

# **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, 2017 and 2016

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

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As of and for the Years Ended December 31, 2017 and 2016

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## INDEPENDENT AUDITORS' REPORT

To the Water Utility Board  
Madison Water Utility  
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Madison Water Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Madison Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Water Utility as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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, 2017 and 2016 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***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 sufficient evidence to express an opinion or provide an assurance.

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

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken 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 taken as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 20, 2018

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

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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### GENERAL INFORMATION ABOUT MADISON WATER UTILITY

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

The utility has always been a groundwater system in spite of being surrounded by lakes. The utility currently has 22 deep wells with a capacity of 68 million gallons per day. In common with other Wisconsin water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules and levels of service.

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### 2017 FINANCIAL HIGHLIGHTS

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- > Total operating revenues decreased \$633,000 or 1.8% from 2016 to 2017, while pumpage decreased 4.4% for that same time frame.
- > Income before capital contributions and transfers decreased \$4.0 million or 49.0% from the prior year. The decrease was due to a \$2.0 million in tank painting expenses in 2017 compared to 2016, increased interest expense of \$700,000 on outstanding debt, and increased depreciation expense of \$600,000.

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### 2016 FINANCIAL HIGHLIGHTS

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- > Total operating revenues increased \$6.0 million or 20.5% from 2015 to 2016, while pumpage decreased 1.2%. In September 2015, the utility implemented a rate increase which increased revenue.
- > Income before capital contributions and transfers increased \$4.8 million or 139.6% from the prior year. The increase was due to the \$6.0 million increase in revenue and higher depreciation, nonoperating expense and operation and maintenance expense.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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### RATES

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The utility filed an application to increase rates with the Public Service Commission of Wisconsin that was accepted on November 3, 2017. This application is requesting a 25% increase in revenues. The last rate increase was effective on September 29, 2015. The utility is currently ranked thirty-sixth for residential rates out of seventy-nine utilities classified as AB (over 4,000 customers) in Wisconsin.

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### UTILITY FINANCIAL ANALYSIS

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

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

*Table 1*

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 42,747	\$ 62,207	\$ 59,727
Capital Assets	<u>286,479</u>	<u>266,711</u>	<u>244,982</u>
Total Assets	<u>329,226</u>	<u>328,918</u>	<u>304,709</u>
Deferred Outflows of Resources	<u>5,248</u>	<u>6,889</u>	<u>3,098</u>
Current Liabilities	18,730	15,643	14,879
Long-term Debt Outstanding	171,785	180,840	166,490
Long-term Liabilities	<u>17,205</u>	<u>16,561</u>	<u>13,819</u>
Total Liabilities	<u>207,720</u>	<u>213,044</u>	<u>195,188</u>
Deferred Inflows of Resources	<u>1,480</u>	<u>1,864</u>	<u>-</u>
Net Investment in Capital Assets	115,880	106,282	98,847
Restricted	8,569	7,964	8,369
Unrestricted	<u>826</u>	<u>6,653</u>	<u>5,403</u>
Total Net Position	<u>\$ 125,275</u>	<u>\$ 120,899</u>	<u>\$ 112,619</u>

Total assets combined with deferred outflows of resources decreased \$1.3 million and total liabilities with deferred inflows of resources decreased \$5.7 million, resulting in an increase in net position of \$4.4 million from 2016. In 2016, total assets combined with deferred outflows of resources increased \$28.0 million and total liabilities with deferred inflows of resources increased \$19.7 million, resulting in an increase in net position of \$8.3 million from 2015.

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 2**

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

	Year Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 33,838	\$ 34,588	\$ 28,381
Other Operating Revenues	1,082	964	1,132
Total Revenues	34,920	35,552	29,513
Operation & Maintenance Expense	18,432	15,357	15,250
Depreciation Expense	6,945	6,328	5,776
Nonoperating Expense	5,337	5,623	5,053
Total Expenses	30,714	27,308	26,079
Income before Capital Contributions and Transfers	4,206	8,244	3,434
Capital Contributions	6,693	5,789	2,311
Transfers, net	(6,578)	(5,753)	(5,910)
Special Item – Net Assets Acquired from Transfer of Operations	55	-	-
Change in Net Position	4,376	8,280	(165)
Beginning Net Position	120,899	112,619	110,064
Cumulative effect of change in accounting principle	-	-	2,720
Ending Net Position	\$ 125,275	\$ 120,899	\$ 112,619

The utility's total revenues decreased \$0.6 million or 1.8% from 2016 to 2017. Pumping decreased 4.4%, and the utility added 475 new customers in 2017 from the transfer of operations from Waunona Sanitary District No. 2. Total revenues increased \$6.0 million or 20.5% in 2016 from 2015 due mainly to a rate increase that was implemented on September 29, 2015. This increase was in effect for all of 2016.



# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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### UTILITY FINANCIAL ANALYSIS (cont.)

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**Table 3**

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

	Year Ended December 31,		
	2017	2016	2015
<b>OPERATING REVENUES</b>			
Unmetered Sales	\$ 169	\$ 175	\$ 91
Metered Sales			
Residential	12,290	12,377	11,168
Commercial	11,248	11,534	9,395
Industrial	667	1,060	960
Public authority	4,397	4,502	2,848
Sales for resale	357	262	333
Total Metered Sales	28,959	29,735	24,704
Private Fire Protection	589	585	424
Public Fire Protection	4,121	4,094	3,162
Total Sales of Water	33,838	34,589	28,381
Customer Late Payment Penalties	191	176	163
Miscellaneous	158	100	91
Rents from water property	277	214	383
Other	456	473	495
Total Operating Revenues	34,920	35,552	29,513
<b>OPERATING EXPENSES</b>			
Source of Supply	17	75	53
Pumping	3,760	3,584	3,422
Water Treatment	735	742	744
Transmission and Distribution	8,067	5,460	6,180
Customer Accounts	849	847	735
Administrative and General	4,502	4,172	3,633
Total Operation and Maintenance	17,930	14,880	14,767
Depreciation	6,945	6,328	5,776
Taxes	502	477	483
Total Operating Expenses	25,377	21,685	21,026
Operating Income	\$ 9,543	\$ 13,867	\$ 8,487

See accompanying independent auditors' report.

# MADISON WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### **Revenues**

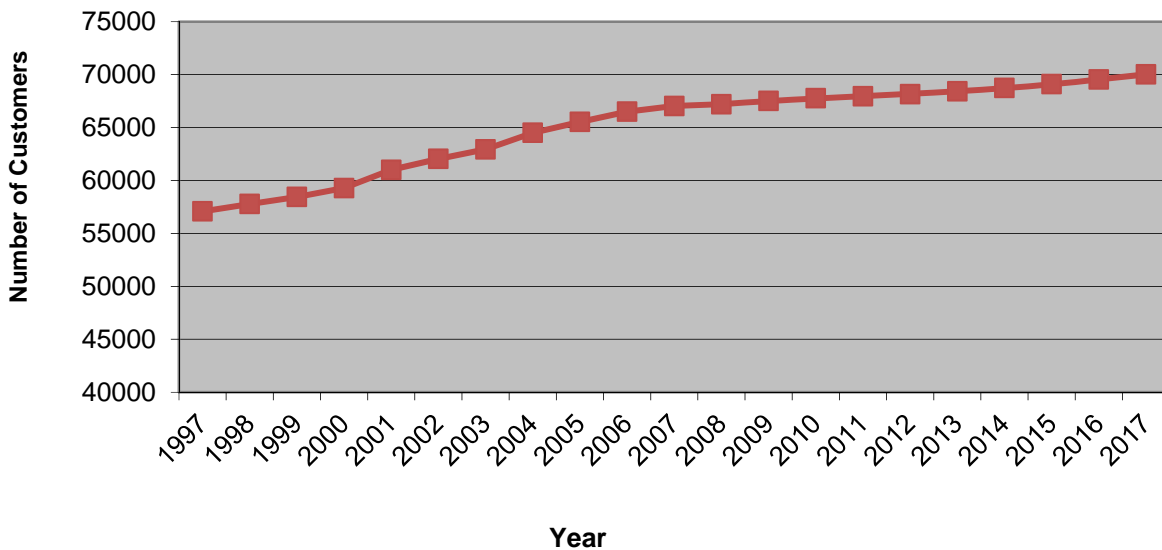
Total operating revenues were \$34.9 million in 2017, compared with \$35.5 million in 2016, a decrease of \$0.6 million or 1.8%. Although pumping decreased 4.4%, the utility added 475 new customers in 2017, the highest number of new customers added since 2007 (536).

#### **Expenses**

Operation and maintenance expenses totaled \$17.9 million in 2017, compared to \$14.9 million in 2016, an increase of \$3.0 million or 20.1%. In 2017, the utility painted 3 reservoir tanks at a total cost of \$2.4 million. Depreciation expense increased \$600,000 or 9.5% to \$6.9 million in 2017 from \$6.3 million in 2016.

**Chart 1**

**Customer Growth 1997 - 2017**



In 2017, the utility received 644 new applications for service, compared with 630, 604 and 529 new applications received in 2016, 2015 and 2014, respectively. 2017, 2016 and 2015 continued the first increase in consecutive years since a record number of new applications (1,442) was received in 2002, following 1,405 new applications in 2001.

# MADISON WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2017 and 2016

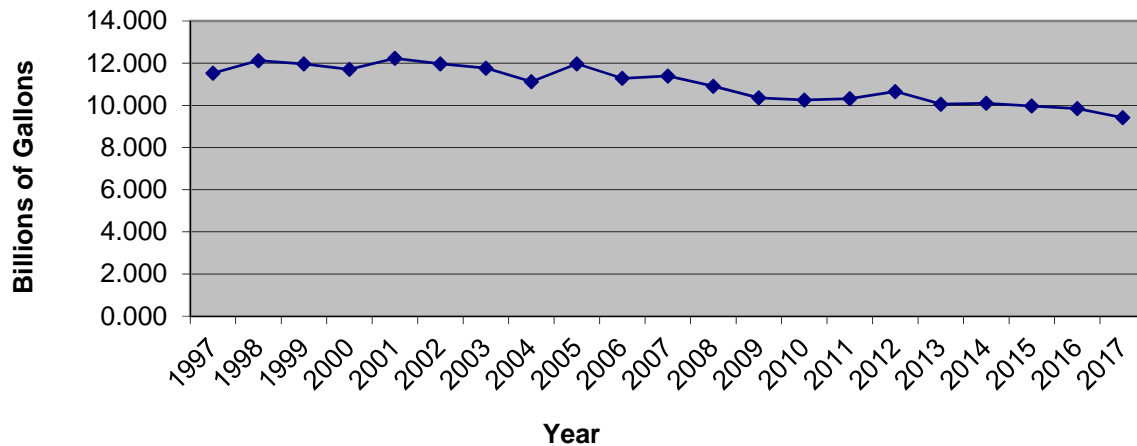
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## UTILITY FINANCIAL ANALYSIS (cont.)

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Chart 2

### Pumpage 1997 - 2017



Pumping for the year decreased 4.4% from 9.848 billion gallons in 2016 to 9.419 billion gallons in 2017, due to moderate weather conditions and continued water conservation efforts by customers.

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## CAPITAL EXPENDITURES

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The utility added a net \$19.8 million of plant in 2017. Of this amount, approximately \$6.6 million was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2017 included \$13.41 million for new and replacement water mains, \$4.24 million for the Operations Center Vehicle and Material Storage Buildings, \$412,000 for various Unit Well Flow and Mag Meter additions and VFDs and \$568,000 for our meter program.

Capital projects paid for by the utility in 2016 included \$9.35 million for new and replacement water mains, \$2.6 million for Lakeview Reservoir reconstruction, \$9.4 million for the Operations Center Building Remodel, \$944,000 for miscellaneous pumping station work and 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, 2017 and 2016

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### **CAPITAL BORROWING**

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The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The utility borrowed \$38.4 million in 2016, \$41.6 million in 2015, \$24.3 million in 2013, \$21.1 million in 2012, \$19.4 million in 2011, and \$13.2 million in 2010. The 2016 borrowing included \$23.8 million to fund 2016 and 2017 capital projects and \$14.6 million to advance refund 2007 revenue bonds. The utility plans a sale of revenue bonds in late 2018 to fund its 2018 & 2019 capital budgets. Management envisions a reduction in their capital borrowing due to reduced capital budgets for the next several years. 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.

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

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Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. While customer growth has slowed, the utility added a net 27.2 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that 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.

On August 15, 2017, the City of Madison acquired the assets and customers of Waunona Sanitary District #2. Waunona Sanitary District #2 had been a wholesale customer of Madison Water Utility. The acquisition included 4.5 miles of main, 392 service laterals, 27 hydrants and 465 meters. Madison Water Utility continues to serve the Village of Maple Bluff, Village of Shorewood Hills and a portion of the City of Fitchburg as wholesale customers.

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### **UTILITY CONTACT INFORMATION**

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This financial report is designed to provide customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Robin G. Piper, Chief Administrative Officer, Madison Water Utility, 119 East Olin Avenue, Madison, Wisconsin 53713 or by phone at (608) 266-4656 or e-mail at [rpiper@madisonwater.org](mailto:rpiper@madisonwater.org).

**FINANCIAL STATEMENTS**

# MADISON WATER UTILITY

## STATEMENTS OF NET POSITION As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 20,920	\$ 1,898,987
Restricted cash and investments	9,781,679	9,542,889
Customer accounts receivable	6,394,352	5,947,548
Prepays	4,056	-
Materials and supplies	778,893	718,568
Current portion of special assessments	158,075	85,883
Other current assets, net	624,741	438,687
Total Current Assets	<u>17,762,716</u>	<u>18,632,562</u>
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Cash and investments	17,050,217	36,683,104
Other Assets		
Special assessments receivable	3,267,857	2,233,195
Preliminary survey and investigation	394,466	394,466
Property held for future use	4,009,072	4,009,072
Nonutility property (net of accumulated depreciation)	263,319	254,832
Capital Assets		
Plant in service	358,287,677	332,737,945
Accumulated depreciation	(82,346,902)	(75,673,321)
Construction work in progress	10,538,547	9,645,941
Total Noncurrent Assets	<u>311,464,253</u>	<u>310,285,234</u>
Total Assets	<u>329,226,969</u>	<u>328,917,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on advance refunding	1,675,129	1,973,323
Deferred outflows related to pension	3,572,521	4,915,123
Total Deferred Outflows of Resources	<u>5,247,650</u>	<u>6,888,446</u>

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 834,553	\$ 1,034,472
Other current liabilities	914,325	893,649
Payable to other funds	3,302,211	3,214,909
Accrued interest	-	8,941
Current portion of implicit financing from city	3,079,684	-
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	97,451	89,040
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	6,890,000	6,660,000
Accrued interest	<u>2,846,660</u>	<u>2,976,857</u>
Total Current Liabilities	<u>18,729,884</u>	<u>15,642,868</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds	171,785,000	180,840,000
Unamortized debt premium	9,015,887	10,186,093
Accrued compensated absences	1,808,215	1,757,251
Other postemployment benefit obligation	773,380	636,434
Noncurrent portion of implicit financing from city	3,079,684	-
Advance from municipality	1,265,783	1,358,504
Loan from municipality	765,000	1,530,000
Customer advances for construction	58,341	211,807
Net pension liability	<u>438,906</u>	<u>880,490</u>
Total Noncurrent Liabilities	<u>188,990,196</u>	<u>197,400,579</u>
Total Liabilities	<u>207,720,079</u>	<u>213,043,447</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension	<u>1,479,658</u>	<u>1,864,058</u>
<b>NET POSITION</b>		
Net investment in capital assets	115,880,264	106,282,192
Restricted for:		
Debt service	7,668,536	7,064,739
Capital repairs and replacement	900,000	900,000
Unrestricted	<u>826,082</u>	<u>6,651,806</u>
<b>TOTAL NET POSITION</b>	<u>\$ 125,274,882</u>	<u>\$ 120,898,737</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, 2017 and 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Sales of water	\$ 33,838,096	\$ 34,588,398
Other	1,081,845	964,093
Total Operating Revenues	34,919,941	35,552,491
 <b>OPERATING EXPENSES</b>		
Operation and maintenance	18,431,561	15,356,637
Depreciation	6,944,967	6,328,463
Total Operating Expenses	25,376,528	21,685,100
 Operating Income	9,543,413	13,867,391
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Merchandising and jobbing	199,433	(15,941)
Bond issuance costs	-	(222,252)
Investment income	511,259	357,059
Interest and amortization expense	(6,585,178)	(6,255,982)
Interest charged to construction	116,127	385,952
Gain on transfer of operations	21,919	-
Other	398,613	128,204
Total Nonoperating Revenues (Expenses)	(5,337,827)	(5,622,960)
 Income before Capital Contributions and Transfers	4,205,586	8,244,431
 <b>CAPITAL CONTRIBUTIONS</b>	6,693,090	5,789,485
<b>TRANSFERS IN / (OUT)</b>	187,769	169,967
<b>TRANSFERS - TAX EQUIVALENT</b>	(6,923,928)	(6,415,680)
<b>CAPITALIZED TAX EQUIVALENT</b>	158,879	491,158
 <b>SPECIAL ITEM</b>		
Net assets acquired from transfer of operations	54,749	-
 <b>Change in Net Position</b>	4,376,145	8,279,361
 NET POSITION - Beginning of Year	120,898,737	112,619,376
 <b>NET POSITION - END OF YEAR</b>	\$ 125,274,882	\$ 120,898,737

See accompanying notes to financial statements.



# MADISON WATER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 34,993,485	\$ 36,530,782
Paid to suppliers for goods and services	(10,775,671)	(8,572,513)
Paid to employees for services	(6,284,891)	(5,978,193)
Net Cash Flows from Operating Activities	17,932,923	21,980,076
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers - paid to municipality for tax equivalent	(6,765,049)	(6,415,680)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Repayment of advances from other funds	(89,040)	(81,499)
Interest paid on advances and loans from other funds	(55,557)	(59,479)
Transfers from (to) other funds	187,769	169,967
Implicit financing from municipality	6,159,367	-
Net Cash Flows from Noncapital Financing Activities	(1,327,510)	(7,151,691)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(23,002,326)	(24,166,390)
Special assessments received	868,493	229,458
Contributions in aid of construction	(153,466)	(390,128)
Payments to escrow during refunding	-	(18,361,196)
Debt issued	-	38,420,000
Premium on debt issued	-	4,026,144
Debt issuance costs	-	(222,252)
Build America Bond interest credit received	143,377	111,149
Debt retired	(8,825,000)	(6,120,000)
Interest paid	(7,424,644)	(6,065,327)
Advances from other funds	4,730	3,586
Net Cash Flows from Capital and Related Financing Activities	(38,388,836)	(12,534,956)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities purchased	(15,276,451)	(6,019,850)
Marketable securities sold	14,056,177	4,111,640
Investment income	511,259	357,059
Net Cash Flows from Investing Activities	(709,015)	(1,551,151)
<b>Net Change in Cash and Cash Equivalents</b>	(22,492,438)	742,278
CASH AND CASH EQUIVALENTS – Beginning of Year	36,193,930	35,451,652
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<b>\$ 13,701,492</b>	<b>\$ 36,193,930</b>

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 9,543,413	\$ 13,867,391
Nonoperating income	454,669	1,114
Noncash items included in operating income		
Depreciation	6,944,967	6,328,463
Depreciation charged to other accounts	1,012,476	1,005,696
Net assets acquired from transfer of operations	54,749	-
Changes in Assets and Liabilities		
Customer accounts receivable	(497,940)	551,338
Receivable from other funds	(160,522)	(49,117)
Materials and supplies	(60,325)	(77,834)
Other current assets	(138,974)	(25,779)
Accounts payable and other current liabilities	(171,942)	761,800
Payable to other funds	247,824	(926,916)
Other postemployment benefit obligation	136,946	79,494
Pension related deferrals and liabilities	516,618	571,333
Accrued compensated absences	50,964	(106,907)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 17,932,923</u></b>	<b><u>\$ 21,980,076</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 20,920	\$ 1,898,987
Restricted cash and investments - current	9,781,679	9,542,889
Restricted cash and investments - noncurrent	<u>17,050,217</u>	<u>36,683,104</u>
Total Cash and Investments	26,852,816	48,124,980
Less: Noncash equivalents	<u>(13,151,324)</u>	<u>(11,931,050)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 13,701,492</u></b>	<b><u>\$ 36,193,930</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Municipality, customer and developer financed additions to utility plant	<u>\$ 6,274,701</u>	<u>\$ 4,577,803</u>
Capital additions assessed to customers	<u>\$ 2,101,707</u>	<u>\$ 170,000</u>
Adjustments to special assessments	<u>\$ (126,360)</u>	<u>\$ (54,944)</u>
Interest capitalized	<u>\$ 116,127</u>	<u>\$ 385,952</u>
Net changes in loss on refundings	<u>\$ -</u>	<u>\$ (569,396)</u>

See accompanying notes to financial statements.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

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

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

The utility is a separate enterprise fund of the City of Madison (municipality). The utility provides retail water service to customers in the municipality, portions of the Town of Madison and the Town of Burke, wholesale water service to Waunona Sanitary District No. 2, the Villages of Maple Bluff and Shorewood Hills, and portions of Fitchburg Utility District No. 1. Effective August 15, 2017, Waunona Sanitary District No. 2 transferred all customers and operations to the utility.

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

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

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

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

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

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, 2017 and 2016

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

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

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

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

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

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

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on 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. Market values may have changed significantly after year-end.

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

---

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

##### ***Receivables/Payables (cont.)***

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.

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

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

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

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

There has been an allowance account set up relating to miscellaneous accounts receivable. The allowance balance was \$91,188 and \$51,136 in 2017 and 2016, respectively.

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

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

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

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

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

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

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

##### **Capital Assets (cont.)**

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 reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Plant in Service	
Source of supply	22–58
Pumping	23–31
Water treatment	16–31
Transmission and distribution	18–77
General	4–34
	65

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

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

##### **Deferred Outflow 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.

##### **Implicit Financing from the City**

The city manages operating cash through a centralized treasury function for all city-wide funds including the water utility. Deficiencies in operating cash are presented as financings from the city and are replenished when sufficient funds are available. The utility and city have agreed to a plan for repayment of the funds over a two-year period.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

##### ***Accrued Compensated Absences***

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

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

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

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

##### ***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.

##### ***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.

##### ***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, 2017 and 2016

---

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

---

#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (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 September 29, 2015 and are designed to earn a 6.5% return on rate base.

##### ***Transfers – Tax Equivalent***

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

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

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

##### ***Special Item***

The activity represents the net fund balance received for the transfer of operations from Waunona Sanitary District #2 during 2017. See Note 11 for details regarding this transaction.

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

GASB has approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, application of these standards may restate portions of these financial statements.

#### **COMPARATIVE DATA**

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



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

### NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Associated Risks
	2017	2016	
Other Investment Pool	\$ 4,522,312	\$ 32,067,240	(A) Custodial credit, interest rate
Money Market Mutual Funds	2,998,893	4,105,770	
U.S. Agencies	13,151,324	11,931,050	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	20,920	20,920	None
<b>Totals</b>	<b>\$ 20,693,449</b>	<b>\$ 48,124,980</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. The water utility required financing from the city to adequately fund restricted cash balances at December 31, 2017 in the amount of \$6,159,367. This amount is presented as implicit financing from the city in current and non-current liabilities.

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

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

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

***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, 2017 and 2016, the utility had investments in US Agency Securities of \$13,151,324 and \$11,931,050, respectively. These investments were valued using institutional bond quotes (Level 2 input) at December 31, 2017 and December 31, 2016. The utility also had investments in Money Market Mutual Funds of \$2,998,893 and \$4,105,770 at December 31, 2017 and 2016, respectively. These investments were valued using broker information (Level 2 input).

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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#### *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:

	2017		2016	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
US Bank	<u>\$ 2,998,893</u>	<u>\$ 2,998,893</u>	<u>\$ 4,105,770</u>	<u>\$ 4,105,770</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 \$13,151,324 and \$11,931,050 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2017 and 2016, 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, 2017 and 2016

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

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#### ***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, 2017 and 2016, 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, 2017, the utility had 29% of its portfolio in Federal Farm Credit Bank securities, 19% of its portfolio in Federal Home Loan Bank system securities, and 6% of its portfolio in Federal Home Loan Mortgage Corporation system securities. As of December 31, 2016, the utility had 15% of its portfolio in Federal Farm Credit Bank 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, 2017 and 2016

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

The following is a schedule of interfund balances as of December 31, 2017 and 2016:

Due To	Due From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 3,302,211	Items due to Sewer, Storm, Landfill, and Urban Forestry less items on tax roll	\$ 3,214,909	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, 2017 and 2016:

To	From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	\$ 6,923,928	Tax equivalent	\$ 6,415,680	Tax equivalent
Municipality	Water	-		16,000	Capital projects
Water	Sewer	187,769	Tax equivalent	185,967	Tax equivalent

### NOTE 4 – RESTRICTED ASSETS

#### *RESTRICTED ACCOUNTS*

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

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

The following calculation supports the amount of restricted net position:

	December 31,	
	2017	2016
Restricted Assets		
Current restricted assets		
Principal and interest	\$ 9,781,679	\$ 9,542,889
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	16,150,217	15,915,407
Construction	-	19,867,697
Depreciation	750,000	750,000
Total Noncurrent Restricted Assets	17,050,217	36,683,104
Total Restricted Assets	26,831,896	46,225,993
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(15,416,700)	(15,416,700)
Construction fund	-	(19,867,697)
Current Liabilities Payable from Restricted Assets	(2,846,660)	(2,976,857)
Total Restricted Net Position	\$ 8,568,536	\$ 7,964,739
The purpose of the restricted net position is as follows:		
Debt service	\$ 7,668,536	\$ 7,064,739
Capital repairs and replacement	900,000	900,000
Total	\$ 8,568,536	\$ 7,964,739

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

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

A summary of changes in capital assets for 2017 follows:

	1/1/17 Balance	Increases	Decreases	12/31/17 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,601,317	\$ 28,879	\$ 2,443	\$ 2,627,753
Capital assets being depreciated				
Source of supply	10,698,888	-	-	10,698,888
Pumping	22,154,212	587,362	64,167	22,677,407
Water treatment	4,047,471	-	-	4,047,471
Transmission and distribution	260,242,253	21,424,799	1,090,032	280,577,020
General	32,993,804	5,004,618	339,284	37,659,138
Total Capital Assets				
Being Depreciated	330,136,628	27,016,779	1,493,483	355,659,924
Total Capital Assets	332,737,945	27,045,658	1,495,926	358,287,677
Less: Accumulated Depreciation				
Source of supply	(5,528,651)	(236,450)	-	(5,765,101)
Pumping	(7,702,273)	(835,247)	69,000	(8,468,520)
Water treatment	(723,506)	(149,724)	-	(873,230)
Transmission and distribution	(51,152,446)	(5,471,359)	1,184,003	(55,439,802)
General	(10,566,445)	(1,573,088)	339,284	(11,800,249)
Total Accumulated Depreciation	(75,673,321)	(8,265,868)	1,592,287	(82,346,902)
Construction in progress	9,645,941	31,755,673	30,863,067	10,538,547
Net Capital Assets	\$ 266,710,565			\$ 286,479,322

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

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

A summary of changes in capital assets for 2016 follows:

	1/1/16 Balance	Increases	Decreases	12/13/16 Balance
Capital assets, not being depreciated				
Land and land rights	\$ 2,549,608	\$ 55,535	\$ 3,826	\$ 2,601,317
Capital assets being depreciated				
Source of supply	10,797,925	-	99,037	10,698,888
Pumping	20,594,797	1,637,316	77,901	22,154,212
Water treatment	4,039,104	11,833	3,466	4,047,471
Transmission and distribution	232,132,572	29,174,749	1,065,068	260,242,253
General	20,770,915	13,666,729	1,443,840	32,993,804
Completed construction not classified	2,300,782	-	2,300,782	-
Total Capital Assets Being Depreciated	<u>290,636,095</u>	<u>44,490,627</u>	<u>4,990,094</u>	<u>330,136,628</u>
Total Capital Assets	<u>293,185,703</u>	<u>44,546,162</u>	<u>4,993,920</u>	<u>332,737,945</u>
Less: Accumulated Depreciation				
Source of supply	(5,291,359)	(237,292)	-	(5,528,651)
Pumping	(6,807,510)	(980,455)	85,692	(7,702,273)
Water treatment	(577,846)	(149,473)	3,813	(723,506)
Transmission and distribution	(46,367,058)	(5,903,992)	1,118,604	(51,152,446)
General	(10,685,994)	(1,410,041)	1,529,590	(10,566,445)
Completed construction not classified	(1,195,383)	-	1,195,383	-
Total Accumulated Depreciation	<u>(70,925,150)</u>	<u>(8,681,253)</u>	<u>3,933,082</u>	<u>(75,673,321)</u>
Construction in progress	<u>22,721,204</u>	<u>32,536,372</u>	<u>45,611,635</u>	<u>9,645,941</u>
Net Capital Assets	<u>\$ 244,981,757</u>			<u>\$ 266,710,565</u>

## MADISON WATER UTILITY

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2017 and 2016

### NOTE 6 – LONG-TERM OBLIGATIONS

#### REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/2017 Amount Outstanding
12/9/09	Refunding debt and system improvements	1/1/30	2.00 - 5.00%	48,540,000	37,550,000
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	9,895,000
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	15,565,000
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	17,640,000
12/18/13	System improvements	1/1/34	3.00 - 5.00%	24,335,000	21,645,000
12/17/15	System improvements	1/1/36	2.85 - 5.00%	41,610,000	40,125,000
12/28/16	Refunding debt and system improvements	1/1/37	1.24 - 3.82%	38,420,000	36,255,000
Totals				<u>\$ 206,620,000</u>	<u>\$ 178,675,000</u>

Revenue bond debt service requirements to maturity follows:

Bond Year	Principal	Interest	Total
2018*	6,890,000	7,172,993	14,062,993
2019	9,255,000	6,803,854	16,058,854
2020	9,460,000	6,398,874	15,858,874
2021	9,770,000	5,967,717	15,737,717
2022	10,290,000	5,494,924	15,784,924
2023	10,690,000	5,002,909	15,692,909
2024	10,935,000	4,492,751	15,427,751
2025	11,240,000	3,989,233	15,229,233
2026	11,645,000	3,514,391	15,159,391
2027	11,630,000	3,052,313	14,682,313
2028	12,100,000	2,577,727	14,677,727
2029	12,940,000	2,119,984	15,059,984
2030	11,750,000	1,643,379	13,393,379
2031	8,650,000	1,255,849	9,905,849
2032	8,080,000	949,631	9,029,631
2033	6,995,000	682,281	7,677,281
2034	5,850,000	453,578	6,303,578
2035	4,310,000	270,844	4,580,844
2036	4,470,000	114,661	4,584,661
2037	1,725,000	-	1,725,000
Totals	<u>\$ 178,675,000</u>	<u>\$ 61,957,893</u>	<u>\$ 240,632,893</u>

\*Note bond payments on outstanding issuances are required to be paid on 1/1 of each subsequent year. However, the 2016 refunding bonds require payment 1 – 3 days before this date per the bond resolution and are therefore not included in the current portion of debt as the payment was made in 2017.



# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

### NOTE 6 – LONG-TERM OBLIGATIONS

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

The 2010 bonds are Build America Bonds. See pages 45 - 46 for the details of the anticipated federal interest credit. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2017 interest subsidies were reduced by 6.9% and during the federal fiscal year 2016, the subsidy payments had been reduced by 6.8%. This amount may change based on sequestration.

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 2017 and 2016 were \$16,360,483 and \$12,567,693, respectively. Total customer net revenues as defined for 2017 and 2016 were \$16,999,639 and \$20,552,913, respectively. Annual principal and interest payments are expected to require 70% of net revenues.

#### *ADVANCE FROM MUNICIPALITY*

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/17 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	3.41%	\$ 1,404,052	\$ 915,926
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	447,308

Advance debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 97,451	\$ 33,538	\$ 130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,587	12,936	167,523
2024	168,801	6,752	175,553
Totals	<u>\$ 915,926</u>	<u>\$ 152,315</u>	<u>\$ 1,068,241</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, 2017 and 2016

### 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

The utility anticipates making principal payments totaling \$765,000 in 2018. No formal schedule for repayment has been established. At December 31, 2017 and 2016, the outstanding balance pertains to operating activities.

#### *LONG-TERM OBLIGATIONS SUMMARY*

Long-term obligation activity for the year ended December 31, 2017, is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 187,500,000	\$ -	\$ 8,825,000	\$ 178,675,000	\$ 6,890,000
Accrued compensated absences	1,757,251	426,027	375,063	1,808,215	-
Net pension liability	880,490	-	441,584	438,906	-
Other postemployment benefit obligation	636,434	289,818	152,872	773,380	-
Customer advances for construction	211,807	50,341	203,807	58,341	-
Advance from municipality	1,447,544	4,730	89,040	1,363,234	97,451
Loan from municipality – operating	2,295,000	-	765,000	1,530,000	765,000
Unamortized debt premium	10,186,093	-	1,170,206	9,015,887	-
<b>Totals</b>	<b>\$ 204,914,619</b>	<b>\$ 770,916</b>	<b>\$ 12,022,572</b>	<b>\$ 193,662,963</b>	<b>\$ 7,752,451</b>

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

Long-term obligation activity for the year ended December 31, 2016, is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 172,610,000	\$ 38,420,000	\$ 23,530,000	\$ 187,500,000	\$ 6,660,000
Accrued compensated absences	1,864,158	456,588	563,495	1,757,251	-
Net pension liability	-	1,401,613	521,123	880,490	-
Other postemployment benefit obligation	556,940	282,179	202,685	636,434	-
Customer advances for construction	601,935	156,272	546,400	211,807	-
Advance from municipality	1,525,457	3,587	81,500	1,447,544	89,040
Loan from municipality – operating	3,060,000	-	765,000	2,295,000	765,000
Unamortized debt premium	7,056,207	3,950,579	820,693	10,186,093	-
<b>Totals</b>	<b>\$ 187,274,697</b>	<b>\$ 44,670,818</b>	<b>\$ 27,030,896</b>	<b>\$ 204,914,619</b>	<b>\$ 7,514,040</b>

#### ***ADVANCE REFUNDING***

On December 28, 2016, bonds in the amount of \$14,645,000 were issued with an average interest rate of 2.57% to advance refund \$17,410,000 of outstanding bonds with an average interest rate of 4.28%. The net proceeds were used to purchase U.S. government securities. 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 \$22,363,569 from 2017 through 2028. The cash flow requirements on the new bonds are \$19,161,155 from 2017 through 2037. The advance refunding resulted in an economic gain of \$2,984,959.

The bonds are callable on January 1, 2028. At December 31, 2017, \$1,470,000 of bonds outstanding are considered defeased.

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

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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#### *COMPLIANCE WITH FUNDING REQUIREMENTS*

The utility is required to comply with various debt covenants as a result of issuing revenue bonds. One such requirement states that net revenues earned must be at least 1.25 times the highest combined annual principal and interest requirements on outstanding revenue bonds. The utility met this requirement in 2016 but did not for 2017.

#### *NUMBER OF CUSTOMERS*

At December 31, 2017 and 2016, the utility served the following number of customers:

	<u>2017</u>	<u>2016</u>
Residential	58,421	57,997
Multifamily	4,253	4,200
Commercial	5,014	4,944
Industrial	50	48
Public Authority	<u>490</u>	<u>483</u>
Totals	<u><u>68,228</u></u>	<u><u>67,672</u></u>

#### *WATER PUMPED AND BILLED*

During the years ended December 31, 2017 and 2016, the following amounts of water were pumped and billed:

	(000 gallons)	
	<u>2017</u>	<u>2016</u>
Water pumped	<u>9,418,562</u>	<u>9,848,137</u>
Water billed	<u>8,048,070</u>	<u>8,340,542</u>

#### *RISK MANAGEMENT*

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

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

### NOTE 7 – NET POSITION

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

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

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

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

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

The following calculation supports the net investment in capital assets:

	December 31,	
	2017	2016
Plant in Service	\$ 358,287,677	\$ 332,737,945
Accumulated Depreciation	(82,346,902)	(75,673,321)
Construction Work in Progress	10,538,547	9,645,941
Subtotals	286,479,322	266,710,565
Less: Capital Related Debt		
Current portion of capital related long-term debt	6,890,000	6,660,000
Long-term portion of capital related long-term debt	171,785,000	180,840,000
Unamortized debt premium	9,015,887	10,186,093
Unamortized loss on advance refunding	(1,675,129)	(1,973,323)
Subtotals	186,015,758	195,712,770
Add: Borrowed Funds on Hand		
Reserve fund	15,416,700	15,416,700
Construction fund	-	19,867,697
Subtotals	15,416,700	35,284,397
Total Net Investment in Capital Assets	\$ 115,880,264	\$ 106,282,192

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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### **NOTE 8 – EMPLOYEES RETIREMENT SYSTEM**

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#### ***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>.

***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.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

**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
2007	3.0%	10%
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)

**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 and Executives and Elected Officials. 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 \$521,123 and \$528,068 in contributions from the utility during the current and prior reporting periods, respectively.

Contribution rates as of December 31 are:

	2017		2016	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

At December 31, 2017, the utility reported a liability (asset) of \$438,906 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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, 2016, the City of Madison's proportion was 1.636%, which was an increase of 0.038% from its proportion measured as of December 31, 2015.

At December 31, 2016, the utility reported a liability of \$880,490 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. 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 was based on the utility's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Madison's proportion was 1.598%, which was an increase of 0.118% from its proportion measured as of December 31, 2014.

For the years ended December 31, 2017 and 2016, the utility recognized pension expense of \$516,618 and \$1,098,742, respectively.

At December 31, 2017, 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	\$ 178,862	\$ 1,454,568
Changes in assumptions	483,575	-
Net differences between projected and actual earnings on pension plan investments	2,347,688	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	25,090
Employer contributions subsequent to the measurement date	562,396	-
Totals	\$ 3,572,521	\$ 1,479,658



## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

#### **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, 2016, 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	\$ 154,491	\$ 1,852,973
Changes in assumptions	616,028	-
Net differences between projected and actual earnings on pension plan investments	3,623,481	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,085
Employer contributions subsequent to the measurement date	521,123	-
Totals	\$ 4,915,123	\$ 1,864,058

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:

Year Ended December 31:	Water Utility
2018	\$ 624,021
2019	624,021
2020	425,985
2021	(144,165)
2022	605
Total	\$ 1,530,467

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

### 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.** 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:

	2017	2016
Actuarial valuation date	December 31, 2015	December 31, 2014
Measurement date of net Pension liability	December 31, 2016	December 31, 2015
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	2.1%

*\* No postretirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the postretirement discount rate.*

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

Actuarial assumptions used in the December 31, 2014 actuarial valuation are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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

***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, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Destination Target Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50.0%	45.0%	8.30%	5.4%
Fixed Income	24.5	37.0	4.24	1.4
Inflation Sensitive Assets	15.5	20.0	4.30	1.5
Real Estate	8.0	7.0	6.50	3.6
Private Equity/Debt	7.0	7.0	9.40	6.5
Multi-Asset	<u>4.0</u>	<u>4.0</u>	<u>6.60</u>	<u>3.7</u>
<i>Total Core Fund</i>	<u>109.0</u>	<u>120.0</u>	<u>7.40</u>	<u>4.5</u>
<u>Variable Fund Asset Class</u>				
US Equities	70.0	70.0	7.60	4.7
International Equities	<u>30.0</u>	<u>30.0</u>	<u>8.50</u>	<u>5.6</u>
<i>Total Variable Fund</i>	<u>100.0</u>	<u>100.0</u>	<u>7.9</u>	<u>5.0</u>

## MADISON WATER UTILITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

#### **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, 2016 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation	Destination Target Asset Allocation	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27.0%	23.0%	7.6%	4.7%
International Equities	24.5	22.0	8.5	5.6
Fixed Income	27.5	37.0	4.4	1.6
Inflation Sensitive Assets	10.0	20.0	4.2	1.4
Real Estate	7.0	7.0	6.5	3.6
Private Equity/Debt	7.0	7.0	9.4	6.5
Multi-Asset	<u>4.0</u>	<u>4.0</u>	<u>6.7</u>	<u>3.8</u>
<i>Total Core Fund</i>	<u>107.0</u>	<u>120.0</u>	<u>7.4</u>	<u>4.5</u>
<u>Variable Fund Asset Class</u>				
US Equities	70.0	70.0	7.6	4.7
International Equities	<u>30.0</u>	<u>30.0</u>	<u>8.5</u>	<u>5.6</u>
<i>Total Variable Fund</i>	<u>100.0</u>	<u>100.0</u>	<u>7.9</u>	<u>5.0</u>

**Single discount rate.** A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2017 and December 31, 2016. This 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 3.78% in 2017 and 3.56% in 2016. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% 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, 2017 and 2016

## 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 to changes in the discount rate.*** The following presents the utility’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utility’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

The sensitivity analysis as of December 31, 2017 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	\$ 5,854,746	\$ 438,906	\$ (3,720,684)

The sensitivity analysis as of December 31, 2016 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	\$ 6,175,769	\$ 880,490	\$ (3,255,219)

***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, 2017 and 2016

### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

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

The plan provides eligible retirees with the opportunity to stay on the municipality's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for AFSCME union members who contribute the difference between the rate paid by the municipality and the current year rate. As the eligibility requirements for different classes of employees vary, please see the audit report of the municipality for complete details of all benefits offered as well as the funding policy and required contribution rates.

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

	Municipality		Water Utility	
	2017	2016	2017	2016
Annual required contribution	\$ 7,833,432	\$ 7,922,687	\$ 261,178	\$ 257,117
Interest on net OPEB obligation	1,482,006	1,323,596	28,640	25,062
Adjustment to the ARC	<u>(2,021,836)</u>	<u>(1,805,724)</u>	<u>(41,585)</u>	<u>(34,895)</u>
Annual OPEB Cost	7,293,602	7,440,559	248,233	247,284
Contributions made	<u>(2,625,538)</u>	<u>(3,920,348)</u>	<u>(111,287)</u>	<u>(167,790)</u>
Net Change in OPEB obligation	4,668,064	3,520,211	136,946	79,494
Net OPEB Obligation – 1/1	<u>32,933,461</u>	<u>29,413,249</u>	<u>636,434</u>	<u>556,940</u>
Net OPEB Obligation – 12/31	<u>\$ 37,601,525</u>	<u>\$ 32,933,461</u>	<u>\$ 773,380</u>	<u>\$ 636,434</u>

The municipality's and utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and 2016, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2017	\$ 7,293,602	36.0%	\$ 37,601,525
Municipality	2016	7,440,559	52.7%	32,933,461
Municipality	2015	6,808,834	43.2%	29,413,249
Water Utility	2017	248,233	44.8%	773,380
Water Utility	2016	247,284	67.9%	636,434
Water Utility	2015	136,001	45.0%	556,940

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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

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The funded status of the plan (overall municipality) as of December 31, 2017, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 62,674,237
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 62,674,237</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 190,626,255
UAAL as a percentage of covered payroll	32.9%

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

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

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

In the actuarial valuation, the projected unit credit with liner proration to decrement actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2018, reduced by decrements to an ultimate rate of 4.5% for 2025 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2017, was 30 years.

# MADISON WATER UTILITY

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

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### NOTE 10 – COMMITMENTS AND CONTINGENCIES

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#### *CLAIMS AND JUDGMENTS*

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

#### *OPEN CONTRACTS*

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2017 and 2016 has been accrued in these financial statements.

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### NOTE 11 – TRANSFER OF OPERATIONS

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On August 15, 2017, the PSCW granted the dissolution of Waunona Sanitary District #2 (District) and the acquisition of its customers and assets by the utility. Prior to the decision, the District operated independently and purchased wholesale water from the utility. The District was experiencing difficulties in finding acceptable staffing levels necessary to operate the District and therefore requested that the utility take over operation of both the water and sewer functions. The utility agreed to take over the operations and began providing water and sewer service to the acquired customers after the effective date of transition.

As a result of the transfer of operations, the utility recognized the following assets and net assets from the District as follows:

	<u>Carrying Value as of Effective Date of Transfer</u>
Current Assets	\$ 21,919
Net Assets	54,749

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### NOTE 12 – SUBSEQUENT EVENTS

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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.



**SUPPLEMENTAL INFORMATION**

**CITY OF MADISON, WISCONSIN  
MADISON WATER UTILITY**

SCHEDULE OF INSURANCE IN FORCE  
December 31, 2017

<u>Type of Coverage and Name of Company</u>	<u>Policy Number Policy Period From To</u>	<u>Details of Coverage*</u>	<u>Liability Limits</u>
Automobile Comprehensive <b>INTEGRITY MUTUAL INSURANCE</b>	IMP 2668239-01 01/01/17 to 01/01/18	\$63,017,323	Replacement Cost \$2,500 deductible
Automobile Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2017LP03A 01/01/17 to 01/01/18	Automobile liability	\$10,000,000 per occurrence \$350,000 Self-Insured Retention
Boiler & Machinery <b>FEDERAL INSURANCE COMPANY</b>	7834-76-48 01/01/17 to 01/01/18	Repair & Replace	\$100,000,000 \$25,000 deductible
Employee Theft <b>FIDELITY &amp; DEPOSIT COMPANY OF MARYLAND</b>	CCP 0060387 13 01/01/17 to 01/01/18	Employee Theft	\$1,000,000 limit \$10,000 deductible
Property Coverage on all structures <b>MUNICIPAL PROPERTY INSURANCE COMPANY</b>	MP-02-240056 01/01/17 to 01/01/18	\$672,983,799	Replacement Cost \$5,000 deductible
General Liability <b>WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY</b>	WI2017LP03A 01/01/17 to 01/01/18	General liability, personal injury liability, and errors & omission liability	\$10,000,000 per occurrence \$30,000,000 aggregate \$350,000 Self Insured Retention

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

**MADISON WATER UTILITY**

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2017

Year	2009A Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit (1)	Total
2018	1,675,000	1,251,406	2,926,406	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	2,055,000	1,174,238	3,229,238	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	2,040,000	1,079,570	3,119,570	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	2,110,000	975,820	3,085,820	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	2,510,000	860,320	3,370,320	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	2,955,000	723,695	3,678,695	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	2,900,000	577,320	3,477,320	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	2,900,000	446,820	3,346,820	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	2,970,000	329,420	3,299,420	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	2,085,000	228,320	2,313,320	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	2,175,000	141,760	2,316,760	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	2,280,000	48,450	2,328,450	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 28,655,000	\$ 7,837,139	\$ 36,492,139	\$ 8,895,000	\$ 3,734,156	\$ 12,629,156	\$ 9,895,000	\$ 3,602,091	\$ (1,260,730)	\$ 12,236,361

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the originally approved 35% credit. During the federal fiscal year 2015 interest subsidies were reduced by 7.1% and during federal fiscal year 2016, the subsidy payments have been reduced by 7.1%. This amount may continue to change based on sequestration.

Year	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	965,000	915,525	1,880,525
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	995,000	866,525	1,861,525
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	1,020,000	816,150	1,836,150
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	1,055,000	764,275	1,819,275
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	1,085,000	710,775	1,795,775
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	1,115,000	655,775	1,770,775
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	1,150,000	599,150	1,749,150
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	1,190,000	546,600	1,736,600
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	1,240,000	498,000	1,738,000
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	1,290,000	447,400	1,737,400
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	1,340,000	394,800	1,734,800
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	1,390,000	340,200	1,730,200
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	1,440,000	283,600	1,723,600
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	1,500,000	224,800	1,724,800
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	1,560,000	163,600	1,723,600
2033	-	-	-	1,360,000	20,400	1,380,400	1,620,000	100,000	1,720,000
2034	-	-	-	-	-	-	1,690,000	33,800	1,723,800
Totals	\$ 15,565,000	\$ 4,423,078	\$ 19,988,078	\$ 17,640,000	\$ 4,848,900	\$ 22,488,900	\$ 21,645,000	\$ 8,360,975	\$ 30,005,975

**MADISON WATER UTILITY**

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2017

Year	2015 Revenue Bonds			2016A Revenue Bonds			2016B Revenue Bonds			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2018	1,570,000	1,467,454	3,037,454	750,000	1,005,750	1,755,750	1,415,000	628,000	2,043,000	
2019	1,600,000	1,388,204	2,988,204	790,000	974,150	1,764,150	1,070,000	585,200	1,655,200	
2020	1,635,000	1,307,329	2,942,329	820,000	941,350	1,761,350	1,120,000	540,400	1,660,400	
2021	1,680,000	1,224,454	2,904,454	855,000	907,150	1,762,150	1,160,000	494,000	1,654,000	
2022	1,735,000	1,139,079	2,874,079	885,000	862,900	1,747,900	1,215,000	433,250	1,648,250	
2023	1,785,000	1,051,079	2,836,079	930,000	816,400	1,746,400	1,270,000	369,750	1,639,750	
2024	1,855,000	960,079	2,815,079	980,000	767,400	1,747,400	1,340,000	302,750	1,642,750	
2025	1,930,000	865,454	2,795,454	1,025,000	716,150	1,741,150	1,405,000	232,500	1,637,500	
2026	2,005,000	787,129	2,792,129	1,080,000	662,150	1,742,150	1,475,000	158,750	1,633,750	
2027	2,090,000	725,704	2,815,704	1,135,000	605,400	1,740,400	1,550,000	81,250	1,631,250	
2028	2,170,000	663,431	2,833,431	1,190,000	545,900	1,735,900	1,625,000	-	1,625,000	
2029	2,235,000	598,983	2,833,983	1,250,000	483,400	1,733,400	-	-	-	
2030	2,305,000	529,731	2,834,731	1,310,000	431,000	1,741,000	-	-	-	
2031	2,380,000	455,924	2,835,924	1,365,000	376,400	1,741,400	-	-	-	
2032	2,460,000	379,406	2,839,406	1,420,000	319,600	1,739,600	-	-	-	
2033	2,540,000	301,281	2,841,281	1,475,000	260,600	1,735,600	-	-	-	
2034	2,625,000	220,578	2,845,578	1,535,000	199,200	1,734,200	-	-	-	
2035	2,715,000	135,444	2,850,444	1,595,000	135,400	1,730,400	-	-	-	
2036	2,810,000	45,661	2,855,661	1,660,000	69,000	1,729,000	-	-	-	
2037	-	-	-	1,725,000	-	1,725,000	-	-	-	
Totals	\$ 40,125,000	\$ 14,246,404	\$ 54,371,404	\$ -	\$ 23,025,000	\$ 10,073,550	\$ 34,854,300	\$ 13,230,000	\$ 3,197,850	\$ 18,470,850
<b>TOTAL</b>										
Year	Principal	Interest	Federal Credit	Total						
2018	6,890,000	7,172,993	(151,590)	13,911,403						
2019	9,255,000	6,803,854	(145,390)	15,913,464						
2020	9,460,000	6,398,874	(138,151)	15,720,723						
2021	9,770,000	5,967,717	(130,186)	15,607,531						
2022	10,290,000	5,494,924	(121,526)	15,663,398						
2023	10,690,000	5,002,909	(112,167)	15,580,742						
2024	10,935,000	4,492,751	(102,087)	15,325,664						
2025	11,240,000	3,989,233	(91,259)	15,137,974						
2026	11,645,000	3,514,391	(79,618)	15,079,773						
2027	11,630,000	3,052,313	(66,701)	14,615,612						
2028	12,100,000	2,577,727	(52,690)	14,625,037						
2029	12,940,000	2,119,984	(38,220)	15,021,764						
2030	11,750,000	1,643,379	(23,290)	13,370,089						
2031	8,650,000	1,255,849	(7,855)	9,897,994						
2032	8,080,000	949,631	-	9,029,631						
2033	6,995,000	682,281	-	7,677,281						
2034	5,850,000	453,578	-	6,303,578						
2035	4,310,000	270,844	-	4,580,844						
2036	4,470,000	114,661	-	4,584,661						
2037	1,725,000	-	-	1,725,000						
Totals	\$ 178,675,000	\$ 61,957,893	\$ (1,260,730)	\$ 239,372,163						

# MADISON WATER UTILITY

## OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Unmetered Sales	\$ 169,131	\$ 174,588
Metered Sales		
Residential	12,290,566	12,376,966
Commercial	11,247,939	11,533,643
Industrial	666,621	1,059,706
Public authority	4,397,154	4,502,230
Sales for resale	356,906	261,632
Total Metered Sales	28,959,186	29,734,177
Private Fire Protection	588,913	585,190
Public Fire Protection	4,120,866	4,094,443
Total Sales of Water	33,838,096	34,588,398
Customer Late Payment Penalties	191,137	176,249
Miscellaneous	157,626	100,271
Rents from water property	277,211	214,107
Other	455,871	473,466
Total Operating Revenues	34,919,941	35,552,491
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	11,214	12,158
Collecting and impounding reservoirs	88	60,251
Wells and springs	5,675	2,903
Total Source of Supply	16,977	75,312
Pumping		
Operation supervision and engineering	42,619	41,406
Power purchased for pumping	2,164,640	2,101,069
Pumping labor	416,998	384,262
Miscellaneous	410,166	381,362
Maintenance		
Supervision and engineering	156,358	102,356
Structures and improvements	155,122	246,504
Pumping equipment	414,394	327,166
Total Pumping	3,760,297	3,584,125
Water Treatment		
Operation supervision and engineering	85,860	82,882
Chemicals	154,129	154,448
Operation labor	253,306	224,656
Miscellaneous	118,811	149,037
Maintenance		
Supervision and engineering	11,214	12,005
Water treatment equipment	111,582	118,855
Total Water Treatment	734,902	741,883

## MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	\$ 280,047	\$ 252,246
Storage facilities	85,502	92,172
Transmission and distribution lines	353,759	313,643
Meter	44,398	41,346
Customer installation	326,358	324,345
Miscellaneous	1,246,910	1,113,474
Maintenance		
Reservoirs	2,442,235	37,381
Mains	1,699,904	1,699,776
Services	1,066,095	1,147,856
Meters	153,272	144,788
Hydrants	368,563	292,996
Total Transmission and Distribution	8,067,043	5,460,023
Customer Accounts		
Supervision	21,693	20,055
Meter reading	42,997	37,736
Customer records and collection	511,721	485,068
Conservation	272,313	303,644
Total Customer Accounts	848,724	846,503
Administrative and General		
Salaries	865,905	809,790
Office, building, and supplies	523,229	486,143
Outside services employed	329,636	24,578
Property insurance	34,334	23,053
Injuries and damages	445,057	439,614
Employee pensions and benefits	2,193,777	2,143,113
Miscellaneous	106,714	243,033
Maintenance of general plant	2,951	2,965
Total Administrative and General	4,501,603	4,172,289
Total Operation and Maintenance	17,929,546	14,880,135
Depreciation	6,944,967	6,328,463
Taxes	502,015	476,502
Total Operating Expenses	25,376,528	21,685,100
 OPERATING INCOME	 \$ 9,543,413	 \$ 13,867,391

**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, 2017

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
12/31/17	1.63617%	\$ 438,906	\$ 7,895,803	5.56%	99.12%
12/31/16	1.59818%	880,490	7,765,706	11.34%	98.20%
12/31/15	1.58639%	(1,359,015)	7,847,129	-17.32%	102.74%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2017

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
12/31/17	\$ 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%

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2017

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

*Changes of assumptions.* There were no changes in the assumptions.

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.

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