

**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, 2019 and 2018

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

TABLE OF CONTENTS  
As of and for the Years Ended December 31, 2019 and 2018

---

Independent Auditors' Report	1 – 2
Required Supplementary Information (Unaudited)	
Management's Discussion and Analysis	3 – 10
Financial Statements	
Statements of Net Position	11 – 12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14 – 15
Notes to Financial Statements	16 – 48
Required Supplementary Information (Unaudited)	
Schedule of Proportionate Share of Net Pension Liability	49
Schedule of Contributions	49
Notes to Required Supplementary Information	50
Schedule of Changes in the Net OPEB Liability and Related Ratios	51
Supplemental Information	
Revenue Bond Debt Repayment Schedules	52 – 53
Operating Revenues and Expenses	54 – 55

## 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, 2019 and 2018, 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 the 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 the 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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, 2019 and 2018 and the respective changes in financial position, or cash flows thereof 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.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
July 22, 2020

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

---

### GENERAL INFORMATION ABOUT MADISON WATER UTILITY

---

Madison recognized the need for a central water supply early in its history. The common council of the City of Madison (municipality) directed its waterworks committee to establish the Madison Waterworks on September 5, 1881. Financing was obtained and contracts let in spring of 1882. Pumping commenced on December 7, 1882. Early management was vested in the common council through its committee, and on March 2, 1884, general management was transferred to 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 23 deep wells with a capacity of 68.3 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.

---

### 2019 FINANCIAL HIGHLIGHTS

---

- > Total operating revenues increased \$8.8 million or 25.2% from 2018 to 2019, while pumpage decreased 2.7% for that same period. New rates became effective on November 1, 2018.
- > Income before capital contributions and transfers increased \$8.8 million or 273.5% from the prior year. The increase was due largely to an increase in rates effective November 1, 2018 and a \$600,000 increase of interest income in 2019 compared to 2018.
- > The utility added \$14.0 million in capital assets during 2019, which were primarily financed with remaining proceeds from the 2018 Revenue Bonds and 2019 Bond Anticipation Notes (BANS). BANS in the amount of \$20 million were issued to cover capital projects from 2019 through 2021.
- > The utility refunded its 2009, 2010 and 2011 revenue bonds in December 2019, which resulted in a cash flow savings of \$7.2 million over the life of the old bonds. A majority of these savings will be realized in 2020 and 2021 through reduced debt service obligations.

---

### 2018 FINANCIAL HIGHLIGHTS

---

- > Total operating revenues increased \$180,000 or 0.5% from 2017 to 2018, while pumpage decreased 2.1% for that same period.
- > Income before capital contributions and transfers decreased \$1,000,000 or 23.9% from the prior year. The decrease was due largely to an increase in depreciation expense of \$600,000 in 2018 compared to 2017 and an increase of \$340,000 in expense associated with the closing of preliminary test well sites.
- > The utility implemented GASB Statement No. 75 during 2018, which revised the actuarial method of calculating the city's other postemployment benefits. The new standard increased the water utility's liability by \$1,700,000 from 2017 and decreased the beginning net position as of January 1, 2018 by \$1,800,000.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

---

### 2018 FINANCIAL HIGHLIGHTS (cont.)

---

- > The utility added \$29,900,000 in capital assets during 2018, which were financed with the issuance of 2018 revenue bonds. Revenue bonds in the amount of \$41,600,000 were issued to cover capital project from 2017 through 2019.
- 

### RATES

---

The utility filed an application to review rates with the Public Service Commission of Wisconsin that was accepted on July 1, 2019. The application requested an 8% increase in the revenue requirement. The last rate increase was effective on November 1, 2018. A hearing on the proposed new rates with the PSC was conducted on May 15, 2020 with an anticipated decision in the summer of 2020. The utility is currently ranked seventh for residential rates out of ninety-six utilities classified as AB (over 4,000 customers) in Wisconsin.

---

### UTILITY FINANCIAL ANALYSIS

---

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 62,466	\$ 58,926	\$ 42,747
Capital Assets	306,324	302,626	286,479
Total Assets	<u>368,790</u>	<u>361,552</u>	<u>329,226</u>
Deferred Outflows of Resources	<u>6,617</u>	<u>4,518</u>	<u>5,248</u>
Current Liabilities	12,227	20,176	18,730
Long-term Debt Outstanding	206,260	202,685	171,785
Long-term Liabilities	21,115	15,983	17,205
Total Liabilities	<u>239,602</u>	<u>238,844</u>	<u>207,720</u>
Deferred Inflows of Resources	<u>3,254</u>	<u>3,270</u>	<u>1,480</u>
Net Investment in Capital Assets	122,468	114,177	115,880
Restricted	11,827	15,249	8,569
Unrestricted	<u>(1,744)</u>	<u>(5,470)</u>	<u>826</u>
Total Net Position	<u>\$ 132,551</u>	<u>\$ 123,956</u>	<u>\$ 125,275</u>

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

### UTILITY FINANCIAL ANALYSIS (cont.)

Total assets combined with deferred outflows of resources increased \$9.3 million and total liabilities with deferred inflows of resources increased \$700,000, resulting in an increase in net position of \$8.6 million from 2018. The change was primarily due to an increase of \$9.8 million in total cash from the November 2018 rate increase and \$3.7 million increase in net capital assets offset by an increase in total long-term debt and related activity of \$4.9 million in 2019. In 2018, total assets combined with deferred outflows of resources increased \$31.6 million and total liabilities with deferred inflows of resources increased \$32.9 million, resulting in a decrease in net position of \$1.3 million from 2017.

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

	2019	2018	2017
Operating Revenues	\$ 42,776	\$ 33,990	\$ 33,838
Non-operating Revenues	<u>1,169</u>	<u>1,109</u>	<u>1,082</u>
Total Revenues	<u>43,945</u>	<u>35,099</u>	<u>34,920</u>
Operation & Maintenance Expense	17,285	17,929	18,432
Depreciation Expense	8,102	7,549	6,945
Non-operating Expense	<u>6,602</u>	<u>6,420</u>	<u>5,337</u>
Total Expense	<u>31,989</u>	<u>31,898</u>	<u>30,714</u>
Income Before Capital Contributions and Transfers	11,956	3,201	4,206
Capital Contributions	3,600	3,850	6,693
Transfers, net	(6,961)	(6,601)	(6,578)
Special Item - Net Assets Acquired from Transfer of Operations	<u>-</u>	<u>-</u>	<u>55</u>
Change in Net Position	8,595	450	4,376
Beginning Net Position (as restated)	<u>123,956</u>	<u>123,506*</u>	<u>120,899</u>
Ending Net Assets	<u>\$ 132,551</u>	<u>\$ 123,956</u>	<u>\$ 125,275*</u>

\* The difference of \$1.768 million between ending net position as of December 31, 2017 and January 1, 2018 is the result of a restatement for the implementation of GASB Statement No. 75 effective January 1, 2018.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

### UTILITY FINANCIAL ANALYSIS (cont.)

The utility's total revenues increased \$8.8 million or 25.2% from 2018 to 2019 as a result of a rate increase that became effective November 1, 2018. Total pumpage decreased 2.7% from 2018 to 2019 and MWU added 819 new customers during 2019. Total revenues increased \$0.2 million or 0.5% from 2017 to 2018 as a result of a 2.1% decrease in pumpage and adding 860 new customers during 2018.

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

	2019	2018	2017
Unmetered Sales	\$ 386	\$ 190	\$ 169
Metered Sales			
Residential	17,686	12,530	12,290
Duplex	703	60	-
Multi-Family	8,107	5,884	-
Commercial	8,659	5,728	11,248
Industrial	843	532	667
Public authorities	5,971	4,357	4,397
Sales for resale	281	251	357
Total Metered Sales	42,250	29,342	28,959
Private fire protection	-	562	589
Public fire protection	140	3,896	4,121
Total Sales of Water	42,776	33,990	33,838
Customer Late Payment Penalties	209	159	191
Miscellaneous	87	136	158
Rents from Water Property	276	258	277
Other	597	556	456
Total Operating Revenues	43,945	35,099	34,920
Source of Supply	60	250	17
Pumping	3,746	4,144	3,760
Water Treatment	726	836	735
Transmission and Distribution	6,532	6,896	8,067
Customer Accounts	791	870	849
Administrative and General	4,847	4,378	4,502
Total Operation and Maintenance	16,702	17,374	17,930
Depreciation	8,102	7,549	6,945
Taxes	583	555	502
Total Operating Expenses	25,387	25,478	25,377
<b>OPERATING INCOME</b>	<b>\$ 18,558</b>	<b>\$ 9,621</b>	<b>\$ 9,543</b>

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

---

### UTILITY FINANCIAL ANALYSIS (cont.)

---

#### ***Revenues***

Total operating revenues for 2019 were significantly higher as compared to those of 2018 totaling \$43.9 million and \$35.1 million, respectively. New rates became effective November 1, 2018 while pumpage decreased by 2.7% for the year.

Total operating revenues for 2018 were comparable to those of 2017 totaling \$35.1 million and \$34.9 million, respectively. The utility's rate increase for 2018 was effective for the December billing period and the additional revenues from the increase were offset by the 2.1% reduction in overall pumpage for the year.

#### ***Expenses***

Operation and maintenance expenses including taxes totaled \$17.3 million in 2019, compared to \$17.9 million in 2018, a decrease of \$600,000 or 3.6%. The decrease is primarily due to a decrease in maintenance of main and pumping equipment and savings in electricity costs associated with the installation of variable frequency drives at pumping stations. Depreciation expense increased \$600,000 or 7.3% to \$8.1 million in 2019 from \$7.5 million in 2018 as a result of an additional \$14.0 million in capital assets placed into service.

Operation and maintenance expenses totaled \$17.9 million in 2018, compared to \$18.4 million in 2017, a decrease of \$0.5 million or 2.8%. The decrease is primarily due to costs incurred in 2017 associated with painting three reservoirs tanks totaling \$2.4 million not experienced in 2018. The change was offset by an increase of \$720,000 in main-related maintenance during 2018. Depreciation expense increased \$600,000 or 8.7% to \$7.5 million in 2018 from \$6.9 million in 2017 as a result of an additional \$29.9 million in capital assets placed into service.

# MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2019 and 2018

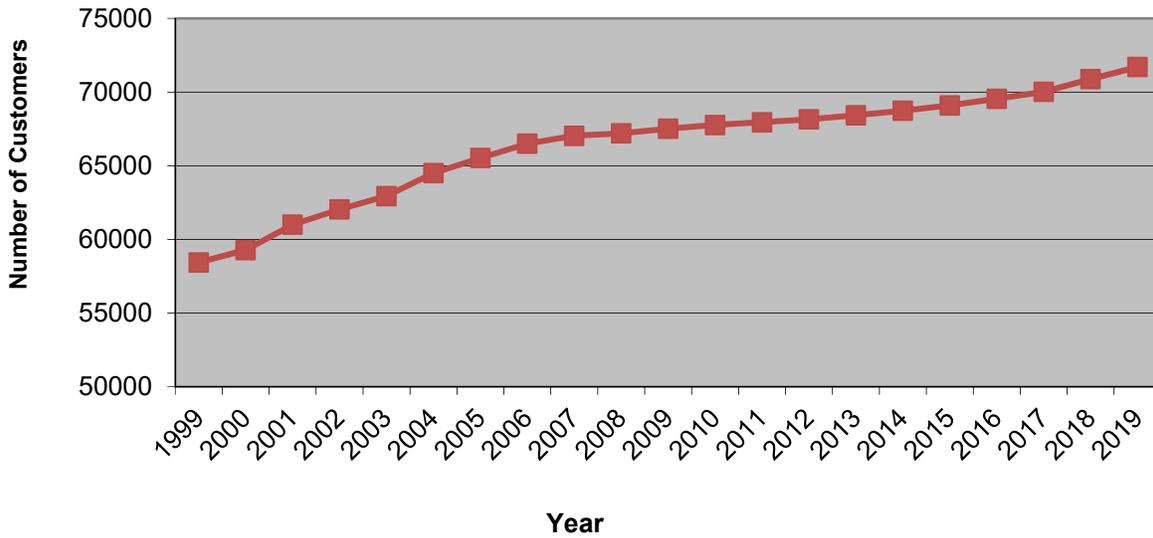
---

## UTILITY FINANCIAL ANALYSIS (cont.)

---

*Chart 1*

### Customer Growth 1999 - 2019



The utility received 670 new applications for service in 2019, compared with 609 and 644 new applications received in 2018 and 2017, respectively. Fiscal year 2018 was the first year since 2011 that the number of new applications received went down as compared to the prior year. The number of new applications increased in 2019 as compared to 2018 by 61 applications. The utility received the most new applications (1,442) in 2002.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

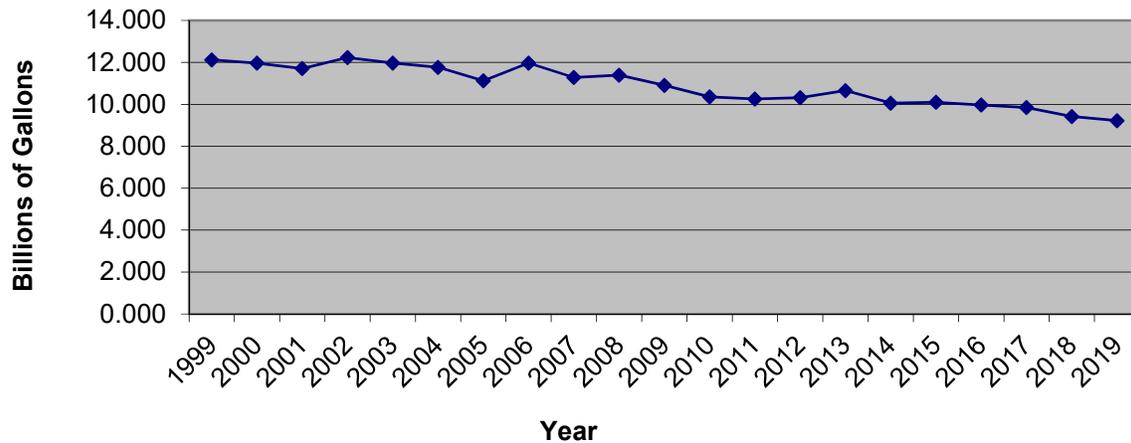
---

### UTILITY FINANCIAL ANALYSIS (cont.)

---

Chart 2

#### Pumpage 1999 - 2019



Pumping for the year decreased 2.7% from 9.223 billion gallons in 2018 to 8.973 billion gallons in 2019, due to moderate weather conditions and continued water conservation efforts by customers.

---

### CAPITAL EXPENDITURES

---

The utility added a net \$3.7 million of plant in 2019. Of this amount, approximately \$3.6 million was contributed by developers and contractors or received by special assessment.

Capital projects paid for by the utility in 2019 included; \$3.39 million for new and replacement water mains, \$197,000 for various unit well rehabilitations, flow and mag meter additions and variable frequency drives (VFD's) and \$561,000 for our meter program.

The utility added a net \$16.1 million of plant in 2018. Of this amount, approximately \$3.8 million was contributed by developers and contractors or received by special assessment.

Capital projects paid for by the utility in 2018 included; \$7.0 million for a new well, Unit Well #31 and reservoir, \$2.9 million for the new Blackhawk reservoir, \$13.32 million for new and replacement water mains, \$644,000 for various unit well rehabilitations, flow and mag meter additions and variable frequency drives (VFD's) and \$570,000 for our meter program.

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

---

### **CAPITAL BORROWING**

---

The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The utility borrowed \$66.7 million in 2019, \$40.2 million in 2018, \$38.4 million in 2016, \$41.6 million in 2015, \$24.3 million in 2013, \$21.1 million in 2012. The 2019 borrowing included \$20 million of bond anticipation notes (BAN) to fund the remainder of the 2019 capital projects and all of 2020 and 2021 capital projects, \$33.7 million to refund 2009A and 2010 bonds and \$13.0 million to advance refund 2011 bonds. Management envisions a reduction in their capital borrowing due to reduced capital budgets for the next several years and anticipates participation in the State of Wisconsin Safe Drinking Water Loan program, which offers reduced interest rates on loans meeting the programs criteria. The utility is currently working with the PSC to explore alternative funding sources for our main replacement program. This could include accelerated depreciation on mains replaced during the year to effectuate a "pay as you go" funding for our main replacement program thereby reducing the amount of capital borrowing required by the utility.

---

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

---

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. While customer growth has slowed, the utility added a net 19.1 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will ensure that the utility is well prepared to handle these challenges. While rates are expected to increase over time, management expects utility rates will remain near the statewide median average.

Additionally, the utility has experienced a significant decline in consumption over the past decade due to loss of industry, water conservation and changes in weather patterns. This downward trend is anticipated to continue in subsequent years, which could impact future operating and capital expenditure budgets and customer demand patterns. Management will continue to monitor these trends and revise financial goals accordingly.

Beginning in the spring of 2020, the utility has begun to experience a drastic change in customer demand patterns and declining consumption as a result of the COVID-19 pandemic. The extent of the impact of COVID-19 on the Utility's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions. Management is closely monitoring these impacts on changes in revenue recovery, customer delinquencies and a multitude of other economic impacts of the utility and its customer base.

---

### **UTILITY CONTACT INFORMATION**

---

This financial report is designed to provide customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Tom Heikkinen, General Manager, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4652 or e-mail at [theikkinen@madisonwater.org](mailto:theikkinen@madisonwater.org).

**FINANCIAL STATEMENTS**

# MADISON WATER UTILITY

## STATEMENTS OF NET POSITION As of December 31, 2019 and 2018

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 5,111,108	\$ 3,036,712
Restricted Assets		
Principal and interest account	10,364,736	12,772,842
Customer accounts receivable	2,660,818	8,058,158
Prepays	189,145	183,467
Materials and supplies	761,348	714,523
Due from municipality	1,111,689	-
Current portion of special assessments	185,539	182,709
Other current assets, net	319,536	244,492
Total Current Assets	20,703,919	25,192,903
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Reserve account	16,663,055	17,707,576
Depreciation account	750,000	750,000
Assessment account	634,259	736,897
Construction account	19,258,872	8,024,067
Net pension asset	-	1,594,540
Other Assets		
Special assessments receivable	3,241,431	3,705,482
Preliminary survey and investigation	416,865	411,829
Property held for future use	112,087	112,087
Nonutility property (net of accumulated depreciation)	684,997	690,873
Capital Assets		
Plant in service	402,164,035	388,165,409
Accumulated depreciation	(96,451,009)	(88,306,628)
Construction work in progress	611,048	2,767,186
Total Noncurrent Assets	348,085,640	336,359,319
Total Assets	368,789,559	361,552,222
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on refunding	733,367	1,528,538
Deferred outflows related to pension	5,735,880	2,989,450
Deferred outflows related to OPEB	148,082	-
Total Deferred Outflows of Resources	6,617,329	4,517,988

	<u>2019</u>	<u>2018</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 920,296	\$ 1,548,994
Other current liabilities	818,397	776,645
Payable to other funds	-	4,198,586
Current portion of loan from municipality	-	765,000
Current portion of advance from municipality	117,464	107,022
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	7,455,000	9,255,000
Accrued interest	<u>2,916,520</u>	<u>3,525,495</u>
Total Current Liabilities	<u>12,227,677</u>	<u>20,176,742</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds	206,260,000	202,685,000
Unamortized debt premium	13,108,268	10,239,105
Accrued sick leave	2,111,779	2,028,589
Total OPEB liability	2,698,894	2,504,210
Advance from municipality	1,060,744	1,167,090
Customer advances for construction	119,242	44,030
Net pension liability	<u>2,015,781</u>	-
Total Noncurrent Liabilities	<u>227,374,708</u>	<u>218,668,024</u>
Total Liabilities	<u>239,602,385</u>	<u>238,844,766</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized gain on refunding	83,703	-
Deferred inflows related to OPEB's	261,485	218,946
Deferred inflows related to pension	<u>2,908,450</u>	<u>3,050,553</u>
Total Deferred Inflows of Resources	<u>3,253,638</u>	<u>3,269,499</u>
<b>NET POSITION</b>		
Net investment in capital assets	122,467,961	114,176,488
Restricted for:		
Debt service	10,442,652	12,167,903
Capital repairs and replacement	1,384,259	1,486,897
Pension	-	1,594,540
Unrestricted	<u>(1,744,007)</u>	<u>(5,469,883)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 132,550,865</u>	<u>\$ 123,955,945</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, 2019 and 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Sales of water	\$ 42,776,058	\$ 33,990,160
Other	1,168,830	1,109,022
Total Operating Revenues	43,944,888	35,099,182
<b>OPERATING EXPENSES</b>		
Operation and maintenance	17,285,237	17,928,862
Depreciation	8,101,881	7,548,684
Total Operating Expenses	25,387,118	25,477,546
Operating Income	18,557,770	9,621,636
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Merchandising and jobbing	(31,599)	71,843
Bond issuance costs	(411,853)	(118,898)
Investment income	1,011,538	413,102
Interest and amortization expense	(7,712,703)	(6,624,262)
Gain on sale of property	360,973	-
Other	181,470	(162,604)
Total Nonoperating Revenues (Expenses)	(6,602,174)	(6,420,819)
Income Before Capital Contributions and Transfers	11,955,596	3,200,817
<b>CAPITAL CONTRIBUTIONS</b>	3,600,060	3,849,748
<b>TRANSFERS IN / (OUT)</b>	182,331	171,148
<b>TRANSFERS - TAX EQUIVALENT</b>	(7,191,839)	(6,975,603)
<b>CAPITALIZED TAX EQUIVALENT</b>	48,772	203,623
Change in Net Position	8,594,920	449,733
NET POSITION - Beginning of Year	123,955,945	125,274,882
Cumulative effect of a change in accounting principle	-	(1,768,670)
<b>NET POSITION - END OF YEAR</b>	<b>\$ 132,550,865</b>	<b>\$ 123,955,945</b>

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 49,714,379	\$ 34,292,058
Paid to suppliers for goods and services	(13,768,167)	(9,482,872)
Paid to employees for services	(7,926,670)	(6,577,865)
Net Cash Flows from Operating Activities	28,019,542	18,231,321
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers - paid to municipality for tax equivalent	(7,143,067)	(6,771,980)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Interest paid on operating loan	(162,174)	-
Repayment of advances from other funds	(95,904)	(89,122)
Interest paid on advances and loans from other funds	(51,086)	(53,815)
Transfers from (to) other funds	182,331	171,148
Debt issued - refunded bonds - operating portion	-	9,390,000
Implicit financing from municipality	-	(6,159,367)
Net Cash Flows from Noncapital Financing Activities	(8,034,900)	(4,278,136)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(9,056,885)	(18,216,498)
Special assessments received	679,358	666,197
Contributions in aid of construction	112,900	(14,311)
Payments to escrow during refunding	(56,157,903)	-
Debt issued - new bond anticipation notes	20,000,000	-
Debt issued - refunded bonds	46,735,000	30,765,000
Premium on debt issued	4,654,339	1,724,477
Debt issuance costs	(411,852)	-
Build America Bond interest credit received	133,360	139,305
Debt retired	(9,255,000)	(6,890,000)
Interest paid	(8,675,562)	(6,365,178)
Net Cash Flows from Capital and Related Financing Activities	(11,242,245)	1,808,992
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities purchased	(38,729,465)	(13,662,522)
Marketable securities sold	46,413,384	10,633,222
Investment income	1,011,538	413,102
Net Cash Flows from Investing Activities	8,695,457	(2,616,198)
<b>Net Change in Cash and Cash Equivalents</b>	17,437,854	13,145,979
CASH AND CASH EQUIVALENTS – Beginning of Year	26,847,471	13,701,492
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	\$ 44,285,325	\$ 26,847,471

	2019	2018
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 18,557,770	\$ 9,621,636
Nonoperating income	16,510	(230,066)
Noncash items included in operating income		
Depreciation	8,101,881	7,548,684
Depreciation charged to other accounts	1,060,565	1,032,196
Changes in Assets and Liabilities		
Customer accounts receivable	5,397,340	(1,663,806)
Receivable from other funds	(167,931)	329,648
Materials and supplies	(46,825)	64,370
Other current assets	(80,722)	(10,662)
Accounts payable and other current liabilities	(570,821)	239,094
Payable to other funds	(5,142,344)	778,227
Other postemployment benefit deferrals and liabilities	89,141	1,949,776
Pension related deferrals and liabilities	721,788	(1,648,150)
Accrued compensated absences	83,190	220,374
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 28,019,542</b>	<b>\$ 18,231,321</b>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS**

Cash and investments	\$ 5,111,108	\$ 3,036,712
Redemption account	10,364,736	12,772,842
Reserve account	16,663,055	17,707,576
Depreciation account	750,000	750,000
Assessment account	634,259	736,897
Construction account	19,258,872	8,024,067
Total Cash and Investments	52,782,030	43,028,095
Less: Noncash equivalents	(8,496,705)	(16,180,624)
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 44,285,325</b>	<b>\$ 26,847,471</b>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Municipality, customer and developer financed additions to utility plant	\$ 3,562,372	\$ 3,598,132
Gain on sale of property	\$ 360,973	\$ -
Capital additions assessed to customers	\$ 400,846	\$ 1,128,456
Adjustments to special assessments	\$ (182,709)	\$ (162,724)
Gain on refunding debt	\$ 83,703	\$ -
Net changes in loss on refundings	\$ 652,939	\$ -
Write-off old debt premium	\$ (1,075,801)	\$ -

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

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

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

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality, portions of the Town of Madison and the Town of Burke, wholesale water service to 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 2018, the GASB issued Statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The utility adopted this statement effective January 1, 2019.

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, 2019 and 2018

---

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

---

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

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

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

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

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

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

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

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

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

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

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

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

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

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

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

There has been an allowance account set up relating to miscellaneous accounts receivable. The allowance balance was \$-0- in 2019 and 2018.

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

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

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

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

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

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

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

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

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

Capital assets of the utility are recorded at cost or estimated acquisition cost at the time of contribution to the utility. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is no longer reflected in the capitalized value of the capital assets constructed. Capital assets in service are depreciated using the straight-line method over the following useful lives:

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

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

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

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

The balance represents amounts payable relating to accrued wages, comp time, vacation time, and payroll taxes payable.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

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

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 and gains on refunding are presented as a deferred inflow of resources.

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

#### ***REVENUES AND EXPENSES***

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

#### ***Charges for Services***

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

Current rates were authorized by the PSCW in an order dated November 1, 2018 and are designed to earn an 8.0% return on rate base.

#### ***Capital Contributions***

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

#### ***Transfers – Tax Equivalent***

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

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

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus*, Statement No. 93, *Replacement of Interbank Offered Rates*, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. When they become effective, application of these standards may restate portions of these financial statements.

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87, which was postponed by one and a half years.

#### ***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, 2019 and 2018

#### **NOTE 2 – DEPOSITS AND INVESTMENTS**

	Carrying Value as of December 31,		Associated Risks
	2019	2018	
Other Investment Pool	\$ 35,531,571	\$ 25,183,982	(A)
Money Market Mutual Funds	5,652,116	1,642,569	Custodial credit, interest rate
U.S. Agencies – implicitly guaranteed	11,577,423	16,180,624	Custodial credit, credit, concentration and interest rate risks
Working Funds – Petty Cash	<u>20,920</u>	<u>20,920</u>	None
<b>Totals</b>	<b><u>\$ 52,782,030</u></b>	<b><u>\$ 43,028,095</u></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.

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

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

#### ***FAIR VALUE***

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

At December 31, 2019 and 2018, the utility had investments in US Agency Securities of \$11,577,423 and \$16,180,624, respectively. These investments were valued using institutional bond quotes (Level 2 input) at December 31, 2019 and December 31, 2018.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

#### *FAIR VALUE* (cont.)

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

#### *CUSTODIAL CREDIT RISK*

##### *Deposits*

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

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

	2019		2018	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	<u>\$ 5,652,116</u>	<u>\$ 5,652,116</u>	<u>\$ 1,642,569</u>	<u>\$ 1,642,569</u>

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 \$11,577,423 and \$16,180,624 of U.S. Agencies securities, which were exposed to custodial credit risk as of December 31, 2019 and 2018, respectively, because the investments were neither insured nor registered and are held by counterparty.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

##### ***Investments*** (cont.)

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 and Money Market Mutual Funds mature within 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, 2019 and 2018, 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, 2019, the utility had 11% of its portfolio in Federal Home Loan Bank system securities and 11% of its portfolio in Federal Home Loan Mortgage Corporation system securities. As of December 31, 2018, the utility had 16% of its portfolio in Federal Farm Credit Bank securities, 5% of its portfolio in Federal Home Loan Bank system securities, and 6% of its portfolio in Federal Home Loan Mortgage Corporation system securities.

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

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2019 and 2018

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

The following is a schedule of interfund balances as of December 31, 2019 and 2018:

Due To	Due From	2019		2018	
		Amount	Principal Purpose	Amount	Principal Purpose
Water	Municipality	\$ 1,111,689	Delinquent water bills and special assessments on tax roll	\$ -	
Municipality	Water	-		4,198,586	Items due to Sewer, Storm, Landfill, and Urban Forestry less items on tax roll

The following is a schedule of transfer balances as of December 31, 2019 and 2018:

To	From	2019		2018	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 7,191,839	Tax equivalent	\$ 6,975,603	Tax equivalent
Water	Sewer	182,331	Operating expenses	171,148	Operating expenses

### **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:

- Principal and interest – Used solely for the purpose of paying principal and interest on the bonds or parity bonds.
- Reserve – Used solely for the purpose of paying principal and interest on the bonds or parity bonds whenever the balance in the principal and interest account is insufficient for that purpose.
- Assessment fund – Used for the purpose of paying construction costs for projects special assessed to customers.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

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

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

The following calculation supports the amount of restricted net position:

	December 31,	
	2019	2018
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 10,364,736	\$ 12,772,842
Noncurrent Restricted Assets		
Reserve – <i>See Note (A)</i>	16,663,055	17,707,576
Construction	19,258,872	8,024,067
Assessment fund	634,259	736,898
Depreciation	750,000	750,000
Net pension asset	-	1,594,540
Total Noncurrent Restricted Assets	37,306,186	28,813,081
Total Restricted Assets	47,670,922	41,585,923
Less: Restricted Assets not Funded by Revenues		
Reserve – <i>See Note (A)</i>	(13,668,619)	(14,787,021)
Construction	(19,258,872)	(8,024,067)
Current Liabilities Payable from Restricted Assets	(2,916,520)	(3,525,495)
Total Restricted Net Position	\$ 11,826,911	\$ 15,249,340
The purpose of the restricted net position is as follows:		
Debt service	\$ 10,442,652	\$ 12,167,902
Capital repairs and replacement	1,384,259	1,486,898
Pension	-	1,594,540
Total	\$ 11,826,911	\$ 15,249,340

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

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

A summary of changes in capital assets for 2019 follows:

	1/1/19 Balance	Increases	Decreases	12/31/19 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 3,120,938	\$ 400	\$ -	\$ 3,121,338
Capital assets being depreciated				
Source of supply	13,188,340	6,122	590	13,193,872
Pumping	24,799,162	76,178	89,354	24,785,986
Water treatment	5,804,915	21,066	11,023	5,814,958
Transmission and distribution	301,788,383	8,243,873	435,112	309,597,144
General	39,463,671	954,580	570,800	39,847,451
Completed construction not classified	-	5,803,286	-	5,803,286
Total Capital Assets Being Depreciated	<u>385,044,471</u>	<u>15,105,105</u>	<u>1,106,879</u>	<u>399,042,697</u>
Total Capital Assets	<u>388,165,409</u>	<u>15,105,505</u>	<u>1,106,879</u>	<u>402,164,035</u>
Less: Accumulated Depreciation				
Source of supply	(6,037,648)	(308,691)	646	(6,345,693)
Pumping	(8,871,524)	(926,977)	84,638	(9,713,863)
Water treatment	(1,010,537)	(211,164)	12,125	(1,209,576)
Transmission and distribution	(60,128,912)	(5,952,434)	462,510	(65,618,836)
General	(12,258,007)	(1,847,744)	584,175	(13,521,576)
Completed construction not classified	-	(41,465)	-	(41,465)
Total Accumulated Depreciation	<u>(88,306,628)</u>	<u>(9,288,475)</u>	<u>1,144,094</u>	<u>(96,451,009)</u>
Construction in progress	<u>2,767,186</u>	<u>10,170,421</u>	<u>12,326,559</u>	<u>611,048</u>
Net Capital Assets	<u>\$ 302,625,967</u>			<u>\$ 306,324,074</u>

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

A summary of changes in capital assets for 2018 follows:

	1/1/18 Balance	Increases	Decreases	12/31/18 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,627,753	\$ 500,423	\$ 7,236	\$ 3,120,938
Capital assets being depreciated				
Source of supply	10,698,888	2,489,452	-	13,188,340
Pumping	22,677,407	2,629,833	508,078	24,799,162
Water treatment	4,047,471	1,799,943	42,499	5,804,915
Transmission and distribution	280,577,020	22,145,999	934,636	301,788,383
General	37,659,138	3,033,401	1,228,868	39,463,671
Total Capital Assets				
Being Depreciated	<u>355,659,924</u>	<u>32,098,628</u>	<u>2,714,081</u>	<u>385,044,471</u>
Total Capital Assets	<u>358,287,677</u>	<u>32,599,051</u>	<u>2,721,317</u>	<u>388,165,409</u>
Less: Accumulated Depreciation				
Source of supply	(5,765,101)	(272,547)	-	(6,037,648)
Pumping	(8,468,520)	(886,554)	483,550	(8,871,524)
Water treatment	(873,230)	(180,309)	43,002	(1,010,537)
Transmission and distribution	(55,439,802)	(5,701,599)	1,012,489	(60,128,912)
General	(11,800,249)	(1,691,199)	1,233,441	(12,258,007)
Total Accumulated Depreciation	<u>(82,346,902)</u>	<u>(8,732,208)</u>	<u>2,772,482</u>	<u>(88,306,628)</u>
Construction in progress	<u>10,538,547</u>	<u>24,623,586</u>	<u>32,394,947</u>	<u>2,767,186</u>
Net Capital Assets	<u>\$ 286,479,322</u>			<u>\$ 302,625,967</u>

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2019 and 2018

## NOTE 6 – LONG-TERM OBLIGATIONS

<i>REVENUE BONDS</i>					
Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2019 Amount Outstanding
12/9/09	Refunding debt and system improvements	1/1/30	2.00 – 5.00%	\$ 48,540,000	\$ -
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	-
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	-
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	15,790,000
12/18/13	System improvements	1/1/34	3.00 – 5.00%	24,335,000	19,685,000
12/17/15	System improvements	1/1/36	2.85 – 5.00%	41,610,000	36,955,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24 – 3.82%	38,420,000	34,395,000
12/20/18	Series A – System Improvements	1/1/39	4.00%	30,765,000	30,765,000
12/20/18	Series B - Operations	1/1/28	3.00 – 3.55%	9,390,000	9,390,000
12/19/19	Series A - Refunding 2009A and 2010 bonds	1/1/31	2.00 – 5.00%	33,680,000	33,680,000
12/19/19	Series B – Refunding 2011 bonds	1/1/32	1.70 – 2.65%	13,055,000	13,055,000
12/19/19	Bond anticipation notes – system improvements	11/1/24	1.50%	<u>20,000,000</u>	<u>20,000,000</u>
Totals				<u>\$ 313,510,000</u>	<u>\$ 213,715,000</u>

Revenue bond debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2020	\$ 7,455,000	\$ 6,810,091	\$ 14,265,091
2021	9,505,000	7,277,505	16,782,505
2022	11,525,000	6,833,129	18,358,129
2023	12,705,000	6,299,068	19,004,068
2024	33,025,000	5,778,874	38,803,874
2025 - 2029	69,720,000	19,123,500	88,843,500
2030 - 2034	49,185,000	7,819,921	57,004,921
2035 - 2039	<u>20,595,000</u>	<u>1,525,705</u>	<u>22,120,705</u>
Totals	<u>\$ 213,715,000</u>	<u>\$ 61,467,793</u>	<u>\$ 275,182,793</u>

The 2010 bonds were Build America Bonds. The amount disclosed prior to refunding in 2019 was based on an originally approved 35% interest rate subsidy credit. During the federal fiscal year 2018 interest subsidies were reduced by 6.6% due to federal sequestration.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

### NOTE 6 – LONG-TERM OBLIGATIONS

#### **REVENUE BONDS** (cont.)

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on utility plant. Principal and interest paid for 2019 and 2018 were \$18,092,736 and \$13,246,118, respectively. Total customer net revenues as defined for 2019 and 2018 were \$27,671,187 and \$17,583,422, respectively. Annual principal and interest payments are expected to require 50% of net revenues.

#### **REVENUE BOND ANTICIPATION NOTES (BANS)**

Included in long-term debt is \$20,000,000 of revenue bond anticipation notes maturing November 1, 2024. The proceeds from the BANS provide funding for certain capital and system improvements for fiscal years 2019 through 2021. The Notes bear interest payable on May 1 and November 1 of each year, commencing May 1, 2020 with the full principal payment due on November 1, 2024 if not refinanced at an earlier date. The BANS are subordinate debt to all outstanding senior revenue debt and include similar bond covenants to the senior bonds. Permanent financing will depend on the availability of funds within eligible State of Wisconsin Revolving Loan programs or traditional revenue bond financings. The utility anticipates refinancing the BANS with permanent financing over the course of the five-year life of the debt with the earliest available redemption date of November 1, 2020.

#### **ADVANCE FROM MUNICIPALITY**

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/19 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	3.41%	\$ 1,404,052	\$ 711,452
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	466,756

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2020	\$ 117,464	\$ 27,136	\$ 144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,587	12,936	167,523
2024	168,800	6,752	175,552
Totals	<u>\$ 711,452</u>	<u>\$ 88,163</u>	<u>\$ 799,615</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, 2019 and 2018

#### **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:

Year	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
2014	4,590,000	-	765,000	3,825,000
2015	3,825,000	-	765,000	3,060,000
2016	3,060,000	-	765,000	2,295,000
2017	2,295,000	-	765,000	1,530,000
2018	1,530,000	-	765,000	765,000
2019	765,000	-	765,000	-

The utility paid the remaining advance balance during 2019. This loan is considered satisfied in 2019 and no further payments are required.

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

Long-term obligation activity for the year ended December 31, 2019, is as follows:

	1/1/19 Balance	Additions	Reductions	12/31/19 Balance	Due Within One Year
Revenue bonds	\$ 211,940,000	\$ 66,735,000	\$ 64,960,000	\$ 213,715,000	\$ 7,455,000
Accrued sick leave	2,028,589	419,231	336,041	2,111,779	-
Net pension liability (asset)	(1,594,540)	3,610,321	-	2,015,781	-
Other postemployment benefit obligation	2,504,210	194,684	-	2,698,894	-
Customer advances for construction	44,030	435,723	360,511	119,242	-
Advance from municipality	1,274,112	11,118	107,022	1,178,208	117,464
Loan from municipality – operating	765,000	-	765,000	-	-
Unamortized debt premium	10,239,105	4,654,338	1,785,175	13,108,268	-
<b>Totals</b>	<b>\$ 227,200,506</b>	<b>\$ 76,060,415</b>	<b>\$ 68,313,749</b>	<b>\$ 234,947,172</b>	<b>\$ 7,572,464</b>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

Long-term obligation activity for the year ended December 31, 2018, is as follows:

	1/1/18 Balance	Additions	Reductions	12/31/18 Balance	Due Within One Year
Revenue bonds	\$ 178,675,000	\$ 40,155,000	\$ 6,890,000	\$ 211,940,000	\$ 9,255,000
Accrued sick leave	1,808,215	371,957	151,583	2,028,589	-
Net pension liability	438,906	-	2,033,446	(1,594,540)	-
Other postemployment benefit obligation	773,380	1,730,830	-	2,504,210	-
Customer advances for construction	58,341	151,909	166,220	44,030	-
Advance from municipality	1,363,234	8,329	97,451	1,274,112	107,022
Loan from municipality – operating	1,530,000	-	765,000	765,000	765,000
Unamortized debt premium	9,015,887	1,843,375	620,157	10,239,105	-
<b>Totals</b>	<b>\$ 193,662,963</b>	<b>\$ 44,261,400</b>	<b>\$ 10,723,857</b>	<b>\$ 227,200,506</b>	<b>\$ 10,127,022</b>

#### **CURRENT REFUNDING**

On December 19, 2019, bonds in the amount of \$33,680,000 were issued with an average interest rate of 3.80% to refund \$41,795,000 of outstanding Series 2009A and 2010 bonds with an average interest rate of 4.65%. The net proceeds were used to purchase U.S. government securities and pay issuance costs of the transaction. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt services payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the current refunding (gross of interest rate subsidies) was \$52,956,286 from 2020 to 2031. The cash flow requirements on the new bonds are \$42,039,175 from 2021 through 2031. The current refunding resulted in an economic gain of \$4,947,659.

#### **ADVANCE REFUNDING**

On December 19, 2019, bonds in the amount of \$13,055,000 were issued with an average interest rate of 2.32% to advance refund \$13,910,000 of outstanding Series 2011 bonds with an average interest rate of 3.52%. The net proceeds were used to purchase U.S. government securities and pay issuance costs of the transaction. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, that portion of the old bonds are considered defeased and the liability for that portion of the old bonds has been removed from the statement of net position.

The cash flow requirements on the old bonds prior to the advance refunding was \$17,332,366 from 2020 to 2032. The cash flow requirements on the new bonds are \$15,129,313 from 2021 through 2032. The advance refunding resulted in an economic gain of \$663,100.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

#### ***PRIOR YEAR DEFEASANCE OF DEBT***

In 2016, the utility defeased \$17,410,000 of the 2007 bonds by placing the proceeds in an irrevocable trust to provide for all future debt service payments on 2007 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds were called on January 1, 2018.

#### ***COMPLIANCE WITH FUNDING REQUIREMENTS***

The utility is required to comply with various debt covenants as a result of issuing revenue bonds. One such requirement states that net revenues earned must be at least 1.25 times the highest combined annual principal and interest requirements on outstanding revenue bonds. The utility met this requirement in 2019 but did not meet it in 2018.

#### ***NUMBER OF CUSTOMERS***

At December 31, 2019 and 2018, the utility served the following number of customers:

	<u>2019</u>	<u>2018</u>
Residential	57,673	58,646
Multifamily	4,221	4,293
Duplex (A)	2,003	166
Commercial	4,912	5,089
Industrial	68	52
Public Authority	<u>570</u>	<u>499</u>
Totals	<u><u>69,447</u></u>	<u><u>68,745</u></u>

(A) The duplex customer class was created with the new rates implemented in November 2018 for December 2018 billing cycles. Customers classified as duplex were reclassified from the other classes with normal cycle billings beginning in 2019.

#### ***WATER PUMPED AND BILLED***

During the years ended December 31, 2019 and 2018, the following amounts of water were pumped and billed:

	<u>(000 gallons)</u>	
	<u>2019</u>	<u>2018</u>
Water pumped	<u><u>8,973,120</u></u>	<u><u>9,222,650</u></u>
Water billed	<u><u>7,740,078</u></u>	<u><u>8,004,456</u></u>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

#### ***RISK MANAGEMENT***

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

---

### 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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

### NOTE 7 – NET POSITION (cont.)

The following calculation supports the net investment in capital assets:

	December 31,	
	2019	2018
Plant in Service	\$ 402,164,035	\$ 388,165,409
Accumulated Depreciation	(96,451,009)	(88,306,628)
Construction Work in Progress	611,048	2,767,186
Subtotals	306,324,075	302,625,967
Less: Capital Related Debt		
Current portion of capital related long-term debt – See Note (A)	6,545,000	9,255,000
Long-term portion of capital related long-term debt – See Note (A)	197,780,000	193,295,000
Unamortized debt premium	13,108,268	10,239,105
Unamortized gain on advance refunding	83,703	-
Unamortized loss on advance refunding	(733,367)	(1,528,538)
Subtotals	216,783,604	211,260,567
Add: Borrowed Funds on Hand		
Reserve fund	13,668,619	14,787,021
Construction fund	19,258,872	8,024,067
Subtotals	32,927,491	22,811,088
Total Net Investment in Capital Assets	\$ 122,467,962	\$ 114,176,488

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

### NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

#### **General Information About the Pension Plan**

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

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

#### **General Information About the Pension Plan** (cont.)

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

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

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

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

The WRS also provides death and disability benefits for employees.

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4.0
2018	2.4	17.0

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

#### **General Information About the Pension Plan (cont.)**

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

During the reporting period, the WRS recognized \$592,109 and \$562,396 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2019 and December 31, 2018 are:

	2019		2018	
	Employee	Employee	Employee	Employer
General (including Executives and Elected Officials)	6.7%	6.7%	6.8%	6.8%
Protective with Social Security	6.7%	10.7%	6.8%	10.6%
Protective without Social Security	6.7%	14.9%	6.8%	14.9%

#### **Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2019, the utility reported a liability (asset) of \$2,015,781 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, the City of Madison's proportion was 1.764%, which was an increase of 0.0586% from its proportion measured as of December 31, 2017.

At December 31, 2018, the utility reported a liability (asset) of \$(1,594,540) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utility's proportion of the net pension liability (asset) was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the City of Madison's proportion was 1.689%, which was an increase of 0.069% from its proportion measured as of December 31, 2016.

For the years ended December 31, 2019 and 2018, the utility recognized pension expense of \$721,788 and \$120,520, respectively.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)***

At December 31, 2019, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,546,398	\$ (2,875,002)
Changes in assumptions	372,973	-
Net differences between projected and actual earnings on pension plan investments	3,221,138	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(33,448)
Employer contributions subsequent to the measurement date	595,371	-
Totals	\$ 5,735,880	\$ (2,908,450)

At December 31, 2018, the utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,042,807	\$ (1,066,420)
Changes in assumptions	354,534	-
Net differences between projected and actual earnings on pension plan investments	-	(1,958,121)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(26,012)
Employer contributions subsequent to the measurement date	592,109	-
Totals	\$ 2,989,450	\$ (3,050,553)

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** (cont.)

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

<u>2019</u>	
<u>Year Ended</u> <u>December 31</u>	<u>Water Utility</u>
2020	\$ 806,711
2021	195,796
2022	353,581
2023	875,971
2024	-
Total	<u>\$ 2,232,059</u>

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

	<u>2019</u>	<u>2018</u>
Actuarial valuation date	December 31, 2017	December 31, 2016
Measurement date of net Pension liability (Asset)	December 31, 2018	December 31, 2017
Actuarial cost method	Entry Age Normal	Entry Age Normal
Asset valuation method	Fair value	Fair value
Long-term expected rate of return	7.0%	7.2%
Discount rate	7.0%	7.2%
Salary increases		
Inflation	3.0%	3.2%
Seniority/Merit	0.1% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2018 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	1.9%	2.1%

*\* No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. The percentages listed above are the assumed annual adjustment based on the investment return assumption and the postretirement discount rate.*

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)***

Actuarial assumptions used in the December 31, 2017 actuarial valuation is based upon an experience study conducted in 2018 using experience from 2015 – 2017. Based on this experience study, actuarial assumptions used to measure the Total Pension Liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

Actuarial assumptions used in the December 31, 2016 actuarial valuation is based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

***Long-term expected return on plan assets.*** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2019 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	49.0%	8.1%	5.5%
Fixed Income	24.5	4.0	1.5
Inflation Sensitive Assets	15.5	3.8	1.3
Real Estate	9.0	6.5	3.9
Private Equity/Debt	8.0	9.4	6.7
Multi-Asset	4.0	6.7	4.1
<i>Total Core Fund</i>	110.0	7.3	4.7
<u>Variable Fund Asset Class</u>			
US Equities	70.0	7.6	5.0
International Equities	30.0	8.5	5.9
<i>Total Variable Fund</i>	100.0	8.0	5.4

New England Pension Consultants Long-Term US CPI (Inflation) Forecast: 2.50%  
 Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

#### ***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)***

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2018 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50.0%	8.2%	5.3%
Fixed Income	24.5	4.2	1.4
Inflation Sensitive Assets	15.5	3.8	1.0
Real Estate	8.0	6.5	3.6
Private Equity/Debt	8.0	9.4	6.5
Multi-Asset	4.0	6.5	3.6
<i>Total Core Fund</i>	110.0	7.3	4.4
<u>Variable Fund Asset Class</u>			
US Equities	70.0	7.5	4.76
International Equities	30.0	7.8	4.9
<i>Total Variable Fund</i>	100.0	7.9	5.0

New England Pension Consultants Long-Term US CPI (Inflation) Forecast: 2.75%

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

**Single discount rate.** A single discount rate of 7.00% and 7.20% was used to measure the total pension liability as of December 31, 2019 and December 31, 2018, respectively. As of December 31, 2019, the single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a long term bond rate of 3.71%. As of December 31, 2018, the single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31%. Because of the unique structure of WRS, the 7.00% (7.20% for 2018) expected rate of return implies that a dividend of approximately 1.9% (2.1% for 2018) will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2019 and 2018

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

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** (cont.)

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

The sensitivity analysis as of December 31, 2019 is as follows:

	1% Decrease to Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase to Discount Rate (8.00%)
Utility’s proportionate share of the net pension liability	\$ 8,004,647	\$ 2,015,781	\$ (2,440,160)

The sensitivity analysis as of December 31, 2018 is as follows:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Utility’s proportionate share of the net pension liability	\$ 4,126,195	\$ (1,594,540)	\$ (5,942,867)

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

### **NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the City and the union. 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 as well as the funding policy and required contribution rates. See the City of Madison's Comprehensive Annual Financial Report for more information on the Plan.

**Employees covered by benefit terms.** At December 31, 2019 and 2018, the following employees were covered by the benefit terms:

	Water Utility	
	2019	2018
Inactive plan members or beneficiaries currently receiving benefit payments	16	19
Inactive plan members entitled to but not yet receiving benefit payments	-	13
Active plan members	125	113
	141	145

#### **TOTAL OPEB LIABILITY**

At December 31, 2019, the utility's total OPEB liability of \$2,698,894 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date. At December 31, 2018, the utility's total OPEB liability was \$2,504,210 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2019 and 2018

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

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

	2019	2018
Actuarial valuation date	December 31, 2019	December 31, 2018
Inflation	2.70% per year	2.70% per year
Salary increases	3.20% - 4.80%	3.20% - 4.80%
Investment rate of return	4.11% as of January 1, 2019 and 3.26% as of December 31, 2019	3.56% as of January 1, 2018 and 4.11% as of December 31, 2018
Healthcare cost trend rates	7.5% initially reduced by decrements to an ultimate rate of 4.5% after 8 years	8.0% initially reduced by decrements to an ultimate rate of 4.5% after 8 years
Retirees' share of benefit-related costs	100%	100%
Discount rate	4.11%	4.11%

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

Mortality Rates are based on SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018.

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

#### **CHANGES IN THE TOTAL OPEB LIABILITY**

	Total OPEB Liability
Balances at January 1, 2019	\$ 2,504,210
Changes for the year:	
Allocation changes	(32,216)
Service cost	162,366
Interest	105,763
Differences between expected and actual experience	(87,124)
Changes in assumptions	169,237
Benefit payments	(123,342)
Net changes	194,684
Balances at December 31, 2019	\$ 2,698,894

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

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

	<u>Total OPEB Liability</u>
Balances at January 1, 2018	\$ 2,588,052
Changes for the year:	
Service cost	179,319
Interest	96,586
Differences between expected and actual experience	(198,756)
Changes in assumptions	(51,468)
Benefit payments	(109,523)
Net changes	<u>(83,842)</u>
 Balances at December 31, 2018	 \$ <u>2,504,210</u>

Changes in assumptions and other inputs from December 31, 2018 to December 31, 2019 include the following, respectively; change in the discount rate from 4.11% to 3.26% and an update in the health care and subsidy trend rates from a rate of 8.00% decreasing by 0.05% annually to an ultimate rate of 4.50% to an initial rate of 7.50% decreasing by 0.05% annually to an ultimate rate of 4.50%.

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

As of December 31, 2019:	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	(2.26%)	(3.26%)	(4.26%)
Total OPEB liability	\$ 2,917,103	\$ 2,698,894	\$ 2,501,227
 As of December 31, 2018:	 <u>1% Decrease</u>	 <u>Discount Rate</u>	 <u>1% Increase</u>
	 (3.11%)	 (4.11%)	 (5.11%)
Total OPEB liability	\$ 2,705,514	\$ 2,504,210	\$ 2,321,569

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2019 and 2018

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

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

As of December 31, 2019:	1% Decrease (6.50%)	Healthcare Cost Trend Rates (7.50%)	1% Increase (8.50%)
Total OPEB liability	\$ 2,434,700	\$ 2,698,894	\$ 3,012,421
As of December 31, 2018:	1% Decrease (7.00%)	Healthcare Cost Trend Rates (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 2,282,958	\$ 2,504,210	\$ 2,764,037

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

For the year ended December 31, 2019 and 2018, the utility recognized OPEB expense of \$247,518 and \$244,626, respectively. At December 31, 2019 and 2018, the utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ 148,082	\$ (38,105)	\$ -	\$ (45,035)
Differences between expected and actual experience	-	(223,380)	-	(173,911)
Total	\$ 148,082	\$ (261,485)	\$ -	\$ (218,946)

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

---

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

---

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

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

Year Ended December 31:

2020	\$	(20,611)
2021		(20,611)
2022		(20,611)
2023		(20,611)
2024		(20,611)
Thereafter		(10,348)

---

### NOTE 10 – COMMITMENTS AND CONTINGENCIES

---

#### *CLAIMS AND JUDGMENTS*

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

#### *OPEN CONTRACTS*

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2019 and 2018 has been accrued in these financial statements.

---

### NOTE 11 – SUBSEQUENT EVENTS

---

The utility evaluated subsequent events through the date that the financial statements were available to be issued for events requiring recording or disclosure in the financial statements.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Utility. As of the date above, the Utility's evaluation of the effects of these events is ongoing; however, we anticipate this situation could impact; changes in demand patterns and related declines in revenues, increases in account delinquencies, changes in investment valuations and investment income, among other impacts.

The extent of the impact of COVID-19 on the Utility's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

---

### NOTE 11 – SUBSEQUENT EVENTS (cont.)

---

#### *RATE ADJUSTMENT*

The Public Service Commission of Wisconsin approved a water rate increase effective July 2, 2020.

---

### NOTE 12 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

---

The utility adopted GASB Statement No. 75 effective January 1, 2018. The cumulative effect of implementation is reflected as a change in net position at December 31, 2017 as follows:

Net OPEB liability, January 1, 2018	\$	(1,814,672)
Deferred inflows, January 1, 2018		<u>46,002</u>
Cumulative Effect of a Change in Accounting Principle	\$	<u>(1,768,670)</u>

Additional information required for retroactive implementation was not provided by the OPEB plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

## MADISON WATER UTILITY

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2019

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	Utility's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
12/31/19	1.76372%	\$ 2,015,781	\$ 8,837,448	22.81%	96.45%
12/31/18	1.68891%	(1,594,540)	8,270,529	19.28%	102.93%
12/31/17	1.62005%	438,906	7,895,803	5.56%	99.12%
12/31/16	1.58205%	880,490	7,765,706	11.34%	98.20%
12/31/15	1.57042%	(1,359,015)	7,847,129	17.32%	102.74%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2019

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/19	\$ 595,371	\$ 595,371	\$ -	9,089,634	6.55%
12/31/18	592,109	592,109	-	8,837,448	6.70%
12/31/17	562,396	562,396	-	8,270,529	6.80%
12/31/16	521,123	521,123	-	7,895,803	6.60%
12/31/15	528,068	528,068	-	7,765,706	6.80%

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

**MADISON WATER UTILITY**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2019

---

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

*Changes of assumptions.*

	2015 - 2018	2019
Long-term expected rate of return	7.20%	7.00%
Discount rate	7.20%	7.00%
Salary increases		
Inflation	3.20%	3.00%
Seniority/Merit	0.2% - 5.6%	0.1% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2018 Mortality Table
Post-retirement adjustments	2.10%	1.90%

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

## MADISON WATER UTILITY

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

	2019	2018
<b>Total OPEB Liability</b>		
Allocation changes	\$ (32,216)	\$ -
Service Cost	162,366	179,319
Interest on Total OPEB Liability	105,763	96,586
Changes in benefits terms	-	-
Difference between expected and actual experience	(87,124)	(198,756)
Changes in assumptions	169,237	(51,468)
Employee Contributions	-	-
Benefit payments, including employee refunds	(123,342)	(109,523)
Administrative expense	-	-
<b>Net Change in total OPEB Liability</b>	194,684	(83,843)
<b>Total OPEB Liability - beginning</b>	2,504,210	2,588,053
<b>Total OPEB Liability - Ending</b>	<b>\$ 2,698,894</b>	<b>\$ 2,504,210</b>
 <b>Covered-employee payroll</b>	 \$ 7,796,356	 \$ 7,505,306
 <b>Total OPEB liability as a percentage of covered-employee payroll</b>	 34.6%	 33.4%

**Notes to OPEB Schedule:**

Changes in Assumptions

*Benefit changes* - There were no changes of benefit terms

*Changes in assumptions:*

*Discount Rate* - The discount rate has been updated from 4.11% to 3.261% in the December 31, 2019 valuation.

*Health Care and Subsidy Trend Rates* - An update in the health care and subsidy trend rates from an initial rate of 8.00% decreasing by 0.05% annually to an ultimate rate of 4.50% to an initial rate of 7.50% decreasing by 0.05% annually to an ultimate rate of 4.50% for the December 31, 2019 valuation.

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

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

**MADISON WATER UTILITY**

REVENUE BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES

As of December 31, 2019

Year	2012 Revenue Bonds			2013 Revenue Bonds			2015 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 950,000	\$ 515,000	\$ 1,465,000	\$ 1,020,000	\$ 816,150	\$ 1,836,150	\$ 1,635,000	\$ 1,307,329	\$ 2,942,329
2021	970,000	476,600	1,446,600	1,055,000	764,275	1,819,275	1,680,000	1,224,454	2,904,454
2022	990,000	437,400	1,427,400	1,085,000	710,775	1,795,775	1,735,000	1,139,079	2,874,079
2023	1,015,000	397,300	1,412,300	1,115,000	655,775	1,770,775	1,785,000	1,051,079	2,836,079
2024	1,040,000	356,200	1,396,200	1,150,000	599,150	1,749,150	1,855,000	960,079	2,815,079
2025	1,065,000	314,100	1,379,100	1,190,000	546,600	1,736,600	1,930,000	865,454	2,795,454
2026	1,095,000	276,375	1,371,375	1,240,000	498,000	1,738,000	2,005,000	787,129	2,792,129
2027	1,125,000	243,075	1,368,075	1,290,000	447,400	1,737,400	2,090,000	725,704	2,815,704
2028	1,160,000	208,800	1,368,800	1,340,000	394,800	1,734,800	2,170,000	663,431	2,833,431
2029	1,195,000	173,475	1,368,475	1,390,000	340,200	1,730,200	2,235,000	598,983	2,833,983
2030	1,235,000	137,025	1,372,025	1,440,000	283,600	1,723,600	2,305,000	529,731	2,834,731
2031	1,275,000	99,375	1,374,375	1,500,000	224,800	1,724,800	2,380,000	455,924	2,835,924
2032	1,315,000	60,525	1,375,525	1,560,000	163,600	1,723,600	2,460,000	379,406	2,839,406
2033	1,360,000	20,400	1,380,400	1,620,000	100,000	1,720,000	2,540,000	301,281	2,841,281
2034	-	-	-	1,690,000	33,800	1,723,800	2,625,000	220,578	2,845,578
2035	-	-	-	-	-	-	2,715,000	135,444	2,850,444
2036	-	-	-	-	-	-	2,810,000	45,661	2,855,661
Totals	\$ 15,790,000	\$ 3,715,650	\$ 19,505,650	\$ 19,685,000	\$ 6,578,925	\$ 26,263,925	\$ 36,955,000	\$ 11,390,746	\$ 48,345,746

Year	2016A Revenue Bonds			2016B Revenue Bonds			2018A Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 820,000	\$ 957,750	\$ 1,777,750	\$ 1,120,000	\$ 562,800	\$ 1,682,800	\$ 1,000,000	\$ 1,210,600	\$ 2,210,600
2021	855,000	924,250	1,779,250	1,160,000	517,200	1,677,200	1,075,000	1,169,100	2,244,100
2022	885,000	885,025	1,770,025	1,215,000	463,625	1,678,625	1,120,000	1,125,200	2,245,200
2023	930,000	839,650	1,769,650	1,270,000	401,500	1,671,500	1,165,000	1,079,500	2,244,500
2024	980,000	791,900	1,771,900	1,340,000	336,250	1,676,250	1,210,000	1,032,000	2,242,000
2025	1,025,000	741,775	1,766,775	1,405,000	267,625	1,672,625	1,260,000	982,600	2,242,600
2026	1,080,000	689,150	1,769,150	1,475,000	195,625	1,670,625	1,310,000	931,200	2,241,200
2027	1,135,000	633,775	1,768,775	1,550,000	120,000	1,670,000	1,360,000	877,800	2,237,800
2028	1,190,000	575,650	1,765,650	1,625,000	40,625	1,665,625	1,415,000	822,300	2,237,300
2029	1,250,000	514,650	1,764,650	-	-	-	1,470,000	764,600	2,234,600
2030	1,310,000	457,200	1,767,200	-	-	-	1,530,000	704,600	2,234,600
2031	1,365,000	403,700	1,768,700	-	-	-	1,595,000	642,100	2,237,100
2032	1,420,000	348,000	1,768,000	-	-	-	1,655,000	577,100	2,232,100
2033	1,475,000	290,100	1,765,100	-	-	-	1,720,000	509,600	2,229,600
2034	1,535,000	229,900	1,764,900	-	-	-	1,790,000	439,400	2,229,400
2035	1,595,000	167,300	1,762,300	-	-	-	1,865,000	366,300	2,231,300
2036	1,660,000	102,200	1,762,200	-	-	-	1,935,000	290,300	2,225,300
2037	1,725,000	34,500	1,759,500	-	-	-	2,015,000	211,300	2,226,300
2038	-	-	-	-	-	-	2,095,000	129,100	2,224,100
2039	-	-	-	-	-	-	2,180,000	43,600	2,223,600
Totals	\$ 22,235,000	\$ 9,586,475	\$ 31,821,475	\$ 12,160,000	\$ 2,905,250	\$ 15,065,250	\$ 30,765,000	\$ 13,908,300	\$ 44,673,300

**MADISON WATER UTILITY**

REVENUE BOND AND BOND ANTICIPATION NOTE DEBT REPAYMENT SCHEDULES  
As of December 31, 2019

Year	2018B Taxable Revenue Bonds (Operating)			2019A Refunding Bonds			2019B Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 910,000	\$ 292,018	\$ 1,202,018	\$ -	\$ 737,200	\$ 737,200	\$ -	\$ 151,244	\$ 151,244
2021	950,000	264,118	1,214,118	810,000	1,362,000	2,172,000	950,000	275,508	1,225,508
2022	975,000	234,999	1,209,999	2,545,000	1,278,125	3,823,125	975,000	258,901	1,233,901
2023	1,005,000	204,301	1,209,301	3,430,000	1,128,750	4,558,750	990,000	241,213	1,231,213
2024	1,040,000	171,832	1,211,832	3,395,000	1,009,050	4,404,050	1,015,000	222,413	1,237,413
2025	1,070,000	137,537	1,207,537	3,320,000	892,100	4,212,100	1,040,000	202,370	1,242,370
2026	1,110,000	101,012	1,211,012	3,440,000	723,100	4,163,100	1,065,000	180,788	1,245,788
2027	1,145,000	62,105	1,207,105	3,120,000	559,100	3,679,100	1,090,000	157,615	1,247,615
2028	1,185,000	21,034	1,206,034	3,280,000	399,100	3,679,100	1,120,000	133,025	1,253,025
2029	-	-	-	5,515,000	206,800	5,721,800	1,150,000	106,913	1,256,913
2030	-	-	-	4,045,000	56,050	4,101,050	1,185,000	78,884	1,263,884
2031	-	-	-	780,000	7,800	787,800	1,220,000	48,813	1,268,813
2032	-	-	-	-	-	-	1,255,000	16,629	1,271,629
<b>Totals</b>	<b>\$ 9,390,000</b>	<b>\$ 1,488,956</b>	<b>\$ 10,878,956</b>	<b>\$ 33,680,000</b>	<b>\$ 8,359,175</b>	<b>\$ 42,039,175</b>	<b>\$ 13,055,000</b>	<b>\$ 2,074,316</b>	<b>\$ 15,129,316</b>

Year	2019 Bond Anticipation Notes			TOTAL (All Revenue Debt)		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ -	\$ 260,000	\$ 260,000	\$ 7,455,000	\$ 6,810,091	\$ 14,265,091
2021	-	300,000	300,000	9,505,000	7,277,505	16,782,505
2022	-	300,000	300,000	11,525,000	6,833,129	18,358,129
2023	-	300,000	300,000	12,705,000	6,299,068	19,004,068
2024	20,000,000	300,000	20,300,000	33,025,000	5,778,874	38,803,874
2025	-	-	-	13,305,000	4,950,161	18,255,161
2026	-	-	-	13,820,000	4,382,379	18,202,379
2027	-	-	-	13,905,000	3,826,574	17,731,574
2028	-	-	-	14,485,000	3,258,765	17,743,765
2029	-	-	-	14,205,000	2,705,621	16,910,621
2030	-	-	-	13,050,000	2,247,090	15,297,090
2031	-	-	-	10,115,000	1,882,512	11,997,512
2032	-	-	-	9,665,000	1,545,260	11,210,260
2033	-	-	-	8,715,000	1,221,381	9,936,381
2034	-	-	-	7,640,000	923,678	8,563,678
2035	-	-	-	6,175,000	669,044	6,844,044
2036	-	-	-	6,405,000	438,161	6,843,161
2037	-	-	-	3,740,000	245,800	3,985,800
2038	-	-	-	2,095,000	129,100	2,224,100
2039	-	-	-	2,180,000	43,600	2,223,600
<b>Totals</b>	<b>\$ 20,000,000</b>	<b>\$ 1,460,000</b>	<b>\$ 21,460,000</b>	<b>\$ 213,715,000</b>	<b>\$ 61,467,793</b>	<b>\$ 275,182,793</b>

## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Unmetered Sales	\$ 386,489	\$ 190,448
Metered Sales		
Residential	17,685,746	12,530,268
Duplex	703,253	59,528
Multi-Family	8,107,000	5,883,892
Commercial	8,659,149	5,728,589
Industrial	843,297	531,820
Public authority	5,971,080	4,357,131
Sales for resale	280,675	250,796
Total Metered Sales	42,250,200	29,342,024
Private Fire Protection	-	561,741
Public Fire Protection	139,369	3,895,947
Total Sales of Water	42,776,058	33,990,160
Customer Late Payment Penalties	209,038	158,891
Miscellaneous	86,514	135,902
Rents from water property	276,232	258,603
Other	597,046	555,626
Total Operating Revenues	43,944,888	35,099,182
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	10,456	13,464
Collecting and impounding reservoirs	29,615	168,687
Wells and springs	19,733	68,126
Total Source of Supply	59,804	250,277
Pumping		
Operation supervision and engineering	52,137	45,927
Power purchased for pumping	1,861,531	2,070,053
Pumping labor	445,405	419,495
Miscellaneous	497,037	440,465
Maintenance		
Supervision and engineering	182,914	158,104
Structures and improvements	330,963	343,896
Pumping equipment	375,538	666,150
Total Pumping	3,745,525	4,144,090
Water Treatment		
Operation supervision and engineering	127,077	89,647
Chemicals	131,024	157,996
Operation labor	226,792	261,032
Miscellaneous	95,780	120,102
Maintenance		
Supervision and engineering	10,526	12,723
Water treatment equipment	134,821	194,071
Total Water Treatment	726,020	835,571

## MADISON WATER UTILITY

### OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 297,494	\$ 287,150
Storage facilities	103,031	114,281
Transmission and distribution lines	407,247	413,089
Meter	61,630	45,108
Customer installation	375,449	349,919
Miscellaneous	1,546,328	1,406,148
Maintenance		
Reservoirs	25,004	152,033
Mains	1,993,409	2,420,840
Services	1,226,496	1,278,967
Meters	178,437	178,885
Hydrants	318,157	249,548
Total Transmission and Distribution	6,532,682	6,895,968
Customer Accounts		
Supervision	23,860	23,105
Meter reading	58,513	55,116
Customer records and collection	407,860	537,727
Conservation	300,932	254,234
Total Customer Accounts	791,165	870,182
Administrative and General		
Salaries	1,036,255	894,162
Office, building, and supplies	742,222	486,776
Outside services employed	121,163	267,394
Property insurance	42,954	35,442
Injuries and damages	301,095	327,732
Employee pensions and benefits	2,507,800	2,021,507
Miscellaneous	91,898	342,549
Maintenance of general plant	3,640	2,664
Total Administrative and General	4,847,027	4,378,226
Total Operation and Maintenance	16,702,223	17,374,314
Depreciation	8,101,881	7,548,684
Taxes	583,014	554,548
Total Operating Expenses	25,387,118	25,477,546
OPERATING INCOME	\$ 18,557,770	\$ 9,621,636