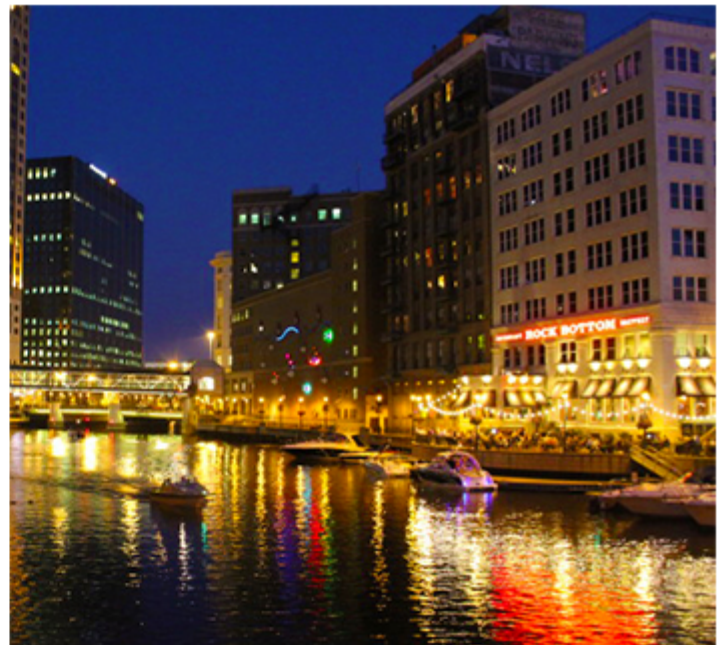




Comprehensive Annual Financial Report



For the Years Ended December 31, 2014 and 2013



Green Roofs



2014

Comprehensive Annual Financial Report

For the Years Ended December 31, 2014 and 2013



Date of Incorporation

Reorganized April 26, 1982
pursuant to Chapter 282,
Laws of Wisconsin 1981

Finance Staff

Mark T. Kaminski,
Director of Finance/Treasurer, CPA



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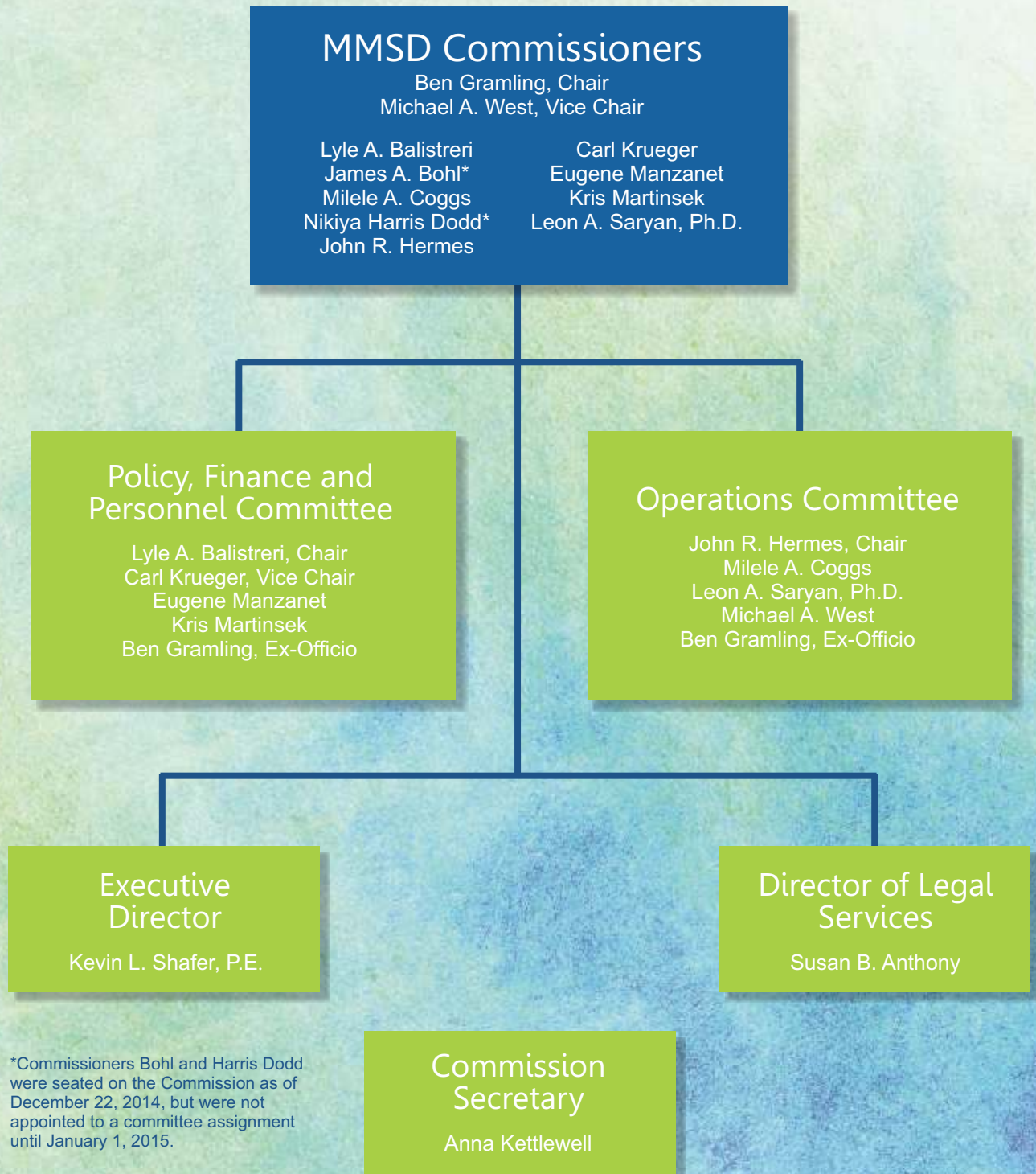
Introductory Section



Tour Groups



Commission Organization Chart



*Commissioners Bohl and Harris Dodd were seated on the Commission as of December 22, 2014, but were not appointed to a committee assignment until January 1, 2015.

Commissioners of the Milwaukee Metropolitan Sewerage District



Ben Gramling
Commission Chair,
Director of Environmental
Health Programs,
Sixteenth Street
Community
Health Center

Lyle A. Balistreri
President,
Milwaukee Building & Construction Trades
Council, AFL-CIO

James A. Bohl
Alderman,
City of Milwaukee

Michael A. West
Commission Vice Chair,
President,
Village of Fox Point



Milele A. Coggs
Alderwoman,
City of Milwaukee

Nikiya Harris Dodd
Wisconsin State Senator

John R. Hermes
President,
Village of Greendale

Carl Krueger
President,
Village of Brown Deer

Eugene Manzanet
V.P. Community Development, PNC Bank

Kris Martinsek
Owner of Martinsek & Associates

Leon A. Saryan, Ph.D.
Retired, Aurora Health Care Technical
Director of ACL Industrial Toxicology

District Staff

Kevin L. Shafer, P.E.
Executive Director

Anna Kettlewell
Commission Secretary

Susan B. Anthony
Director of Legal Services

Michael Martin
Director of Technical Services

Principal Advisors

Baker Tilly Virchow Krause, LLP
Independent Auditors

Foley & Lardner
Bond Counsel

Robert W. Baird & Co.
Financial Advisor

2014 Letter From The MMSD Chair



Ben Gramling
Commission Chair,
Director of Environmental
Health Programs,
Sixteenth Street
Community
Health Center

Strong environmental and financial stewardship are not exclusive of one another, and in fact they go hand in hand at MMSD. These concepts become clear looking at the progress made in 2014 with continued strong financial management of the Milwaukee Metropolitan Sewerage District (MMSD) and visionary projects that improve our rivers and Lake Michigan.

By removing just 1,100 feet of concrete from the Menomonee River in Milwaukee, fish from Lake Michigan can now migrate an additional 37 miles north, opening up new fishing spots and recreational opportunities. The project leveraged \$1.1 million in grant funding from the Great Lakes Restoration Initiative (GLRI) and additional funding and resources from the U.S. Fish and Wildlife Service, the Wisconsin Department of Natural Resources (DNR) and MMSD.

The District made huge strides managing water where it falls through the Fresh Coast 740 program, an initiative that aims to create enough green infrastructure in the

region, by 2035, to capture, store or slowly drain into the ground 740 million gallons of water every time it rains. However, with 18 million gallons of green infrastructure in place, it's easy to see how much more work is needed to meet our goals.

Through solid planning, asset management and solid financial management, MMSD's regional infrastructure captured and cleaned 99.5% of all the stormwater and wastewater that entered the District's system in 2014. I take great pride knowing that we are far ahead of the national target for cities with sewers like ours, capturing and cleaning 85% of all water that enters the system.

Our watersheds, rivers and Lake Michigan are better off thanks to our regional investments in clean water. At the same time, tourism and quality of life are always improving in the Milwaukee area because of our dedication to the environment and we're not done yet.

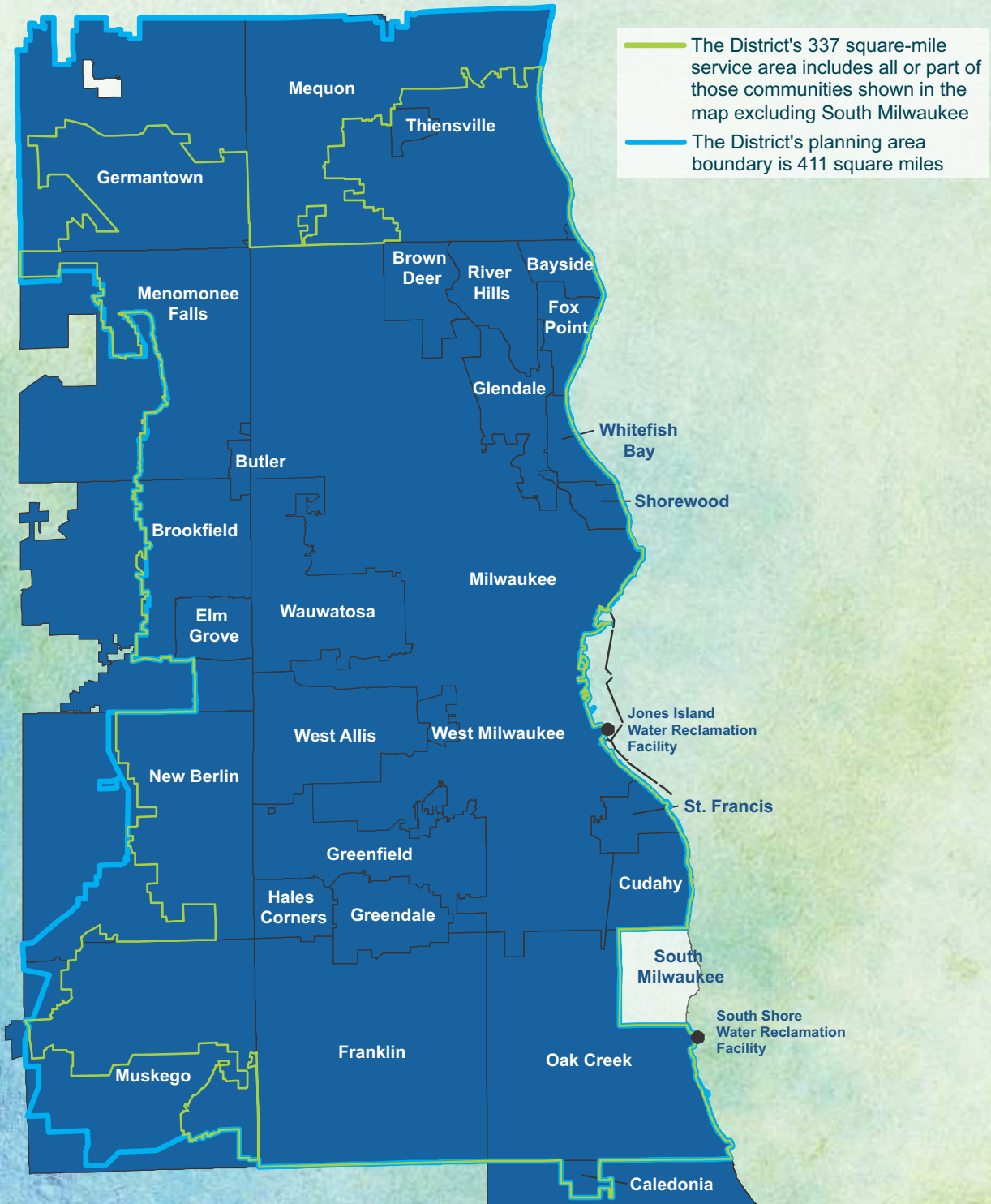
Sincerely,

Ben Gramling

Commission Chair



Milwaukee Metropolitan Sewerage District





June 5, 2015

The Commissioners
Milwaukee Metropolitan Sewerage District

Dear Commissioners:

State law requires that the Milwaukee Metropolitan Sewerage District (District) publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the District for the fiscal year ended December 31, 2014.

This report consists of management's representations concerning the finances of the District. Accordingly, management assumes full responsibility for the completeness and reliability of all of the information presented in the report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Baker Tilly Virchow Krause, LLP, a firm of licensed certified public accountants, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal years ended December 31, 2014 and 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

District's internal control over financial reporting. Accordingly, Baker Tilly Virchow Krause, LLP expresses no such opinion. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal years ended December 31, 2014 and 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal and state agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are available in the District's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE DISTRICT

General

The District is a special purpose municipal corporation organized under the laws of the State of Wisconsin. The District was created in 1982 by the reorganization of the sewerage function previously financed by the Milwaukee County government.

Legal Boundary

The District's legal boundary presently includes all of Milwaukee County with the exclusion of the City of South Milwaukee. The legal boundary also includes the portion of the Village of Bayside that is in Ozaukee County, and those portions of the City of Milwaukee that are in Waukesha and Washington Counties. The District may levy ad valorem property taxes from time to time on all taxable property within its legal boundary.

Milwaukee Metropolitan Sewerage District

260 W. Seeboth Street, Milwaukee, WI 53204-1446
414-272-5100 • www.mmsd.com

Service Area

The District presently provides sewage treatment services for the 18 cities and villages within the District's legal boundary. In addition, the District is authorized under state statutes to provide sewage treatment service to areas beyond its legal boundary but within the portion of the multi-county drainage basin delineated as part of the Water Quality Management Plan developed by the Southeastern Wisconsin Regional Planning Commission pursuant to section 208 of the Federal Water Pollution Control Act Amendments of 1972. This area includes all or parts of 10 municipalities outside Milwaukee County. District sewage treatment service is presently provided to all or parts of these 10 municipalities.

Service Responsibilities and Powers

The District is statutorily responsible for construction, operation and maintenance of its sewers, watercourse improvements and treatment plant facilities within its service area. The District possesses the right of eminent domain throughout Wisconsin. It has the authority to promulgate rules and regulations necessary and proper to promote the best operation of the system, protect its works, prevent damage to the sewerage system, prevent surcharging of sewers or interference with the treatment process, and to attain state and federal pretreatment requirements. These rules and regulations apply throughout the territory served and have precedence over any conflicting ordinance, code or regulation. The District may issue special orders to attain compliance with its rules and regulations and it may issue special use permits.

Governance

The District's governing body is the Milwaukee Metropolitan Sewerage Commission, which is composed of eleven members. Seven of the eleven members are appointees of the Mayor of the City of Milwaukee. Three of the appointees of the Mayor of the City of Milwaukee must be elected officials. Four of the eleven members are appointees of a body comprised of the elected executive officer of each city or village other than the City of Milwaukee within the District's boundary. Of these four appointees, three must be elected officials. All appointees have terms of three years, except the elected official appointees of the Mayor of the City of Milwaukee, who serve for one year. The Commission elects a Chairperson and Vice Chairperson from its membership. Most major financing decisions of the District require an approving vote of two-thirds of all Commissioners.

Budgets

The District's annual Operation and Maintenance, and Capital budgets are financial plans outlining the established expenditures for programs or projects already

authorized or to be considered by the District's Commission. Approval of the budgets by the District's Commission does not in itself authorize any specific expenditures or projects. Requests for capital project expenditures must be approved by either the Commission or the Executive Director, as appropriate, within established limits of authority prior to the commitment of funds. Operation and Maintenance budgets are structured so that expenses can be approved and costs can be accumulated by: a) cost center, b) expense category, c) user charge parameter/activity in accordance with the cost recovery manual, as updated annually by the Commission, and d) special program costs as requested and approved by the Commission.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The Milwaukee metropolitan area continues to reflect a solid economic base and diversification despite the most significant national economic recession since the 1920's. After five years of declining property values, taxable valuation in 2014 increased 1.9% within the District and 2.7% in the District's service area. Over the last ten years taxable valuation within the District has increased 12.3%, an average of 1.2% annually over the last ten years. The District's ten largest taxpayers make up only 3.8% of the total tax base. Six of these taxpayers are commercial real estate developers whose projects include shopping malls, office buildings, and hotels.

The Milwaukee metropolitan area continues to have a sizable manufacturing base, one of the largest in the Midwest. However, continued expansion of the service sector provides diverse employment opportunities to metropolitan area residents in the financial, governmental, and health care areas and has reduced the relative importance of manufacturing.

Another indicator of the improvement in the Milwaukee area economy has been the decrease in the unemployment rate. The unemployment rate in Milwaukee County was 7.0% in 2014 compared to 8.3% in 2013. The unemployment rate has now decreased each of the last four years since 2010 when the unemployment rate was 9.9%.

Long-range Financial Planning

The District maintains long-range financing plans for its Operation and Maintenance (O&M) and Capital budgets. The District's operating budget utilizes a user charge stabilization fund and an equipment replacement fund to help stabilize user charge rates while improving customer service and the efficiency of operations. Items of note in the 2015 operating budget include:

- \$71.5 million in budgeted sewer user charge billings for 2015, a 3.25% increase from 2014. The annual average District household charge of \$125.17 in 2015 represents an increase of \$4.49 or 3.7% from the 2014 amount of \$120.68.
- Total O&M expenditures were budgeted at \$88.9 million, 1.6% higher than in 2014.
- Although O&M expenditures increased only \$1.4 million when compared to 2014's amount, 2015's O&M budget returned a surplus of \$3.9 million, a 49.5% decrease, or \$3.8 million less than when compared to 2014's amount. To partially offset the decrease in surplus returned, the District budgeted a 2015 withdrawal of \$1 million of excess funding from the District's equipment replacement fund and \$1 million from the user charge stabilization fund.

The District's six-year financing plan for the capital budget seeks to accomplish the District's capital program needs within the following financing objectives:

- 25% cash financing for capital projects, and
- Maintaining outstanding debt at no more than 2.5% of total equalized property value (i.e., 50% of the statutory limit of 5%).

The six-year plan provides for \$533 million in capital project and program expenditures from 2015 through 2020, primarily for rehabilitation, upgrade or replacement of assets at the District's two water reclamation facilities, structural and hydraulic upgrades to the Metropolitan Interceptor Sewer system, watercourse and flood management projects, private property infiltration and inflow reduction, and development of green infrastructure solutions.

The 2015 Capital Budget continues the Private Property Infiltration and Inflow (PPI/I) Reduction program which began in 2010 and creates a program to fund municipal green infrastructure. One of the primary causes of system capacity problems is the amount of clear water entering the system through infiltration and inflow from private property, such as aging or deteriorating laterals, or foundation drains. The District's PPI/I Reduction program

provides funding to municipalities to remedy I/I from private property sources within their municipalities. The Green Solutions program provides funding to municipalities to implement green infrastructure, assisting the District in meeting its permit requirement to capture an additional one million gallons of stormwater each year through green infrastructure. The long-range financing plan includes \$60 million in planned funding for the PPI/I Reduction program and \$10.5 million for the Green Solutions program.

In order to fund projected capital expenditures within the District's financing objectives, the tax levy increased 2.65% for 2015 and is projected to increase 4% annually thereafter through 2020.

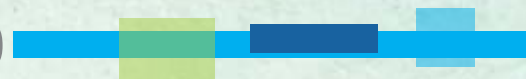
Operating Contract

On December 3, 2007 the Milwaukee Metropolitan Sewerage District Commission approved a 10-year contract effective March 1, 2008 with Veolia Water Milwaukee, LLC (Veolia) to replace United Water Services (UWS) as the operator of the District's two water reclamation facilities, biosolids management and field operations. Veolia's proposal was determined to be the most cost-effective (saving over an estimated \$35 million over ten years) and was selected based on a competitive bid process which included UWS and after evaluating the cost-effectiveness of returning the operations to the public sector.

The District continues to operate its industrial waste pretreatment program; capital planning and engineering services; environmental laboratory, water quality monitoring and research; Milorganite sales, marketing and distribution. The District has an extensive contract compliance and oversight program related to the 10-year agreement.

LANDFILL GAS PIPELINE

The District has designed and built a low-pressure pipeline approximately 19 miles long to transport landfill gas from Advance Disposal Services Emerald Park Landfill in Muskego, to fuel the District's Jones Island Water Reclamation Facility, providing 20 years of green energy and reducing greenhouse gas emissions. The pipeline began full operations in 2014. The pipeline is estimated to result in significant savings to District customers over a 20-year period, depending on natural gas prices.



AWARDS AND ACKNOWLEDGEMENTS

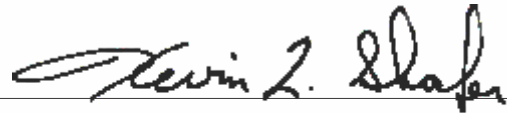
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2013. This was the 36th consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

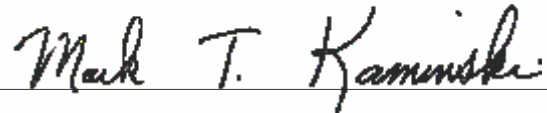
The District received the GFOA's Distinguished Budget Presentation Award for its 2013 annual budget document. In order to qualify for the distinguished Budget Presentation Award, the District's budget document was judged to be proficient in several categories. These categories include presentation as a policy document, financial plan, operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Accounting Department. Staff diligently and faithfully contributed to the continued improvement of the District's accounting function and

preparation of this report. Their professional expertise, experience and judgment have been invaluable to us and to the overall efficiency of the District. We would like to thank the members of the Communications and Graphics staffs, for without their efficient and dedicated services, the preparation of this report could not have been accomplished on a timely basis. We would also like to thank the Commission for providing the policy direction that allows us to pursue sound financial management practices.



Kevin L. Shafer, P.E.
Executive Director



Mark T. Kaminski,
Director of Finance/Treasurer, CPA



The GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Milwaukee Metropolitan Sewerage District for its comprehensive annual financial report for the fiscal year ended December 31, 2013. This is the 36th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Milwaukee Metropolitan
Sewerage District, Wisconsin**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO



Monitoring and Construction Projects

Financial Section



Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Commissioners
Milwaukee Metropolitan Sewerage District
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Milwaukee Metropolitan Sewerage District, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Milwaukee Metropolitan Sewerage District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 over financial reporting relevant to the Milwaukee Metropolitan Sewerage District'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 Milwaukee Metropolitan Sewerage District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Metropolitan Sewerage District as of December 31, 2014 and 2013, 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.



To the Commissioners
Milwaukee Metropolitan Sewerage District

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Introductory Section and Statistical Section as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated June 5, 2015 on our consideration of Milwaukee Metropolitan Sewerage District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milwaukee Metropolitan Sewerage District's internal control over financial reporting and compliance.

Baker Tilly Vinchow Krause, LLP

Madison, Wisconsin
June 5, 2015

Management's Discussion and Analysis

As management of the Milwaukee Metropolitan Sewerage District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2014 and December 31, 2013. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 8-11 of this report.

FINANCIAL HIGHLIGHTS

- The District's net position of \$2.6 billion remained unchanged over the course of this year's operation.
- The District has a deficit balance of \$4.4 million for its unrestricted net position. This represents a decrease of \$8.5 million from the surplus balance of \$4.1 million at December 31, 2013.
- In accordance with GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, at December 31, 2014, the District has recorded a liability of \$41.9 million related to these benefits. At December 31, 2014, the actuarial accrued liability of \$178.6 million remained unchanged and is being amortized as a level dollar amount and the amortization period is open and is 30 years. See note 11 to the financial statements for further details.
- At December 31, 2014 the District had recorded an intergovernmental loan for \$24.6 million. This loan is with City of Franklin for costs related to constructing the Ryan Creek Interceptor in accordance with District standards and which the District will purchase from Franklin. The District will make payments to Franklin, beginning in 2015, equal to Franklin's annual payments toward repaying its loan with the Clean Water Fund Loan Program used to finance the construction of the interceptor. On January 3, 2017, the District is to make a payment to reimburse Franklin for the sums Franklin has paid toward the Clean Water Fund Program loan through 2014.
- During 2014, the District received \$37.2 million in loan proceeds from the State of Wisconsin Clean Water Fund Loan Program. The issuance of this new debt, along with the other general obligation debt, brings the District's outstanding debt at December 31, 2014 to \$923.7 million. This is a decrease of \$46.6 million over the balance at December 31, 2013. The District's debt limit rate decreased from 1.73% to 1.62%, as compared to the statutory limit rate of 5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial status.

The statement of net position presents information on all of the District's assets, liabilities, and deferred inflows of resources with the difference reported as net position. This statement provides information about the nature and the amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population and industrial/commercial customer growth, and new or changed government legislation.

All of the current year'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, Milorganite, other charges and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement 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.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Position

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$2.6 billion at the close of the most recent fiscal year.

As can be seen in Table A-1 on page 17, the largest portion of the District's net position (97.3 % at December 31, 2014) reflects its investment in capital assets (e.g., sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sewerage treatment services, provide flood management and to maintain and improve watercourses for the entire District service area; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

As shown in Table A-1, current, other assets and noncurrent assets decreased \$6.7 million or 2.5% from 2013 to 2014. The primary reason for the decrease is a \$4.6 million decrease in surplus funds on hand from 2013 to 2014. The 2013 balances included \$13.2 million in surpluses from current and prior year operations. The 2014 balances included only \$8.6 million of surplus funds from 2014 and 2013. In compliance with federal user charge regulations the District must return a surplus back to its customers within two years from the year incurred and is a main reason for the decrease in unrestricted cash and investments. Another reason for the decrease is the \$3.1 million planned final disbursement of funds remaining from its 2010 general obligation bond issue. In addition, because of low interest rates for investments during the past few years, the District continues to delay requesting loan funds from the State of Wisconsin Clean Water Fund program in order to avoid paying interest costs ranging from 2.20% to 2.751%. Although this action continues to reduce working capital on hand, the District avoided interest costs (\$305,000 in 2014) on these loans.

As can be seen from Table A-1, total liabilities decreased approximately \$36.4 million or 3.4% from 2013 to 2014. The decrease is primarily attributable to the planned pay down of District general obligation issued debt and Clean Water Fund Program loans.

The decrease in restricted net position from 2013 to 2014 is due primarily to the increase in outstanding restricted accounts payable at year end. The increase is the result of the resolution of the Boston litigation (see note 9 to the financial statements for additional detail) and increased payables related to increased construction activity in the last quarter of 2014. In addition, the District delayed a planned bond issue for 2014 until 2015, further reducing restricted funds on hand.

See accompanying independent auditors' report.

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

	2014	2013	2012	Percentage Increase (Decrease) 2014 Versus 2013
Current and Other Assets	\$221,030	\$208,492	\$215,830	6.0%
Noncurrent Assets	38,500	57,750	61,883	(33.3)
Capital Assets	3,448,177	3,472,298	3,498,089	(0.7)
Total Assets	3,707,707	3,738,540	3,775,802	(0.8)
Current Liabilities	119,507	107,017	107,681	11.7
Noncurrent Liabilities	909,079	957,945	997,828	(5.1)
Total Liabilities	1,028,586	1,064,962	1,105,509	(3.4)
Deferred Inflows of Resources	122,608	117,777	113,775	4.1
Investment in Capital Assets	2,486,416	2,464,531	2,466,406	0.9
-Restricted	74,479	87,139	76,873	(14.5)
-Unrestricted	(4,382)	4,131	10,905	(206.1)
Total Net Position	\$2,556,513	\$2,555,801	\$2,554,184	0.0

With respect to \$8.5 million decrease in unrestricted net position, \$5 million of the decrease is the result of the District electing to fund its long-term liability related to postretirement health and life insurance as it comes due rather than when it is incurred. The total long-term liability related to this benefit was \$41.9 million at December 31, 2014 with an unfunded actuarial accrued liability of \$178.6 million, amortized as a level dollar amount and the amortization period is open and is 30 years. The amortization of the unfunded actuarial accrued liability is the primary reason for the annual decrease in unrestricted net position. Also, as mentioned earlier, federal user charge regulations require the District to return a surplus to customers within two years from when it is incurred, resulting in less funds on hand at the end of 2014.

As shown in Table A-1, current, other assets and noncurrent assets decreased \$11.5 million or 4.1% from 2012 to 2013. The primary reason for the decrease is a \$15.2 million decrease in funds remaining from its 2010 general obligation bond issue. This decrease was related to planned expenditures for these funds, and was partially offset with increases in the District's debt service fund and general funds on hand. As mentioned above, the District has delayed requesting loan funds from the State of Wisconsin Clean Water Fund program, to avoid paying interest costs ranging from 2.20% to 2.751%. Although this action continues to reduce working capital on hand, the District avoided interest costs (\$575,000 in 2013) on these loans.

As can be seen from Table A-1, total liabilities decreased approximately \$40.5 million or 3.7% from 2012 to 2013. As in 2014, the decrease is primarily attributable to the planned pay down of District general obligation issued debt and Clean Water Fund Program loans.

The increase in restricted net position from 2012 to 2013 is due primarily to the decrease in outstanding accounts payable at year as the District proceeded in its planned decrease in project spending related to its capital improvements program. With respect to unrestricted net position, the District has elected to fund its long-term liability related to postretirement health and life insurance as it comes due rather than when it is incurred. The total long-term liability related to this benefit was \$36.9 million at December 31, 2013 with an unfunded actuarial accrued liability of \$178.6 million.

While the Summary of Net Position (Table A-1) shows the change in our financial position the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 on page 18, for the fiscal year ended 2014, total revenues slightly increased by \$4.8 million or 2.5% and expenses increased by \$8.7 million or 4.4%. The major factors, which drove these results, include:

- Total user charges remained essentially the same from 2013. Although the District a budgeted 1.75% or \$1.2 million increase for 2014 sewer user charge billings, less than expected wasteloads for noncertified commercial users reduced the actual amount of user charge revenue earned.
- The District's Milorganite revenue increased \$326,000 or 4.3% in 2014 after revenue decreased 2.0% or \$160,000 in 2013. Although competitive pressures continue and combined with a struggling

economy resulted in approximately 2,174 less tons being sold in 2014, offsetting the decrease in tonnage sold was an increase in the average net selling price of \$14.42 per ton from 2013 to 2014.

- Excluding depreciation, operating expenses in 2014 increased \$2.8 million or 3.3% over the amount for 2013. The three main reasons for the increase are, \$901,000 in increased energy costs related to higher natural gas prices in the first half of 2014; a \$765,000 increase in costs related to the contract terms of the 10 year operating contract with Veolia Water Milwaukee, LLC and a \$757,000 increase in planned machinery and equipment repairs.
- Nonoperating revenues increased \$4.4 million or 3.8%. The primary reason for the increase is a 2.85% increase in the tax levy to District member communities which also impacted the level of billings for capital charges to communities outside the District. The remainder of the increase is due to a one-time payment of \$1.1 million from the Wisconsin Department of Transportation (DOT) for costs incurred by the District related to the impact of the DOT's Zoo Interchange project on the District's infrastructure in the area of the interchange.
- The slight increase in nonoperating expenses in 2014 is the result of an increase in expenditures related to the District's Infiltration/Inflow Reduction on Private Property Capital Program (PPI/I program).

As can be seen in Table A-2, for the fiscal year ended 2013, total revenues slightly increased by \$5.8 million or 3.1% and expenses decreased by \$4.6 million or 2.3%. The major factors, which drove these results, include:

- Total user charges remained essentially the same from 2012, despite a budgeted 2.0% increase for sewer user charge billings. Less than expected wasteloads for noncertified commercial users resulted in the District earning less than budgeted revenue.
- The District's Milorganite revenue decreased \$160,000 or 2.0% in 2013 after revenue increased 7.9% or \$575,000 in 2012. Although competitive pressures continue, combined with a struggling economy, staff's short-term improvement measures resulted in approximately 6,294 more tons being sold in 2013, but offsetting the increase in tonnage sold was a decrease in the average net selling price of \$21.74 per ton from 2012 to 2013.
- Excluding depreciation, operating expenses in 2013 increased \$2.2 million or 2.6% over the amount for 2012. This was consistent with the budgeted increase of 2.4%.
- Nonoperating revenues increased \$6.1 million or 5.4%. The primary reason for the increase is because in 2013 the loss from disposal of capital assets was reduced from \$5 million in 2012 to \$1.6 million. In 2012 and 2013 these losses were related to the capital costs for the acquisition and removal of structures as part of the Kinnickinnic River flood management. The purpose of this project is to reduce the risk of structures being in the 1% probability floodplain and improve public safety along the Kinnickinnic River. The project includes the acquisition and removal of 84 structures. In addition to the reduction of the loss in disposal of capital assets in 2013 the District's tax levy increased by 2.5%.
- The decrease in nonoperating expenses in 2013 is the result of two items. In 2012, \$8.8 million of land was contributed to municipalities as compared to only \$0.2 million in 2013. The District's Greenseams Program is a land acquisition effort to assist in the prevention of

See accompanying independent auditors' report.



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

	2014	2013	2012	Percentage Increase (Decrease) 2014 Versus 2013
Operating Revenues:				
User Charges	\$70,029	\$69,572	\$69,578	0.7%
Fertilizer	7,993	7,667	7,827	4.3
Other	784	1,158	1,229	(32.3)
Total Operating Revenues	78,806	78,397	78,634	0.5
Nonoperating Revenues:				
Property Tax	90,919	88,626	\$86,485	2.6
Capital Charges - Communities Outside the District	29,396	28,424	27,562	3.4
Other	1,619	443	(2,609)	265.0
Total Nonoperating Revenues	121,934	117,493	111,438	3.8
Total Revenues	200,740	195,890	190,072	2.5
Operating Expenses:				
Systems - Operation and Maintenance	58,754	57,130	55,177	2.8
Laboratory and Research Services	2,449	2,448	2,511	0.0
Industrial Waste and Conveyance Monitoring	3,444	3,227	3,458	6.8
Finance, Engineering and Administration	23,311	22,331	21,803	4.4
Depreciation	87,647	82,785	79,975	5.9
Total Operating Expenses	175,605	167,921	162,924	4.6
Nonoperating Expenses	29,705	29,192	30,216	1.8
Land Contributed to Municipalities	722	176	8,782	309.7
Total Nonoperating Expenses	30,427	29,368	38,998	3.6
Total Expenses	206,032	197,289	201,922	4.4
Income (Loss) Before Capital Contributions	(5,292)	(1,399)	(11,850)	278.5
Capital Contributions	6,004	3,016	4,241	99.1
Changes in Net Position	712	1,617	(7,609)	
Beginning Net Assets	2,555,801	2,554,184	2,561,793	
Ending Net Position	\$2,556,513	\$2,555,801	\$2,554,184	

long-term flooding issues and reduce polluted stormwater runoff in environmental corridors. Purchasing natural wetlands to retain stormwater is significantly less expensive than the cost to provide engineered solutions to stormwater and flood management problems. After acquisition, these properties are donated to the municipality and provide multiple benefits in the form of open space, wildlife habitat and passive recreation. The second reason is a decrease in expenditures of \$2.7 million for the District's PPI/I program.

During 2014 and 2013 the District incurred capital expenditures to rehabilitate, upgrade or replace assets at its two water reclamation facilities and conveyance system; continued to work on flood management projects, as well as work on sustainability projects and 2050 Facilities Planning. In 2015, the District's current six-year capital expenditure forecast projects \$533.1 million in project and program expenditures over the six-year period from 2015 through 2020. During this period the capital improvement program continues its focus on asset management and sustainability rather than expansion of capacity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2014, the District's investment in capital assets amounted to \$3.4 billion (net of accumulated depreciation) as shown in Table A-3 below. The decrease of \$24.1 million in net capital assets for 2014 reflects an \$86.6 million increase in accumulated depreciation which exceeds the \$62.5 million in net additions to the asset base during 2014. In 2013 the increase in capital assets was \$55.3 million.

More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

Debt Administration

General obligation indebtedness outstanding at December 31, 2014 amounted to \$923.7 million. Included in this amount are \$233.8 million of general obligation bonds issued by the District.

Table A-3 Capital Assets (000's)

	2014	2013	2012	Percentage Increase (Decrease) 2014 Versus 2013
Land, Land Easements & Land Improvements	\$111,227	\$110,674	\$110,602	0.5%
Buildings	803,028	802,701	799,949	0.0
Machinery & Equipment	884,280	786,344	734,147	12.5
Aeration and Clarifier Tanks	86,242	85,249	83,235	1.2
Watercourse Improvements	349,075	342,415	340,369	1.9
Intercepting Sewer System & Rights	2,478,845	2,463,150	2,333,309	0.6
Construction in Progress	220,532	280,215	413,840	(21.3)
Subtotal	4,933,229	4,870,748	4,815,451	1.3
Less: Accumulated Depreciation	(1,485,052)	(1,398,450)	(1,317,362)	6.2
Net Capital Assets	\$3,448,177	\$3,472,298	\$3,498,089	(0.7)%

See accompanying independent auditors' report.





The remaining balance of \$689.9 million represents funds received by the District through the State of Wisconsin Clean Water Fund Loan Program, which provides low interest loans for use in the construction of wastewater treatment facilities. Interest on these loans is payable semi-annually with interest rates ranging from 2.20% to 4.95%.

On May 11, 2015, the District issued \$100 million of General Obligation Promissory Notes, Series 2015A. The net proceeds from this issue will provide funding for a portion of the District's capital improvements program in 2015 and 2016. The Series 2015A issue, competitively sold by the District, is the first issue since December of 2010.

Fitch Ratings affirmed the District's current bond rating on March 31, 2015. Moody's Investor's Services affirmed the District's rating on March 31, 2015. The bond rating from Standard & Poor's was affirmed on March 25, 2015. The current ratings are as follows:

Fitch Ratings	Moody's	Standard & Poor's
AAA	Investors Service Aa1	AA+

At December 31, 2014 the District has recorded an intergovernmental loan for \$24.6 million. This loan is with City of Franklin for costs related to constructing the Ryan Creek Interceptor in accordance with District standards and which the District will purchase from Franklin. The District will make payments to Franklin, beginning in 2015, equal to Franklin's annual payments toward repaying its loan with the Clean Water Fund Loan Program used to finance the construction of the interceptor. On January 3, 2017, the District is to make a payment to reimburse Franklin for the sums Franklin has paid toward the Clean Water Fund Program loan through 2014.

During 2010 the Wisconsin Department of Commerce agreed to lend the District up to \$5 million for the purpose of economic development pursuant to the American Recovery and Reinvestment Act of 2009. The loan was amended on March 1, 2012 for an additional \$945,000 of principal. The loan provides partial funding for the District's landfill gas turbine project. The loan is interest free for 5 years and is secured by the equipment purchased with the loan funds rather than a tax levy pledge. The outstanding loan balance at December 31, 2014 was \$3.5 million. Although it is the District's intent to pay off the loan on May 1, 2016, in the event the District decides not to pay off the loan on that date, interest then accrues at the rate of 6% until final payment. The District will avoid \$751,000 in interest costs during the interest free period ending May 1, 2016, when compared to the District's next lowest cost financing option.

Additional information on the District's long-term debt can be in found in Note 7 to the financial statements and Exhibits B-12 to B-14 in the statistical section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The average unemployment rate for Milwaukee County was 7.0 percent for 2014, a decrease from the 8.3 percent rate for 2013. This compares to the state's unemployment rate of 5.5 percent and the national rate of 6.2 percent.
- Inflation in the metropolitan area was similar to the national consumer price index.
 - Milwaukee's inflation rate was 1.2% for 2014.
 - The average U.S. city rate was 1.6% for 2014.
- The equalized valuation for the District's service area (including communities outside the District) increased by 2.7 percent in 2014, while 2014 user charge wasteloads changed as follows:
 - Billable flows down 0.3%.
 - Pounds of Biochemical Oxygen Demand (BOD) down 3.1%.
 - Pounds of Total Suspended Solids (TSS) up 0.6%.

All these factors were taken into consideration when preparing the District's budgets.

See accompanying independent auditors' report.

The District approved an \$88.9 million 2015 Operation and Maintenance Budget, an increase of \$1.4 million or 1.6% from 2014. The District's sewer user charge billings for 2015 are budgeted to increase 3.25% to \$71.5 million. The average District residential charge for 2015 is increasing \$4.49 to \$125.17 or 3.7% from the 2014 amount \$120.68.

Items of note in the 2015 Operations and Maintenance (O&M) Budget include:

- A \$1 million withdrawal of excess funding from the District's equipment replacement fund and a \$1 million withdrawal from the user charge stabilization fund. These withdrawals were used to partially offset the decrease in surplus returned. In 2014's O&M budget a surplus of \$7.8 million was returned to the rate payers while in 2015's O&M budget the surplus returned decreased to \$3.9 million, or a \$3.8 million decrease when compared to 2014's amount.
- Contractual fee increases of \$1.6 million for the Veolia Water operating contract in the 2015 budget.
- A \$345,000 increase in energy costs related to estimated price increases for both natural gas and electricity.
- The Green Infrastructure program continues to evolve and the District reduced the current budget by \$225,000 when compared to 2014's budgeted amount.
- Increase employee contributions, along with recent favorable claim experience, resulted in a \$320,000 reduction in health insurance.

The District's Commission approved a 2015 Capital Budget that included a tax levy of \$93.6 million, an increase of 2.65% from the levy of the prior year. The tax rate increased 0.7% from \$1.70 to \$1.71 per \$1,000 of equalized value. Included in the 2015 Capital Budget is the current six-year financing plan that projects tax levy increases of 4% per year through 2020, while increasing the estimated tax rate from \$1.71 to \$1.82 per \$1,000 of equalized value.

In the summer of 2010, the District's service area and local systems experienced extreme wet weather events that exceeded system capacity. To address the great magnitude of the problem, the 2011 Capital Budget included a Private Property Infiltration and Inflow (PPI/I) Reduction program for \$151 million in anticipated funding from 2010 through 2020. The 2012 Capital Budget reduced the anticipated program funding in the extended long-range financing plan through 2020 to \$60 million. The 2015 Capital Budget maintains funding at \$5 million for 2015 through 2020. The funding for this program will be used to reimburse each of the 28 municipalities within the District service area as they incur expenditures addressing I/I issues on private property within their own municipality.

In addition to the PPI/I Reduction program, the 2015 Capital Budget sets aside \$1.5 million in 2015 for reimbursements to municipalities for green infrastructure improvements. The Green Solutions program will assist the District in meeting its permit requirement to capture an additional million gallons of stormwater each year through green infrastructure.

The 2015 Capital Budget also provides for the continuation of efforts to rehabilitate, upgrade or replace assets at the District's two water reclamation facilities and conveyance system, provide for flood management and develop additional green infrastructure solutions. The long-range financing plan provides for an average level of expenditures for capital projects and programs of \$88 million per year from 2015 through 2020 as the District maintains its 25% cash financing objective over the six-year period.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the **Milwaukee Metropolitan Sewerage District, 260 W. Seeboth St., Milwaukee, WI. 53204-1446 or www.mmsd.com.**



Exhibit A-1

Statements of Net Position

DECEMBER 31, 2014 AND 2013

Assets	2014	2013
	(In Thousands)	
Current unrestricted assets:		
Cash and cash equivalents	\$ 8,490	\$ 17,542
Investments	10,111	7,833
Receivables:		
Billed user charges	6,299	5,853
Unbilled user charges	11,585	11,191
Fertilizer sales	1,371	1,074
Other	3,584	2,231
Inventories:		
Operating and maintenance supplies	2,745	2,872
Fertilizer	1,809	1,940
Total current unrestricted assets	<u>45,994</u>	<u>50,536</u>
Current restricted assets:		
Cash and investments	46,882	36,175
Receivables:		
Tax levy	93,639	91,222
Capital charges – municipalities outside the District	33,225	28,403
Grant funds	602	1,360
Other	280	279
Prepaid expenses and other	408	517
Total current restricted assets	<u>175,036</u>	<u>157,956</u>
Total current assets	<u>221,030</u>	<u>208,492</u>
Noncurrent restricted assets:		
Investments	<u>38,500</u>	<u>57,750</u>
Capital assets, at cost:		
Land	73,102	72,591
Land easements	18,576	18,545
Land improvements	19,549	19,538
Buildings	803,028	802,701
Aeration and clarifier tanks	86,242	85,249
Machinery and equipment	884,280	786,344
Intercepting sewer system	2,454,256	2,438,585
Interceptor rights	24,589	24,565
Watercourse improvement	349,075	342,415
Construction in progress	220,532	280,215
	<u>4,933,229</u>	<u>4,870,748</u>
Less accumulated depreciation	<u>(1,485,052)</u>	<u>(1,398,450)</u>
Net capital assets	<u>3,448,177</u>	<u>3,472,298</u>
Total assets	<u>\$ 3,707,707</u>	<u>\$ 3,738,540</u>

See accompanying notes to financial statements.



Liabilities	2014	2013
Current liabilities (payable from current assets):	(In Thousands)	
Accounts payable	\$ 6,402	\$ 6,929
Accrued salaries and wages	400	1,013
Accrued vacation pay	1,053	1,097
Other	440	410
Total current liabilities (payable from current assets)	8,295	9,449
Current liabilities (payable from restricted assets):		
Accounts payable	13,611	4,986
Retainers payable	872	1,128
Accrued interest	7,209	7,073
Long-term obligations due within one year	89,520	84,381
Total current liabilities (payable from restricted assets)	111,212	97,568
Total current liabilities payable	119,507	107,017
Noncurrent liabilities:		
Retainers payable	217	246
Long-term obligations:		
General obligation bonds	204,691	239,208
Clean Water Fund Program loans	635,545	652,818
Intergovernmental loan	23,459	24,565
Postretirement benefits	41,906	36,910
Accrued vested sick pay	555	715
State loans payable - long term	2,706	3,483
Total long-term obligations	909,079	957,945
Total liabilities	1,028,586	1,064,962
Deferred Inflows of Resources		
Tax levies	93,639	91,222
Capital charges – municipalities outside the District	28,871	26,351
Unamortized gain on refundings	98	204
Total deferred inflows of resources	122,608	117,777
Total liabilities and deferred inflows of resources	1,151,194	1,182,739
Net Position		
Net Position:		
Investment in capital assets	2,486,416	2,464,531
Restricted – capital projects and programs	34,527	46,210
Restricted – equipment replacement	14,411	14,411
Restricted – debt service	25,541	26,518
Unrestricted	(4,382)	4,131
Total net position	\$ 2,556,513	\$ 2,555,801

See accompanying notes to financial statements.

Exhibit A-2

Statements of Revenues, Expenses and Changes in Net Position

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Operating revenues:		
User charges	\$ 70,029	\$ 69,572
Fertilizer	7,993	7,667
Other	784	1,158
Total operating revenues	<u>78,806</u>	<u>78,397</u>
Operating expenses:		
Systems – operation and maintenance	58,754	57,130
Laboratory and research services	2,449	2,448
Industrial waste and conveyance monitoring	3,444	3,227
Finance, engineering, and administration	23,311	22,331
Depreciation and amortization	87,647	82,785
Total operating expenses	<u>175,605</u>	<u>167,921</u>
Operating loss	<u>(96,799)</u>	<u>(89,524)</u>
Nonoperating revenues (expenses):		
Property taxes - capital	90,919	88,626
Investment income	479	591
Net increase (decrease) in fair value of investments	(42)	(644)
Interest expense	(24,260)	(24,293)
Capital charges – municipalities outside the District	29,396	28,424
Gain (loss) on disposal of capital assets	(2,110)	(1,582)
Capital program expenditures	(5,445)	(4,899)
Land contributed to municipalities	(722)	(176)
Other	3,292	2,078
Total nonoperating revenues, net	<u>91,507</u>	<u>88,125</u>
Income (loss) before capital contributions	<u>(5,292)</u>	<u>(1,399)</u>
Capital contributions	<u>6,004</u>	<u>3,016</u>
Change in net position	<u>712</u>	<u>1,617</u>
Net position at beginning of year	<u>2,555,801</u>	<u>2,554,184</u>
Net position at end of year	<u>\$ 2,556,513</u>	<u>\$ 2,555,801</u>

See accompanying notes to financial statements.

Exhibit A-3

Statements of Cash Flows

DECEMBER 31, 2014 AND 2013

	2014	2013
	(In Thousands)	
Cash flow from operating activities:		
Receipts from customers and users	\$ 79,607	\$ 81,227
Payments for capital programs	(5,445)	(4,899)
Payments to suppliers	(71,829)	(69,687)
Payments to employees	(12,080)	(12,008)
Net cash provided (used) by operating activities	<u>(9,747)</u>	<u>(5,367)</u>
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets	(57,488)	(63,310)
Proceeds from long-term debt issued	37,216	43,192
Principal payments on long-term obligations	(84,498)	(80,227)
Interest paid on long-term obligations (net of capitalized interest)	(25,482)	(25,767)
Government grant receipts and other contributions	6,232	2,900
Tax levy receipts	90,919	88,626
Capital charges – municipalities outside the District	27,094	26,868
Net cash provided (used) by capital and related financing activities	<u>(6,007)</u>	<u>(7,718)</u>
Cash flow from investing activities:		
Investment income	479	591
Purchase of investments	(14,416)	(15,140)
Proceeds from sale and maturity of investments	20,639	24,853
Net cash provided (used) by investing activities	<u>6,702</u>	<u>10,304</u>
Net (decrease) increase in cash and cash equivalents	<u>(9,052)</u>	<u>(2,781)</u>
Cash and cash equivalents at beginning of year	17,542	20,323
Cash and cash equivalents at end of year	<u>\$ 8,490</u>	<u>\$ 17,542</u>
Cash and cash equivalents as presented in the accompanying statements of net position:		
Current cash and equivalents	\$ 8,490	\$ 17,542
Current investments	10,111	7,833
Current restricted cash and investments	46,882	36,175
Noncurrent investments	38,500	57,750
Non-cash equivalents	<u>(95,493)</u>	<u>(101,758)</u>
Cash and cash equivalents	<u>\$ 8,490</u>	<u>\$ 17,542</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (96,799)	\$ (89,524)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	87,647	82,785
Postretirement benefits	4,996	4,352
Other nonoperating revenue	3,292	2,078
Capital program expenditures	(5,445)	(4,899)
Changes in current assets and liabilities:		
Current receivables and other assets	(2,491)	752
Prepaid expenses and other	109	162
Inventories	258	336
Accounts payable and other liabilities	(1,314)	(1,409)
Net cash (used in) provided by operating activities	<u>\$ (9,747)</u>	<u>\$ (5,367)</u>
Noncash investing, capital and related financing activities:		
Increase (decrease) in fair value of investments	\$ (42)	\$ (644)
Increase (decrease) in capital grants accrued	(758)	(401)
Increase (decrease) in receivables and unearned revenue for capital charges municipalities outside the District (net impact)	2,302	1,556
Capital assets contributed by others	530	517
Capitalized interest	5,017	6,587
Loss on disposal of capital assets	2,074	1,607
Land contributed to municipalities	722	176

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2014 and 2013

(1) Basis of Presentation

The Milwaukee Metropolitan Sewerage District (the District) is a special purpose municipal corporation established by the laws of the State of Wisconsin. The District's legal boundary includes all of Milwaukee County with the exclusion of the City of South Milwaukee. The legal boundary also includes the portion of the Village of Bayside which is in Ozaukee County and those portions of the City of Milwaukee that are in Waukesha County and Washington County. The District determines and collects sewer user charges from municipalities within this area in order to apportion all operation and maintenance costs associated with treatment operations. The District also provides service to certain municipalities outside the District for collection and treatment of their sewage. Construction and maintenance of all intercepting sewers, watercourse improvements, and water reclamation facilities within its territorial area are also the responsibilities of the District. The District also produces organic nitrogen fertilizer (Milorganite®) as a by-product of its wastewater treatment process for residential and commercial use.

The District has the authority to finance its capital project costs through the use of a property tax levy, user charge, or the sale of revenue or general obligation bonds. Additionally, the District may contract with users outside the District's boundaries for payment toward its capital costs.

The accompanying financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as an appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units that come under the criteria for inclusion. The District is not a component unit of any other government entity.

(2) Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant policies.

(a) Financial Statement Presentation and Basis of Accounting

The District prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the District's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned, and expenses are recorded when liabilities are incurred.

(b) Cash Equivalents

The District generally considers deposits and all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

(c) Investments

Investment of the District's funds is restricted by state statutes. Investments are limited to:

- Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium 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.
- The local government investment pool.
- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.

Investments are reported at fair value based on quoted market prices. Commercial paper, which is short-term (less than 180 days) and highly liquid, is carried at amortized cost.

Investment income, including changes in the fair value of investments and realized gains and losses, is recognized as revenue in the statements of revenues, expenses, and changes in net position.

The District invests in the Wisconsin Local Government Investment Pool (the Pool), which 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 (SEC), but operates under the statutory authority of Wisconsin Chapter 25. The District's investment in the Pool is reported at fair value in the statements of net position. The fair value of the District's investment in the Pool equals the net realizable value of the District's share of the Pool (see Note 3). The Pool is authorized by Wisconsin statutes to enter into investments on behalf of government entities within Wisconsin and, in certain circumstances, to enter into derivative transactions to maximize the yield on its investments. However, specific information about the Pool's derivative transactions is not available to the District.

(d) User Charges

User charges are recorded on the accrual basis. User charges billed to municipalities within the service area are designed to cover only operation and maintenance expenditures and are not intended to recover capital costs. User charge rates are set by District resolution on an annual basis to recover net estimated operating expenses, excluding depreciation, after giving effect to prior year surpluses or deficits. These charges are billed to municipalities in proportion to each user's contribution to total wastewater loading into the treatment system. Each municipality's bill reflects the amount due from each user class – residential, commercial, and industrial. Due to the delay in user charge billing caused by the monthly or quarterly billing cycle, the District accrues unbilled service charges with respect to services provided during the current year.

(e) Inventories

Inventories are valued at the lower of cost (weighted average cost) or market.

(f) Prepayments

Prepayments represent costs of insurance paid during the current audit year for coverage in subsequent years.

(g) Restricted Assets

The District maintains specific investments held by the bank for safekeeping for funds intended for equipment replacement. The equipment replacement funds are classified as restricted assets and were approximately \$14,411,000 in 2014 and 2013. Also included in restricted assets are investments, receivables, and other assets available for restricted liabilities related to the District's capital improvement program of \$173,584,000 and \$174,777,000 in the same periods. Investments restricted for debt service were \$25,541,000 and \$26,518,000, respectively.

(h) Property Taxes and Capital Charges

Property taxes levied have been designated by the District's Commission to be legally available for capital expenditures, capital programs, and debt service requirements in the ensuing year. Taxes levied in 2014, to be collected in 2015, of \$93,639,000, have been included in deferred inflows of resources in the statements of net position at December 31, 2014, and are available for expenditure in 2015. Taxes levied in 2013, to be collected in 2014, of \$91,222,000, have been included in deferred inflows of resources in the statements of net position at December 31, 2013, and were available for expenditure in 2014.

The various municipalities within the District's legal boundary initially collect District taxes. As collections are made, the local or county treasurer makes pro rata settlements with the District beginning on or before January 15 each year and monthly thereafter. All municipalities are required to remit delinquent District taxes to the treasurer of the county in which such municipality is located by August 15 each year. The county treasurer, in turn, must settle the taxes in full with the District by August 20 regardless of actual collections.

Communities outside the District's legal boundary, but within the service area are assessed a capital charge in place of levying a property tax.

(i) Capital Contributions

Capital contributions consist of federal and state grants and funds from the State of Wisconsin used to finance capital expenditures. Federal and state grant receivables are recognized as the related capital project expenditures are incurred. Revenue from grants and contributions is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

(j) Capital Assets

Capital assets, which include land, land easements, land improvements, buildings, aeration and clarifier tanks, machinery and equipment, intercepting sewer system, interceptor rights, and watercourse improvements, are stated at cost. The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life of three or more years. Public domain property (i.e., sewers) and other capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Interest is capitalized on constructed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. The amount of interest capitalized was \$5,017,000 and \$6,587,000 in 2014 and 2013, respectively.

Depreciation/amortization are provided using the straight-line method over the following estimated useful lives:

	Years
Land easements	50
Land improvements	30-60
Buildings	50-65
Aeration and clarifier tanks	20-25
Machinery and equipment	3-50
Intercepting sewer system	20-100
Interceptor rights	50
Watercourse improvements	65-80

Depreciation is not provided on construction in progress until the project is completed and placed in service.

Notes to Financial Statements

Continued December 31, 2014 And 2013

(k) Vacation Pay

Vacation pay is accrued as earned and is to be used within one year. The accrued vacation pay of \$1,053,000 and \$1,097,000 at December 31, 2014 and 2013, respectively, is classified as a current liability.

(l) Retainers Payable

The District withholds payment for a portion of construction work completed. Upon completion of construction projects, the District remits payment for the amount withheld. Retainers expected to be paid during the next year are classified as current.

(m) Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

On an accrual basis, revenue from property taxes and capital charges for communities outside the District are recognized in the period they are intended to finance, which is the year after the taxes are levied and the capital charges are incurred. A deferred inflow of resources arises when assets are recognized before the period for revenue recognition has occurred.

Gains or losses on refunding are deferred and amortized over the life of related bonds on a straight line basis and are reported as deferred inflows or outflows.

(n) Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

(o) Vested Sick Pay

Prior to 1984, it was the District's practice that employees could accumulate unused sick pay to a maximum of 240 days, and upon retirement could receive payment for one-half of their accumulated days. In 1984, the accumulated unused sick pay for management employees was frozen at the balance earned as of December 31, 1983. The Union employees continued to accumulate unused sick pay until 2012. The accumulated sick pay for Union employees was frozen at the balance earned as of April 30, 2012. The frozen sick pay of the management employees is \$43,000 and \$51,000 at December 31, 2014 and 2013, respectively, and the frozen sick pay of the Union employees is \$912,000 and \$1,064,000 at December 31, 2014 and 2013, respectively. Of the total, \$555,000 and \$715,000 at December 31, 2014 and 2013, respectively, are classified as a long-term liability. The current portion is included with accrued salaries and wages.

(p) Net Position

Net position is displayed in three components as follows:

Investment in Capital Assets – consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted – consists of constraints placed on net position that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

(q) Classification of Revenues and Expenses

The District has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including sewer user charges and fertilizer (Milorganite®) sales. Nonoperating revenue includes interest income on investments and activities that have characteristics of nonexchange transactions including federal, state, and local grants and contributions.

Operating expenses are related to the operating, managing, and maintaining of the District's sewerage system. These expenses are primarily funded by sewer user charges and sales of Milorganite®. Nonoperating expenses are related to the cost of acquiring, purchasing, adding to, leasing, planning, designing, constructing, extending, and improving all or any part of the District's sewerage system; capital programs designed to finance improvements outside the system that minimize the need for future system expansion; and paying principal, interest, or premiums on any indebtedness for these purposes. These expenses are primarily funded by property taxes levied on member communities and capital billings to communities outside the District.

(r) Gain (Loss) on Disposal of Capital Assets

Gains and losses on disposal of capital assets includes assets retired as well as projects that were terminated and disposed of during the year. In addition, the cost demolition associated with certain water course properties is included here.

(s) Capital Program Expenditures

The District offers funding to municipalities for planning, design, investigation, and construction of projects intended to reduce inflow and infiltration on private property. Actual costs reimbursed by the District to municipalities are shown as a nonoperating expense on the statements of revenues, expenses, and changes in net position.

(t) Land Contributed to Municipalities

As part of its watercourse and flood abatement program, the District purchases natural wetlands to reduce the risk of future flooding problems. These properties are subsequently donated to local municipalities because they provide multiple benefits to

the local community in the form of open space, wildlife habitat and passive recreation, while the District retain a conservation easement.

(u) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and capital contributions during the reporting period. Actual results could differ from those estimates.

(v) New Accounting Pronouncements

In June 2012, GASB issued Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. The provisions of this statement are effective for calendar year 2014. The implementation of this statement is not anticipated to have an impact on the District's financial statements.

In June 2012, GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this statement are effective for calendar year 2015. The implementation of this statement may restate portions of the financial statements.

In January 2013, GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this statement are effective for calendar year 2014. The implementation of this standard is not anticipated to have an impact on the District's financial statements.

In April 2013, GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this statement are effective for calendar year 2014. The implementation of this standard is not anticipated to have an impact on the District's financial statements.

In November 2013, GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provision of Statement No. 68 (calendar year 2015).

(w) Reclassification

Certain amounts in the 2013 financial statements may have been reclassified to conform with the classification used in 2014.

(3) Deposits and Investments

As of December 31, 2014, the District had the following investments and cash and cash equivalents and maturities:

Carrying Value	Investment Maturities (in years)		
	Less Than 1	1-2	3-5
	(In Thousands)		
Checking	\$(1,217)	\$ –	\$ –
U.S. Instrumentalities	24,406	2,247	22,159
U.S. Treasuries	7,660	2,629	2,498
Local Government			
Investment Pool	64,559	64,559	–
Corporate Bonds	7,773	3,262	1,821
Certificates of Deposit	802	802	–
Total Cash and Investments	\$103,983	\$69,939	\$6,697
		\$27,347	

Notes to Financial Statements

Continued December 31, 2014 And 2013

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

	Carrying Value	Investment Maturities (in years)		
		Less Than 1	1-2	3-5
		(In Thousands)		
Checking	\$(1,505)	\$(1,505)	\$ -	\$ -
U.S. Instrumentalities	21,925	1,929	-	19,996
U.S. Treasuries	10,486	4,781	2,560	3,145
Local Government				
Investment Pool	78,747	78,747	-	-
Corporate Bonds	8,345	3,185	3,335	1,825
Certificates of Deposit	1,302	1,302	-	-
Total Cash and Investments	<u>\$119,300</u>	<u>\$88,439</u>	<u>\$5,895</u>	<u>\$24,966</u>

The checking account bank balance was \$30,271 and \$45,817 at December 31, 2014 and 2013, respectively. Deposits in each local and area bank are insured by the FDIC in the amounts of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest and noninterest bearing). Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. During 2014 and 2013, the District was in compliance with its investment policy that all investments shall be limited to maturities not exceeding five years, and the District shall maintain at least \$10,000,000 of its total investment portfolio in instruments maturing in 60 days or less. During 2014 and 2013, investments with maturities of less than 180 days, based on par value, comprised on average, 76.29% and 77.14%, respectively, of the District's month-end investment portfolio balance.

Credit risk is risk that an issuer of an investment will not fulfill its obligations to the District. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by a nationally recognized rating service at the time of purchase.

The District investment policy further limits the purchase of commercial paper to issuers with a commercial paper program size of at least \$500,000,000, except for banks and companies located within the District's boundaries. The District did not hold any investments in commercial paper as of December 31, 2014 and 2013. The District's investment in corporate bonds at December 31, 2014, ranged from AA+ to AA by Standard & Poor's, or Aaa to A2 by Moody's Investors Service. The District's investment in corporate bonds at December 31, 2013, ranged from AA+ to AA by Standard & Poor's, or Aaa to A2 by Moody's Investors Service.

As to the credit risk related to the District's investment in the Local Government Investment Pool (LGIP), the investments are not insured. The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of certificates of deposit held by the LGIP.

At December 31, 2014 and 2013, all of the District's investment in U.S. Instrumentalities are rated either AA+ by Standard & Poor's or Aaa by Moody's Investors Service.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places no limit on the amount invested in any one issuer. As of December 31, 2014, the District had more than 5% of the District's investments in the following issuer:

Issuer	Percentage
Federal National Mortgage Association	8.86
U.S. Treasury Note	7.28
Federal Farm Credit Banks	5.32

As of December 31, 2013, the District had more than 5% of the District's investments in the following issuer:

Issuer	Percentage
Federal National Mortgage Association	9.05

In the case of deposits, in which the related risk is the event of a bank failure, the District's deposits may not be returned to it. The District maintained certificates of deposit of \$800,000 and \$1,300,000 at December 31, 2014 and 2013. These deposits, excluding \$1,900 of accrued interest at December 31, 2014 and \$2,200 of accrued interest at December 31, 2013, are fully insured through a combination of federal and state deposit insurance.

(4) Operating Contract and Expenses

On December 3, 2007, the Milwaukee Metropolitan Sewerage District Commission approved a 10-year contract effective March 1, 2008 with Veolia Water Milwaukee, LLC (Veolia) to replace UWS as the operator of the District's two wastewater treatment plants, biosolids management and field operations, while retaining ownership of the assets. Veolia's proposal was determined to be the most cost-effective and was selected based on a competitive bid process which included UWS and after evaluating the cost-effectiveness of returning the operations to the public sector. The District continued to operate its industrial waste pretreatment program; capital planning and engineering services; environmental laboratory, water quality monitoring and research; Milorganite® sales, marketing and distribution while maintaining ownership of the assets.

As part of the new contract with Veolia, the District transferred custody of the operating and maintenance supplies inventory to Veolia on March 1, 2008 while the

District retained ownership. At the termination of the contract, custody of the inventory reverts back to the District, and any change in the value of inventory is paid by the District or to the District. Any changes in inventory levels throughout the term of the agreement are recorded as inventory.

The operation and maintenance and utility fees are subject to adjustments based on various indices. The total net expenditures related to the contract for the year ended December 31, 2014 were \$44,628,000 and for the year ended December 31, 2013 were \$43,900,000. The District continues to operate its industrial waste pretreatment program, engineering, central lab monitoring and research, Milorganite® sales, marketing, and distribution. Under the terms of the new contract with Veolia the District is liable for 75% of actual energy costs and Veolia is responsible for the remainder.

(5) Federal and State Grants

The District has been awarded federal grant funds for planning, design, and construction, and state grant funds for construction.

Available and outstanding federal and state grants are presented as follows:

	Available Grant Funds	Outstanding Grants Receivable		
		Billed	Unbilled	Total
		(In Thousands)		
December 31, 2014:				
Federal	\$10,798	\$462	\$ -	\$462
State and other	1,206	140	-	140
	<u>\$12,004</u>	<u>\$602</u>	<u>\$ -</u>	<u>\$602</u>
December 31, 2013:				
Federal	\$12,461	\$567	\$ -	\$567
State	1,054	793	-	793
	<u>\$13,515</u>	<u>\$1,360</u>	<u>\$ -</u>	<u>\$1,360</u>

The District accrues for unbilled grant amounts based on eligible project expenditures incurred. Actual billings are made in accordance with respective grant provisions.

Grants and amounts received may be subject to compliance audits. In the District's opinion, adjustments, if any, resulting from the disallowance of expenditures would not have a material adverse effect on the District's financial position.

(6) Capital Assets

Capital assets activity for the year ended December 31, 2014 was as follows:

	Balance, Beginning of Year	Additions	Deductions	Adjustments	Balance, End of Year
Capital assets not being depreciated:					
Land	\$72,519	\$511	\$-	\$-	\$73,102
Construction in progress	280,215	73,109	131,442	(1,350)	220,532
Total capital assets not being depreciated	<u>352,806</u>	<u>73,620</u>	<u>131,442</u>	<u>(1,350)</u>	<u>293,634</u>
Capital assets being depreciated:					
Land easements	18,546	30	-	-	18,576
Land improvements	19,537	12	-	-	19,549
Buildings	802,701	327	-	-	803,028
Aeration and clarifier tanks	85,249	993	-	-	86,242
Machinery and equipment	786,344	99,813	1,877	-	884,280
Intercepting sewer system	2,438,585	15,671	-	-	2,454,256
Interceptor rights	24,565	24	-	-	24,589
Watercourse improvements	342,415	6,660	-	-	349,075
Total capital assets being depreciated	<u>4,517,942</u>	<u>123,530</u>	<u>1,877</u>	<u>-</u>	<u>4,639,595</u>
Less accumulated depreciation:					
Land easements	3,153	371	-	-	3,524
Land improvements	11,750	512	-	-	12,262
Buildings	346,864	15,334	-	-	362,198
Aeration and clarifier tanks	38,253	1,121	-	-	39,374
Machinery and equipment	398,133	30,318	1,045	-	427,406
Intercepting sewer system	554,621	34,644	-	-	589,265
Interceptor rights	246	492	-	-	738
Watercourse improvements	45,430	4,855	-	-	50,285
Total accumulated depreciation	<u>1,398,450</u>	<u>87,647</u>	<u>1,045</u>	<u>-</u>	<u>1,485,052</u>
Total capital assets being depreciated, net	<u>3,119,492</u>	<u>35,883</u>	<u>832</u>	<u>-</u>	<u>3,154,543</u>
Total capital assets, net	<u>\$3,472,298</u>	<u>\$(109,503)</u>	<u>\$132,274</u>	<u>\$(1,350)</u>	<u>\$3,444,177</u>

Notes to Financial Statements

Continued December 31, 2014 And 2013

Capital assets activity for the year ended December 31, 2013 was as follows:

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year
(In Thousands)				
Capital assets not being depreciated:				
Land	\$72,519	\$72	\$-	\$72,591
Construction in progress	413,840	62,980	196,605	280,215
Total capital assets not being depreciated	486,359	63,052	196,605	352,806
Capital assets being depreciated:				
Land easements	18,545	-	-	18,545
Land improvements	19,538	-	-	19,538
Buildings	799,949	2,752	-	802,701
Aeration and clarifier tanks	83,235	2,014	-	85,249
Machinery and equipment	734,147	53,909	1,712	786,344
Intercepting sewer system	2,333,309	105,276	-	2,438,585
Interceptor rights	-	24,565	-	24,565
Watercourse improvements	340,369	2,046	-	342,415
Total capital assets being depreciated	4,329,092	190,562	1,712	4,517,942
Less accumulated depreciation:				
Land easements	2,781	371	-	3,152
Land improvements	11,237	511	-	11,748
Buildings	331,562	15,301	-	346,863
Aeration and clarifier tanks	37,167	1,086	-	38,253
Machinery and equipment	372,341	27,490	1,696	398,135
Intercepting sewer system	521,636	32,987	-	554,623
Interceptor rights	-	246	-	246
Watercourse improvements	40,638	4,792	-	45,430
Total accumulated depreciation	1,317,362	82,784	1,696	1,398,450
Total capital assets being depreciated, net	3,011,730	107,778	16	3,119,492
Total capital assets, net	\$3,498,089	\$170,830	\$196,621	\$3,472,298

The District had construction contract commitments of approximately \$10,715,000 and \$21,668,000 as of December 31, 2014 and 2013, respectively.

(7) Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
(In Thousands)					
General obligation bonds	\$265,665	\$-	\$(31,830)	\$233,835	\$33,265
Plus unamortized premium	5,373	-	(1,252)	4,121	-
Total bonds payable	271,038	-	(33,082)	237,956	33,265
State of Wisconsin Clean Water Fund	704,591	37,193	(51,891)	689,893	54,349
Subtotal	975,629	37,193	(84,973)	927,849	87,614
Intergovernmental loan	24,565	24	-	24,589	1,129
Other long term debt	4,261	-	(777)	3,484	777
Other postretirement benefits	36,910	9,561	(4,565)	41,906	-
Vested sick pay	1,115	-	(160)	955	400
Total	\$1,042,480	\$46,778	\$(90,475)	\$998,783	\$89,920

Changes in long-term obligations for the year ended December 31, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
(In Thousands)					
General obligation bonds	\$296,380	\$-	\$(30,714)	\$265,666	\$31,831
Plus unamortized premium	6,942	-	(1,569)	5,373	-
Total bonds payable	303,322	-	(32,283)	271,039	31,831
State of Wisconsin Clean Water Fund	712,634	40,692	(48,735)	704,591	51,773
Subtotal	1,015,956	40,692	(81,018)	975,630	83,604
Intergovernmental loan	22,065	2,500	-	24,565	-
Other long term debt	5,038	-	(778)	4,260	777
Other postretirement benefits	32,558	9,380	(5,028)	36,910	-
Vested sick pay	1,205	-	(90)	1,115	400
Total	\$1,076,822	\$52,572	\$(86,914)	\$1,042,480	\$84,781

The District has issued general obligations bonds to provide funds for the acquisition and construction of major capital assets. All general obligation bonds are backed by the full faith and credit of the District. Interest on these bonds is payable semiannually at varying interest rates ranging from 3.10% to 4.45% (effective interest rate of 4.07%). Debt service requirements are as follows:

Year	Principal	Interest	Subsidy*	Total
(In Thousands)				
2015	\$33,265	\$11,597	\$(670)	\$44,192
2016	34,840	9,927	(646)	44,121
2017	36,435	8,247	(620)	44,062
2018	15,725	6,461	(590)	21,596
2019	16,315	5,682	(557)	21,440
2020-2024	60,025	16,921	(2,238)	74,708
2025-2029	34,035	5,744	(1,131)	38,648
2030	3,195	177	(62)	3,310
Total	\$233,835	\$64,756	\$(6,514)	\$292,077

*The subsidy is based on the original 35% federal interest subsidy provided by the federal government. During fiscal year 2014 interest subsidies received were reduced by 7.2% and during federal fiscal year 2015, the subsidy payments have been reduced by 7.3%. This amount may continue to change based on sequestration.

The District has received funds through the State of Wisconsin Clean Water Fund Loan Program. Interest on these loans is payable semiannually at varying interest rates ranging from 2.20% to 4.95% (effective interest rate of 2.56%). Principal is payable annually in varying amounts. Debt service requirements are as follows:

Year	Principal	Interest	Total
(In Thousands)			
2015	\$54,349	\$16,699	\$71,048
2016	55,521	15,278	70,799
2017	55,259	13,839	69,098
2018	55,766	12,402	68,168
2019	56,753	10,945	67,698
2020-2024	240,405	34,796	275,201
2025-2029	146,520	10,500	157,020
2030-2034	25,320	714	26,034
Total	\$689,893	\$115,173	\$805,066

The District has outstanding loan commitments available of \$113,359,000 and \$126,151,000 at December 31, 2014 and 2013, respectively, from the State of Wisconsin Clean Water Fund Loan Program. These commitments will be utilized for future construction of wastewater treatment facilities.

In 2010, the District entered into an intergovernmental loan agreement with the City of Franklin to finance the Ryan Interceptor (project). The City of Franklin is constructing the project which will ultimately become an asset of the District. The City of Franklin has obtained Clean Water Fund Loan financing for this project at 2.46%. The District's obligation will equal the total principal and interest payments on that loan. The District has agreed to make payments to the City of Franklin beginning in 2015 and the debt is anticipated to be paid off in 2031. On January 3, 2017, the District will make a payment to the City of Franklin to reimburse the City for the sums paid toward the loan through 2014. The outstanding amount at December 31, 2014 is \$24,588,634. Debt service requirements are as follows:

Year	Principal	Interest	Total
(In Thousands)			
2015	\$1,129	\$564	\$1,693
2016	1,157	536	1,693
2017	2,288	1,878	4,166
2018	1,215	478	1,693
2019	1,245	448	1,693
2020-2024	6,698	1,757	8,455
2025-2029	7,564	880	8,444
2030-2031	3,293	82	3,375
Total	\$24,589	\$6,623	\$31,212

On December 15, 2003, the District issued \$38,105,000 General Obligation Capital Purpose Refunding Bonds, Series 2003I. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on a portion of the General Obligation Capital Purpose Bonds, Series 2001A, and Series 2003D. Neither the defeased debt nor the funds held in trust are recorded on the District's statement of net assets. The difference between the reacquisition price and the net carrying amount of the old debt was a loss of \$1,981,000, which is reported in the accompanying financial statements as a reduction to long-term obligations and is being amortized as a component of interest expense through 2018. The unamortized refunding loss was \$502,000 as of December 31, 2014. The remaining balance on the Series 2003I Bonds at December 31, 2014 and 2013, included in general obligation bonds, is \$22,980,000 and \$28,080,000 respectively.

Notes to Financial Statements

Continued December 31, 2014 And 2013

On April 21, 2005, the District issued \$57,115,000 of General Sewerage System Refunding Bonds, Series 2005A. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on a portion of the General Obligation Sewerage System Bonds, Series 2001A. Neither the defeased debt nor the funds held in trust are recorded on the District's statement of net assets. The difference between the acquisition price and the net carrying amount of the old debt was a loss of \$217,000, which is reported in the accompanying financial statements as a reduction to long-term obligations and is being amortized as a component of interest expense through 2022. The unamortized refunding loss was \$96,000 as of December 31, 2014. The remaining balance on the Series 2005A Bonds at December 31, 2014 and 2013, included in general obligation bonds, is \$53,675,000 and \$57,115,000 respectively. As of December 31, 2014 and 2013, \$38,660,000 of the 2003D bonds remain defeased from this transaction.

On July 3, 2007, the District issued \$97,095,000 of General Sewerage System Refunding Bonds, Series 2007A, to refund \$103,715,000 of outstanding bonds, Series 1997A. The 1997A bonds have been paid in full. The difference between the acquisition price and the net carrying amount of the old debt was a gain of \$2,594,000, which is reported in the accompanying financial statements as a gain to long-term obligations and is being amortized as a component of interest expense through 2017. The unamortized refunding gain was \$696,000 as of December 31, 2014. The remaining balance on the Series 2007A Bonds at December 31, 2014 and 2013, included in general obligation bonds, is \$61,105,000 and \$79,505,000, respectively.

On August 4, 2008, the District issued \$70,000,000 of General Sewerage System Bonds, Series 2008F, with an average interest rate of 4.9 percent. The proceeds are being used to fund district capital improvements. The remaining balance on the Series 2007F Bonds at December 31, 2014 and 2013, included in general obligation bonds, is \$54,845,000 and \$57,585,000, respectively.

On December 23, 2010, the District issued \$50,000,000 of General Obligation Sewerage System Bonds, Series 2010L with an average interest rate of 3.9 percent. Included in the proceeds is a subsidy from the Build America Bonds program of \$9,186,000 which will reduce the payment over the life of the bonds until 2030. This amount may change based on sequestration. The proceeds are being used to fund district capital improvements. The remaining balance on the series 2010L Bonds at December 31, 2014 and 2013 included in general obligation bonds is \$41,230,000 and \$43,380,000, respectively.

The District issued a promissory note to the Department of Commerce for \$5,000,000 on October 1, 2010, which was amended on March 1, 2012 for an additional \$945,000 of principal. The loan is secured by the equipment purchased with the loan proceeds. This is a zero interest loan for the first five years from the original due date of first payment and accrues interest on the unpaid balance at 6%, thereafter, starting on the payment due June 1, 2016. A standard payment of \$64,790 is due every month until the last payment occurs on October 1, 2017. Payments began on May 1, 2012, with a six-month deferral of payment following the addition of principal with a deferral period from May 1, 2011 to November 1, 2012. The remaining balance at December 31, 2014 and 2013, included in the other long term debt is \$3,483,000 and \$4,260,000, respectively.

Interest incurred to finance the construction of capital projects were capitalized as additional costs of capital projects. Such costs capitalized, net of related interest income, amounted to \$5,017,000 and \$6,587,000 in 2014 and 2013, respectively.

A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31 follows:

	2014	2013
	(In Thousands)	
2014 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$57,151,739	\$56,031,758
Statutory debt limit rate - Wisconsin Statutes Section 67.03	5%	5%
Statutory debt limit	2,857,587	2,801,588
General obligation indebtedness:		
Outstanding bonds issued by the District	(233,835)	(265,666)
Clean Water Fund Program loans	(689,893)	(704,591)
Legal debt margin	<u>\$1,933,859</u>	<u>\$1,831,331</u>

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. The District carries policies of insurance with respect to its property, vessels, equipment, and passenger and commercial vehicles (including comprehensive liability), environmental site liability, contractor's pollution liability, owner's professional liability, excess workers' compensation and health benefits. The District carries no insurance coverage for general liability. Settled claims have not exceeded the commercial coverage in any of the past three years. There has been no reduction in insurance coverage from that of prior years.

The District is self-insured for workers' compensation and employer liability claims subject to certain limits of coverage. In addition, the District retains the risk for all comprehensive general liability claims. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial

statements and the amount of the loss is reasonably estimable. The liability for claims payable included with accounts payable in the statements of net assets includes claims incurred but not reported (IBNR) totaling approximately \$6,176,000 and \$1,425,000 as of December 31, 2014 and 2013, respectively.

	2014	2013	2012
	(In Thousands)		
Unpaid claims, beginning of year	\$1,425	\$265	\$170
Claim payments	(461)	(570)	(212)
Current year claims and changes in estimates	5,212	1,730	307
Unpaid claims, end of year	<u>\$6,176</u>	<u>\$1,425</u>	<u>\$265</u>

In addition, the District retains a certain level of risk related to employee health insurance, and uses commercial insurance for stop-loss purposes. A liability for claims incurred but not reported (IBNR) is estimated at year end based on a review of the historical data. As of December 31, 2014 and 2013, the IBNR is \$440,000 and \$410,000, respectively.

	2014	2013	2012
	(In Thousands)		
Unpaid claims, beginning of year	\$410	\$460	\$510
Claims and premiums paid	(8,289)	(7,451)	(8,113)
Current year claims and changes in estimates	8,319	7,401	8,063
Unpaid claims, end of year	<u>\$440</u>	<u>\$410</u>	<u>\$460</u>

The District does not allocate overhead costs or other nonincremental costs to the claims liabilities.

(9) Contingencies and Commitments

(a) Litigation

The District is involved in various legal proceedings, claims, and administrative actions arising in the normal course of business. In the opinion of management, the District's liability, if any, will not materially affect its financial condition.

Provision has been reflected in the accompanying financial statements if deemed appropriate by the District, for the following major lawsuits and administrative actions:

BOSTCO, LLC and Parisian, Inc. v. MMSD

Milwaukee County Circuit Court, Case No. 03-CV-005040

Suit was filed in 2003 for damages to the foundation of the Boston Store property allegedly caused by groundwater draw down from a construction project of the District. Trial to a jury resulted in a verdict for Plaintiff of \$6.3 million. This verdict amount was reduced to \$100,000 by court order. In addition, Plaintiff obtained an injunction requiring the District to abate the continuing nuisance by lining with concrete one mile of the deep tunnel at an estimated cost of approximately \$20 million. In a 2013 decision, the Wisconsin Supreme Court upheld both the \$100,000 damage award and the injunction order but found that the trial court did not make sufficient findings to support the tunnel lining order. It therefore remanded the matter to the Circuit Court to determine the appropriate remedy for abating the nuisance. This matter was resolved in January 2015 by agreement of the parties and the case was dismissed. MMSD agreed to a total payment of \$6 million to plaintiffs, with the first \$3 million paid in January 2015, and a second payment of \$3 million due to plaintiffs by 2015 year end, provided that the siting of the anticipated new Milwaukee Bucks arena does not impact the Boston Store site. Under the terms of the settlement, if the Bucks' arena siting decision affects the Boston Store site, the second \$3 million payment will not be due to plaintiffs. The \$6 million due to plaintiffs in 2015 was accrued as a liability as of December 31, 2014.

G&D Development Corporation, et al. v. MMSD and City of Milwaukee

Milwaukee County Case No. 13-CV-0850

This case was filed in early 2013 and is based on an allegation of water damage from the July 22, 2010 rain event. Plaintiffs are owners or tenants of property and allege that MMSD and the City of Milwaukee caused recurring flooding to property located at 4044 North 31st Street in Milwaukee. Plaintiffs allege combined losses of \$2,333,438. The District has assessed the likelihood of a negative outcome as less than probable.

Metropolitan Interceptor Sewer Contamination with PCB's

Polychlorinated biphenyl (PCB) contamination has been identified in the District's Basin H sewer near Capitol Drive. The sewer is directly downstream of an abandoned die casting facility with heavy PCB contamination. PCBs are present in the sewer at levels greater than 50 parts per million, triggering regulation by the United States Environmental Protection Agency ("U.S. EPA") under the Toxic Substances Control Act ("TSCA"). The area for proposed remediation extends from Capitol Drive to downtown. The District has submitted a Risk Based Work Plan to the U.S. EPA for the remediation of Basin H. If approved by U.S. EPA, the estimated cost to implement the Work Plan is as much as \$5 million. The District has notified its insurance carriers of this liability.

PCB contamination has also been identified in a sewer running under Mitchell Park at levels exceeding 50 parts per million. The PCB contamination at this site is limited to a length of sewer less than 1000 feet in length. The District is waiting for an approved Work Plan for the Basin H sewer before it proceeds with additional work on the Mitchell Park site. The District does not have an estimated cost for remediation, but anticipates that it will be less than the cost to remediate the Basin H site. The District has notified its insurance carrier of this liability.

Ronald Fratrack, et al. v. MMSD and City of Franklin

Milwaukee County Case No. 14-CV-1083

In 2010, the District reached an agreement with the City of Franklin whereby the City would obtain a Clean Water Fund Loan for the construction of a regional interceptor in the southwest portion of Franklin and the District would expand the service area boundary within the City, subjecting additional properties to District taxes. The District agreed, upon completion of the interceptor project, to assume control of the interceptor and repay the loan on behalf of Franklin (approximately \$41 million). Franklin resident Ronald Fratrack, on behalf of himself and unnamed John and Jane Does (potentially more than 100 residents of the newly added service area), filed suit on February 6, 2014, alleging the District failed to obtain legally adequate consent from the City of

Notes to Financial Statements

Continued December 31, 2014 And 2013

Franklin before adding the additional properties to the District's service area. The City of Franklin is asking the case be dismissed or, in the alternative, that the District be required to repay the loan even if the plaintiffs prevail and the District's right to assess property taxes on the new sewer service area is held to be legally unenforceable. On March 6, 2015, the Circuit Court granted the District's motion for summary judgment and dismissed the case.

Claim by MMSD against Advanced Disposal Services Emerald Park Landfill, LLC under a Landfill Gas Purchase Agreement

The District has asserted a \$1.2 million claim against Advanced Disposal Services Emerald Park Landfill, LLC for the breach of the Agreement by the Landfill due to the Landfill's failure to supply during 2014 the guaranteed volume of landfill gas to the District. In addition, the District has asserted a claim for the same \$1.2 million against the Landfill's guarantor, Advanced Disposal Services Midwest, LLC.

Claim by MMSD against J.F. Ahem and CNA Surety for coating failures at South Shore and Jones Island Treatment Plants

A portion of paint application to Jones Island and South Shore clarifiers and equipment applied in 2010 through 2012 is failing (Contract Nos. J01008C01 and S02005C01). The extent of damages due to defective work is currently unknown, since some of the coated surfaces are not visible until the clarifiers are drained. A preliminary estimate of damages is \$500,000.

(b) Natural Gas Purchasing Commitment

On March 1, 2008 the District entered into an operating contract with Veolia Water for operations of the wastewater treatment facilities. As part of the contract the District became directly responsible for 75% of the natural gas costs at the plants. During 2008 management and the Commission determined it to be prudent to enter into forward transactions with a supplier to purchase natural gas for future periods. At December 31, 2014 the District had commitments to purchase \$4,304,045 in natural gas during the future year, of which 75% will be paid for by the District and 25% will be paid for by Veolia. At December 31, 2013, the District had commitments to purchase \$1,708,150 in natural gas during the future year, of which 75% will be paid for by the District and 25% will be paid for by Veolia. These purchases will be recorded as expenses and liabilities in the period in which the gas is delivered.

(10) Retirement System

All full-time and other eligible employees of the District are members of the Employees' Retirement System of the City of Milwaukee (the System), a cost-sharing multiple employer defined benefit pension plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries.

The City Charter assigns the authority to establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the City of Milwaukee. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 603, Milwaukee, WI 53202.

Plan members are required by charter ordinance of the City of Milwaukee to contribute, or have contributed on their behalf, 5.5% of their salary or wages to the System. The District is required to contribute the remaining amounts necessary to fund the System. In 1970, the District began contributing the 5.5% on behalf of the employees. However, as a result of Wisconsin Act 10, the management/non-represented employees were required to begin making the 5.5% employee contribution in 2011. Effective, October, 2011, the management/non-represented employees began to make the 5.5% employee contribution. The represented employees were not required to begin the contribution at that time since they were covered by a labor agreement that expired on April 30, 2012. Beginning the first pay period in May, 2012, the represented employees began making the 5.5% employee contribution.

During 2014, the District was required to contribute an additional \$1,401,000 to fully fund the plan as the value of the Plan assets decreased during the year. The District's additional contribution was determined based on the actuarial valuation performed in 2014. Contribution for the District and its employees (which equals both required and actual contributions) are as follows:

	2014	2013	2012
Contribution rate:			
Employee requirement	5.5%	5.5%	5.5%
Employer's contribution	—	—	—
	5.5%	5.5%	5.5%
Contribution amount (in thousands):			
Employee requirement (employees)	\$916	\$870	\$740
Employee requirement (District)	—	—	122
Employers requirement (District)	1,401	1,414	1,432
	\$2,317	\$2,284	\$2,294

(11) Other Postretirement Benefits

The District provides postretirement health and life insurance in accordance with union contracts and Commission policy. Represented employees hired prior to December 1, 2004, who retired from the District on or after attaining age 55 with at least 10 years of creditable service, or who left employment prior to age 55 with at least 20 years of creditable service, are eligible for postretirement health insurance at age 55 and a pension benefit. For represented employees hired on or after December 1, 2004, the employee must have at least 20 years of service and reach age 55 in order to be eligible for the postretirement health insurance.

Management/nonrepresented employees hired prior to August 1, 2002, covered by Commission policy, who retire from the District on or after attaining age 60 with at least 10 years of creditable service, or with at least 15 years of creditable service who are under the age of 60, are eligible for postretirement health insurance.

Management/nonrepresented employees hired after August 1, 2002, covered by Commission policy, with at least 15 years of creditable service, will be entitled to the following pre-Medicare health insurance benefits:

Years of Service	Premium Paid by District
15 - 19	30%
20 - 24	40%
25 or more	50%

The District no longer pays for supplemental health insurance upon becoming Medicare eligible for management/nonrepresented employees hired after August 1, 2002.

Currently, 487 retirees meet those eligibility requirements. The District provides the same health coverage as offered active employees. This insurance provides approximately 100% coverage; certain health coverage options involving deductibles; and co-pays. The Commission has the authority to establish and revise the funding policy for the plan. Currently the plan is funded on a pay-as-you-go basis.

Effective March 1, 1998 the District curtailed the plans as a result of the transfer of 290 employees to a private contractor in conjunction with the privatization of the District's operations (see note 4).

As of January 1, 2014 and 2013 the District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to plan, and changes in the District's net OPEB obligation to the plan:

	2014	2013
	(In Thousands)	
Annual required contribution	\$10,489	\$10,185
Interest on net OPEB obligation	657	612
Adjustment to annual required contribution	(1,584)	(1,417)
Annual OPEB cost	9,562	9,380
Contributions made	(4,566)	(5,028)
Increase in net OPEB obligation	4,996	4,352
Net OPEB Obligation - Beginning of Year	36,910	32,558
Net OPEB Obligation - End of Year	\$41,906	\$36,910

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
	(In Thousands)		
2014	\$9,561	47.8%	\$41,906
2013	\$9,380	53.6%	\$36,910
2012	\$9,651	49.5%	\$32,558

The funded status of the plan as of December 31, 2014 and 2013, the most recent actuarial valuation dates, was as follows:

	2014	2013
	(In Thousands)	
Actuarial accrued liability (AAL)	\$178,564	\$178,605
Actuarial value of plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL)	\$178,564	\$178,605
Funded ratio (actuarial value of plan assets/AAL)	—	—
Covered payroll (active plan members)	\$20,043	\$20,864
UAAL as a percentage of covered payroll	891%	856%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the entry age actuarial cost method was used. The 2014 Annual OPEB Cost was calculated using the actuarial assumptions of 1.78% investment rate of return and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after five years. The 2013 Annual OPEB Cost was calculated using the actuarial assumptions of 1.88% investment rate of return and an annual healthcare cost trend rate of 9% initially, reduced by

Notes to Financial Statements

Continued December 31, 2014 And 2013

decrements to an ultimate rate of 4% after five years. Both rates include a 2.5% inflation assumption. The plan has not accumulated assets and does not hold assets in a segregated trust. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount. The amortization period is open and is 30 years.

(12) Leases

The District's primary source of lease revenue was derived from the City of Milwaukee for use of the District's 25th and Canal location and from Alterra Coffee for space within the District's Milwaukee River Flushing Station. The City of Milwaukee lease terminated in 2013. The Alterra Coffee lease terminates in 2017, with a five year option to extend. The District has one long term, through 2058, lease with Pt. Loomis Associates Limited Partnership related to an enclosed channel. The remaining leases involve seasonal crop land agreements on land from the District's Conservation Easement Program.

Future minimum lease receipts under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2014 are as follows:

Year ending December 31:	
2015	\$167,245
2016	171,564
2017	176,937
2018	11,241
2019	11,241
2020 through 2024	56,205
2025 through 2029	56,205
2030 through 2034	56,205
2035 through 2039	56,205
2040 through 2044	56,205
2045 through 2049	56,205
2050 through 2054	56,205
2055 through 2058	44,964
Total minimum lease receipts	<u>\$976,627</u>

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2014 are:

Year ending December 31:	
2015	\$66,589
2016	50,222
2017	52,230
Total minimum lease payments	169,041
Less current installments of obligations under operating leases	(66,589)
Obligations under operating leases, excluding current installments	<u>\$102,452</u>

The District has five lease agreements for antenna space on towers or buildings in the Milwaukee area. The antennas serve as hubs for the District's radio communication system that is used to send and receive data from the District's remote facilities, which are located throughout the service area. Each lease agreement is for 10 years.

(13) Subsequent Events

On May 11, 2015 the District issued \$100,000,000 of general obligation debt to finance infrastructure improvements. The debt is payable over twenty years and bears interest at an average rate of 3.675 percent.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress For Other Post Employment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<i>(In Thousands)</i>						
12/31/2014	\$ -	\$178,564	\$178,564	0%	\$20,043	891%
12/31/2013	\$ -	\$178,605	\$178,605	0%	\$20,864	856%
12/31/2012	\$ -	\$167,989	\$167,989	0%	\$20,946	802%

See accompanying independent auditors' report.

This part of the Milwaukee Metropolitan Sewerage District’s (District) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

<u>Contents</u>	<u>Exhibit</u>
Financial Trends These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.	B-1, B-2
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant revenue sources.	B-3, B-4, B-5, B-6, B-7, B-8, B-9, B-10, B-11
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.	B-12, B-13, B-14, B-15
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.	B-16, B-17
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the government provides and the activities it performs.	B-18, B-19

Statistical Section

Exhibit B-1

Net Position By Components

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

	Fiscal Year				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Thousands)				
Investment in Capital Assets	\$2,486,416	\$2,464,531	\$2,466,406	\$2,505,430	\$2,481,000
Restricted - Capital Projects and Programs	34,527	46,210	37,633	21,158	17,781
Restricted - Equipment Replacement	14,411	14,411	14,411	14,916	16,066
Restricted - Debt Service	25,541	26,518	24,829	5,801	16,568
Unrestricted	<u>(4,382)</u>	<u>4,131</u>	<u>10,905</u>	<u>14,488</u>	<u>17,288</u>
	<u>\$2,556,513</u>	<u>\$2,555,801</u>	<u>\$2,554,184</u>	<u>\$2,561,793</u>	<u>\$2,548,703</u>



Fiscal Year				
<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
(In Thousands)				
\$2,436,462	\$2,343,490	\$2,363,207	\$2,307,119	\$2,241,063
46,899	105,391	60,236	88,704	116,138
16,066	17,116	19,181	22,678	35,964
11,650	10,745	5,539	6,631	9,177
<u>20,726</u>	<u>26,813</u>	<u>33,427</u>	<u>(25,045)</u>	<u>(30,501)</u>
<u>\$2,531,803</u>	<u>\$2,503,555</u>	<u>\$2,481,590</u>	<u>\$2,400,087</u>	<u>\$2,371,841</u>

Exhibit B-2 Change In Net Position

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Operating Revenue</u>	<u>Operating Expenses</u>	<u>Operating Income/(Loss)</u>	<u>Total Nonoperating Revenues/(Expenses)</u> (In Thousands)	<u>Income/(Loss) Before Capital Contributions</u>	<u>Capital Contributions</u>	<u>Change In Net Position</u>
2014	\$ 78,806	\$ 175,605	\$(96,799)	\$ 91,507	\$ (5,292)	\$ 6,004	\$ 712
2013	78,397	167,921	(89,524)	88,125	(1,399)	3,016	1,617
2012	78,634	162,924	(84,290)	72,440	(11,850)	4,241	(7,609)
2011	78,515	158,675	(80,160)	91,201	11,041	2,049	13,090
2010	77,783	153,985	(76,202)	91,374	15,172	1,728	16,900
2009	76,858	152,909	(76,051)	102,305	26,254	1,994	28,248
2008	70,589	148,024	(77,435)	98,800	21,365	600	21,965
2007	53,757	134,114	(80,357)	93,215	12,858	455	13,313
2006	53,539	128,942	(75,403)	89,733	14,330	13,916	28,246
2005	52,971	124,245	(71,274)	89,928	18,654	2,384	21,038



Exhibit B-3 Operating Revenue by Source

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Total Operating Revenue</u>	<u>Sewer User Charge</u> (In Thousands)	<u>Fertilizer</u>	<u>Other</u>
2014	\$ 78,806	\$ 70,029	\$ 7,993	\$ 784
2013	78,397	69,572	7,667	1,158
2012	78,634	69,578	7,827	1,229
2011	78,515	69,570	7,252	1,693
2010	77,783	70,355	7,004	424
2009	76,858	68,460	7,957	441
2008	70,589	62,430	7,272	887
2007	53,757	49,232	4,301	224
2006	53,539	48,005	5,194	340
2005	52,971	46,779	5,836	356

Exhibit B-5

Nonoperating Revenue and Expenses

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Total Non-Operating Revenues (Expenses)</u>	<u>Property Taxes</u>	<u>Capital Charges Municipalities Outside the District</u>	<u>Investment Income and Change in Fair Value of Investments</u> (In Thousands)	<u>Interest Expenses</u>	<u>Gain (Loss) on Disposal of Capital Assets</u>	<u>Land Contributed to Municipalities</u>	<u>Capital Program Expenditures and Other</u>
2014	\$ 91,507	\$ 90,919	\$ 29,396	\$ 437	\$(24,260)	\$ (2,110)	\$ (722)	\$ (2,153)
2013	88,125	88,626	28,424	(53)	(24,293)	(1,582)	(176)	(2,821)
2012	72,440	86,485	27,562	491	(22,663)	(5,033)	(8,782)	(5,620)
2011	91,201	85,212	24,864	736	(21,783)	87	-	2,085
2010	91,374	82,390	22,445	919	(13,333)	(2,134)	-	1,087
2009	102,305	82,332	22,757	2,176	(11,725)	6,053	-	712
2008	98,800	80,729	23,642	5,509	(12,430)	152	-	1,198
2007	93,215	78,359	21,561	10,302	(15,195)	(1,150)	(1,506)	844
2006	89,733	76,086	21,428	9,821	(17,309)	(987)	(874)	1,568
2005	89,928	74,619	22,982	6,421	(14,630)	185	(671)	1,022

Exhibit B-6

User Charge Revenue by Municipality Within the District

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

Municipality	Fiscal Year				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
City of Cudahy	\$ 1,618,550	\$ 1,507,280	\$ 1,613,522	\$ 1,656,103	\$ 1,805,096
City of Franklin	2,040,662	2,006,441	1,914,760	1,925,628	1,931,327
City of Glendale	900,806	934,241	923,834	931,804	912,462
City of Greenfield	1,945,286	1,944,800	1,964,108	1,962,998	1,957,031
City of Milwaukee	40,235,500	40,211,422	40,081,180	40,329,654	41,323,722
City of Oak Creek	2,133,231	2,069,149	1,991,631	2,005,209	2,052,065
City of St. Francis	540,392	540,870	555,621	496,818	368,714
City of Wauwatosa	2,961,982	2,997,566	3,115,200	3,088,718	3,144,526
City of West Allis	3,726,150	3,717,622	3,716,622	3,721,541	3,679,178
Village of Bayside	239,170	230,494	240,845	240,213	229,068
Village of Brown Deer	735,633	721,924	731,400	719,455	710,976
Village of Fox Point	363,849	361,777	359,258	369,485	363,502
Village of Greendale	788,101	742,539	715,631	733,597	720,827
Village of Hales Corners	436,428	434,642	428,409	433,212	429,876
Village of River Hills	84,893	84,355	85,807	89,742	88,543
Village of Shorewood	676,706	662,621	673,288	678,964	659,074
Village of West Milwaukee	917,770	971,000	1,105,930	1,006,938	895,309
Village of Whitefish Bay	<u>697,095</u>	<u>687,053</u>	<u>694,737</u>	<u>698,033</u>	<u>682,223</u>
Total Within the District	<u>\$61,042,204</u>	<u>\$60,825,796</u>	<u>\$60,911,783</u>	<u>\$61,088,112</u>	<u>\$61,953,519</u>



Fiscal Year				
<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 1,855,515	\$ 1,648,318	\$ 1,164,578	\$ 1,095,397	\$ 1,006,096
1,800,766	1,634,272	1,298,726	1,208,857	1,121,795
875,951	813,768	632,667	606,614	578,069
1,872,833	1,710,028	1,389,123	1,326,295	1,289,413
40,763,430	36,321,630	28,697,714	28,197,896	28,163,570
1,905,558	1,729,957	1,372,215	1,312,991	1,230,830
365,919	355,315	348,830	338,693	292,053
2,924,523	2,727,814	2,128,407	2,090,334	2,042,760
3,443,449	3,166,204	2,579,476	2,510,275	2,303,374
216,064	201,819	162,826	162,669	152,333
679,053	639,618	502,707	501,852	480,821
346,870	323,564	252,475	252,911	231,548
705,538	628,698	511,200	496,549	475,113
413,923	383,953	310,346	300,626	279,688
83,757	77,198	61,807	61,787	54,405
658,519	581,999	463,811	445,837	448,364
1,062,403	1,074,960	830,606	673,454	637,664
<u>449,142</u>	<u>742,922</u>	<u>429,466</u>	<u>483,864</u>	<u>430,421</u>
<u>\$60,423,213</u>	<u>\$54,762,037</u>	<u>\$43,136,980</u>	<u>\$42,066,901</u>	<u>\$41,218,317</u>

Exhibit B-7

User Charge Revenue by Municipality Outside the District

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

Municipality	Fiscal Year				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
City of Brookfield	\$ 917,553	\$ 898,795	\$ 897,586	\$ 956,248	\$ 935,751
City of Mequon	1,206,940	1,094,553	1,119,264	1,077,743	1,056,814
City of Muskego	1,092,905	1,054,548	1,041,072	1,024,359	1,004,530
City of New Berlin	1,859,908	1,818,911	1,827,310	1,764,458	1,776,161
City of South Milwaukee*	30,496	28,042	27,588	25,225	27,456
Village of Butler	175,348	174,544	171,463	182,373	177,528
Village of Caledonia	26,174	25,528	25,639	26,407	25,047
Village of Elm Grove	325,919	310,463	297,649	301,897	308,781
Village of Germantown	1,387,769	1,413,618	1,278,930	1,190,224	1,185,985
Village of Menomonee Falls	1,777,329	1,745,112	1,799,637	1,750,504	1,721,685
Village of Thiensville	<u>186,370</u>	<u>181,708</u>	<u>180,254</u>	<u>182,594</u>	<u>181,356</u>
Total Outside the District	<u>\$ 8,986,711</u>	<u>\$ 8,745,822</u>	<u>\$ 8,666,392</u>	<u>\$ 8,482,032</u>	<u>\$8,401,094</u>

* Household Hazardous Waste Program Charges Only



Fiscal Year				
<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 903,262	\$ 838,566	\$ 664,314	\$ 662,935	\$ 620,430
1,018,547	940,919	742,754	727,680	669,352
969,988	890,734	690,680	678,645	664,525
1,717,723	1,604,871	1,259,612	1,249,252	1,159,745
26,594	25,121	26,673	25,927	19,143
183,573	163,199	130,138	124,323	115,547
25,597	24,837	18,795	18,986	21,656
300,991	277,573	220,216	215,078	199,986
1,046,395	1,196,558	988,965	911,293	851,513
1,670,983	1,546,221	1,227,280	1,198,371	1,135,288
<u>172,849</u>	<u>159,329</u>	<u>125,486</u>	<u>125,536</u>	<u>103,871</u>
<u>\$8,036,502</u>	<u>\$ 7,667,928</u>	<u>\$ 6,094,913</u>	<u>\$ 5,938,026</u>	<u>\$ 5,561,056</u>

Exhibit B-8

User Charge Rates

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Flow (Cents Per 1000 Gallons)</u>	<u>Biochemical Oxygen Demand (BOD) (Cents Per Pound)</u>	<u>Total Suspended Solids (TSS) (Cents Per Pound)</u>	<u>Connection Charge (Dollars Per Year)</u>
2014	\$0.88437	\$0.10061	\$0.15815	\$30.68
2013	0.86507	0.09992	0.15924	29.84
2012	0.81173	0.09910	0.15803	31.78
2011	0.81861	0.09120	0.16142	33.45
2010	0.82846	0.12689	0.14968	23.49
2009	0.80385	0.13323	0.13372	20.51
2008	0.67553	0.11212	0.12725	22.90
2007	0.48028	0.08904	0.09831	21.11
2006	0.42361	0.08679	0.09753	23.99
2005	0.42721	0.07446	0.09041	20.58

Volumetric rate computed for domestic strength sewage using the equivalencies of 310 mg/l BOD equals 2.585 pounds per thousand gallons and 370 mg/l TSS equals 3.086 pounds per thousand gallons. This rate is applicable to the entire residential class and noncertified commercial users located within the District's Service Area.



<u>Volumetric (Dollars Per 1,000 Gallons)</u>	<u>Average Household (Dollars Per Year)</u>	<u>Million of Gallons of Sewage Treated</u>
\$1.632498	\$120.68	68,480
1.614778	118.20	73,900
1.555585	117.97	60,100
1.552504	121.17	74,100
1.618383	118.26	71,300
1.560910	113.65	72,200
1.358054	105.18	77,600
1.013833	83.36	67,400
0.948940	83.84	69,440
0.898694	78.36	62,914

Exhibit B-9

Wastewater Loadings by Customer Class

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

PARAMETER	Fiscal Year				
	2014	2013	2012	2011	2010
<u>Billable Flow (1,000 Gallons)</u>					
RESIDENTIAL	17,769,153	17,613,063	17,879,709	18,320,590	18,967,992
NON-CERTIFIED COMMERCIAL	10,399,901	10,353,855	10,833,579	10,536,191	10,446,335
CERTIFIED COMMERCIAL	1,684,463	1,710,422	1,819,600	1,703,993	1,727,538
CERTIFIED INDUSTRIAL	<u>3,675,147</u>	<u>3,936,045</u>	<u>4,199,362</u>	<u>4,281,621</u>	<u>4,233,640</u>
TOTALS	<u>33,528,663</u>	<u>33,613,385</u>	<u>34,732,250</u>	<u>34,842,396</u>	<u>35,375,505</u>
<u>Biochemical Oxygen Demand (Pounds)</u>					
RESIDENTIAL	45,940,473	45,536,920	46,226,302	47,366,157	49,039,952
NON-CERTIFIED COMMERCIAL	26,888,015	26,768,965	28,009,249	27,240,384	27,008,069
CERTIFIED COMMERCIAL	3,673,331	3,663,473	3,855,902	3,657,812	3,700,567
CERTIFIED INDUSTRIAL	<u>39,320,945</u>	<u>43,583,211</u>	<u>41,248,840</u>	<u>40,762,360</u>	<u>36,817,277</u>
TOTALS	<u>115,822,764</u>	<u>119,552,569</u>	<u>119,340,293</u>	<u>119,026,713</u>	<u>116,565,865</u>
<u>Total Suspended Solids (Pounds)</u>					
RESIDENTIAL	54,832,149	54,350,489	55,173,312	56,533,775	58,531,540
NON-CERTIFIED COMMERCIAL	32,092,121	31,950,040	33,430,370	32,512,699	32,235,413
CERTIFIED COMMERCIAL	4,380,708	4,366,923	4,544,170	4,297,500	4,344,976
CERTIFIED INDUSTRIAL	<u>18,622,057</u>	<u>18,653,681</u>	<u>19,999,548</u>	<u>19,664,094</u>	<u>19,073,819</u>
TOTALS	<u>109,927,035</u>	<u>109,321,133</u>	<u>113,147,400</u>	<u>113,008,068</u>	<u>114,185,748</u>
<u>Connections</u>					
RESIDENTIAL	266,386	264,034	268,572	263,867	264,190
NON-CERTIFIED COMMERCIAL	37,373	37,164	37,483	37,104	37,168
CERTIFIED COMMERCIAL	2,012	2,030	2,014	1,991	1,937
CERTIFIED INDUSTRIAL	<u>701</u>	<u>721</u>	<u>715</u>	<u>718</u>	<u>742</u>
TOTALS	<u>306,472</u>	<u>303,949</u>	<u>308,784</u>	<u>303,679</u>	<u>304,037</u>



Fiscal Year				
<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
19,320,420	19,698,689	20,026,541	20,533,243	20,836,934
10,630,049	11,023,024	11,287,080	11,402,418	11,618,451
1,719,087	1,811,252	1,831,139	1,817,212	1,830,504
<u>4,428,295</u>	<u>4,949,082</u>	<u>4,940,546</u>	<u>4,990,285</u>	<u>5,631,645</u>
<u>36,097,851</u>	<u>37,482,047</u>	<u>38,085,306</u>	<u>38,743,158</u>	<u>39,917,533</u>
49,951,014	50,928,990	51,776,620	53,086,645	53,871,809
27,482,929	28,498,927	29,181,616	29,479,812	30,038,342
3,708,026	3,782,908	3,846,072	3,813,845	3,920,354
<u>37,344,665</u>	<u>33,061,583</u>	<u>32,762,861</u>	<u>31,931,705</u>	<u>46,030,234</u>
<u>118,486,634</u>	<u>116,272,408</u>	<u>117,567,169</u>	<u>118,312,007</u>	<u>133,860,739</u>
59,618,952	60,786,216	61,797,902	63,361,480	64,298,611
32,802,206	34,014,850	34,829,671	35,185,582	35,852,214
4,342,935	4,425,570	4,496,269	4,459,543	4,594,815
<u>18,840,371</u>	<u>18,401,146</u>	<u>19,091,693</u>	<u>18,711,208</u>	<u>24,411,915</u>
<u>115,604,464</u>	<u>117,627,782</u>	<u>120,215,535</u>	<u>121,717,813</u>	<u>129,157,555</u>
263,862	264,212	264,518	264,193	263,468
37,286	37,245	37,005	36,656	36,481
1,980	2,075	2,078	2,034	2,016
<u>746</u>	<u>760</u>	<u>760</u>	<u>816</u>	<u>863</u>
<u>303,873</u>	<u>304,292</u>	<u>304,361</u>	<u>303,699</u>	<u>302,828</u>

Exhibit B-10

Ten Largest Sewer Users

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2014

Customer	Type of Business	2014		2005	
		Sewer Revenue Amount	%	Sewer Revenue Amount	%
MillerCoors	Brewery	\$ 2,913,530	4.2%	\$ 2,015,877	4.3%
D.R. Diedrich & Co.	Leather tanning and finishing	693,930	1.0%	288,241	0.6%
Malteurop North America	Malt manufacturing	493,584	0.7%	-	
Patrick Cudahy	Process meat products	487,808	0.7%	185,732	0.4%
Milwaukee Water Works	Water utility	428,460	0.6%	531,646	1.1%
Wisconsin Paperboard	Paperboard mill	410,741	0.6%		
Gehl Guernsey Farms Inc.	Food preparation	380,281	0.5%	250,257	0.5%
Jonas Advanced Waste Hi-Mar	Centralized Waste Treater	328,806	0.5%		
Chris Hansen/Maple	Food preparation	310,214	0.4%		
Cargil Meat Solutions	Meat packing plants	303,677	0.4%	313,649	0.7%
Milwaukee County DHHS	Health services			192,409	0.4%
Campbell Soup Supply Company	Food preparation			269,872	0.6%
International Malting Corporation	a Malt manufacturing			332,299	0.7%
LeSaffre Yeast Corp.	b Food preparation			1,363,106	2.9%
Subtotal (10 largest)		\$ 6,751,031	9.6%	\$ 5,743,088	12.3%
Balance from other customers		63,277,884	90.4%	41,036,285	87.7%
Grand Totals		\$ 70,028,915	100.0%	\$ 46,779,373	100.0%

a Consolidated to Malteurop North America

b Moved out of state

Exhibit B-11

Property Tax Information

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Equalized Value of Taxable Property</u>	<u>Tax Levies</u>	<u>Tax Rate Per \$1,000 Equalized Value</u>
2014	\$ 54,607,126,500	\$93,639,000	\$ 1.71
2013	53,567,657,800	91,222,000	1.70
2012	54,435,721,000	88,694,000	1.63
2011	57,252,275,690	86,531,000	1.51
2010	59,383,339,276	85,674,000	1.44
2009	62,267,788,363	82,458,000	1.32
2008	63,866,836,566	82,458,000	1.29
2007	63,086,040,141	80,841,000	1.28
2006	60,345,510,236	78,486,000	1.30
2005	53,665,579,328	76,200,000	1.42

Due to varying assessment policies in the municipalities of the District, the District uses equalized value of taxable property for tax rate purposes.

Equalized valuations are net of the Tax Incremental District valuations.

Equalized valuations amounts provided by Department of Revenue - State of Wisconsin.

Exhibit B-12

Bonded Debt Limit and Ratio of Bonded Debt to Equalized Value

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

	Fiscal Year			
	2014	2013	2012	2011
Equalized Value ⁽¹⁾	\$ 57,151,739,300	\$ 56,031,757,800	\$ 56,637,438,900	\$ 59,760,633,490
Debt Limit (5% of equalized value) ⁽²⁾	<u>\$ 2,857,586,965</u>	<u>\$ 2,801,587,890</u>	<u>\$ 2,831,871,945</u>	<u>\$ 2,988,031,675</u>
Outstanding Bonds Issued by the District	\$ 233,835,000	\$ 265,665,000	\$ 296,380,000	\$ 309,080,000
Clean Water Fund Program Loans	<u>689,893,418</u>	<u>704,591,497</u>	<u>712,633,839</u>	<u>661,199,044</u>
Total General Obligation Debt	<u>\$ 923,728,418</u>	<u>\$ 970,256,497</u>	<u>\$ 1,009,013,839</u>	<u>\$ 970,279,044</u>
Legal Debt Margin	<u>\$ 1,933,858,547</u>	<u>\$ 1,831,331,393</u>	<u>\$ 1,822,858,106</u>	<u>\$ 2,017,752,631</u>
Percentage of Bonded Debt to Equalized Value	1.62%	1.73%	1.78%	1.62%

(1) Includes Tax Increment District valuation reported by State of Wisconsin, Department of Revenue.

(2) Per Wisconsin Statutes Section 67.03



Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 61,995,778,776	\$ 65,340,474,863	\$ 66,735,584,066	\$ 65,642,217,041	\$ 62,260,061,536	\$ 55,434,188,028
<u>\$ 3,099,788,939</u>	<u>\$ 3,267,023,743</u>	<u>\$ 3,336,779,203</u>	<u>\$ 3,282,110,852</u>	<u>\$ 3,113,003,077</u>	<u>\$ 2,771,709,401</u>
\$ 321,635,000 <u>662,150,024</u>	\$ 281,440,000 <u>611,285,569</u>	\$ 301,145,000 <u>605,575,697</u>	\$ 247,735,000 <u>520,824,326</u>	\$ 270,170,000 <u>471,824,272</u>	\$ 285,335,000 <u>439,685,252</u>
<u>\$ 983,785,024</u>	<u>\$ 892,725,569</u>	<u>\$ 906,720,697</u>	<u>\$ 768,559,326</u>	<u>\$ 741,994,272</u>	<u>\$ 725,020,252</u>
<u>\$ 2,116,003,915</u>	<u>\$ 2,374,298,174</u>	<u>\$ 2,430,058,506</u>	<u>\$ 2,513,551,526</u>	<u>\$ 2,371,008,805</u>	<u>\$ 2,046,689,149</u>
1.59%	1.37%	1.36%	1.17%	1.19%	1.31%

Exhibit B-13

Per Capita Debt, Personal Income and Unemployment Rate

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

<u>Year</u>	<u>Outstanding General Obligation Debt</u>	<u>District Population</u>	<u>Milwaukee County Personal Income (Thousands)</u>	<u>District Personal Income Per Capita</u>	<u>Outstanding Debt Per Capita</u>	<u>Percentage of Personal Income</u>	<u>Milwaukee County Unemployment Rate</u>
2014	\$ 923,728,418	928,689	Not Available	-	\$ 994.66	-	7.0%
2013	970,256,497	929,373	\$ 39,213,035	\$ 42,193	1,043.99	2.47%	8.3%
2012	1,009,013,839	927,307	38,808,170	41,850	1,088.11	2.60%	8.4%
2011	970,279,044	927,321	37,035,130	39,938	1,046.32	2.62%	9.0%
2010	983,785,024	926,579	35,893,702	38,738	1,061.74	2.74%	9.6%
2009	892,725,569	910,698	35,586,784	39,076	980.27	2.51%	9.3%
2008	906,720,697	917,296	35,182,312	38,354	988.47	2.58%	5.5%
2007	768,559,326	916,144	34,107,037	37,229	838.91	2.25%	5.9%
2006	741,994,272	915,696	32,500,267	35,492	810.31	2.28%	5.7%
2005	725,020,252	917,726	30,895,266	33,665	790.02	2.35%	5.7%

Note:

Personal income for Milwaukee County includes City of South Milwaukee. Data for current year not yet available.
 District population excludes City of South Milwaukee and includes portion of Village of Bayside outside Milwaukee County.

Sources:

District population from U.S. Bureau of the Census and Wisconsin Department of Administration.
 Milwaukee County personal income from U.S. Bureau of Economic Analysis.
 Milwaukee County unemployment rate from Wisconsin Department of Workforce Development.

Exhibit B-14

Computation of Overlapping Debt

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

<u>Name of Government Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage of Debt Within District Boundary</u>	<u>Amount of Debt Within District Boundary</u>
Villages & Cities:			
Village of Bayside	\$ 15,178,665	100.00%	\$ 15,178,665
Village of Brown Deer	23,597,849	100.00%	23,597,849
Village of Fox Point	11,062,421	100.00%	11,062,421
Village of Greendale	17,405,000	100.00%	17,405,000
Village of Hales Corners	6,211,444	100.00%	6,211,444
Village of River Hills	6,772,277	100.00%	6,772,277
Village of Shorewood	35,034,140	100.00%	35,034,140
Village of West Milwaukee	8,721,653	100.00%	8,721,653
Village of Whitefish Bay	41,200,767	100.00%	41,200,767
City of Cudahy	23,988,464	100.00%	23,988,464
City of Franklin	37,711,522	100.00%	37,711,522
City of Glendale	35,525,000	100.00%	35,525,000
City of Greenfield	40,355,000	100.00%	40,355,000
City of Milwaukee	759,463,723	100.00%	759,463,723
City of Oak Creek	84,840,000	100.00%	84,840,000
City of Saint Francis	10,780,000	100.00%	10,780,000
City of Wauwatosa	84,685,000	100.00%	84,685,000
City of West Allis	<u>75,644,912</u>	100.00%	<u>75,644,912</u>
Total Cities and Villages	\$ 1,318,177,837		\$ 1,318,177,837
School Districts:			
Brown Deer	\$ 27,200,312	100.00%	\$ 27,200,312
Cudahy	16,974,428	100.00%	16,974,428
Fox Point-Bayside	5,260,000	100.00%	5,260,000
Franklin	33,940,000	100.00%	33,940,000
Glendale-River Hills	4,128,196	100.00%	4,128,196
Greendale	15,975,000	100.00%	15,975,000
Greenfield	51,979,428	100.00%	51,979,428
Maple Dale-Indian Hill	2,536,465	100.00%	2,536,465
Milwaukee Area Technical College	109,920,000	79.12%	86,968,704
Milwaukee Public	104,000,923	100.00%	104,000,923
Nicolet High School	7,675,000	100.00%	7,675,000
Oak Creek-Franklin	43,555,000	100.00%	43,555,000
Shorewood	19,860,000	100.00%	19,860,000
Saint Francis	12,715,000	100.00%	12,715,000
Wauwatosa	-	-	-
West Allis-West Milwaukee	14,167,836	93.23%	13,208,674
Whitefish Bay	15,860,000	100.00%	15,860,000
Whitnall	<u>280,000</u>	100.00%	<u>280,000</u>
Total School Districts	\$ 486,027,588		\$ 462,117,130
Milwaukee County	<u>\$ 685,012,910</u>	98.05%	<u>\$ 671,655,158</u>
Total Overlapping Debt	<u>\$ 2,489,218,335</u>		<u>\$ 2,451,950,125</u>

Sources:

Equalized value used to determine percentage of debt within District boundary from Wisconsin Department of Revenue.

Net debt outstanding provided by the Milwaukee County Department of Administration.



Exhibit B-15

Ten Largest Taxpayers for Milwaukee County

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2014

<u>Name of Business</u>	<u>Type of Business</u>
Mayfair Mall LLC	Shopping Mall
Bayshore Town Center LLC	Shopping Mall
Northwestern Mutual Life Insurance Co.	Insurance
US Bank Corp	Banking
BRE Southridge Mall LLC	Shopping Mall
Mandel Group	Real Estate
Wal-Mart/Sam's Club	Retailer
Metropolitan Associates	Real Estate
Marcus Corp./Milw. City Center/Pfister	Hotels, Theaters, Convention Center
Forest County Potawatomi Community	Hotel, Parking Structure
Covenant Health Care	Health care
411 East Wisconsin Avenue	Real estate
M&I Marshall & Ilsley Bank	a Banking
Towne Realty	b Real estate

Total for Ten Largest

a Now BMO Harris Bank

b Divested Holdings

Source:

Largest Industrial Taxpayer - Milwaukee County

Non-Industrial Taxpayer - MMSD



2014		2005	
Equalized Valuation	Percentage of Total Equalized Valuation	Equalized Valuation	Percentage of Total Equalized Valuation
\$ 406,619,043	0.73%	\$ 280,997,555	0.51%
319,735,056	0.57%		
308,805,419	0.55%	254,665,793	0.46%
276,645,450	0.50%	239,447,655	0.44%
161,689,036	0.29%	144,953,765	0.26%
158,094,613	0.28%		
145,863,534	0.26%		
126,746,156	0.23%	127,736,983	0.23%
120,951,518	0.22%	114,424,369	0.21%
84,939,679	0.15%		
		146,277,236	0.27%
		94,807,332	0.17%
		122,828,390	0.22%
		122,235,733	0.22%
<u>\$2,110,089,504</u>	3.79%	<u>\$ 1,648,374,811</u>	<u>3.31%</u>

Exhibit B-16 Population by Municipality

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

Municipality	Fiscal Year										Percentage Change 2005-2014
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	
Bayside	4,376	4,380	4,380	4,383	4,300	4,170	4,172	4,181	4,207	4,263	2.7%
Brown Deer	12,157	12,086	12,065	12,001	11,999	11,720	11,705	11,715	11,750	11,831	2.8%
Cudahy	18,224	18,227	18,247	18,253	18,267	18,650	18,620	18,530	18,430	18,319	-0.5%
Fox Point	6,676	6,630	6,644	6,665	6,701	6,803	6,818	6,821	6,808	6,890	-3.1%
Franklin	35,702	35,810	35,520	35,504	35,451	33,700	33,550	33,380	33,000	32,548	9.7%
Glendale	12,773	12,845	12,808	12,833	12,872	12,980	12,990	12,970	12,935	13,001	-1.8%
Greendale	14,144	14,165	14,123	14,027	14,046	13,950	13,995	14,025	14,040	14,087	0.4%
Greenfield	36,687	36,770	36,740	36,672	36,720	36,300	36,270	36,140	36,150	36,136	1.5%
Hales Corners	7,678	7,691	7,683	7,685	7,692	7,646	7,646	7,640	7,642	7,644	0.4%
Milwaukee	595,993	596,500	595,425	595,525	594,833	584,000	590,870	590,190	590,370	592,765	0.5%
Oak Creek	34,707	34,695	34,530	34,495	34,451	32,600	32,470	32,410	32,104	31,497	10.2%
River Hills	1,584	1,587	1,591	1,593	1,597	1,634	1,641	1,621	1,625	1,626	-2.6%
St. Francis	9,465	9,462	9,452	9,448	9,365	8,936	8,952	8,877	8,808	8,791	7.7%
Shorewood	13,183	13,189	13,174	13,177	13,162	13,360	13,425	13,440	13,470	13,495	-2.3%
Wauwatosa	46,766	46,705	46,320	46,380	46,396	45,800	45,880	45,930	46,120	46,312	1.0%
West Allis	60,272	60,300	60,300	60,365	60,411	60,600	60,370	60,410	60,300	60,515	-0.4%
West Milwaukee	4,197	4,205	4,200	4,206	4,206	4,029	4,047	4,034	4,052	4,092	2.6%
Whitefish Bay	<u>14,105</u>	<u>14,126</u>	<u>14,105</u>	<u>14,109</u>	<u>14,110</u>	<u>13,820</u>	<u>13,875</u>	<u>13,830</u>	<u>13,885</u>	<u>13,914</u>	1.4%
Total District population	<u>928,689</u>	<u>929,373</u>	<u>927,307</u>	<u>927,321</u>	<u>926,579</u>	<u>910,698</u>	<u>917,296</u>	<u>916,144</u>	<u>915,696</u>	<u>917,726</u>	
Total population served by the District (2)	<u>1,074,101</u>	<u>1,074,130</u>	<u>1,071,835</u>	<u>1,071,622</u>	<u>1,051,876</u>	<u>1,054,725</u>	<u>1,061,180</u>	<u>1,058,440</u>	<u>1,057,992</u>	<u>1,059,096</u>	
2005 = 100%	101.4%	101.4%	101.2%	101.2%	99.3%	99.6%	100.2%	99.9%	99.9%	100.0%	
Total state population	<u>5,732,981</u>	<u>5,717,110</u>	<u>5,703,525</u>	<u>5,694,236</u>	<u>5,686,986</u>	<u>5,688,040</u>	<u>5,675,156</u>	<u>5,648,124</u>	<u>5,617,744</u>	<u>5,580,757</u>	
2005 = 100%	102.7%	102.4%	102.2%	102.0%	101.9%	101.9%	101.7%	101.2%	100.7%	100.0%	

(1) Includes all or parts of the following municipalities outside the District: Brookfield, Butler, Elm Grove, Germantown, Menomonee Falls, Mequon, Muskego, New Berlin, Thiensville and Village of Caledonia.

Sources: U.S. Department of Commerce, Bureau of the Census, Department Service Center, Wisconsin Department of Administration, MMSD Cost Recovery Procedures Manual.

Exhibit B-17

Principal Private Sector Employers

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2014

Employer	2014			2005		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
Aurora Health Care Inc.	24,462	5.47%	1	14,247	3.34%	1
Wheaton Franciscan Healthcare	10,687	2.39%	2			
Froedtert & Community Health	9,028	2.02%	3			
Roundy Supermarkets Inc.	9,000	2.01%	4	6,800	1.59%	4
Kohl's Corp.	7,400	1.65%	5	6,200	1.45%	7
Quad/Graphics Inc.	6,700	1.50%	6	8,500	1.99%	3
GE Healthcare	5,800	1.30%	7	6,462	1.51%	6
Columbia St. Mary's Health System	5,400	1.21%	8	5,749	1.35%	9
The Medical College of Wisconsin Inc.	5,400	1.21%	8			
Northwestern Mutual	5,000	1.12%	10			
Covenant Healthcare System Inc.				9,100	2.13%	2
Marshall & Ilsley Corp.				6,729	1.58%	5
SBC Corp.				6,000	1.40%	8
Wal-Mart				<u>5,721</u>	<u>1.34%</u>	10
Total for Ten Largest	<u>88,877</u>	<u>19.88%</u>		<u>75,508</u>	<u>17.68%</u>	
Total Milwaukee County Employment	447,130	100.00%		427,163	100.00%	

Note:

Employee count reflects number of full-time equivalent employees in the Milwaukee area, including Milwaukee, Kenosha, Racine, Waukesha, Ozaukee, Walworth and Washington counties.

Source:

Employee count from Milwaukee Business Journal Book of Lists,
Total County Employment from Wisconsin's Workforce and Labor Market Information System.



Exhibit B-18

Number of Employees by Identifiable Activity

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

	Full-time Equivalent Employees as of December 31,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Engineering/Inspection/Construction/Water Quality</u>					
Engineering	43	46	47	49	52
Planning	32	27	27	27	28
Operations Compliance	7	6	6	7	6
Lab/Monitoring	63	60	60	68	68
<u>Administration</u>					
Office of the Executive Director	5	5	5	6	5
Legal Services	6	7	7	7	8
Internal Services	<u>63</u>	<u>65</u>	<u>65</u>	<u>67</u>	<u>65</u>
Total Employees	219	216	217	231	232

Source:

Milwaukee Metropolitan Sewerage District Payroll Records and O&M & Capital Budgets.



Full-time Equivalent
Employees as of December 31,
2009 2008 2007 2006 2005

54	49	58	58	45
24	25	26	26	30
6	6	6	6	6
70	69	70	70	72

9	8	8	8	9
8	8	7	7	7
<u>67</u>	<u>65</u>	<u>63</u>	<u>64</u>	<u>65</u>

238	230	238	239	234
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Exhibit B-19

Operating and Capital Indicators

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 THROUGH 2014

	Fiscal Year			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Wastewater Treatment				
Miles of Sewers	362	347	356	356
Number of Water Reclamation Facilities	2	2	2	2
Treatment Capacity (MGD)	600	600	600	600
Storage Capacity (millions of gallons)	521	521	521	521
Amount Treated Annually (millions of gallons)	68,300	73,900	60,100	74,100
Percentage of Treatment Capacity Utilized	56.70%	61.30%	49.90%	61.50%
Number of Inline Storage System Events	47	42	47	51
Number of Overflows	1	2	1	1
Greenseams Acres Acquired to Date	3,058	2,682	2,500	2,348
Household Hazardous Waste (lbs collected) ¹	909,919	866,609	977,176	965,804
Milorganite® Production (tons)	45,408	47,954	45,203	49,376
Milorganite® Tons Sold	45,498	47,672	41,378	36,073
Average selling price per ton shipped	\$ 178.57	\$ 164.15	\$ 185.89	\$ 196.49

¹ Does not include medicine collection pounds.

Sources:

MMSD O&M and Capital Budgets, MMSD Annual Capacity, Management, Operation, and Maintenance (CMOM) Program Report, and MMSD real estate records.



	Fiscal Year					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	321	321	310	310	310	310
	2	2	2	2	2	2
	600	600	600	600	600	600
	521	494	494	494	494	405
	71,300	72,200	77,600	67,400	69,400	62,914
	59.20%	59.90%	64.40%	56.00%	57.70%	52.20%
	40	37	42	44	52	45
	8	6	5	6	4	1
	2,254	2,034	1,848	1,621	1,160	705
	992,266	1,095,425	998,113	1,306,475	1,326,732	1,016,601
	48,817	45,338	40,786	27,693	33,566	43,175
	36,685	39,277	35,792	32,722	41,469	42,073
	\$ 192.71	\$ 189.61	\$ 181.75	\$ 150.24	\$ 144.01	\$ 138.92

MMSD's Mission

To cost-effectively protect public health and the environment, prevent pollution and enhance the quality of area waterways



Overall responsibility for preparation of this report was provided by:
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Bioretention





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