

# **MADISON WATER UTILITY**

An Enterprise Fund of the  
City of Madison, Wisconsin

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

Years Ended December 31, 2010 and 2009

**MADISON WATER UTILITY**  
An Enterprise Fund of the City of Madison, Wisconsin

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December 31, 2010 and 2009

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## INDEPENDENT AUDITORS' REPORT

To the Water Utility Board  
Madison Water Utility  
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Water Utility Board  
Madison Water Utility

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

*Baker Tilly Vinchow Krause, LLP*

Madison, Wisconsin  
August 31, 2011

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

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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 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.

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### 2010 FINANCIAL HIGHLIGHTS

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- > Operating revenues increased \$4.734 million or 21.57% from 2009. The higher revenues were due to the rate increase effective December 29, 2009, that was prorated in beginning with the April 1, 2010 customer billing. While the number of customers increased 0.38%, water pumped was down 0.97%.
- > Operating expenses increased \$421,607 or 2.34% from the prior year. The increase was due to increased maintenance of mains, services and hydrants, offset by a decrease in maintenance of distribution reservoirs. In 2009, the reservoir tower at unit well #26 was painted.
- > The utility disposed of two properties in 2010, its former main office building and an elevated reservoir damaged by fire, with gain totaling \$629,384.
- > Total assets increased \$16.446 million and total liabilities increased \$13.47 million, resulting in net assets increasing \$2.976 million or 2.8% in 2010.

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### 2009 FINANCIAL HIGHLIGHTS

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- > The utility's operating revenues increased \$1.642 million or 8.09% from 2008. Water pumped was down 5.06% and the number of customers increased 0.46%.
- > The utility's operating expenses increased by \$1.117 million or 6.62% from the prior year. This increase is attributed to increased costs related to salaries, benefits, reservoir tower painting and water conservation expenses.
- > Investment income decreased by \$453,425 or 69.03% from 2008, as interest rates continued to be at or near record lows and the utility had fewer dollars available to invest in 2009.
- > The utility's total assets increased \$7.575 million and total liabilities increased \$7.013 million, resulting in net assets increasing \$0.562 million or 0.53% from 2008.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

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### RATES

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The utility was granted a 22% rate increase effective December 29, 2009. The rate increase was prorated in beginning with the April 1, 2010 customer billing. The full rate increase was included on the September 1, 2010 bills. After this last rate increase, the utility is now ranked thirty-second for non-residential rates and forty-fourth for residential rates out of 92 rates for utilities classified as AB (over 4,000 customers) in Wisconsin, and has the fourteenth lowest non-residential rates in Dane County.

The utility filed an application to increase rates with the PSCW on October 6, 2010, and was granted a 9% rate increase effective May 5, 2011.

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### UTILITY FINANCIAL ANALYSIS

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

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

*Table 1*

#### Condensed Statements of Net Assets (000's)

	2010	2009	2008
Current and Other Assets	\$ 32,245	\$ 26,179	\$ 27,525
Capital Assets	<u>178,867</u>	<u>168,487</u>	<u>159,565</u>
Total Assets	<u>211,112</u>	<u>194,666</u>	<u>187,090</u>
Current Liabilities	7,860	11,978	12,398
Long-Term Debt Outstanding	84,240	73,670	64,990
Long-Term Liabilities	<u>9,892</u>	<u>2,874</u>	<u>4,120</u>
Total Liabilities	<u>101,992</u>	<u>88,522</u>	<u>81,508</u>
Invested in Capital Assets, Net of Related Debt	105,984	106,396	95,957
Restricted	3,535	1,895	10,360
Unrestricted	<u>(399)</u>	<u>(2,147)</u>	<u>(735)</u>
Total Net Assets	<u>\$ 109,120</u>	<u>\$ 106,144</u>	<u>\$ 105,582</u>

Net Assets increased \$2.976 million from 2009 to 2010, an increase of 2.8%. Net Assets have increased 3.35% since 2008.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

### UTILITY FINANCIAL ANALYSIS (cont.)

*Table 2*

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

	Year Ended December 31,		
	2010	2009	2008
Operating Revenues	\$ 26,217	\$ 21,558	\$ 19,950
Other Operating Revenues	466	391	357
Total Revenues	26,683	21,949	20,307
Operation & Maintenance Expense	14,194	14,049	13,146
Depreciation Expense	4,219	3,943	3,729
Non-Operating Expense	2,780	2,888	2,506
Total Expenses	21,193	20,880	19,381
Income before Capital Contributions and Transfers	5,490	1,069	926
Capital Contributions	1,279	3,070	2,595
Transfers	(3,793)	(3,577)	(2,712)
Change in Net Assets	2,976	562	809
Beginning Net Assets	106,144	105,582	104,773
Ending Net Assets	\$ 109,120	\$ 106,144	\$ 105,582

The utility's operating revenues increased \$4.734 million or 21.57% in 2010. This is attributed to the rate increase effective December 29, 2009, that was prorated in beginning with the April 1, 2010 customer billing and fully included on the September 1, 2010 bills.



# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 3**

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

	Year Ended December 31,		
	2010	2009	2008
<b>OPERATING REVENUES</b>			
Unmetered Sales	\$ 78	\$ 73	\$ 57
Metered Sales			
Residential	10,442	8,617	8,108
Commercial	8,361	6,987	6,427
Industrial	1,276	1,071	892
Public authorities	2,547	2,134	1,900
Sales for resale	368	168	315
Total Metered Sales	22,994	18,977	17,642
Private fire protection	344	288	279
Public fire protection	2,801	2,220	1,972
Total Sales of Water	26,217	21,558	19,950
Forfeited discounts	240	196	183
Miscellaneous	21	26	22
Other	205	169	152
Total Operating Revenues	26,683	21,949	20,307
<b>OPERATING EXPENSES</b>			
Source of Supply	81	190	90
Pumping	3,329	3,215	3,292
Water Treatment	780	769	815
Transmission and Distribution	5,835	5,699	5,183
Customer Accounts	698	612	390
Administrative and General	3,371	3,374	3,209
Total Operation and Maintenance	14,094	13,859	12,979
Depreciation	4,219	3,943	3,729
Taxes	100	190	167
Total Operating Expenses	18,413	17,992	16,875
<b>OPERATING INCOME</b>	<b>\$ 8,270</b>	<b>\$ 3,957</b>	<b>\$ 3,432</b>

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

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### UTILITY FINANCIAL ANALYSIS (cont.)

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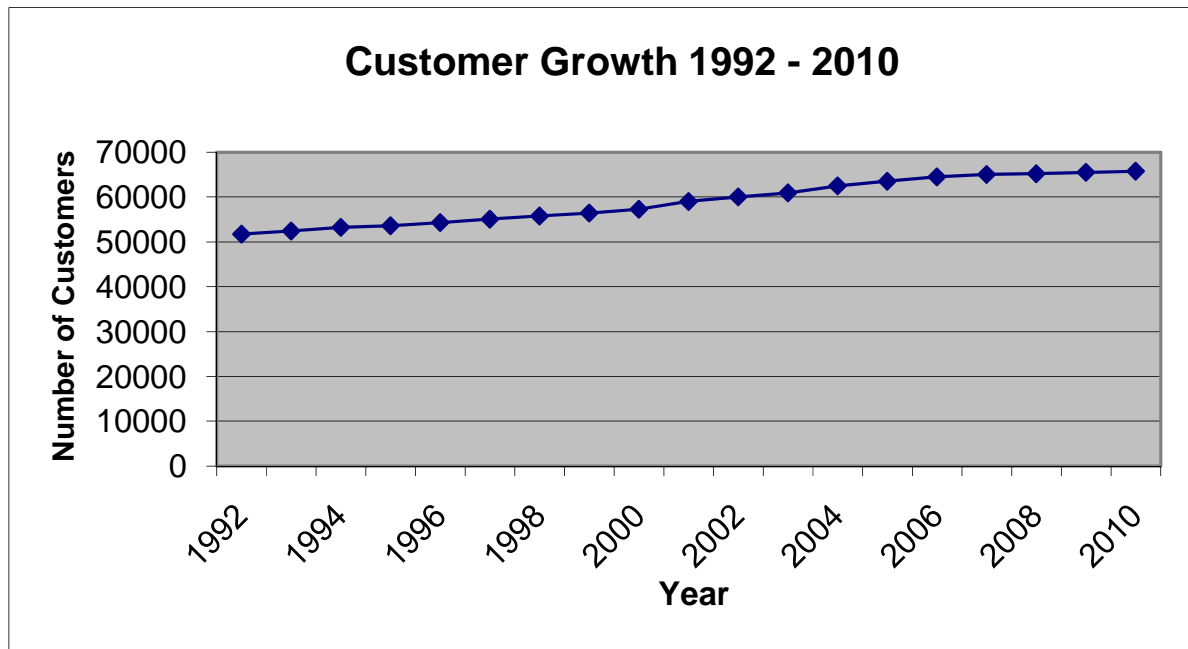
#### **Revenues**

Total operating revenues were \$26.683 million in 2010, compared to \$21.949 million in 2009, an increase of 21.57%. The higher revenues were due to the rate increase effective December 29, 2009, that was prorated in beginning with the April 1, 2010 customer billing. While the utility added 249 new customers in 2010, it pumped 0.97% less water – continuing a downward trend since 2005.

#### **Expenses**

Operation and maintenance expenses totaled \$14.094 million in 2010, compared to \$13.859 million in 2009, an increase of \$235,136 or 1.7%. Major changes were noted in maintenance of distribution reservoirs which decreased \$409,051 due to the painting of the tower at unit well #26 in 2009, offset by maintenance of mains which increased \$141,893 due to increased main leaks, maintenance of services which increased \$263,770 over 2009 due to the closing of a large number of work orders with expenses in excess of allowable cost of removals in 2010, maintenance of hydrants which increased \$83,617 due to a higher number of hydrant removals in 2010 compared to 2009, and an increase in water conservation expenses of \$90,130 due to advertising and increased customer participation by allowing multi-tenant dwellings in the residential toilet rebate program in 2010.

**Chart 1**



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

See accompanying independent auditors' report.

# MADISON WATER UTILITY

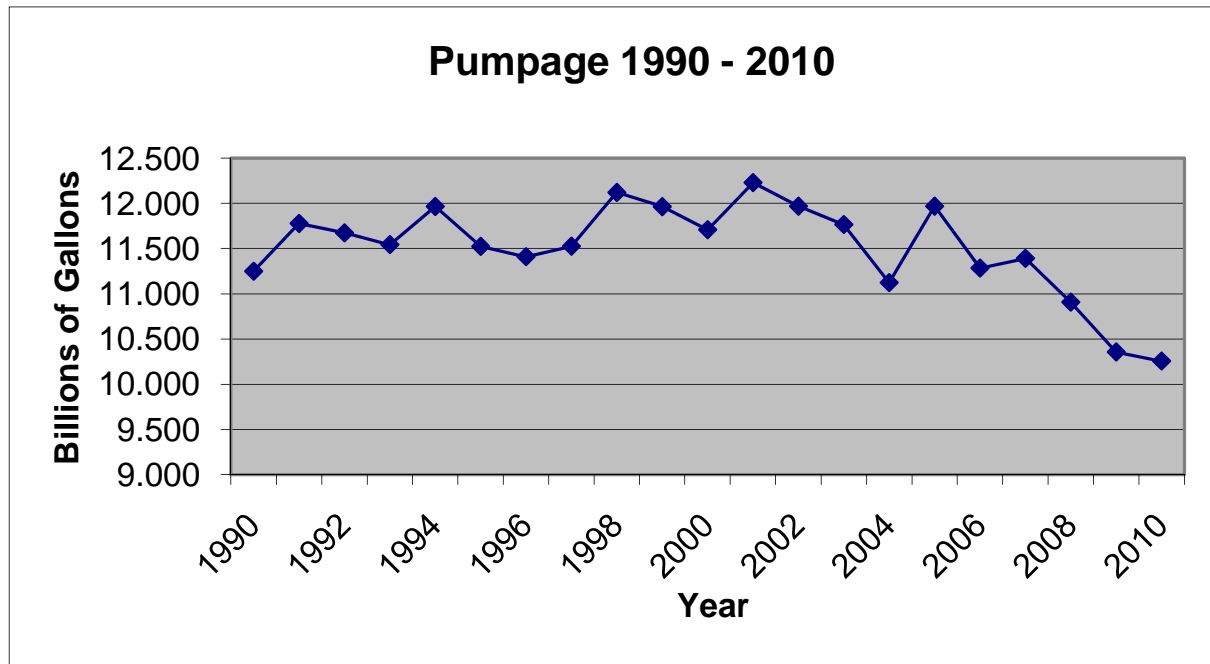
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009

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## UTILITY FINANCIAL ANALYSIS (cont.)

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Chart 2



Pumping for the year decreased from 10.355 billion gallons in 2009 to 10.255 billion gallons in 2010, due to the economy and an increase in conservation efforts by customers.

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## CAPITAL EXPENDITURES

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The utility added a net \$24,221,276 of plant in 2010. Of this amount, \$1,224,236 was contributed by developers, contractors and by special assessment. The utility is operating under a consent order from the Wisconsin Department of Natural Resources that requires the utility to replace all of the lead services in the system. The utility stopped using lead as a service material in 1928. At that time, it was estimated there were about 11,000 lead services in the system. Over time, many of these have been replaced. It was estimated that there were about 6,000 lead services remaining in 2000. By the end of 2010, it was estimated there were 211 lead services remaining in the system. The utility is on schedule for compliance with the consent order by the end of 2011.

Capital projects completed in 2010 and paid for by the utility include \$24,360 for the lead service replacement program, \$956,730 for an upgrade to the Supervisory Control and Data Acquisition (SCADA) system used to monitor and control the utility's unit wells, water flow and pressure zones, and \$5.2 million for water main replacement projects.

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2010 and 2009

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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 will look to funding for all of its capital budget needs exclusively through the sale of revenue bonds. The utility borrowed \$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 2011 to fund the balance of its 2011 capital budget and part of the 2012 capital budget. The utility has stepped up its borrowing patterns in the last seven 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 and its 44,000 students, versus the national economy. Consider the fact that, while customer growth has slowed, the utility added 15.2 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 December 2009, the utility's rates remain below the average rates of large utilities in the state.

The utility's largest customer, the University of Wisconsin, 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 below the statewide average.

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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 ASSETS December 31, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 174,248	\$ 137,251
Restricted cash and investments	4,238,859	1,678,238
Customer accounts receivable	3,792,532	3,001,403
Accrued revenue	5,248,292	4,331,756
Receivable from other funds	237,010	211,537
Materials and supplies	712,307	732,266
Current portion of special assessments	102,172	152,500
Other current assets	<u>212,305</u>	<u>233,994</u>
Total Current Assets	<u>14,717,725</u>	<u>10,478,945</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and investments	13,375,387	12,065,526
Other Assets		
Special assessments receivable	2,260,137	1,875,468
Unamortized debt issuance costs	782,299	656,647
Preliminary survey and investigation	284,217	232,006
Property held for future use	659,573	659,573
Non-utility property (net of accumulated depreciation)	165,319	210,990
Capital Assets		
Plant in service	226,456,422	202,235,146
Accumulated depreciation	(49,710,898)	(47,260,128)
Construction work in progress	<u>2,121,900</u>	<u>13,511,345</u>
Total Non-Current Assets	<u>196,394,356</u>	<u>184,186,573</u>
Total Assets	<u>211,112,081</u>	<u>194,665,518</u>

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,868,493	\$ 785,180
Other current liabilities	282,452	236,629
Accrued interest	9,270	56,922
Current portion of loan from municipality	1,360,000	9,070,000
Current portion of advance	55,106	31,111
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	2,680,000	1,115,000
Accrued interest	1,604,396	683,492
Total Current Liabilities	<u>7,859,717</u>	<u>11,978,334</u>
<b>NON-CURRENT LIABILITIES</b>		
Revenue bonds	84,240,000	73,670,000
Unamortized debt premium	2,289,227	2,517,374
Unamortized loss on advance refunding	(3,068,569)	(3,390,182)
Compensated absences	1,601,531	1,634,538
Other postemployment benefit obligation	235,281	168,442
Advance from municipality	1,767,707	1,750,467
Loan from municipality	6,885,000	-
Customer advances for construction	182,477	192,873
Total Non-Current Liabilities	<u>94,132,654</u>	<u>76,543,512</u>
 Total Liabilities	 <u>101,992,371</u>	 <u>88,521,846</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	105,984,452	106,396,344
Restricted for debt service	3,534,463	1,894,746
Unrestricted (deficit)	<u>(399,205)</u>	<u>(2,147,418)</u>
 <b>TOTAL NET ASSETS</b>	 <u>\$ 109,119,710</u>	 <u>\$ 106,143,672</u>

See accompanying notes to financial statements.

## MADISON WATER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2010 and 2009

	2010	2009
<b>OPERATING REVENUES</b>		
Sales of water	\$ 26,217,212	\$ 21,557,907
Other	465,675	391,499
Total Operating Revenues	26,682,887	21,949,406
<b>OPERATING EXPENSES</b>		
Operation and maintenance	14,194,328	14,048,677
Depreciation	4,219,015	3,943,059
Total Operating Expenses	18,413,343	17,991,736
Operating Income	8,269,544	3,957,670
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Merchandising and jobbing	(9,776)	(20,442)
Investment income	125,825	203,408
Interest and amortization expense	(3,540,266)	(3,115,276)
Interest charged to construction	13,268	42,142
Gain from property disposal	629,384	-
Other	1,875	1,650
Total Non-Operating Revenues (Expenses)	(2,779,690)	(2,888,518)
Income before Capital Contributions and Transfers	5,489,854	1,069,152
<b>CAPITAL CONTRIBUTIONS</b>	1,279,071	3,069,603
<b>TRANSFERS</b>	321,000	(5,000)
<b>TRANSFERS - TAX EQUIVALENT</b>	(4,113,887)	(3,572,131)
Change in Net Assets	2,976,038	561,624
NET ASSETS - Beginning of Year	106,143,672	105,582,048
<b>NET ASSETS - END OF YEAR</b>	\$ 109,119,710	\$ 106,143,672

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 24,938,864	\$ 21,727,827
Paid to suppliers for goods and services	(7,959,744)	(9,130,649)
Paid to employees for services	(5,507,960)	(5,619,881)
Net Cash Flows from Operating Activities	<u>11,471,160</u>	<u>6,977,297</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers - paid to municipality for tax equivalent	(4,113,887)	(3,572,131)
Short-term loan received - operating portion	1,220,000	4,520,000
Proceeds from (repayment of) advances from other funds	41,235	(17,560)
Interest paid on advances and loans from other funds	(230,106)	(80,277)
Transfers - equipment fund	(103,000)	(235,000)
Transfers - tower rental from special revenue fund	424,000	230,000
Net Cash Flows from Non-Capital Financing Activities	<u>(2,761,758)</u>	<u>845,032</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(12,817,379)	(11,564,349)
Special assessments received	157,458	111,273
Contributions in aid of construction	111,269	131,543
Short term borrowing paid to municipality - capital portion	(2,045,000)	(855,000)
Interest paid on short-term loan - capital portion	(24,876)	(93,817)
Proceeds from debt issued	13,250,000	10,900,000
Cash used in refunding transaction	-	(3,211,183)
Debt issuance costs	(195,192)	-
Debt premium received	-	100,000
Debt retired	(1,115,000)	(3,160,000)
Interest paid	(2,249,028)	(2,944,018)
Net Cash Flows from Capital and Related Financing Activities	<u>(4,927,748)</u>	<u>(10,585,551)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities purchased	(6,922,497)	-
Marketable securities sold	-	6,300,000
Investment income	125,825	203,408
Net Cash Flows from Investing Activities	<u>(6,796,672)</u>	<u>6,503,408</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(3,015,018)</b>	<b>3,740,186</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of Year</b>	<b><u>13,881,015</u></b>	<b><u>10,140,829</u></b>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<b><u>\$ 10,865,997</u></b>	<b><u>\$ 13,881,015</u></b>



	2010	2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 8,269,544	\$ 3,957,670
Non-operating loss	(7,901)	(18,791)
Non-cash items included in operating income		
Depreciation	4,219,015	3,943,059
Depreciation charged to other accounts	579,272	520,363
Changes in Assets and Liabilities		
Customer accounts receivable	(787,120)	54,665
Receivable from other funds	(261,004)	(103,248)
Materials and supplies	19,959	(42,874)
Accrued revenues	(916,536)	(410,633)
Other current assets	(9,329)	123,462
Accounts payable and other current liabilities	107,024	23,583
Payable to other funds	224,404	(1,144,740)
Other postemployment benefit obligation	66,839	66,710
Compensated absences	(33,007)	8,071
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 11,471,160</b>	<b>\$ 6,977,297</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS</b>		
Cash and investments	\$ 174,248	\$ 137,251
Restricted cash and investments - current	4,238,859	1,678,238
Restricted cash and investments - non-current	13,375,387	12,065,526
Total Cash and Investments	17,788,494	13,881,015
Less: Non-cash equivalents	6,922,497	-
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 10,865,997</b>	<b>\$ 13,881,015</b>
<b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Municipality, customer and developer financed additions to utility plant	\$ 703,743	\$ 2,200,915
Capital additions assessed to customers	\$ 480,672	\$ 772,845
Capital contributions accrued or applied	\$ 65,231	\$ 210,800
Interest capitalized	\$ 13,268	\$ 42,142
Refunding debt issued	\$ -	\$ 37,640,000
Debt refunded	\$ -	\$ (38,745,000)
Accrued interest on refunded debt	\$ -	\$ (775,116)
Net premium, discount and issuance costs on refunding	\$ -	\$ 1,851,599

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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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 units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

#### *REPORTING ENTITY*

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

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

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

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

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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#### *ASSETS, LIABILITIES AND NET ASSETS*

##### *Deposits and Investments*

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

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

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

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

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

##### *Restricted Assets*

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

##### *Receivables/Payables*

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

---

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

---

#### *ASSETS, LIABILITIES AND NET ASSETS (cont.)*

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

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

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

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

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

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

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

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

##### ***Non-Utility 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. The building included as of December 31, 2009 was sold during 2010.

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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#### *ASSETS, LIABILITIES AND NET ASSETS (cont.)*

##### *Special Assessments Receivable*

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

##### *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 non-operating 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 non-operating 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 December 31, 2010 and 2009

### 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 December 22, 2009 and are designed to earn an 8.00% return on rate base.

##### *Transfers*

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

##### *Capital Contributions*

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

#### COMPARATIVE DATA

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

### NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2010	2009	
Checking and Savings	\$ 140,962	\$ 113,326	Custodial credit (A)
Other Investment Pool	10,697,441	7,810,664	
Money Market	20,569	5,950,000	Custodial credit
U.S. Agencies	6,922,497	-	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	7,025	7,025	None
Totals	<u>\$ 17,788,494</u>	<u>\$ 13,881,015</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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing accounts and unlimited for noninterest bearing accounts as of December 31, 2010 and 2009.

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.

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:

	2010		2009	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	\$ 264,572	\$ 140,962	\$ 499,157	\$ 113,326
US Bank	20,569	20,569	5,950,000	5,950,000
Totals	\$ 285,141	\$ 161,531	\$ 6,449,157	\$ 6,063,326

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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

##### *Investments*

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

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

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

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

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

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2010, the U.S. agency investments were rated AAA by Moody's Investors Service.

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

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

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

The following is a schedule of interfund balances as of December 31, 2010 and 2009:

Due To	Due From	2010		2009	
		Amount	Principal Purpose	Amount	Principal Purpose
Water	Municipality	\$ 237,010	Items on tax roll	\$ 211,537	Items on tax roll



## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

The following is a schedule of transfer balances as of December 31, 2010 and 2009:

To	From	2010		2009	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 4,113,887	Tax equivalent	\$ 3,572,131	Tax equivalent
Water	Municipality	424,000	Tower rental received by special revenue fund	230,000	Tower rental received by special revenue fund
Municipality	Water	103,000	Shared equipment	235,000	Enterprise Land and Management software

#### **NOTE 4 – RESTRICTED ASSETS**

##### *RESTRICTED ACCOUNTS*

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

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

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

The following calculation supports the amount of restricted net assets:

	December 31,	
	2010	2009
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 4,238,859	\$ 1,678,238
Non-Current Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	6,943,066	5,950,000
Construction	5,532,321	5,215,526
Depreciation	750,000	750,000
Total Restricted Assets	17,614,246	13,743,764
Borrowed funds on hand	(12,475,387)	(11,165,526)
Current Liabilities Payable from Restricted Assets	(1,604,396)	(683,492)
Total Restricted Net Assets	\$ 3,534,463	\$ 1,894,746

#### NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2010 follows:

	1/01/10 Balance	Increases	Decreases	12/31/10 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,071,034	\$ 440	\$ -	\$ 2,071,474
Capital assets being depreciated				
Source of supply	9,726,250	78,671	60,876	9,744,045
Pumping	10,822,429	386,313	69,054	11,139,688
Water treatment	2,145,502	131,313	7,667	2,269,148
Transmission and distribution	160,100,271	8,741,808	707,664	168,134,415
General	17,369,660	2,208,232	1,731,453	17,846,439
Completed construction not classified	-	15,251,213	-	15,251,213
Total Capital Assets being Depreciated	200,164,112	26,797,550	2,576,714	224,384,948
Total Capital Assets	202,235,146	26,797,990	2,576,714	226,456,422
Less: Accumulated Depreciation				
Source of supply	(4,224,548)	(218,378)	(60,876)	(4,382,050)
Pumping	(5,502,465)	(417,076)	(73,381)	(5,846,160)
Water treatment	(91,343)	(72,501)	(7,667)	(156,177)
Transmission and distribution	(29,720,390)	(3,222,788)	(668,627)	(32,274,551)
Administration and general assets	(7,721,382)	(957,489)	(1,745,108)	(6,933,763)
Completed construction not classified	-	(118,197)	-	(118,197)
Total Accumulated Depreciation	(47,260,128)	(5,006,429)	(2,555,659)	(49,710,898)
Construction in progress	13,511,345	17,002,648	28,392,093	2,121,900
Net Capital Assets	\$ 168,486,363			\$ 178,867,424

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

A summary of changes in capital assets for 2009 follows:

	1/01/09 Balance	Increases	Decreases	12/31/09 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,064,183	\$ 6,851	\$ -	\$ 2,071,034
Capital assets being depreciated				
Source of supply	9,568,888	157,362	-	9,726,250
Pumping	10,726,742	159,982	64,295	10,822,429
Water treatment	339,546	1,834,891	28,935	2,145,502
Transmission and distribution	152,164,411	8,373,196	437,336	160,100,271
General	17,067,688	692,003	390,031	17,369,660
Total Capital Assets being Depreciated	189,867,275	11,217,434	920,597	200,164,112
Total Capital Assets	191,931,458	11,224,285	920,597	202,235,146
Less: Accumulated Depreciation				
Source of supply	(4,009,984)	(214,564)	-	(4,224,548)
Pumping	(5,165,477)	(407,138)	(70,150)	(5,502,465)
Water treatment	(79,760)	(40,518)	(28,935)	(91,343)
Transmission and distribution	(27,109,990)	(3,062,316)	(451,916)	(29,720,390)
Administration and general assets	(7,273,901)	(837,514)	(390,033)	(7,721,382)
Total Accumulated Depreciation	(43,639,112)	(4,562,050)	(941,034)	(47,260,128)
Construction in progress	11,272,587	15,658,979	13,420,221	13,511,345
Net Capital Assets	\$ 159,564,933			\$ 168,486,363

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

#### NOTE 6 – LONG-TERM OBLIGATIONS

##### REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/10 Amount Outstanding
12/01/07	Refunding debt and system improvements	1/01/28	3.00 - 4.00%	\$ 27,185,000	\$ 25,130,000
12/09/09	Refunding debt and system improvements	1/01/30	3.00 - 4.00%	48,540,000	48,540,000
11/10/10	System improvements	1/01/31	0.90 - 5.25%	<u>13,250,000</u>	<u>13,250,000</u>
Totals				<u>\$ 88,975,000</u>	<u>\$ 86,920,000</u>

Revenue bond debt service requirements to maturity follows:

Bond Year	Principal	Interest	Total
2011	\$ 2,680,000	\$ 3,560,025	\$ 6,240,025
2012	3,195,000	3,520,585	6,715,585
2013	3,260,000	3,423,729	6,683,729
2014	3,365,000	3,323,235	6,688,235
2015	3,465,000	3,215,977	6,680,977
2016	3,550,000	3,090,382	6,640,382
2017	4,020,000	2,958,612	6,978,612
2018	4,150,000	2,806,308	6,956,308
2019	4,200,000	2,646,393	6,846,393
2020	4,280,000	2,474,393	6,754,393
2021	4,440,000	2,279,399	6,719,399
2022	4,800,000	2,074,006	6,874,006
2023	5,020,000	1,849,816	6,869,816
2024	5,045,000	1,612,232	6,657,232
2025	5,130,000	1,370,596	6,500,596
2026	5,290,000	1,150,806	6,440,806
2027	5,020,000	921,332	5,941,332
2028	5,225,000	697,976	5,922,976
2029	5,695,000	462,163	6,157,163
2030	4,235,000	211,469	4,446,469
2031	855,000	22,444	877,444
Totals	<u>\$ 86,920,000</u>	<u>\$ 43,671,878</u>	<u>\$ 130,591,878</u>

The 2010 bonds are Build America Bonds. See page 36 for the details of the anticipated federal interest credit.

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

#### 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 2010 and 2009 were \$ 4,922,351 and \$43,578,071, respectively. The 2009 debt service included refunding payment of \$38,745,000 of the 2001, 2002, 2003, 2005, and 2006 bonds with proceeds from the 2009 bonds. Total customer net revenues as defined for 2010 and 2009 were \$12,291,900 and \$8,104,137, respectively. Annual principal and interest payments are expected to require 52% of net revenues.

##### ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/10 Amount Outstanding
7/01/04	Payoff unfunded pension liability	3/15/24	5.25%	\$ 1,474,476	\$ 1,404,052
1/01/08	Advance from BUD #1	(A)	2.6%	393,762	418,761

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2011	\$ 55,106	\$ 39,140	\$ 94,246
2012	57,717	40,897	98,614
2013	62,357	40,406	102,763
2014	68,158	39,783	107,941
2015	74,249	38,897	113,146
2016	81,499	37,598	119,097
2017	89,040	35,764	124,804
2018	97,451	33,538	130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,588	12,936	167,524
2024	168,800	6,752	175,552
Totals	\$ 1,404,052	\$ 424,800	\$ 1,828,852

(A) – No repayment schedule has been established for this advance. Accrued interest is added to the advance balance.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

### 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 temporary financing with interest charged monthly at .25% higher than the monthly rate earned through the utility's commingled cash account.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005	\$ -	\$ 4,573,000	\$ -	\$ 4,573,000	\$ 4,573,000
2006	4,573,000	1,877,000	5,235,000	1,215,000	1,215,000
2007	1,215,000	10,305,169	7,257,169	4,263,000	4,263,000
2008	4,263,000	1,830,000	688,000	5,405,000	5,405,000
2009	5,405,000	4,520,000	855,000	9,070,000	9,070,000
2010	9,070,000	1,220,000	2,045,000	8,245,000	1,360,000

Through May 31, 2011, the utility made payments of \$1,660,000. No formal schedule for repayment has been established.

The year end balance is comprised of the following:

	December 31,	
	2010	2009
Operations	\$ 7,570,000	\$ 6,350,000
Capital	675,000	2,720,000
<b>Total</b>	<b>\$ 8,245,000</b>	<b>\$ 9,070,000</b>

#### *LONG-TERM OBLIGATIONS SUMMARY*

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

	1/01/10 Balance	Additions	Reductions	12/31/10 Balance	Due Within One Year
Revenue bonds	\$ 74,785,000	\$ 13,250,000	\$ 1,115,000	\$ 86,920,000	\$ 2,680,000
Compensated absences	1,634,538	246,722	279,729	1,601,531	-
Other postemployment benefit obligation	168,442	66,839	-	235,281	-
Customer advances for construction	192,873	39,300	49,696	182,477	-
Advance from municipality	1,781,578	72,346	31,111	1,822,813	55,106
Loan from municipality – operating	6,350,000	1,220,000	-	7,570,000	685,000
Loan from municipality – capital	2,720,000	-	2,045,000	675,000	675,000
Unamortized debt premium	2,517,374	-	228,147	2,289,227	200,359
Unamortized loss on advance refunding	(3,390,182)	-	(321,613)	(3,068,569)	(293,993)
<b>Totals</b>	<b>\$ 86,759,623</b>	<b>\$ 14,895,207</b>	<b>\$ 3,427,070</b>	<b>\$ 98,227,760</b>	<b>\$ 4,001,472</b>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

Long-term obligation activity for the year ended December 31, 2009, is as follows:

	1/01/09 Balance	Additions	Reductions	12/31/09 Balance	Due Within One Year
Revenue bonds	\$ 68,150,000	\$ 48,540,000	\$ 41,905,000	\$ 74,785,000	\$ 1,115,000
Compensated absences	1,626,467	264,628	256,557	1,634,538	-
Other postemployment benefit obligation	101,732	66,710	-	168,442	-
Customer advances for construction	385,101	35,700	227,928	192,873	-
Advance from municipality	1,799,138	8,096	25,656	1,781,578	31,111
Loan from municipality – operating	1,830,000	4,520,000	-	6,350,000	6,350,000
Loan from municipality – capital	3,575,000	-	855,000	2,720,000	2,720,000
Unamortized debt premium	253,492	2,341,055	77,173	2,517,374	228,147
Unamortized loss on advance refunding	(20,114)	(3,390,182)	(20,114)	(3,390,182)	(313,305)
<b>Totals</b>	<b>\$ 77,700,816</b>	<b>\$ 52,386,007</b>	<b>\$ 43,327,200</b>	<b>\$ 86,759,623</b>	<b>\$ 10,130,953</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, 2010, \$1,405,000 of bonds outstanding are considered defeased.

#### ADVANCE REFUNDING

On December 9, 2009, the municipality, on behalf of the utility, issued \$1,475,000 in bonds (2009 B) with an average interest rate of 3.27 percent and \$36,165,000 in bonds (2009 A) with an average interest rate of 4.35 percent to advance refund \$38,745,000 (2001, 2002, 2003, 2005 and 2006) of outstanding bonds with average interest rates ranging from 3.8 to 5.04 percent. The net proceeds of \$39,803,904 (after payment of \$312,766 in underwriting fees, insurance and other issuance costs) plus an additional \$3,215,868 of sinking fund monies were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liabilities for the old bonds have been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$49,549,708 from 2010 through 2026. The cash flow requirements on the new bonds are \$56,570,066 from 2010 through 2029. The advance refunding resulted in an economic loss of \$635,469 but allows the utility to adjust the repayment period.

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, 2010, \$33,155,000 of the bonds outstanding are considered defeased.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

### NOTE 7 – NET ASSETS

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

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

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

*Unrestricted net assets* - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

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

	December 31,	
	2010	2009
Plant in Service	\$ 226,456,422	\$ 202,235,146
Accumulated Depreciation	(49,710,898)	(47,260,128)
Construction Work in Progress	2,121,900	13,511,345
Sub-Totals	178,867,424	168,486,363
Less: Capital Related Debt		
Current portion of capital related long-term debt	2,680,000	1,115,000
Long-term portion of capital related long-term debt	84,240,000	73,670,000
Unamortized debt issuance costs	(782,299)	(656,647)
Unamortized debt premium	2,289,227	2,517,374
Unamortized loss on advance refunding	(3,068,569)	(3,390,182)
Sub-Totals	85,358,359	73,255,545
Add back borrowed funds on hand	12,475,387	11,165,526
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 105,984,452	\$ 106,396,344



## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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#### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

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All eligible employees of the utility participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 6.2% and 6.0% of their salary to the plan in 2010 and 2009, respectively. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

	Year Ended December 31,		
	2010	2009	2008
Total Utility Payroll	<u>\$ 7,142,328</u>	<u>\$ 7,102,983</u>	<u>\$ 6,827,615</u>
Total Covered Employee Payroll	<u>\$ 6,515,000</u>	<u>\$ 6,496,000</u>	<u>\$ 6,097,000</u>
Total Required Contributions	<u>\$ 716,650</u>	<u>\$ 675,584</u>	<u>\$ 646,282</u>
Total Required Contributions (%)	<u>11.0%</u>	<u>10.4%</u>	<u>10.6%</u>

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

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#### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

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The municipality administers a single-employer defined benefit healthcare plan, (the Retiree Health Plan) in which the utility participates. The Plan provides healthcare coverage to 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 Retiree Health Plan does not issue a publicly available financial report.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the municipality and the union. The Plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for 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 City of Madison audit report for complete details of all benefits offered.

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

	Municipality		Water Utility	
	2010	2009	2010	2009
Annual required contribution	\$ 5,872,509	\$ 6,156,565	\$ 127,282	\$ 121,787
Contributions made	(2,565,125)	(3,912,191)	(60,443)	(55,077)
Net Change in OPEB obligation	3,307,384	2,244,374	66,839	66,710
Net OPEB Obligation – Beg of Year	8,480,112	6,235,738	168,442	101,732
Net OPEB Obligation – End of Year	\$ 11,787,496	\$ 8,480,112	\$ 235,281	\$ 168,442

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 2010 and 2009, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2010	\$ 5,872,509	44%	\$ 11,787,496
Municipality	2009	6,156,565	64%	8,480,112
Water Utility	2010	127,282	47%	235,281
Water Utility	2009	121,787	45%	168,442

The funded status of the plan (overall municipality) as of December 31, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 48,595,464
Actuarial value of plan assets	1,323,273
Unfunded Actuarial Accrued Liability (UAAL)	\$ 47,272,191
Funded ratio (actuarial value of plan assets/AAL)	2.7 %
Covered payroll (active plan members)	\$151,200,168
UAAL as a percentage of covered payroll	31.3%

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2010, reduced by decrements to an ultimate rate of 4.5% for 2017 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, 2010, was 30 years.

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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, 2010, has been accrued in these financial statements.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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### NOTE 11 – SUBSEQUENT EVENTS

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#### *RATE INCREASE*

New rates which were approved by the PSCW on May 5, 2011, and became effective May 9, 2011, will be prorated on the 2011 semiannual invoices.

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### NOTE 12 – WELL NO. 29

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During 2008, the service utility of Well No. 29 became impaired as a result of increased levels of manganese in the groundwater. Management has contracted for construction improvements to the well, specifically a filter system, which will allow it to perform at full capacity again. This well came back on line in early 2010. As such, the impairment was considered temporary and no adjustment to the asset value was recorded.

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### NOTE 13 – 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, 2010 and 2009, the utility served the following number of customers:

	<u>2010</u>	<u>2009</u>
Residential	56,346	56,139
Commercial	8,873	8,826
Industrial	51	53
Public authority	<u>490</u>	<u>493</u>
Totals	<u>65,760</u>	<u>65,511</u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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### NOTE 13 – BOND COVENANT DISCLOSURES (cont.)

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#### *WATER PUMPED AND BILLED*

During the years ended December 31, 2010 and 2009, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2010</u>	<u>2009</u>
Water pumped	<u>10,255,367</u>	<u>10,355,095</u>
Water billed	<u>9,425,919</u>	<u>9,568,551</u>

#### *RISK MANAGEMENT*

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

**SUPPLEMENTAL INFORMATION**

# MADISON WATER UTILITY

Madison, Wisconsin

## SCHEDULE OF INSURANCE IN FORCE

December 31, 2010

<u>Type of Coverage and Name of Company</u>	<u>Policy Number Policy Period From To</u>	<u>Details of Coverage*</u>	<u>Liability Limits</u>
Automobile Comprehensive <b>LOCAL GOVERNMENT PROPERTY INSURANCE FUND</b>	140337 01/01/10 to 01/01/11	\$106,705,710	Replacement Cost \$3,000 deductible
Automobile Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2010CS03A 01/01/10 to 01/01/11	Automobile liability	\$5,000,000 per occurrence \$300,000 Self-Insured Retention
Boiler & Machinery <b>CHUBB</b>	7834-76-48 01/01/10 to 01/01/11	Repair & Replace Boiler & Machinery	\$50,000,000 \$25,000 deductible
Employee Theft <b>FIDELITY &amp; DEPOSIT</b>	CCP 0060387 06 01/01/10 to 01/01/11	Blanket Bond	\$500,000 limit \$10,000 deductible
Fire & Extended Coverage on all structures <b>LOCAL GOVERNMENT PROPERTY INSURANCE FUND</b>	140337 01/01/10 to 01/01/11	\$568,449,073	Replacement Cost \$25,000 deductible
General Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2010CS03A 01/01/10 TO 01/01/11	General liability, personal injury liability, and errors & omission liability	\$5,000,000 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 or its related entities.

**MADISON WATER UTILITY**

REVENUE BOND DEBT REPAYMENT SCHEDULES

December 31, 2010

Year	2007A MRB's			2007B MRB's			2009A Refunding		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 865,000	\$ 960,600	\$ 1,825,600	\$ 300,000	\$ 111,800	\$ 411,800	\$ 980,000	\$ 1,642,501	\$ 2,622,501
2012	895,000	926,000	1,821,000	315,000	99,800	414,800	955,000	1,518,506	2,473,506
2013	930,000	890,200	1,820,200	330,000	87,200	417,200	885,000	1,489,856	2,374,856
2014	965,000	853,000	1,818,000	340,000	74,000	414,000	920,000	1,463,306	2,383,306
2015	1,005,000	814,400	1,819,400	360,000	60,400	420,400	930,000	1,435,706	2,365,706
2016	1,045,000	774,200	1,819,200	370,000	46,000	416,000	1,215,000	1,398,506	2,613,506
2017	1,085,000	732,400	1,817,400	385,000	31,200	416,200	1,625,000	1,349,906	2,974,906
2018	1,130,000	689,000	1,819,000	395,000	15,800	410,800	1,675,000	1,284,906	2,959,906
2019	1,175,000	643,800	1,818,800	-	-	-	2,055,000	1,217,906	3,272,906
2020	1,230,000	595,331	1,825,331	-	-	-	2,040,000	1,130,569	3,170,569
2021	1,280,000	544,594	1,824,594	-	-	-	2,110,000	1,028,569	3,138,569
2022	1,340,000	490,194	1,830,194	-	-	-	2,510,000	923,069	3,433,069
2023	1,395,000	433,244	1,828,244	-	-	-	2,955,000	797,569	3,752,569
2024	1,460,000	372,212	1,832,212	-	-	-	2,900,000	649,819	3,549,819
2025	1,525,000	306,513	1,831,513	-	-	-	2,900,000	504,819	3,404,819
2026	1,595,000	235,981	1,830,981	-	-	-	2,970,000	388,819	3,358,819
2027	1,670,000	162,213	1,832,213	-	-	-	2,085,000	270,019	2,355,019
2028	1,745,000	82,888	1,827,888	-	-	-	2,175,000	186,619	2,361,619
2029	-	-	-	-	-	-	2,280,000	96,900	2,376,900
2030	-	-	-	-	-	-	-	-	-
Totals	\$ 22,335,000	\$ 10,506,770	\$ 32,841,770	\$ 2,795,000	\$ 526,200	\$ 3,321,200	\$ 36,165,000	\$ 18,777,870	\$ 54,942,870

Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2011	\$ 265,000	\$ 46,822	\$ 311,822	\$ 270,000	\$ 480,988	\$ 750,988	\$ -	\$ 317,314	\$ (111,060)	\$ 206,254
2012	285,000	38,825	323,825	245,000	445,189	690,189	500,000	492,265	(172,293)	819,972
2013	295,000	31,700	326,700	260,000	437,838	697,838	560,000	486,935	(170,427)	876,508
2014	310,000	22,850	332,850	265,000	430,038	695,038	565,000	480,041	(168,014)	877,027
2015	320,000	12,000	332,000	280,000	422,088	702,088	570,000	471,383	(164,984)	876,399
2016	-	-	-	345,000	410,888	755,888	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	397,088	737,088	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	383,488	738,488	595,000	433,114	(151,590)	876,524
2019	-	-	-	365,000	369,288	734,288	605,000	415,399	(145,390)	875,009
2020	-	-	-	390,000	353,775	743,775	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	334,275	749,275	635,000	371,961	(130,186)	876,775
2022	-	-	-	300,000	313,525	613,525	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,525	298,525	670,000	320,478	(112,167)	878,311
2024	-	-	-	-	298,525	298,525	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,525	298,525	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,525	298,525	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	298,525	813,525	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	277,925	807,925	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	256,063	2,871,063	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	144,925	3,554,925	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 1,475,000	\$ 152,197	\$ 1,627,197	\$ 10,900,000	\$ 6,950,006	\$ 17,850,006	\$ 13,250,000	\$ 6,758,835	\$ (2,365,590)	\$ 17,643,245



## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES Years Ended December 31, 2010 and 2009

	2010	2009
<b>OPERATING REVENUES</b>		
Unmetered Sales	\$ 77,953	\$ 73,305
Metered Sales		
Residential	10,441,951	8,616,482
Commercial	8,361,047	6,986,507
Industrial	1,276,284	1,070,834
Public authorities	2,546,685	2,134,430
Sales for resale	368,094	168,027
Total Metered Sales	22,994,061	18,976,280
Private fire protection	343,682	288,112
Public fire protection	2,801,516	2,220,210
Total Sales of Water	26,217,212	21,557,907
Forfeited discounts	240,083	196,423
Miscellaneous	20,374	25,656
Other	205,218	169,420
Total Operating Revenues	26,682,887	21,949,406
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	23,686	22,081
Collecting and impounding reservoirs	27,263	130,503
Wells and springs	30,348	37,410
Total Source of Supply	81,297	189,994
Pumping		
Operation supervision and engineering	77,558	80,585
Power purchased for pumping	2,070,665	2,019,949
Pumping labor	324,855	304,982
Miscellaneous	378,107	339,252
Maintenance		
Supervision and engineering	68,078	64,390
Structures and improvements	129,729	120,910
Pumping equipment	280,465	285,270
Total Pumping	3,329,457	3,215,338
Water Treatment		
Operation supervision and engineering	67,358	65,635
Chemicals	227,995	229,319
Operation labor	353,689	345,010
Miscellaneous	20,308	11,970
Maintenance		
Supervision and engineering	24,005	21,993
Water treatment equipment	86,624	94,720
Total Water Treatment	779,979	768,647

## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES (cont.)

Years Ended December 31, 2010 and 2009

	2010	2009
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 191,907	\$ 205,545
Storage facilities	82,582	76,952
Transmission and distribution lines	364,100	349,601
Meter	59,701	51,546
Customer installation	189,260	172,701
Miscellaneous	645,180	623,686
Maintenance	-	-
Reservoirs	10,923	419,974
Mains	2,257,807	2,115,914
Services	1,496,831	1,233,061
Meters	107,550	104,286
Hydrants	429,051	345,434
Total Transmission and Distribution	5,834,892	5,698,700
Customer Accounts		
Supervision	19,053	19,847
Meter reading	94,315	91,723
Customer records and collection	224,079	230,644
Conservation	360,282	270,152
Total Customer Accounts	697,729	612,366
Administrative and General		
Salaries	633,656	682,196
Office supplies	391,474	410,867
Outside services employed	109,085	44,190
Property insurance	15,355	11,096
Injuries and damages	340,863	378,117
Employees pensions and benefits	1,801,514	1,776,409
Regulatory commission	15,064	12,534
Miscellaneous	59,333	53,482
Maintenance of general plant	4,383	5,009
Total Administrative and General	3,370,727	3,373,900
Total Operation and Maintenance	14,094,081	13,858,945
Depreciation	4,219,015	3,943,059
Taxes	100,247	189,732
Total Operating Expenses	18,413,343	17,991,736
 OPERATING INCOME	 \$ 8,269,544	 \$ 3,957,670