

**MADISON METROPOLITAN
SEWERAGE DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2020 AND 2019



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Madison Metropolitan Sewerage District
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the Madison Metropolitan Sewerage District (the District), as of and for the years ended December 31, 2020 and 2019, 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of the Madison Metropolitan Sewerage District as of December 31, 2020 and 2019, 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.

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 District's Proportionate Share of the Net Pension Liability (Asset), the Schedule of the District's Pension Contributions, the Schedule of Changes in Total OPEB Liability and Related Ratios, the Schedule of the District's Proportionate Share of the Net OPEB Liability (Asset), and the Schedule of the District's OPEB Contributions 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
June 30, 2021

Management's Discussion and Analysis for 2020 and 2019

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 2020 and 2019. It should be read in conjunction with the District's financial statements which follow this section. The 2020 and 2019 financial statements have been prepared in accordance with generally accepted accounting principles.

Financial Highlights

- Net position increased by \$8.3 million (5.6 percent) from \$148.6 million to \$156.9 million in 2020. This compares to a \$7.4 million (5.3 percent) increase in 2019.
- Operating revenues increased by \$1.7 million (4.4 percent) from \$39.4 million to \$41.1 million in 2020. This compares to a \$1.5 million (3.9 percent) increase in 2019.
- Operating expenses, excluding depreciation, increased by \$.4 million (1.8 percent) from \$23.4 million to \$23.8 million in 2020. This compares to an increase of \$1.8 million (8.2 percent) in 2019.
- Financial information for fiduciary activities for the Yahara Watershed Improvement Network (Yahara WINS) is presented in the attached Fiduciary Statement of Net Position and Fiduciary Statement of Changes in Net Position.

Overview of the Financial Statements

This annual financial report includes this Management Discussion and Analysis report, the independent auditors' report, the basic financial statements and the financial statements of the fiduciary funds. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Basic Financial Statements

The basic 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 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.

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.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. The District's fiduciary activities on behalf of the Yahara Watershed Improvement Network (Yahara WINS) group are reported in separate statements of fiduciary net position and changes in fiduciary net position. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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)

| | 2020 | 2019 | 2018 |
|---|-------------------|-------------------|-------------------|
| Current Assets | \$ 55,959 | \$ 42,758 | \$ 44,593 |
| Noncurrent Assets | | | |
| Capital assets, net of accumulated depreciation | 243,689 | 227,943 | 226,548 |
| Other assets | 6,826 | 9,010 | 10,934 |
| Total assets | 306,474 | 279,711 | 282,075 |
| Deferred Outflows: | | | |
| Deferred outflows of resources related to Pension | 4,130 | 5,176 | 2,883 |
| Deferred outflows of resources related to OPEB | 1,010 | 444 | 418 |
| Total Deferred Outflows | 5,140 | 5,620 | 3,301 |
| Current Liabilities | 18,293 | 15,391 | 15,480 |
| Noncurrent Liabilities | 130,254 | 117,155 | 124,068 |
| Total liabilities | 148,547 | 132,546 | 139,548 |
| Deferred Inflows: | | | |
| Interceptor connection charges | 105 | 620 | 974 |
| Deferred inflows of resources related to Pension | 5,250 | 2,674 | 3,187 |
| Deferred inflows of resources related to OPEB | 778 | 869 | 490 |
| Total Deferred Inflows | 6,133 | 4,163 | 4,651 |
| Net Position: | | | |
| Invested in capital assets, net of related debt | 105,584 | 106,781 | 99,291 |
| Restricted for: | | | |
| Debt Service | 26,606 | 23,656 | 20,950 |
| Equipment Replacement | 3,900 | 3,750 | 3,300 |
| Net Pension asset | 1,749 | | 1,582 |
| Unrestricted: | 19,095 | 14,437 | 16,054 |
| Total net position | \$ 156,934 | \$ 148,624 | \$ 141,177 |

As of December 31, 2020, the District had total assets and deferred outflows of resources net of accumulated depreciation and deferred outflows of \$311.6 million and total liabilities and deferred inflows of resources of \$154.7 million, resulting in \$156.9 million of net position. Net position increased by \$8.3 million (5.6 percent) in 2020. This compares to a net position increase of \$7.4 million (5.3 percent) in 2019. The 2020 increase was due in part to capital contributions of \$3.9 million. Capital assets net of related debt decreased \$1.2 million, restricted assets increased by \$4.8 million. Funds represented by the 2020 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 \$243.7 million, 79.5 percent of total assets at the end of 2020. At the end of 2019 capital assets had a value of \$227.9 million and represented 81.5 percent of total assets. Capital assets increased \$15.7 million in 2020 compared to a \$1.4 million increase in 2019. In 2020 the value of capital assets net of depreciation increased because the value of new assets added was more than the depreciation for the year.

Future principal payments on bonds total \$133.3 million at the end of 2020 and represent 89.7 percent of the District's liabilities. At the end of 2019, future principal payments on bonds totaled \$119 million and represented 89.8 percent of the District's liabilities. Future principal payments were \$14.2 million more than at the end of 2019 because principal payments (\$10.1 million) on debt in 2020 is less than the amount of new debt (\$24.4 million) incurred. Future principal payments at the end of 2019 were \$8.2 million less than at the end of 2018. Construction activity funded with bond funds increased in 2020 compared to previous years.

The District's restricted net position consists of reserves for the payment of debt service, for unexpected expenses for the repair and replacement of equipment and net pension assets. Restricted assets increased by \$4.8 million in 2020 because debt service reserves increased \$3.0 million, the equipment replacement fund increased \$0.15 million and the net pension asset increased by \$1.7 million. Restricted net position increased by \$1.6 million in 2019.

Unrestricted net position, which is the district's unrestricted cash and investments, increased \$4.7 million in 2020.

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)

| | 2020 | 2019 | 2018 |
|--|---------------|---------------|---------------|
| Operating Revenues | \$ 41,114 | \$ 39,374 | \$ 37,907 |
| Nonoperating Revenues | 595 | 1,173 | 904 |
| Total revenues | 41,709 | 40,547 | 38,811 |
| Depreciation Expense | 8,557 | 8,410 | 8,328 |
| Other Operating Expense | 23,780 | 23,366 | 21,604 |
| Nonoperating Expense | 4,960 | 3,587 | 3,695 |
| Total expense | 37,297 | 35,363 | 33,627 |
| Income (Loss) Before Capital Contributions | 4,412 | 5,184 | 5,184 |
| Capital Contributions | 3,898 | 2,263 | 2,933 |
| Increase in net position | 8,310 | 7,447 | 8,117 |
| Beginning Net Position | 148,624 | 141,177 | 133,473 |
| Restatement Due to GASB 75. | - | - | (413) |
| Beginning of Year, Restated | 148,624 | 141,177 | 133,060 |
| Ending Net Position | \$ 156,934 | \$ 148,624 | \$ 141,177 |

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

Operating revenue for 2020 increased by \$1.7 million, or 4.4 percent, from \$39.4 million to \$41.1 million. This compares to the 2019 operating revenue increase of \$1.5 million, or 3.9 percent. The 2020 increase was primarily due to higher revenues from service charges.

Non-operating revenues for 2020 were \$.58 million, 49.3 percent, lower than in 2019, due largely to market shortfalls from investment revenues. Non-operating revenues for 2019 were 29 percent higher than in 2018. Depreciation expense in 2020 of \$8.6 increased from 2019, by \$0.2 million or 1.7% over 2019, due to an increase in capital assets in 2020. The 2019 depreciation expense of \$8.4 million was a \$0.1 million increase over 2018.

Other operating expenses for 2020 of \$23.8 million were \$0.4 million (1.8 percent) higher than 2019 expenses of \$23.4 million. Other operating expenses for 2019 were 8.2 percent higher than 2018 expenses

of \$21.6 million. The increase in other operating expenses in 2020 was due largely to increase in salaries \$1.0 million and contracted services \$0.4 million.

Non-operating expenses for 2020 of \$5.0 million, which are comprised of interest on the District's outstanding debt, other construction expenses, and disposal of equipment, were \$1.4 million (38.2%) higher than 2019 non-operating expenses. The increase in non-operating expenses was due to construction expenses by \$2.0 million. Non-operating expenses in 2019 were \$.11 million lower than in 2018.

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.

A conveyance facility connection charge rate has been established for each major District interceptor sewer. The conveyance facility connection charge rates are adjusted annually to account for changes in construction costs.

In July 2017 the district adopted a new method of determining the treatment plant connection charge rate. The new method is based on the share of treatment plant capacity used by new users and the total value of the treatment plant facilities. If the new rates had been phased in immediately the rate would have increased nearly 400%. The 2019 rates began an eight-year phase in of the new treatment plant rate method and as a result the rate increased by 84%.

Capital contributions in 2020 of \$3.9 million were \$1.6 million more than 2019 capital contributions of \$2.3 million. The 72 percent increase compared to 2019 was due to multiple connection charge payment made in 2020 and revenues that were generated in that year.

Comparison of Actual Financial Results to Budget

Each year the District adopts annual operating, capital projects and debt service budgets and a six-year capital improvement plan. A comparison of the 2020 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 service payments.

Operating revenues for 2020 of \$41.1 million were \$1.8 million (4.2 percent) less than budgeted primarily due to unexpected events from the Covid pandemic events and from sewer services revenues that were \$1.7 million lower than budgeted. Non-operating revenues of \$.60 million for interest income, rent, and other miscellaneous items were \$0.47 million (44 percent) less than budgeted due to sharp decreases in interest income on investments.

Operating expenses for 2020, excluding depreciation, were \$3.1 million less than budgeted. The most significant under budget items were contracted services, replacement parts and services, chemicals and administrative expenses which were a combined \$2.4 million less than budgeted. The over budget items were water and sewer services and insurance by \$0.03 million.

Non-operating expenses, which include the net value of retired equipment, construction expenses and the interest costs on the District's outstanding debt, were \$.4 million more than budgeted due to high construction expenses. The district does not budget for the disposal of equipment.

Budgeted income before capital contributions for 2020 of \$12.5 million is largely due to \$10.1 million budgeted for principal payments on the District's outstanding debt. The \$8.2 million variance in the actual and budgeted income is primarily due to the \$8.6 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 2020
(000's)

| | Budget | Actual | Variance |
|-------------------------------------|---------------|------------------|----------------|
| Revenues | | | |
| From operations | \$ 42,929 | \$ 41,114 | \$ (1,815) |
| Nonoperating | 1,062 | \$ 595 | (467) |
| Total revenues | 43,991 | \$ 41,709 | (2,282) |
| Operating Expenses | | | |
| Depreciation expense | | 8,557 | 8,557 |
| Other operating expenses: | | | |
| Salaries with benefits | 12,642 | 12,604 | (38) |
| Administrative | 358 | 151 | (207) |
| Legal and accounting | 228 | 139 | (89) |
| Insurance | 277 | 282 | 5 |
| Power | 3,490 | 3,331 | (159) |
| Natural gas | 188 | 167 | (21) |
| Chemicals | 1,202 | 864 | (338) |
| Motor and LP fuel | 113 | 59 | (54) |
| Water and sewer services | 176 | 202 | 26 |
| Contracted services | 4,590 | 3,341 | (1,249) |
| Engineering Consulting | - | - | - |
| Communication services | 154 | 122 | (32) |
| Replacement parts and services | 2,420 | 1,848 | (572) |
| Supplies | 603 | 447 | (156) |
| Miscellaneous | 414 | 223 | (191) |
| Total other operating expenses | 26,855 | \$ 23,780 | (3,075) |
| Total operating expenses | 26,855 | 32,337 | 5,482 |
| Nonoperating Expenses | | | |
| Disposal of Equipment | - | 3 | 3 |
| Construction Expenses | 820 | 2,011 | 1,191 |
| Interest expense | 3,731 | 2,946 | (785) |
| Total nonoperating expenses | 4,551 | 4,960 | 409 |
| Total expenses | 31,406 | 37,297 | 5,891 |
| Income before capital contributions | \$ 12,585 | \$ 4,412 | \$ (8,173) |

Capital Assets

At the end of 2020 the District had \$244 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)

| | 2020 | 2019 | 2018 |
|-----------------------------------|-------------------|-------------------|-------------------|
| Assets | | | |
| Land | \$ 7,401 | \$ 7,401 | \$ 7,401 |
| Structures and improvements | \$ 215,282 | 212,815 | 210,137 |
| Mechanical equipment | \$ 146,608 | 145,620 | 145,639 |
| Office furniture and equipment | \$ 5,377 | 5,041 | 5,183 |
| Vehicles | \$ 3,704 | 3,536 | 2,938 |
| Construction In progress | \$ 32,063 | 11,861 | 6,142 |
| Total | \$ 410,435 | 386,274 | 377,440 |
| Less accumulated depreciation | \$ 166,746 | 158,331 | 150,891 |
| Net property and equipment | \$ 243,689 | \$ 227,943 | \$ 226,549 |

The District's six-year capital improvement plan for 2020 through 2025 includes \$74 million of treatment plant upgrades and expansions and \$85 million of collection system improvements. Larger projects are expected to be financed with Clean Water Fund loans administered by the State of Wisconsin. Smaller projects less than \$500,000 will generally 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 \$24.2 million to \$410.4 million. During 2020 the District completed the NSVI – Morse Pond Project (\$2.2 million), The piping Improvements W1 & Hot water projects (\$.44 million) and the Fuel Tank Replacement and Shop 1 site Improvements project (\$.31 million). The district added \$20.2 million to construction in progress for projects not completed. The largest contributions to construction in progress came from the Liquid Processing Improvements Project (\$10.9 million), the Northeast Interceptor Truax Extension Relief project (\$4.9 million) and the Pumping Station 7 Improvements project (\$2.4 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 2020 was \$133.3 million which represents the remaining balance on the Clean Water Fund loans from the State of Wisconsin. This compares to a 2019 year-end balance of \$119.0 million and a 2018 year-end balance of \$127.3 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 \$58 million over the six-year period from 2021 to 2026 due to anticipated projects in the collection system and treatment plant. Annual debt service obligations increased 11.9% in 2020 and are projected to increase 6.9% percent annually from 2021 to 2026.

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 2020 the borrowing limit was \$2.8 billion. At the end of 2019 that borrowing limit was \$2.61 billion. Over the next six years, the total amount of anticipated debt would be no more than 6.9 percent of the current limit. At the end of 2020 the District's debt of \$133.3 million was at 4.8 percent of this limit. At the end of 2019 the District's debt of \$119 million was at 4.6 percent of the limit. During the last two years the District did not experience any negative changes in debt credit rating or debt limitation.

Economic Factors

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.

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, 2020 AND 2019**

| | ASSETS | |
|---|--------------------|--------------------|
| | <u>2020</u> | <u>2019</u> |
| Current assets: | | |
| Unrestricted assets - Cash and cash equivalents | \$ 17,301,427 | \$ 11,614,568 |
| Receivables, net of allowance for uncollectible amounts: | | |
| Transmission and treatment of sewage and septage disposal | 10,072,272 | 9,710,225 |
| Servicing pumping stations | 112,822 | 149,539 |
| Interceptor connection charges, current portion | 316,230 | 340,794 |
| Other | 356,160 | 158,696 |
| Prepaid insurance | 333 | 333 |
| Other assets | 1,684,565 | 1,610,286 |
| Restricted assets - Cash and cash equivalents | <u>26,115,128</u> | <u>22,967,653</u> |
| Total current assets | <u>55,958,937</u> | <u>46,552,094</u> |
| Noncurrent assets: | | |
| Restricted Assets - Investments | 4,917,557 | 4,936,886 |
| Restricted assets - Net pension asset | 1,748,502 | - |
| Interceptor connection charges, less current portion | 158,608 | 279,184 |
| Capital assets: | | |
| Capital assets not being depreciated | 39,463,625 | 19,261,755 |
| Capital assets being depreciated | <u>370,971,894</u> | <u>367,012,584</u> |
| | 410,435,519 | 386,274,339 |
| Less: accumulated depreciation | <u>166,746,252</u> | <u>158,331,468</u> |
| Capital assets, net of depreciation | <u>243,689,267</u> | <u>227,942,871</u> |
| Total noncurrent assets | <u>250,513,934</u> | <u>233,158,941</u> |
| Total assets | <u>306,472,871</u> | <u>279,711,035</u> |
| Deferred outflows: | | |
| Deferred outflows of resources related to pensions | 4,129,626 | 5,175,757 |
| Deferred outflows of resources related to OPEBs | <u>1,010,261</u> | <u>443,926</u> |
| Total deferred outflows | <u>5,139,887</u> | <u>5,619,683</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

| LIABILITIES | | |
|--|-----------------------|-----------------------|
| | <u>2020</u> | <u>2019</u> |
| Current liabilities: | | |
| Vouchers payable | \$ 5,841,069 | \$ 3,333,241 |
| Accrued salaries | 128,402 | 334,994 |
| Payroll withholdings payable | 100,696 | 159,032 |
| Compensated absences, current portion | 785,376 | 701,274 |
| Net OPEB liability, current portion | <u>252,144</u> | <u>248,000</u> |
| Total current liabilities | <u>7,107,687</u> | <u>4,776,541</u> |
| Liabilities payable from restricted assets: | | |
| Bonds payable, current portion | 10,657,460 | 10,114,790 |
| Accrued interest payable | <u>527,048</u> | <u>498,274</u> |
| Total current liabilities payable from restricted assets | <u>11,184,508</u> | <u>10,613,064</u> |
| Noncurrent liabilities, less current portion: | | |
| Compensated absences | 2,223,506 | 2,037,278 |
| Bonds payable | 122,626,954 | 108,933,043 |
| Net pension liability | - | 1,913,311 |
| Net OPEB liability | <u>5,403,556</u> | <u>4,271,311</u> |
| Total noncurrent liabilities | <u>130,254,016</u> | <u>117,154,943</u> |
| Total liabilities | <u>148,546,211</u> | <u>132,544,548</u> |
| Deferred Inflows: | | |
| Deferred inflows from interceptor connection charges | 104,547 | 619,978 |
| Deferred inflows of resources related to pensions | 5,249,820 | 2,673,692 |
| Deferred inflows of resources related to OPEBs | <u>778,144</u> | <u>868,538</u> |
| Total deferred inflows | <u>6,132,511</u> | <u>4,162,208</u> |
| NET POSITION | | |
| Net investment in capital assets | 105,584,215 | 106,780,900 |
| Restricted for: | | |
| Debt service | 26,605,637 | 23,656,265 |
| Equipment replacement | 3,900,000 | 3,750,000 |
| Net pension asset | 1,748,502 | - |
| Unrestricted | <u>19,095,682</u> | <u>14,436,797</u> |
| Total net position | <u>\$ 156,934,036</u> | <u>\$ 148,623,962</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Charges for services: | | |
| Transmission and treatment of sewage | \$ 39,520,330 | \$ 37,683,788 |
| Servicing pumping stations | 489,646 | 580,300 |
| Septage disposal | 829,125 | 826,433 |
| Pretreatment monitoring | 29,150 | 29,413 |
| Struvite Harvesting | <u>245,382</u> | <u>253,163</u> |
| Total operating revenues | <u>41,113,633</u> | <u>39,373,097</u> |
| OPERATING EXPENSES | | |
| Administration | 6,516,650 | 6,768,879 |
| Treatment | 13,962,474 | 13,149,172 |
| Collection | 3,299,882 | 3,446,908 |
| Depreciation | <u>8,557,312</u> | <u>8,409,797</u> |
| Total operating expenses | <u>32,336,318</u> | <u>31,774,756</u> |
| Operating income | <u>8,777,315</u> | <u>7,598,341</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income (losses) | 245,763 | 805,271 |
| Rent | 86,084 | 82,289 |
| Other | 263,099 | 286,040 |
| Construction expenses | (2,010,225) | (477,280) |
| Disposal of property and equipment | (2,668) | (68,930) |
| Interest expense | <u>(2,947,662)</u> | <u>(3,041,095)</u> |
| Total nonoperating revenues (expenses) | <u>(4,365,609)</u> | <u>(2,413,705)</u> |
| Income (loss) before capital contributions | 4,411,706 | 5,184,636 |
| CAPITAL CONTRIBUTIONS | | |
| Interceptor connection charges | <u>3,898,368</u> | <u>2,262,579</u> |
| Total capital contributions | <u>3,898,368</u> | <u>2,262,579</u> |
| CHANGE IN NET POSITION | 8,310,074 | 7,447,215 |
| NET POSITION | | |
| BEGINNING OF YEAR, AS PREVIOUSLY REPORTED | <u>148,623,962</u> | <u>141,176,747</u> |
| END OF YEAR | <u>\$ 156,934,036</u> | <u>\$ 148,623,962</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 40,590,839 | \$ 38,833,589 |
| Payments to suppliers | (11,822,568) | (12,103,064) |
| Payments to employees | (11,783,881) | (10,355,149) |
| Net cash provided by operating activities | <u>16,984,390</u> | <u>16,375,376</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Rent receipts | 86,084 | 82,289 |
| Other receipts | 263,099 | 286,040 |
| Net cash provided by noncapital financing activities | <u>349,183</u> | <u>368,329</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest paid on long-term debt | (2,918,888) | (3,074,327) |
| Principal paid on long-term debt | (10,114,791) | (9,794,492) |
| Proceeds from issuance of long-term debt | 24,351,372 | 1,585,533 |
| Construction expenses | (2,010,225) | (477,280) |
| Acquisition of capital assets | (21,624,229) | (10,433,716) |
| Proceeds from sale of capital assets | 24,353 | 7,177 |
| Capital contributions received | 3,528,077 | 2,262,579 |
| Net cash used in capital and related financing activities | <u>(8,764,331)</u> | <u>(19,924,526)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net investment income | 245,763 | 805,271 |
| Purchase of investments | (2,306,638) | (4,278,971) |
| Proceeds from sales and maturities of investments | 2,325,967 | 7,848,029 |
| Net cash provided by investing activities | <u>265,092</u> | <u>4,374,329</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,834,334 | 1,193,508 |
| CASH AND CASH EQUIVALENTS | | |
| BEGINNING OF YEAR | <u>34,582,221</u> | <u>33,388,713</u> |
| END OF YEAR | <u>\$ 43,416,555</u> | <u>\$ 34,582,221</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| RECONCILIATION OF OPERATING INCOME TO NET | | |
| CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 8,777,315 | \$ 7,598,341 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 8,557,312 | 8,409,797 |
| Increase (decrease) from changes in: | | |
| Receivables: | | |
| Transmission and treatment of sewage and septage disposal | (362,047) | (457,463) |
| Servicing pumping stations | 36,717 | (55,385) |
| Other | (197,464) | (26,660) |
| Inventories | (74,279) | (13,519) |
| Net OPEB liability | 1,136,389 | (12,811) |
| Deferred outflows of resources related to OPEB | (566,335) | (25,604) |
| Deferred inflows of resources related to OPEB | (90,394) | 378,245 |
| Net pension liability/asset | (3,661,813) | 3,495,208 |
| Deferred outflows of resources related to pension | 1,046,131 | (2,293,111) |
| Deferred inflows of resources related to pension | 2,576,128 | (512,714) |
| Vouchers payable | (198,672) | (142,719) |
| Other liabilities | 5,402 | 33,771 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 16,984,390</u> | <u>\$ 16,375,376</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION | | |
| Unrestricted | \$ 17,301,427 | \$ 11,614,568 |
| Restricted | 26,115,128 | 22,967,653 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 43,416,555</u> | <u>\$ 34,582,221</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Construction in progress reported in accounts payable | \$ 4,820,638 | \$ 2,114,138 |
| Interceptor connection charges billed | - | 1,908,388 |
| TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | <u>\$ 4,820,638</u> | <u>\$ 4,022,526</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2020 AND 2019**

| | Custodial Fund | |
|--|-----------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,785,750 | \$ 1,865,641 |
| Receivables: | | |
| Accounts receivable | 1,411,433 | 1,482,035 |
| Total assets | 3,197,183 | 3,347,676 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | 428,001 | 793,629 |
| Unearned receivables | 1,411,433 | 1,426,035 |
| Total liabilities | 1,839,434 | 2,219,664 |
| NET POSITION | | |
| Restricted for: | | |
| Other governments | 1,357,749 | 1,128,012 |
| Total net position | \$ 1,357,749 | \$ 1,128,012 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

| | Custodial Fund | |
|--|-----------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| ADDITIONS | | |
| Contributions: | | |
| Members | \$ 1,426,035 | \$ 1,427,590 |
| Total contributions | <u>1,426,035</u> | <u>1,427,590</u> |
| Investment earnings | | |
| Interest, dividends, and other | 3,120 | 4,431 |
| Net investment earnings | <u>3,120</u> | <u>4,431</u> |
| Total additions | <u>1,429,155</u> | <u>1,432,021</u> |
| DEDUCTIONS | | |
| Administration | 78,261 | 82,523 |
| Phosphorus reduction | 966,613 | 1,307,835 |
| Water quality monitoring or modeling | 154,544 | 199,362 |
| Total deductions | <u>1,199,418</u> | <u>1,589,720</u> |
| NET INCREASE/(DECREASE) IN FIDUCIARY NET POSITION | 229,737 | (157,699) |
| NET POSITION | | |
| BEGINNING OF YEAR | <u>1,128,012</u> | <u>1,285,711</u> |
| END OF YEAR | <u>\$ 1,357,749</u> | <u>\$ 1,128,012</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Nature of Activities and Reporting Entity

Madison Metropolitan Sewerage District (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. The District 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 a 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 and 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.

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. During the year ended December 31, 2018, the District adopted GASB Statement No. 84, *Fiduciary Activities*. As a result, the financial information attributed to Yahara WINS will be presented separately in the fiduciary statement of net position and fiduciary statement of changes in net position.

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 nonoperating revenues and expenses.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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. Nonnegotiable 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, 2020 and 2019, 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, 2020 AND 2019**

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

Other Assets

Supplies are valued at cost under the specific identification method. The consumption method is used to account for supplies. Under the consumption method, supplies 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, 2020 and 2019, and are included in other receivables

Conveyance Facilities Connection Charges and Treatment Plant Connection Charges

Receivables from conveyance facilities connection charges and treatment plant 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 and repayment of debt obligations.

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 recorded at cost or the acquisition value at the time of contribution to the District. 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. For years prior to 2018, interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year ending December 31, 2018, the District adopted GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, which discontinued the capitalization of interest costs during construction.

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 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Capital Assets (Continued)

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

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 nonexempt 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Compensated Absences (Continued)

Nonexempt 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.

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.

Other Postemployment Benefits (OPEB) Retiree Health Insurance

The District offers health insurance coverage to retirees at a rate set by the insurance carrier. Retirees are responsible for the full payment of premiums directly to the District. In addition, the District will make Medicaid and Medicare Supplement plans available to those employees qualified for Medicaid and/or Medicare. If a retired employee elects to discontinue participation in the District's group health insurance plan, the individual will not be allowed to reenroll at a later date.

Other Postemployment Benefits (OPEB) Retiree Life Insurance.

The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits; OPEB expense; and information about the fiduciary net position of the LRLIF, including additions to/deductions from LRLIF's fiduciary net position, have been determined on the same basis as they are reported by LRLIF. 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Deferred Inflows

Deferred inflows are reported for conveyance facilities connection charges and treatment plant connection charges that will become collectible at the time the related properties are connected to the system.

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

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

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

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

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

Capital Contributions

Capital contributions consist of conveyance facilities connection charges and treatment plant 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Pollution Remediation Obligations

The District owns land that has been remediated under a Superfund clean-up project. Ongoing monitoring and maintenance of the lands is reported as an operating expense. The District did not incur significant remediation expenses in either 2020 and 2019. Future expenses are expected to range from \$10,000 to \$30,000 annually.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

| | 2020 | 2019 |
|---|---------------|---------------|
| Petty cash | \$ 500 | \$ 500 |
| Deposits: | | |
| Demand deposits | 901,774 | 517,857 |
| Savings accounts | 2,895,883 | 972,888 |
| Investments: | | |
| U.S. agency obligations | 943,708 | - |
| U.S. agency mortgage backed securities | 3,973,849 | 4,936,886 |
| Insured deposit account | 215,942 | 111,453 |
| Local Government Investment Pool | 39,402,456 | 32,979,523 |
| Total District cash, cash equivalents, and investments | 48,334,112 | 39,519,107 |
| Fiduciary deposits - saving accounts | 1,785,750 | 1,865,641 |
| Total cash, cash equivalents, and investments | \$ 50,119,862 | \$ 41,384,748 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

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

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Cash and cash equivalents | | |
| Unrestricted | \$ 17,301,427 | \$ 11,614,568 |
| Restricted | 26,115,128 | 22,967,653 |
| Investments | | |
| Restricted | 4,917,557 | 4,936,886 |
| Total District cash, cash equivalents, and investments | 48,334,112 | 39,519,107 |
| Fiduciary cash, cash equivalents, and investments | 1,785,750 | 1,865,641 |
| Total cash, cash equivalents, and investments | \$ 50,119,862 | \$ 41,384,748 |

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 \$3,797,657 and \$1,490,745, with bank balances of \$4,137,222 and \$1,533,038 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the District had no uninsured or uncollateralized bank balances. The District does not have a formal policy related to custodial credit risk, but it is their practice 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. 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, 2020 AND 2019**

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:

| December 31, 2020 | | | | |
|--|-------------|---------------------|-------------|---------------------|
| Investment Type | Level 1 | Level 2 | Level 3 | Total |
| Government agency bonds and notes | \$ - | \$ 943,708 | \$ - | \$ 943,708 |
| Government national mortgage association MBS | - | 550,244 | - | 550,244 |
| Federal national mortgage association MBS | - | 1,747,306 | - | 1,747,306 |
| Federal home loan mortgage corporation MBS | - | 1,676,299 | - | 1,676,299 |
| | <u>\$ -</u> | <u>\$ 4,917,557</u> | <u>\$ -</u> | <u>\$ 4,917,557</u> |
| December 31, 2019 | | | | |
| Investment Type | Level 1 | Level 2 | Level 3 | Total |
| Government national mortgage association | \$ - | \$ 784,114 | \$ - | \$ 784,114 |
| Federal national mortgage association | - | 1,505,519 | - | 1,505,519 |
| Federal home loan mortgage corporation | - | 2,647,253 | - | 2,647,253 |
| | <u>\$ -</u> | <u>\$ 4,936,886</u> | <u>\$ -</u> | <u>\$ 4,936,886</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2020, the District had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|--|----------------------|----------------------------------|-------------------|------------------|---------------------|
| | | <1 | 1-5 | 6-10 | >10 |
| Local government investment pool ** | \$ 39,402,456 | \$ 39,402,456 | \$ - | \$ - | \$ - |
| Money market | 215,942 | 215,942 | - | - | - |
| Government agency bonds and notes | 943,708 | - | 943,708 | - | - |
| Government national mortgage association | 550,244 | - | 2,506 | 1,110 | 546,628 |
| Federal national mortgage association | 1,747,306 | - | 6,164 | 16,317 | 1,724,825 |
| Federal home loan mortgage corporation | 1,676,299 | - | 934 | 6,887 | 1,668,478 |
| | <u>\$ 44,535,955</u> | <u>\$ 39,618,398</u> | <u>\$ 953,312</u> | <u>\$ 24,314</u> | <u>\$ 3,939,931</u> |

As of December 31, 2019, the District had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|--|----------------------|----------------------------------|-------------------|------------------|---------------------|
| | | <1 | 1-5 | 6-10 | >10 |
| Local government investment pool ** | \$ 32,979,523 | \$ 32,979,523 | \$ - | \$ - | \$ - |
| Money market | 111,453 | 111,453 | - | - | - |
| Government national mortgage association | 784,114 | - | 4,034 | 1,405 | 778,675 |
| Federal national mortgage association | 1,505,519 | - | 10,923 | 18,272 | 1,476,324 |
| Federal home loan mortgage corporation | 2,647,253 | 100,816 | 702,266 | 8,616 | 1,835,555 |
| | <u>\$ 38,027,862</u> | <u>\$ 33,191,792</u> | <u>\$ 717,223</u> | <u>\$ 28,293</u> | <u>\$ 4,090,554</u> |

** Because the LGIP had a weighted average maturity of less than one year as of December 31, 2020 and 2019, 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. agency securities that are explicitly guaranteed, and therefore credit rating is not applicable or has 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. agency obligations are not limited as to amount.

Custodial Credit Risk - Investments

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

All of the District's U.S. 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

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, 2020 and 2019:

Restricted assets:

Cash and cash equivalents:

| | | | | |
|---------------------------------|----|------------|----|------------|
| Debt service | \$ | 22,215,128 | \$ | 19,217,653 |
| Unexpected repair & replacement | | 3,900,000 | | 3,750,000 |

Investments:

| | | | | |
|-------------------------|--|------------|--|------------|
| Debt service | | 4,917,557 | | 4,936,886 |
| Net pension asset | | 1,748,502 | | - |
| Total restricted assets | | 32,781,187 | | 27,904,539 |

| | | | | |
|--|--|-----------|--|-----------|
| Current liabilities payable from restricted assets | | (527,048) | | (498,274) |
|--|--|-----------|--|-----------|

| | | | | |
|-------------------------|----|------------|----|------------|
| Restricted net position | \$ | 32,254,139 | \$ | 27,406,265 |
|-------------------------|----|------------|----|------------|

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 \$3.9 million of its investments and net position for unexpected equipment replacement. In addition, the District annually budgets for replacement of equipment.

According to the CWF equipment replacement percentage schedule option, the District must maintain a minimum replacement fund balance of five percent of the original cost of "mechanical equipment." For this purpose, the District uses the sum of its light mechanical equipment, office furniture and equipment, and vehicles. 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, 2020 is \$67,815,454. The required five percent of this value is \$3,390,773. The 2020 value of the equipment replacement fund is \$3,900,000. The District adds annual contributions to the equipment replacement fund in order to meet future requirements. As of December 31, 2020, District has met this requirement within the three-year timeframe allowed. For the year ending December 31, 2019, the corresponding "mechanical equipment" total was \$66,965,657 and the required five percent of this amount was \$3,348,283.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 - RESTRICTED NET POSITION (Continued)

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, 2020 and 2019 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.

NOTE 4 - CAPITAL ASSETS

During the year ended December 31, 2020, the changes in capital assets were as follows:

| | Beginning Balance January 1, 2020 | Additions & Reclassifications | Retirements & Reclassifications | Ending Balance December 31, 2020 |
|---------------------------------------|--------------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 11,860,845 | \$ 23,943,116 | \$ 3,741,246 | \$ 32,062,715 |
| Land and easements | 7,400,910 | - | - | 7,400,910 |
| | <u>19,261,755</u> | <u>23,943,116</u> | <u>3,741,246</u> | <u>39,463,625</u> |
| Capital assets being depreciated: | | | | |
| Structures and improvements | 212,815,136 | 2,466,934 | - | 215,282,070 |
| Heavy mechanical equipment | 87,231,791 | 621,993 | 2,617 | 87,851,167 |
| Light mechanical equipment | 58,388,593 | 400,313 | 31,412 | 58,757,494 |
| Office furniture and equipment | 5,040,764 | 342,175 | 5,618 | 5,377,321 |
| Vehicles | 3,536,300 | 297,446 | 129,904 | 3,703,842 |
| | <u>367,012,584</u> | <u>4,128,861</u> | <u>169,551</u> | <u>370,971,894</u> |
| Accumulated depreciation: | | | | |
| Structures and improvements | 74,950,966 | 3,610,917 | - | 78,561,883 |
| Heavy mechanical equipment | 41,430,211 | 2,318,353 | 2,312 | 43,746,252 |
| Light mechanical equipment | 35,388,532 | 2,288,925 | 31,412 | 37,646,045 |
| Office furniture and equipment | 4,071,617 | 123,031 | 4,074 | 4,190,574 |
| Vehicles | 2,490,142 | 216,086 | 104,730 | 2,601,498 |
| | <u>158,331,468</u> | <u>8,557,312</u> | <u>142,528</u> | <u>166,746,252</u> |
| Capital assets being depreciated, net | <u>208,681,116</u> | <u>(4,428,451)</u> | <u>27,023</u> | <u>204,225,642</u> |
| Total capital assets, net | <u>\$ 227,942,871</u> | <u>\$ 19,514,665</u> | <u>\$ 3,768,269</u> | <u>\$ 243,689,267</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 - CAPITAL ASSETS (Continued)

During the year ended December 31, 2019, the changes in capital assets were as follows:

| | Beginning Balance January 1, 2019 | Additions & Reclassifications | Retirements & Reclassifications | Ending Balance December 31, 2019 |
|---------------------------------------|--------------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 6,141,977 | \$ 9,374,386 | \$ 3,655,518 | \$ 11,860,845 |
| Land and easements | 7,400,910 | - | - | 7,400,910 |
| | <u>13,542,887</u> | <u>9,374,386</u> | <u>3,655,518</u> | <u>19,261,755</u> |
| Capital assets being depreciated: | | | | |
| Structures and improvements | 210,136,991 | 2,816,272 | 138,127 | 212,815,136 |
| Heavy mechanical equipment | 86,964,069 | 426,567 | 158,845 | 87,231,791 |
| Light mechanical equipment | 58,673,854 | 103,991 | 389,252 | 58,388,593 |
| Office furniture and equipment | 5,183,150 | 137,811 | 280,197 | 5,040,764 |
| Vehicles | 2,937,878 | 677,251 | 78,829 | 3,536,300 |
| | <u>363,895,942</u> | <u>4,161,892</u> | <u>1,045,250</u> | <u>367,012,584</u> |
| Accumulated depreciation: | | | | |
| Structures and improvements | 71,513,856 | 3,575,220 | 138,110 | 74,950,966 |
| Heavy mechanical equipment | 39,199,971 | 2,315,742 | 85,502 | 41,430,211 |
| Light mechanical equipment | 33,492,904 | 2,282,133 | 386,505 | 35,388,532 |
| Office furniture and equipment | 4,241,317 | 110,497 | 280,197 | 4,071,617 |
| Vehicles | 2,442,766 | 126,205 | 78,829 | 2,490,142 |
| | <u>150,890,814</u> | <u>8,409,797</u> | <u>969,143</u> | <u>158,331,468</u> |
| Capital assets being depreciated, net | <u>213,005,128</u> | <u>(4,247,905)</u> | <u>76,107</u> | <u>208,681,116</u> |
| Total capital assets, net | <u>\$ 226,548,015</u> | <u>\$ 5,126,481</u> | <u>\$ 3,731,625</u> | <u>\$ 227,942,871</u> |

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/cafr.htm>.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

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 occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before 12/31/2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

The WRS also provides death and disability benefits for employees.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 |
|-------------|-----------------------------|---------------------------------|
| 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) |
| 2017 | 2.0 | 4 |
| 2018 | 2.4 | 17 |
| 2019 | 0.0 | (10) |

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, Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. 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 for the years ended December 31, 2020 and 2019, the WRS recognized \$672,995 and \$568,804 in contributions from the employer, respectively.

Contribution rates as of December 31, 2020 are:

| Employee Category | Employee | Employer |
|---|-----------------|-----------------|
| General (including teachers, executives, and elected officials) | 6.75% | 6.75% |
| Protective with Social Security | 6.75% | 11.65% |
| Protective without Social Security | 6.75% | 16.25% |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

Contributions (Continued)

Contribution rates as of December 31, 2019 are:

| General (including teachers, executives, and elected officials) | Employee | Employer |
|---|----------|----------|
| General (including teachers, executives, and elected officials) | 6.55% | 6.55% |
| Protective with Social Security | 6.55% | 10.55% |
| Protective without Social Security | 6.55% | 14.95% |

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

At December 31, 2020, the Madison Metropolitan Sewerage District reported an asset of \$1,748,502 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. 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 asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the District's proportion was .05422627%, which was an increase of .00044662% from its proportion measured as of December 31, 2018.

At December 31, 2019, the Madison Metropolitan Sewerage District reported liability of \$1,913,311 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension asset used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. 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 asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, the District's proportion was .05377965%, which was an increase of .00050131% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2020 and 2019, the District recognized pension expense of \$634,526 and \$1,259,327, respectively.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

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

At December 31, 2020, 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 | \$3,319,057 | \$1,660,966 |
| Changes in assumptions | 136,254 | - |
| Net differences between projected and actual earnings on pension plan investments | - | 3,574,563 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,320 | 14,291 |
| Employer contributions subsequent to the measurement date | 672,995 | - |
| Total | \$4,129,626 | \$5,249,820 |

\$672,995 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year ended December 31: | Net Amortization of Deferred Outflows/(Inflows) of Resources |
|-------------------------|--|
| 2021 | \$(538,816) |
| 2022 | (397,322) |
| 2023 | 62,165 |
| 2024 | (919,216) |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

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

At December 31, 2019, 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 | \$1,490,176 | \$2,634,101 |
| Changes in assumptions | 322,514 | - |
| Net differences between projected and actual earnings on pension plan investments | 2,794,260 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 39,591 |
| Employer contributions subsequent to the measurement date | 568,804 | - |
| Total | \$5,175,757 | \$2,673,692 |

Actuarial Assumptions

The total pension asset in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--------------------------------|
| Actuarial Valuation Date: | December 31, 2018 |
| Measurement Date of Net Pension Liability (Asset) | December 31, 2019 |
| Actuarial Cost Method: | Entry Age |
| Asset Valuation Method: | Fair Market Value |
| Long-Term Expected Rate of Return: | 7.0% |
| Discount Rate: | 7.0% |
| Salary Increases: | |
| Inflation | 3.0% |
| Seniority/Merit | 0.1% - 5.6% |
| Mortality: | Wisconsin 2018 Mortality Table |
| Post-Retirement Adjustments* | 1.9% |

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% 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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The total pension liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the December 31, 2018 actuarial valuation.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The total pension asset in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--------------------------------|
| Actuarial Valuation Date: | December 31, 2017 |
| Measurement Date of Net Pension Liability (Asset) | December 31, 2018 |
| Actuarial Cost Method: | Entry Age |
| Asset Valuation Method: | Fair Market Value |
| Long-Term Expected Rate of Return: | 7.0% |
| Discount Rate: | 7.0% |
| Salary Increases: | |
| Inflation | 3.0% |
| Seniority/Merit | 0.1% - 5.6% |
| Mortality: | Wisconsin 2018 Mortality Table |
| Post-Retirement Adjustments* | 1.9% |

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% 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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality, and separation rates. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 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.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

Long-Term Expected Return on Plan Assets (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of December 31, 2019:

| Asset Allocation Targets and Expected Returns As of December 31, 2019 | | | |
|--|-------------------------------|--|---|
| <u>Core Fund Asset Class</u> | <u>Asset Allocation %</u> | <u>Long-Term Expected Nominal Rate of Return %</u> | <u>Long-Term Expected Real Rate of Return %</u> |
| Global Equities | 49 | 8.0 | 5.1 |
| Fixed Income | 24.5 | 4.9 | 2.1 |
| Inflation Sensitive Assets | 15.5 | 4.0 | 1.2 |
| Real Estate | 9 | 6.3 | 3.5 |
| Private Equity/Debt | 8 | 10.6 | 7.6 |
| Multi-Asset | 4 | 6.9 | 4.0 |
| Total Core Fund | 110 | 7.5 | 4.6 |
| | | | |
| <u>Variable Fund Asset Class</u> | | | |
| U.S. Equities | 70 | 7.5 | 4.6 |
| International Equities | 30 | 8.2 | 5.3 |
| Total Variable Fund | 100 | 7.8 | 4.9 |
| | | | |
| 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 | | | |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – PENSION PLAN (Continued)

Long-Term Expected Return on Plan Assets (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of December 31, 2018:

| Asset Allocation Targets and Expected Returns As of December 31, 2018 | | | |
|--|-------------------------------|--|---|
| <u>Core Fund Asset Class</u> | <u>Asset Allocation %</u> | <u>Long-Term Expected Nominal Rate of Return %</u> | <u>Long-Term Expected Real Rate of Return %</u> |
| Global Equities | 49 | 8.1 | 5.5 |
| Fixed Income | 24.5 | 4.0 | 1.5 |
| Inflation Sensitive Assets | 15.5 | 3.8 | 1.3 |
| Real Estate | 9 | 6.5 | 3.9 |
| Private Equity/Debt | 8 | 9.4 | 6.7 |
| Multi-Asset | 4 | 6.7 | 4.1 |
| Total Core Fund | 110 | 7.3 | 4.7 |
| Variable Fund Asset Class | | | |
| U.S. Equities | 70 | 7.6 | 5.0 |
| International Equities | 30 | 8.5 | 5.9 |
| Total Variable Fund | 100 | 8.0 | 5.4 |
| New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5% | | | |
| Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations | | | |

Single Discount Rate

A single discount rate of 7.00% was used to measure the Total Pension Liability for the current and prior year. This single discount rate is based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.75% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2019. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.). Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.9% 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 municipal bond 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, 2020 AND 2019**

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) as of December 31, 2019 calculated using the discount rate of 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

| | 1% Decrease to Discount Rate (6.00%) | Current Discount Rate (7.00%) | 1% Increase To Discount Rate (8.00%) |
|---|---|--|---|
| District's proportionate share of the net pension liability (asset) | \$4,502,706 | (\$1,748,502) | \$(6,422,000) |

The following presents the District's proportionate share of the net pension liability (asset) as of December 31, 2018 calculated using the discount rate of 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

| | 1% Decrease to Discount Rate (6.00%) | Current Discount Rate (7.00%) | 1% Increase To Discount Rate (8.00%) |
|---|---|--|---|
| District's proportionate share of the net pension liability (asset) | \$7,603,699 | \$1,913,311 | \$(2,317,933) |

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>.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 - LONG-TERM DEBT

As of December 31, 2020 and 2019, the long-term debt of the District consisted of the following:

| | 2020 | 2019 |
|--|-----------|------------|
| Direct Placement General Obligation Sewerage System Promissory Bonds | | |
| 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. | \$ - | \$ 123,178 |
| 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. | 136,553 | 268,870 |
| Direct Placement 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. | 1,501,002 | 1,974,109 |
| 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. | 7,263,313 | 9,553,922 |
| 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. | 84,321 | 100,005 |
| 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. | 607,314 | 700,507 |
| 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. | 1,116,674 | 1,260,702 |
| 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. | 4,174,798 | 4,643,808 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 - LONG-TERM DEBT (Continued)

| General Obligation Sewerage System Promissory Notes (Continued) | 2020 | 2019 |
|--|--------------|--------------|
| 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. | \$ 4,963,500 | \$ 5,398,891 |
| 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. | 33,003,835 | 35,580,328 |
| 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, and final payment due May 1, 2032. | 1,985,705 | 2,121,547 |
| 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. | 5,701,064 | 6,060,731 |
| 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. | 10,632,078 | 11,310,192 |
| 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. | 3,281,066 | 3,490,603 |
| 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. | 8,540,591 | 9,082,463 |
| 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. | 7,920,498 | 8,396,933 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 - LONG-TERM DEBT (Continued)

| General Obligation Sewerage System Promissory Notes (Continued) | 2020 | 2019 |
|---|----------------|----------------|
| 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. | \$ 9,315,678 | \$ 9,833,060 |
| 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. | 5,992,379 | 6,308,671 |
| 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. | 1,193,970 | 1,253,780 |
| Clean Water Fund Programs Project Number 4010-52 \$1,846,530 Series 2019A, issued September 25, 2019, for the PS10 Forceman and West Interceptor Rehabilitation, interest at 1.76%, interest payment on May 1 and November 1 of each year and principal payments beginning May 1, 2020, and each subsequent May 1, final payment due May 1, 2039. | 1,736,766 | 1,585,533 |
| Clean Water Fund Programs Project Number 4010-57 \$23,540,644 Series 2020B, issued August 12, 2020, for the Pump Station 7 Upgrade, Liquid Processing Improvements and Headworks flow Metering Improvements projects, interest at 1.76%, interest payment on May 1 and November 1 of each year and principal payments beginning May 1, 2022, and each subsequent May 1, final payment due May 1, 2040. | 14,550,746 | - |
| Clean Water Fund Programs Project Number 4010-58 \$10,088,624 Series 2020A, issued June 10, 2020, for the Northeast Interceptor Truax Extension Relief Sewer project and the Southwest Haywood Drive Replacement project, interest at 1.889%, interest payment on May 1 and November 1 of each year and principal payments beginning May 1, 2021, and each subsequent May 1, final payment due May 1, 2040. | 9,582,563 | - |
| Total bonds payable | 133,284,414 | 119,047,833 |
| Less current maturities | (10,657,460) | (10,114,790) |
| Bonds payable, long-term | \$ 122,626,954 | \$ 108,933,043 |

The District incurred \$2,947,662 and \$3,041,095 of total interest costs for December 31, 2020 and 2019, respectively.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 - LONG-TERM DEBT (Continued)

A summary of the changes in long-term obligations of the District for the year ended December 31, 2020 was as follows:

| | Beginning Balance January 1, 2020 | Additions | Reductions | Ending Balance December 31, 2020 | Amounts Due in One Year |
|---|--------------------------------------|---------------|---------------|-------------------------------------|----------------------------|
| Direct Placement general obligation sewerage system bonds | \$ 392,048 | \$ - | \$ 255,495 | \$ 136,553 | \$ 136,553 |
| Direct Placement general obligation sewerage system notes | 118,655,785 | 24,351,372 | 9,859,296 | 133,147,861 | 10,520,907 |
| Subtotal | 119,047,833 | 24,351,372 | 10,114,791 | 133,284,414 | 10,657,460 |
| Compensated absences | 2,738,552 | 420,978 | 150,648 | 3,008,882 | 785,376 |
| Total long-term obligations | \$ 121,786,385 | \$ 24,772,350 | \$ 10,265,439 | \$ 136,293,296 | \$ 11,442,836 |

A summary of the changes in long-term obligations of the District for the year ended December 31, 2019 was as follows:

| | Beginning Balance January 1, 2019 | Additions | Reductions | Ending Balance December 31, 2019 | Amounts Due in One Year |
|---|--------------------------------------|--------------|---------------|-------------------------------------|----------------------------|
| Direct Placement general obligation sewerage system bonds | \$ 639,615 | \$ - | \$ 247,567 | \$ 392,048 | \$ 255,495 |
| Direct Placement general obligation sewerage system notes | 126,617,177 | 1,585,533 | 9,546,925 | 118,655,785 | 9,859,295 |
| Subtotal | 127,256,792 | 1,585,533 | 9,794,492 | 119,047,833 | 10,114,790 |
| Compensated absences | 2,752,870 | 280,436 | 294,754 | 2,738,552 | 701,274 |
| Total long-term obligations | \$ 130,009,662 | \$ 1,865,969 | \$ 10,089,246 | \$ 121,786,385 | \$ 10,816,064 |

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 direct placement long-term debt of the District are approximately as follows:

| Year Ending December 31 | Principal | Interest | Total |
|-------------------------|----------------|---------------|----------------|
| 2021 | \$ 10,657,460 | \$ 3,022,638 | \$ 13,680,098 |
| 2022 | 11,439,808 | 2,740,634 | 14,180,442 |
| 2023 | 11,725,481 | 2,451,337 | 14,176,818 |
| 2024 | 8,931,811 | 2,197,923 | 11,129,734 |
| 2025 | 9,145,717 | 1,981,414 | 11,127,131 |
| 2026 - 2030 | 46,859,958 | 6,545,426 | 53,405,384 |
| 2031 - 2035 | 26,468,477 | 1,835,893 | 28,304,370 |
| 2036 - 2040 | 8,055,702 | 345,428 | 8,401,130 |
| Total | \$ 133,284,414 | \$ 21,120,693 | \$ 154,405,107 |

The equalized valuation of the District, as certified by the Wisconsin Department of Revenue, was \$55,713,006,105 for 2020 and \$52,280,502,467 for 2019. The legal debt limit and margin of indebtedness as of December 31, 2020 and 2019, in accordance with Section 67.03(1)(a) of the Wisconsin Statutes, follows:

| | 2020 | 2019 |
|---|------------------|------------------|
| Debt limit (5 percent of equalization value) | \$ 2,785,650,305 | \$ 2,614,025,123 |
| Deduct long-term debt applicable to debt margin | 133,284,414 | 119,047,833 |
| Margin of indebtedness | \$ 2,652,365,891 | \$ 2,494,977,290 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 - COMMITMENT

As of December 31, 2020, the District had the following commitments with respect to unfinished capital projects:

| <u>Project</u> | <u>Remaining Commitment</u> |
|---|---------------------------------|
| Liquid Processing Facilities | \$ 2,606,086 |
| NEI Truax Extension | 243,467 |
| PS7 Improvements | 15,000 |
| Wisconsin Shorewood Relief | 3,815,920 |
| Grass Lake Dike Restoration | 44,069 |
| NSV-McKee Road to Dunn's Marsh | 2,610,422 |
| PS17 Rehabilitation | 2,807,218 |
| Headworks Flow Metering Improvements | 613,381 |
| Resource Recovery Facility | 5,956 |
| Operations Building Remodel | 1,199,470 |
| Engine Blower Control Rehabilitation | 9,098 |
| Metrogrow Project | 123,384 |
| Wisconsin Spring Street Relief Lining | 10,386 |
| NEI - Joint Grouting | 170,105 |
| PS 10/PS 11 Automation 3rd Power Feed | 94,515 |
| PS 13/PS 14 Rehabilitation | 9,376,666 |
| PS 6/PS 10 Variable Frequency Project | 415,116 |
| Operations Building Mechanical Room Project | 80,706 |
| Plant HVAC Improvements | 9,552 |
| Lagoon Dike Improvements | 151,879 |
| PS 4 Rehabilitation | 239,888 |
| Total Commitments | <u>\$ 24,642,284</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, 2020 and 2019, the District had charges for transmission and treatment of sewage and conveyance facilities connection charges and treatment plant connection charges to one major municipal customer, the City of Madison, (defined as being greater than 10 percent of charges) of approximately \$27,151,680 and \$26,893,000, respectively. Accounts receivable as of December 31 from the City of Madison were as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Pumping stations | \$ 82,396 | \$ 111,578 |
| Sewer service | 6,518,550 | 6,331,043 |
| Conveyance facilities connection charges and treatment plant connection charges | 302,009 | 125,820 |
| Total receivables | <u>\$ 6,902,955</u> | <u>\$ 6,568,441</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (HEALTH INSURANCE)

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. For the year ended December 31, 2020 and 2019, the following employees were covered by the benefit terms as of December 31, 2019, the date of the most recent valuation:

| | |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefit payments | 13 |
| Active plan members | 102 |

Total OPEB Liability

For the year ended December 31, 2020, the District's total OPEB liability of \$4,945,075 was measured by an actuarial valuation as of December 31, 2019, rolled forward to 2020.

For the year ended December 31, 2019, the District's total OPEB liability of \$4,120,138 was measured by an actuarial valuation as of December 31, 2019.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (HEALTH INSURANCE) (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2020 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: | 3.50% |
| Inflation: | 2.50% |
| Plan Participation of Future Retirees: | 80.00% |
| Discount Rate: | 3.26% |
| Healthcare Cost Trend Rates: | 7.00% decreasing to 4.5% by 2034 |

The discount rate was based on the S&P Municipal Bond 20-Year High- Grade Rate Index as of December 31, 2019.

Mortality rates were based on the PubG.H-2010 - General Mortality Table.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2019–December 31, 2019.

Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|---|-----------------------------|
| Balance as of December 31, 2019 | \$ 4,120,138 |
| Changes for the year: | |
| Service cost | 549,058 |
| Interest | 130,207 |
| Difference between expected and actual experience | - |
| Changes to assumptions or other input | 397,816 |
| Benefit payments | (252,144) |
| Other changes | - |
| Net change in total OPEB liability | <u>824,937</u> |
| Balance as of December 31, 2019 | <u>\$ 4,945,075</u> |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (HEALTH INSURANCE) (Continued)

Changes in the Total OPEB Liability (continued)

| | <u>Total OPEB Liability</u> |
|---|-----------------------------|
| Balance as of December 31, 2018 | \$ 4,061,893 |
| Changes for the year: | |
| Service cost | 448,119 |
| Interest | 143,341 |
| Difference between expected and actual experience | (164,156) |
| Changes to assumptions or other input | (62,532) |
| Benefit payments | (247,895) |
| Other changes | (58,632) |
| Net change in total OPEB liability | 58,245 |
| Balance as of December 31, 2019 | \$ 4,120,138 |

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

For the year ended December 31, 2020, 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 (2.26%) or 1-percentage-point higher (4.26%) than the current discount rate:

| | 1% Decrease to Discount Rate (0.93%) | Current Discount Rate (1.93%) | 1% Increase to Discount Rate (2.26%) |
|-------------------------------|--|----------------------------------|--|
| District's Net OPEB Liability | \$5,301,516 | \$4,945,075 | \$4,621,255 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (HEALTH INSURANCE) (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate (continued)

For the year ended December 31, 2019, 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 (2.26%) or 1-percentage-point higher (4.26%) than the current discount rate:

| | 1% Decrease to Discount Rate (2.26%) | Current Discount Rate (3.26%) | 1% Increase to Discount Rate (4.26%) |
|-------------------------------|---|--|---|
| District's Net OPEB Liability | \$4,409,016 | \$4,120,138 | \$3,851,041 |

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

For the year ended December 31, 2020, 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 (6.0% decreasing to 3.5%) or 1-percentage-point higher (8.0% decreasing to 5.5%) than the current healthcare cost trend rates:

| | 1% Decrease to Healthcare Cost Trend Rate (6.0 – 3.5%) | Current Healthcare Cost Trend Rate (7.0 – 4.5%) | 1% Increase to Healthcare Cost Trend Rate (8.0 – 5.5%) |
|-------------------------------|---|--|---|
| District's Net OPEB Liability | \$4,369,793 | \$4,945,075 | \$5,458,387 |

For the year ended December 31, 2019, 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 (6.0% decreasing to 3.5%) or 1-percentage-point higher (8.0% decreasing to 5.5%) than the current healthcare cost trend rates:

| | 1% Decrease to Healthcare Cost Trend Rate (6.0 – 3.5%) | Current Healthcare Cost Trend Rate (7.0 – 4.5%) | 1% Increase to Healthcare Cost Trend Rate (8.0 – 5.5%) |
|-------------------------------|---|--|---|
| District's Net OPEB Liability | \$3,722,736 | \$4,120,138 | \$4,585,569 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (HEALTH INSURANCE) (Continued)

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

For the year ended December 31, 2020, the District recognized OPEB expense of \$681,131. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$178,057 | \$134,883 |
| Changes in assumptions | 525,635 | 509,957 |
| Total | \$703,692 | \$644,840 |

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 31: | Net Amortization of Deferred Outflows/(Inflows) of Resources |
|-------------------------|--|
| 2021 | \$1,866 |
| 2022 | 1,866 |
| 2023 | 1,866 |
| 2024 | 1,866 |
| 2025 | 1,866 |
| Thereafter | 49,522 |

For the year ended December 31, 2019, the District recognized OPEB expense of \$556,111. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$207,699 | \$149,520 |
| Changes in assumptions | 188,601 | 583,877 |
| Total | \$396,300 | \$733,397 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)

Plan Description

The LRLIF is a multiple-employer defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides postemployment life insurance benefits for all eligible employees.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

The LRLIF plan provides fully paid up life insurance benefits for post-age 64 retired employees and pre-65 retirees who pay for their coverage.

Contributions

The Group Insurance Board approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contributions based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

Contribution rates as of both December 31, 2020 and 2019 are:

| Coverage Type | Employer Contribution |
|------------------------------|------------------------------|
| 50% Post Retirement Coverage | 40% of employee contribution |
| 25% Post Retirement Coverage | 20% of employee contribution |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Contributions (Continued)

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2019 and 2018 are as listed below:

| Life Insurance Employee Contribution Rates* For the years ended December 31, 2019 and 2018 | | |
|---|--------------|---------------------|
| Attained Age | Basic | Supplemental |
| Under 30 | \$0.05 | \$0.05 |
| 30-34 | 0.06 | 0.06 |
| 35-39 | 0.07 | 0.07 |
| 40-44 | 0.08 | 0.08 |
| 45-49 | 0.12 | 0.12 |
| 50-54 | 0.22 | 0.22 |
| 55-59 | 0.39 | 0.39 |
| 60-64 | 0.49 | 0.49 |
| 65-69 | 0.57 | 0.57 |
| *Disabled members under age 70 receive a waiver-of-premium benefit. | | |

During the reporting period ended December 31, 2019, the LRLIF recognized \$3,016 in contributions from the employer.

During the reporting period ended December 31, 2018, the LRLIF recognized \$2,980 in contributions from the employer.

Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020 the district reported a liability of \$710,625 for its proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. 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 OPEB liability (asset) was based on the district's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the district's proportion was 0.166884%, which was a decrease of 0.012186% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2020, the District recognized OPEB expense of \$75,292.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

At December 31, 2019 the district reported a liability of \$399,173 for its proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. 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 OPEB liability (asset) was based on the district's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018 the district's proportion was 0.154698%, which was a decrease of 0.001598% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the District recognized OPEB expense of \$34,595.

At December 31, 2020, the district reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$-0- | \$31,835 |
| Net differences between projected and investments earnings on plan investments | 13,405 | -0- |
| Changes in assumptions | 262,153 | 78,163 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | \$31,011 | 23,306 |
| Total | \$306,569 | \$133,304 |

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 31: | Net Amortization of Deferred Outflows/(Inflows) of Resources |
|-------------------------|--|
| 2021 | \$28,347 |
| 2022 | 28,347 |
| 2023 | 26,901 |
| 2024 | 25,413 |
| 2025 | 23,041 |
| Thereafter | 41,216 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Total OPEB Liability, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

At December 31, 2019, the district reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$-0- | \$20,249 |
| Net differences between projected and investments earnings on plan investments | 9,539 | -0- |
| Changes in assumptions | 38,087 | 86,525 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | -0- | 28,367 |
| Total | \$47,626 | \$135,141 |

Actuarial Assumptions

For the year ended December 31, 2019, the total OPEB liability in the January 1, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--------------------------------|
| Actuarial Valuation Date: | January 1, 2019 |
| Measurement Date of Net OPEB Liability (Asset) | December 31, 2019 |
| Actuarial Cost Method: | Entry Age Normal |
| 20 Year Tax-Exempt Municipal Bond Yield: | 2.74% |
| Long-Term Expected Rated of Return: | 4.25% |
| Discount Rate: | 2.87% |
| Salary Increases | |
| Inflation: | 3.00% |
| Seniority/Merit: | 0.1% - 5.6% |
| Mortality: | Wisconsin 2018 Mortality Table |

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the January 1, 2019 actuarial valuation.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Actuarial Assumptions (Continued)

For the year ended December 31, 2018, the total OPEB liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--------------------------------|
| Actuarial Valuation Date: | January 1, 2018 |
| Measurement Date of Net OPEB Liability (Asset) | December 31, 2018 |
| Actuarial Cost Method: | Entry Age Normal |
| 20 Year Tax-Exempt Municipal Bond Yield: | 4.10% |
| Long-Term Expected Rate of Return: | 5.00% |
| Discount Rate: | 4.22% |
| Salary Increases | |
| Inflation: | 3.00% |
| Seniority/Merit: | 0.1% - 5.6% |
| Mortality: | Wisconsin 2018 Mortality Table |

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the Total OPEB Liability changed from prior year, including the discount rate, wage inflation rate, mortality and separation rates. The Total OPEB Liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the LRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the LRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited there to.

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Long-Term Expected Return on Plan Assets (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2019:

| Local OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2019 | | | |
|---|----------------------|------------------------------|---|
| <u>Asset Class</u> | <u>Index</u> | <u>Target Allocation</u> | <u>Long-Term Expected Geometric Real Rate of Return</u> |
| US Credit Bonds | Barclays Credit | 45.00% | 2.12% |
| US Long Credit Bonds | Barclays Long Credit | 5.00% | 2.90% |
| US Mortgages | Barclays MBS | 50.00% | 1.53% |
| Inflation | | | 2.20% |

The long-term expected rate of return decreased slightly from 5.00% in the prior year to 4.25% in the current year. This change was primarily based on the target asset allocation and capital market expectations. The expected inflation rate also decreased slightly from 2.30% in the prior year to 2.20% in the current year. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2018:

| Local OPEB Life Insurance Asset Allocation Targets and Expected Returns As of December 31, 2018 | | | |
|---|----------------------|------------------------------|---|
| <u>Asset Class</u> | <u>Index</u> | <u>Target Allocation</u> | <u>Long-Term Expected Geometric Real Rate of Return</u> |
| US Government Bonds | Barclays Government | 1.00% | 1.44% |
| US Credit Bonds | Barclays Credit | 40.00% | 2.69% |
| US Long Credit Bonds | Barclays Long Credit | 4.00% | 3.01% |
| US Mortgages | Barclays MBS | 54.00% | 2.25% |
| US Mortgages | Barclays MBS | 1.00% | 1.68% |
| Inflation | | | 2.30% |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

Single Discount Rate

A single discount rate of 2.87% was used to measure the Total OPEB Liability for the current year, as opposed to a discount rate of 4.22% for the prior year. The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 4.10% as of December 31, 2018 to 2.74% as of December 31, 2019. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contribution schedule and that contributions are made by plan members retiring prior to age 65.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the district's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 2.87%, as well as what the district's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (1.87%) or 1-percentage-point higher (3.87%) than the current rate:

| | 1% Decrease to Discount Rate (1.87%) | Current Discount Rate (2.87%) | 1% Increase To Discount Rate (3.87%) |
|--|---|--|---|
| District's proportionate share of the net OPEB liability (asset) | \$981,254 | \$710,625 | \$504,729 |

The following presents the district's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 4.22%, as well as what the district's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.22%) or 1-percentage-point higher (5.22%) than the current rate:

| | 1% Decrease to Discount Rate (3.22%) | Current Discount Rate (4.22%) | 1% Increase To Discount Rate (5.22%) |
|--|---|--|---|
| District's proportionate share of the net OPEB liability (asset) | \$567,850 | \$399,173 | \$269,077 |

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (LIFE INSURANCE)
(Continued)

OPEB Plan Fiduciary Net Position

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

REQUIRED SUPPLEMENTARY INFORMATION

**MADISON METROPOLITAN SEWERAGE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020 AND 2019**

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
WISCONSIN RETIREMENT SYSTEM
LAST 10 MEASUREMENT PERIODS***

| | For the Year Ended December 31, | | | | | |
|--|---------------------------------|----------------|----------------|--------------|--------------|----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| MMSD's proportion of the net pension liability (asset) | 0.05422627% | 0.05377965% | 0.05327834% | 0.05213809% | 0.05093867% | 0.04901264% |
| MMSD's proportionate share of the net pension liability (asset) | \$ 1,748,502 | \$ (1,913,311) | \$ (1,581,897) | \$ 429,742 | \$ 827,743 | \$ (1,203,885) |
| MMSD's covered payroll | \$ 8,684,031 | \$ 8,362,063 | \$ 8,025,692 | \$ 7,638,412 | \$ 7,517,175 | \$ 7,095,005 |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 102.96% | 96.45% | 102.93% | 99.12% | 98.20% | 102.74% |

* Additional years' information will be displayed as it become available.

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT'S
PENSION CONTRIBUTIONS
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS***

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required contributions | \$ 672,995 | \$ 568,804 | \$ 560,258 | \$ 545,747 | \$ 504,135 | \$ 511,168 |
| Contributions in relation to the contractually required contributions | \$ (672,995) | \$ (568,804) | \$ (560,258) | \$ (545,747) | \$ (504,135) | \$ (511,168) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| MMSD's covered payroll | \$ 8,684,032 | \$ 8,684,032 | \$ 8,684,031 | \$ 8,025,692 | \$ 7,638,412 | \$ 7,517,175 |
| Contributions as a percentage of covered payroll | 7.75% | 6.55% | 6.5% | 6.8% | 6.6% | 6.8% |

* Additional years' information will be displayed as it become available.

**MADISON METROPOLITAN SEWERAGE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020 AND 2019**

**SCHEDULE OF CHANGES TOTAL OPEB LIABILITY AND RELATED RATIOS
MADISON METROPOLITAN SEWERAGE DISTRICT POSTRETIREMENT HEALTH PLAN
LAST 10 FISCAL YEARS***

| | 2020 | 2019 | 2018 | 2017 |
|--|---------------------|---------------------|---------------------|---------------------|
| Service cost | \$ 549,058 | \$ 448,119 | \$ 344,010 | \$ 362,832 |
| Interest | 130,207 | 143,341 | 121,580 | 110,618 |
| Difference between expected and actual experience | - | (164,156) | - | 296,624 |
| Changes to assumptions or other input | 397,816 | (62,532) | (130,705) | 20,618 |
| Benefit payments | (252,144) | (247,895) | (178,292) | (194,432) |
| Other changes | - | (58,632) | (19,187) | (258,517) |
| Net change in total OPEB liability | 824,937 | 58,245 | 137,406 | 337,743 |
| Total OPEB liability - beginning | 4,120,138 | 3,924,487 | 3,924,487 | 3,586,744 |
| Total OPEB liability - ending | <u>\$ 4,945,075</u> | <u>\$ 4,120,138</u> | <u>\$ 4,061,893</u> | <u>\$ 3,924,487</u> |
| | | | | |
| Covered employee payroll | \$ 9,698,743 | \$ 8,259,342 | \$ 6,572,694 | \$ 7,814,320 |
| | | | | |
| District's net OPEB liability as a percentage of covered employee payroll | 50.99% | 49.88% | 61.80% | 50.22% |

* Additional years' information will be displayed as it become available.

**MADISON METROPOLITAN SEWERAGE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020 AND 2019**

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
LOCAL RETIREE LIFE INSURANCE FUND
LAST 10 MEASUREMENT YEARS***

| | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| MMSD's proportion of the net OPEB liability (asset) | 0.1668840% | 0.1546980% | 0.1562960% |
| MMSD's proportionate share of the net OPEB liability (asset) | \$ 710,625 | \$ 399,173 | \$ 470,229 |
| MMSD's covered-employee payroll | \$ 6,561,000 | \$ 6,144,000 | \$ 6,572,694 |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 37.58% | 48.69% | 44.81% |

* Additional years' information will be displayed as it become available.

**SCHEDULE OF MADISON METROPOLITAN SEWERAGE DISTRICT'S
OPEB CONTRIBUTIONS
LOCAL RETIREE LIFE INSURANCE FUND
LAST 10 FISCAL YEARS***

| | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| Contractually required contributions | \$ 3,016 | \$ 2,980 | \$ 2,968 |
| Contributions in relation to the contractually required contributions | \$ (3,016) | \$ (2,980) | \$ (2,968) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| MMSD's covered-employee payroll | \$ 6,561,000 | \$ 6,144,000 | \$ 6,572,694 |
| Contributions as a percentage of covered-employee payroll | 0.045969% | 0.048503% | 0.045157% |

*Additional years' information will be displayed as it become available.

**MADISON METROPOLITAN SEWERAGE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2020 AND 2019**

**MADISON METROPOLITAN SEWERAGE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

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

Changes of assumptions – Pension. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 – 2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop Total Pension Liability changed, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates.

Changes of benefit terms – OPEB-Health. There were no changes of benefit terms.

Changes of assumptions – OPEB-Health. Actuarial assumptions used to develop the OPEB liability changed, including the discount rate, healthcare cost trend rates, and mortality rates.

Changes of benefit terms – OPEB-Life. There were no changes of benefit terms for any participating employer in LRLIF.

Changes of assumptions – OPEB-Life. Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015 – 2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop Total OPEB Liability changed, including the discount rate, wage inflation rate, and mortality and separation rates.

Health Insurance OPEB. No assets are accumulated in a trust that meets the criteria of paragraph 4 of the GASB Statement No. 75.