

**MADISON METROPOLITAN  
SEWERAGE DISTRICT  
Madison, Wisconsin**

**FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Madison Metropolitan Sewerage District  
Madison, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Madison Metropolitan Sewerage District, as of and for the year ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 the Madison Metropolitan Sewerage District as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and the Schedule of Funding Progress on pages 3-11 and 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Milwaukee, Wisconsin  
April 14, 2015

## **Management's Discussion and Analysis for 2014 and 2013**

The management of the Madison Metropolitan Sewerage District (the District) offers this narrative overview and analysis of the District's financial performance for calendar years 2014 and 2013. It should be read in conjunction with the District's financial statements which follow this section. The 2014 and 2013 financial statements have been prepared in accordance with generally accepted accounting principles.

### **Financial Highlights**

- Net position increased by \$5.1 million (4.4 percent) from \$115.6 million to \$120.6 million in 2014. This compares to a \$5.4 million (4.9 percent) increase in 2013.
- Operating revenues increased by \$0.8 million (3.0 percent) from \$27.9 million to \$28.8 million in 2013. This compares to a \$3.5 million (14.4 percent) increase in 2013.
- Operating expenses, excluding depreciation, increased by \$0.8 million (4.5 percent) from \$16.6 million to \$17.4 million in 2013. This compares to an increase of \$1.8 million (12.4 percent) in 2013.

### **Overview of Basic Financial Statements**

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Position includes all of the District's assets, deferred outflows, liabilities and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the District's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Net Assets

A summary of the District's Statement of Net Position is presented in Table A-1.

**Table A-1**  
**Condensed Statement of Net Position**  
**(000's)**

	2014	2013	2012
Current Assets	\$ 35,473	\$ 32,553	\$ 24,883
Noncurrent Assets			
Capital assets, net of accumulated depreciation	216,865	194,985	176,075
Other assets	9,624	9,839	10,620
<b>Total assets</b>	<b>261,962</b>	<b>237,377</b>	<b>211,578</b>
Current Liabilities	13,852	10,918	10,202
Noncurrent Liabilities	126,223	109,185	89,785
<b>Total liabilities</b>	<b>140,075</b>	<b>120,103</b>	<b>99,987</b>
Deferred Inflows	1,257	1,713	1,380
Net Position			
Invested in capital assets, net of related debt	85,810	83,820	84,567
Restricted	20,784	18,609	16,455
Unrestricted	14,036	13,132	9,189
<b>Total net position</b>	<b>\$ 120,630</b>	<b>\$ 115,561</b>	<b>\$ 110,211</b>

As of December 31, 2014 the District had total assets, less accumulated depreciation, of \$262.0 million and total liabilities and deferred inflows of \$141.3 million, resulting in \$120.6 million of net position. Net position increased by \$5.1 million (4.4 percent) in 2014. This compares to a net position increase of \$5.4 million (4.9 percent) in 2013. The 2014 increase was due to connection charge revenues of \$1.6 million and income before capital contributions of \$3.4 million. Funds represented by the 2014 increase will be used to finance future construction, to increase reserves, and to offset a portion of future operating costs. Capital assets (land, structures, equipment, vehicles, etc.) comprise \$216.9 million, or 82.8 percent of total assets at the end of 2014. At the end of 2013, capital assets had a value of \$195.0 million and represented 82.1 percent of total assets. Capital assets increased \$21.9 million in 2014 compared to a \$18.9 million increase in 2013.

Future principal payments on bonds total \$131.1 million at the end of 2014 and represent 94 percent of the District's liabilities. At the end of 2013, future principal payments on bonds totaled \$111.2 million and represented 93 percent of the District's liabilities. Future principal payments were \$19.9 million more than at the end of 2013 due to increased borrowing for capital projects in 2014. Future principal payments at the

end of 2013 were \$19.7 million more than at the end of 2012. Construction activity funded with bond funds in 2014 was nearly the same as in 2013.

The District's restricted assets consist of reserves for the payment of debt service and for unexpected expenses for the repair and replacement of equipment. Restricted assets increased by \$2.2 million in 2014 to satisfy current and anticipated bond ordinance requirements for payment of debt service expenses. This compares to a \$2.2 million increase in 2013. Unrestricted net position at the end of 2014 were \$0.9 million more than at the end of 2013. Unrestricted net position increased by \$3.9 million in 2013. The 2014 increase was due primarily to service charge revenues that were higher than budgeted and operating expenses that were lower than budgeted. The 2013 increase was due primarily to receiving loan proceeds for the Northeast Interceptor-SEI to FEI Replacement, the Process Control System Update and the Pumping Station 18 projects and to service charge revenues that were higher than budgeted.

**Revenues, Expenses, and Changes in Net Position**

**Table A-2**  
**Condensed Statement of Revenues,**  
**Expenses, and Changes in Net Position**  
 (000's)

	2014	2013	2012
Operating Revenues	\$ 28,757	\$ 27,929	\$ 24,408
Nonoperating Revenues	283	270	652
<b>Total revenues</b>	<b>29,040</b>	<b>28,199</b>	<b>25,060</b>
Depreciation Expense	5,627	5,440	5,395
Other Operating Expense	17,394	16,649	14,813
Nonoperating Expense	3,035	1,847	2,429
<b>Total expense</b>	<b>26,056</b>	<b>23,936</b>	<b>22,637</b>
Income (Loss) Before Capital Contributions	2,984	4,263	2,423
Capital Contributions	2,084	1,087	784
<b>Increase in net assets</b>	<b>5,069</b>	<b>5,350</b>	<b>3,207</b>
Beginning Net Position	115,561	110,211	107,004
Ending Net Position	<b>\$ 120,630</b>	<b>\$ 115,561</b>	<b>\$ 110,211</b>

## **Revenues, Expenses, and Changes in Net Position (Continued)**

The District's revenues, expenses, and changes in net position are summarized in Table A-2. Operating revenue for 2014 increased by \$0.8 million, or 3.0 percent, from \$27.9 million to \$28.8 million. This compares to the 2013 operating revenue increase of \$3.5 million, or 14.4 percent. The 2014 increase was due primarily to higher service charge rates and higher loadings.

Non-operating revenues for 2014 were \$0.013 million (4.8 percent) higher than in 2013, due to increased revenues from interest earned. Non-operating revenues for 2013 were 58.6 percent lower than in 2012. This was the result of lower interest revenue in 2013 and Clean Water Fund principal forgiveness money received in 2012.

Depreciation expense in 2014 of \$5.6 million was a \$0.2 million increase over 2013 due to increases in the value of the District's capital assets in recent years. The 2013 depreciation expense of \$5.4 million was approximately the same as the 2012 depreciation expense.

Other operating expenses for 2014 of \$17.4 million were \$0.7 million (4.5 percent) higher than 2013 expenses of \$16.6 million. Other operating expenses for 2013 were 12.4 percent higher than 2012 expenses of \$14.8 million. The increase in other operating expenses in 2014 was due largely to increased salary costs (\$0.51 million), chemical costs (\$0.26 million), water costs (\$0.13 million) and natural gas costs (\$0.10 million) which were partially offset by decreased contracted services costs (\$0.26 million) and replacement parts and services (\$0.13 million).

Non-operating expenses for 2014 of \$3.0 million, which are comprised of interest on the District's outstanding debt, other construction expenses and disposal of equipment, were \$1.2 million higher than 2013 non-operating expenses. The increase in non-operating expenses were due to increased interest expenses (\$0.72 million), disposal of property (\$.36 million), and construction expenses (\$0.11 million). Non-operating expenses in 2013 were \$0.6 million less than in 2012.

Capital contributions include contributed capital assets and interceptor and treatment plant connection charge revenues. The one-time connection charges are assessed against each property in the District at the time sewerage service is made available. The charges are made on an area basis.

An interceptor connection charge rate has been established for each major District interceptor sewer. The interceptor connection charge rates are adjusted annually to account for changes in construction costs. The Engineering News Record's Construction Cost Index is used for this purpose. Interceptor connection charge rates for 2014 increased by 2.4 percent. This compares to the 2013 increase of 2.7 percent.

The treatment plant connection charge rate is adjusted annually to account for the change in "excess capacity" debt service paid by current users for facilities at the treatment plant that will be utilized by new users. The treatment plant connection charge rate is further adjusted by the typical bank passbook savings rate, or 4 percent, whichever is higher. The treatment plant connection charge rate for 2014 increased by 7.7 percent. The 2013 rate decreased 6.9 percent. The increase in 2014 reflects the addition to accumulated excess capacity debt service costs for the Ninth Addition, Tenth Addition, and Eleventh Addition projects. The decrease in 2013 reflects the reduction to accumulated excess capacity debt service costs due to the Eleventh Addition project. The reduction was the result of resetting the "excess capacity" value to zero for those unit processes that were being enlarged as part of the Eleventh Addition project.

Capital contributions in 2014 of \$2.1 million were \$1.0 million more than 2013 capital contributions of \$1.1 million. This increase of 91.8 percent compared to 2014 was due to increased connection charge revenues (\$0.6 million) and the contribution of an interceptor segment by Epic Corporation (\$0.45 million).

## **Comparison of Actual Financial Results to Budget**

Each year the District adopts annual operating, capital projects and debt service budgets and a 10-year capital improvement plan following a public hearing. A comparison of the 2014 budgeted and actual amounts of operating revenues and expenses is shown in Table A-3.

The District does not include depreciation as an operating expense in its annual budget, rather, it budgets sufficient income to cover the subsequent year's debt principal payments.

Operating revenues for 2014 of \$28.8 million were \$0.3 million (1.1 percent) more than budgeted primarily due to higher than anticipated wastewater volumes and loadings (\$0.48 million), higher than expected revenues from servicing pumping stations (\$0.08 million) and lower than expected struvite fertilizer sales (\$0.26 million). Non-operating revenues of \$0.28 million for interest income, rent, and other miscellaneous items were \$0.013 million (4.8 percent) more than budgeted.

Operating expenses for 2014, excluding depreciation, were \$0.5 million less than budgeted. The most significant under budget items were replacement parts and services, electric power, and administrative expenses which were a combined \$0.7 million less than budgeted. The most significant over budget items were natural gas and water and sewer costs which were a combined \$0.2 million more than budgeted.

Non-operating expenses, which include the net value of retired equipment and the interest costs on the District's outstanding debt, were \$0.40 million less than budgeted. [This difference is primarily the result of different treatment of interest expenses in the budget and in the Statement of Revenues, Expenses and Changes in Net Position. Debt service interest payments are budgeted on a cash basis (\$2.827 million). The actual expenses as shown in the "Statement of Revenues, Expenses and Changes in Net Position" are reported on an accrual basis (about \$3 million) and also account for capitalized interest (\$0.6 million) which reduces the amount of interest shown as an expense.]

Budgeted income for 2014 of \$7.6 million includes \$6.9 million for 2015 principal payments on the District's outstanding debt. It is the District's policy to finance capital improvements for new users through borrowing. Sewerage system improvements typically have useful lives of more than twenty years, and the District typically issues twenty-year bonds. The system's users pay for the costs of the facilities they require for the conveyance and treatment of their wastewater over the life of the bonds. For this reason, the District does not budget to recover depreciation costs in addition to the debt service expenses, since this would in effect result in double-billing current users for these facilities. Charges to recover debt service expenses reflect the cost of the facilities currently in use. Charges to recover depreciation expenses would reflect the cost of replacing these same facilities at the end of their useful lives.

**Table A-3**  
**Comparison of Operating Budget to Actual Results for 2014**  
**(000's)**

	Budget	Actual	Variance
<b>Revenues</b>			
From operations	\$ 28,441	\$ 28,757	\$ 316
Nonoperating	178	283	105
Use of Cash Reserves	150		(150)
<b>Total revenues</b>	<b>28,769</b>	<b>29,040</b>	<b>271</b>
<b>Operating Expenses</b>			
Depreciation expense	-	5,627	5,627
Other operating expenses:			
Salaries with benefits	8,809	8,871	62
Administrative	476	358	(118)
Legal and accounting	133	126	(7)
Insurance	119	112	(7)
Power	3,203	2,913	(290)
Natural gas	114	222	108
Chemicals	845	907	62
Motor and LP fuel	147	135	(12)
Water and sewer services	132	239	107
Contracted services	1,691	1,662	(29)
Engineering Consulting	3	-	(3)
Communication services	28	34	6
Replacement parts and services	1,567	1,250	(317)
Supplies	404	368	(36)
Miscellaneous	233	196	(37)
Total other operating expenses	17,904	17,393	(511)
Total operating expenses	17,904	23,020	5,116
<b>Nonoperating Expenses</b>			
Disposal of Equipment	-	410	410
Construction Expenses	494	395	(99)
Interest expense	2,827	2,230	(597)
Total nonoperating expenses	3,321	3,035	(286)
<b>Total expenses</b>	<b>21,225</b>	<b>26,055</b>	<b>4,830</b>

Income before capital contributions	\$	7,544	\$	2,985	\$	(4,559)
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**Capital Assets**

At the end of 2014, the District had \$217 million invested in capital assets comprised of the Nine Springs Wastewater Treatment Plant, seventeen major pumping stations, over one hundred miles of interceptor sewers and force mains, and associated facilities. Table A-4 summarizes these assets.

**Table A-4**  
**Capital Assets**  
**(000's)**

	2014	2013	2012
<hr/>			
Assets			
Land	\$ 7,401	\$ 7,401	\$ 7,401
Structures and improvements	183,366	152,432	144,224
Mechanical equipment	119,315	89,364	89,251
Office furniture and equipment	4,180	4,144	4,276
Vehicles	2,360	2,365	2,310
Construction In progress	21,349	55,192	39,653
	<hr/>		
Total	337,971	310,898	287,115
Less accumulated depreciation	121,106	115,913	111,040
	<hr/>		
<b>Net property and equipment</b>	<b>\$ 216,865</b>	<b>\$ 194,985</b>	<b>\$ 176,075</b>
	<hr/>		

The District's 10-year capital improvement plan for 2015 through 2024 includes \$65 million of treatment plant upgrades and expansions and \$80 million of collection system improvements. Treatment plant projects and larger collection system projects are expected to be financed with Clean Water Fund loans administered by the State of Wisconsin. Smaller collection system projects will be financed with reserve funds. Reserve fund balances vary depending on construction scheduling, collection of connection charges, and interest earned on investments. A minimum reserve balance of \$3 million is maintained to finance any unplanned capital improvement that might be necessary on an emergency basis.

Total capital assets increased by \$27.1 million to \$338 million. The District completed two conveyance system projects in 2014, the Pumping Station 18 Force Main (\$11.5 million) and the West Interceptor MH15-112A to MH 05-119 Liner (\$0.3 million). The District also completed a major project at the Nine Springs

Treatment Plant, the Eleventh Addition. This project increased the value of the District's assets by \$49.1 million over several years. The increase in total assets also reflects construction in progress costs for improvements in the conveyance system for the Pumping Station 18 (\$15.0 million), Northeast Interceptor MH13-116H to MH13-127 Rehabilitation (\$1.0 million), and Pumping Station 11 and 12 Rehabilitation (\$0.6 million) projects and for improvements at the Nine Springs Wastewater Treatment Plant for the Process Control System Upgrade (\$4.0 million) and the Maintenance Facility Improvements (\$0.7 million) projects.

### **Debt Administration**

The District collects debt service costs through service charges. Since the services of the District are not directly related to the value of property, and since a substantial amount of property within the District is exempt from paying property taxes, a tax levy would result in an inequitable cost recovery system. The District maintains cash and investments in a debt service fund in an amount no less than what is required to abate levying an ad valorem tax for the general obligation debt service. The District manages the debt service fund so that by October 1 of each year the balance in the fund is sufficient to meet the current year's debt service payments plus the subsequent year's debt service payments.

District debt service costs are allocated to used capacity and excess capacity in the facilities constructed with proceeds from the debt being retired. Excess capacity is defined as the difference between the design capacity and the used capacity of each project and is determined annually. Used capacity debt service is recovered based on the volume and pollutant loadings of the users. Excess capacity debt service is allocated in equal amounts to all users through an "actual customer" rate. This rate in turn is used as one component of the connection charge rate that is applied to newly served areas at the time they are served by extensions to the sewer system.

General obligation debt outstanding as of the end of 2014 was \$131.1 million which represents the remaining balance on the Clean Water Fund loans from the State of Wisconsin. This compares to a 2013 year-end balance of \$111.2 million and a 2012 year-end balance of \$91.5 million. Interest on these loans is payable semi-annually at rates of 2.3 to 3.3 percent. Detailed information on the District's Clean Water Fund loans is included in the notes to the financial statements.

## **Economic Factors**

The District's outstanding debt is expected to increase by \$41 million over the ten-year period from 2015 to 2024 due to anticipated projects in the collection system and treatment plant. In addition, the District may have to borrow an additional \$135 million in 2023 and 2024 to construct advanced phosphorous removal facilities. Annual debt service obligations will increase 9 percent per year from 2013 to 2017, 5.5 percent in 2018 and 2019, and 3.5 percent thereafter, provided advanced phosphorous removal facilities are not constructed. Should these additional facilities be required, the District will modify its financial plans to include the additional borrowing. Due to the magnitude of the borrowing, the District would attempt to spread this increase over a number of years to lessen the impact on its ratepayers.

By statute, the District can borrow up to 5 percent of the equalized value of the taxable property within the District. At the end of 2014 the borrowing limit was \$1.92 billion. At the end of 2013 that borrowing limit was \$1.83 billion. Over the next ten years, the total amount of debt would be no more than 9 percent of this limit without the advanced phosphorous removal facilities and would be about 15 percent of this limit if the \$135 million advanced phosphorous project is undertaken. At the end of 2014 the District's debt of \$131.1 million was at 6.8 percent of this limit. At the end of 2013 the District's debt of \$111.2 million was at 6.1 percent of this limit. During the last two years the District did not experience any negative changes in debt credit rating or debt limitation.

Growth in the District's service area had been relatively constant at a rate of 0.5 to 1.0 percent per year from 2011 to 2014. The future growth trend is projected to return to the 1 to 1.5 percent level during the next decade. Due to increasing costs for meeting infrastructure replacement and capacity needs, the District's service charges are expected to increase at a rate of 6 to 8 percent through 2017.

The District's customer base consists of residential users and similar types of commercial and industrial users that, for the most part, do not utilize large quantities of water. This customer base characteristic results in a stable revenue base since the loss of any one user will not significantly impact the District's service charge revenues. The University of Wisconsin is the largest user of District services and provided 5.6 percent of service charge revenues in 2014 and 5.5 percent in 2013. Oscar Mayer Foods Corporation is the largest industrial user and provided 2.2 percent of service charge revenues in 2014 and 1.8 percent in 2013.

## **Contacting the District**

This discussion and analysis is intended to provide information for our customers and creditors concerning the District's financial performance and to demonstrate the District's accountability for the money it receives. If you have questions about this information, or need additional information, contact the Madison Metropolitan Sewerage District, 1610 Moorland Road, Madison, Wisconsin 53713-3398.

**Madison Metropolitan Sewerage District**  
**STATEMENTS OF NET POSITION**  
**December 31, 2014 and 2013**

	<b>ASSETS</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 12,988,181	\$ 13,349,637
Receivables, net of allowance for uncollectible amounts:		
Transmission and treatment of sewage and septage disposal	6,944,262	6,759,833
Servicing pumping stations	71,775	64,920
Interceptor connection charges, current portion	305,759	934,982
Other	65,446	57,710
Prepaid insurance	333	333
Inventories	1,318,145	1,178,246
Restricted assets - Cash and cash equivalents	<u>13,778,784</u>	<u>10,207,311</u>
Total current assets	<u>35,472,685</u>	<u>32,552,972</u>
<b>Noncurrent assets:</b>		
Investments	901,308	-
Restricted Assets - Investments	7,771,229	9,061,030
Interceptor connection charges, less current portion	951,295	777,706
Capital assets:		
Capital assets not being depreciated	28,749,910	62,593,544
Capital assets being depreciated	<u>309,220,615</u>	<u>248,304,771</u>
	337,970,525	310,898,315
Less: accumulated depreciation	<u>121,105,485</u>	<u>115,912,978</u>
Capital assets, net of depreciation	<u>216,865,040</u>	<u>194,985,337</u>
Total noncurrent assets	<u>226,488,872</u>	<u>204,824,073</u>
<b>Total assets</b>	<u><b>\$ 261,961,557</b></u>	<u><b>\$ 237,377,045</b></u>

The accompanying notes are an integral part of the financial statements.

**Madison Metropolitan Sewerage District**  
**STATEMENTS OF NET POSITION**  
**December 31, 2014 and 2013**

<b>LIABILITIES</b>		
	<u><b>2014</b></u>	<u><b>2013</b></u>
Current liabilities:		
Vouchers payable	\$ 3,197,426	\$ 3,757,285
Accrued salaries	264,998	255,025
Payroll withholdings payable	110,801	106,571
Unearned receivables	2,969	5,114
Compensated absences, current portion	<u>603,089</u>	<u>565,934</u>
Total current liabilities	<u>4,179,283</u>	<u>4,689,929</u>
Liabilities payable from restricted assets:		
Bonds payable, current portion	8,906,971	5,568,912
Due to other governments	197,435	185,577
Accrued interest payable	<u>568,593</u>	<u>473,755</u>
Total current liabilities payable from restricted assets	<u>9,672,999</u>	<u>6,228,244</u>
Noncurrent liabilities, less current portion:		
Compensated absences	2,218,733	2,075,168
Accrued actuarial liability	1,855,378	1,513,569
Bonds payable	<u>122,148,357</u>	<u>105,596,085</u>
Total noncurrent liabilities	<u>126,222,468</u>	<u>109,184,822</u>
Total liabilities	<u>140,074,750</u>	<u>120,102,995</u>
Deferred Inflow:		
Interceptor connection charges	<u>1,257,054</u>	<u>1,712,688</u>
<b>NET POSITION</b>		
Net investment in capital assets	85,809,712	83,820,340
Restricted for:		
Debt service	17,783,985	15,609,009
Equipment replacement	3,000,000	3,000,000
Unrestricted	<u>14,036,056</u>	<u>13,132,013</u>
Total net position	<u>\$ 120,629,753</u>	<u>\$ 115,561,362</u>

The accompanying notes are an integral part of the financial statements.

**Madison Metropolitan Sewerage District**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Charges for services:		
Transmission and treatment of sewage	\$ 27,900,206	\$ 27,278,717
Servicing pumping stations	242,863	249,364
Septage disposal	448,917	382,137
Pretreatment monitoring	20,590	18,684
Struvite Harvesting	144,717	-
Total operating revenues	<u>28,757,293</u>	<u>27,928,902</u>
<b>OPERATING EXPENSES</b>		
Administration	3,811,627	3,787,900
Treatment	11,399,772	10,432,668
Collection	2,182,189	2,428,755
Depreciation	5,627,137	5,440,015
Total operating expenses	<u>23,020,725</u>	<u>22,089,338</u>
Operating income	<u>5,736,568</u>	<u>5,839,564</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income (losses)	76,647	(8,837)
Rent	68,418	67,210
Other	137,578	211,877
Construction Expenses	(395,483)	(290,004)
Disposal of property and equipment	(410,059)	(51,026)
Interest expense	(2,229,690)	(1,506,071)
Total nonoperating revenues (expenses)	<u>(2,752,589)</u>	<u>(1,576,851)</u>
Income(loss) before capital contributions	2,983,979	4,262,713
<b>CAPITAL CONTRIBUTIONS</b>		
Contributed assets	441,677	-
Interceptor connection charges	1,642,735	1,087,480
Total capital contributions	<u>2,084,412</u>	<u>1,087,480</u>
<b>CHANGE IN NET POSITION</b>	5,068,391	5,350,193
<b>NET POSITION</b>		
<b>BEGINNING OF YEAR</b>	<u>115,561,362</u>	<u>110,211,169</u>
<b>END OF YEAR</b>	<u>\$ 120,629,753</u>	<u>\$ 115,561,362</u>

The accompanying notes are an integral part of the financial statements.

**Madison Metropolitan Sewerage District**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 28,558,273	\$ 27,185,484
Payments to suppliers	(8,395,396)	(7,820,693)
Payments to employees	(8,498,511)	(8,030,481)
Net cash provided by operating activities	<u>11,664,366</u>	<u>11,334,310</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Rent receipts	68,418	67,245
Other receipts	<u>137,578</u>	<u>211,877</u>
Net cash provided by noncapital financing activities	<u>205,996</u>	<u>279,122</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest paid on long-term debt	(3,061,928)	(2,508,796)
Principal paid on long-term debt	(5,568,912)	(5,114,733)
Proceeds from issuance of long-term debt	25,459,243	24,771,422
Construction Expenses	(395,483)	(290,004)
Acquisition of capital assets	(27,222,669)	(23,818,681)
Sale of capital assets	21,530	12,307
Capital contributions received	<u>1,642,735</u>	<u>1,087,480</u>
Net cash used in capital and related financing activities	<u>(9,125,484)</u>	<u>(5,861,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment income (expense)	(13,546)	25,239
Proceeds from sales and maturities of investments	<u>478,685</u>	<u>848,178</u>
Net cash provided by investing activities	<u>465,139</u>	<u>873,417</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,210,017	6,625,844
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<u>23,556,948</u>	<u>16,931,104</u>
<b>END OF YEAR</b>	<u>\$ 26,766,965</u>	<u>\$ 23,556,948</u>

The accompanying notes are an integral part of the financial statements.

**Madison Metropolitan Sewerage District  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 5,736,568	\$ 5,839,564
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,627,137	5,440,015
Increase (decrease) from changes in:		
Receivables:		
Transmission and treatment of sewage and septage disposal	(184,429)	(705,876)
Servicing pumping stations	(6,855)	(8,553)
Other	(7,736)	(28,989)
Inventories	(139,899)	(68,826)
Vouchers payable	93,135	414,631
Other liabilities	546,445	452,344
	<u>\$ 11,664,366</u>	<u>\$ 11,334,310</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Unrestricted	\$ 12,988,181	\$ 13,349,637
Restricted	13,778,784	10,207,311
	<u>\$ 26,766,965</u>	<u>\$ 23,556,948</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>		
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributed capital	\$ 441,677	\$ -
Interceptor connection charges billed	1,187,101	1,419,765
	<u>\$ 1,628,778</u>	<u>\$ 1,419,765</u>
<b>TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		

The accompanying notes are an integral part of the financial statements.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities and Reporting Entity

The District is a corporate body with the powers of a municipal corporation for the purpose of carrying out the collection, transmission and treatment of wastewater. It was created by judgment of the County Court for Dane County entered on February 8, 1930. The District, which serves the City of Madison and surrounding cities, villages and towns in the Greater Madison Metropolitan Area, covering approximately 182.4 square miles, is a special-purpose government that is governed by a five-member Board of Commissioners. The District is accountable to the County of Dane, Wisconsin. However, accountability extends only to the appointment of the District's Commissioners, who are appointed by the County Executive of the County of Dane, Wisconsin. Because the County Executive appoints the commissioners, the District and the County of Dane are considered related organizations. The District is legally separate and fiscally independent of the County of Dane as well as any other state or local governments. It has unlimited taxing powers and has the right to set rates or charges for services provided without the approval of another government. Also, there are no other agencies or entities which are financially accountable to the Commissioners of the District, or whose relationship with the District would require their financial statements to be included within the financial statements of the District.

A summary of significant accounting policies follows:

Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles as applicable to local government enterprise funds. The accounts of the District are maintained, and the accompanying financial statements have been prepared, on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, expenses are recognized when incurred, depreciation of assets is recognized, and all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included in the Statements of Net Position.

The principal operating revenues of the District are charges for service. Operating expenses for the District include costs directly related to administration, collection and treatment of wastewater, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with a maturity of three months or less when acquired are considered to be cash equivalents.

Deposits and Investments

Investments are reported at fair value based on quoted market prices. No amounts are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the statements of revenues, expenses and changes in net position as increases or decreases in investment income. Investments in the Local Government Investment Pool are reported at fair value based on the unit prices quoted by the funds, representing the fair value of the underlying investments.

The District has adopted a formal investment policy and invests in accordance with Wisconsin State Statutes. Under state statute, investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association which is authorized to transact business in the state if the time deposits mature in not more than 3 years;
- Bonds or securities of any county, city, drainage district, vocational education district, village, town or school district of the state; bonds issued by a local exposition district, local professional baseball park district, local professional football district, local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority;
- Bonds or securities issued or guaranteed by the Federal government;
- Any security which matures within not more than 7 years, if that security has a rating which is the highest or 2<sup>nd</sup> highest rating category assigned by Standard & Poor's corporation, Moody's investors service, or similar rating agency;
- Securities of an open-end management investment company or investment trust, if the company or trust does not charge a sales load, is registered under the investment company act of 1940, and if the portfolio is limited to bonds and securities issued by the federal government, bonds that are guaranteed as to principal and interest by the federal government;
- Repurchase agreements that are fully collateralized by bonds or securities of the federal government;
- The state local government investment pool.

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventories

Inventories of supplies are valued at cost under the specific identification method. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenses at the time they are consumed.

Receivables

Receivables are reported at their gross values and are considered to be fully collectible as they are primarily due from other municipalities, except for pretreatment. Receivables related to pretreatment have been reduced by an allowance for the estimated uncollectible amounts of \$5,170 as of December 31, 2014 and 2013, respectively, and is included in other receivables.

Interceptor Connection Charges

Receivables from interceptor connection charges are recognized when assessed and the revenue is delayed until the property owner connects with the intercepting sewer. No value has been placed on the future assessments against lands which are not currently served by intercepting sewers that were built with capacity to serve those lands.

Restricted Cash and Investments

Cash and investments are restricted for the purpose of unexpected repair and replacement, repayment of debt obligations, and amounts held for other governments.

Capital Assets

Capital assets are defined as assets with an initial cost of \$5,000 or greater with an estimated useful life greater than one year. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation of structures, improvements, mechanical equipment, office furniture and equipment, and vehicles is computed using the straight-line method over the following estimated useful lives of the assets:

Structures and improvements	50-75 years
Heavy mechanical equipment	21-30 years
Light mechanical equipment	10-20 years
Office furniture and equipment	5-20 years
Vehicles	7 years

When capital assets are disposed, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded in nonoperating activities.

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Compensated Absences

District employees earn sick leave of fourteen days per year which may be accumulated up to a maximum of 200 days. Each December, employees may elect to receive cash payments for 60 percent of their sick leave accumulated in excess of 100 days and 80 percent for sick leave accumulated in excess of 150 days, paid at their current rate of pay. Each December, employees are paid for all sick leave accumulated in excess of 200 days at their current rate of pay. Upon an employee's retirement or disability, 90 percent (100 percent for employees who have accrued at least 150 days of sick leave at any time during their employment) of previously earned but unpaid sick leave is converted to a cash value based on their current rate of pay, and this amount is contributed to the District's Retirement Health Savings Plan (RHSP) in the employee's name. Monies in this account can be used by the employee on a tax-free basis to pay for qualified medical expenses of the employee, their spouse and dependents. Any amounts remaining in the employee's RHSP account at the time of death of the retired or disabled employee may be used by the surviving spouse or eligible dependents on a tax-free basis to pay for qualified medical expenses. If there is no surviving spouse or dependents at the time of the employee's death, the remaining money in the account reverts to the District. No sick leave conversion amounts are paid to employees that terminate employment for reasons other than retirement or disability. The liability associated with accumulated sick pay for current and retired employees is reported as compensated absences liabilities in the statements of net position.

Employees earn vacation in varying amounts based on length of service. During a non-represented employee's first year of employment, vacation is earned each pay period and available for immediate use in four or eight hour increments. A represented employee receives 40 hours of vacation at six months and an additional 40 hours at one year during the first year of employment. After an employee's first year, vacation earned is available for use in the following year. Vacation may be accumulated to a maximum of 27 days. Upon an employee's retirement or disability, 100 percent of previously earned but unpaid vacation is converted to a cash value based on their current rate of pay, and this amount is contributed to the District's Retirement Health Savings Plan (RHSP) in the employee's name. Employees that terminate their employment for reasons other than retirement or disability are paid for earned vacation resulting from a carry over at their current rate of pay. Vacation earned in the year of termination is paid at varying percentages, depending upon the time of the year termination is effective. The liability associated with accumulated vacation is reported as compensated absences liabilities in the statement of net position.

Employees may also accumulate compensatory time for overtime work. Compensatory time may be carried over at year end, but must be used by March 31. After March 31, represented employees are paid for any unused compensatory time accumulated in the prior year at their rate of pay on December 31 of the prior year. After March 31, non-represented employees unused compensatory time is credited to the employee's base expense account using the employee's current rate of pay, and the accrued salaries liability is reduced accordingly. The liability associated with accumulated compensatory time is reported as accrued salaries liability in the statement of net position.

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-Term Debt

The District reports long-term debt at face value in the basic financial statements. Any bond premiums or discounts are capitalized and amortized over the term of the bond using the straight-line method.

Deferred Inflows

Deferred inflows are reported for interceptor connection charges that will become collectible at the time the related properties are connected to the system.

Net Position: Net position is classified in three separate categories. The categories, and their general descriptions, are as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally a liability or deferred inflow relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or deferred inflows or if the liability will be liquidated with the restricted assets reported.

Unrestricted net position – is the amount of the assets and deferred outflows, net of the liabilities and deferred inflows that are not included in the determination of net investment in capital assets or the restricted components of net position.

When both restricted and unrestricted resources are available for debt service, it is the District's policy to use restricted resources first, then unrestricted resources. For unexpected repairs, it is the District's policy to use unrestricted resources first and restricted resources only when needed.

Capital Contributions

Capital contributions consist of interceptor connection charges and contributed capital assets.

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, natural disasters, and employee injury. The District retains the risk of loss for damage or destruction of its buildings (except for rental units), sewerage system and other infrastructure. For all other risks, the District carries commercial insurance. Claims have not exceeded coverage in any of the prior three fiscal years.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 1 - NATURE OF ACTIVITIES, REPORTING ENTITY, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pollution Remediation Obligations

The District owns land that has been remediated under a Superfund clean-up project. On-going monitoring and maintenance of the lands is reported as an operating expense. These expenses totaled \$20,929 and \$74,952 in 2014 and 2013, respectively. Future expenses are expected to range from \$10,000 to \$30,000 annually. In 2013, the District was required to have a full Environmental Protection Agency (EPA) review, which resulted in increased costs of approximately \$30,000. A full EPA review is required every five years. The District personnel performed additional maintenance on the lands that is not required every year which accounts for additional costs in 2013.

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

As of December 31, 2014 and 2013, cash, cash equivalents, and investments included the following:

	<u>2014</u>	<u>2013</u>
Petty Cash	\$ 250	\$ 250
Deposits		
Demand Deposits	37,423	228,690
Savings Accounts	12,011,414	11,487,476
Investments		
Institutional investment account		
U.S. Government obligations	1,033,784	2,010,860
U.S. Agency obligations	7,638,753	7,050,170
Insured deposit account	220,258	1,185,276
Local Government Investment Pool	<u>14,297,620</u>	<u>10,655,256</u>
	<u>\$ 35,439,502</u>	<u>\$ 32,617,978</u>

The cash and investments are reported in the statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		
Unrestricted	\$ 12,988,181	\$ 13,349,637
Restricted	13,778,784	10,207,311
Investments		
Unrestricted	901,308	-
Restricted	<u>7,771,229</u>	<u>9,061,030</u>
	<u>\$ 35,439,502</u>	<u>\$ 32,617,978</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Deposits of governmental entities held by an official custodian in banks located in the same state as the governmental entity are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits per financial institution. In addition, the State of Wisconsin has a State Guarantee Fund, which provides a maximum of \$400,000 per financial institution above the amount provided by the FDIC. However, due to the relatively small size of the State Guarantee Fund in relation to the total coverage, total recovery of losses may not be available.

The carrying amount of the District's deposits totaled \$12,469,095 and \$12,901,442, with bank balances of \$12,665,181 and \$13,138,367 for the years ended December 31, 2014 and 2013, respectively. Of the bank balances, \$12,665,181 and \$13,138,367 was covered by FDIC insurance and collateralized, leaving \$0 and \$0 as uninsured and uncollateralized for the years ended December 31, 2014 and 2013, respectively.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Statutes Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2014 and 2013, the fair value of the District's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

The investments in the Local Government Investment Pool are covered up to \$400,000 by the State Guarantee Fund. Certificates of deposit held in the LGIP are covered by FDIC insurance, which applies to the proportionate public unit share of accounts.

The District also has investments in U.S. Government and U.S. Government Agency obligations purchased through a private sector securities dealer and held by a third-party custodian. These investments are readily marketable, specifically identifiable and include discount notes and adjustable and fixed rate mortgage backed securities.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net position.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2014, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>&lt;1</u>	<u>1-5</u>	<u>6-10</u>	<u>&gt;10</u>
Local government investment pool **	\$ 14,297,620	\$ 14,297,620	\$ -	\$ -	\$ -
WISC	-	-	-	-	-
Money Market	220,258	220,258	-	-	-
SBA pools	798,534	-	-	13,263	785,271
Government National Mortgage Association	1,693,262	-	1,882	23,506	1,667,874
Federal National Mortgage Association	2,012,372	350,170	9,689	48,539	1,603,974
Federal Home Loan Mortgage Corporation	2,634,669	152,128	1,509,121	6,915	966,505
Federal Farm Credit Bank	499,916	499,916	-	-	-
Treasury Bonds	1,033,784	486,921	546,863	-	-
	<u>\$ 23,190,415</u>	<u>\$ 16,007,013</u>	<u>\$ 2,067,555</u>	<u>\$ 92,223</u>	<u>\$ 5,023,624</u>

As of December 31, 2013, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>&lt;1</u>	<u>1-5</u>	<u>6-10</u>	<u>&gt;10</u>
Local government investment pool **	\$ 10,655,256	\$ 10,655,256	\$ -	\$ -	\$ -
WISC	-	-	-	-	-
Money Market	1,185,276	1,185,276	-	-	-
SBA pools	919,488	-	-	-	919,488
Government National Mortgage Association	1,957,765	-	4,573	24,045	1,929,147
Federal National Mortgage Association	1,752,566	-	415,423	235,344	1,101,799
Federal Home Loan Mortgage Corporation	1,920,161	50,233	614,816	391,827	863,285
Federal Farm Credit Bank	500,190	-	500,190	-	-
Treasury Bonds	2,010,860	949,664	1,061,196	-	-
	<u>\$ 20,901,562</u>	<u>\$ 12,840,429</u>	<u>\$ 2,596,198</u>	<u>\$ 651,216</u>	<u>\$ 4,813,719</u>

\*\* Because the LGIP had a weighted average maturity of less than one year as of December 31, 2014 and 2013 it has been presented as an investment with a maturity of less than one year.

**MADISON METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The LGIP is unrated with regard to the credit quality rating. The remaining investments of the District are U.S. Governmental or Agency securities that are explicitly guaranteed, and therefore credit rating is not applicable, or have the highest rating issued by Moody's. The District has not developed policies governing the exposure of its cash deposits and investments to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. It is the policy of the District that funds deposited in any one bank or savings and loan association shall not exceed \$1,500,000 at any given time. Investments in Wells Fargo Bank, the LGIP, and U.S. Government or Agency obligations are not limited as to amount.

Custodial Credit Risk-Investments

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

All of the District's U.S. Government and Agency obligations are uninsured and unregistered investments for which the investments are held by the counterparty's trust department or agent in the District's name. The LGIP is not subject to the custodial credit risk. The District has not developed policies governing the exposure of its investments to custodial credit risk.

Custodial Credit Risk-Deposits

For deposits, custodial credit risk is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The District has not developed policies governing the exposure of its cash deposits and investments to custodial credit risk. The District's deposits are fully insured or collateralized.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 3 - RESTRICTED NET POSITION**

Restricted net position of the District consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Restricted Assets		
Cash and cash equivalents		
Debt Service	\$ 13,581,349	\$ 10,021,734
Due to other governments	197,435	185,577
Investments		
Debt Service	4,771,229	6,061,030
Unexpected repair & replacement	<u>3,000,000</u>	<u>3,000,000</u>
Total restricted assets	21,550,013	19,268,341
Current Liabilities payable from restricted assets	<u>(766,028)</u>	<u>(659,332)</u>
	<u>\$ 20,783,985</u>	<u>\$ 18,609,009</u>

Debt Service

In accordance with state statutes and provisions of applicable loan covenants, the District maintains cash and investments in sinking funds in amounts no less than what is required to meet the balance of the current year debt service requirements.

Amounts available in the sinking funds on October 1, 2014 and 2013 were sufficient to finance the subsequent year's debt service requirements, and accordingly, the District was not required to place an amount on the tax roll for debt service.

Equipment Replacement

As a condition of receiving State of Wisconsin Clean Water Fund (CWF) loans, the District is required to establish an equipment replacement fund for mechanical equipment. To satisfy this requirement, the District has restricted \$3 million of its investments and net position for unexpected equipment replacement. In addition, the District annually budgets for replacement of equipment.

According to the CWF equipment replacement percentage schedule option the District must maintain a minimum replacement fund balance of five percent of the original cost of "mechanical equipment". For this purpose the District uses the sum of its light mechanical equipment, office furniture and equipment, and vehicles capital assets. The sum of these capital assets for the year ending December 31, 2014 is \$49,143,853. The required five percent of this value is \$2,457,193. The \$3 million of restricted assets exceed the minimum equipment replacement fund value. For the year ending December 31, 2013, the corresponding "mechanical equipment" total was \$40,915,455 and 5% of this amount was \$2,045,773.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 4 - CAPITAL ASSETS**

During the year ended December 31, 2014, the changes in capital assets were as follows:

	Balance January 1, 2014	Additions/ Reclassifications	Retirements/ Reclassifications	Balance December 31, 2014
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ 55,192,634	\$ 27,800,218	\$ 61,643,852	\$ 21,349,000
Land and easements	7,400,910	-	-	7,400,910
	<u>62,593,544</u>	<u>27,800,218</u>	<u>61,643,852</u>	<u>28,749,910</u>
<b>Capital assets being depreciated</b>				
Structures and improvements	152,431,696	30,934,118	-	183,365,812
Heavy mechanical equipment	54,957,627	22,551,820	798,497	76,710,950
Light mechanical equipment	34,406,590	8,198,395	1,042	42,603,943
Office furniture and equipment	4,143,976	55,041	19,022	4,179,995
Vehicles	2,364,882	42,688	47,657	2,359,915
	<u>248,304,771</u>	<u>61,782,062</u>	<u>866,218</u>	<u>309,220,615</u>
<b>Accumulated depreciation</b>				
Structures and improvements	55,680,643	2,570,556	-	58,251,199
Heavy mechanical equipment	29,860,685	1,728,601	377,074	31,212,212
Light mechanical equipment	24,539,352	1,133,641	1,042	25,671,951
Office furniture and equipment	3,780,219	102,828	8,857	3,874,190
Vehicles	2,052,079	91,511	47,657	2,095,933
	<u>115,912,978</u>	<u>5,627,137</u>	<u>434,630</u>	<u>121,105,485</u>
Capital assets being depreciated, net	<u>132,391,793</u>	<u>55,723,336</u>	<u>-</u>	<u>188,115,130</u>
Total capital assets, net	<u>\$ 194,985,337</u>	<u>\$ 83,523,554</u>	<u>\$61,643,852</u>	<u>\$216,865,040</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 4 - CAPITAL ASSETS** (Continued)

During the year ended December 31, 2013, the changes in capital assets were as follows:

	Balance January 1, 2013	Additions/ Reclassifications	Retirements/ Reclassifications	Balance December 31, 2013
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ 39,653,099	\$ 24,270,410	\$ 8,730,875	\$ 55,192,634
Land and easements	7,400,910	-	-	7,400,910
	<u>47,054,009</u>	<u>24,270,410</u>	<u>8,730,875</u>	<u>62,593,544</u>
<b>Capital assets being depreciated</b>				
Structures and improvements	144,223,978	8,207,718	-	152,431,696
Heavy mechanical equipment	54,701,387	443,693	187,453	54,957,627
Light mechanical equipment	34,539,274	55,909	188,593	34,406,590
Office furniture and equipment	4,286,831	122,633	265,488	4,143,976
Vehicles	2,310,057	54,825	-	2,364,882
	<u>240,061,527</u>	<u>8,884,778</u>	<u>641,534</u>	<u>248,304,771</u>
<b>Accumulated depreciation</b>				
Structures and improvements	53,231,823	2,448,820	-	55,680,643
Heavy mechanical equipment	28,398,154	1,612,055	149,524	29,860,685
Light mechanical equipment	23,594,173	1,109,445	164,266	24,539,352
Office furniture and equipment	3,919,172	114,699	253,652	3,780,219
Vehicles	1,897,083	154,996	-	2,052,079
	<u>111,040,405</u>	<u>5,440,015</u>	<u>567,442</u>	<u>115,912,978</u>
<b>Capital assets being depreciated, net</b>	<u>129,021,122</u>	<u>3,444,763</u>	<u>74,092</u>	<u>132,391,793</u>
<b>Total capital assets, net</b>	<u>\$ 176,075,131</u>	<u>\$ 27,715,173</u>	<u>\$8,804,967</u>	<u>\$194,985,337</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 5 - PENSION PLAN**

Plan Description

The District contributes to the Wisconsin Retirement System (the Plan), a cost sharing, multiple employer defined benefit pension plan administered by the Wisconsin Department of Employee Trust Funds. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statutes assign authority to establish and amend benefit provisions to the Employee Trust Fund Board. The Plan issues a publicly available report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Wisconsin Retirement System, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI, 53707-7931, or by calling 1-608-267-9034.

All eligible District employees participate in the Wisconsin Retirement System (WRS). All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 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. 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.

Effective the first day of the pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same 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.

Funding Policy

Employees are required to contribute 7.0 percent and 6.65 percent of their annual covered salary for 2014 and 2013, respectively, and the District is required to contribute at an actuarially determined employer rate, which was 7.0 percent and 6.65 percent of annual covered payroll at December 31, 2014 and 2013 respectively. The contribution requirements of employees and the District are established and may be amended by the Employee Trust Fund Board.

The payroll for the District employees covered by the Plan for the year ended December 31, 2014 was \$7,095,005; the District's total payroll was \$7,227,342. The payroll for the District employees covered by the Plan for the year ended December 31, 2013 was \$6,677,150; the District's total payroll was \$6,847,759. The total required contributions were \$993,301 and \$888,061 for the years ended December 31, 2014 and 2013, respectively. Total contributions paid by employees for the years ended December 31, 2014 and 2013, respectively, were \$496,794 and \$421,736. Total contributions paid by the District for the years ended December 31, 2014 and December 31, 2013, were \$496,507, and \$466,325, respectively.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 5 - PENSION PLAN** (Continued)

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive actuarially reduced benefits. The factors influencing the benefit are: 1) final average earnings, 2) years of creditable service, and 3) a formula factor. Final average earnings are the average of the employee's three highest years' earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. Employees who first began WRS employment after 1989 and terminated employment before April 24, 1998 must have some WRS creditable service in five calendar years. Employees who first began WRS employment on or after July 1, 2011, must have five calendar years of WRS creditable service to be fully vested.

**NOTE 6 - LONG-TERM DEBT**

As of December 31, 2014 and 2013, the long-term debt of the District consisted of the following:

	<u>2014</u>	<u>2013</u>
<b>General Obligation Sewerage System Bonds</b>		
Clean Water Fund Program Project Number 4010-10 \$1,200,000 Series 1994, issued November 22, 1994 for the replacement of Pumping Station No. 5, interest at 3.25%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2014.	\$ -	\$ 83,014
Clean Water Fund Program Project Number 4010-11 \$2,668,755 Series 1995, issued October 11, 1995, for the Verona Force Main and Pumping Station, interest at 3.335%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2015.	186,518	367,017
Clean Water Fund Program Project Number 4010-12 \$13,740,467 Series 1996A, issued February 28, 1996 for the Ninth Addition to the Nine Springs Wastewater Treatment Plant, interest at 3.284%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2015.	1,082,237	2,130,063

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT (Continued)**

	<u>2014</u>	<u>2013</u>
<b>General Obligation Sewerage System Promissory Notes</b>		
<b>General Obligation Sewerage System Bonds (Continued)</b>		
Clean Water Fund Program Project Number 4010-13 \$4,490,327 Series 1997A, issued June 11, 1997 for the construction of a force main to Badger Mill Creek, interest at 3.145%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2017.	\$ 932,260	\$ 1,224,258
Clean Water Fund Program Project Number 4010-14 \$1,788,729 Series 2000, issued November 22, 2000 for the Pump Station No. 2 Force Main Replacement Project, interest at 3.202%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2020.	684,056	786,010
Clean Water Fund Program Project Number 4010-15 \$2,057,994 Series 2001, issued May 9, 2001 for the Pump Station No. 2 Force Main Replacement Project, interest at 3.202%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2021.	871,362	980,880
Clean Water Fund Program Project Number 4010-17 \$7,674,449 Series 2003A, issued July 23, 2003, for the Rehabilitation of Pumping Stations No. 1, 2, and 10, interest at 2.824%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2023.	4,151,430	4,552,036
Clean Water Fund Program Project Number 4010-16 \$35,427,273 Series 2003B, issued August 27, 2003, for the Tenth Addition to Nine Springs, interest at 2.796% interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2023.	20,105,626	22,046,930

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT (Continued)**

	<u>2014</u>	<u>2013</u>
<b>General Obligation Sewerage System Promissory Notes (Continued)</b>		
Clean Water Fund Program Project Number 4010-99 \$279,437 Series 2005A, issued October 12, 2005, for the Rehabilitation of Pumping Stations No. 1, 2, and 10, amendment, interest at 2.428%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2025.	\$ 173,021	\$ 186,602
Clean Water Fund Program Project Number 4010-20 \$1,730,252 Series 2006A, issued September 13, 2006, for the Effluent Equalization Project, interest at 2.365%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2026.	1,135,156	1,216,154
Clean Water Fund Program Project Number 4010-23 \$2,622,948 Series 2007A, issued December 12, 2007, for the West Interceptor Extension Replacement Project, interest at 2.555%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2027.	1,928,775	2,052,571
Clean Water Fund Program Project Number 4010-26 \$8,391,175 Series 2008A, issued November 12, 2008, for the Pumping Stations 6 and 8 Rehabilitation, interest at 2.368%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2028.	6,831,053	7,238,618
Clean Water Fund Program Project Number 4010-27 \$8,876,034 Series 2010A, issued May 26, 2010, for the Pumping Station 10 to Lien Road Relief Sewer, interest at 2.369%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2030.	7,429,295	7,807,623
Clean Water Fund Programs Project Number 4010-34 \$50,362,380 Series 2012A, issued February 22, 2012, for the Eleventh Addition to Nine Springs, interest at 2.518%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2015, and each subsequent May 1, final payment due May 1, 2031.*	47,383,134	44,236,054

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT (Continued)**

	<u>2014</u>	<u>2013</u>
<b>General Obligation Sewerage System Promissory Notes (Continued)</b>		
Clean Water Funds Programs Project Number 4010-38 \$2,955,949 Series 2012B, issued May 23, 2012, for the Operations Building HVAC Rehabilitation, interest at 3%, interest payments on May 1 and November 1 of each year and principal payments beginning on May 1, 2013 and each subsequent May 1, final payment due May 1, 2032.	\$ 2,743,662	\$ 2,857,428
Clean Water Fund Programs Project Number 4010-40 \$8,012,046 Series 2013A, issued May 8, 2013, for the Northeast Interceptor/Far East Interceptor to Southeast Interceptor Replacement, interest at 2.795%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2014, and each subsequent May 1, final payment due May 1, 2033.	7,717,587	7,749,268
Clean Water Fund Programs Project Number 4010-39 \$14,773,549 Series 2013B, issued September 25, 2013, for the Pumping Station 18 Construction, interest at 2.643%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2015, and each subsequent May 1, final payment due May 1, 2033.*	13,126,217	2,893,075
Clean Water Fund Programs Project Number 4010-37 \$4,746,580 Series 2013C, issued November 27, 2013, for the Process Control System Upgrade, interest at 2.625%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2016, and each subsequent May 1, final payment due May 1, 2033.*	3,709,120	2,757,396
Clean Water Fund Programs Project Number 4010-43 \$12,362,184 Series 2014A, issued February 26, 2014, for the Pumping Station 18 Force Main Construction, interest at 2.72%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2015, and each subsequent May 1, final payment due May 1, 2033.*	<u>10,864,519</u>	<u>-</u>
	\$131,055,328	\$111,164,997
Less current maturities	<u>8,906,971</u>	<u>5,568,912</u>
	<u>\$122,148,357</u>	<u>\$105,596,085</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT (Continued)**

\* As of December 31, 2014, the District has drawn \$47,383,134 of the total note issue of \$50,362,380 of the Series 2012A general obligation sewerage system promissory note, \$13,126,217 of the total note issue of \$14,773,549 of the Series 2013B general obligation sewerage system promissory note, \$3,709,120 of the total note issue of \$4,476,580 of the Series 2013C general obligation sewerage system promissory note, and \$10,864,519 of the total note issue of \$12,362,184 of the Series 2014A general obligation sewerage system promissory note.

The District incurred \$2,229,690 and \$1,506,071 of total interest costs for December 31, 2014 and 2013, respectively. The District capitalized interest of \$927,076 and \$1,089,308 for the years ended December 31, 2014 and 2013, respectively.

A summary of the changes in long-term obligations of the District for the year ended December 31, 2014 was as follows:

	Balance			Balance		Amounts
	January 1,			December		Due in
	<u>2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>2014</u>	<u>One Year</u>	
General obligation sewerage system bonds	\$5,571,242	\$ -	\$1,814,809	\$3,756,433	\$1,788,180	
General obligation sewerage system notes	105,593,755	25,459,243	3,754,103	127,298,895	7,118,791	
Subtotal	\$111,164,997	\$25,459,243	\$5,568,912	\$131,055,328	\$8,906,971	
Compensated absences	\$ 2,641,102	\$ 931,700	\$750,980	\$2,821,822	\$ 603,089	
Other post employment benefits	1,513,569	442,818	101,009	1,855,378	-	
	<u>\$115,319,668</u>	<u>\$26,833,761</u>	<u>\$6,420,901</u>	<u>\$135,732,528</u>	<u>\$9,510,060</u>	

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT (Continued)**

A summary of the changes in long-term obligations of the District for the year ended December 31, 2013 was as follows:

	Balance			Balance		Amounts
	January 1,			December		Due in
	<u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>31,</u>		<u>One Year</u>
				<u>2013</u>		
General obligation sewerage system bonds	\$7,328,831	\$ -	\$1,757,589	\$5,571,242		\$1,814,808
General obligation sewerage system notes	84,179,477	24,771,422	3,357,144	105,593,755		3,754,104
Subtotal	\$91,508,308	\$24,771,422	\$5,114,733	\$111,164,997		\$5,568,912
Compensated absences	\$ 2,709,368	\$ 846,870	\$915,136	\$2,641,102		\$ 565,934
Other post employment benefits	1,211,740	419,977	118,148	1,513,569		-
	<u>\$95,429,416</u>	<u>\$25,920,121</u>	<u>\$6,029,869</u>	<u>\$115,319,668</u>		<u>\$6,134,846</u>

General Obligation Debt: All general obligation debt has been issued under the full faith and credit and unlimited taxing powers of the District. The District has complied with the restrictive covenants of each of the debt issues.

Future principal and interest payments due on long-term debt of the District are approximately as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	8,906,971	3,317,640	12,224,611
2016	8,006,272	3,095,888	11,102,160
2017	8,220,277	2,879,006	11,099,283
2018	8,109,535	2,661,489	10,771,024
2019	8,324,810	2,443,343	10,768,153
2020-2024	41,003,141	8,832,687	49,835,828
2025-2029	31,649,714	4,231,398	35,881,112
2030-2033	<u>16,834,608</u>	<u>697,487</u>	<u>17,532,095</u>
<b>Total</b>	<b><u>\$131,055,328</u></b>	<b><u>\$28,158,938</u></b>	<b><u>\$159,214,266</u></b>

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 6 - LONG-TERM DEBT** (Continued)

The equalized valuation of the District, as certified by the Wisconsin Department of Revenue, was \$38,302,097,160 for 2014 and \$36,650,459,397 for 2013. The legal debt limit and margin of indebtedness as of December 31, 2014 and 2013, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes, follows:

	<u>2014</u>	<u>2013</u>
Debt limit (5 percent of the equalization value)	\$ 1,915,104,858	\$1,832,522,970
Deduct long-term debt applicable to debt margin	<u>131,055,328</u>	<u>111,164,977</u>
Margin of indebtedness	<u>\$ 1,784,049,530</u>	<u>\$ 1,721,357,993</u>

**NOTE 7 - COMMITMENTS**

As of December 31, 2014, the District had the following commitments with respect to unfinished capital projects:

<u>Projects</u>	<u>Remaining Commitment</u>
Manhole Rehabilitation	\$ 5,000
Connection Charge Rate Study	52,590
Chloride Study	60,234
Pumping Stations 11 & 12 Rehab.	9,118,515
Maintenance Facility	30,477
NSVI/Morse Pond Ext.	14,000
NEI/FEI to SEI Repair/Replacement	15,852
NEI/Truax Lining	93,009
NS 11/Solids Handling Facility Plan	319,762
Process Control System Upgrade	592,874
PS 14 Service Area I/I Study	15,415
Pumping Station 18	384,100
Pumping Station 18 Force Main	337,672
West Interceptor Extension Lining	<u>239,526</u>
	<u>\$ 11,039,501</u>

Projects will be financed through future draws on Clean Water Fund Loans and budgeted capital reserves.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 8 - MAJOR MUNICIPAL CUSTOMERS**

During the years ended December 31, 2014 and 2013, the District had charges for transmission and treatment of sewage and interceptor connection charges to one major municipal customer, the City of Madison, (defined as being greater than 10 percent of charges) of approximately \$19,294,000 and \$18,856,000, respectively. Accounts receivable as of December 31 from the City of Madison were as follows:

	2014	2013
Pumping stations	\$ 42,707	\$ 42,383
Sewer Service	4,641,275	4,454,533
Interceptor connection charges	615,510	554,057
	\$5,299,492	\$5,050,973

**NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Madison Metropolitan Sewerage District participates in a single-employer defined benefit health care plan administered by the District. The plan provides health insurance benefits for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements, personnel policy guidelines, or past practice and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates.

The District pays 95% of the premiums of the lowest health insurance carrier for active employees. The employee is responsible for paying the difference. Retirees are responsible for 100% of the premiums applicable for their health insurance group. In 2014, the District will pay 95% of the average premium of the two insurance carriers for active employees through August, 2014. As of September, 2014, the District will pay 88% of the average premium of the two insurance carriers for active employees.

No contribution requirements are established. As of December 31, 2014 and 2013, the District made no contributions to the plan. The District currently funds these costs on a pay-as-you-go basis.

An actuarial valuation was obtained in November. The valuation was prepared for 2014. This valuation established an actuarial accrued liability of \$ \$3.4 million.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The remaining amortization period at December 31, 2014 was 30 years.

The only impact of this standard for the District is an implicit rate subsidy, as retirees pay the full premium cost after retirement under a plan that is not age rated.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and 2013 were as follows:

	2014	2013
Annual required contribution	\$ 469,355	\$ 441,222
Interest on net OPEB obligation	52,975	42,411
Adjustment to annual required contribution	(79,512)	(63,656)
Annual OPEB cost	442,818	419,977
Actuarial Adjustment to OPEB Obligation	-	-
Contributions made	(101,009)	(118,148)
Increase in net OPEB obligation	341,809	301,829
Net OPEB obligation, beginning of year	\$ 1,513,569	\$ 1,211,740
Net OPEB obligation, end of year	\$ 1,855,378	\$ 1,513,569

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended December 31, 2014, and the preceding two years were as follows:

Year Ended December 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 425,470	26.4%	\$ 1,211,740
2013	\$ 419,977	28.1%	\$ 1,513,569
2014	\$ 442,818	22.8%	\$ 1,855,378

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The funded status of the plan as of December 31, 2014 and 2013, valuation date, is as follows:

	2014	2013
Actuarial accrued liability (AAL)	\$ 3,402,638	\$ 3,283,496
Actuarial value of plan assets	-	-
<b>Unfunded actuarial accrued liability (UAAL)</b>	<b>\$ 3,402,638</b>	<b>\$ 3,283,496</b>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 6,747,612	\$ 6,767,932
UAAL as a percent of covered payroll	50.42%	48.52%

The schedule of funding progress presented as Required Supplementary Information (RSI) following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing due to relative to the actuarial accrued liability for benefits.

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.

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 actuarial 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 November 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5% investment rate of return and an annual healthcare cost trend rate of 6.5% initially, reduced by decrements to an ultimate rate of 5% after 2024. The unfunded actuarial accrued liability is being amortized over 30 years.

**MADISON METROPOLITAN SEWERAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 10 - WATERSHED ADAPTIVE MANAGEMENT PILOT PROJECT**

The Watershed Adaptive Management Pilot Project, also known as Yahara WINS, is testing the adaptive management approach to reduce the amount of phosphorous in the Yahara River Watershed. The District is the custodian of the project's segregated checking account. The Executive Committee of Yahara WINS authorizes the invoicing of partners in the project and the disbursement of funds out of the account. The District has the authority to make disbursements for contracts that have been approved by the Executive Committee up to the approved contract amount and other invoices up to a threshold of \$1,000. As of December 31, 2014 and 2013, the Yahara WINS checking account had a balance of \$197,435 and \$185,577, respectively, which was reflected in the accompanying financial statement as restricted cash and cash equivalents and due to other governments.

**NOTE 11 - SUBSEQUENT EVENTS**

On February 13, 2015, the Commission approved a resolution authorizing the issuance of \$10.7 million general obligation sewerage system promissory notes. The notes bear interest at 2.262%, payable semi-annually and mature annually on May 1, with final maturity May 1, 2034.

This information is an integral part of the accompanying financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MADISON METROPOLITAN SEWERAGE DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
Year Ended December 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL)		Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Accrued Actuarial Liability (b)	(UAAL)				
12/31/2012	1/1/2011	\$ -	\$ 3,283,496	\$ 3,283,496	0.00%	\$6,358,188	51.64%
12/31/2013	1/1/2011	\$ -	\$ 3,283,496	\$ 3,283,496	0.00%	\$6,767,932	48.52%
12/31/2014	1/1/2014	\$ -	\$ 3,402,638	\$ 3,402,638	0.00%	\$6,747,612	50.42%