

# **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, 2013 and 2012

# 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, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012 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. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

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.

*Supplementary Information*

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.

Madison, Wisconsin  
\_\_\_\_\_, 2014

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

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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 1960's 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 with a capacity of over 65 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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### 2013 FINANCIAL HIGHLIGHTS

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- > Operating revenues decreased \$1 million or 3.3% from 2012. The decrease was due to the comparison with 2012's higher revenues, which resulted from the extreme heat and drought conditions that existed in the utility's service area, increasing water consumption during 2012.
- > Income before capital contributions and transfers decreased \$5.8 million or 77.3% from the prior year. The decrease was due to the utility's recording a \$1.9 million loss on the early retirement of plant in service as part of its implementation of an Advanced Metering Infrastructure, a \$1.7 million increase in interest and amortization expense including a total of \$1.4 million in current and unamortized prior year debt issuance costs expensed under the utility's required enactment of Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, the \$1 million decrease in operating revenue, and higher depreciation, operation and maintenance expense.
- > Tax equivalent transfers or payment in lieu of taxes (PILOT) by the utility to the municipality increased \$564,000 or 11.3% to \$5.6 million in 2013 from \$5.0 million in 2012, due primarily to the utility's ongoing investment in its water system infrastructure.

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### 2012 FINANCIAL HIGHLIGHTS

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- > Operating revenues increased \$1.8 million or 6.4% from 2011. The higher revenues were due to a 9% rate increase that was fully effective beginning with the January 1, 2012 customer billing, as well as the extreme heat and drought conditions that existed in the utility's service area, increasing water consumption during 2012.
- > Operating income increased \$2.7 million or 31% 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 million in 2012 from \$4.5 million in 2011, due primarily to the utility's ongoing investment in its water system infrastructure.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013 and 2012

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### RATES

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The utility was granted a 9% rate increase by the PSCW, which became fully effective January 1, 2012. After this last rate increase, the utility is now ranked twenty-third for nonresidential rates and forty-seventh for residential rates out of 78 rates for utilities classified as AB (over 4,000 customers) in Wisconsin, and has the ninth lowest nonresidential rates in Dane County.

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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)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 59,537	\$ 51,868	\$ 45,210
Capital Assets	214,867	205,155	188,438
Total Assets	<u>274,404</u>	<u>257,023</u>	<u>233,648</u>
Deferred Outflows of Resources	<u>2,218</u>	<u>2,491</u>	<u>2,774</u>
Current Liabilities	14,006	13,637	12,252
Long-term Debt Outstanding	136,935	117,535	100,415
Long-term Liabilities	<u>13,278</u>	<u>12,683</u>	<u>11,885</u>
Total Liabilities	<u>164,219</u>	<u>143,855</u>	<u>124,552</u>
Net Investment in Capital Assets	100,766	106,627	105,249
Restricted	5,974	5,100	4,261
Unrestricted	<u>5,663</u>	<u>3,932</u>	<u>2,360</u>
Total Net Position	<u>\$ 112,403</u>	<u>\$ 115,659</u>	<u>\$ 111,870</u>

Total assets combined with deferred outflows of resources increased \$17.1 million and total liabilities increased \$20.4 million, resulting in net position decreasing \$3.3 million or 2.9% in 2013. In 2012, total assets combined with deferred outflows of resources increased \$23.1 million and total liabilities increased \$19.3 million, resulting in net position increasing \$3.8 million or 3.4%.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

### UTILITY FINANCIAL ANALYSIS (cont.)

*Table 2*

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

	Year Ended December 31,		
	2013	2012	2011
Operating Revenues	\$ 27,716	\$ 29,410	\$ 27,620
Other Operating Revenues	1,206	536	480
Total Revenues	28,922	29,946	28,100
Operation & Maintenance Expense	14,123	13,709	14,861
Depreciation Expense	5,420	4,810	4,542
Nonoperating Expense	7,657	3,935	3,297
Total Expenses	27,200	22,454	22,700
Income before Capital Contributions and Transfers	1,722	7,492	5,400
Capital Contributions	646	1,065	1,722
Transfers	(5,624)	(4,768)	(4,372)
Change in Net Position	(3,256)	3,789	2,750
Beginning Net Position	115,659	111,870	109,120
Ending Net Position	\$ 112,403	\$ 115,659	\$ 111,870

The utility's operating revenues decreased \$1 million or 3.3% in 2013 from 2012. The decrease is due to the comparison with 2012's higher revenue, which resulted from the extreme heat and drought conditions that existed in the utility's service area, increasing water consumption.



# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

### UTILITY FINANCIAL ANALYSIS (cont.)

*Table 3*

### Operating Revenues and Expenses (000's)

	Year Ended December 31,		
	2013	2012	2011
<b>OPERATING REVENUES</b>			
Unmetered Sales	\$ 72	\$ 111	\$ 84
Metered Sales			
Residential	11,124	12,545	11,276
Commercial	8,885	9,232	8,728
Industrial	1,153	1,136	1,282
Public authority	2,835	2,815	2,722
Sales for resale	344	330	267
Total Metered Sales	24,341	26,058	24,275
Private Fire Protection	377	368	369
Public Fire Protection	2,926	2,873	2,892
Total Sales of Water	27,716	29,410	27,620
Customer Late Payment Penalties	260	262	279
Miscellaneous	41	31	20
Rents from water property	396	-	-
Other	509	243	181
Total Operating Revenues	<u>28,922</u>	<u>29,946</u>	<u>28,100</u>
<b>OPERATING EXPENSES</b>			
Source of Supply	64	71	192
Pumping	3,604	3,595	3,478
Water Treatment	775	748	763
Transmission and Distribution	5,602	5,149	5,754
Customer Accounts	719	618	633
Administrative and General	3,319	3,228	3,705
Total Operation and Maintenance	14,083	13,409	14,525
Depreciation	5,420	4,810	4,542
Taxes	40	300	336
Total Operating Expenses	<u>19,543</u>	<u>18,519</u>	<u>19,403</u>
Operating Income	<u>\$ 9,379</u>	<u>\$ 11,427</u>	<u>\$ 8,697</u>

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

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### UTILITY FINANCIAL ANALYSIS (cont.)

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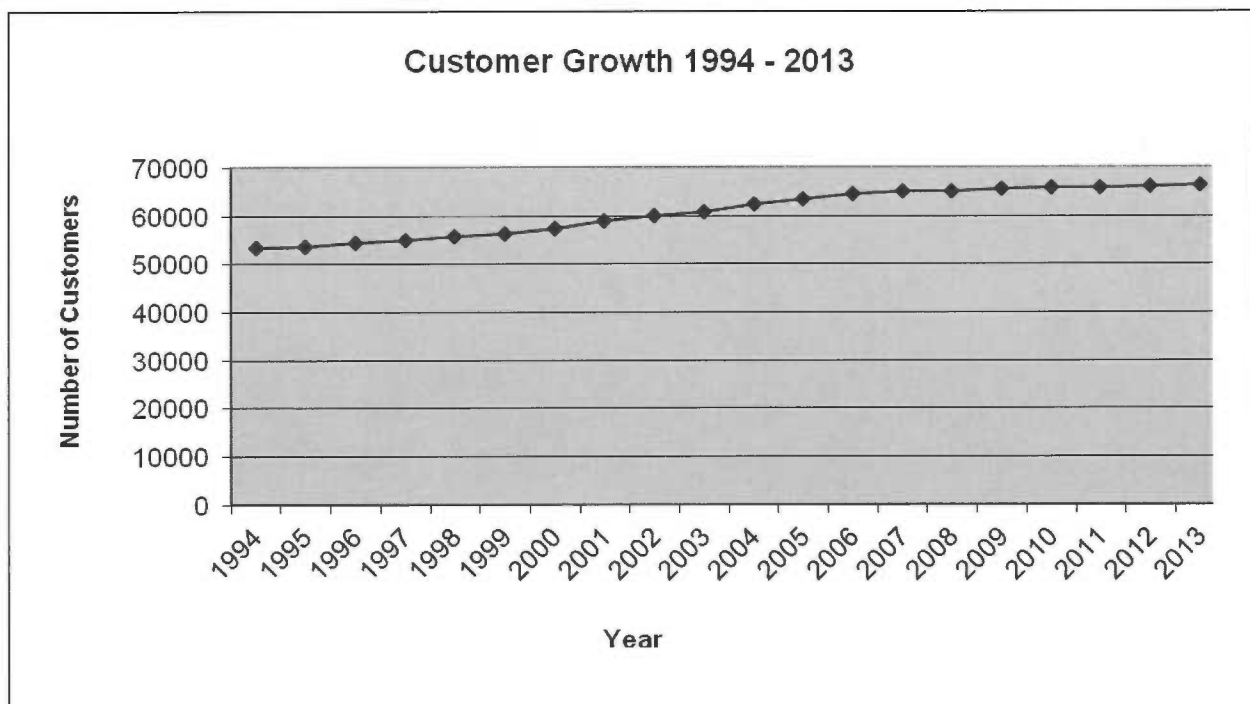
#### **Revenues**

Total operating revenues were \$28.9 million in 2013, compared with \$29.9 million in 2012, a decrease of 3.3%. The higher revenue in 2012 was due to the extreme heat and drought conditions that existed in the utility's service area, increasing water consumption. Although the utility added 270 new customers in 2013, it pumped 5.6% less water than in 2012.

#### **Expenses**

Operation and maintenance expenses totaled \$14.1 million in 2013, compared to \$13.7 million in 2012, an increase of \$400,000 or 2.9%. Depreciation expense increased \$610,000 or 12.5% to \$5.4 million in 2013 from \$4.8 million in 2012. Interest and amortization expense was \$6 million in 2013, compared with \$4.3 million in 2012, an increase of \$1.7 million or 39.5% due to primarily to the utility's compliance with GASB Statement No. 65 in 2013, which required the utility to expense a total of \$1.4 million in current and unamortized prior year debt issuance costs. The utility also recorded a \$1.9 million loss on the early retirement of plant in service as part of its implementation of the Advanced Metering Infrastructure/Project H<sub>2</sub>O.

**Chart 1**



In 2013, the utility received 478 new applications for service, compared with 354 and 293 new applications received in 2012 and 2011, respectively. 2013 and 2012 showed the first increase in consecutive years since a record number of new applications (1,442) was received in 2002, following 1,405 new applications in 2001.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

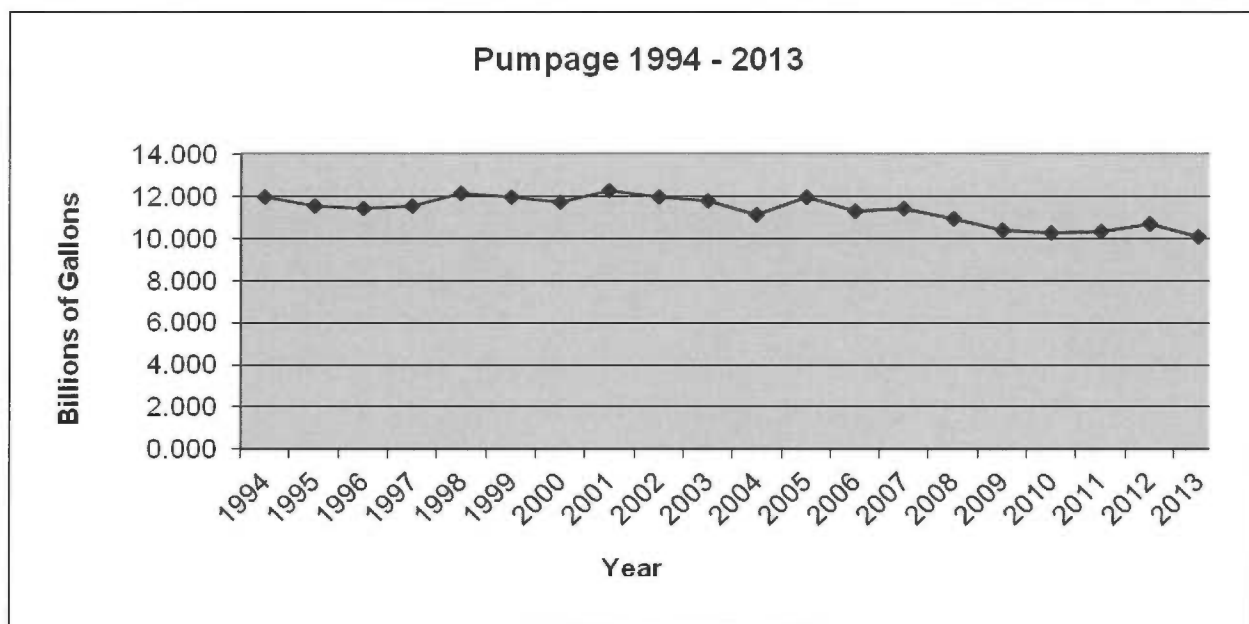
## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

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### UTILITY FINANCIAL ANALYSIS (cont.)

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*Chart 2*



Pumping for the year decreased 5.6% from 10.658 billion gallons in 2012 to 10.057 billion gallons in 2013, due primarily to the extreme heat and drought conditions that existed in the utility's service area, increasing water consumption during 2012.

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### CAPITAL EXPENDITURES

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The utility added a net \$7.3 million of plant in 2013. Of this amount, approximately \$600,000 was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2013 include \$6.5 million for the Advanced Metering Infrastructure/Project H<sub>2</sub>O, \$6.4 million for new and replacement water mains, \$2.2 million for Unit Well #15 Volatile Organic Compound mitigation, \$870,000 for the Booster Pump Station #106 rebuild, \$589,000 for Unit Well #7 Iron and Manganese Filtration, and \$520,000 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, 2013 and 2012

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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 all of its capital budget needs exclusively through the sale of revenue bonds. The utility borrowed \$24.3 million in 2013, \$21.1 million in 2012, \$19.4 million in 2011, \$13.2 million in 2010, and \$48.5 million in 2009. \$10.9 million of the 2009 borrowing was used to fund 2009 and 2010 capital projects, while the other \$37.6 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 2014 to fund the balance of its 2014 capital budget and part of the 2015 capital budget. The utility has stepped up its borrowing patterns in the last ten years by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

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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. Consider the fact that, while customer growth has slowed, the utility added a net 11.4 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will maintain 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 which became fully effective January 2012, 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 H<sub>2</sub>O*, to retrofit all existing water meters with a device that allows the automated collection of meter readings via a fixed network system. This allows customers to closely monitor and control their own water use and thereby conserve water, reducing system demands. The utility is 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 was \$13.9 million. *Project H<sub>2</sub>O* became operational at the end of 2013.

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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 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](mailto:mkrentz@madisonwater.org).

## MADISON WATER UTILITY

### STATEMENTS OF NET POSITION As of December 31, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 2,874,856	\$ 2,669,923
Restricted cash and investments	7,243,803	5,925,680
Customer accounts receivable	7,201,361	7,159,842
Accrued revenue	5,455,229	5,466,629
Materials and supplies	713,450	667,070
Current portion of special assessments	103,054	97,690
Other current assets	256,659	249,128
Total Current Assets	23,848,412	22,235,962
<b>NONCURRENT ASSETS</b>		
Restricted cash and investments	32,210,263	24,764,727
Other Assets		
Special assessments receivable	2,334,105	2,533,769
Unamortized debt issuance costs	-	1,208,074
Preliminary survey and investigation	284,217	284,217
Property held for future use	663,602	662,145
Nonutility property (net of accumulated depreciation)	196,677	179,054
Capital Assets		
Plant in service	259,394,964	252,101,271
Accumulated depreciation	(61,570,769)	(58,466,293)
Construction work in progress	17,042,198	11,520,270
Total Noncurrent Assets	250,555,257	234,787,234
Total Assets	274,403,669	257,023,196
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on advance refunding	2,218,502	2,490,912
Total Deferred Outflows of Resources	2,218,502	2,490,912

	<u>2013</u>	<u>2012</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,650,517	\$ 3,756,179
Other current liabilities	338,853	294,849
Payable to other funds	2,892,689	2,800,705
Accrued interest	9,946	10,102
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	68,158	62,357
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	4,935,000	3,975,000
Accrued interest	2,346,324	1,972,639
Total Current Liabilities	<u>14,006,487</u>	<u>13,636,831</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds	136,935,000	117,535,000
Unamortized debt premium	5,582,311	4,334,415
Accrued compensated absences	1,640,793	1,594,983
Other postemployment benefit obligation	424,115	363,826
Advance from municipality	1,592,722	1,657,353
Loan from municipality	3,825,000	4,590,000
Customer advances for construction	213,014	142,642
Total Noncurrent Liabilities	<u>150,212,955</u>	<u>130,218,219</u>
Total Liabilities	<u>164,219,442</u>	<u>143,855,050</u>
<b>NET POSITION</b>		
Net investment in capital assets	100,766,354	106,627,399
Restricted for:		
Debt service	5,073,972	4,200,188
Capital repairs and replacement	900,000	900,000
Unrestricted	<u>5,662,403</u>	<u>3,931,471</u>
<b>TOTAL NET POSITION</b>	<u>\$ 112,402,729</u>	<u>\$ 115,659,058</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, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Sales of water	\$ 27,716,370	\$ 29,409,758
Other	1,205,912	536,230
Total Operating Revenues	28,922,282	29,945,988
<b>OPERATING EXPENSES</b>		
Operation and maintenance	14,122,833	13,709,476
Depreciation	5,419,760	4,809,543
Total Operating Expenses	19,542,593	18,519,019
Operating Income	9,379,689	11,426,969
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Merchandising and jobbing	7,157	513
Investment income	42,199	198,779
Interest and amortization expense	(6,024,705)	(4,325,011)
Interest charged to construction	77,491	9,977
Loss on early retirement of plant in service	(1,950,438)	-
Other	190,841	181,240
Total Nonoperating Revenues (Expenses)	(7,657,455)	(3,934,502)
Income before Capital Contributions and Transfers	1,722,234	7,492,467
<b>CAPITAL CONTRIBUTIONS</b>	646,272	1,064,951
<b>TRANSFERS</b>	(43,400)	248,796
<b>TRANSFERS - TAX EQUIVALENT</b>	(5,581,435)	(5,017,460)
Change in Net Position	(3,256,329)	3,788,754
NET POSITION - Beginning of Year	115,659,058	111,870,304
<b>NET POSITION - END OF YEAR</b>	\$ 112,402,729	\$ 115,659,058

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 29,257,920	\$ 30,178,813
Paid to suppliers for goods and services	(8,147,053)	(7,558,424)
Paid to employees for services	(5,489,623)	(5,367,243)
Net Cash Flows from Operating Activities	<u>15,621,244</u>	<u>17,253,146</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers - paid to municipality for tax equivalent	(5,581,435)	(9,537,231)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Proceeds from (repayment of) advances from other funds	(62,357)	(53,038)
Interest paid on advances and loans from other funds	(82,219)	(103,168)
Transfers from (to) other funds	(43,400)	248,796
Net Cash Flows from Noncapital Financing Activities	<u>(6,534,411)</u>	<u>(10,209,641)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(18,238,545)	(19,883,334)
Special assessments received	178,723	192,717
Contributions in aid of construction	221,816	247,327
Proceeds from debt issued	24,335,000	21,095,000
Premium on debt issued	1,665,836	1,834,021
Debt issuance costs	(221,444)	(301,093)
Build America Bond interest credit received	240,379	171,505
Debt retired	(3,975,000)	(3,195,000)
Interest paid	(4,367,205)	(3,817,892)
Net Cash Flows from Capital and Related Financing Activities	<u>(160,440)</u>	<u>(3,656,749)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities purchased	(2,114,246)	(9,464,342)
Marketable securities sold	798,946	8,127,322
Investment income	205,638	198,779
Net Cash Flows from Investing Activities	<u>(1,109,662)</u>	<u>(1,138,241)</u>
<b>Net Change in Cash and Cash Equivalents</b>	7,816,731	2,248,515
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>24,917,635</u>	<u>22,669,120</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 32,734,366</u>	<u>\$ 24,917,635</u>



	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>		
<b>FLOW FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 9,379,689	\$ 11,426,969
Nonoperating income	43,382	10,248
Noncash items included in operating income		
Depreciation	5,419,760	4,809,543
Depreciation charged to other accounts	627,717	636,906
Changes in Assets and Liabilities		
Customer accounts receivable	(43,521)	(2,995,866)
Receivable from other funds	94,811	-
Materials and supplies	(46,381)	284,546
Accrued revenues	11,399	29,014
Other current assets	(5,529)	(83,059)
Accounts payable and other current liabilities	(5,731)	60,733
Payable to other funds	39,547	3,039,611
Other postemployment benefit obligation	60,289	64,044
Accrued compensated absences	45,812	(29,543)
	<u>\$ 15,621,244</u>	<u>\$ 17,253,146</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
<b>TO STATEMENT OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 2,874,856	\$ 2,669,923
Restricted cash and investments - current	7,243,803	5,925,680
Restricted cash and investments - noncurrent	32,210,263	24,764,727
Total Cash and Investments	42,328,922	33,360,330
Less: Noncash equivalents	9,594,556	8,442,695
	<u>\$ 32,734,366</u>	<u>\$ 24,917,635</u>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Municipality, customer and developer financed additions to utility plant	<u>\$ 468,030</u>	<u>\$ 549,270</u>
Capital additions assessed to customers	<u>\$ 26,798</u>	<u>\$ 322,884</u>
Interest capitalized	<u>\$ 77,491</u>	<u>\$ 9,977</u>
Increase (decrease) in fair value of investments	<u>\$ (163,439)</u>	<u>\$ (7,446)</u>

See accompanying notes to financial statements.

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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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 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 March 2012, the GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The utility implemented this standard effective January 1, 2013.

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, 2013 and 2012

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

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### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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, 2013 and 2012

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

---

### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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:

	<u>Years</u>
Plant in Service	
Source of supply	22 – 58
Pumping	23 – 31
Water treatment	16 – 31
Transmission and distribution	18 – 77
General	4 – 34
Completed construction not classified	65

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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

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### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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 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. 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.

### ***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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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

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#### *REVENUES AND EXPENSES* (cont.)

##### *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.

Current rates were authorized by the PSCW in an order dated May 5, 2011, and are designed to earn a 6.90% return on rate base.

##### *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. In addition, current legislation requires that the computed payment be greater than or equal to the 1994 PILOT payment.

##### *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. 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 Nonexchange 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, 2013 and 2012

### NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2013	2012	
Checking and Savings	\$ 603,686	\$ 65,227	Custodial credit
Other Investment Pool	30,014,337	23,434,951	(A)
Money Market	2,109,317	1,410,432	Custodial credit
U.S. Agencies	9,594,557	8,442,695	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	7,025	7,025	None
<b>Totals</b>	<b>\$ 42,328,922</b>	<b>\$ 33,360,330</b>	

(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. 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, 2013 and 2012

### 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:

	2013		2012	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	\$ 11,749	\$ 603,686	\$ 859,888	\$ 65,227
US Bank	2,109,317	2,109,317	1,410,432	1,410,432
Totals	\$ 2,121,066	\$ 2,713,003	\$ 2,270,320	\$ 1,475,659

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 \$9,594,557 and \$8,442,695 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2013 and 2012, 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, 2013 and 2012

### 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 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, 2013, 87.5% of the U.S. Agency investments were rated AAA and 12.5% were unrated by Moody's Investors Service. All of the U.S. Agency investments were rated AA+ by S&P. 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.

Concentration risk is the risk of loss attributable to the magnitude of a government's investments in a single issuer. As of December 31, 2013, the utility had 9% of its portfolio in Federal Home Loan Mortgage Corp. securities and 5% in Federal National Mortgage Association securities. 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.

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, 2013 and 2012:

Due To	Due From	2013		2012	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 2,892,689	Items due to Sewer and Storm less items on tax roll	\$ 2,800,705	Items due to Sewer and Storm less items on tax roll

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of transfer balances as of December 31, 2013 and 2012:

To	From	2013		2012	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 5,581,435	Tax equivalent	\$ 5,017,460	Tax equivalent
Water	Municipality	-		261,211	Tower rental received by special revenue fund
Water	Municipality	21,288	Refund of wage insurance	20,960	Refund of wage insurance
Municipality	Water	39,688	Lead service replacement program	33,375	Lead service replacement program
Municipality	Water	25,000	Contribution to Reservoir Park	-	

### 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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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

The following calculation supports the amount of restricted net position:

	December 31,	
	2013	2012
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 7,243,803	\$ 5,925,680
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	11,703,873	9,853,127
Construction	19,606,390	14,011,600
Depreciation	750,000	750,000
Total Noncurrent Restricted Assets	32,210,263	24,764,727
Total Restricted Assets	39,454,066	30,690,407
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(11,527,380)	(9,605,980)
Construction fund	(19,606,390)	(14,011,600)
Current Liabilities Payable from Restricted Assets	(2,346,324)	(1,972,639)
Total Restricted Net Position	\$ 5,973,972	\$ 5,100,188
The purpose of the restricted net position is as follows:		
Debt service	\$ 5,073,972	\$ 4,200,188
Capital repairs and replacement	900,000	900,000
Total	\$ 5,973,972	\$ 5,100,188

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2013 follows:

	1/1/13 Balance	Increases	Decreases	12/31/13 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,115,663	\$ 2,919	\$ -	\$ 2,118,582
Capital assets being depreciated				
Source of supply	9,936,162	9,485	-	9,945,647
Pumping	11,333,196	112,345	23,766	11,421,775
Water treatment	2,275,643	17,925	13,465	2,280,103
Transmission and distribution	186,439,417	18,731,169	4,641,453	200,529,133
General	18,591,706	1,134,523	293,380	19,432,849
Completed construction not classified	21,409,484	1,389,334	9,131,943	13,666,875
Total Capital Assets Being Depreciated	249,985,608	21,394,781	14,104,007	257,276,382
Total Capital Assets	252,101,271	21,397,700	14,104,007	259,394,964
Less: Accumulated Depreciation				
Source of supply	(4,821,649)	(224,058)	-	(5,045,707)
Pumping	(6,349,091)	(431,636)	(25,537)	(6,755,190)
Water treatment	(326,689)	(87,133)	(13,465)	(400,357)
Transmission and distribution	(38,245,798)	(3,895,300)	(2,452,354)	(39,688,744)
General	(8,204,878)	(1,137,508)	(216,083)	(9,126,303)
Completed construction not classified	(518,188)	(271,842)	(235,562)	(554,468)
Total Accumulated Depreciation	(58,466,293)	(6,047,477)	(2,943,001)	(61,570,769)
Construction in progress	11,520,270	19,043,978	13,522,050	17,042,198
Net Capital Assets	\$ 205,155,248			\$ 214,866,393

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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

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, 2013 and 2012

### NOTE 6 – LONG-TERM OBLIGATIONS

#### REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/13 Amount Outstanding
12/01/07	Refunding debt and system improvements	01/01/28	4.00 - 4.75%	\$ 27,185,000	\$ 21,495,000
12/09/09	Refunding debt and system improvements	01/01/30	2.00 - 5.00%	48,540,000	44,100,000
11/10/10	System improvements	01/01/31	0.90 - 5.25%	13,250,000	12,190,000
12/22/11	System improvements	01/01/32	2.00 - 4.00%	19,370,000	18,655,000
12/19/12	System improvements	01/01/33	2.00 - 4.00%	21,095,000	21,095,000
12/18/13	System improvements	01/01/34	3.00 - 5.00%	24,335,000	24,335,000
Totals				<u>\$ 153,775,000</u>	<u>\$ 141,870,000</u>

Revenue bond debt service requirements to maturity follows:

<u>Bond Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,935,000	\$ 5,102,087	\$ 10,037,087
2015	5,935,000	5,416,434	11,351,434
2016	6,120,000	5,221,938	11,341,938
2017	6,645,000	4,998,593	11,643,593
2018	6,845,000	4,746,089	11,591,089
2019	6,970,000	4,475,866	11,445,866
2020	7,115,000	4,179,758	11,294,758
2021	7,355,000	3,859,507	11,214,507
2022	7,795,000	3,521,414	11,316,414
2023	8,100,000	3,168,408	11,268,408
2024	8,220,000	2,801,884	11,021,884
2025	8,405,000	2,446,376	10,851,376
2026	8,680,000	2,105,459	10,785,459
2027	8,525,000	1,762,509	10,287,509
2028	8,860,000	1,409,840	10,269,840
2029	9,455,000	1,037,601	10,492,601
2030	8,135,000	682,648	8,817,648
2031	4,905,000	423,525	5,328,525
2032	4,200,000	250,625	4,450,625
2033	2,980,000	120,400	3,100,400
2034	1,690,000	33,800	1,723,800
Totals	<u>\$ 141,870,000</u>	<u>\$ 57,764,761</u>	<u>\$ 199,634,761</u>

The 2010 bonds are Build America Bonds. Sees pages 38 - 39 for the details of the anticipated federal interest credit. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2013 interest subsidies were reduced by 8.7% and during the federal fiscal year 2014, the subsidy payments have been reduced by 7.2%. This amount may continue to change based on sequestration.

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

#### **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 2013 and 2012 were \$8,342,205 and \$6,836,708, respectively. Total customer net revenues as defined for 2013 and 2012 were \$14,841,648 and \$16,435,291, respectively. Annual principal and interest payments are expected to require 64% of net revenues.

##### **ADVANCE FROM MUNICIPALITY**

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/13 Amount Outstanding
10/03/10	Payoff unfunded pension liability	10/01/24	3.41%	\$ 1,404,052	\$ 1,228,872
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.82%	393,762	432,008

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
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>\$ 1,228,872</u>	<u>\$ 304,357</u>	<u>\$ 1,533,229</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, 2013 and 2012

#### 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 for capital and operating expenses 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
2013	5,355,000	-	765,000	4,590,000

The utility anticipates making principal payments totaling \$765,000 in 2014. No formal schedule for repayment has been established. At December 31, 2013 and 2012, the outstanding balance pertains to operating activities.

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

Long-term obligation activity for the year ended December 31, 2013, is as follows:

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within One Year
Revenue bonds	\$ 121,510,000	\$ 24,335,000	\$ 3,975,000	\$ 141,870,000	\$ 4,935,000
Accrued compensated absences	1,594,983	269,718	223,908	1,640,793	-
Other postemployment benefit obligation	363,826	130,139	69,850	424,115	-
Customer advances for construction	142,642	102,900	32,528	213,014	-
Advance from municipality	1,719,710	3,526	62,356	1,660,880	68,158
Loan from municipality – operating	5,355,000	-	765,000	4,590,000	765,000
Unamortized debt premium	4,334,415	1,665,836	417,940	5,582,311	-
<b>Totals</b>	<b>\$ 135,020,576</b>	<b>\$ 26,507,119</b>	<b>\$ 5,546,582</b>	<b>\$ 155,981,113</b>	<b>\$ 5,768,158</b>



## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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

##### *LONG-TERM OBLIGATIONS SUMMARY (cont.)*

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	138,045	74,001	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	-
<b>Totals</b>	<b>\$ 116,318,156</b>	<b>\$ 23,369,577</b>	<b>\$ 4,667,157</b>	<b>\$ 135,020,576</b>	<b>\$ 4,802,357</b>

##### *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, 2013, \$605,000 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, 2013, \$11,570,000 of the bonds outstanding are considered defeased.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### 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,	
	2013	2012
Plant in Service	\$ 259,394,964	\$ 252,101,271
Accumulated Depreciation	(61,570,769)	(58,466,293)
Construction Work in Progress	17,042,198	11,520,270
Sub-totals	214,866,393	205,155,248
Less: Capital Related Debt		
Current portion of capital related long-term debt	4,935,000	3,975,000
Unamortized debt issuance costs	-	(1,208,074)
Long-term portion of capital related long-term debt	136,935,000	117,535,000
Unamortized debt premium	5,582,311	4,334,415
Unamortized loss on advance refunding	(2,218,502)	(2,490,912)
Sub-totals	145,233,809	122,145,429
Add: Borrowed Funds on Hand		
Reserve fund	11,527,380	9,605,980
Construction fund	19,606,390	14,011,600
Sub-totals	31,133,770	23,617,580
Total Net Investment in Capital Assets	\$ 100,766,354	\$ 106,627,399

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

### **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.

Effective the first day of the first pay period on or after June 29, 2011 the required employee 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 required employee 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 2013 and 2012 were:

	Employees	Employer
2013 General Category	6.65%	6.65%
2012 General Category	5.9%	5.9%

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

	Year Ended December 31,		
	2013	2012	2011
Total Utility Payroll	\$ 7,622,231	\$ 7,287,434	\$ 7,103,120
Total Covered Employee Payroll	\$ 6,883,411	\$ 6,625,542	\$ 6,495,766
Total Required Contributions	\$ 915,494	\$ 781,814	\$ 753,509
Total Required Contributions (%)	13.3%	11.8%	11.6%

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, 2013 and 2012

### 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 the 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	
	2013	2012	2013	2012
Annual required contribution	\$ 7,027,727	\$ 6,352,816	\$ 130,139	\$ 138,045
Contributions made	<u>(3,538,477)</u>	<u>(3,043,073)</u>	<u>(69,850)</u>	<u>(74,001)</u>
Net Change in OPEB obligation	3,489,250	3,309,743	60,289	64,044
Net OPEB Obligation – 1/1	<u>18,433,107</u>	<u>15,123,364</u>	<u>363,826</u>	<u>299,782</u>
Net OPEB Obligation – 12/31	<u>\$ 21,922,357</u>	<u>\$ 18,433,107</u>	<u>\$ 424,115</u>	<u>\$ 363,826</u>

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and 2012, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2013	\$ 7,027,727	50%	\$ 21,922,357
Municipality	2012	6,352,816	48%	18,433,107
Water Utility	2013	130,139	54%	424,115
Water Utility	2012	138,045	54%	363,826

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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

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The funded status of the plan (overall municipality) as of December 31, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 55,710,752
Actuarial value of plan assets	<u>1,719,867</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 53,990,885</u>
Funded ratio (actuarial value of plan assets/AAL)	3%
Covered payroll (active plan members)	\$ 160,967,237
UAAL as a percentage of covered payroll	33.5%

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 2014, reduced by decrements to an ultimate rate of 4.5% for 2021 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, 2013, was 30 years.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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### NOTE 10 – 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, 2013, has been accrued in these financial statements.

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### NOTE 11 – BOND COVENANT DISCLOSURES

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#### *COMPLIANCE WITH FUNDING REQUIREMENTS*

The utility is in compliance with bond funding requirements.

#### *NUMBER OF CUSTOMERS*

At December 31, 2013 and 2012, the utility served the following number of customers:

	<u>2013</u>	<u>2012</u>
Residential	56,980	56,739
Commercial	8,902	8,873
Industrial	48	48
Public Authority	<u>486</u>	<u>486</u>
Totals	<u>66,416</u>	<u>66,146</u>

#### *WATER PUMPED AND BILLED*

During the years ended December 31, 2013 and 2012, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2013</u>	<u>2012</u>
Water pumped	<u>10,057,545</u>	<u>10,658,538</u>
Water billed	<u>8,863,612</u>	<u>9,587,160</u>

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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## NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

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### *RISK MANAGEMENT*

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

**SUPPLEMENTAL INFORMATION**



**MADISON WATER UTILITY**

City of Madison, Wisconsin

**SCHEDULE OF INSURANCE IN FORCE**  
For the year ended December 31, 2013

Type of Coverage and Name of Company	Policy Number Policy Period From To	Details of Coverage*	Liability Limits
Automobile Comprehensive <b>LOCAL GOVERNMENT PROPERTY INSURANCE FUND</b>	140337 01/01/13 to 01/01/14	\$121,909,585	Replacement Cost \$3,000 deductible
Automobile Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2013LP03A 01/01/13 to 01/01/14	Automobile liability	\$10,000,000 per occurrence \$300,000 Self-insured retention
Boiler & Machinery <b>CHUBB</b>	7834-76-48 01/01/13 to 01/01/14	Repair & Replace Boiler & Machinery	\$50,000,000 \$25,000 deductible
Employee Theft <b>FIDELITY &amp; DEPOSIT</b>	CCP 0060387 09 01/01/13 to 01/01/14	Blanket Bond	\$1,000,000 limit \$10,000 deductible
Fire & Extended Coverage on all structures <b>LOCAL GOVERNMENT PROPERTY INSURANCE FUND</b>	140337 01/01/13 to 01/01/14	\$545,690,092	Replacement cost \$25,000 deductible
General Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2013LP03A 01/01/13 to 01/01/14	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.

**MADISON WATER UTILITY**

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2013

Year	2007A MRB's		2007B MRB's		2009A Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	965,000	833,700	340,000	67,200	920,000	1,449,506
2015	1,005,000	794,300	360,000	53,200	930,000	1,417,106
2016	1,045,000	753,300	370,000	38,600	1,215,000	1,374,206
2017	1,085,000	710,700	385,000	23,500	1,625,000	1,317,406
2018	1,130,000	666,400	395,000	7,900	1,675,000	2,926,406
2019	1,175,000	619,566	-	-	2,055,000	1,174,238
2020	1,230,000	569,963	-	-	2,040,000	1,079,570
2021	1,280,000	517,394	-	-	2,110,000	975,820
2022	1,340,000	461,719	-	-	2,510,000	860,320
2023	1,395,000	402,728	-	-	2,955,000	723,695
2024	1,460,000	339,362	-	-	2,900,000	577,320
2025	1,525,000	271,247	-	-	2,900,000	446,820
2026	1,595,000	199,097	-	-	2,970,000	329,420
2027	1,670,000	122,550	-	-	2,085,000	228,320
2028	1,745,000	41,444	-	-	2,175,000	141,760
2029	-	-	-	-	2,280,000	48,450
2030	-	-	-	-	-	-
Totals	\$ 19,645,000	\$ 7,303,470	\$ 1,850,000	\$ 190,400	\$ 33,345,000	\$ 13,395,363
						\$ 46,740,363
Year	2009B Refunding		2009C Bonds		2010 BAB's	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	310,000	17,425	265,000	426,063	565,000	480,041
2015	320,000	6,000	280,000	416,488	570,000	471,383
2016	-	-	345,000	403,988	575,000	460,788
2017	-	-	340,000	390,288	585,000	448,018
2018	-	-	355,000	376,388	595,000	433,114
2019	-	-	365,000	361,532	605,000	415,399
2020	-	-	390,000	344,026	620,000	394,718
2021	-	-	415,000	323,901	635,000	371,961
2022	-	-	300,000	306,026	650,000	347,218
2023	-	-	-	298,526	670,000	320,478
2024	-	-	-	298,526	685,000	291,676
2025	-	-	-	298,526	705,000	260,739
2026	-	-	-	298,526	725,000	227,481
2027	-	-	515,000	288,226	750,000	190,575
2028	-	-	530,000	266,995	775,000	150,544
2029	-	-	2,615,000	200,495	800,000	109,200
2030	-	-	3,410,000	72,463	825,000	66,544
2031	-	-	-	-	855,000	22,444
Totals	\$ 630,000	\$ 23,425	\$ 10,125,000	\$ 5,370,983	\$ 12,190,000	\$ 5,462,321
						\$ (1,911,810)
						\$ 15,740,511

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2013 interest subsidies were reduced by 8.7% and during federal fiscal year 2014, the subsidy payments have been reduced by 7.2%. This amount may continue to change based on sequestration.

# MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2013

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	750,000	620,506	1,370,506	820,000	650,600	1,470,600	-	557,046	557,046
2015	765,000	597,782	1,362,782	860,000	633,800	1,493,800	845,000	1,026,375	1,871,375
2016	780,000	574,606	1,354,606	880,000	616,400	1,496,400	910,000	1,000,050	1,910,050
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	935,000	963,025	1,898,025
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	965,000	915,525	1,880,525
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	985,000	866,525	1,861,525
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	1,020,000	816,150	1,836,150
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	1,055,000	764,275	1,819,275
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	1,085,000	710,775	1,795,775
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	1,115,000	655,775	1,770,775
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	1,150,000	599,150	1,749,150
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	1,190,000	546,600	1,736,600
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	1,240,000	498,000	1,738,000
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	1,290,000	447,400	1,737,400
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	1,340,000	394,800	1,734,800
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	1,390,000	340,200	1,730,200
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	1,440,000	283,600	1,723,600
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	1,500,000	224,800	1,724,800
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	1,560,000	163,600	1,723,600
2033	-	-	-	1,360,000	20,400	1,380,400	1,620,000	100,000	1,720,000
2034	-	-	-	-	-	-	1,690,000	33,800	1,723,800
<b>Totals</b>	<b>\$ 18,655,000</b>	<b>\$ 6,762,978</b>	<b>\$ 25,417,978</b>	<b>\$ 21,095,000</b>	<b>\$ 7,348,350</b>	<b>\$ 28,443,350</b>	<b>\$ 24,335,000</b>	<b>\$ 11,907,471</b>	<b>\$ 36,242,471</b>

Year	TOTAL		Federal Credit	Total
	Principal	Interest		
2014	4,935,000	5,102,087	(168,014)	9,869,073
2015	5,935,000	5,416,434	(164,984)	11,186,450
2016	6,120,000	5,221,938	(161,276)	11,180,662
2017	6,645,000	4,998,593	(156,806)	11,486,787
2018	6,845,000	4,746,089	(151,590)	11,439,499
2019	6,970,000	4,475,866	(145,390)	11,300,476
2020	7,115,000	4,179,758	(138,151)	11,156,607
2021	7,355,000	3,859,507	(130,186)	11,084,321
2022	7,795,000	3,521,414	(121,526)	11,194,888
2023	8,100,000	3,168,408	(112,167)	11,156,241
2024	8,220,000	2,801,884	(102,087)	10,919,797
2025	8,405,000	2,446,376	(91,259)	10,760,117
2026	8,680,000	2,105,459	(79,618)	10,705,841
2027	8,525,000	1,762,509	(66,701)	10,220,808
2028	8,860,000	1,409,840	(52,690)	10,217,150
2029	9,455,000	1,037,601	(38,220)	10,454,381
2030	8,135,000	682,648	(23,290)	8,794,358
2031	4,905,000	423,525	(7,855)	5,320,670
2032	4,200,000	250,625	-	4,450,625
2033	2,980,000	120,400	-	3,100,400
2034	1,690,000	33,800	-	1,723,800
<b>Totals</b>	<b>\$ 141,870,000</b>	<b>\$ 57,764,761</b>	<b>\$ (1,911,810)</b>	<b>\$ 197,722,951</b>

# MADISON WATER UTILITY

## OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Unmetered Sales	\$ 72,497	\$ 110,945
Metered Sales		
Residential	11,124,051	12,545,053
Commercial	8,884,500	9,231,997
Industrial	1,153,442	1,136,010
Public authority	2,834,934	2,814,580
Sales for resale	344,064	330,242
Total Metered Sales	24,340,991	26,057,882
Private Fire Protection	377,184	367,791
Public Fire Protection	2,925,698	2,873,140
Total Sales of Water	27,716,370	29,409,758
Customer Late Payment Penalties	260,382	262,111
Miscellaneous	41,290	30,708
Rents from water property	395,803	-
Other	508,437	243,411
Total Operating Revenues	28,922,282	29,945,988
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	16,620	25,376
Collecting and impounding reservoirs	43,467	34,632
Wells and springs	3,788	10,895
Total Source of Supply	63,875	70,903
Pumping		
Operation supervision and engineering	67,225	62,744
Power purchased for pumping	2,333,071	2,315,334
Pumping labor	344,876	336,127
Miscellaneous	412,934	361,343
Maintenance		
Supervision and engineering	44,183	70,113
Structures and improvements	177,991	98,671
Pumping equipment	224,007	350,310
Total Pumping	3,604,287	3,594,642
Water Treatment		
Operation supervision and engineering	75,029	73,941
Chemicals	164,136	167,490
Operation labor	293,904	371,279
Miscellaneous	103,312	8,837
Maintenance		
Supervision and engineering	21,027	25,046
Water treatment equipment	117,636	101,883
Total Water Treatment	775,044	748,476

## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES (cont.)

For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 234,384	\$ 237,543
Storage facilities	90,347	87,445
Transmission and distribution lines	363,697	295,262
Meter	59,520	85,525
Customer installation	274,957	265,757
Miscellaneous	672,744	725,110
Maintenance		
Reservoirs	13,430	13,163
Mains	1,949,074	1,694,048
Services	1,576,187	1,291,440
Meters	36,787	92,592
Hydrants	330,510	360,634
Total Transmission and Distribution	5,601,637	5,148,519
Customer Accounts		
Supervision	26,535	22,418
Meter reading	89,744	109,438
Customer records and collection	293,055	266,011
Conservation	309,325	220,626
Total Customer Accounts	718,659	618,493
Administrative and General		
Salaries	676,412	670,868
Office, building, and supplies	425,273	384,991
Outside services employed	70,257	92,788
Property insurance	23,898	19,660
Injuries and damages	396,443	379,439
Employee pensions and benefits	1,601,155	1,554,765
Regulatory commission	-	5,963
Miscellaneous	119,287	114,965
Maintenance of general plant	6,119	4,787
Total Administrative and General	3,318,844	3,228,226
Total Operation and Maintenance	14,082,346	13,409,259
Depreciation	5,419,760	4,809,543
Taxes	40,487	300,217
Total Operating Expenses	19,542,593	18,519,019
OPERATING INCOME	\$ 9,379,689	\$ 11,426,969