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, 2015 and 2014

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, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Water Utility Board
Madison Water Utility
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Madison Water Utility, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Water Utility Board
Madison Water Utility

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Madison Water Utility enterprise fund and do not purport to, and do not present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2015 and 2014 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, Madison Water Utility adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, and GASB Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, effective January 1, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 12 to the financial statements, net position as of December 31, 2014 and January 1, 2014 has been restated to correct a material misstatement related to certain revenues and expenses that related to prior periods. 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 restated 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
July 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL INFORMATION ABOUT MADISON WATER UTILITY

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

The utility has always been a groundwater system in spite of being surrounded by lakes. The utility currently has 22 deep wells with a capacity of over 65 million gallons per day. In common with other Wisconsin water utilities, the Public Service Commission of Wisconsin (PSCW) regulates the utility in matters of rates, rules and levels of service.

2015 FINANCIAL HIGHLIGHTS

> Total revenues decreased $0.4 million or 1.2% from 2014 to 2015, which is a smaller decrease than the utility's decrease (-5.69%) in pumping during 2015.

> Income before capital contributions and transfers decreased $1.3 million or 26.7% from the prior year. The decrease was due the $400,000 decrease in revenue and higher depreciation, non-operating expense and operation & maintenance expense.

2014 FINANCIAL HIGHLIGHTS

> Total revenues increased $1 million or 3.6% from 2013 to 2014, higher than the utility's slight increase (0.43%) in pumping during 2014.

> Income before capital contributions and transfers increased $4.6 million or 7,844% from the prior year. The increase was due to the comparison with the utility's 2013 recording of a $1.9 million loss on the early retirement of plant in service as part of its implementation of an Advanced Metering Infrastructure, a $1.7 million increase in amortization expense including a total of $1.4 million in current and unamortized prior year debt issuance costs expensed under the utility's required enactment of Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, and the $1 million increase in revenue partially offset by higher operation and maintenance expense in 2014.

RATES

The utility was granted a 31% rate increase by the PSCW, which became fully effective September 29, 2015. The utility is currently ranked fifty-fourth for residential rates out of 78 rates for utilities classified as AB (over 4,000 customers) in Wisconsin.

UTILITY FINANCIAL ANALYSIS

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

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

Table 1

Condensed Statements of Net Position
(000's)

	2015	Restated 2014	Restated 2013
Current and Other Assets	$ 59,727	$ 38,610	$ 58,049
Capital Assets	244,982	227,395	214,048
Total Assets	304,709	266,005	272,097
Deferred Outflows of Resources	3,098	1,959	2,218
Current Liabilities	14,879	14,657	14,006
Long-term Debt Outstanding	166,490	131,000	136,935
Long-term Liabilities	13,819	12,243	13,278
Total Liabilities	195,188	157,900	164,219
Net Investment in Capital Assets	98,847	99,646	99,948
Restricted	8,369	7,251	5,974
Unrestricted	5,403	3,167	4,174
Total Net Position	$ 112,619	$ 110,064	$ 110,096

Total assets combined with deferred outflows of resources increased $39.8 million and total liabilities increased $37.3 million, resulting in an increase in net position of $2.5 million from 2014. In 2014, total assets combined with deferred outflows of resources decreased $6.4 million and total liabilities decreased $6.3 million, resulting in net position remaining relatively unchanged.

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2

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

	Year Ended December 31,		
	2015	Restated 2014	Restated 2013
Operating Revenues	$ 28,381	$ 28,658	$ 27,636
Other Operating Revenues	1,132	1,208	1,206
Total Revenues	29,513	29,866	28,842
Operation & Maintenance Expense	15,250	15,107	15,706
Depreciation Expense	5,776	5,621	5,420
Nonoperating Expense	5,054	4,451	7,657
Total Expenses	26,080	25,179	28,783
Income before Capital Contributions and Transfers	3,434	4,687	59
Capital Contributions	2,311	858	646
Transfers, net	(5,910)	(5,577)	(5,625)
Change in Net Position	(165)	(32)	(4,920)
Beginning Net Position	110,064	110,096	115,016
Cumulative effect of change in accounting principle	2,720	-	-
Ending Net Position	$ 112,619	$ 110,064	$ 110,096

The utility's total revenues decreased $0.4 million or 1.2% from 2014 to 2015, which is a smaller decrease than the utility's decrease (-5.69%) in pumping during 2015. Total revenues increased $1 million or 3.6% in 2014 from 2013, higher than the utility's slight increase (0.43%) in pumping during 2014.

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3

Operating Revenues and Expenses
(000's)

	Year Ended December 31, 2015	Restated 2014	Restated 2013
OPERATING REVENUES			
Unmetered Sales	$ 91	$ 110	$ 72
Metered Sales			
Residential	11,168	11,607	11,124
Commercial	9,395	9,421	8,885
Industrial	960	1,098	1,154
Public authority	2,848	2,603	2,754
Sales for resale	333	355	344
Total Metered Sales	24,704	25,084	24,261
Private Fire Protection	424	372	377
Public Fire Protection	3,162	3,092	2,926
Total Sales of Water	28,381	28,658	27,636
Customer Late Payment Penalties	163	221	260
Miscellaneous	91	55	41
Rents from water property	383	410	396
Other	495	522	509
Total Operating Revenues	29,513	29,866	28,842
OPERATING EXPENSES			
Source of Supply	53	124	86
Pumping	3,422	3,748	3,754
Water Treatment	744	732	775
Transmission and Distribution	6,180	5,841	7,013
Customer Accounts	735	854	719
Administrative and General	3,633	3,778	3,319
Total Operation and Maintenance	14,767	15,077	15,666
Depreciation	5,776	5,621	5,420
Taxes	483	30	40
Total Operating Expenses	21,026	20,728	21,126
Operating Income	$ 8,487	$ 9,138	$ 7,716

UTILITY FINANCIAL ANALYSIS (cont.)

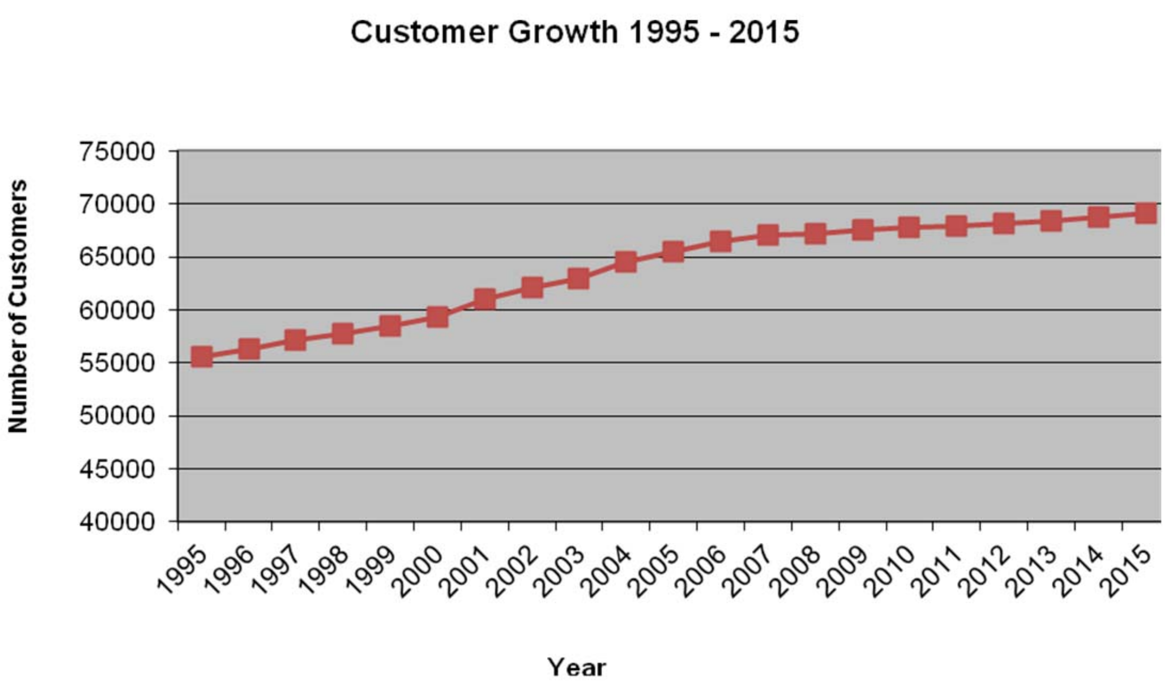
Revenues

Total revenues were $29.5 million in 2015, compared with $29.9 million in 2014, a decrease of $0.4 million or 1.2%. Although pumping decreased (5.69%), the utility added 363 new customers in 2015, the highest number of new customers added since 2007 (536).

Expenses

Operation and maintenance expenses totaled $15.3 million in 2015, compared to $15.1 million in 2014, an increase of $150,000 or 0.9%. Depreciation expense increased $150,000 or 2.7% to $5.8 million in 2015 from 5.6 million in 2014. Interest and amortization expense was $5.2 million in 2015, compared with $5.3 million in 2014, a decrease of $100,000 or 2.4%.

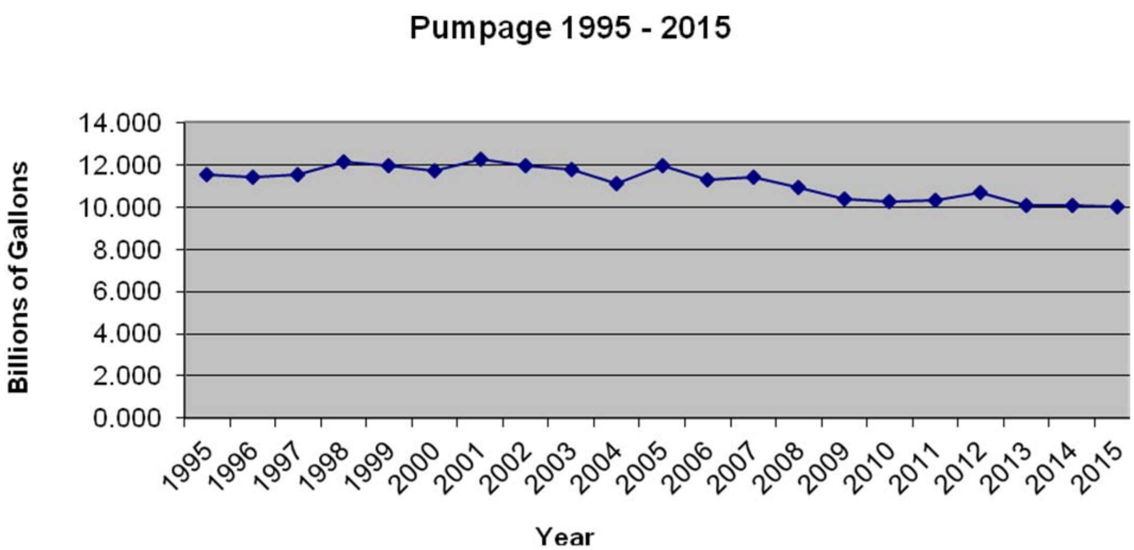
Chart 1



In 2015, the utility received 604 new applications for service, compared with 529, 478 and 354 new applications received in 2014, 2013 and 2012, respectively. 2015, 2014 and 2013 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.

UTILITY FINANCIAL ANALYSIS (cont.)

Chart 2



Pumping for the year decreased (5.69%) from 10.100 billion gallons in 2014 to 9.525 billion gallons in 2015, due to moderate weather conditions and continued water conservation efforts by customers.

CAPITAL EXPENDITURES

The utility added a net $17.6 million of plant in 2015. Of this amount, approximately $2,300,000 was contributed by developers and contractors, and received by special assessment.

Capital projects paid for by the utility in 2015 included $12.4 million for new and replacement water mains, $3.1 million for Lakeview Reservoir reconstruction, $2.2 million for Unit Well 7 reconstruction, $2.8 million for the Operations Center Building Remodel, $1.9 million for Unit Well # 31 well drilling, design and construction, $1.1 million to upgrade Booster Station 115, $980,000 for miscellaneous pumping station work and our meter program.

Capital projects paid for by the utility in 2014 included $11.5 million for new and replacement water mains, $2.5 million for system-wide miscellaneous pump station/pressure reducing valve/facility projects, $2.3 million for Unit Well 7 iron and manganese filtration, $1.8 million for the Booster Pump Station 106 rebuild, $593,000 for Pressure Zone 4 fire flow supply augmentation, and $228,000 for the start of Lakeview Reservoir 113 reconstruction.

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

CAPITAL BORROWING

The previous policy of the utility had been to maintain depreciation and net revenues such that depreciation funds could be used for capital projects, and net income could be used for debt retirement. Due to the increased level of planned capital spending, the utility has looked to fund the vast majority of its capital budget needs through the sale of revenue bonds. The utility borrowed $41.6 million in 2015, $24.3 million in 2013, $21.1 million in 2012, $19.4 million in 2011, $13.2 million in 2010, and $48.5 million in 2009. $10.9 million of the 2009 borrowing was used to fund 2009 and 2010 capital projects, while the other $37.6 million refunded the outstanding 2001, 2002, 2003 and 2006 revenue bonds, and the 2005 refunding bond issue. The utility plans a sale of revenue bonds in 2016 to fund its 2016 & 2017 capital budget. The utility has stepped up its borrowing patterns in the last eleven years by going to the markets almost annually. Management envisions a continuation of active borrowing for the next several years.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

Madison has a unique status in terms of economic stability, being the state capital and home to the University of Wisconsin – Madison and its 43,000 students, versus the national economy. However, even as the utility's largest customer, the University of Wisconsin – Madison, is nearing the end of fulfilling its growth plans requiring additional water from the utility. While customer growth has slowed, the utility added a net 9.4 miles of water main in the last three years as its service area has grown. Growth entails the need for additional infrastructure while meeting the challenge of upkeep of current infrastructure. Management believes that future rate increases will 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.

In 2012, the utility began implementing an Advanced Metering Infrastructure called *Project* H_2O, to retrofit all existing water meters with a device that allows the automated collection of meter readings via a fixed network system. This allows customers to closely monitor and control their own water use and thereby conserve water, reducing system demands. The utility is able to implement water conservation rates, monitor the system for leaks, evaluate and optimize system operation, and improve customer service. The total cost of the project was $13.9 million. *Project* H_2O became operational at the end of 2013. In addition, effective September 2014, the utility converted its semiannual metered accounts to monthly, which helps customers in budgeting for a lower monthly billing.

UTILITY CONTACT INFORMATION

This financial report is designed to provide customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact 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.

MADISON WATER UTILITY

STATEMENTS OF NET POSITION
As of December 31, 2015 and 2014

	2015	Restated 2014
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 3,926,490	$ 5,694,499
Restricted cash and investments	8,759,929	8,690,764
Customer accounts receivable	6,548,157	5,623,299
Materials and supplies	640,734	653,200
Current portion of special assessments	88,730	120,191
Other current assets	363,637	238,273
Total Current Assets	20,327,677	21,020,226
NONCURRENT ASSETS		
Restricted Assets		
Cash and investments	32,788,073	13,577,045
Net Pension Asset	1,359,015	-
Other Assets		
Special assessments receivable	2,289,806	2,814,270
Preliminary survey and investigation	394,466	380,445
Property held for future use	2,312,305	568,796
Nonutility property (net of accumulated depreciation)	255,645	249,505
Capital Assets		
Plant in service	293,185,703	279,727,717
Accumulated depreciation	(70,925,150)	(66,977,963)
Construction work in progress (as restated)	22,721,204	14,644,903
Total Noncurrent Assets	284,381,067	244,984,718
Total Assets	304,708,744	266,004,944
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advance refunding	1,715,018	1,959,025
Deferred outflows related to pension	1,383,183	-
Total Deferred Outflows of Resources	3,098,201	1,959,025

	2015	Restated 2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 518,076	$ 2,126,666
Other current liabilities	561,300	421,343
Payable to other funds	4,102,234	2,569,383
Accrued interest	9,400	9,724
Current portion of loan from municipality	765,000	765,000
Current portion of advance from municipality	81,500	74,249
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	6,120,000	5,935,000
Accrued interest	2,721,572	2,755,764
Total Current Liabilities	14,879,082	14,657,129
NONCURRENT LIABILITIES		
Revenue bonds	166,490,000	131,000,000
Unamortized debt premium	7,056,207	5,033,952
Accrued compensated absences	1,864,158	1,680,163
Other postemployment benefit obligation	556,940	482,144
Advance from municipality	1,443,957	1,522,067
Loan from municipality	2,295,000	3,060,000
Customer advances for construction	601,935	464,254
Total Noncurrent Liabilities	180,308,197	143,242,580
Total Liabilities	195,187,279	157,899,709
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	290	-
NET POSITION		
Net investment in capital assets (as restated)	98,847,032	99,646,259
Restricted for:		
Debt service	6,109,966	6,350,516
Capital repairs and replacement	900,000	900,000
Pension	1,359,015	-
Unrestricted	5,403,363	3,167,485
TOTAL NET POSITION	$ 112,619,376	$ 110,064,260

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
OPERATING REVENUES		
Sales of water	$ 28,381,185	$ 28,658,183
Other	1,132,378	1,207,837
Total Operating Revenues	29,513,563	29,866,020
OPERATING EXPENSES		
Operation and maintenance (as restated)	15,250,082	15,106,954
Depreciation	5,775,814	5,621,261
Total Operating Expenses	21,025,896	20,728,215
Operating Income	8,487,667	9,137,805
NONOPERATING REVENUES (EXPENSES)		
Merchandising and jobbing	(13,134)	(16,339)
Bond issuance costs	(274,497)	-
Investment income	231,063	466,713
Interest and amortization expense	(5,171,717)	(5,301,068)
Interest charged to construction	-	204,713
Other	174,654	194,743
Total Nonoperating Revenues (Expenses)	(5,053,631)	(4,451,238)
Income before Capital Contributions and Transfers	3,434,036	4,686,567
CAPITAL CONTRIBUTIONS	2,311,000	858,436
TRANSFERS IN / (OUT)	139,026	10,414
TRANSFERS - TAX EQUIVALENT	(6,049,329)	(5,587,851)
Change in Net Position	(165,267)	(32,434)
NET POSITION - Beginning of Year	110,064,260	110,096,694
Cumulative effect of a change in accounting principle	2,720,383	-
NET POSITION - END OF YEAR	$ 112,619,376	$ 110,064,260

See accompanying notes to financial statements.

MADISON WATER UTILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 29,509,970	$ 37,217,671
Paid to suppliers for goods and services	(7,618,869)	(8,396,029)
Paid to employees for services	(5,894,138)	(6,091,460)
Net Cash Flows from Operating Activities	15,996,963	22,730,182
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers - paid to municipality for tax equivalent	(6,049,329)	(5,587,851)
Loan from municipality receipts (payments) - operating portion	(765,000)	(765,000)
Repayment of advances from other funds	(74,249)	(68,157)
Interest paid on advances and loans from other funds	(66,078)	(75,050)
Transfers from (to) other funds	139,026	10,414
Net Cash Flows from Noncapital Financing Activities	(6,815,630)	(6,485,644)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(25,282,559)	(21,682,556)
Special assessments received	565,497	259,945
Contributions in aid of construction	137,681	227,240
Proceeds from debt issued	41,610,000	-
Premium on debt issued	2,545,929	-
Debt issuance costs	(274,497)	-
Build America Bond interest credit received	151,776	231,934
Debt retired	(5,935,000)	(4,935,000)
Interest paid	(5,422,429)	(5,179,428)
Advances from other funds	3,390	-
Net Cash Flows from Capital and Related Financing Activities	8,099,788	(31,077,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(10,327,876)	(4,200,000)
Marketable securities sold	12,123,670	1,975,922
Investment income	231,063	466,713
Net Cash Flows from Investing Activities	2,026,857	(1,757,365)
Net Change in Cash and Cash Equivalents	19,307,978	(16,590,692)
CASH AND CASH EQUIVALENTS – Beginning of Year	16,143,674	32,734,366
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 35,451,652	$ 16,143,674

	2015	Restated 2014
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 8,487,667	$ 9,137,805
Nonoperating income	12,351	23,809
Noncash items included in operating income		
Depreciation	5,775,814	5,621,261
Depreciation charged to other accounts	944,298	913,691
Changes in Assets and Liabilities		
Customer accounts receivable	(907,611)	6,975,200
Receivable from other funds	432,416	(31,363)
Materials and supplies	12,466	60,251
Accrued revenues	-	-
Other current assets	(142,610)	(4,184)
Accounts payable and other current liabilities	54,043	229,682
Payable to other funds	1,090,863	(293,368)
Other postemployment benefit obligation	74,796	58,029
Pension related deferrals and liabilities	(21,525)	-
Accrued compensated absences	183,995	39,369
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 15,996,963	$ 22,730,182

	2015	Restated 2014
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	$ 3,926,490	$ 5,694,499
Restricted cash and investments - current	8,759,929	8,690,764
Restricted cash and investments - noncurrent	32,788,073	13,577,045
Total Cash and Investments	45,474,492	27,962,308
Less: Noncash equivalents	10,022,840	11,818,634
CASH AND CASH EQUIVALENTS	$ 35,451,652	$ 16,143,674

	2015	Restated 2014
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Municipality, customer and developer financed additions to utility plant	$ 2,311,000	$ 882,436
Capital additions assessed to customers	$ -	$ 805,793
Interest capitalized	$ -	$ 204,713
Increase (decrease) in fair value of investments	$ 14,292	$ 124,077

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

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

Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

GASB issued Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employer. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 13.

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.

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

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 quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Restricted Assets

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

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

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

Receivables/Payables

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

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

There has been an allowance account set up relating to other accounts receivable. The balance was $100,406 and $83,160 in 2015 and 2014, respectively.

Materials and Supplies

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

Other Current Assets

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

Preliminary Survey and Investigation

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

Property Held for Future Use

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

Nonutility Property

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

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

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

Capital Assets

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

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

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

Pensions

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

Special Assessments Receivable

The 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.

Other Current Liabilities

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

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

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.

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statements of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statements of net position.

Revenues and Expenses

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

Charges for Services

Utility billings are rendered and recorded based on actual service provided. The utility converted from semi-annual to a monthly billing process with four cycles beginning in July, 2014. As a result of the change in the billing process, the utility no longer accrues revenues beyond the billing date.

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.

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

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

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.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31, 2015	Carrying Value as of December 31, 2014	Associated Risks
Checking and Savings	$ -	$ 1,453,071	Custodial credit
Other Investment Pool	33,385,764	14,545,421	(A)
Money Market	2,044,968	124,262	Custodial credit
U.S. Agencies	10,022,840	11,818,634	Custodial credit, interest rate, credit, concentration
Working Funds – Petty Cash	20,920	20,920	None
Totals	$ 45,474,492	$ 27,962,308	

(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.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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

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

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

CUSTODIAL CREDIT RISK

Deposits

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

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:

	2015		2014	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Park Bank	$ -	$ -	$ 1,149,645	$ 1,453,071
US Bank	2,044,968	2,044,968	124,262	124,262
Totals	$ 2,044,968	$ 2,044,968	$ 1,273,907	$ 1,577,333

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK (cont.)

Investments

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

The utility's investments included $10,022,840 and $11,818,634 of U.S. Agencies securities which were exposed to custodial credit risk as of December 31, 2015 and 2014, respectively because the investments were neither insured nor registered and are held by counterparty.

The municipality's investment policy addresses this risk by requiring funds in excess of insured or guaranteed limits to be secured by some form of collateral. The municipality will accept for collateral any of the following assets: obligations of the United States government or an agency or instrumentality of the United States government; obligations of the State of Wisconsin; investment grade obligations of Wisconsin local jurisdictions; obligations of the City of Madison. The fair market value of all collateral pledged will be not less than 110% of the amount of public funds to be secured at each institution. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly and additional collateral will be requested when this ratio declines below the level required. Pledged collateral will be held in safekeeping by a third party. All collateral agreements will be written so as to preclude release of the assets without an authorized signature from the municipality. The municipality will allow for even exchange of collateral.

INTEREST RATE RISK, CREDIT RISK AND CONCENTRATION RISK

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2015, all of the U.S. Agency investments were rated AAA by Moody's Investors Service. All of the U.S. Agency investments were rated AA+ by S&P. As of December 31, 2014, 89.8% of the U.S. Agency investments were rated AAA and 10.2% were unrated 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, 2015, the utility had 14% of its portfolio in Federal Farm Credit Bank securities, and 5% in Federal Home Loan Bank system securities. As of December 31, 2014, the utility had 10% of its portfolio in Federal Farm Credit Bank securities, and 5% in Federal Home Loan Bank system securities.

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

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of December 31, 2015 and 2014:

		2015		2014	
Due To	Due From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	$ 4,102,234	Items due to Sewer and Storm less items on tax roll	$ 2,569,383	Items due to Sewer and Storm less items on tax roll

The following is a schedule of transfer balances as of December 31, 2015 and 2014:

		2015		2014	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water	$ 6,049,329	Tax equivalent	$ 5,587,851	Tax equivalent
Water	Municipality	-		22,841	Refund of wage insurance
Water	Municipality	-		8,345	Operations
Municipality	Water	39,551	Lead service replacement program	20,772	Lead service replacement program
Water	Sewer	178,577	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.

NOTE 4 – RESTRICTED ASSETS (cont.)

The following calculation supports the amount of restricted net position:

	December 31, 2015	December 31, 2014
Restricted Assets		
Current restricted assets		
Principal and interest	$ 8,759,929	$ 8,690,764
Noncurrent Restricted Assets		
Operation and maintenance reserve	150,000	150,000
Reserve	14,509,378	11,942,896
Construction	17,378,695	734,149
Depreciation	750,000	750,000
Net pension asset	1,359,015	-
Total Noncurrent Restricted Assets	34,147,088	13,577,045
Total Restricted Assets	42,907,017	22,267,809
Less: Restricted Assets not Funded by Revenues		
Reserve fund	(14,437,769)	(11,527,380)
Construction fund	(17,378,695)	(734,149)
Current Liabilities Payable from Restricted Assets	(2,721,572)	(2,755,764)
Total Restricted Net Position	$ 8,368,981	$ 7,250,516

The purpose of the restricted net position is as follows:

	2015	2014
Debt service	$ 6,109,966	$ 6,350,516
Capital repairs and replacement	900,000	900,000
Pension	1,359,015	-
Total	$ 8,368,981	$ 7,250,516

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2015 follows:

	1/1/15 Balance	Increases	Decreases	12/31/15 Balance
Capital assets, not being depreciated				
Land and land rights	$ 2,126,245	$ 423,363	$ -	$ 2,549,608
Capital assets being depreciated				
Source of supply	9,904,513	988,340	94,928	10,797,925
Pumping	11,466,762	10,027,825	899,790	20,594,797
Water treatment	2,270,175	1,783,682	14,753	4,039,104
Transmission and distribution	202,934,785	30,791,032	1,593,245	232,132,572
General	19,782,981	1,261,293	273,359	20,770,915
Completed construction not classified	31,242,256	-	28,941,474	2,300,782
Total Capital Assets Being Depreciated	277,601,472	44,852,172	31,817,549	290,636,095
Total Capital Assets	279,727,717	45,275,535	31,817,549	293,185,703
Less: Accumulated Depreciation				
Source of supply	(5,165,240)	(230,540)	(104,421)	(5,291,359)
Pumping	(6,976,812)	(599,281)	(768,583)	(6,807,510)
Water treatment	(476,128)	(117,947)	(16,229)	(577,846)
Transmission and distribution	(43,621,691)	(4,420,124)	(1,674,757)	(46,367,058)
General	(9,846,185)	(1,120,284)	(280,475)	(10,685,994)
Completed construction not classified	(891,907)	(303,476)	-	(1,195,383)
Total Accumulated Depreciation	(66,977,963)	(6,791,652)	(2,844,465)	(70,925,150)
Construction in progress (as restated)	14,644,903	26,646,875	18,570,574	22,721,204
Net Capital Assets	$ 227,394,657			$ 244,981,757

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2014 follows:

	1/1/14 Balance	Increases	Decreases	12/31/14 Balance
Capital assets, not being depreciated				
Land and land rights	$ 2,118,582	$ 7,663	$ -	$ 2,126,245
Capital assets being depreciated				
Source of supply	9,945,647	-	41,134	9,904,513
Pumping	11,421,775	271,292	226,305	11,466,762
Water treatment	2,280,103	-	9,928	2,270,175
Transmission and distribution	200,529,133	2,968,650	562,998	202,934,785
General	19,432,849	969,579	619,447	19,782,981
Completed construction not classified	13,666,875	19,340,100	1,764,719	31,242,256
Total Capital Assets Being Depreciated	257,276,382	23,549,621	3,224,531	277,601,472
Total Capital Assets	259,394,964	23,557,284	3,224,531	279,727,717
Less: Accumulated Depreciation				
Source of supply	(5,045,707)	(223,543)	(104,010)	(5,165,240)
Pumping	(6,755,190)	(434,998)	(213,376)	(6,976,812)
Water treatment	(400,357)	(86,971)	(11,200)	(476,128)
Transmission and distribution	(39,688,744)	(4,261,633)	(328,686)	(43,621,691)
General	(9,126,303)	(1,339,328)	(619,446)	(9,846,185)
Completed construction not classified	(554,468)	(396,374)	(58,935)	(891,907)
Total Accumulated Depreciation	(61,570,769)	(6,742,847)	(1,335,653)	(66,977,963)
Construction in progress (as restated)	16,224,052	23,651,174	25,230,323	14,644,903
Net Capital Assets	$ 214,048,247			$ 227,394,657

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

Date	Purpose	Final Maturity	Interest Rates	Original Amount	12/31/15 Amount Outstanding
12/1/07	Refunding debt and system improvements	1/1/28	4.00 - 4.75%	$ 27,185,000	$ 18,825,000
12/9/09	Refunding debt and system improvements	1/1/30	2.00 - 5.00%	48,540,000	41,075,000
11/10/10	System improvements	1/1/31	0.90 - 5.25%	13,250,000	11,055,000
12/22/11	System improvements	1/1/32	2.00 - 4.00%	19,370,000	17,140,000
12/19/12	System improvements	1/1/33	2.00 - 4.00%	21,095,000	19,415,000
12/18/13	System improvements	1/1/34	3.00 - 5.00%	24,335,000	23,490,000
12/17/15	System improvements	1/1/36	2.85 - 5.00%	41,610,000	41,610,000
	Totals			$ 195,385,000	$ 172,610,000

Revenue bond debt service requirements to maturity follows:

Bond Year	Principal	Interest	Total
2016	$ 6,120,000	$ 6,065,894	$ 12,185,894
2017	8,130,000	6,534,997	14,664,997
2018	8,415,000	6,213,543	14,628,543
2019	8,570,000	5,864,070	14,434,070
2020	8,750,000	5,487,087	14,237,087
2021	9,035,000	5,083,961	14,118,961
2022	9,530,000	4,660,493	14,190,493
2023	9,885,000	4,219,487	14,104,487
2024	10,075,000	3,761,963	13,836,963
2025	10,335,000	3,311,830	13,646,830
2026	10,685,000	2,892,588	13,577,588
2027	10,615,000	2,488,213	13,103,213
2028	11,030,000	2,073,271	13,103,271
2029	11,690,000	1,636,584	13,326,584
2030	10,440,000	1,212,379	11,652,379
2031	7,285,000	879,449	8,164,449
2032	6,660,000	630,031	7,290,031
2033	5,520,000	421,681	5,941,681
2034	4,315,000	254,378	4,569,378
2035	2,715,000	135,444	2,850,444
2036	2,810,000	45,661	2,855,661
Totals	$ 172,610,000	$ 63,873,004	$ 236,483,004

The 2010 bonds are Build America Bonds. See pages 43 - 44 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 2015 interest subsidies were reduced by 7.1% and during the federal fiscal year 2014, the subsidy payments had been reduced by 7.2%. This amount may change based on sequestration.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The bonds are secured by a pledge of the redemption fund, net utility revenues and a mortgage lien on utility plant. Principal and interest paid for 2015 and 2014 were $11,423,507 and $9,882,492, respectively. Total customer net revenues as defined for 2015 and 2014 were $14,494,544 and $15,225,779, respectively. Annual principal and interest payments are expected to require 78% of net revenues.

ADVANCE FROM MUNICIPALITY

Date	Purpose	Final Maturity	Interest Rate	Original Amount	12/31/15 Amount Outstanding
10/3/10	Payoff unfunded pension liability	10/1/24	3.41%	$ 1,404,052	$ 1,086,465
04/23/08	Advance from Municipality, Burke Utility District #1	(A)	0.83%	393,762	438,992

Advance debt service requirements to maturity follows:

Year	Principal	Interest	Total
2016	$ 81,500	$ 37,598	$ 119,097
2017	89,040	35,764	124,804
2018	97,451	33,538	130,989
2019	107,022	30,614	137,636
2020	117,464	27,136	144,600
2021	129,065	23,025	152,090
2022	141,536	18,314	159,850
2023	154,587	12,936	167,524
2024	168,800	6,752	175,552
Totals	$ 1,086,465	$ 225,677	$ 1,312,142

(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%.

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

The utility anticipates making principal payments totaling $765,000 in 2016. No formal schedule for repayment has been established. At December 31, 2015 and 2014, the outstanding balance pertains to operating activities.

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2015, is as follows:

	1/1/15 Balance	Additions	Reductions	12/31/15 Balance	Due Within One Year
Revenue bonds	$ 136,935,000	$ 41,610,000	$ 5,935,000	$ 172,610,000	$ 6,120,000
Accrued compensated absences	1,680,163	622,025	438,030	1,864,158	-
Other postemployment benefit obligation	482,144	144,004	69,208	556,940	-
Customer advances for construction	464,254	239,625	101,944	601,935	-
Advance from municipality	1,596,316	3,390	74,249	1,525,457	81,500
Loan from municipality – operating	3,825,000	-	765,000	3.060.000	765,000
Unamortized debt premium	5,033,952	2,545,929	523,674	7,056,207	-
Totals	$ 150,016,829	$ 45,164,973	$ 7,907,105	$ 187,274,697	$ 6,966,500

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY (cont.)

Long-term obligation activity for the year ended December 31, 2014, is as follows:

	1/1/14 Balance	Additions	Reductions	12/31/14 Balance	Due Within One Year
Revenue bonds	$ 141,870,000	$ -	$ 4,935,000	$ 136,935,000	$ 5,935,000
Accrued compensated absences	1,640,793	274,663	235,293	1,680,163	-
Other postemployment benefit obligation	424,115	128,867	70,838	482,144	-
Customer advances for construction	213,014	251,240	-	464,254	-
Advance from municipality	1,660,880	3,594	68,158	1,596,316	74,249
Loan from municipality – operating	4,590,000	-	765,000	3,825,000	765,000
Unamortized debt premium	5,582,311	-	548,359	5,033,952	-
Totals	$ 155,981,113	$ 658,364	$ 6,622,648	$ 150,016,829	$ 6,774,249

PRIOR YEAR DEFEASANCE OF DEBT

In 2005, the utility defeased $3,605,000 of the 1995 and 1998 bonds by placing the proceeds of the 2005 bonds in an irrevocable trust to provide for all future debt service payments on the 1995 and 1998 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the utility's financial statements. The bonds were callable on January 1, 2015. At December 31, 2015, $0 of bonds outstanding are considered defeased.

In 2009, the utility defeased $38,745,000 of the 2001, 2002, 2003, 2005 and 2006 bonds by placing the proceeds of the 2009 A and 2009 B bonds in a irrevocable trust to provide for all future debt service payments on the 2001, 2002, 2003, 2005 and 2006 bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the utility's financial statements. The old bonds are callable as follows: 2001 bonds on January 1, 2010; 2002 bonds on January 1, 2012; 2003 and 2005 bonds on January 1, 2013; 2006 bonds on January 1, 2016. At December 31, 2015, $10,185,000 of the bonds outstanding are considered defeased.

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.

NOTE 7 – NET POSITION (cont.)

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,	
	2015	Restated 2014
Plant in Service	$ 293,185,703	$ 279,727,717
Accumulated Depreciation	(70,925,150)	(66,977,963)
Construction Work in Progress (as restated)	22,721,204	14,644,903
Sub-totals	244,981,757	227,394,657
Less: Capital Related Debt		
Current portion of capital related long-term debt	6,120,000	5,935,000
Long-term portion of capital related long-term debt	166,490,000	131,000,000
Unamortized debt premium	7,056,207	5,033,952
Unamortized loss on advance refunding	(1,715,018)	(1,959,025)
Sub-totals	177,951,189	140,009,927
Add: Borrowed Funds on Hand		
Reserve fund	14,437,769	11,527,380
Construction fund	17,378,695	734,149
Sub-totals	31,816,464	12,261,529
Total Net Investment in Capital Assets (as restated)	$ 98,847,032	$ 99,646,259

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

The utility implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by WRS. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

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.

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.

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Post-retirement 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
2005	2.6%	7%
2006	0.8	3
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

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 $550,476 in contributions from the utility.

Contribution rates as of December 31, 2015 are:

	2015		2014	
	Employee	Employer	Employee	Employer
General (including teachers)	6.8%	6.8%	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%	7.75%	7.75%
Protective with Social Security	6.8%	9.5%	6.8%	9.5%
Protective without Social Security	6.8%	13.1%	6.8%	13.1%

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

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

At December 31, 2015, the utility reported an asset of $1,359,015 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. 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 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, 2014, the utility's proportion was 0.055%, which was an increase of .0003% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the utility recognized pension expense of $512,617.

At December 31, 2015, 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	$ 197,014	$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	658,101	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	290
Employer contributions subsequent to the measurement date	528,068	-
Totals	$ 1,383,183	$ 290

Deferred outflows related to pension resulting from WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. $528,068 is reported for the utility. 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:	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	$ 209,442	$ 66
2017	209,442	66
2018	209,442	66
2019	209,442	66
2020	17,347	26
Thereafter	-	-
Total	$ 855,115	$ 290

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset)	December 31, 2014
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

** No post-retirement 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 post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

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

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equities	5.3%	21%
International Equities	5.7	23
Fixed Income	1.7	36
Inflation Sensitive Assets	2.3	20
Real Estate	4.2	7
Private Equity/Debt	6.9	7
Multi-Asset	3.9	6
Cash	0.9	-20

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. 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 3.56%. 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.

Sensitivity of the utility's proportionate share of the net pension asset to changes in the discount rate. The following presents the utility's proportionate share of the net pension asset calculated using the discount rate of 7.20 percent, as well as what the utility's proportionate share of the net pension 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:

	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 asset	$ 3,834,014	$ (1,359,015)	$ (5,460,259)

***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://legis.wisconsin.gov/lab/ and reference report number 15-11.

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

	Year Ended December 31	
	2014	2013
Total Utility Payroll	$ 7,837,970	$ 7,622,231
Total Covered Employee Payroll	$ 7,175,031	$ 6,883,411
Total Required Contributions	$ 1,004,504	$ 915,494
Total Required Contributions (%)	14%	13.3%

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

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.

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	
	2015	2014	2015	2014
Annual required contribution	$ 7,227,619	$ 7,072,914	$ 144,004	$ 128,867
Contributions made	(3,363,220)	(3,446,421)	(69,208)	(70,838)
Net Change in OPEB obligation	3,864,399	3,626,493	74,796	58,029
Net OPEB Obligation – 1/1	25,548,850	21,922,357	482,144	424,115
Net OPEB Obligation – 12/31	$ 29,413,249	$ 25,548,850	$ 556,940	$ 482,144

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 2015 and 2014, were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Municipality	2015	$ 7,227,619	47%	$ 29,413,249
Municipality	2014	7,072,914	49%	25,548,850
Water Utility	2015	144,004	48%	556,940
Water Utility	2014	128,867	55%	482,144

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The funded status of the plan (overall municipality) as of December 31, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 57,433,140
Actuarial value of plan assets	1,639,640
Unfunded Actuarial Accrued Liability (UAAL)	$ 55,793,500
Funded ratio (actuarial value of plan assets/AAL)	2.9%
Covered payroll (active plan members)	$ 176,696,162
UAAL as a percentage of covered payroll	31.6%

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

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8% for 2015, reduced by decrements to an ultimate rate of 4.5% for 2021 and beyond. Both rates include a 3% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2015, was 30 years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

Open Contracts

The utility has construction contracts that continue into subsequent years. The value of service provided and the corresponding liability as of December 31, 2015 has been accrued in these financial statements.

NOTE 11 – BOND COVENANT DISCLOSURES

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 all outstanding bonds.

Number of Customers

At December 31, 2015 and 2014, the utility served the following number of customers:

	2015	2014
Residential	57,598	57,540
Multifamily	4,165	4,602
Commercial	4,863	4,893
Industrial	48	53
Public Authority	477	587
Totals	67,151	67,675

Water Pumped and Billed

During the years ended December 31, 2015 and 2014, the following amounts of water were pumped and billed:

	(000 gallons)	
	2015	2014
Water pumped	9,524,963	10,099,843
Water billed	8,242,860	8,655,054

NOTE 11 – BOND COVENANT DISCLOSURES (cont.)

RISK MANAGEMENT

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

NOTE 12 – RESTATEMENT OF NET POSITION

The balances of December 31, 2013 and 2014 net position have been restated to adjust for expenses incurred in prior periods that were included in construction work in progress (CWIP) in error. The prior period adjustment is necessary to recognize the expenses in the period the costs were incurred.

The adjustment to December 31, 2013 net position is as follows:

Net Position – December 31, 2013 (as reported)	$	111,503,923
Expense 2013 costs charged to CWIP		(1,407,229)
Net Position – December 31, 2013 (as restated)	$	110,096,694

The adjustment to the comparative statements shown for 2014 is as follows:

Net Position – December 31, 2014 (as reported)	$	111,486,220
Expense 2013 costs charged to CWIP		(1,407,229)
Expense 2014 costs charged to CWIP		(14,731)
Net Position – December 31, 2014 (as restated)	$	110,064,260

NOTE 13 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The utility adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

Net pension asset, January 1, 2014	$	2,171,084
Deferred outflows, January 1, 2014		549,299
Cumulative Effect of a Change in Accounting Principle	$	2,720,383

SUPPLEMENTAL INFORMATION

City of Madison, Wisconsin
Madison Water Utility
SCHEDULE OF INSURANCE IN FORCE
December 31, 2015

Type of Coverage and Name of Company	Policy Number Policy Period From To	Details of Coverage*	Liability Limits
Automobile Comprehensive **LOCAL GOVERNMENT PROPERTY INSURANCE FUND**	140337 01/01/15 to 01/01/16	$129,154,193	Replacement Cost $3,000 deductible
Automobile Liability **WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY**	WI2015LP03A 01/01/15 to 01/01/16	Automobile liability	$10,000,000 per occurrence $300,000 Self-Insured Retention
Boiler & Machinery **CHUBB**	7834-76-48 01/01/15 to 01/01/16	Repair & Replace	$50,000,000 $25,000 deductible
Employee Theft **FIDELITY & DEPOSIT**	CCP 0060387 11 01/01/15 to 01/01/16	Employee Theft	$1,000,000 limit $10,000 deductible
Property Coverage on all structures **LOCAL GOVERNMENT PROPERTY INSURANCE FUND**	140337 01/01/15 to 01/01/16	$603,465,776	Replacement Cost $25,000 deductible
General Liability **WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY**	WI2015LP03A 01/01/15 TO 01/01/16	General liability, personal injury liability, and errors & omission liability	$10,000,000 per occurrence $30,000,000 aggregate $300,000 Self Insured Retention

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

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES
As of December 31, 2015

Year	2007A MRB's Principal	2007A MRB's Interest	2007A MRB's Total	2007B MRB's Principal	2007B MRB's Interest	2007B MRB's Total	2009A Refunding Principal	2009A Refunding Interest	2009A Refunding Total
2016	$ 1,045,000	$ 753,300	$ 1,798,300	$ 370,000	$ 38,600	$ 408,600	$ 1,215,000	$ 1,374,206	$ 2,589,206
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320
2023	1,395,000	402,728	1,797,728	-	-	-	2,955,000	723,695	3,678,695
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,760	2,316,760
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450
2030	-	-	-	-	-	-	-	-	-
Totals	$ 17,675,000	$ 5,675,470	$ 23,350,470	$ 1,150,000	$ 70,000	$ 1,220,000	$ 31,495,000	$ 10,528,751	$ 42,023,751

Year	2009C Bonds Principal	2009C Bonds Interest	2009C Bonds Total	2010 BAB's Principal	2010 BAB's Interest	2010 BAB's Federal Credit (1)	2010 BAB's Total
2016	$ 345,000	$ 403,988	$ 748,988	$ 575,000	$ 460,788	$ (161,276)	$ 874,512
2017	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	855,000	22,444	(7,855)	869,589
Totals	$ 9,580,000	$ 4,528,432	$ 14,108,432	$ 11,055,000	$ 4,510,897	$ (1,578,812)	$ 13,987,085

(1) - The 2010 bonds are Build America Bonds. The amount disclosed is based on the orignally approved 35% credit. During the federal fiscal year 2014 interest subsidies were reduced by 7.2% and during federal fiscal year 2015, the subsidy payments have been reduced by 7.1%. This amount may continue to change based on sequestration.

MADISON WATER UTILITY

REVENUE BOND DEBT REPAYMENT SCHEDULES
As of December 31, 2015

	2011 Revenue Bonds			2012 Revenue Bonds			2013 Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	$ 780,000	$ 574,606	$ 1,354,606	$ 880,000	$ 616,400	$ 1,496,400	$ 910,000	$ 1,000,050	$ 1,910,050
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	935,000	963,025	1,898,025
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	965,000	915,525	1,880,525
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	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	$ 17,140,000	$ 5,544,690	$ 22,684,690	$ 19,415,000	$ 6,063,950	$ 25,478,950	$ 23,490,000	$ 10,324,050	$ 33,814,050

	2015 Revenue Bonds			TOTAL				
Year	Principal	Interest	Total	Year	Principal	Interest	Federal Credit	Total
2016	$ -	$ 843,956	$ 843,956	2016	$ 6,120,000	$ 6,065,894	$ (161,276)	$ 12,024,618
2017	1,485,000	1,536,404	3,021,404	2017	8,130,000	6,534,997	(156,806)	14,508,191
2018	1,570,000	1,467,454	3,037,454	2018	8,415,000	6,213,543	(151,590)	14,476,953
2019	1,600,000	1,388,204	2,988,204	2019	8,570,000	5,864,070	(145,390)	14,288,680
2020	1,635,000	1,307,329	2,942,329	2020	8,750,000	5,487,087	(138,151)	14,098,936
2021	1,680,000	1,224,454	2,904,454	2021	9,035,000	5,083,961	(130,186)	13,988,775
2022	1,735,000	1,139,079	2,874,079	2022	9,530,000	4,660,493	(121,526)	14,068,967
2023	1,785,000	1,051,079	2,836,079	2023	9,885,000	4,219,487	(112,167)	13,992,320
2024	1,855,000	960,079	2,815,079	2024	10,075,000	3,761,963	(102,087)	13,734,876
2025	1,930,000	865,454	2,795,454	2025	10,335,000	3,311,830	(91,259)	13,555,571
2026	2,005,000	787,129	2,792,129	2026	10,685,000	2,892,588	(79,618)	13,497,970
2027	2,090,000	725,704	2,815,704	2027	10,615,000	2,488,213	(66,701)	13,036,512
2028	2,170,000	663,431	2,833,431	2028	11,030,000	2,073,271	(52,690)	13,050,581
2029	2,235,000	598,983	2,833,983	2029	11,690,000	1,636,584	(38,220)	13,288,364
2030	2,305,000	529,731	2,834,731	2030	10,440,000	1,212,379	(23,290)	11,629,089
2031	2,380,000	455,924	2,835,924	2031	7,285,000	879,449	(7,855)	8,156,594
2032	2,460,000	379,406	2,839,406	2032	6,660,000	630,031	-	7,290,031
2033	2,540,000	301,281	2,841,281	2033	5,520,000	421,681	-	5,941,681
2034	2,625,000	220,578	2,845,578	2034	4,315,000	254,378	-	4,569,378
2035	2,715,000	135,444	2,850,444	2035	2,715,000	135,444	-	2,850,444
2036	2,810,000	45,661	2,855,661	2036	2,810,000	45,661	-	2,855,661
Totals	$ 41,610,000	$ 16,626,764	$ 58,236,764	Totals	$172,610,000	$ 63,873,004	$ (1,578,812)	$ 234,904,192

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
OPERATING REVENUES		
Unmetered Sales	$ 90,522	$ 110,563
Metered Sales		
Residential	11,167,449	11,606,990
Commercial	9,395,278	9,421,148
Industrial	959,928	1,097,771
Public authority	2,848,298	2,602,780
Sales for resale	333,203	354,883
Total Metered Sales	24,704,156	25,083,572
Private Fire Protection	424,307	372,447
Public Fire Protection	3,162,200	3,091,601
Total Sales of Water	28,381,185	28,658,183
Customer Late Payment Penalties	162,875	220,743
Miscellaneous	91,312	55,263
Rents from water property	383,048	410,107
Other	495,143	521,724
Total Operating Revenues	29,513,563	29,866,020
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Supervision and engineering	19,643	13,724
Collecting and impounding reservoirs	16,104	60,001
Wells and springs as restated	16,904	50,117
Total Source of Supply	52,651	123,842
Pumping		
Operation supervision and engineering	39,103	38,328
Power purchased for pumping	2,163,722	2,105,690
Pumping labor	371,211	355,417
Miscellaneous	389,072	399,789
Maintenance		
Supervision and engineering	73,713	112,170
Structures and improvements	137,956	359,239
Pumping equipment as restated	247,097	377,066
Total Pumping	3,421,874	3,747,699
Water Treatment		
Operation supervision and engineering	79,522	77,022
Chemicals	163,747	178,478
Operation labor	230,388	199,593
Miscellaneous	148,703	140,641
Maintenance		
Supervision and engineering	16,526	30,716
Water treatment equipment	104,959	105,239
Total Water Treatment	743,845	731,689

MADISON WATER UTILITY

OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2015 and 2014

	2015	Restated 2014
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Operation supervision and engineering	$ 225,759	$ 213,553
Storage facilities	90,478	93,734
Transmission and distribution lines	315,565	323,322
Meter	66,145	72,066
Customer installation	353,105	323,140
Miscellaneous (as restated)	905,939	753,848
Maintenance		
Reservoirs	21,771	36,444
Mains	1,870,723	2,357,420
Services	1,912,487	1,288,552
Meters	83,418	87,738
Hydrants	335,146	291,552
Total Transmission and Distribution	6,180,536	5,841,369
Customer Accounts		
Supervision	22,529	24,214
Meter reading	33,202	67,142
Customer records and collection	461,708	535,222
Conservation	217,842	227,732
Total Customer Accounts	735,281	854,310
Administrative and General		
Salaries	846,246	782,258
Office, building, and supplies	480,993	467,686
Outside services employed	49,280	121,108
Property insurance	23,011	18,165
Injuries and damages	456,822	446,311
Employee pensions and benefits	1,730,676	1,795,468
Miscellaneous	42,941	143,641
Maintenance of general plant	3,095	3,797
Total Administrative and General	3,633,064	3,778,434
Total Operation and Maintenance	14,767,251	15,077,343
Depreciation	5,775,814	5,621,261
Taxes	482,831	29,611
Total Operating Expenses	21,025,896	20,728,215
OPERATING INCOME	$ 8,487,667	$ 9,137,805

REQUIRED SUPPLEMENTARY INFORMATION

MADISON WATER UTILITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
Wisconsin Retirement System
Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS.
The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	2015
City of Madison's proportion of the net pension liability (asset)	1.58639%
Madison Water Utility's proportionate share of the net pension liability (asset)	$ (1,359,015)
Madison Water Utility's covered employee payroll	7,175,031
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

SCHEDULE OF CONTRIBUTIONS
Wisconsin Retirement System
Last 10 Fiscal Years*

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

	2015
Contractually required contributions	$ 543,224
Contributions in relation to the contractually required contributions	(543,224)
Contributions deficiency (excess)	-
Madison Water Utility's covered-employee payroll	7,014,701
Contributions as a percentage of covered-employee payroll	7.74%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

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

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

Changes of assumption: There were no changes in the assumptions.