Noncash equivalents	8,442,695	7,105,675
CASH AND CASH EQUIVALENTS	<u>\$ 24,917,635</u>	<u>\$ 22,669,120</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	\$ 549,270	\$ 1,081,784
Capital additions assessed to customers	\$ 322,884	\$ 465,149
Capital contributions accrued or applied	\$ -	\$ 39,530
Interest capitalized	\$ 9,977	\$ 46,832

See accompanying notes to financial statements.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

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

The utility is managed by an eight member Water Utility Board comprised of two Madison Common Council members (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 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The utility made the decision to implement this standard effective January 1, 2012.

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, 2012 and 2011

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

ASSETS, LIABILITIES 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:

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

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

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

Restricted Assets

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

Receivables/Payables

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Materials and Supplies

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

Other Current Assets

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

Preliminary Survey and Investigation

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

Property Held for Future Use

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

Nonutility Property

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

Capital Assets

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

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

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Special Assessments Receivable

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

Accrued Compensated Absences

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

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

Customer Advances for Construction

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

Long-Term Obligations

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

REVENUES AND EXPENSES

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

Charges for Services

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

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

REVENUES AND EXPENSES (cont.)

Charges for Services (cont.)

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

Transfers

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

Capital Contributions

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2012	2011	
Checking and Savings	\$ 65,227	\$ 244,507	Custodial credit (A)
Other Investment Pool	23,434,951	21,139,876	
Money Market	1,410,432	1,277,712	Custodial credit
U.S. Agencies	8,442,695	7,105,675	
			Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	<u>7,025</u>	<u>7,025</u>	None
Totals	<u>\$ 33,360,330</u>	<u>\$ 29,774,795</u>	

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest bearing transaction accounts as of December 31, 2012. On January 1, 2013, the temporary unlimited coverage for noninterest bearing transaction accounts expired. Therefore, demand deposit amounts (interest-bearing and noninterest bearing) are insured for a total of \$250,000 beginning January 1, 2013. 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. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

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

CUSTODIAL CREDIT RISK

Deposits

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Deposits (cont.)

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

	2012		2011	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
The Park Bank	\$ 859,888	\$ 65,227	\$ 213,803	\$ 244,507
US Bank, NA	1,410,432	1,410,432	1,277,712	1,277,712
Totals	\$ 2,270,320	\$ 1,475,659	\$ 1,491,515	\$ 1,522,219

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 \$8,442,695 and \$7,105,675 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31 2012 and 2011, respectively because the investments were neither insured nor registered and are held by a 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.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2012, all of the U.S. Agency investments were rated AAA by Moody's Investors Service. All of the U.S. Agency investments were rated AA+ by S&P. As of December 31, 2011, 86.91% of the U.S. Agency investments were rated AAA, and 13.09% were not rated by Moody's and all of the U.S. Agency investments were rated AA+ or AAA 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, 2012, the utility had 7% of its portfolio in Federal Home Loan Mortgage Corp. securities and 12% in Federal National Mortgage Association securities. As of December 31, 2011, the utility had 9% of its portfolio in Federal Home Loan Mortgage Corp. securities and 14% in Federal National Mortgage Association securities.

The investment policy addresses these risks by permitting investments which mature to meet cash requirements, following state statutes as to allowable investments and limiting certificates with any one institution to 25% of the overall portfolio.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2012 and 2011:

Due To	Due From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 2,800,705	Items due to Sewer and Storm less items on tax roll	\$ 4,279,009	Tax Equivalent less items on tax roll and Sewer billing

The following is a schedule of transfer balances as of December 31, 2012 and 2011:

To	From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 5,017,460	Tax equivalent	\$ 4,519,771	Tax equivalent
Water	Municipality	261,211	Tower rental received by special revenue fund	261,294	Tower rental received by special revenue fund
Water	Municipality	20,960	Refund of wage insurance	-	
Municipality	Water	33,375	Lead service replacement program	113,219	Lead service replacement program

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 4 – RESTRICTED ASSETS

RESTRICTED ACCOUNTS

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

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

The following calculation supports the amount of restricted net position:

	December 31,	
	2012	2011
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 5,925,680	\$ 4,869,877
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	9,853,127	8,383,387
Construction	14,011,600	11,199,678
Depreciation	750,000	750,000
Total Noncurrent Restricted Assets	24,764,727	20,483,065
Total Restricted Assets	30,690,407	25,352,942
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(9,605,980)	(8,201,377)
Construction fund	(14,011,600)	(11,199,678)
Current Liabilities Payable from Restricted Assets	(1,972,639)	(1,691,028)
Total Restricted Net Position	\$ 5,100,188	\$ 4,260,859

The purpose of the restricted net position is as follows:

Debt service	\$ 4,200,188	\$ 3,360,859
Capital repairs and replacement	900,000	900,000
Total	\$ 5,100,188	\$ 4,260,859

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2012 follows:

	1/1/12 Balance	Increases	Decreases	12/31/12 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,109,573	\$ 6,090	\$ -	\$ 2,115,663
Capital assets being depreciated				
Source of supply	9,744,045	192,117	-	9,936,162
Pumping	11,224,449	358,466	249,719	11,333,196
Water treatment	2,275,643	-	-	2,275,643
Transmission and distribution	177,464,405	9,482,095	507,083	186,439,417
General	18,130,590	805,688	344,572	18,591,706
Completed construction not classified	17,703,642	8,489,438	4,783,596	21,409,484
Total Capital Assets				
Being Depreciated	236,542,774	19,327,804	5,884,970	249,985,608
Total Capital Assets	238,652,347	19,333,894	5,884,970	252,101,271
Less: Accumulated Depreciation				
Source of supply	(4,600,457)	(221,192)	-	(4,821,649)
Pumping	(6,195,857)	(427,925)	(274,691)	(6,349,091)
Water treatment	(239,689)	(87,000)	-	(326,689)
Transmission and distribution	(35,091,226)	(3,689,334)	(534,762)	(38,245,798)
General	(7,603,776)	(945,674)	(344,572)	(8,204,878)
Completed construction not classified	(305,986)	(303,127)	(90,925)	(518,188)
Total Accumulated Depreciation	(54,036,991)	(5,674,252)	(1,244,950)	(58,466,293)
Construction in progress	3,822,677	20,379,341	12,681,748	11,520,270
Net Capital Assets	\$ 188,438,033			\$ 205,155,248

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2011 follows:

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/12 Amount Outstanding
12/01/07	Refunding debt and system improvements	1/01/28	4.00 - 4.75%	\$ 27,185,000	\$ 22,755,000
12/09/09	Refunding debt and system improvements	1/01/30	2.00 - 5.00%	48,540,000	45,540,000
11/10/10	System improvements	1/01/31	0.90 - 5.25%	13,250,000	12,750,000
12/22/11	System improvements	1/01/32	2.00 - 4.00%	19,370,000	19,370,000
12/19/12	System improvements	1/01/33	2.00 - 4.00%	21,095,000	21,095,000
Totals				<u>\$ 129,440,000</u>	<u>\$ 121,510,000</u>

Revenue bond debt service requirements to maturity follows:

<u>Bond Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,975,000	\$ 4,367,195	\$ 8,342,195
2014	4,935,000	4,545,041	9,480,041
2015	5,090,000	4,390,059	9,480,059
2016	5,210,000	4,221,888	9,431,888
2017	5,710,000	4,035,568	9,745,568
2018	5,880,000	3,830,564	9,710,564
2019	5,975,000	3,609,341	9,584,341
2020	6,095,000	3,363,608	9,458,608
2021	6,300,000	3,095,232	9,395,232
2022	6,710,000	2,810,639	9,520,639
2023	6,985,000	2,512,633	9,497,633
2024	7,070,000	2,202,734	9,272,734
2025	7,215,000	1,899,776	9,114,776
2026	7,440,000	1,607,459	9,047,459
2027	7,235,000	1,315,109	8,550,109
2028	7,520,000	1,015,040	8,535,040
2029	8,065,000	697,401	8,762,401
2030	6,695,000	399,048	7,094,048
2031	3,405,000	198,725	3,603,725
2032	2,640,000	87,025	2,727,025
2033	1,360,000	20,400	1,380,400
Totals	<u>\$ 121,510,000</u>	<u>\$ 50,224,485</u>	<u>\$ 171,734,485</u>

The 2010 bonds are Build America Bonds. See page 38 - 39 for the details of the anticipated federal interest credit. The amount disclosed is based on the originally approved 35% credit. In 2013, the federal interest subsidy will be reduced to approximately 32% due to sequestration.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on all utility plant. Principal and interest paid for 2012 and 2011 were \$6,836,708 and \$5,959,273, respectively. Total customer net revenues as defined for 2012 and 2011 were \$16,435,291 and \$13,502,920, respectively. Annual principal and interest payments are expected to require 50% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/12 Amount Outstanding
10/19/10	Payoff unfunded pension liability	10/01/24	3.41%	\$ 1,404,052	\$ 1,291,229
1/01/08	Advance from Municipality, Burke Utility District #1	(A)	1.10%	393,762	428,481

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2013	\$ 62,357	\$ 40,406	\$ 102,763
2014	68,158	39,783	107,941
2015	74,249	38,897	113,146
2016	81,499	37,598	119,097
2017	89,040	35,764	124,804
2018	97,451	33,538	130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,588	12,936	167,524
2024	168,800	6,752	175,552
Totals	<u>\$ 1,291,229</u>	<u>\$ 344,763</u>	<u>\$ 1,635,992</u>

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LOAN FROM MUNICIPALITY

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

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

	Beginning Balance	Additions	Reductions	Ending Balance
2005	\$ -	\$ 4,573,000	\$ -	\$ 4,573,000
2006	4,573,000	1,877,000	5,235,000	1,215,000
2007	1,215,000	10,305,169	7,257,169	4,263,000
2008	4,263,000	1,830,000	688,000	5,405,000
2009	5,405,000	4,520,000	855,000	9,070,000
2010	9,070,000	1,220,000	2,045,000	8,245,000
2011	8,245,000	-	2,125,000	6,120,000
2012	6,120,000	-	765,000	5,355,000

The utility anticipates making principal payments totaling \$765,000 in 2013. No formal schedule for repayment has been established. At December 31, 2012 and 2011, the outstanding balance pertains to operating activities.

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2012, is as follows:

	1/1/12 Balance	Additions	Reductions	12/31/12 Balance	Due Within One Year
Revenue bonds	\$ 103,610,000	\$ 21,095,000	\$ 3,195,000	\$ 121,510,000	\$ 3,975,000
Accrued compensated absences	1,624,526	265,132	294,675	1,594,983	-
Other postemployment benefit obligation	299,782	64,044	-	363,826	-
Customer advances for construction	127,915	32,700	17,973	142,642	-
Advance from municipality	1,772,748	4,679	57,717	1,719,710	62,357
Loan from municipality – operating	6,120,000	-	765,000	5,355,000	765,000
Unamortized debt premium	2,763,185	1,834,021	262,791	4,334,415	-
Unamortized loss on advance refunding	(2,774,576)	-	(283,664)	(2,490,912)	-
Totals	\$ 113,543,580	\$ 23,295,576	\$ 4,309,492	\$ 132,529,664	\$ 4,802,357

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

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

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

PRIOR YEAR DEFEASANCE OF DEBT

In 2005, the utility defeased \$3,605,000 of the 1995 and 1998 bonds by placing the proceeds of the 2005 bonds in an irrevocable trust to provide for all future debt service payments on the 1995 and 1998 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the utility's financial statements. The bonds are callable on January 1, 2015. At December 31, 2012, \$885,000 of bonds outstanding are considered defeased.

In 2009, the utility defeased \$38,745,000 of the 2001, 2002, 2003, 2005 and 2006 bonds by placing the proceeds of the 2009 A and 2009 B bonds in a irrevocable trust to provide for all future debt service payments on the 2001, 2002, 2003, 2005 and 2006 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds are callable as follows: 2001 bonds on January 1, 2010; 2002 bonds on January 1, 2012; 2003 and 2005 bonds on January 1, 2013; 2006 bonds on January 1, 2016. At December 31, 2012, \$26,460,000 of the bonds outstanding are considered defeased.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 – NET POSITION

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

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

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

Unrestricted net position - The component of net position consisting of net position that does not meet the definition of "restricted" or "net investment in capital assets." When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

	December 31,	
	2012	2011
Plant in Service	\$ 252,101,271	\$ 238,652,347
Accumulated Depreciation	(58,466,293)	(54,036,991)
Construction Work in Progress	11,520,270	3,822,677
Sub-totals	205,155,248	188,438,033
Less: Capital Related Debt		
Current portion of capital related long-term debt	3,975,000	3,195,000
Long-term portion of capital related long-term debt	117,535,000	100,415,000
Unamortized debt issuance costs	(1,208,074)	(1,008,570)
Unamortized debt premium	4,334,415	2,763,185
Unamortized loss on advance refunding	(2,490,912)	(2,774,576)
Sub-totals	122,145,429	102,590,039
Add: Borrowed Funds on Hand		
Reserve fund	9,605,980	8,201,377
Construction fund	14,011,600	11,199,678
Sub-totals	23,617,580	19,401,055
Total Net Investment in Capital Assets	\$ 106,627,399	\$ 105,249,049

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

All eligible utility employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system (PERS). All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work over 600 hours a year, and expected to be employed for at least one year from the employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, expected to work at least 1,200 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.

Prior to June 29, 2011, covered employees in the General category were required by statute to contribute 6.5% of their salary to the plan. Employers could make these contributions to the plan on behalf of their employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Effective the first day of the first pay period on or after June 29, 2011, the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category 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. Prior to 2012, the utility made the employee's required contribution due to collective bargaining agreements. Beginning in 2012, the employee was required to make this contribution. Contribution rates for 2012 and 2011 are:

	Employees	Employer
2012 General Category	5.9%	5.9%
2011 General Category	5.8%	5.8%

Covered payroll listed below is substantially the same as total payroll.

	Year Ended December 31,		
	2012	2011	2010
Total Utility Payroll	\$ 7,287,434	\$ 7,103,120	\$ 7,142,328
Total Covered Employee Payroll	\$ 6,625,542	\$ 6,495,766	\$ 6,515,000
Total Required Contributions	\$ 781,814	\$ 753,509	\$ 716,650
Total Required Contributions (%)	11.8%	11.6%	11.0%

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

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The municipality administers a single-employer defined benefit healthcare plan, (the plan) in which the utility participates. The plan provides healthcare coverage to active and eligible retired municipal employees and their spouses. The plan is affiliated with the Wisconsin Public Employer's Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. Benefit provisions are established through collective bargaining agreements. The plan does not issue a publicly available financial report.

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

The municipality's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year ended December 31:

	Municipality		Water Utility	
	2012	2011	2012	2011
Annual required contribution	\$ 6,352,816	\$ 6,042,623	\$ 138,045	\$ 132,325
Contributions made	(3,043,073)	(2,706,755)	(74,001)	(67,824)
Net Change in OPEB obligation	3,309,743	3,335,868	64,044	64,501
Net OPEB Obligation – 1/1	15,123,364	11,787,496	299,782	235,281
Net OPEB Obligation – 12/31	\$ 18,433,107	\$ 15,123,364	\$ 363,826	\$ 299,782

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and 2011, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2012	\$ 6,352,816	48%	\$ 18,433,107
Municipality	2011	6,042,623	45%	15,123,364
Water Utility	2012	138,045	54%	363,826
Water Utility	2011	132,325	52%	299,782

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan (overall municipality) as of December 31, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 51,723,377
Actuarial value of plan assets	<u>1,663,970</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 50,059,407</u>
Funded ratio (actuarial value of plan assets/AAL)	3%
Covered payroll (active plan members)	\$ 161,808,087
UAAL as a percentage of covered payroll	30.9%

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

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8% for 2012, reduced by decrements to an ultimate rate of 4.5% for 2019 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2012, was 30 years.

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 10 – COMMITMENTS AND CONTINGENCIES

CLAIMS AND JUDGMENTS

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

OPEN CONTRACTS

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2012, has been accrued in these financial statements.

In 2012, the utility entered into a contract with Itron, Inc. and North Star Utilities Solutions for \$11,935,500 for the purchase, implementation and maintenance of an Advanced Metering Infrastructure (AMI) system. The project, named Project H2O, will be completed in 2013. Amounts incurred through December 31, 2012 have been accrued in these statements.

NOTE 11 – BOND COVENANT DISCLOSURES

COMPLIANCE WITH FUNDING REQUIREMENTS

The utility is in compliance with bond funding requirements.

NUMBER OF CUSTOMERS

At December 31, 2012 and 2011, the utility served the following number of customers:

	<u>2012</u>	<u>2011</u>
Residential	56,739	56,541
Commercial	8,873	8,867
Industrial	48	48
Public Authority	<u>486</u>	<u>487</u>
Totals	<u>66,146</u>	<u>65,943</u>

WATER PUMPED AND BILLED

During the years ended December 31, 2012 and 2011, the following amounts of water were pumped and billed:

	<u>(000 gallons)</u>	
	<u>2012</u>	<u>2011</u>
Water pumped	<u>10,658,538</u>	<u>10,319,608</u>
Water billed	<u>9,587,160</u>	<u>9,147,751</u>

MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

RISK MANAGEMENT

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

MADISON WATER UTILITY

City of Madison, Wisconsin

SCHEDULE OF INSURANCE IN FORCE

For the Year Ended December 31, 2012

<u>Type of Coverage and Name of Insurer</u>	<u>Policy Number Policy Period From To</u>	<u>Details of Coverage*</u>	<u>Liability Limits</u>
Automobile Comprehensive LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 01/01/12 to 01/01/13	\$115,393,695	Replacement cost \$3,000 deductible
Automobile Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2012CS03A 01/01/12 to 01/01/13	Automobile Liability	\$10,000,000 per occurrence \$300,000 Self-insured retention
Boiler & Machinery CHUBB	7834-76-48 01/01/12 to 01/01/13	Repair & Replace Boiler & Machinery	\$50,000,000 \$25,000 deductible
Employee Theft FIDELITY & DEPOSIT	CCP 0060387 08 01/01/12 to 01/01/13	Blanket Bond	\$500,000 limit \$10,000 deductible
Fire & Extended Coverage on all structures LOCAL GOVERNMENT PROPERTY INSURANCE FUND	140337 01/01/12 to 01/01/13	\$556,485,782	Replacement cost \$25,000 deductible
General Liability WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY	WI2012CS03A 01/01/12 TO 01/01/13	General Liability, Personal Injury Liability, and Errors & Omissions Liability	\$10,000,000 per occurrence \$300,000 Self-insured retention

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

S U P P L E M E N T A L I N F O R M A T I O N

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES As of December 31, 2012

Year	2007A MRB's			2007B MRB's			2009A Refunding			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2013	\$ 930,000	\$ 871,600	\$ 1,801,600	\$ 330,000	\$ 80,600	\$ 410,600	\$ 885,000	\$ 1,476,581	\$ 2,361,581	
2014	965,000	833,700	1,798,700	340,000	67,200	407,200	920,000	1,449,506	2,369,506	
2015	1,005,000	794,300	1,799,300	360,000	53,200	413,200	930,000	1,417,106	2,347,106	
2016	1,045,000	753,300	1,798,300	370,000	38,600	408,600	1,215,000	1,374,206	2,589,206	
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406	
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406	
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238	
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570	
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820	
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320	
2023	1,395,000	402,728	1,797,728	-	-	-	2,955,000	723,695	3,678,695	
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320	
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820	
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420	
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320	
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,760	2,316,760	
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450	
2030	-	-	-	-	-	-	-	-	-	
Totals	\$ 20,575,000	\$ 8,175,070	\$ 28,750,070	\$ 2,180,000	\$ 271,000	\$ 2,451,000	\$ 34,230,000	\$ 14,871,944	\$ 49,101,944	
Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2013	\$ 295,000	\$ 27,275	\$ 322,275	\$ 260,000	\$ 433,938	\$ 693,938	\$ 560,000	\$ 486,935	\$ (170,427)	\$ 876,508
2014	310,000	17,425	327,425	265,000	426,063	691,063	565,000	480,041	(168,014)	877,027
2015	320,000	6,000	326,000	280,000	416,488	696,488	570,000	471,383	(164,984)	876,399
2016	-	-	-	345,000	403,988	748,988	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	-	-	-	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	-	-	-	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	-	-	-	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	-	-	-	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 925,000	\$ 50,700	\$ 975,700	\$ 10,385,000	\$ 5,804,921	\$ 16,189,921	\$ 12,750,000	\$ 5,949,256	\$ (2,082,237)	\$ 16,617,019

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES As of December 31, 2012

Year	2011 Revenue Bonds			2012 Revenue Bonds			TOTAL			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2013	\$ 715,000	\$ 638,906	\$ 1,353,906	\$ -	\$ 351,360	\$ 351,360	\$ 3,975,000	\$ 4,367,195	\$ (170,427)	\$ 8,171,768
2014	750,000	620,506	1,370,506	820,000	650,600	1,470,600	4,935,000	4,545,041	(168,014)	9,312,027
2015	765,000	597,782	1,362,782	860,000	633,800	1,493,800	5,090,000	4,390,059	(164,984)	9,315,075
2016	780,000	574,606	1,354,606	880,000	616,400	1,496,400	5,210,000	4,221,888	(161,276)	9,270,612
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	5,710,000	4,035,568	(156,806)	9,588,762
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	5,880,000	3,830,564	(151,590)	9,558,974
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	5,975,000	3,609,341	(145,390)	9,438,951
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	6,095,000	3,363,608	(138,151)	9,320,457
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	6,300,000	3,095,232	(130,186)	9,265,046
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	6,710,000	2,810,639	(121,526)	9,399,113
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	6,985,000	2,512,633	(112,167)	9,385,466
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	7,070,000	2,202,734	(102,087)	9,170,647
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	7,215,000	1,899,776	(91,259)	9,023,517
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	7,440,000	1,607,459	(79,618)	8,967,841
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	7,235,000	1,315,109	(66,701)	8,483,408
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	7,520,000	1,015,040	(52,690)	8,482,350
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	8,065,000	697,401	(38,220)	8,724,181
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	6,695,000	399,048	(23,290)	7,070,758
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	3,405,000	198,725	(7,855)	3,595,870
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	2,640,000	87,025	-	2,727,025
2033	-	-	-	1,360,000	20,400	1,380,400	1,360,000	20,400	-	1,380,400
Totals	\$ 19,370,000	\$ 7,401,884	\$ 26,771,884	\$ 21,095,000	\$ 7,699,710	\$ 28,794,710	\$ 121,510,000	\$ 50,224,485	\$ (2,082,237)	\$ 169,652,248

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Unmetered Sales	\$ 110,945	\$ 84,361
Metered Sales		
Residential	12,545,053	11,276,176
Commercial	9,231,997	8,728,065
Industrial	1,136,010	1,281,860
Public authority	2,814,580	2,721,500
Sales for resale	330,242	267,400
Total Metered Sales	26,057,882	24,275,001
Private Fire Protection	367,791	368,866
Public Fire Protection	2,873,140	2,891,812
Total Sales of Water	29,409,758	27,620,040
Customer Late Payment Penalties	262,111	279,237
Miscellaneous	30,708	19,753
Other	243,411	181,253
Total Operating Revenues	29,945,988	28,100,283
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	25,376	22,773
Collecting and impounding reservoirs	34,632	54,512
Wells and springs	10,895	115,291
Total Source of Supply	70,903	192,576
Pumping		
Operation supervision and engineering	62,744	69,863
Power purchased for pumping	2,315,334	2,216,402
Pumping labor	336,127	322,792
Miscellaneous	361,343	366,151
Maintenance		
Supervision and engineering	70,113	66,157
Structures and improvements	98,671	108,754
Pumping equipment	350,310	327,475
Total Pumping	3,594,642	3,477,594
Water Treatment		
Operation supervision and engineering	73,941	72,507
Chemicals	167,490	177,728
Operation labor	371,279	409,390
Miscellaneous	8,837	9,896
Maintenance		
Supervision and engineering	25,046	22,790
Water treatment equipment	101,883	70,298
Total Water Treatment	748,476	762,609

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 237,543	\$ 219,529
Storage facilities	87,445	81,690
Transmission and distribution lines	295,262	376,705
Meter	85,525	62,899
Customer installation	265,757	243,586
Miscellaneous	725,110	625,895
Maintenance		
Reservoirs	13,163	7,700
Mains	1,694,048	2,231,215
Services	1,291,440	1,403,056
Meters	92,592	158,781
Hydrants	360,634	343,002
Total Transmission and Distribution	5,148,519	5,754,058
Customer Accounts		
Supervision	22,418	19,284
Meter reading	109,438	80,675
Customer records and collection	266,011	226,178
Conservation	220,626	306,616
Total Customer Accounts	618,493	632,753
Administrative and General		
Salaries	670,868	629,832
Office, building, and supplies	384,991	426,525
Outside services employed	92,788	102,428
Property insurance	19,660	18,525
Injuries and damages	379,439	433,398
Employee pensions and benefits	1,554,765	1,895,868
Regulatory commission	5,963	10,292
Miscellaneous	114,965	183,649
Maintenance of general plant	4,787	4,893
Total Administrative and General	3,228,226	3,705,410
Total Operation and Maintenance	13,409,259	14,525,000
Depreciation	4,809,543	4,541,620
Taxes	300,217	336,349
Total Operating Expenses	18,519,019	19,402,969
OPERATING INCOME	\$ 11,426,969	\$ 8,697,314