

**MADISON METROPOLITAN
SEWERAGE DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Madison Metropolitan Sewerage District
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Madison Metropolitan Sewerage District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis-of-Matter

As discussed in Note 11 to the financial statements, in 2017, Madison Metropolitan Sewerage District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation, Madison Metropolitan Sewerage District reported a restatement for the change in accounting principal. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Schedule of the Madison Metropolitan Sewerage District's (MMSD) Proportionate Share of the Net Pension Liability (Asset), the Schedule of the Madison Metropolitan Sewerage District Contributions, and the Schedule of Madison Metropolitan Sewerage District's (MMSD) Changes in Total OPEB Liability and Related Ratios as listed in the table of contents, 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.



CliftonLarsonAllen LLP

Milwaukee, Wisconsin
April 24, 2018

Management's Discussion and Analysis for 2017 and 2016

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 2017 and 2016. It should be read in conjunction with the District's financial statements which follow this section. The 2017 and 2016 financial statements have been prepared in accordance with generally accepted accounting principles.

Financial Highlights

- Net position increased by \$3.4 million (2.6 percent) from \$130.1 million to \$133.5 million in 2017. This compares to a \$5.3 million (4.3 percent) increase in 2016.
- Operating revenues increased by \$0.3 million (0.9 percent) from \$34.2 million to \$34.6 million in 2017. This compares to a \$4.7 million (16 percent) increase in 2016.
- Operating expenses, excluding depreciation, increased by \$1.9 million (9.6 percent) from \$19.3 million to \$21.1 million in 2017. This compares to an increase of \$1.0 million (5.7 percent) in 2016.
- Cash and cash equivalents and current liabilities shown in the Statement of Net Position include \$1.1 million held for the Yahara Watershed Improvement Network (Yahara WINS) adaptive management project. See footnote for further disclosure.

Overview of Basic Financial Statements

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

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

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

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

Net 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)

	2017	2016	2015
Current Assets	\$ 42,999	\$ 40,110	\$ 35,801
Noncurrent Assets			
Capital assets, net of accumulated depreciation	228,202	229,756	227,134
Other assets	9,648	9,655	10,906
Total assets	280,849	279,521	273,841
Deferred Outflows:			
Pension			
Expected vs. Actual Experience	164	140	175
Expected vs. Actual Investment Income	2,563	3,389	583
Contributions subsequent to measurement date	546	504	511
Actuarial Assumption Changes	449	579	-
OPEB			
Deferred Outflows of Resources-Exp Vs. Act Experience	267	-	-
Actuarial Assumption Changes	146		
Total Deferred Outflows	4,135	4,612	1,269
Current Liabilities	15,290	13,721	13,163
Noncurrent Liabilities	132,909	136,938	135,754
Total liabilities	148,199	150,659	148,917
Deferred Inflows:			
Interceptor connection charges	1,087	1,587	1,432
Pension			
Change in proportional share and difference in actual	87	-	-
Expected vs. Actual Experience	1,352	88	53
Diff between Projected & Actual Invest. Income	424	1,742	-
OPEB			
Assumption Changes	361	-	-
Total Deferred Inflows	3,311	3,417	1,485
Net Position			
Invested in capital assets, net of related debt	92,324	89,147	87,053
Restricted for:			
Debt Service	18,977	17,875	17,275
Equipment Replacement	3,175	3,075	3,000
Net Pension Asset	-	-	1,204
Unrestricted	18,997	19,960	16,176
Total net position	\$ 133,473	\$ 130,057	\$ 124,708

As of December 31, 2017 the District had total assets, less accumulated depreciation, and deferred outflows of \$285.0 million and total liabilities and deferred inflows of \$151.5 million, resulting in \$133.5 million of net position. Net position increased by \$3.4 million (2.6 percent) in 2017. This compares to a net position increase of \$5.3 million (4.3 percent) in 2016. The 2017 increase was due to income before capital contributions of \$1.0 million and capital contributions (connection charges) of \$3.6 million. Funds represented by the 2017 increase will be used to finance future construction, to increase reserves, and to offset a portion of future operating costs. Capital assets (land, structures, equipment, vehicles, etc.) comprise \$228.2 million, 81.3 percent of total assets at the end of 2017. At the end of 2016, capital assets had a value of \$229.8 million and represented 82.2 percent of total assets. Capital assets decreased \$1.6 million in 2017 compared to a \$2.6 million increase in 2016 because the amount of new assets added in 2017 was less than the depreciation for the year.

Future principal payments on bonds total \$135.9 million at the end of 2017 and represent 91.7 percent of the District's liabilities. At the end of 2016, future principal payments on bonds totaled \$140.6 million and represented 93.3 percent of the District's liabilities. Future principal payments were \$4.7 million less than at the end of 2016 because principal payments (9.2 million) on debt in 2017 exceeded the amount of new debt (4.5 million) incurred. Future principal payments at the end of 2016 were \$0.5 million more than at the end of 2015. Construction activity funded with bond funds decreased significantly in 2017 compared to 2016.

The District's restricted net position consist of reserves for the payment of debt service and for unexpected expenses for the repair and replacement of equipment and net pension assets, if any. Restricted net position increased by \$1.2 million in 2017 because debt service reserves increased \$1.1 million and the equipment replacement fund increased \$0.10 million. Restricted net position decreased by \$0.5 million in 2016.

Unrestricted net position at the end of 2017 was \$1.0 million less than at the end of 2016. Payables increased by \$1.9 million because accrued actuarial (OPEB) liabilities increased \$1.4 million and accounts payables and constructions payables both increased \$0.5 million and deferred inflows decreased by \$0.1 million. Unrestricted cash and investments increased by \$1.4 million and deferred outflows decreased by \$0.48 million. Unrestricted net position increased by \$3.8 million in 2016.

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)

	2017	2016	2015
Operating Revenues	\$ 34,552	\$ 34,247	\$ 29,527
Nonoperating Revenues	475	380	273
Total revenues	35,027	34,627	29,800
Depreciation Expense	8,285	7,608	7,526
Other Operating Expense	21,123	19,269	18,223
Nonoperating Expense	4,662	3,572	4,160
Total expense	34,070	30,449	29,909
Income (Loss) Before Capital Contributions	957	4,178	(109)
Capital Contributions	3,564	1,170	1,841
Increase in net position	4,522	5,348	1,732
Beginning Net Position	130,056	124,708	120,630
Restatement Due to GASB 68			2,346
Restatement Due to GASB 75	(1,105)	-	
Beginning of Year, Restated	128,951	124,708	122,976
Ending Net Position	\$ 133,473	\$ 130,056	\$ 124,708

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

Operating revenue for 2017 increased by \$0.3 million, or .9 percent, from \$34.2 million to \$34.6 million. This compares to the 2016 operating revenue increase of \$4.7million, or 16.0 percent. The 2017 increase was primarily due to higher revenues from service charges and servicing pumping stations.

Non-operating revenues for 2017 were \$0.10 million (25 percent) higher than in 2016, due largely to investment income \$0.06 million higher than 2016. Non-operating revenues for 2016 were 39 percent higher than in 2015 due to higher investment income.

Depreciation expense in 2017 of \$8.3 million increased \$0.68 million over 2016 due to \$19.7 million of construction in progress moved to assets for depreciation in 2017. These assets were added as part of the Pump Station 15 Rehabilitation, Pump Station 11 & 12 Rehabilitation, Pump Station 12 Forcemain Relocation, West Interceptor lining project from Randall Avenue to PS2 and the Southeast Interceptor Relocation in Monona. The 2016 depreciation expense of \$7.6 million was a \$0.08 million increase over 2015 due to small increase in the value of the District's capital assets in recent years.

Other operating expenses for 2017 of \$21.1 million were \$1.8 million (9.6 percent) higher than 2016 expenses of \$19.3 million. Other operating expenses for 2016 were 5.7 percent higher than 2015 expenses of \$18.2. The increase in other operating expenses in 2017 was due largely to increased salaries and benefits (\$0.88 million), replacement parts and service (\$0.52 million), and contracted services (\$0.28 million). The salaries and benefits increase was due to increases in OPEB and pension liability. The increase in replacement parts and service costs was due to increased repairs and updates to equipment. Contracted services increased because of the numerous projects initiated in 2017.

Non-operating expenses for 2017 of \$4.7 million, which are comprised of interest on the District's outstanding debt, other construction expenses, and disposal of equipment, were \$1.09 million (30.5%) higher than 2016 non-operating expenses. The increase in non-operating expenses was due to increased disposal of equipment (\$0.47 million), construction expenses (\$0.34 million), and interest expenses (\$0.28 million). Non-operating expenses in 2016 were \$0.59 million lower than in 2015.

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 2017 increased by 3.4 percent. This compares to the 2016 increase of 2.2 percent.

The treatment plant connection charge rate is adjusted annually to account for the change in 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 2017 increased by 8.1 percent. The 2016 rate increased 8.4 percent. The 2017 increase reflects the addition to accumulated excess capacity debt service costs for the Tenth Addition and Eleventh Addition projects.

Capital contributions in 2017 of \$3.6 million were \$2.4 million more than 2016 capital contributions of \$1.2 million. This increase of 205 percent compared to 2016 was due to increased connection charge revenues. The large increase in connection charge revenue was largely due to payments before a January 1, 2018 rate increase.

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 2017 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 2017 of \$34.5 million were \$0.39 million (1.1 percent) more than budgeted primarily due to higher than expected wastewater flows and loadings (\$0.24 million) and higher than expected revenues from servicing pumping stations (\$0.08 million) and struvite fertilizer sales (\$0.07 million). Non-operating revenues of \$0.48 million for interest income, rent, and other miscellaneous items were \$0.21 million (80 percent) more than budgeted due primarily to increased interest income on investments (\$0.11) and increased miscellaneous income (\$0.09).

Operating expenses for 2017, excluding depreciation, were \$0.078 million less than budgeted. The most significant under budget items were contracted services, supplies, chemicals, administrative, miscellaneous expenses, and legal expenses which were a combined \$1.0 million less than budgeted. The most significant over budget item was salaries and benefit costs which were a combined \$0.9 million more than budgeted because OPEB and pension expenses are included in this total and the district does not budget for them.

Non-operating expenses, which include the net value of retired equipment and the interest costs on the District's outstanding debt, were \$0.34 million more than budgeted. The \$0.57 million in disposal of equipment account for assets constructed as part of the PS 15 rehabilitation project and contributed to the City of Madison Parks Department. The district does not budget for disposal of equipment.

Budgeted income before capital contributions for 2017 of \$8.9 million is largely due to \$10.2 million budgeted for principal payments on the District's outstanding debt partially offset by a budgeted use of \$0.8 million in reserves in 2017. The \$7.9 million variance in the actual and budgeted income is primarily due to the \$8.3 million unbudgeted amount for depreciation.

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

Table A-3
Comparison of Budget to Actual Results for 2017
(000's)

	Budget	Actual	Variance
Revenues			
From operations	\$ 34,167	\$ 34,552	\$ 385
Nonoperating	264	475	211
Total revenues	34,431	35,027	596
Operating Expenses			
Depreciation expense	-	8,285	8,285
Other operating expenses:			
Salaries with benefits	10,026	10,959	933
Administrative	547	457	(90)
Legal and accounting	225	160	(65)
Insurance	183	140	(43)
Power	3,154	3,228	74
Natural gas	227	175	(52)
Chemicals	901	774	(127)
Motor and LP fuel	119	100	(19)
Water and sewer services	162	201	39
Contracted services	2,913	2,363	(550)
Engineering Consulting	2	-	(2)
Communication services	82	62	(20)
Replacement parts and services	1,719	1,825	106
Supplies	590	396	(194)
Miscellaneous	351	283	(68)
Total other operating expenses	21,201	21,123	(78)
Total operating expenses	21,201	29,408	8,207
Nonoperating Expenses			
Disposal of Equipment	-	569	569
Construction Expenses	695	682	(13)
Interest expense	3,625	3,411	(214)
Total nonoperating expenses	4,320	4,662	342
Total expenses	25,521	34,070	8,549
Income before capital contributions	\$ 8,910	\$ 957	\$ (7,953)

Capital Assets

At the end of 2017 the District had \$228 million invested in capital assets comprised of the Nine Springs Wastewater Treatment Plant, eighteen 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)

	2017	2016	2015
Assets			
Land	\$ 7,401	\$ 7,401	\$ 7,401
Structures and improvements	207,384	199,231	191,061
Mechanical equipment	145,489	134,455	131,244
Office furniture and equipment	5,046	4,800	4,221
Vehicles	2,728	2,705	2,644
Construction In progress	2,959	16,352	18,393
Total	371,007	364,944	354,964
Less accumulated depreciation	142,805	135,187	127,830
Net property and equipment	\$ 228,202	\$ 229,757	\$ 227,134

The District's 10-year capital improvement plan for 2018 through 2027 includes \$100 million of treatment plant upgrades and expansions and \$107 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 \$3.0 million is maintained to finance any unplanned capital improvement.

Total capital assets increased by \$6.1 million to \$371 million. During 2017 the District completed the Pumping Station 15 Rehabilitation (\$4.2 million), the Pumping Station 11 and 12 Rehabilitation (\$10 million), PS 12 Force Main (\$1.8 million), and the West Interceptor Rehabilitation (\$1.4 million).

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.

General obligation debt outstanding as of the end of 2017 was \$135.9 million which represents the remaining balance on the Clean Water Fund loans from the State of Wisconsin. This compares to a 2016 year-end balance of \$140.6 million and a 2015 year-end balance of \$140.1 million. Interest on these loans is payable semi-annually at rates of 1.8 to 3.2 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 \$55 million over the ten-year period from 2018 to 2027 due to anticipated projects in the collection system and treatment plant. Annual debt service obligations increased 6% in 2017 and are projected to increase 6% percent per year in 2019, 4.5% percent in 2020, and 3.5 percent thereafter.

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 2017 the borrowing limit was \$2.26 billion. At the end of 2016 that borrowing limit was \$2.09 billion. Over the next ten years, the total amount of anticipated debt would be no more than 9 percent of the current limit. At the end of 2017 the District's debt of \$135.9 million was at 6.0 percent of this limit. At the end of 2016 the District's debt of \$140.6 million was at 6.7 percent of this limit. During the last two years the District did not experience any negative changes in debt credit rating or debt limitation.

Economic Factors

Growth within the District's service area as measured by number of customers has averaged 1.0 percent per year from 2012 to 2017. The future growth trend is projected to remain close to one percent if the economy remains strong and decrease if economic growth weakens.

The District's customer base consists of residential users and commercial and industrial users that, for the most part, do not utilize large quantities of water or have strong wastewater discharges. This customer base characteristic results in a stable revenue base since the loss of any one user will not significantly impact the District's service charge revenues. The University of Wisconsin is the largest user of District services and provided 5.5 percent of service charge revenues in 2017 and 6.3 percent in 2016. Oscar Mayer Foods Corporation, a long-time significant customer, discontinued operations in Madison in 2017. Danisco in Madison, Wisconsin is now the District's second largest user and provided 2.1% of service charge revenues in 2017.

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, 2017 and 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 16,749,948	\$ 15,340,805
Receivables, net of allowance for uncollectible amounts:		
Transmission and treatment of sewage and septage disposal	8,365,242	8,435,541
Servicing pumping stations	130,598	72,022
Interceptor connection charges, current portion	276,524	661,229
Other	123,959	81,298
Prepaid insurance	333	333
Inventories	1,584,283	1,628,885
Restricted assets - Cash and cash equivalents	15,767,994	13,890,261
	<hr/>	<hr/>
Total current assets	42,998,881	40,110,374
Noncurrent assets:		
Investments	821,784	836,915
Restricted Assets - Investments	8,016,148	7,892,022
Interceptor connection charges, less current portion	810,197	925,576
Capital assets:		
Capital assets not being depreciated	10,360,271	23,753,248
Capital assets being depreciated	360,646,268	341,190,296
	<hr/>	<hr/>
	371,006,539	364,943,544
Less: accumulated depreciation	142,804,799	135,187,336
Capital assets, net of depreciation	<hr/>	<hr/>
	228,201,740	229,756,208
	<hr/>	<hr/>
Total noncurrent assets	237,849,869	239,410,721
	<hr/>	<hr/>
Total assets	280,848,750	279,521,095
Deferred Outflows:		
Pension		
Expected vs. Actual Investment Income	2,562,836	3,389,019
Contributions subsequent to measurement date	545,748	504,201
Assumption Changes	449,312	579,125
Expected vs. Actual Experience	163,861	140,031
OPEB		
Expected vs. Actual Experience	266,982	-
Assumption Changes	146,382	-
	<hr/>	<hr/>
Total deferred outflows	4,135,121	4,612,376

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

Madison Metropolitan Sewerage District
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

LIABILITIES		
	<u>2017</u>	<u>2016</u>
Current liabilities:		
Vouchers payable	\$ 3,120,139	\$ 2,579,135
Accrued salaries	246,412	287,482
Payroll withholdings payable	153,438	144,800
Unearned receivables	-	1,914
Compensated absences, current portion	632,437	647,888
Total current liabilities	<u>4,152,426</u>	<u>3,661,219</u>
Liabilities payable from restricted assets:		
Bonds payable, current portion	9,505,552	9,226,901
Due to other governments	1,063,558	241,214
Accrued interest payable	568,679	591,492
Total current liabilities payable from restricted assets	<u>11,137,789</u>	<u>10,059,607</u>
Noncurrent liabilities, less current portion:		
Compensated absences	2,183,113	2,246,521
Net OPEB liability	3,924,487	2,482,197
Bonds payable	126,372,138	131,382,241
Net pension liability	429,742	827,743
Total noncurrent liabilities	<u>132,909,480</u>	<u>136,938,702</u>
Total liabilities	<u>148,199,695</u>	<u>150,659,528</u>
Deferred Inflow:		
Interceptor connection charges	1,086,721	1,586,805
Pension		
Change in Proportion Share of Diff. in Actual Contrib.	88,605	88,500
Expected vs. Actual Experience	1,351,502	1,741,972
Diff between Projected & Actual Invest. Income	423,715	-
OPEB		
Def. Inflow-Assumption Changes OPEB	360,508	-
Total Deferred Inflows	<u>3,311,051</u>	<u>3,417,277</u>
NET POSITION		
Net investment in capital assets	92,324,050	89,147,066
Restricted for:		
Debt service	18,976,905	17,874,577
Equipment replacement	3,175,000	3,075,000
Unrestricted	<u>18,997,170</u>	<u>19,960,023</u>
Total net position	<u>\$ 133,473,125</u>	<u>\$ 130,056,666</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for services:		
Transmission and treatment of sewage	\$ 33,368,233	\$ 33,236,530
Servicing pumping stations	398,875	287,010
Septage disposal	555,299	556,137
Pretreatment monitoring	23,801	25,122
Struvite Harvesting	205,570	142,664
Total operating revenues	<u>34,551,778</u>	<u>34,247,463</u>
OPERATING EXPENSES		
Administration	5,676,030	5,320,841
Treatment	12,448,173	11,540,575
Collection	2,999,333	2,407,292
Depreciation	8,284,730	7,608,072
Total operating expenses	<u>29,408,266</u>	<u>26,876,780</u>
Operating income	<u>5,143,512</u>	<u>7,370,683</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income (losses)	199,482	136,848
Rent	71,309	70,858
Other	204,628	172,121
Construction Expenses	(681,706)	(338,980)
Disposal of property and equipment	(569,487)	(100,674)
Interest expense	(3,411,009)	(3,132,730)
Total nonoperating revenues (expenses)	<u>(4,186,783)</u>	<u>(3,192,557)</u>
Income(loss) before capital contributions	956,729	4,178,126
CAPITAL CONTRIBUTIONS		
Contributed assets	798,301	-
Interceptor connection charges	2,765,972	1,170,428
Total capital contributions	<u>3,564,273</u>	<u>1,170,428</u>
CHANGE IN NET POSITION	4,521,002	5,348,554
NET POSITION		
BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	130,056,666	124,708,112
RESTATEMENT	<u>(1,104,543)</u>	<u>-</u>
BEGINNING OF YEAR, RESTATED	<u>128,952,123</u>	<u>124,708,112</u>
END OF YEAR	<u>\$ 133,473,125</u>	<u>\$ 130,056,666</u>

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

Madison Metropolitan Sewerage District
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 34,518,926	\$ 33,155,407
Payments to suppliers	(9,511,334)	(9,854,560)
Payments to employees	<u>(9,595,222)</u>	<u>(8,580,562)</u>
Net cash provided by operating activities	<u>15,412,370</u>	<u>14,720,285</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent receipts	71,309	70,858
Other receipts	<u>204,628</u>	<u>172,121</u>
Net cash provided by noncapital financing activities	<u>275,937</u>	<u>242,979</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(3,483,128)	(3,547,406)
Principal paid on long-term debt	(9,226,903)	(8,834,586)
Proceeds from issuance of long-term debt	4,495,451	9,363,374
Construction Expenses	(681,706)	(338,980)
Acquisition of capital assets	(6,361,604)	(9,996,186)
Proceeds from sale of capital assets	-	56,014
Capital contributions received	<u>2,765,972</u>	<u>1,170,427</u>
Net cash used in capital and related financing activities	<u>(12,491,918)</u>	<u>(12,127,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income (expense)	199,482	130,807
Purchase of investments	(2,976,412)	-
Proceeds from sales and maturities of investments	<u>2,867,417</u>	<u>33,880</u>
Net cash provided by investing activities	<u>90,487</u>	<u>164,687</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,286,876	3,000,608
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>29,231,066</u>	<u>26,230,458</u>
END OF YEAR	<u>\$ 32,517,942</u>	<u>\$ 29,231,066</u>

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

**Madison Metropolitan Sewerage District
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,143,512	\$ 7,370,683
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,284,730	7,608,072
Increase (decrease) from changes in:		
Receivables:		
Transmission and treatment of sewage and septage disposal	70,299	(1,108,775)
Servicing pumping stations	(58,576)	55,670
Other	(44,575)	(35,212)
Inventories	44,602	(45,198)
Pension benefits	284,891	465,145
OPEB	525,968	-
Vouchers payable	450,466	60,872
Other liabilities	711,053	349,028
	<u>15,412,370</u>	<u>14,720,285</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 15,412,370</u>	<u>\$ 14,720,285</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Unrestricted	\$ 16,749,948	\$ 15,340,805
Restricted	15,767,994	13,890,261
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 32,517,942</u>	<u>\$ 29,231,066</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital	\$ 798,301	\$ -
Assets donated to other municipalities	(563,894)	-
Interceptor connection charges billed	2,265,888	1,170,428
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 2,500,295</u>	<u>\$ 1,170,428</u>

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

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 184 square miles, is a special-purpose government. The District is governed by nine-member Commission appointed for staggered three-year-terms. The Mayor of the City of Madison appoints five individuals as members of the commission. An executive council composed of the elected executive officers of each city and village that is wholly or partly within the boundaries of the district, except Madison, appoints three members of the commission by a majority vote. An executive council composed of the elected executive officers of each town that is wholly or partly within the boundaries of the district appoints one member of the commission by a majority vote. Accountability extends only to the appointment of the District's Commissioners. As the City of Madison, other cities, villages, and towns appoint the commissioners, the District and these entities 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 accounting principles generally accepted in the United States of America 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 non-operating revenues and expenses.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 other than in the Local Government Investment Pool (LGIP) are reported at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to report investments at fair value are recorded in the statement of revenues, expenses and change in net position as increases or decreases in investment income. The Local Government Investment Pool is reported at the per share value as reported by LGIP. Non-negotiable Certificates of Deposit are deposits reported at cost and are not subject to fair value measurement.

The Wisconsin Local Government Investment Pool 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 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, 2017 and 2016 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 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 three years;
- Bonds or securities of any county, city, drainage district, vocational education district, village, town or school district of the state; bonds issued by a local exposition district, local professional baseball park district, local professional football district, local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority;
- Bonds or securities issued or guaranteed by the Federal government;
- Any security which matures within not more than seven 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, 2017 and 2016

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 \$3,478 as of December 31, 2017 and 2016, and are 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 non-operating activities.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Compensated Absences

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

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

Non-exempt employees may also accumulate compensatory time for overtime work. All unused compensatory time is paid at their rate of pay on the second payroll in December. Exempt employees may accumulate compensatory time if they exceed 88 hours in a pay period, up to a maximum of 40 hours per calendar year. Exempt employees may carry compensatory time over at year-end, but must be used by March 31. After March 31, exempt employees' unused compensatory time is credited to the employee's base expense account using the employee's current rate of pay, and the accrued salaries liability is reduced accordingly. The liability associated with accumulated compensatory time is reported as accrued salaries liability in the statement of net position.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Pensions

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

Long-Term Debt

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

Deferred Inflows

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

Net Position: Net position is classified in four 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

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 carries property insurance for buildings on the Nine Springs Treatment Plant campus and several rental units off campus. The District retains the risk of loss for damage or destruction of other elements of the 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. Ongoing monitoring and maintenance of the lands is reported as an operating expense. These expenses totaled \$4,060 and \$10,598 in 2017 and 2016, respectively. Future expenses are expected to range from \$10,000 to \$30,000 annually.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of December 31, 2017 and 2016, cash, cash equivalents, and investments included the following:

	<u>2017</u>	<u>2016</u>
Petty Cash	\$ 250	\$ 250
Deposits		
Demand Deposits	208,689	343,151
Savings Accounts	5,572,373	14,276,971
Investments		
Institutional investment account		
U.S. Agency obligations	8,837,932	8,728,937
Insured deposit account	185,180	249,209
Local Government Investment Pool	<u>26,551,450</u>	<u>14,370,485</u>
	<u>\$ 41,355,874</u>	<u>\$ 34,960,003</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents		
Unrestricted	\$ 16,749,948	\$ 15,340,805
Restricted	15,767,994	13,890,261
Investments		
Unrestricted	821,784	836,915
Restricted	<u>8,016,148</u>	<u>7,892,022</u>
	<u>\$ 41,355,874</u>	<u>\$ 37,960,003</u>

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 \$5,966,242 and \$14,860,332, with bank balances of \$6,018,993 and \$14,971,966 for the years ended December 31, 2017 and 2016, respectively. Of the bank balances, \$6,018,993 and \$14,971,966 was covered by FDIC insurance and collateralized, leaving \$0 as uninsured and uncollateralized for the years ended December 31, 2017 and 2016. The District does not have a formal policy related to custodial credit risk, but it is their policy to ensure deposits are fully insured or collateralized.

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

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

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

Fair Value Measurement

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The District has the following assets that are subject to fair value measurements as of December 31, 2017:

Investment Type	Fair Value Level			
	<u>Fair Value</u>	<u>1</u>	<u>2</u>	<u>3</u>
SBA pools	\$2,271,041	\$ -	\$2,271,041	\$ -
Government National Mortgage Association	918,495	-	918,495	-
Federal National Mortgage Association	2,277,009	-	2,277,009	-
Federal Home Loan Mortgage Corporation	<u>3,371,387</u>	<u>-</u>	<u>3,371,387</u>	<u>-</u>
	<u>\$8,837,932</u>	<u>\$ -</u>	<u>\$8,837,932</u>	<u>\$ -</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

The District has the following assets that are subject to fair value measurements as of December 31, 2016:

Investment Type	Fair Value Level			
	<u>Fair Value</u>	<u>1</u>	<u>2</u>	<u>3</u>
SBA pools	\$1,224,733	\$ -	\$1,224,733	\$ -
Government National Mortgage Association	1,140,545	-	1,140,545	-
Federal National Mortgage Association	3,279,674	-	3,279,674	-
Federal Home Loan Mortgage Corporation	<u>3,083,985</u>	<u>-</u>	<u>3,083,985</u>	<u>-</u>
	<u>\$8,728,937</u>	<u>\$ -</u>	<u>\$8,728,937</u>	<u>\$ -</u>

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, 2017, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (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 **	\$26,551,450	\$26,551,450	\$ -	\$ -	\$ -
Money Market	185,180	185,180	-	-	-
SBA pools	2,271,041	-	396,488	33,107	1,841,446
Government National Mortgage Association	918,495	-	6,722	7,483	904,290
Federal National Mortgage Association	2,277,009	-	22,887	9,594	2,244,528
Federal Home Loan Mortgage Corporation	3,371,387	900,510	1,139,643	10,311	1,320,923
	<u>\$35,574,562</u>	<u>\$ 27,637,140</u>	<u>\$ 1,565,740</u>	<u>\$ 60,495</u>	<u>\$ 6,311,187</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

As of December 31, 2016, 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 **	\$14,370,485	\$14,370,485	\$ -	\$ -	\$ -
Money Market	249,209	249,209	-	-	-
SBA pools	1,224,733	-	-	36,443	1,188,290
Government National Mortgage Association	1,140,545	-	-	18,124	1,122,421
Federal National Mortgage Association	3,279,674	78	2,770	32,648	3,244,178
Federal Home Loan Mortgage Corporation	3,083,985	98,086	1,203,388	5,229	1,777,282
	<u>\$23,348,631</u>	<u>\$14,717,858</u>	<u>\$ 1,206,158</u>	<u>\$ 92,444</u>	<u>\$ 7,332,171</u>

** Because the LGIP had a weighted average maturity of less than one year as of December 31, 2017 and 2016 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. The remaining investments of the District are U.S. Governmental or Agency securities that are explicitly guaranteed, and therefore credit rating is not applicable, or have the highest rating issued by Moody's. The District has not developed policies governing the exposure of its cash deposits and investments to credit risk.

Concentration of Credit Risk

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

Custodial Credit Risk-Investments

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

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

Custodial Credit Risk-Deposits

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

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

NOTE 3 - RESTRICTED NET POSITION

Restricted net position of the District consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Restricted Assets		
Cash and cash equivalents		
Debt Service	\$ 14,704,436	\$ 13,649,047
Due to other governments	1,063,558	241,214
Investments		
Debt Service	4,841,148	4,817,022
Unexpected repair & replacement	3,175,000	3,075,000
Net pension asset	-	-
Total restricted assets	<u>23,784,142</u>	<u>21,782,283</u>
Current Liabilities payable from restricted assets	<u>(1,632,237)</u>	<u>(832,706)</u>
	<u>\$ 22,151,905</u>	<u>\$ 20,949,577</u>

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 \$3.175 million of its investments and net position for unexpected equipment replacement. In addition, the District annually budgets for replacement of equipment.

Debt Service

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

Amounts available in the debt service funds on October 1, 2017 and 2016 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.

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 District has three years from the date of the first principal payment on a Clean Water Fund loan to meet the required five percent addition for a project. The sum of these capital assets for the year ending December 31, 2017 is \$64,449,932. The required five percent of this value is \$3,222,497. The 2017 value of the equipment replacement fund is \$3,175,000. The District is adding annual contributions to the equipment replacement fund and will meet the \$3,222,497 requirement by 2018, within the three-year time frame allowed by the CWF. For the year ending December 31, 2016, the corresponding "mechanical equipment" total was \$60,133,218 and 5% of this amount was \$3,006,661.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 4 - CAPITAL ASSETS

During the year ended December 31, 2017, the changes in capital assets were as follows:

	Balance January 1, 2017	Additions/ Reclassifications	Retirements/ Reclassification s	Balance December 31, 2017
Capital assets not being depreciated				
Construction in progress	\$16,352,338	\$6,290,703	\$ 19,683,680	\$ 2,959,361
Land and easements	7,400,910	-	-	7,400,910
	<u>23,753,248</u>	<u>6,290,703</u>	<u>19,683,680</u>	<u>10,360,271</u>
Capital assets being depreciated				
Structures and improvements	199,231,212	8,174,251	21,652	207,383,811
Heavy mechanical equipment	81,825,866	5,289,038	302,379	86,812,525
Light mechanical equipment	52,628,793	6,354,299	306,719	58,676,373
Office furniture and equipment	4,799,562	246,197	-	5,045,759
Vehicles	2,704,863	65,046	42,109	2,727,800
	<u>341,190,296</u>	<u>20,128,831</u>	<u>672,859</u>	<u>360,646,268</u>
Accumulated depreciation				
Structures and improvements	64,512,658	3,473,027	21,652	67,964,034
Heavy mechanical equipment	35,052,575	2,261,956	297,414	37,017,117
Light mechanical equipment	29,293,273	2,345,436	306,091	31,332,614
Office furniture and equipment	4,041,555	99,458	-	4,141,015
Vehicles	2,287,275	104,853	42,109	2,350,019
	<u>135,187,336</u>	<u>8,284,730</u>	<u>667,266</u>	<u>142,804,799</u>
Capital assets being depreciated, net	<u>206,002,960</u>	<u>11,844,098</u>	<u>5,593</u>	<u>217,841,466</u>
Total capital assets, net	<u>\$229,756,208</u>	<u>\$18,134,80</u>	<u>\$19,689,273</u>	<u>\$228,201,740</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 4 - CAPITAL ASSETS (Continued)

During the year ended December 31, 2016, the changes in capital assets were as follows:

	Balance January 1, 2016	Additions/ Reclassifications	Retirements/ Reclassifications	Balance December 31, 2016
Capital assets not being depreciated				
Construction in progress	\$18,393,066	\$9,953,926	\$11,994,654	\$16,352,338
Land and easements	7,400,910	-	-	7,400,910
	<u>25,793,976</u>	<u>9,953,926</u>	<u>11,994,654</u>	<u>23,753,248</u>
Capital assets being depreciated				
Structures and improvements	191,059,980	8,238,246	67,014	199,231,212
Heavy mechanical equipment	80,106,349	1,797,845	78,328	81,825,866
Light mechanical equipment	51,137,988	1,607,939	117,134	52,628,793
Office furniture and equipment	4,221,164	578,398	-	4,799,562
Vehicles	2,644,362	87,318	26,817	2,704,863
	<u>329,169,843</u>	<u>12,309,746</u>	<u>289,293</u>	<u>341,190,296</u>
Accumulated depreciation				
Structures and improvements	61,316,387	3,225,965	29,694	64,512,658
Heavy mechanical equipment	33,017,682	2,111,960	77,067	35,052,575
Light mechanical equipment	27,345,837	2,064,569	117,133	29,293,273
Office furniture and equipment	3,960,839	80,716	-	4,041,555
Vehicles	2,189,230	124,862	26,817	2,287,275
	<u>127,829,975</u>	<u>7,608,072</u>	<u>250,711</u>	<u>135,187,336</u>
Capital assets being depreciated, net	<u>201,339,868</u>	<u>4,701,674</u>	<u>38,582</u>	<u>206,002,960</u>
Total capital assets, net	<u>\$227,133,844</u>	<u>\$14,655,600</u>	<u>\$12,033,236</u>	<u>\$229,756,208</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 - PENSION PLAN

Plan description

The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/carf.htm>.

Vesting

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits Provided

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 – PENSION PLAN (continued)

Post-Retirement Adjustments

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system’s consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the “floor”) set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5.0)

Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, 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.

During the reporting period, the WRS recognized \$504,135 in contributions from the employer.

Contribution rates as of December 31, 2017 are:

Employee Category	Employee	Employer
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 – PENSION PLAN (continued)

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

At December 31, 2017, the Madison Metropolitan Sewerage District reported a liability of \$429,742 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the District's proportion was .05213809%, which was an increase of .00119942% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the District recognized pension expense of \$1,076,321.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$163,861	\$1,351,502
Changes in assumptions	449,312	-
Net differences between projected and actual earnings on pension plan investments	2,562,836	423,715
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	88,605
Employer contributions subsequent to the measurement date	545,748	-
Total	\$3,721,757	\$1,863,822

\$545,748 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 – PENSION PLAN (continued)

Year ended December 31:	Deferred Outflow of Resources	Deferred Inflows of Resources
2018	\$1,107,286	\$566,882
2019	1,107,286	566,882
2020	926,197	559,430
2021	34,492	170,345
2022	748	283

Actuarial assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset)	December 31, 2016
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

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

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

Long-term expected Return on Plan Assets

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

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 – PENSION PLAN (continued)

Retirement Funds				
Asset Allocation Targets and Expected Returns				
As of December 31, 2016				
<u>Core Fund Asset Class</u>	<u>Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
Global Equities	50 %	45 %	8.3 %	5.4 %
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110 %	120 %	7.4 %	4.5 %
<u>Variable Fund Asset Class</u>				
U.S. Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100 %	100 %	7.9 %	5.0 %
New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%				
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations				

Single Discount Rate

A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5 – PENSION PLAN (continued)

Sensitivity of the District’s proportionate share of the net pension liability (asset) to changes in the discount rate

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase To Discount Rate (8.20%)
District’s proportionate share of the net pension liability (asset)	\$5,653,536	\$429,742	(\$3,592,815)

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

NOTE 6 - LONG-TERM DEBT

As of December 31, 2017 and 2016, the long-term debt of the District consisted of the following:

	<u>2017</u>	<u>2016</u>
General Obligation Sewerage System Bonds		
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.	\$ -	\$ 320,434
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.	358,185	470,251
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.	521,315	641,693

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
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.	\$ 2,881,699	\$ 3,316,885
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.	13,949,926	16,058,662
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.	130,266	144,861
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.	880,484	967,367
Clean Water Fund Program Project Number 4010-23 \$2,622,948 Series 2007A, issued December 12, 2007, for the West Interceptor Extension Replacement Project, interest at 2.555%, interest payments on May 1 and November 1 of each year and principal payments on May 1 of each year, final payment due May 1, 2027.	1,538,083	1,671,613

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
General Obligation Sewerage System Promissory Notes (Continued)		
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.	\$ 5,549,531	\$ 5,984,741
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.	6,239,679	6,645,538
Clean Water Fund Programs Project Number 4010-34 \$47,544,072 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.	40,545,020	42,936,290
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.	2,381,477	2,505,790
Clean Water Fund Programs Project Number 4010-40 \$8,012,046 Series 2013A, issued May 8, 2013, for the Northeast Interceptor/Far East Interceptor to Southeast Interceptor Replacement, interest at 2.795%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2014, and each subsequent May 1, final payment due May 1, 2033.	6,750,993	7,082,113

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
General Obligation Sewerage System Promissory Notes (Continued)		
Clean Water Fund Programs Project Number 4010-39 \$14,425,956 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.	\$12,614,486	\$13,241,555
Clean Water Fund Programs Project Number 4010-37 \$4,276,508 Series 2013C, issued November 27, 2013, for the Process Control System Upgrade, interest at 2.625%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2016, and each subsequent May 1, final payment due May 1, 2033.	3,893,735	4,087,600
Clean Water Fund Programs Project Number 4010-43 \$11,554,883 Series 2014A, issued February 26, 2014, for the Pumping Station 18 Force Main Construction, interest at 2.72%, interest payments on May 1 and November 1 of each year and principal payments beginning May 1, 2015, and each subsequent May 1, final payment due May 1, 2033.	10,123,602	10,623,616
Clean Water Fund Programs Project Number 4010-42 \$10,663,025 Series 2015A, issued February 25, 2015, for the Pumping Station 11 & 12 Rehabilitation, interest at 2.262%, 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, 2034.	9,049,244	9,152,149

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
General Obligation Sewerage System Promissory Notes (Continued)		
Clean Water Fund Programs Project Number 4010-41 \$12,094,707 Series 2015B, issued May 27, 2015, for the New Maintenance Facility Construction, interest at 2.25%, 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, 2035.	\$10,833,921	\$10,915,951
Clean Water Fund Programs Project Number 4010-46 \$7,196,557 Series 2016A, issued November 9, 2016, for the Rimrock Interceptor/Pumping Station 15 Rehabilitation/Pumping Station 12 Force Main Relocation projects, interest at 1.96%, interest payment on May 1 and November 1 of each year and principal payments beginning May 1, 2018, and each subsequent May 1, final payment due May 1, 2036.*	6,337,451	3,840,044
Clean Water Fund Programs Project Number 4010-44 \$1,439,043 Series 2017A, issued December 27, 2017, for the West Interceptor – Randall St. to Near PS2 Rehabilitation, interest at 1.76%, interest payment on May 1 and November 1 of each year and principal payments beginning May 1, 2018, and each subsequent May 1, final payment due May 1, 2037.*	<u>1,298,594</u>	<u>-</u>
	\$135,877,690	\$140,609,142
Less current maturities	<u>9,505,552</u>	<u>9,226,901</u>
	<u>\$126,372,138</u>	<u>\$131,382,241</u>

* As of December 31, 2017, the District has drawn \$6,337,451 of the total note issue of \$7,196,557 of the Series 2016A general obligation sewerage system promissory note, \$1,298,594 of the total note issue of \$1,439,043 of the Series 2017A general obligation sewerage system promissory note.

The District incurred \$3,411,009 and \$3,132,730 of total interest costs for December 31, 2017 and 2016, respectively. The District capitalized interest of \$49,306 and \$415,783 for the years ended December 31, 2017 and 2016, respectively.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 - LONG-TERM DEBT (Continued)

A summary of the changes in long-term obligations of the District for the year ended December 31, 2017 was as follows:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2017</u>	Amounts Due in <u>One Year</u>
General obligation sewerage system bonds	\$1,432,368	\$ -	\$552,868	\$879,500	\$239,886
General obligation sewerage system notes	139,176,774	4,495,451	8,674,035	134,998,190	9,265,666
Subtotal	140,609,142	4,495,451	9,226,903	135,877,690	9,505,552
Compensated absences	2,894,409	324,816	403,675	2,818,550	632,437
	<u>\$143,590,551</u>	<u>\$4,820,267</u>	<u>\$9,630,578</u>	<u>\$138,696,240</u>	<u>\$10,137,989</u>

A summary of the changes in long-term obligations of the District for the year ended December 31, 2016 was as follows:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2017</u>	Amounts Due in <u>One Year</u>
General obligation sewerage system bonds	\$ 1,968,253	\$ -	\$535,885	\$1,432,368	\$ 552,867
General obligation sewerage system notes	138,112,101	9,363,374	8,298,701	139,176,774	8,674,034
Subtotal	140,080,354	9,363,374	8,834,586	140,609,142	9,226,901
Compensated absences	2,867,308	511,453	484,352	2,894,409	647,888
Other post-employment benefits	2,181,684	431,104	130,591	2,482,197	-
	<u>\$135,732,528</u>	<u>\$10,305,931</u>	<u>\$9,449,528</u>	<u>\$145,129,347</u>	<u>\$9,874,789</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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>
2018	\$ 9,505,552	\$3,302,617	\$ 12,808,169
2019	9,751,715	3,056,788	12,808,504
2020	10,004,310	2,800,893	12,805,203
2021	10,136,384	2,540,345	12,676,729
2022	10,257,358	2,277,290	12,534,648
2023-2027	42,368,572	7,941,096	50,309,668
2028-2032	36,051,436	2,963,407	39,014,843
2033-2037	<u>7,802,364</u>	<u>212,099</u>	<u>8,014,464</u>
Total	<u>\$135,877,692</u>	<u>\$25,094,536</u>	<u>\$160,972,228</u>

The equalized valuation of the District, as certified by the Wisconsin Department of Revenue, was \$45,284,126,553 for 2017 and \$41,866,522,299 for 2016. The legal debt limit and margin of indebtedness as of December 31, 2017 and 2016, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes, follows:

	<u>2017</u>	<u>2016</u>
Debt limit (5 percent of the equalization value)	\$ 2,264,206,328	\$2,093,326,115
Deduct long-term debt applicable to debt margin	<u>135,877,692</u>	<u>140,609,142</u>
Margin of indebtedness	<u>\$ 2,128,328,636</u>	<u>\$ 1,952,716,973</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 7 - COMMITMENT

As of December 31, 2017, the District had the following commitments with respect to unfinished capital projects:

<u>Projects</u>	<u>Remaining Commitment</u>
Fuel Island Relocation	\$ 79,883
Maintenance Facility	4,815
WI Lining/Randall Ave.	753
Lower BMC Int. Phase 4	676,666
NSVI/Morse Pond Ext.	<u>1,641,164</u>
	<u>\$2,403,281</u>

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

NOTE 8 - MAJOR MUNICIPAL CUSTOMERS

During the years ended December 31, 2017 and 2016, 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 \$22,884,000 and \$22,854,000, respectively. Accounts receivable as of December 31 from the City of Madison were as follows:

	<u>2017</u>	<u>2016</u>
Pumping stations	\$ 97,470	\$ 41,954
Sewer Service	5,518,638	5,559,956
Interceptor connection charges	<u>826,457</u>	<u>879,224</u>
	<u>\$ 6,442,565</u>	<u>\$ 6,481,134</u>

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan description

The Madison Metropolitan Sewerage District's defined benefit OPEB plan, Madison Metropolitan Sewerage District Postretirement Health Plan (MMSDPHP), provides OPEB for permanent full-time employees of the District. MMSDPHP is a single-employer defined benefit OPEB plan administered by the District. The District Commission establishes the terms of the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement number 75.

Benefits provided

MMSDPHP 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 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 88% of the premiums of the 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.

Employees covered by benefit terms. At December 31, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	18
Inactive plan members entitled to but not yet receiving benefit payments	0
Active plan members	98
	116

Total OPEB Liability

The District's total OPEB liability of \$3,924,487 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases:	3.5%
Inflation:	2.5%
Assumed Rate of Return on Plan Assets:	3.17%
Plan Participation of Future Retirees:	80.0%
Discount Rate:	3.17%
Healthcare Cost Trend Rates:	8.5% decreasing to 5% by 2027

The discount rate was based on the S&P Municipal Bond 20-Year High- Grade Rate Index as of December 14, 2017.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2017–December 31, 2017

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balances at December 31, 2016	\$ 3,586,744
Changes for the year:	
Service Cost	362,832
Interest	110,618
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	296,624
Changes of Assumptions or Other Input	20,618
Contributions - Employer	-
Contributions - Employee	-
Net Investment Income	-
Benefit Payments	(194,432)
Other Changes	(258,517)
Administrative Expense	-
Net Changes	337,743
Balances at December 31, 2017	\$ 3,924,487

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.17 percent) or 1-percentage-point higher (4.17 percent) than the current discount rate:

		1% Decrease (2.17%)	Current Discount Rate (3.17%)	1% Increase (4.17%)
Net OPEB Liability	6/30/17	\$ 3,671,205	\$ 3,924,487	\$ 4,195,979

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

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

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

		1% Decrease (7.5 decreasing to 4.0%)	Healthcare Cost Trend Rates (8.5% decreasing to 5.0%)	1% Increase (9.5% decreasing to 6.0%)
Net OPEB Liability	12/31/17	<u>\$ 4,355,440</u>	<u>\$ 3,924,487</u>	<u>\$ 3,555,561</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2017, the District recognized OPEB expense of \$284,887. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 266,982	\$ -
Changes of Assumptions or Other Input	146,382	360,508
Net Difference Between Projected and Actual Earnings on OPEB Investments	-	-
District Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 413,364</u>	<u>\$ 360,508</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended December 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$ 45,894	\$ 40,026
2019	45,894	40,026
2020	45,894	40,026
2021	45,894	40,026
2022	45,894	40,026
Thereafter	183,894	160,378

The plan does not issue separate financial statements.

MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 10 – YAHARA WATERSHED IMPROVEMENT NETWORK ADAPTIVE MANAGEMENT PROJECT

The Yahara WINS adaptive management project, also known as Yahara WINS, is 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, 2017 and 2016, the Yahara WINS checking and savings account had a balance of \$1,063,558 and \$241,213, respectively, which was reflected in the accompanying financial statement as restricted cash and cash equivalents and due to other governments.

NOTE 11 – RESTATEMENT

During the year ended December 31, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These pronouncements require the restatement of the December 31, 2017 net position of the District as follows:

Net Position, December 31, 2016, as Previously Reported	\$ 130,056,666
Cumulative Affect of Application of GASB 75, Net OPEB Liability	<u>(1,104,543)</u>
Net Position, December 31, 2016, as Restated	<u><u>\$ 128,952,123</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT'S (MMSD)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
Wisconsin Retirement System
Last 10 Measurement Periods**

For Year Ended December 31,

	2017	2016	2015
MMSD's proportion of the net pension liability (asset)	0.05213809 %	0.05093867 %	0.04901264 %
MMSD's proportionate share of the net pension liability (asset)	\$429,742	\$827,743	\$(1,203,885)
MMSD's covered-employee payroll	\$7,638,412	\$7,517,175	\$7,095,005
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.12%	98.2%	102.74%

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT CONTRIBUTIONS
Wisconsin Retirement System
Last 10 Fiscal Years***

	2017	2016	2015
Contractually required contributions	\$504,135	\$511,168	\$496,650
Contributions in relation to the contractually required contributions	(\$504,135)	(\$511,168)	(\$496,650)
Contribution deficiency (excess)	\$0	\$0	\$0
MMSD's covered-employee payroll	\$7,638,412	\$7,517,175	\$7,095,005
Contributions as a percentage of covered-employee payroll	6.6%	6.8%	7%

* The amounts presented for each measurement period that was presented for each fiscal year noted.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

**SCHEDULE OF CHANGES IN MADISON METROPOLITAN SEWERAGE
DISTRICT'S (MMSD) TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years**

	2017
Total OPEB Liability	
Service Cost	\$ 362,832
Interest	110,618
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	296,624
Changes in Assumptions and Other Input	20,618
Benefit Payments	(194,432)
Other Changes	<u>(258,517)</u>
Net Change in Total OPEB Liability	337,743
Total OPEB Liability - Beginning	<u>3,586,744</u>
Total OPEB Liability - Ending	<u><u>\$ 3,924,487</u></u>
Covered Employee Payroll	\$ 7,814,320
District's Net OPEB Liability as a Percentage Covered-Employee Payroll	50.22%