

**MADISON METROPOLITAN
SEWERAGE DISTRICT
Madison, Wisconsin**

**FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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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 statements of net position, statements of revenues, expenses, and changes in net position and cash flows of the Madison Metropolitan Sewerage District, as of and for the years ended December 31, 2012 and 2011, and notes to the financial statements, which collectively comprise the District'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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of the Madison Metropolitan Sewerage District, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of Madison Metropolitan Sewerage District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison Metropolitan Sewerage District's internal control over financial reporting and compliance.



Middleton, Wisconsin
April 30, 2013

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

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 2012 and 2011. It should be read in conjunction with the District's financial statements which follow this section. The 2012 and 2011 financial statements have been prepared in accordance with generally accepted accounting principles.

Financial Highlights

- Net position increased by \$3.2 million (3.0 percent) from \$107.0 million to \$110.2 million in 2012. This compares to a \$2.1 million (2.0 percent) increase in 2011.
- Operating revenues increased by \$1.3 million (5.6 percent) from \$23.1 million to \$24.4 million in 2012. This compares to a \$0.6 million (2.5 percent) increase in 2011.
- Operating expenses, excluding depreciation, decreased by \$0.4 million (2.3 percent) from \$15.5 million to \$15.1 million in 2012. This compares to a decrease of \$0.3 million (1.8 percent) in 2011.

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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Net Position

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)**

	2012	2011	2010
Current Assets	\$ 24,883	\$ 20,223	\$ 25,387
Noncurrent Assets			
Capital assets, net of accumulated depreciation	176,075	146,119	145,798
Other assets	10,620	10,322	7,396
Total assets	211,578	176,664	178,581
Current Liabilities	10,202	9,665	8,968
Noncurrent Liabilities	89,785	59,058	63,850
Total liabilities	99,987	68,723	72,818
Deferred Inflows	1,380	937	853
Net Position			
Invested in capital assets, net of related debt	84,567	84,110	78,660
Restricted	16,455	15,639	15,545
Unrestricted	9,189	7,255	10,705
Total net position	\$ 110,211	\$ 107,004	\$ 104,910

As of December 31, 2012 the District had total assets, less accumulated depreciation, of \$211.6 million and total liabilities and deferred inflows of \$101.4 million, resulting in \$110.2 million of net position. Net position increased by \$3.2 million (3.0 percent) in 2012. This compares to a net position increase of \$2.1 million (2.0 percent) in 2011. The 2012 increase was due to connection charge revenues of \$0.8 million, principal forgiveness of \$0.3 million, and operating income of \$3.9 million. Funds represented by the 2012 increase will be used to finance future interceptor construction and to offset a portion of future operating costs. Capital assets (land, structures, equipment, vehicles, etc.) comprise \$176.1 million, or 83.2 percent of total assets at the end of 2012. At the end of 2011, capital assets had a value of \$146.1 million and represented 82.7 percent of total assets. Capital assets increased \$30.0 million in 2012 compared to a \$0.3 million increase in 2011.

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Net Position (Continued)

Future principal payments on bonds total \$91.5 million at the end of 2012 and represent 91.5 percent of the District's liabilities. At the end of 2011, future principal payments on bonds totaled \$62.0 million and represented 90.2 percent of the District's liabilities. Future principal payments were \$29.5 million more than at the end of 2011 due to increased borrowing for capital projects in 2012. Future principal payments at the end of 2011 were \$5.1 million less than at the end of 2010. There was an increase in construction activity funded with bond funds in 2012 compared to 2011.

The District's restricted assets consist of reserves for the payment of debt service, amounts due to other governments and amounts for unexpected expenses for the repair and replacement of equipment. Restricted assets increased by \$0.8 million in 2012 to satisfy current and anticipated bond ordinance requirements for payment of debt service expenses. This compares to a \$0.1 million increase in 2011. Unrestricted assets at the end of 2012 were \$1.9 million more than at the end of 2011. Unrestricted assets had decreased by \$3.5 million in 2011. The 2011 reduction was due primarily to the use of reserve funds to finance the Nine Springs Eleventh Addition, the Operations Building HVAC Rehabilitation, and the Pumping Station 18 projects. The 2012 increase was due primarily to receiving loan proceeds to finance the Nine Springs Eleventh Addition and the Operations Building HVAC Improvements projects.

Revenues, Expenses, and Changes in Net Position

The District's revenues, expenses, and changes in net position are summarized in Table A-2.

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

	2012	2011	2010
Operating Revenues	\$ 24,408	\$ 23,105	\$ 22,535
Nonoperating Revenues	652	417	444
Total revenues	25,060	23,522	22,979
Depreciation Expense	5,395	5,424	5,150
Other Operating Expense	15,098	15,457	15,743
Nonoperating Expense	2,144	1,760	1,797
Total expense	22,637	22,641	22,690
Income (Loss) Before Capital Contributions	2,423	881	289
Capital Contributions	784	1,213	496
Increase in net assets	3,207	2,094	785
Beginning Net Position	107,004	104,910	104,125
Ending Net Position	\$ 110,211	\$ 107,004	\$ 104,910

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

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

Operating revenue for 2012 increased by \$1.3 million, or 5.6 percent, from \$23.1 million to \$24.4 million. This compares to the 2011 operating revenue increase of \$0.57 million, or 2.5 percent. The 2012 increase was due primarily to higher service charge rates.

Non-operating revenues for 2012 were \$0.263 million (67.6 percent) lower than in 2011, reflecting \$0.33 million of one-time principal forgiveness money received in 2012 for a Clean Water Fund loan. Non-operating revenues for 2011 were 12.4 percent lower than in 2010, which was the result of lower interest earnings.

Depreciation expense in 2012 of \$5.4 million was approximately the same as the 2011 depreciation expenses. The 2011 depreciation expense of \$5.4 million was 5.3 percent more than the 2010 depreciation expenses.

Other operating expenses for 2012 of \$15.1 million were \$0.4 million (2.3 percent) lower than 2011 expenses of \$15.5 million. Other operating expenses for 2011 were 1.8 percent lower than 2010 expenses of \$15.7 million. The lower level of other operating expenses in 2012 was due to decreased costs for repair services and the Metrogro yield guaranty program.

Non-operating expenses for 2012 of \$2.1 million, which are comprised of interest on the District's outstanding debt and capital assets contributed to other governments, were \$0.41 million higher than 2011 non-operating expenses, primarily due to the transfer of the Southwest Interceptor/Northern Leg and the Southwest Interceptor/Southern Leg assets to the City of Madison. Non-operating expenses in 2011 were \$0.07 million less than in 2010.

Capital contributions include interceptor and treatment plant connection charge revenues. One-time connection charges are received for 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 2012 increased by 2.4 percent. This compares to the 2011 increase of 3.5 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 2012 increased by 6.3 percent. The 2011 increase was 5.9 percent. Increases in 2012 reflect the additions to accumulated excess capacity debt service costs associated with the Ninth Addition, Tenth Addition, and Eleventh Addition projects.

Capital contributions in 2012 of \$.78 million were \$0.4 million less than 2011 capital contributions of \$1.2 million. This decrease of 35.4 percent compared to 2011 was due to decreased connection charge revenues. The connection charge revenue decrease in 2012 is due to a slower pace of development in the District.

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Comparison of Actual Financial Results to Budget

Each year the District adopts an annual operating budget and a 10-year capital improvement budget following a public hearing. A comparison of the 2012 budgeted and actual amounts of operating revenues and expenses is shown in Table A-3.

**Table A-3
Comparison of Operating Budget to Actual Results for 2012
(000's)**

	Budget	Actual	Variance
Revenues			
From operations	\$ 25,188	\$ 24,408	\$ (780)
Nonoperating	133	652	519
Total revenues	<u>25,321</u>	<u>25,060</u>	<u>(261)</u>
Operating Expenses			
Depreciation expense	-	5,395	5,395
Other operating expenses:			
Salaries with benefits	7,883	7,756	(127)
Administrative	435	370	(65)
Legal and accounting	88	86	(2)
Insurance	112	111	(1)
Power	3,187	2,673	(514)
Natural gas	80	85	5
Chemicals	570	664	94
Motor and LP fuel	134	133	(1)
Water and sewer services	104	131	27
Contracted services	1,622	1,384	(238)
Engineering consulting	-	12	12
Communication services	31	25	(6)
Replacement parts and services	1,637	1,266	(371)
Supplies	273	289	16
Miscellaneous	185	113	(72)
Total other operating expenses	<u>16,341</u>	<u>15,098</u>	<u>(1,243)</u>
Total operating expenses	<u>16,341</u>	<u>20,493</u>	<u>4,152</u>
Nonoperating Expenses			
Capital assets contributed to other governments	-	569	569
Interest expense	1,955	1,575	(380)
Total nonoperating expenses	<u>1,955</u>	<u>2,144</u>	<u>189</u>
Total expenses	<u>18,296</u>	<u>22,637</u>	<u>4,341</u>
Income before capital contributions	<u>\$ 7,025</u>	<u>\$ 2,423</u>	<u>\$ (4,602)</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Comparison of Actual Financial Results to Budget (Continued)

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 2012 of \$24.4 million were \$0.8 million (3.1 percent) less than budgeted due to lower than anticipated wastewater volumes. Non-operating revenues of \$0.65 million for principal forgiveness money, interest income, rent, and other miscellaneous items were \$0.6 million (390 percent) more than budgeted. The largest items contributing to the difference were \$0.33 principal forgiveness money received in 2012 for Clean Water Fund loan and \$0.2 million in interest on the capital projects and debt service accounts not included in the operating budget but reported in the financial statement nonoperating revenue.

Operating expenses for 2012, excluding depreciation, were \$1.2 million less than budgeted. The most significant under budget items were electric power, replacement parts and services, and contracted services which were a combined \$1.1 million less than budgeted. Electric power costs were \$0.5 million under budget due primarily to reduced pumping costs because of lower wastewater volumes. The most significant over-budget items were salaries and benefits and chemicals. Salaries and benefits were \$0.1 million higher than budgeted because of an increase in the actuarial value of the District's post retirement benefits which are not budgeted. Chemical costs were \$0.09 million more than budgeted.

Non-operating expenses, which include the net value of assets transferred to another government and the interest costs on the District's outstanding debt, were \$0.2 million more than budgeted. This difference is largely due to the transfer of the Southwest Interceptor/Northern Leg and Southwest Interceptor/Southern Leg assets to the City of Madison. Interest costs were \$0.4 million less than budgeted.

Budgeted income for 2012 of \$7.0 million includes \$6.4 million for 2013 principal payments on the District's outstanding debt and \$0.8 million to fund future year's principal and interest. 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Capital Assets

At the end of 2012, the District had \$176 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)**

	2012	2011	2010
Land	\$ 7,401	\$ 7,401	\$ 7,401
Structures and improvements	144,224	144,551	143,895
Mechanical equipment	89,251	86,072	86,022
Office furniture and equipment	4,276	4,181	4,094
Vehicles	2,310	2,284	2,269
Construction In progress	39,653	7,554	2,752
Total	287,115	252,043	246,433
Less accumulated depreciation	111,040	105,923	100,635
Net property and equipment	\$ 176,075	\$ 146,120	\$ 145,798

The District's 10-year capital improvement plan includes \$57 million of treatment plant upgrades and expansions and \$105 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.

The District completed one treatment plant project and one conveyance system project in 2012. The total cost of these projects increased the value of the District's assets by \$3.5 million. The projects were the Operations Building HVAC System Improvements (\$3.3 million) and the East Interceptor MH06-204 to MH06-209 Liner (\$0.2).

The \$35.0 million increase in total assets to \$287 million reflects construction in progress costs for the Eleventh Addition (\$31.2 million) at the Nine Springs Wastewater Treatment Plant and improvements in the conveyance system for the Pumping Station 18 project (\$0.9 million).

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

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 sinking 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 sinking 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 2012 was \$91.5 million which represents the remaining balance on the Clean Water Fund loans from the State of Wisconsin. This compares to a 2011 year-end balance of \$62.0 million and a 2010 year-end balance of \$67.1 million. Interest on these loans is payable semi-annually at rates of 2.4 to 3.9 percent. Detailed information on the District's Clean Water Fund loans is included in the notes to the financial statements.

The District's outstanding debt is expected to increase by \$53 million over the ten-year period from 2013 to 2022 due to anticipated projects in the collection system and treatment plant. New debt incurred over that period includes \$13 million to complete construction of a major plant addition and \$35 million for a new regional pumping station and its force main and associated interceptor improvements. In addition, the District may have to borrow an additional \$100 million in 2021 and 2022 to construct advanced phosphorous removal facilities. Annual debt service obligations will increase 10 percent per year from 2013 to 2017, 5 percent in 2018 and 2019, and 3 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 2012 the borrowing limit was \$1.82 billion. At the end of 2011 that borrowing limit was \$1.76 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 could approach 14 percent of this limit if the \$100 million advanced phosphorous project is undertaken. At the end of 2012 the District's debt of \$91.5 million was at 5.0 percent of this limit. At the end of 2011 the District's debt of \$62.0 million was at 3.5 percent of this limit. During the last two years the District did not experience any negative changes in debt credit rating or debt limitation.

**MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2012 and 2011**

Economic Factors

Growth in the District's service area had been relatively constant at a rate of 1.5 to 2 percent per year until the economic slowdown that began in 2008. In the last five years, growth has slowed. The future growth trend is projected to return to the 1 to 2 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. This annual increase is higher than the trend of the past thirty years, which matched the rate of inflation.

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 very 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 2012 and 5.8 percent in 2011. Oscar Mayer Foods Corporation is the largest industrial user and provided 2.1 percent of service charge revenues in 2012 and 2.8 percent in 2011.

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, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 9,239,239	\$ 6,181,638
Receivables, net of allowance for uncollectible amounts:		
Transmission and treatment of sewage and septage disposal	6,053,957	5,575,221
Servicing pumping stations	56,367	81,398
Interceptor connection charges, current portion	703,459	362,679
Other	28,721	35,914
Prepaid insurance	333	333
Inventories	1,109,420	1,121,965
Restricted assets - cash and cash equivalents	<u>7,691,865</u>	<u>6,807,627</u>
Total current assets	<u>24,883,361</u>	<u>20,166,775</u>
Noncurrent assets:		
Investments	737,596	689,041
Restricted assets - investments	9,205,688	9,114,632
Interceptor connection charges, less current portion	676,944	574,619
Capital assets:		
Capital assets not being depreciated	47,054,009	14,954,546
Capital assets being depreciated	<u>240,061,527</u>	<u>237,087,344</u>
	287,115,536	252,041,890
Less: accumulated depreciation	<u>111,040,405</u>	<u>105,922,662</u>
	<u>176,075,131</u>	<u>146,119,228</u>
Total noncurrent assets	<u>186,695,359</u>	<u>156,497,520</u>
Total assets	<u>211,578,720</u>	<u>176,664,295</u>

(Continued)

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF NET POSITION
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current liabilities:		
Vouchers payable	\$ 3,837,089	\$ 2,298,921
Accrued salaries	182,873	144,062
Payroll withholdings payable	93,488	82,777
Unearned rent	1,769	1,734
Compensated absences, current portion	529,694	532,714
Total current liabilities	<u>4,644,913</u>	<u>3,060,208</u>
Liabilities payable from restricted assets:		
Bonds payable, current portion	5,114,733	6,321,212
Due to other governments	55,341	-
Accrued interest payable	387,172	283,275
Total current liabilities payable from restricted assets	<u>5,557,246</u>	<u>6,604,487</u>
Noncurrent liabilities, less current portion:		
Compensated absences	2,179,674	2,350,403
Accrued actuarial liability	1,211,740	1,020,411
Bonds payable	86,393,575	55,687,988
Total noncurrent liabilities	<u>89,784,989</u>	<u>59,058,802</u>
Total liabilities	<u>99,987,148</u>	<u>68,723,497</u>
Deferred Inflows:		
Interceptor connection charges	<u>1,380,403</u>	<u>937,298</u>
NET POSITION		
Invested in capital assets, net of related debt	84,566,823	84,110,028
Restricted for:		
Debt service	13,455,040	12,638,984
Equipment replacement	3,000,000	3,000,000
Unrestricted	9,189,306	7,254,488
Total net position	<u>\$ 110,211,169</u>	<u>\$ 107,003,500</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for services:		
Transmission and treatment of sewage	\$ 23,747,386	\$ 22,395,826
Servicing pumping stations	265,183	307,675
Septage disposal	377,419	380,153
Pretreatment monitoring	18,496	20,833
Total operating revenues	<u>24,408,484</u>	<u>23,104,487</u>
 OPERATING EXPENSES		
Administration	3,153,567	3,168,828
Treatment	9,511,099	9,951,518
Collection	2,148,550	2,156,231
Depreciation	5,395,217	5,424,384
Construction expenses	284,518	180,827
Total operating expenses	<u>20,492,951</u>	<u>20,881,788</u>
 Operating income	<u>3,915,533</u>	<u>2,222,699</u>
 NONOPERATING REVENUES (EXPENSES)		
Investment income	200,728	155,064
Capital grants	328,439	-
Rent	65,848	84,694
Other	57,411	149,306
Capital assets contributed to other governments	(568,957)	-
Disposal of property and equipment	-	28,266
Interest expense	(1,575,169)	(1,760,090)
Total nonoperating revenues (expenses)	<u>(1,491,700)</u>	<u>(1,342,760)</u>
 Income before capital contributions	2,423,833	879,939
 CAPITAL CONTRIBUTIONS	<u>783,836</u>	<u>1,213,477</u>
 CHANGE IN NET POSITION	3,207,669	2,093,416
 NET POSITION		
BEGINNING OF YEAR	<u>107,003,500</u>	<u>104,910,084</u>
END OF YEAR	<u>\$ 110,211,169</u>	<u>\$ 107,003,500</u>

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 23,961,972	\$ 22,870,587
Payments to suppliers	(7,330,508)	(7,397,608)
Payments to employees	(7,688,945)	(7,757,659)
Net cash provided by operating activities	<u>8,942,519</u>	<u>7,715,320</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent receipts	65,883	84,694
Other receipts	<u>57,411</u>	<u>149,306</u>
Net cash provided by noncapital financing activities	<u>123,294</u>	<u>234,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(1,471,272)	(1,788,095)
Principal paid on long-term debt	(6,321,212)	(6,239,310)
Proceeds from issuance of long-term debt	35,820,320	1,110,914
Capital grants	328,439	-
Acquisition of capital assets	(34,335,481)	(4,950,395)
Sale of capital assets	10,278	28,266
Capital contributions received	<u>783,836</u>	<u>1,213,477</u>
Net cash used in capital and related financing activities	<u>(5,185,092)</u>	<u>(10,625,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	25,270	24,125
Investments purchased	-	(3,000,000)
Proceeds from sales and maturities of investments	<u>35,848</u>	<u>164,650</u>
Net cash provided by (used in) investing activities	<u>61,118</u>	<u>(2,811,225)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,941,839	(5,487,048)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>12,989,265</u>	<u>18,476,313</u>
END OF YEAR	<u>\$ 16,931,104</u>	<u>\$ 12,989,265</u>

(Continued)

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

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 180 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.

The District's adopted Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements as of January 1, 2012. Adoption of this standard had no impact on the District's financial statements.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

Basis of Accounting (continued)

The District adopted GASB Statement No. 63 *Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 *Items Previously Recognized as Assets and Liabilities* as of January 1, 2012. GASB Statement No. 63 impacted financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB Statement No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets. The impact of adoption of these statements resulted in identifying the Statements of Net Assets as the Statements of Net Position, and identifying the Statements of Revenues, Expenses and Changes in Net Assets as the Statements of Revenues, Expenses and Changes in Net Position.

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 and the Wisconsin Investment Services Cooperative 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, technical college district, village, town or school district of the state;
- 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 2nd 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, 2012 and 2011

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 and \$5,000 as of December 31, 2012 and 2011, 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, 2012 and 2011

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. 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 current rate of pay. 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.

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 debt using the straight-line method.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

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:

Invested in capital assets, net of related debt 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.

Pollution Remediation Obligation

The District owns land that has been remediated under a Super Fund clean-up project. Ongoing monitoring and maintenance of the lands is reported as an operating expense. These expenses totaled \$9,794 and \$19,788 in 2012 and 2011, respectively. Future expenses are expected to range from \$10,000 to \$30,000 annually.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, 2012 and 2011, cash, cash equivalents, and investments included the following:

	<u>2012</u>	<u>2011</u>
Petty cash	\$ 250	\$ 250
Deposits		
Demand deposits	82,441	44,230
Savings accounts	7,760,075	-
Investments		
Institutional investment account		
U.S. Government obligations	2,188,726	3,219,573
U.S. Agency obligations	7,754,558	6,584,100
Insured deposit account	337,098	301,249
Local Government Investment Pool	8,243,651	10,174,469
WISC - cash management	<u>507,589</u>	<u>2,469,067</u>
	<u>\$26,874,388</u>	<u>\$22,792,938</u>

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents:		
Unrestricted	\$ 9,239,239	\$ 6,181,638
Restricted	7,691,865	6,863,860
Investments:		
Unrestricted	737,596	689,041
Restricted	<u>9,205,688</u>	<u>9,058,399</u>
	<u>\$26,874,388</u>	<u>\$22,792,938</u>

Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for interest bearing deposits and unlimited for non-interest bearing 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.

As of January 1, 2013, FDIC insurance coverage was changed to \$250,000 for demand deposits and \$250,000 for time and savings deposits.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

The carrying amount of the District's deposits totaled \$8,179,614 and \$345,479, with bank balances of \$8,256,295 and \$418,930 for the years ended December 31, 2012 and 2011, respectively. Of the bank balances, \$8,169,197 and \$418,930 was covered by FDIC insurance or collateralized, leaving \$87,098 and \$0 as uninsured and uncollateralized for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, 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 investments in the Wisconsin Investment Series Cooperative (WISC) are not insured or collateralized. WISC is managed by RBC Global Asset Management (U.S.) Inc. Investments are restricted to investments permitted under Wisconsin Statutes 66.0603. Fair value is determined daily and is equal to the value of the trust shares. Funds may be withdrawn in whole or in part from Cash Management any time, funds in the Investment Series may be withdrawn after the minimum of fourteen (14) calendar days. At December 31, 2012 and 2011, the District's share of WISC assets was substantially equal to the amounts reported in these financial statements.

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, 2012 and 2011**

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. The District has not developed policies governing the exposure of its investments to interest rate risk. As of December 31, 2012, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturity (in Years)</u>				
	<u>Fair Value</u>	<u>≤ 1</u>	<u>1-5</u>	<u>6-10</u>	<u>>10</u>
Local Government Investment					
Pool **	\$ 8,243,651	\$ 8,243,651	\$ -	\$ -	\$ -
WISC	507,589	507,589	-	-	-
Money market	337,098	337,098	-	-	-
SBA pools	1,045,041	-	-	-	1,045,041
Government National Mortgage	-				
Association	1,869,455	-	7,587	19,408	1,842,460
Federal National Mortgage	-				
Association	2,732,693	-	854,997	82,888	1,794,808
Federal Home Loan Mortgage	-				
Corporation	1,607,653	42,092	-	31,837	1,533,724
Federal Farm Credit Bank	499,716	-	499,716	-	-
Treasury Bonds	<u>2,188,726</u>	<u>715,784</u>	<u>1,472,942</u>	<u>-</u>	<u>-</u>
	<u>\$19,031,622</u>	<u>\$ 9,846,214</u>	<u>\$2,835,242</u>	<u>\$ 134,133</u>	<u>\$ 6,216,033</u>

As of December 31, 2011, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturity (in Years)</u>				
	<u>Fair Value</u>	<u>≤ 1</u>	<u>1-5</u>	<u>6-10</u>	<u>>10</u>
Local Government Investment					
Pool **	\$10,174,469	\$10,174,469	\$ -	\$ -	\$ -
WISC	2,469,067	2,469,067	-	-	-
Money market	301,249	301,249	-	-	-
SBA pools	1,108,950	-	-	-	1,108,950
Government National Mortgage	-				
Association	676,003	-	11,103	-	664,900
Federal National Mortgage	-				
Association	2,960,649	272,651	499,900	31,506	2,156,592
Federal Home Loan Mortgage	-				
Corporation	1,838,498	56,234	-	39,554	1,742,710
Treasury Bonds	<u>3,219,573</u>	<u>1,918,486</u>	<u>1,301,087</u>	<u>-</u>	<u>-</u>
	<u>\$22,748,458</u>	<u>\$15,192,156</u>	<u>\$1,812,090</u>	<u>\$ 71,060</u>	<u>\$ 5,673,152</u>

** Because the LGIP had a weighted average maturity of less than one year as of December 31, 2012 and 2011 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, 2012 and 2011

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. WISC is rated AAA by Standard and Poor's. The remaining investments of the District are U.S. Governmental or Agency securities that are explicitly guaranteed, and therefore credit rating is not applicable. 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 the LGIP, WISC and U.S. Government or Agency obligations are not limited as to amount.

Custodial Credit Risk

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. 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.

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 and WISC are not subject to the custodial credit risk. The District has not developed policies governing the exposure of its cash deposits and investments to custodial credit risk.

Certain reclassifications have been made to the 2011 information to conform to the 2012 presentation. These reclassifications did not change the previously reported net position or changes in net position.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 3 - RESTRICTED NET POSITION

Restricted net position of the District consisted of the following at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Restricted assets		
Cash and cash equivalents		
Debt service	\$ 7,636,524	\$ 6,863,860
Due to other governments	55,341	-
Investments		
Debt service	6,205,688	6,058,399
Unexpected repair and replacement	<u>3,000,000</u>	<u>3,000,000</u>
Total restricted assets	16,897,553	15,922,259
 Current liabilities payable from restricted assets	 <u>(442,513)</u>	 <u>(283,275)</u>
	 <u>\$ 16,455,040</u>	 <u>\$ 15,638,984</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, 2012 and 2011 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, 2012 is \$41,136,168. The required five percent of this value is \$2,056,808. The \$3 million of restricted assets exceed the minimum equipment replacement fund value. For the year ending December 31, 2011, the corresponding "mechanical equipment" total was \$39,603,674 and 5% of this amount was \$1,980,184.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 4 - CAPITAL ASSETS

During the year ended December 31, 2012, the changes in capital assets were as follows:

	<u>Balance January 1, 2012</u>	<u>Additions / Reclassifications</u>	<u>Retirements / Reclassifications</u>	<u>Balance December 31, 2012</u>
Capital assets not being depreciated				
Construction in progress	\$ 7,553,636	\$ 35,630,771	\$ 3,531,308	\$ 39,653,099
Land and easements	<u>7,400,910</u>	<u>-</u>	<u>-</u>	<u>7,400,910</u>
	<u>14,954,546</u>	<u>35,630,771</u>	<u>3,531,308</u>	<u>47,054,009</u>
Capital assets being depreciated				
Structures and improvements	144,550,730	448,369	775,121	144,223,978
Heavy mechanical equipment	52,932,943	1,783,445	15,001	54,701,387
Light mechanical equipment	33,138,584	1,401,538	848	34,539,274
Office furniture and equipment	4,180,730	107,231	1,130	4,286,831
Vehicles	<u>2,284,357</u>	<u>90,309</u>	<u>64,609</u>	<u>2,310,057</u>
	<u>237,087,344</u>	<u>3,830,892</u>	<u>856,709</u>	<u>240,061,527</u>
Accumulated depreciation				
Structures and improvements	50,977,168	2,450,880	196,225	53,231,823
Heavy mechanical equipment	26,812,366	1,600,452	14,664	28,398,154
Light mechanical equipment	22,516,190	1,078,829	846	23,594,173
Office furniture and equipment	3,823,392	96,910	1,130	3,919,172
Vehicles	<u>1,793,546</u>	<u>168,146</u>	<u>64,609</u>	<u>1,897,083</u>
	<u>105,922,662</u>	<u>5,395,217</u>	<u>277,474</u>	<u>111,040,405</u>
Capital assets being depreciated, net	<u>131,164,682</u>	<u>(1,564,325)</u>	<u>579,235</u>	<u>129,021,122</u>
Total capital assets, net	<u>\$ 146,119,228</u>	<u>\$ 34,066,446</u>	<u>\$ 4,110,543</u>	<u>\$ 176,075,131</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 4 - CAPITAL ASSETS (Continued)

During the year ended December 31, 2011, the changes in capital assets were as follows:

	<u>Balance January 1, 2011</u>	<u>Additions / Reclassifications</u>	<u>Retirements / Reclassifications</u>	<u>Balance December 31, 2011</u>
Capital assets not being depreciated				
Construction in progress	\$ 2,752,313	\$ 5,389,987	\$ 588,664	\$ 7,553,636
Land and easements	<u>7,400,910</u>	<u>-</u>	<u>-</u>	<u>7,400,910</u>
	<u>10,153,223</u>	<u>5,389,987</u>	<u>588,664</u>	<u>14,954,546</u>
Capital assets being depreciated				
Structures and improvements	143,894,513	714,605	58,388	144,550,730
Heavy mechanical equipment	52,914,611	18,332	-	52,932,943
Light mechanical equipment	33,106,957	56,667	25,040	33,138,584
Office furniture and equipment	4,094,343	86,387	-	4,180,730
Vehicles	<u>2,268,557</u>	<u>68,722</u>	<u>52,922</u>	<u>2,284,357</u>
	<u>236,278,981</u>	<u>944,713</u>	<u>136,350</u>	<u>237,087,344</u>
Accumulated depreciation				
Structures and improvements	48,581,253	2,454,303	58,388	50,977,168
Heavy mechanical equipment	25,195,661	1,616,705	-	26,812,366
Light mechanical equipment	21,452,901	1,088,329	25,040	22,516,190
Office furniture and equipment	3,733,821	89,571	-	3,823,392
Vehicles	<u>1,670,992</u>	<u>175,476</u>	<u>52,922</u>	<u>1,793,546</u>
	<u>100,634,628</u>	<u>5,424,384</u>	<u>136,350</u>	<u>105,922,662</u>
Capital assets being depreciated, net	<u>135,644,353</u>	<u>(4,479,671)</u>	<u>-</u>	<u>131,164,682</u>
Total capital assets, net	<u>\$ 145,797,576</u>	<u>\$ 910,316</u>	<u>\$ 588,664</u>	<u>\$ 146,119,228</u>

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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.

Funding Policy

Employees are required to contribute 5.9 percent and 5.8 percent of their annual covered salary for 2012 and 2011, respectively, and the District is required to contribute at an actuarially determined employer rate, which was 5.9 percent and 5.8 percent of annual covered payroll at December 31, 2012 and 2011, 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, 2012 was \$6,271,686; the District's total payroll was \$6,426,367. The total required contribution for the year ended December 31, 2012 was \$740,059. The represented employees began paying their portion of the contribution on January 1, 2012. Total contributions paid by employees for the year ended December 31, 2012 were \$367,497. Total contributions paid by the District for the years ended December 31, 2012 and December 31, 2011, were \$372,562 and \$526,117, respectively. The District's contributions to the Plan for both the employee and employer portions for the year ended December 31, 2010, were \$657,990, equal to the required contributions for that year.

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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT

As of December 31, 2012 and 2011, the long-term debt of the District consisted of the following:

	<u>2012</u>	<u>2011</u>
General Obligation Sewerage System Bonds		
Clean Water Fund Program Project Number 4010-03 \$18,460,200 Series 1992B, issued May 27, 1992 for the Eighth Addition to the Nine Springs Wastewater Treatment Plant, interest at 3.862%, 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, 2012.	\$ -	\$ 1,445,385
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.	163,414	241,284
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.	541,690	710,726
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.	3,144,573	4,126,825
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.	1,507,353	1,781,816

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2012</u>	<u>2011</u>
General Obligation Sewerage System Bonds (Continued)		
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.	\$ 884,802	\$ 980,527
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.	1,087,000	1,189,828
General Obligation Sewerage System Promissory Notes		
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.	4,941,348	5,319,968
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.	23,935,433	25,772,568
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.	199,862	212,807

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2012</u>	<u>2011</u>
General Obligation Sewerage System Promissory Notes (Continued)		
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.	\$ 1,295,281	\$ 1,372,580
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.	2,173,283	2,290,987
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.	7,636,755	8,025,682
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.	8,177,196	8,538,217
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.*	33,173,011	-
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.*	<u>2,647,307</u>	<u>-</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2012</u>	<u>2011</u>
	\$ 91,508,308	\$ 62,009,200
Less current maturities	<u>5,114,733</u>	<u>6,321,212</u>
	<u>\$ 86,393,575</u>	<u>\$ 55,687,988</u>

* As of December 31, 2012, the District has drawn \$33,173,013 of the total note issue of \$50,362,380 of the Series 2012A general obligation sewerage system promissory note, and \$2,647,307 of the total note issue of \$2,955,949 of the Series 2012B general obligation sewerage system promissory note.

The District incurred \$1,575,169 and \$1,760,090 of total interest costs for December 31, 2012 and 2011, respectively. The District capitalized interest of \$386,142 and \$0 for the years ended December 31, 2012 and 2011, respectively.

A summary of the changes in long-term obligations of the District for the year ended December 31, 2012 was as follows:

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>	<u>Amounts Due in One Year</u>
General obligation sewerage system bonds	\$10,476,391	\$ -	\$ 3,147,559	\$ 7,328,832	\$1,757,589
General obligation sewerage system notes	<u>51,532,809</u>	<u>35,820,320</u>	<u>3,173,653</u>	<u>84,179,476</u>	<u>3,357,144</u>
Subtotal	62,009,200	35,820,320	6,321,212	91,508,308	5,114,733
Compensated absences	2,883,117	843,143	1,016,892	2,709,368	529,694
Other post-employment benefits	<u>1,020,411</u>	<u>425,470</u>	<u>234,141</u>	<u>1,211,740</u>	<u>-</u>
	<u>\$65,912,728</u>	<u>\$37,088,933</u>	<u>\$ 7,572,245</u>	<u>\$ 95,429,416</u>	<u>\$5,644,427</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

A summary of the changes in long-term obligations of the District for the year ended December 31, 2011 was as follows:

	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2011</u>	<u>Amounts Due in One Year</u>
General obligation sewerage system bonds	\$13,654,080	\$ -	\$ 3,177,689	\$ 10,476,391	\$3,147,560
General obligation sewerage system notes	<u>53,483,516</u>	<u>1,110,914</u>	<u>3,061,621</u>	<u>51,532,809</u>	<u>3,173,652</u>
Subtotal	67,137,596	1,110,914	6,239,310	62,009,200	6,321,212
Compensated absences	2,899,225	880,376	896,484	2,883,117	532,714
Other post-employment benefits	<u>680,274</u>	<u>340,137</u>	<u>-</u>	<u>1,020,411</u>	<u>-</u>
	<u>\$70,717,095</u>	<u>\$ 2,331,427</u>	<u>\$ 7,135,794</u>	<u>\$ 65,912,728</u>	<u>\$6,853,926</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>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,114,733	\$ 2,337,220	\$ 7,451,953
2014	5,262,166	2,202,952	7,465,118
2015	6,915,698	2,030,412	8,946,110
2016	5,798,530	1,855,895	7,654,425
2017	5,954,216	1,698,103	7,652,319
2018-2022	30,098,839	6,115,500	36,214,339
2023-2027	20,260,178	2,659,040	22,919,218
2028-2032	<u>12,103,948</u>	<u>593,108</u>	<u>12,697,056</u>
Total	<u>\$ 91,508,308</u>	<u>\$ 19,492,230</u>	<u>\$ 111,000,538</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

The equalized valuation of the District, as certified by the Wisconsin Department of Revenue, was \$36,306,321,444 for 2012 and \$35,271,832,746 for 2011. The legal debt limit and margin of indebtedness as of December 31, 2012 and 2011, in accordance with Section 67.03(1)(b) of the Wisconsin Statutes, follows:

	<u>2012</u>	<u>2011</u>
Debt limit (5 percent of the equalization value)	\$1,815,316,072	\$1,763,591,637
Deduct long-term debt applicable to debt margin	<u>91,508,308</u>	<u>62,009,200</u>
Margin of indebtedness	<u>\$1,723,807,764</u>	<u>\$1,701,582,437</u>

NOTE 7 - COMMITMENTS

As of December 31, 2012, the District had the following commitments with respect to unfinished capital projects:

<u>Project</u>	<u>Remaining Commitment</u>
Manhole Rehabilitation	\$ 5,000
Pumping Station 18, PS 18 Force Main	269,806
Maintenance Facility	27,667
NSVI/Morse Pond Ext.	14,000
NEI/FEI to SEI Repair/Replacement	7,412,033
NEI-PS10 to Lien Rd. Relief/Replacement	2,903
NS 11/Solids Handling Facility Plan	10,289,913
Process Control System Upgrade	681,618
Operations Building HVAC Rehabilitation	<u>82,397</u>
Operations Building HVAC Rehabilitation	<u>\$ 18,785,337</u>

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - MAJOR MUNICIPAL CUSTOMERS

During the years ended December 31, 2012 and 2011, 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 \$16,155,000 and \$15,128,000, respectively. Accounts receivable as of December 31 from the City of Madison were as follows:

	<u>2012</u>	<u>2011</u>
Pumping stations	\$ 44,457	\$ 53,073
Sewer service	4,011,807	3,704,418
Interceptor connection charges	<u>507,067</u>	<u>446,498</u>
	<u>\$4,563,331</u>	<u>\$ 4,203,989</u>

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. If an employee has health insurance through a carrier that is not the lowest, he or she is responsible for the difference. Retirees are responsible for 100% of the premiums applicable for their health insurance group.

No contribution requirements are established. As of December 31, 2012 and 2011, 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 July 2012 using the alternative method as allowed in GASB 45. The valuation was prepared for 2011. This valuation established an actuarial accrued liability of approximately \$3.3 million.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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, 2012 was 26 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 liability for the District is not material.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 441,222	\$ 340,137
Interest on net OPEB obligation	31,444	-
Adjustment to annual required contribution	<u>(47,196)</u>	<u>-</u>
Annual OPEB cost	425,470	340,137
Actuarial adjustment to OPEB obligation	(122,002)	-
Contributions made	<u>(112,139)</u>	<u>-</u>
Increase in net OPEB obligation	191,329	340,137
Net OPEB obligation, beginning of year	<u>1,020,411</u>	<u>680,274</u>
Net OPEB obligation, end of year	<u>\$ 1,211,740</u>	<u>\$ 1,020,411</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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

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, 2012, and the preceding two years were as follows:

<u>Year Ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 340,147	0.00%	\$ 680,274
2011	340,147	0.00%	1,020,411
2012	425,470	0.00%	1,211,740

The funded status of the plan as of December 31, 2012 and 2011, valuation date, is as follows:

	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 3,283,496	\$ 2,986,245
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,283,496</u>	<u>\$ 2,986,245</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 6,358,188	\$ 6,166,888
UAAL as a percentage of covered payroll	51.64%	48.42%

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. The schedule of funding progress, presented as required supplementary information following the notes of the 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.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

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 July 2012 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 7.5% initially, reduced by decrements to an ultimate rate of 5% after 2021. The unfunded actuarial accrued liability is being amortized over 30 years.

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 project's executive committee up to the approved contract amount and other invoices up to a threshold of \$1,000. As of December 31, 2012, the Yahara WINS checking account had a balance of \$55,341, which is reflected in the accompanying financial statements as restricted cash and cash equivalents and due to other governments.

NOTE 11 - SUBSEQUENT EVENTS

On April 25, 2013, the Commission approved a resolution authorizing the issuance of \$8.1 million general obligation sewerage system promissory notes. The notes bear interest at 2.795% and mature annually, with final maturity May 1, 2033.

Management evaluated subsequent events through April 30, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to April 30, 2013 that provided additional evidence about condition that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2012.

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, 2012**

	Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Accrued Actuarial Liability (b)	(UAAL) Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010	1/1/2009	\$ -	\$ 2,986,245	\$ 2,986,245	0.00%	\$ 6,074,502	49.16%
12/31/2011	1/1/2009	-	2,986,245	2,986,245	0.00%	6,166,888	48.42%
12/31/2012	1/1/2011	-	3,283,496	3,283,496	0.00%	6,358,188	51.64%

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 3,915,533	\$ 2,222,699
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,395,217	5,424,384
Increase (decrease) from changes in:		
Receivables:		
Transmission and treatment of sewage and septage disposal	(478,736)	(212,565)
Servicing pumping stations	25,031	(4,711)
Other	7,193	(16,624)
Inventories	12,545	36,365
Vouchers payable	(56,707)	(83,239)
Other liabilities	<u>122,443</u>	<u>349,011</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,942,519</u>	<u>\$ 7,715,320</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Unrestricted	\$ 9,239,239	\$ 6,181,638
Restricted	<u>7,691,865</u>	<u>6,807,627</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 16,931,104</u>	<u>\$ 12,989,265</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interceptor connection charges billed	<u>\$ 1,226,941</u>	<u>\$ 1,298,423</u>

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