

MADISON METROPOLITAN SEWERAGE DISTRICT
Madison, Wisconsin

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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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 the Madison Metropolitan Sewerage District, as of and for the years ended December 31, 2013 and 2012, 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 audit. 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, 2013 and 2012, and the changes in it's financial position and it's 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 on pages 3-11 and 43, 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 March 27, 2014, 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
March 27, 2014

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

Management's Discussion and Analysis for 2013 and 2012

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 2013 and 2012. It should be read in conjunction with the District's financial statements which follow this section. The 2013 and 2012 financial statements have been prepared in accordance with generally accepted accounting principles.

Financial Highlights

- Net position increased by \$5.4 million (4.9 percent) from \$110.2 million to \$115.6 million in 2013. This compares to a \$3.2 million (3.0 percent) increase in 2012.
- Operating revenues increased by \$3.5 million (14.4 percent) from \$24.4 million to \$27.9 million in 2013. This compares to a \$1.3 million (5.6 percent) increase in 2012.
- Operating expenses, excluding depreciation, increased by \$1.8 million (12.4 percent) from \$14.8 million to \$16.6 million in 2013. This compares to a decrease of \$0.5 million (3.0 percent) in 2012.

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 DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

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)

	2013	2012	2011
Current Assets	\$ 32,553	\$ 24,883	\$ 20,223
Noncurrent Assets			
Capital assets, net of accumulated depreciation	194,985	176,075	146,119
Other assets	9,839	10,620	10,322
Total assets	237,377	211,578	176,664
Current Liabilities	10,918	10,202	9,665
Noncurrent Liabilities	109,185	89,785	59,058
Total liabilities	120,103	99,987	68,723
Deferred Inflows	1,713	1,380	937
Net Position			
Net investment in capital assets	83,820	84,567	84,110
Restricted	18,609	16,455	15,639
Unrestricted	13,132	9,189	7,255
Total net position	\$ 115,561	\$ 110,211	\$ 107,004

As of December 31, 2013 the District had total assets, less accumulated depreciation, of \$237.4 million and total liabilities and deferred inflows of \$121.8 million, resulting in \$115.6 million of net position. Net position increased by \$5.4 million (4.9 percent) in 2013. This compares to a net position increase of \$3.2 million (3.0 percent) in 2012. The 2013 increase was due to connection charge revenues of \$1.1 million and operating income of \$4.3 million. Funds represented by the 2013 increase will be used to finance future interceptor construction, to increase reserves, and to offset a portion of future operating costs. Capital assets (land, structures, equipment, vehicles, etc.) comprise \$195.0 million, or 82.1 percent of total assets at the end of 2013. At the end of 2012, capital assets had a value of \$176.0 million and represented 83.2 percent of total assets. Capital assets increased \$18.9 million in 2013 compared to a \$30.0 million increase in 2012.

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

Net Position (continued)

Future principal payments on bonds total \$111.2 million at the end of 2013 and represent 93 percent of the District's liabilities. At the end of 2012, future principal payments on bonds totaled \$91.5 million and represented 92 percent of the District's liabilities. Future principal payments were \$19.7 million more than at the end of 2012 due to increased borrowing for capital projects in 2013. Future principal payments at the end of 2012 were \$29.5 million more than at the end of 2011. There was a decrease in construction activity funded with bond funds in 2013 compared to 2012.

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 2013 to satisfy current and anticipated bond ordinance requirements for payment of debt service expenses. This compares to a \$0.8 million increase in 2012. Unrestricted assets at the end of 2013 were \$3.9 million more than at the end of 2012. Unrestricted assets increased by \$1.9 million in 2012. 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. The 2012 increase was due primarily to receiving loan proceeds to finance the Nine Springs Eleventh Addition and the Operations Building HVAC Improvements projects.

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

Revenues, Expenses, and Changes in Net Position

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

	2013	2012	2011
Operating Revenues	\$ 27,929	\$ 24,408	\$ 23,105
Nonoperating Revenues	270	652	417
Total revenues	28,199	25,060	23,522
Depreciation Expense	5,440	5,395	5,424
Other Operating Expense	16,649	14,813	15,276
Nonoperating Expense	1,847	2,429	1,941
Total expense	23,936	22,637	22,641
Income Before Capital Contributions	4,263	2,423	881
Capital Contributions	1,087	784	1,213
Change in net position	5,350	3,207	2,094
Beginning Net Position	110,211	107,004	104,910
Ending Net Position	\$ 115,561	\$ 110,211	\$ 107,004

The District's revenues, expenses, and changes in net position are summarized in Table A-2. Operating revenue for 2013 increased by \$3.5 million, or 14.4 percent, from \$24.4 million to \$27.9 million. This compares to the 2012 operating revenue increase of \$1.3 million, or 5.6 percent. The 2013 increase was due primarily to higher service charge rates and higher loadings.

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

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

Non-operating revenues for 2013 were \$0.382 million (58.6 percent) lower than in 2012, reflecting lower interest revenue and no principal forgiveness money received in 2013. Non-operating revenues for 2012 were 56.4 percent higher than in 2011, which was the result of one-time principal forgiveness money received in 2012 for a Clean Water Fund loan.

Depreciation expense in 2013 of \$5.4 million was approximately the same as the 2012 depreciation expenses. The 2012 depreciation expense of \$5.4 million was approximately the same as the 2011 depreciation expenses.

Other operating expenses for 2013 of \$16.6 million were \$1.8 million (12.4 percent) higher than 2012 expenses of \$14.8 million. Other operating expenses for 2012 were 3.0 percent lower than 2011 expenses of \$15.3 million. The increase in other operating expenses in 2013 was due largely to increased salary costs (\$0.59 million), contracted services (\$0.54 million), replacement parts and services (\$0.35 million) and electric power (\$0.24 million).

Non-operating expenses for 2013 of \$1.8 million, which are comprised of interest on the District's outstanding debt, other construction expenses and disposal of equipment, were \$0.6 million lower than 2012 non-operating expenses, primarily due to a one-time contribution of the Southwest Interceptor North Leg and South Leg to the City of Madison in 2012. Non-operating expenses in 2012 were \$0.49 million more than in 2011.

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 2013 increased by 2.7 percent. This compares to the 2012 increase of 2.4 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 2013 decreased by 6.9 percent. The 2012 rate increased 6.3 percent. 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. Excess capacity debt service charges for the new Eleventh Addition facilities will accumulate in future years. 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 2013 of \$1.1 million were \$.3 million more than 2012 capital contributions of \$0.8 million. This increase of 38.6 percent compared to 2012 was due to increased connection charge revenues.

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

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 2013 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 2013 of \$27.9 million were \$1.2 million (4.6 percent) more than budgeted due to higher than anticipated wastewater volumes. Non-operating revenues of \$0.27 million for interest income, struvite fertilizer sales, rent, and other miscellaneous items were \$0.125 million (32 percent) less than budgeted. The largest item contributing to the difference was the delayed startup of the struvite harvesting facilities which resulted in a loss of \$0.23 million in budgeted revenue.

Operating expenses for 2013, excluding depreciation, were \$0.7 million less than budgeted. The most significant under budget items were replacement parts and services, electric power, and administrative expenses which were a combined \$0.9 million less than budgeted. Salaries and benefits were \$0.3 million higher than budgeted because of a charge for the actuarial value of the District's post retirement benefits which are not budgeted.

Non-operating expenses, which include the net value of retired equipment and the interest costs on the District's outstanding debt, were \$1.2 million less than budgeted. This difference is largely due to interest costs which were capitalized.

Budgeted income for 2013 of \$6.9 million includes \$5.6 million for 2014 principal payments on the District's outstanding debt and \$0.6 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 DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

Table A-3
Comparison of Operating Budget to Actual Results for 2013
(000's)

	Budget	Actual	Variance
Revenues			
From operations	\$ 26,690	\$ 27,929	\$ 1,239
Nonoperating	395	270	\$ (125)
Use of Cash Reserves	138		
Total revenues	27,223	28,199	1,114
Operating Expenses			
Depreciation expense	-	5,440	5,440
Other operating expenses:			
Salaries with benefits	8,027	8,302	275
Administrative	468	334	(134)
Legal and accounting	93	105	12
Insurance	114	115	1
Power	3,145	2,914	(231)
Natural gas	89	123	34
Chemicals	644	644	-
Motor and LP fuel	150	136	(14)
Water and sewer services	131	107	(24)
Contracted services	1,976	1,925	(51)
Engineering Consulting	2	3	1
Communication services	33	36	3
Replacement parts and services	1,925	1,384	(541)
Supplies	309	323	14
Miscellaneous	239	198	(41)
Total other operating expenses	17,345	16,649	(696)
Total operating expenses	17,345	22,089	4,744
Nonoperating Expenses			
Disposal of Equipment	-	51	51
Construction Expenses	221	290	69
Interest expense	2,784	1,506	(1,278)
Total nonoperating expenses	3,005	1,847	(1,158)
Total expenses	20,350	23,936	3,586

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

Income before capital contributions	\$ 6,873	\$ 4,263	\$ (2,472)
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Capital Assets

At the end of 2013, the District had \$195 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)**

	2013	2012	2011
Capital Assets			
Land	\$7,401	\$7,401	\$7,401
Structures and improvements	152,432	144,224	144,551
Mechanical equipment	89,364	89,251	86,072
Office furniture and equipment	4,144	4,276	4,181
Vehicles	2,365	2,310	2,284
Construction In progress	55,192	39,653	7,554
Total	310,898	287,115	252,043
Less accumulated depreciation	115,913	111,040	105,923
Net property and equipment	\$ 194,985	\$ 176,075	\$ 146,120

The District's 10-year capital improvement plan for 2014 through 2023 includes \$58 million of treatment plant upgrades and expansions and \$116 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 \$23.8 million to \$311 million. The District completed one conveyance system project in 2013, the Northeast Interceptor – SEI to FEI project. This project increased the value of the District's assets by \$8.1 million. The increase in total assets also reflects construction in progress costs

MADISON METROPOLITAN SEWERAGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Years ended December 31, 2013 and 2012

for the Eleventh Addition (\$10.4 million) and the Process Control System Upgrade (\$1.7 million) projects at the Nine Springs Wastewater Treatment Plant and for improvements in the conveyance system for the Pumping Station 18 (\$3.2 million) and Pumping Station 18 Force Main (\$0.27 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 2013 was \$111.2 million which represents the remaining balance on the Clean Water Fund loans from the State of Wisconsin. This compares to a 2012 year-end balance of \$91.5 million and a 2011 year-end balance of \$62.0 million. Interest on these loans is payable semi-annually at rates of 2.4 to 3.3 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 \$60 million over the ten-year period from 2014 to 2023 due to anticipated projects in the collection system and treatment plant. 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, 5.5% 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 2013 the borrowing limit was \$1.83 billion. At the end of 2012 that borrowing limit was \$1.82 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 15 percent of this limit if the \$100 million advanced phosphorous project is undertaken. At the end of 2013 the District's debt of \$111.2 million was at 6.1 percent of this limit. At the end of 2012 the District's debt of \$91.5 million was at 5.0 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 DISCUSSION AND ANALYSIS
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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. Since the 2008 slowdown, 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 5.5 percent of service charge revenues in 2013 and 5.6 percent in 2012. Oscar Mayer Foods Corporation is the largest industrial user and provided 1.8 percent of service charge revenues in 2013 and 2.1 percent in 2012.

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, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 13,349,637	\$ 9,239,239
Receivables, net of allowance for uncollectible amounts:		
Transmission and treatment of sewage and septage disposal	6,759,833	6,053,957
Servicing pumping stations	64,920	56,367
Interceptor connection charges, current portion	934,982	703,459
Other	57,710	28,721
Prepaid insurance	333	333
Inventories	1,178,246	1,109,420
Restricted assets - Cash and cash equivalents	<u>10,207,311</u>	<u>7,691,865</u>
Total current assets	<u>32,552,972</u>	<u>24,883,361</u>
Noncurrent assets:		
Investments	-	737,596
Restricted Assets - Investments	9,061,030	9,205,688
Interceptor connection charges, less current portion	777,706	676,944
Capital assets:		
Capital assets not being depreciated	62,593,544	47,054,009
Capital assets being depreciated	<u>248,304,771</u>	<u>240,061,527</u>
	310,898,315	287,115,536
Less: accumulated depreciation	<u>115,912,978</u>	<u>111,040,405</u>
Capital assets, net of depreciation	<u>194,985,337</u>	<u>176,075,131</u>
Total noncurrent assets	<u>204,824,073</u>	<u>186,695,359</u>
Total assets	<u>237,377,045</u>	<u>211,578,720</u>

(Continued)

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

MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current liabilities:		
Vouchers payable	\$ 3,757,285	\$ 3,837,089
Accrued salaries	255,025	182,873
Payroll withholdings payable	106,571	93,488
Unearned receivables	5,114	1,769
Compensated absences, current portion	565,934	529,694
Total current liabilities	<u>4,689,929</u>	<u>4,644,913</u>
Liabilities payable from restricted assets:		
Bonds payable, current portion	5,568,912	5,114,733
Due to other governments	185,577	55,341
Accrued interest payable	473,755	387,172
Total current liabilities payable from restricted assets	<u>6,228,244</u>	<u>5,557,246</u>
Noncurrent liabilities, less current portion:		
Compensated absences	2,075,168	2,179,674
Other post employment benefits	1,513,569	1,211,740
Bonds payable	105,596,085	86,393,575
Total noncurrent liabilities	<u>109,184,822</u>	<u>89,784,989</u>
Total liabilities	<u>120,102,995</u>	<u>99,987,148</u>
Deferred Inflow:		
Interceptor connection charges	<u>1,712,688</u>	<u>1,380,403</u>
NET POSITION		
Net investment in capital assets	83,820,340	84,566,823
Restricted for:		
Debt service	15,609,009	13,455,040
Equipment replacement	3,000,000	3,000,000
Unrestricted	<u>13,132,013</u>	<u>9,189,306</u>
Total net position	<u>\$ 115,561,362</u>	<u>\$ 110,211,169</u>

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

MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Charges for services:		
Transmission and treatment of sewage	\$ 27,278,717	\$ 23,747,386
Servicing pumping stations	249,364	265,183
Septage disposal	382,137	377,419
Pretreatment monitoring	18,684	18,496
Total operating revenues	<u>27,928,902</u>	<u>24,408,484</u>
 OPERATING EXPENSES		
Administration	3,787,900	3,153,567
Treatment	10,432,668	9,511,099
Collection	2,428,755	2,148,550
Depreciation	5,440,015	5,395,217
Total operating expenses	<u>22,089,338</u>	<u>20,208,433</u>
 Operating income	<u>5,839,564</u>	<u>4,200,051</u>
 NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	(8,837)	200,728
Capital grants	-	328,439
Rent	67,210	65,848
Other	211,877	57,411
Capital assets contributed to other governments	-	(568,957)
Construction expenses	(290,004)	(284,518)
Disposal of property and equipment	(51,026)	-
Interest expense	(1,506,071)	(1,575,169)
Total nonoperating revenues (expenses)	<u>(1,576,851)</u>	<u>(1,776,218)</u>
 Income before capital contributions	4,262,713	2,423,833
 CAPITAL CONTRIBUTIONS	<u>1,087,480</u>	<u>783,836</u>
 CHANGE IN NET POSITION	5,350,193	3,207,669
 NET POSITION		
BEGINNING OF YEAR	<u>110,211,169</u>	<u>107,003,500</u>
END OF YEAR	<u>\$ 115,561,362</u>	<u>\$ 110,211,169</u>

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

MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 27,185,484	\$ 23,961,972
Payments to suppliers	(7,820,693)	(7,045,990)
Payments to employees	<u>(8,030,481)</u>	<u>(7,688,945)</u>
Net cash provided by operating activities	<u>11,334,310</u>	<u>9,227,037</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent receipts	67,245	65,883
Other receipts	<u>211,877</u>	<u>57,411</u>
Net cash provided by noncapital financing activities	<u>279,122</u>	<u>123,294</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(2,508,796)	(1,857,414)
Principal paid on long-term debt	(5,114,733)	(6,321,212)
Proceeds from issuance of long-term debt	24,771,422	35,820,320
Capital grants	-	328,439
Construction expenses	(290,004)	(284,518)
Acquisition of capital assets	(23,818,681)	(33,949,339)
Sale of capital assets	12,307	10,278
Capital contributions received	<u>1,087,480</u>	<u>783,836</u>
Net cash used in capital and related financing activities	<u>(5,861,005)</u>	<u>(5,469,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	25,239	25,270
Proceeds from sales and maturities of investments	<u>848,178</u>	<u>35,848</u>
Net cash provided by investing activities	<u>873,417</u>	<u>61,118</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,625,844	3,941,839
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>16,931,104</u>	<u>12,989,265</u>
END OF YEAR	<u>\$ 23,556,948</u>	<u>\$ 16,931,104</u>

(Continued)

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

MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,839,564	\$ 4,200,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,440,015	5,395,217
Increase (decrease) from changes in:		
Receivables:		
Transmission and treatment of sewage and septage disposal	(705,876)	(478,736)
Servicing pumping stations	(8,553)	25,031
Other	(28,989)	7,193
Inventories	(68,826)	12,545
Vouchers payable	414,631	(56,707)
Other liabilities	452,344	122,443
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 11,334,310</u>	<u>\$ 9,227,037</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Unrestricted	\$ 13,349,637	\$ 9,239,239
Restricted	<u>10,207,311</u>	<u>7,691,865</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 23,556,948</u>	<u>\$ 16,931,104</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interceptor connection charges billed	<u>\$ 1,419,765</u>	<u>\$ 1,226,941</u>

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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, 2013 and 2012

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 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 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 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, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012

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 statements 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 statements 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 bond using the straight-line method.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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:

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.

Pollution Remediation Obligations

The District owns land that has been remediated under a Superfund clean-up project. On-going monitoring and maintenance of the land is reported as an operating expense. These expenses totaled \$74,952 and \$9,794 in 2013 and 2012, 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 land that is not required every year which accounts for additional costs in 2013.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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

Reclassifications

Certain reclassifications have been made to the 2012 information to conform to the 2013 presentation. The reclassifications did not change the previously reported net position or changes in net position.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, 2013 and 2012, cash, cash equivalents, and investments included the following:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 250	\$ 250
Deposits		
Demand deposits	228,690	82,441
Savings accounts	11,487,476	7,760,075
Investments		
Institutional investment account		
U.S. Government obligations	2,010,860	2,188,726
U.S. Agency obligations	7,050,170	7,754,558
Insured deposit account	1,185,276	337,098
Local Government Investment Pool	10,655,256	8,243,651
Wisconsin Investment Series Cooperative	<u>-</u>	<u>507,589</u>
	<u>\$ 32,617,978</u>	<u>\$ 26,874,388</u>

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Unrestricted	\$ 13,349,637	\$ 9,239,239
Restricted	10,207,311	7,691,865
Investments		
Unrestricted	-	737,596
Restricted	<u>9,061,300</u>	<u>9,205,688</u>
	<u>\$ 32,617,978</u>	<u>\$ 26,874,388</u>

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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 \$12,901,442 and \$8,179,614, with bank balances of \$13,138,366 and \$8,256,295 for the years ended December 31, 2013 and 2012, respectively. Of the bank balances, \$13,138,366 and \$8,169,197 were covered by FDIC insurance or collateralized, leaving \$0 and \$87,098 as uninsured and uncollateralized for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, 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 investment in the Local Government Investment Pool is 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 investment in the Wisconsin Investment Series Cooperative (WISC) is 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, the District's share of WISC assets was substantially equal to the amount 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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

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.

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, 2013, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u><1</u>	<u>1-5</u>	<u>6-10</u>	<u>>10</u>
Local government investment pool **	\$ 10,655,256	\$ 10,655,256	\$ -	\$ -	\$ -
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>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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

As of December 31, 2012, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</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>

** Because the LGIP had a weighted average maturity of less than one year as of December 31, 2013 and 2012 it has been presented as an investment with a maturity of less than one year.

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 Wells Fargo Bank, the LGIP, WISC and U.S. Government or Agency obligations are not limited as to amount.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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

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.

NOTE 3 - RESTRICTED NET POSITION

Restricted net position of the District consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Restricted assets		
Cash and cash equivalents		
Debt service	\$ 10,021,734	\$ 7,636,524
Due to other governments	185,577	55,341
Investments		
Debt service	6,061,030	6,205,688
Unexpected repair and replacement	<u>3,000,000</u>	<u>3,000,000</u>
Total restricted assets	19,268,341	16,897,553
 Current liabilities payable from restricted assets	 <u>(659,332)</u>	 <u>(442,513)</u>
	 <u>\$ 18,609,009</u>	 <u>\$ 16,455,040</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, 2013 and 2012 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.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 3 - RESTRICTED NET POSITION (Continued)

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, 2013 is \$40,915,455. The required five percent of this value is \$2,045,773. The \$3 million of restricted assets exceed the minimum equipment replacement fund value. For the year ending December 31, 2012, the corresponding "mechanical equipment" total was \$41,136,168 and 5% of this amount was \$2,056,808.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance January 1, 2013</u>	<u>Additions/ Reclassifications</u>	<u>Retirements/ Reclassifications</u>	<u>Balance December 31, 2013</u>
Capital assets not being depreciated				
Construction in progress	\$ 39,653,099	\$ 24,270,410	\$ 8,730,875	\$ 55,192,634
Land and easements	<u>7,400,910</u>	<u>-</u>	<u>-</u>	<u>7,400,910</u>
	<u>47,054,009</u>	<u>24,270,410</u>	<u>8,730,875</u>	<u>62,593,544</u>
Capital assets being depreciated				
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	<u>2,310,057</u>	<u>54,825</u>	<u>-</u>	<u>2,364,882</u>
	<u>240,061,527</u>	<u>8,884,778</u>	<u>641,534</u>	<u>248,304,771</u>
Accumulated depreciation				
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	<u>1,897,083</u>	<u>154,996</u>	<u>-</u>	<u>2,052,079</u>
	<u>111,040,405</u>	<u>5,440,015</u>	<u>567,442</u>	<u>115,912,978</u>
Capital assets being depreciated, net	<u>129,021,122</u>	<u>3,444,763</u>	<u>74,092</u>	<u>132,391,793</u>
Total capital assets, net	<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, 2013 and 2012**

NOTE 4 - CAPITAL ASSETS (Continued)

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	2,450,882	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>

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.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 - PENSION PLAN (Continued)

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 first 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 employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

Funding Policy

Employees are required to contribute 6.65 percent and 5.9 percent of their annual covered salary for 2013 and 2012, respectively, and the District is required to contribute at an actuarially determined employer rate, which was 6.65 percent and 5.9 percent of annual covered payroll at December 31, 2013 and 2012, 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, 2013 was \$6,677,150; the District's total payroll was \$6,847,759. The total required contributions were \$888,061 and \$740,059 for the years ended December 31, 2013 and 2012, respectively. The represented employees began paying their portion of the contribution on January 1, 2012. Total contributions paid by employees for the years ended December 31, 2013 and 2012, respectively, were \$421,736 and \$367,497. Total contributions paid by the District for the years ended December 31, 2013, December 31, 2012 and December 31, 2011, were \$466,325, \$372,562, and \$526,117, respectively.

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, 2013 and 2012**

NOTE 6 - LONG-TERM DEBT

As of December 31, 2013 and 2012, the long-term debt of the District consisted of the following:

	<u>2013</u>	<u>2012</u>
General Obligation Sewerage System Bonds		
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	\$ 163,414
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.	367,017	541,690
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.	2,130,063	3,144,573
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.	1,224,258	1,507,353
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.	786,010	884,801

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2013</u>	<u>2012</u>
General Obligation Sewerage System Bonds (Continued)		
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.	\$ 980,880	\$ 1,087,000
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.	4,552,036	4,941,348
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.	22,046,930	23,935,433
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.	186,602	199,862
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.	1,216,154	1,295,281

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2013</u>	<u>2012</u>
General Obligation Sewerage System Promissory Notes (Continued)		
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.	\$ 2,052,571	\$ 2,173,282
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.	7,238,618	7,636,755
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.	7,807,623	8,177,196
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.*	44,236,054	33,173,013
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.	2,857,428	2,647,307
Clean Water Fund Programs Project Number 4010-40 \$8,191,338 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.*	7,749,268	-

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2013</u>	<u>2012</u>
General Obligation Sewerage System Promissory Notes (Continued)		
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.*	\$ 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.*	<u>2,757,396</u>	<u>-</u>
	111,164,997	91,508,308
Less current maturities	<u>5,568,912</u>	<u>5,114,733</u>
	<u>\$105,596,085</u>	<u>\$ 86,393,575</u>

* As of December 31, 2013, the District has drawn \$44,236,054 of the total note issue of \$50,362,380 of the Series 2012A general obligation sewerage system promissory note, \$7,749,268 of the total note issue of \$8,191,338 of the Series 2013A general obligation sewerage system promissory note, \$2,893,075 of the total note issue of \$14,773,549 of the Series 2013B general obligation sewerage system promissory note, and \$2,757,396 of the total note issue of \$4,476,580 of the Series 2013C general obligation sewerage system promissory note.

The District incurred \$1,506,071 and \$1,575,169 of total interest expense for December 31, 2013 and 2012, respectively. The District capitalized interest of \$1,089,308 and \$386,142 for the years ended December 31, 2013 and 2012, respectively.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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 January 1, 2013	Additions	Reductions	Balance December 31, 2013	Amounts Due in One Year
General obligation sewerage system bonds	\$ 7,328,831	\$ -	\$ 1,757,589	\$ 5,571,242	\$ 1,814,808
General obligation sewerage system notes	<u>84,179,477</u>	<u>24,771,422</u>	<u>3,357,144</u>	<u>105,593,755</u>	<u>3,754,104</u>
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	<u>1,211,740</u>	<u>301,829</u>	<u>-</u>	<u>1,513,569</u>	<u>-</u>
	<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>

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

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Amounts Due in One Year
General obligation sewerage system bonds	\$ 10,476,391	\$ -	\$ 3,147,559	\$ 7,328,831	\$ 1,757,589
General obligation sewerage system notes	<u>51,532,809</u>	<u>35,820,320</u>	<u>3,173,653</u>	<u>84,179,477</u>	<u>3,357,144</u>
Subtotal	62,009,200	35,820,320	6,321,211	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, 2013 and 2012**

NOTE 6 - LONG-TERM DEBT (Continued)

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>
2014	\$ 5,568,912	\$ 2,840,714	\$ 8,409,626
2015	7,879,655	2,662,417	10,542,072
2016	6,909,611	2,460,647	9,370,258
2017	7,094,482	2,273,286	9,367,768
2018	6,953,832	2,086,075	9,039,907
2019-2023	36,958,178	7,550,730	44,508,908
2024-2028	24,588,646	3,537,757	28,126,403
2029-2033	<u>15,211,681</u>	<u>712,877</u>	<u>15,924,558</u>
Total	<u>\$111,164,997</u>	<u>\$24,124,503</u>	<u>\$135,289,500</u>

The equalized valuation of the District, as certified by the Wisconsin Department of Revenue, was \$36,650,459,397 for 2013 and \$36,306,321,444 for 2012. The legal debt limit and margin of indebtedness as of December 31, 2013 and 2012, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes, follows:

	<u>2013</u>	<u>2012</u>
Debt limit (5 percent of the equalization value)	\$ 1,832,522,970	\$ 1,815,316,072
Deduct long-term debt applicable to debt margin	<u>111,164,977</u>	<u>91,508,308</u>
Margin of indebtedness	<u>\$ 1,721,357,993</u>	<u>\$ 1,723,807,764</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 7 - COMMITMENTS

As of December 31, 2013, the District had the following commitments with respect to unfinished capital projects:

<u>Projects</u>	<u>Remaining Commitment</u>
Manhole Rehabilitation	\$ 5,000
Pumping Stations 11 & 12 Rehab.	193,772
Maintenance Facility	529,990
NSVI/Morse Pond Ext.	14,000
NEI/FEI to SEI Repair/Replacement	88,137
NS Exhaust Stacks	982
NS 11/Solids Handling Facility Plan	1,689,510
Process Control System Upgrade	1,281,998
Pumping Station 18	10,276,100
Pumping Station 18 Force Main	11,368,163
West Interceptor Extension Lining	<u>239,526</u>
	<u>\$ 25,687,178</u>

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

NOTE 8 - MAJOR MUNICIPAL CUSTOMERS

During the years ended December 31, 2013 and 2012, 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 \$18,856,000 and \$16,155,000, respectively. Accounts receivable as of December 31 from the City of Madison were as follows:

	<u>2013</u>	<u>2012</u>
Pumping stations	\$ 42,383	\$ 44,457
Sewer service	4,454,533	4,011,807
Interceptor connection charges	<u>554,057</u>	<u>507,067</u>
	<u>\$ 5,050,973</u>	<u>\$ 4,563,331</u>

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012, 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 \$ \$3.3 million.

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, 2013 was 25 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 441,222	\$ 441,222
Interest on net OPEB obligation	42,411	31,444
Adjustment to annual required contribution	<u>(63,656)</u>	<u>(47,196)</u>
Annual OPEB cost	419,977	425,470
Actuarial Adjustment to OPEB Obligation	-	(122,002)
Contributions made	<u>(118,148)</u>	<u>(112,139)</u>
Increase in net OPEB obligation	301,829	191,329
Net OPEB obligation, beginning of year	<u>1,211,740</u>	<u>1,020,411</u>
Net OPEB obligation, end of year	<u>\$ 1,513,569</u>	<u>\$ 1,211,740</u>

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, 2013, 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>
2011	\$ 340,147	0.00%	\$ 1,020,411
2012	\$ 425,470	26.4%	\$ 1,211,740
2013	\$ 419,977	28.1%	\$ 1,513,569

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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

The funded status of the plan as of December 31, 2013 and 2012, valuation date, is as follows:

	<u>2013</u>	<u>2012</u>
Actuarial accrued liability (AAL)	\$ 3,283,496	\$ 3,283,496
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,283,496</u>	<u>\$ 3,283,496</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 6,767,932	6,358,188
UAAL as a percent of covered payroll	48.52%	51.64%

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 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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, 2013 and 2012, the Yahara WINS checking account had a balance of \$185,577 and \$55,341, 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, 2014, the Commission approved a resolution authorizing the issuance of \$12.4 million general obligation sewerage system promissory notes. The notes bear interest at 2.716% and mature annually, with final maturity May 1, 2033.

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, 2013**

	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)
12/31/2011	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%
12/31/2013	1/1/2011	\$ -	\$ 3,283,496	\$ 3,283,496	0.00%	\$ 6,767,932	48.52%