



2016 Comprehensive Annual Financial Report

For the Years Ended December 31, 2016 and 2015

Milwaukee Metropolitan Sewerage District
Milwaukee, Wisconsin



SOUTH SHORE WATER RECLAMATION FACILITY



2016 Comprehensive Annual Financial Report

For the Years Ended December 31, 2016 and 2015

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

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



MMSD HEADQUARTERS



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Introductory Section



RAIN GARDENS



Commission Organization Chart



Commissioners of the Milwaukee Metropolitan Sewerage District



John R. Hermes
Commission Chair,
Principal,
John Hermes
Consulting



Kris Martinsek
Commission Vice Chair,
Owner,
Martinsek & Associates

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

James A. Bohl
Alderman,
City of Milwaukee

Kathy Ehley
Mayor,
City of Wauwatosa

Nikiya Harris Dodd
Wisconsin State
Senator

Carl Krueger
President,
Village of Brown Deer

Eugene Manzanet
Vice President
Community
Development,
PNC Bank

Michael A. West
President,
Village of Fox Point

José G. Pérez
Alderman,
City of Milwaukee

John Swan, III
Business Agent,
LIUNA Local 113

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 and
MWH Law Group
Co-Bond Counsel

Robert W. Baird & Co.
Financial Advisor

2016 Letter From The MMSD Chair

On behalf of the 11-member Commission of MMSD, I am pleased to offer this Comprehensive Annual Financial Report. As this report will fully illustrate, 2016 was another highly successful year for our world-class organization, and we remain gratified by the investments our customers make to help protect public health and Lake Michigan. These investments tied to MMSD strategic and creative initiatives have increased the quality of life standard for all citizens in southeast Wisconsin.

2016 saw us finalize negotiations and sign a 10-year contract extension with our international partner, Veolia Water Milwaukee, to operate and maintain the District's clean water infrastructure. A solid partner that's performed at a high level, Veolia seamlessly works with MMSD staff to meet and exceed all regulatory and contract standards.

68.2 billion gallons entered the system, we captured and cleaned 99.8%.

The company's first 10-year contract is on pace to save our ratepayers \$35 million. The second contract will help MMSD circumvent even more financial risks thereby adding more rate stability in future years.

68.2 billion gallons entered MMSD's regional sewer system in 2016, of which we captured and cleaned 99.8%. The national goal for large cities is to capture and clean 85% and most large cities do not meet this standard, so we stand very proud of our accomplishment.

We're constantly striving to improve our operations, policies, programs, and projects to make the region a better place to live. One such example is the completion of a multiyear concrete removal project with the U.S. Army Corps of Engineers that improves water quality and allows fish from Lake Michigan the chance to migrate an additional 37 miles up the Menomonee River,

something they could not do before. We are now duplicating these same efforts upon all water-courses within our service area.



John R. Hermes
Commission Chair,
Principal,
John Hermes
Consulting

Our quest to improve water quality is multi-faceted with partners at the federal, state, local, and neighborhood levels. Issues with water quantity demand the same attention to help protect homes and businesses from flooding. In 2016, MMSD continued removing homes from the floodplain, either with voluntary purchases or work on flood management projects. In 1999 3,833 structures sat at risk in the floodplain. We've reduced that number by more than 65%.

MMSD administration and staff remain dedicated and focused upon our centric mission and evolving leadership role within water reclamation and water environmental stewardship. MMSD performs at the highest level within utility sectors. Our employees and partners are responsible for transforming MMSD into a globally recognized leader within the multifaceted spectrum of water reclamation sciences, research and sustainable initiatives. More importantly, through their consolidated efforts, they have provided a better quality of life for all residents in the southeast region of Wisconsin and offered innovative ideas to a world in water crises.

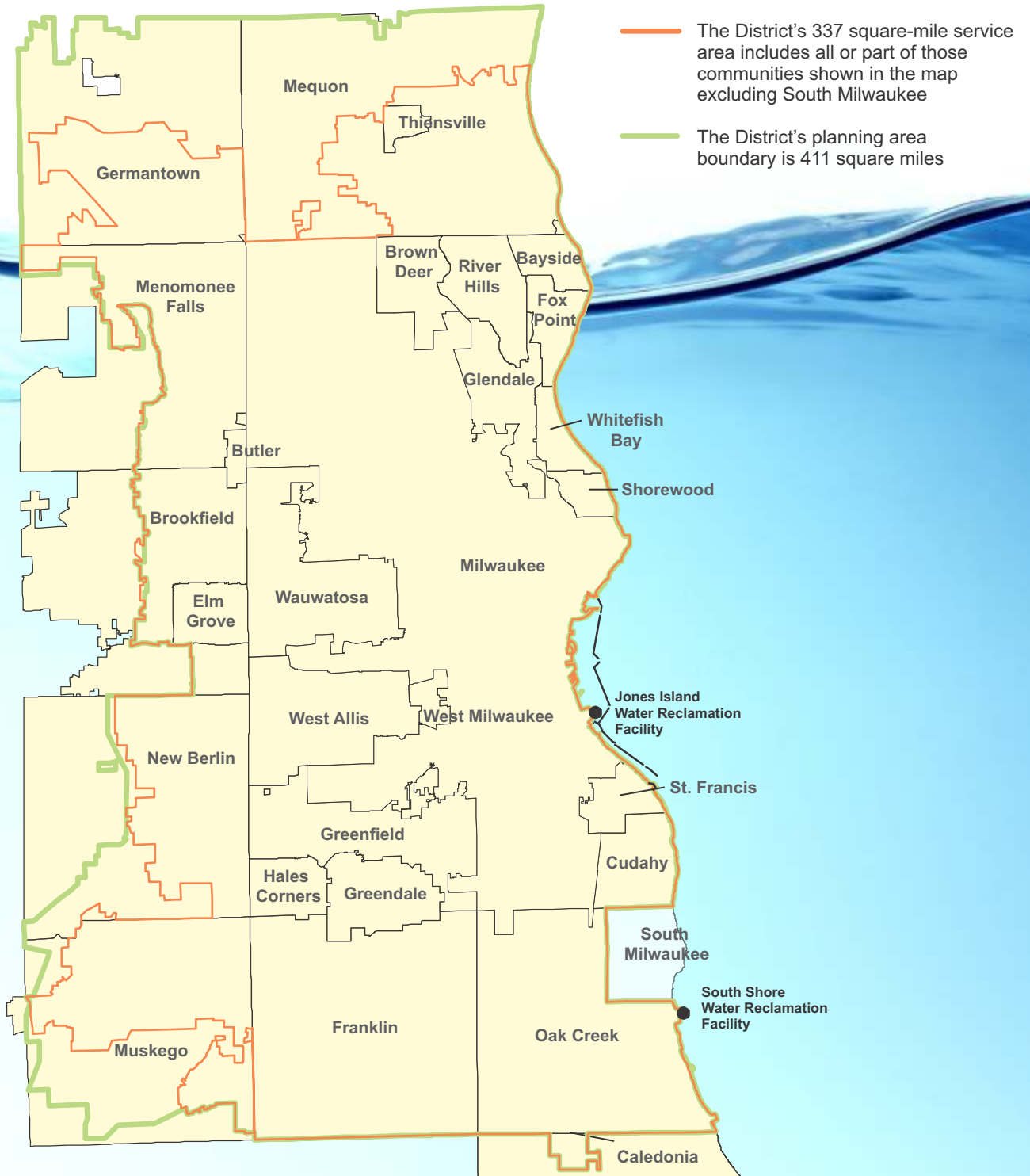
Sincerely,

John R. Hermes

Commission Chair



Milwaukee Metropolitan Sewerage District





May 31, 2017

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, 2016.

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 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, 2016 and 2015, 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 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, 2016 and 2015 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 straight years of declining property values, for the third consecutive year, taxable valuations in 2016 increased, with a 2.1% increase within the District and 2.3% in the District's service area following 1.3% in the District's service area in 2015. The District's ten largest taxpayers make up only 4.2% 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 5.1% in 2016 compared to 5.8% in 2015. The unemployment rate has now decreased each of the last six years since 2010 when the unemployment rate was 9.6%.

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 2017 operating budget include:

- \$75.1 million in budgeted sewer user charge billings for 2017, a 2.5% increase from 2016. The annual average District household charge of \$124.04 in 2017 represents an increase of \$1.62 or 1.3% from the 2016 amount of \$122.42.
- Total O&M expenditures were budgeted at \$90.4 million, 0.7% higher than in 2016.
- Although O&M expenditures increased only \$630,000 when compared to 2016's amount and the 2017's O&M budget returns a surplus of \$7.8 million, a 67.8% increase, or \$3,165,000 more than when compared to 2016's amount, 2016 sewer user charge billings still increased 2.5%. This increase was primarily due to a contribution in 2017 to the District's User Charge Stabilization Fund of \$4.2 million. This 2017 contribution compares to the 2016 withdrawal of \$1 million from the User Charge Stabilization Fund, thus a \$5.2 million change in funding from 2016 to 2017. This contribution was budgeted to help offset a significant expenditure increase that is anticipated due to a 10-year extension agreement between the District and Veolia was approved by the District's Commission in June of 2016.

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 \$619.7 million in capital project and program expenditures from 2017 through 2022, 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 2017 Capital Budget continues the Private Property Infiltration and Inflow (PPI/I) Reduction program which began in 2010 and continues 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 \$30 million (\$5 million per year) in planned funding for the PPI/I Reduction program and \$12 million (\$2 million per year) for the Green Solutions program.

To fund projected capital expenditures within the District's financing objectives, the tax levy increased 2.5% for 2017 and is projected to increase 4% annually thereafter through 2022.

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.

As mentioned above, in June of 2016, the District's Commission approved a 10-year extension agreement between the District and Veolia with the terms of the extension beginning on March 1, 2018.

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 and the approved extension.

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

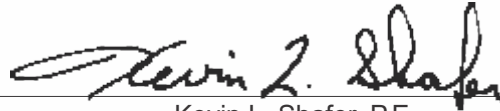
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2015. This was the 38th consecutive year that the District has received this prestigious award. 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.

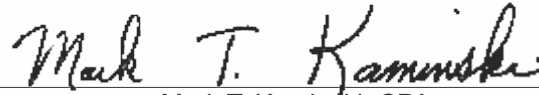
The District received the GFOA's Distinguished Budget Presentation Award for its 2015 annual budget document. To qualify for the distinguished Budget Presentation Award, the District's budget document was judged to be proficient in several categories. These categories include presentation as a policy 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, CPA
Director of Finance/Treasurer

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, 2015. This was the 38th 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, 2015

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

Executive Director/CEO

Financial Section



RAIN BARRELS



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, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory Section and Statistical Section as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no 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 7, 2017 on our consideration of the 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 the Milwaukee Metropolitan Sewerage District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 7, 2017

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, 2016 and December 31, 2015. 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 basically unchanged over the course of this year's operation.
- The District has a deficit balance of \$6.5 million for its unrestricted net position. This represents an increase of \$2.6 million from the deficit balance of \$3.9 million at December 31, 2015. In accordance with GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, at December 31, 2016, the District has recorded a liability of \$50.3 million related to these benefits. The District has elected to fund its liability related to postretirement benefits other than pensions as it comes due rather than when it is incurred. At December 31, 2016, the actuarial accrued liability of \$189.3 million decreased \$1.2 million from 2015's amount 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.
- During 2016, the District received \$13.1 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, 2016 to \$881.2 million. This is a decrease of \$78.8 million over the balance at December 31, 2015. The District's debt limit rate decreased from 1.67% to 1.49%, well below 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 that are 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 also consider nonfinancial factors such as changes in economic conditions, population, and industrial/commercial customer growth, and new or changed government legislation.

All 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, net Milorganite sales revenue, 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.

See accompanying independent auditors' report.

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 (97.0 % at December 31, 2016) 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 \$44.2 million or 13.5% from 2015 to 2016. The primary reason for the decrease was the District had \$47.6 million in unused proceeds from the General Obligation Promissory Notes, Series 2015A remaining at December 31, 2015. Only \$ 4.1 million in proceeds remained at December 31, 2016, a decrease of \$43.5 million. This drawdown was planned and the District plans to issue \$80 million in new General Obligation debt in 2017.

The Deferred Outflow of Resources consists of \$10.3 million related to pension deferred outflows in accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, at December 31, 2016 (see note 10 to the financial statements for additional details). The remaining \$4.1 million relates to the unamortized loss on the District issued \$47,765,000 of General Obligation Sewerage System Refunding Bonds, Series 2015C.

As can be seen from Table A-1, total liabilities decreased approximately \$71.6 million or 6.7% from 2015 to 2016. The decrease is primarily attributable to the planned pay down of existing District general obligation issued debt and Clean Water Fund Program loans.

The decrease in restricted net position of \$13.1 million from 2015 to 2016 is due primarily to an increase in outstanding restricted accounts payable at year end; a reduction in the \$7.4 million bid premium on the Series 2015 A General Obligation Promissory Notes received in 2015 and partially used for 2016 debt service payments on the 2015A Notes; and an increase in Deferred Inflows for capital charges to municipalities outside the District, as a decrease in watercourse/flood management expenditures for 2017 reduced the credit to nonmember communities and thus increasing the amount of deferred inflows.

The deficit in the District's unrestricted net position increased \$2.6 million to \$6.5 million. The deficit in the unrestricted net position 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 \$50.3 million at December 31, 2016 with an unfunded actuarial accrued liability of \$189.3 million, amortized as a level dollar amount and the amortization period is open and is 30 years.

When comparing 2014 to 2015, Table A-1 indicates current, other assets and noncurrent assets increased \$67.4 million or 26.0%. The primary reason for the increase was the issuance of \$100 million of General Obligation Promissory Notes, Series 2015A. The District had \$47.6 million in unused proceeds from the Notes remaining at December 31, 2015 and \$7.4 million from the bid premium on the Notes. In addition, the issuance of the \$100 million of General Obligation Promissory Notes in 2015 was originally planned for fiscal year 2014. The deferral of issuance to 2015 resulted in the District drawing down its 2014 working capital balances reducing funds on hand. Finally, at December 31, 2015 there is an increase of \$3.9 million in surplus funds on hand. The 2015 balances included \$12.5 million in surplus funds from 2015 and 2014. The 2014 balances included \$8.6 million in surpluses from current and

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

	2016	2015	2014	Percentage Increase (Decrease) 2016 Versus 2015
Current and Other Assets	\$227,767	\$229,059	\$221,030	(0.6%)
Noncurrent Assets	54,988	97,859	38,500	(43.8)
Capital Assets	<u>3,399,024</u>	<u>3,421,954</u>	<u>3,448,177</u>	(0.7)
Total Assets	<u>3,681,779</u>	<u>3,748,872</u>	<u>3,707,707</u>	(1.8)
Deferred Outflows of Resources	<u>14,402</u>	<u>9,641</u>	<u>0</u>	49.4
Current Liabilities	124,059	121,395	119,507	2.2
Noncurrent Liabilities	<u>875,092</u>	<u>949,388</u>	<u>909,079</u>	(7.8)
Total Liabilities	<u>999,151</u>	<u>1,070,783</u>	<u>1,028,586</u>	(6.7)
Deferred Inflows of Resources	<u>130,153</u>	<u>123,296</u>	<u>122,608</u>	5.6
Investment in Capital Assets	2,489,929	2,471,795	2,486,416	0.7
-Restricted	83,418	96,526	74,479	(13.6)
-Unrestricted	<u>(6,470)</u>	<u>(3,887)</u>	<u>(4,382)</u>	(66.5)
Total Net Position	<u>\$2,566,877</u>	<u>\$2,564,434</u>	<u>\$2,556,513</u>	0.1

prior year operations. 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 increase in unrestricted cash and investments.

The Deferred Outflow of Resources consists of \$5.3 million related to the implementation of GASB Statement 68, Accounting and Financial Reporting for Pensions, at December 31, 2015 (see note 10 to the financial statements for additional details). The remaining amount relates to the unamortized loss on the District issued \$47,765,000 of General Obligation Sewerage System Refunding Bonds, Series 2015C.

Total liabilities increased approximately \$42.2 million or 4.1% from 2014 to 2015. The increase is primarily attributable to the issued \$100 million of General Obligation Promissory Notes Series 2015A offset partially by the planned pay down of existing District general obligation issued debt and Clean Water Fund Program loans issued prior to 2015.

The increase in restricted net position from 2014 to 2015 is due primarily to the issuance of \$100 million of General Obligation Promissory Notes in 2015. As mentioned earlier, this issuance of notes was originally planned for 2014. The deferral to 2015 resulted in the District drawing down its 2014 working capital balances and reducing restricted funds on hand. Also, the 2015 Notes included \$7.4 million from the bid premium on the Notes which was placed into the District's debt sinking funds to be used for future debt payments related to the issue.

The deficit in the District's unrestricted net position decreased \$0.5 million to \$3.9 million. As mentioned above, the deficit in the unrestricted net position 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. Although the liability increased by \$4.2 million to \$46.1 million at December 31, 2015, the overall deficit was reduced primarily by the increase in 2015 of \$3.9 million in surplus funds on hand over 2014's amount and the impact of implementing GASB Statement 68, Accounting and Financial Reporting for Pensions, at December 31, 2015.

While the Summary of Net Position (Table A-1) shows the change in the District's 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 2016, total revenues slightly increased by \$1.8 million or 0.9% and expenses increased by \$4.3 million or 2.1%. The major factors, which drove these results, include:

- Total user charges increased \$2.6 million or 3.6% from 2015. Although the District a budgeted 2.5% or \$1.8 million increase for 2016 sewer user charge billings, greater than expected wasteloads for noncertified commercial users also increased the actual amount of user charge revenue earned.
- The District's Milorganite revenue increased \$451,000 or 5.2% in 2016. Although competitive pressures continue, approximately 444 more tons were sold in 2016 and the average net selling price increased \$21.70 per ton, to \$220.22 from 2015 to 2016.
- Excluding depreciation, operating expenses in 2016 increased \$2.6 million or 3.1% over the amount for 2015. \$1.3 million of the overall increase was additional pension expense recorded under GASB Statement 68, Accounting and Financial Reporting for Pensions to

record the District's portion of the unfunded pension plan liability at December 31, 2015. Other reasons for the increase are, \$400,000 or a 2.3% increase in salaries and wages; a \$284,000 increase in retiree health insurance costs; \$272,000 in one-time concrete repair work and a \$220,000 increase in property insurance premiums.

- Nonoperating revenues slightly decreased by \$842,000 of 0.7%. Although tax levies to District member communities increased property tax revenue by \$2.6 million or 2.7% offsetting the tax levy increase was a decrease in 2016 capital charges to communities outside the District because of an increase in watercourse/flood management expenditures that the communities outside the District are not obligated to reimburse the District because they do not impact those communities.
- The decrease in nonoperating expenses in 2016 is the result of a \$923,000 decrease in disbursements related to the District's Infiltration/Inflow Reduction on Private Property Capital Program (PPI/I program) and its Green Solutions Capital Program. The remaining portion is the \$634,000 decrease in the amount of interest expense. The decrease the result of \$2.1 million in less interest expense incurred offset by a \$1.5 million reduction in 2016 interest expense capitalized.

For the fiscal year ended 2015, total revenues increased by \$6.7 million or 3.4% and expenses slightly decreased by \$1.6 million or 0.8%. The major factors, which drove these results, include:

- Total user charges increased \$3.9 million or 5.6% from 2014. Although the District budgeted a 3.25% or \$2.3 million increase for 2014 sewer user charge billings, greater than expected wasteloads for noncertified commercial users also increased the actual amount of user charge revenue earned.
- The District's Milorganite revenue increased \$610,000 or 7.6% in 2015. Competitive pressures continue resulting in approximately 2,124 less tons being sold in 2015. Offsetting the decrease in tonnage sold was an increase in the average net selling price of \$19.95 per ton from 2014 to 2015.
- Excluding depreciation, operating expenses in 2015 decreased \$1.4 million or 1.6% over the amount for 2014. The two main reasons for the decrease are, \$1.2 million in decreased energy costs related to lower natural gas prices and the increased use of landfill gas in lieu of natural gas at lower prices; and in 2014 there were one time Information Technology purchases of hardware total \$453,000. These decreases along with other smaller decreases in 2015 expenditures more than offset the planned increase in salaries and wages and increase in costs related to the contract terms of the 10-year operating contract with Veolia Water Milwaukee, LLC.
- Nonoperating revenues slightly increased \$1.9 million or 1.6%. The primary reason for the increase is a 2.65% increase in the tax levy to District member communities increasing property tax revenue by \$2.3 million. Partially offsetting the tax levy increase was a decrease in 2015 capital charges to communities outside the District because of an increase in watercourse/flood management expenditures that the communities outside the District are not obligated to reimburse the District.
- The decrease in nonoperating expenses in 2015 is primarily the

See accompanying independent auditors' report.

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

	2016	2015	2014	Percentage Increase (Decrease) 2016 Versus 2015
Operating Revenues:				
User Charges	\$76,582	\$73,940	\$70,029	3.6%
Fertilizer	9,054	8,603	7,993	5.2
Other	625	1,066	784	(41.4)
Total Operating Revenues	86,261	83,609	78,806	3.2
Nonoperating Revenues:				
Property Tax	95,798	93,239	90,919	2.7
Capital Charges - Communities Outside the District	25,912	28,433	29,396	(8.9)
Other	1,320	2,200	1,619	(40.0)
Total Nonoperating Revenues	123,030	123,872	121,934	(0.7)
Total Revenues	209,291	207,481	200,740	0.9
Operating Expenses:				
Systems - Operation and Maintenance	57,348	57,618	58,754	(0.5)
Laboratory and Research Services	2,582	2,388	2,449	8.1
Industrial Waste and Conveyance Monitoring	3,470	3,274	3,444	6.0
Finance, Engineering and Administration	25,756	23,231	23,311	10.9
Depreciation	91,961	88,906	87,647	3.4
Total Operating Expenses	181,117	175,417	175,605	3.2
Nonoperating Expenses	26,942	28,499	29,705	(5.5)
Land Contributed to Municipalities	649	515	722	26.0
Total Nonoperating Expenses	27,591	29,014	30,427	(4.9)
Total Expenses	208,708	204,431	206,032	2.1
Income (Loss) Before Capital Contributions	583	3,050	(5,292)	(80.9)
Capital Contributions	1,860	3,070	6,004	(39.4)
Changes in Net Position	2,443	6,120	712	
Beginning Net Assets, as Restated	2,564,434	2,556,513	2,555,801	
Cumulative Effect of a Change in Accounting Principle	0	1,801	0	
Ending Net Position	\$2,566,877	\$2,564,434	\$2,556,513	

result of an \$810,000 decrease in the amount of interest expense. \$610,000 of the decrease is the result less interest expense qualifying to be capitalized, and there was a \$200,000 decrease in 2015 in overall interest expense prior to capitalization. The remaining portion of the decrease was caused by a small decrease in disbursements related to the District's Infiltration/Inflow Reduction on Private Property Capital Program (PPI/I program).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016, 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 \$22.9 million in net capital assets for 2016 reflects an \$91.4 million increase in accumulated depreciation which exceeds the \$68.5 million in net additions to the asset base during 2016.

During 2016 and 2015 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 2017, the District's current six-year capital expenditure forecast projects \$619.7 million in project and program expenditures over the six-year period from 2017 through 2022. During this six-year period the capital improvement program continues its focus on asset management and sustainability rather than expansion of capacity.

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, 2016 amounted to \$881.2 million. Included in this amount are \$270 million of general obligation bonds issued by the District.

The remaining balance of \$611.2 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

Table A-3 Capital Assets (000's)

	2016	2015	2014	Percentage Increase (Decrease) 2016 Versus 2015
Land, Land Easements & Land Improvements	\$157,224	\$113,802	\$111,227	38.2%
Buildings	815,266	812,940	803,028	0.3
Machinery & Equipment	936,622	896,058	884,280	4.5
Aeration and Clarifier Tanks	86,254	86,242	86,242	0.0
Watercourse Improvements	361,382	356,209	349,075	1.5
Intercepting Sewer System & Rights	2,502,198	2,501,040	2,478,845	0.0
Construction in Progress	206,008	230,192	220,532	(10.5)
Subtotal	5,064,954	4,996,483	4,933,229	1.4
Less: Accumulated Depreciation	(1,665,930)	(1,574,529)	(1,485,052)	5.8
Net Capital Assets	\$3,399,024	\$3,421,954	\$3,448,177	(0.7)%

See accompanying independent auditors' report.

wastewater treatment facilities. Interest on these loans is payable semi-annually with interest rates ranging from 1.96% to 4.95%.

On May 22, 2017, the District sold \$80 million of General Obligation Promissory Bonds, Series 2017A. The net proceeds from this issue will provide funding for a portion of the District's capital improvements program in 2017 and 2018. The Series 2017A issue, competitively sold by the District, is the first issue since December of 2015.

On October 21, 2015, the District issued \$47,765,000 of General Obligation Sewerage System Refunding Bonds, Series 2015C. The net proceeds of \$47.8 million (including a net premium of \$683,652) were used to purchase U.S. government securities which were placed in an irrevocable escrow account with an escrow agent to provide for all future debt service payments on \$42,720,000 of General Obligation Sewerage System Bonds, Series 2008F for maturities 2019 through 2028. The refunding resulted in the District realizing \$3.4 million in net present value savings over 13 years or 7.911%.

Fitch Ratings affirmed the District's current bond rating on April 13, 2017. Moody's Investor's Services and Standard & Poor's current bond rating were affirmed on April 5 and April 7, 2017 respectively. The current ratings are as follows:

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

At December 31, 2016, the District has an intergovernmental loan for \$22.3 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 made 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 reimbursed 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 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 District paid off the loan in April of 2016. In the event the District had not paid off the loan by May 1, 2016 interest was to accrue at the rate of 6% until final payment. The District avoided \$751,000 in interest costs during the interest free period, when compared to the District's next lowest cost financing option.

Additional information on the District's long-term debt can be 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 5.1 percent for 2016, a decrease from the 5.8 percent rate for 2015. This compares to the state's unemployment rate of 4.1 percent and the national rate of 4.9 percent.
- Inflation in the metropolitan area was similar to the national consumer price index.
 - Milwaukee's inflation rate was 0.6% for 2016.
 - The average U.S. city rate was 1.3% for 2016.
- The equalized valuation for the District's service area (including communities outside the District) increased by 2.3 percent in 2016, while 2016 user charge wasteloads changed as follows:
 - Billable flows down 1.5%.
 - Pounds of Biochemical Oxygen Demand (BOD) up 1.4%
 - Pounds of Total Suspended Solids (TSS) down 1.0%.

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

The District approved a \$90.4 million 2017 Operation and Maintenance Budget, an increase of \$630,000 or 0.7% from 2016. The District's user charge billings for 2017 are budgeted to increase 2.5% to \$75.1 million. The average District residential charge for 2017 is increasing \$1.62 to \$124.04 or 1.3% from the 2016 amount \$122.42.

See accompanying independent auditors' report.

Items of note in the 2017 Operations and Maintenance (O&M) Budget include:

- The 2017's O&M budget returns the 2015 surplus of \$7.8 million, a 67.8% increase, or \$3,165,000 more than when compared to 2016's amount of \$4.7 million.
- In 2017, the District included a \$4.2 million contribution to the District's User Charge Stabilization fund. This contribution will allow the surplus from 2015 to be used in 2018 and 2019, when a significant expenditure increase is anticipated due to the extension agreement with Veolia Water – Milwaukee that was approved by the District's Commission in June 2016.
- Contractual fee decreases approximately \$1 million for the Veolia Water operating contract in the 2017 budget. This decrease is primarily a reflection of the annual contract escalation factors as well as 2016 budgeted fee adjustments that did not occur.
- The District's energy costs are budgeted to decline approximately \$1 million in 2017. The bulk of this is in electricity and natural gas consumption declines that are related to renewable utilization of either landfill gas or digester gas.
- Health Care expenditures for active employees and retirees are expected to increase \$600,000 based on 2016 experience.
- \$500,000 is budgeted for one-time work to clean the Inter-Plant Sludge Pipeline, a non-routine major effort that has not happened in many years.
- The District is actively engaged in planning for information technology solutions to effective and efficient in managing the large amounts of data collected in its systems. Information technology storage and equipment are budgeted with an increase of approximately \$400,000.

The District's Commission approved a 2017 Capital Budget that included a tax levy of \$98.4 million, an increase of 2.5% from the levy of the prior year. The tax rate increased 0.6% from \$1.74 to \$1.75 per \$1,000 of equalized value. Included in the 2017 Capital Budget is the current six-year financing plan that projects tax levy increases of 4% per year from 2018 through 2022, while increasing the estimated tax rate from \$1.75 to \$1.84 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 introduced a Private Property Infiltration and Inflow (PPI/I) Reduction program. The 2017 Capital Budget's long-range financial plan maintains funding at \$5 million for years 2017 through 2022, bringing the total actual and planned program funding to \$70 million. 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. PPI/I program expenditures are written off in the year the municipality is reimbursed as they do result in a District asset.

The great majority of capital expenditures in the 2017 Capital Budget are for the continued effort to rehabilitate, replace, upgrade or improvement of existing District facilities and infrastructure, at over \$350 million over the next six years. Extensive expenditures are planned for watercourse and flood management improvements at just under \$155 million in the six-year long-range financing plan. The District's 2050 Facilities Plan and Green Infrastructure plan are underway and will have a significant impact on future budgets once the recommendations are approved.

Finally, the six-year long range financing plan provides for an average level of expenditures for capital projects and programs of \$103.3 million per year from 2017 through 2022 while the District maintains its average of 25% cash financing objective over the six-year period and while maintaining debt outstanding as a percentage of equalized value to a range of 1.54% in 2017 to 1.21% in 2022.

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 made at the District's website www.mmsd.com.**

EXHIBIT A-1

Statements of Net Position

DECEMBER 31, 2016 AND 2015
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

ASSETS	2016	2015
	(In Thousands)	
Current unrestricted assets:		
Cash and cash equivalents	\$ 2,185	\$ 3,015
Investments	23,128	18,783
Receivables:		
Billed user charges	6,094	6,335
Unbilled user charges	12,458	11,875
Fertilizer sales	1,610	1,638
Other	2,278	2,303
Inventories:		
Operating and maintenance supplies	2,510	2,727
Fertilizer	1,244	1,819
Total Current Unrestricted Assets	<u>51,507</u>	<u>48,495</u>
Current restricted assets:		
Cash and investments	46,491	52,092
Receivables:		
Tax levy	98,380	95,980
Capital charges – municipalities outside the District	29,473	29,882
Grant funds	899	2,032
Other	786	357
Prepaid expenses and other	231	221
Total Current Restricted Assets	<u>176,260</u>	<u>180,564</u>
Total Current Assets	<u>227,767</u>	<u>229,059</u>
Noncurrent restricted assets:		
Investments	<u>54,988</u>	<u>97,859</u>
Capital assets, at cost:		
Land	75,920	74,635
Land easements	61,262	19,618
Land improvements	20,042	19,549
Buildings	815,266	812,940
Aeration and clarifier tanks	86,254	86,242
Machinery and equipment	936,622	896,058
Intercepting sewer system	2,477,609	2,476,451
Interceptor rights	24,589	24,589
Watercourse improvement	361,382	356,209
Construction in progress	206,008	230,192
Total Capital Assets	5,064,954	4,996,483
Less accumulated depreciation	(1,665,930)	(1,574,529)
Net Capital Assets	<u>3,399,024</u>	<u>3,421,954</u>
Total Assets	<u>3,681,779</u>	<u>3,748,872</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources:		
Pension deferred outflows	10,326	5,334
Unamortized loss on refunding	4,076	4,307
Total Deferred Outflows of Resources	<u>14,402</u>	<u>9,641</u>

See accompanying notes to financial statements.

LIABILITIES	<u>2016</u>	<u>2015</u>
	(In Thousands)	
Current liabilities (Payable from Unrestricted Current Assets):		
Accounts payable	\$ 7,289	\$ 7,281
Accrued salaries and wages	325	350
Accrued vacation pay	1,160	1,069
Other	<u>562</u>	<u>440</u>
Total Current Liabilities (Payable from Unrestricted Current Assets)	<u>9,336</u>	<u>9,140</u>
Current liabilities (payable from restricted assets):		
Accounts payable	11,575	8,700
Retainers payable	375	573
Accrued interest	6,717	7,269
Long-term obligations due within one year	<u>96,056</u>	<u>95,713</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>114,723</u>	<u>112,255</u>
Total Current Liabilities Payable	<u>124,059</u>	<u>121,395</u>
Noncurrent liabilities:		
Retainers payable	318	23
Long-term obligations:		
General obligation bonds	241,423	280,093
Clean Water Fund Program loans	554,516	598,110
Intergovernmental loan	20,014	22,302
Postretirement benefits	50,294	46,126
Net pension liability	8,075	2,189
Accrued vested sick pay	<u>452</u>	<u>545</u>
Total Long-term Obligations	<u>875,092</u>	<u>949,388</u>
Total Liabilities	<u>999,151</u>	<u>1,070,783</u>
DEFERRED INFLOWS OF RESOURCES		
Tax levies	98,380	95,980
Capital charges – municipalities outside the District	31,258	27,316
Pension deferred inflows	<u>515</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>130,153</u>	<u>123,296</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,129,304</u>	<u>1,194,079</u>
NET POSITION		
Net Position:		
Investment in capital assets	2,489,929	2,471,795
Restricted – capital projects and programs	43,412	50,887
Restricted – equipment replacement	14,667	14,509
Restricted – debt service	25,339	31,130
Unrestricted (deficit)	<u>(6,470)</u>	<u>(3,887)</u>
TOTAL NET POSITION	<u>\$ 2,566,877</u>	<u>\$ 2,564,434</u>

See accompanying notes to financial statements.

EXHIBIT A-2

Statements of Revenues, Expenses and Changes in Net Position

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	2016	2015
	(In Thousands)	
OPERATING REVENUES		
User charges	\$ 76,582	\$ 73,940
Fertilizer	9,054	8,603
Other	625	1,066
Total Operating Revenues	<u>86,261</u>	<u>83,609</u>
OPERATING EXPENSES		
Systems – operation and maintenance	57,348	57,618
Laboratory and research services	2,582	2,388
Industrial waste and conveyance monitoring	3,470	3,274
Finance, engineering, and administration	25,756	22,231
Depreciation and amortization	91,961	89,906
Total Operating Expenses	<u>181,117</u>	<u>175,417</u>
OPERATING LOSS	<u>(94,856)</u>	<u>(91,808)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes - capital	95,798	93,239
Investment income	842	507
Net increase (decrease) in fair value of investments	(43)	(105)
Interest expense	(22,816)	(23,450)
Capital charges – municipalities outside the District	25,912	28,433
Gain (loss) on disposal of capital assets	(1,766)	(791)
Capital program expenditures	(4,126)	(5,049)
Land contributed to municipalities	(649)	(515)
Other	2,287	2,589
Total Nonoperating Revenues, Net	<u>95,439</u>	<u>94,858</u>
Income (Loss) before Capital Contributions	583	3,050
CAPITAL CONTRIBUTIONS	<u>1,860</u>	<u>3,070</u>
CHANGE IN NET POSITION	2,443	6,120
NET POSITION - Beginning of Year	2,564,434	2,556,513
Cumulative effect of a change in accounting principle	<u>-</u>	<u>1,801</u>
NET POSITION - END OF YEAR	<u>\$ 2,566,877</u>	<u>\$ 2,564,434</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

EXHIBIT A-3

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	2016	2015
	(In Thousands)	
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 87,830	\$ 87,254
Payments for capital programs	(4,126)	(5,049)
Payments to suppliers	(69,697)	(69,343)
Payments to employees	(12,997)	(12,262)
Net Cash Provided (Used) by Operating Activities	<u>1,010</u>	<u>600</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(63,435)	(63,832)
Proceeds from long-term debt issued	13,074	119,402
Principal payments on long-term obligations	(95,713)	(90,082)
Interest paid on long-term obligations (net of capitalized interest)	(28,834)	(30,438)
Debt issuance costs	-	(505)
Premium received on debt issued	-	8,053
Government grant receipts and other contributions	2,081	5,479
Tax levy receipts	95,798	93,239
Capital charges – municipalities outside the District	30,263	25,448
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(46,766)</u>	<u>66,764</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Investment income	842	507
Purchase of investments	(18,079)	(81,773)
Proceeds from sale and maturity of investments	59,164	18,429
Net cash provided (used) by investing activities	<u>41,927</u>	<u>(62,837)</u>
Net (decrease) increase in cash and cash equivalents	(3,829)	4,527
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>13,017</u>	<u>8,490</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,188</u>	<u>\$ 13,017</u>
Cash and cash equivalents as presented in the accompanying statements of net position:		
Current cash and equivalents	\$ 2,185	\$ 3,015
Current investments	23,128	18,783
Current restricted cash and investments	46,491	52,092
Noncurrent investments	54,988	97,859
Non-cash equivalents	(117,604)	(158,732)
Cash and cash equivalents	<u>\$ 9,188</u>	<u>\$ 13,017</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OTHER OPERATING ACTIVITIES		
Operating loss	\$ (94,856)	\$ (91,808)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	91,961	89,906
Postretirement benefits	4,168	4,220
Other nonoperating revenue	2,287	3,034
Capital program expenditures	(4,126)	(5,049)
Changes in current assets and liabilities:		
Current receivables and other assets	(718)	611
Prepaid expenses and other	(10)	187
Inventories	792	8
Accounts payable and other liabilities	1,512	(509)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,010</u>	<u>\$ 600</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	\$ (43)	\$ (105)
Increase (decrease) in capital grants accrued	(1,133)	1,430
Increase (decrease) in receivables and unearned revenue for capital charges municipalities outside the District (net impact)	(4,351)	2,985
Capital assets contributed by others	912	934
Capitalized interest	4,127	5,627
Loss on disposal of capital assets	1,566	851
Land contributed to municipalities	649	515
Debt refunded	-	42,720
Refunding debt issued	-	47,765

See accompanying notes to financial statements.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

NOTE 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.

NOTE 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.

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. The statement addresses accounting and financial reporting issues to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

The following is a summary of the more significant policies.

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.

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.

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.

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 Pool reports the fair value of its underlying assets annually. 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. Participants in the Pool have the right to withdraw their funds on one day's notice.

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.

INVENTORIES

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

PREPAYMENTS

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

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 \$14,667,000 and \$14,509,000 in 2016 and 2015. Also included in restricted assets are investments, receivables, and other assets available for restricted liabilities related to the District's capital improvement program of \$187,143,000 and \$185,321,000 in the same periods. Investments restricted for debt service were \$25,339,000 and \$31,130,000, respectively. Investments restricted for construction funds were \$4,099,000 and \$47,561,000, respectively.

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 2016, to be collected in 2017, of \$98,380,000, have been included in deferred inflows of resources in the statements of net position at December 31, 2016, and are available for expenditure in 2017. Taxes levied in 2015, to be collected in 2016, of \$95,980,000, have been included in deferred inflows of resources in the statements of net position at December 31, 2015, and were available for expenditure in 2016.

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.

CAPITAL CONTRIBUTIONS

Capital contributions consist of federal and state grants, contributions from Veolia Water, and funds from other outside sources 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.

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 acquisition 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 \$4,127,000 and \$5,627,000 in 2016 and 2015, 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.

VACATION PAY

Vacation pay is accrued as earned and is to be used within one year. The accrued vacation pay of \$1,160,000 and \$1,069,000 at December 31, 2016 and 2015, respectively, is classified as a current liability.

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.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

A deferred outflow of resources represents the consumption of net position that applies to a future period and therefore will not be recognized as an outflow of resources (expense) until that future period.

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.

Notes to Financial Statements Continued

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.

Certain changes impacting the net position liability are deferred as discussed in Note 10.

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.

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. As of December 31, 2016, the District had no employees covered by a labor agreement. District Council 48, Local 366, AFSCME, AFL-CIO, which previously represented 82, voted to decertify in 2016 and the associated labor agreement expired April 30, 2016. The frozen sick pay of the District employees is \$777,000 and \$895,000 at December 31, 2016 and 2015, respectively. Of the total, \$452,000 and \$545,000 at December 31, 2016 and 2015, respectively, are classified as a long-term liability. The current portion is included with accrued salaries and wages.

PENSIONS

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

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".

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.

GAIN (LOSS) ON DISPOSAL OF CAPITAL ASSETS

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

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.

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 retains a conservation easement.

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.

NEW ACCOUNTING PRONOUNCEMENTS

GASB has approved GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, Statement No. 80, Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14, Statement No. 81, Irrevocable Split-Interest Agreements, and Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73. When they become effective, application of these standards may restate portions of these financial statements.

RECLASSIFICATION

Certain amounts in the 2015 financial statements may have been reclassified to conform with the classification used in 2016.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of December 31, 2016, 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 (overdraft)	\$(1,676)	\$ -	\$ -
U.S. Instrumentalities	22,055	3,509	13,462
U.S. Treasuries	6,322	2,729	3,593
Local Government			
Investment Pool	86,747	86,747	-
Corporate Bonds	6,035	3,164	2,871
Money Market	7,002	7,002	-
Certificates of Deposit	307	307	-
Total Cash and Investments	<u>\$126,792</u>	<u>\$101,782</u>	<u>\$7,955</u>

As of December 31, 2015, 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 (overdraft)	\$(2,775)	\$ -	\$ -
U.S. Instrumentalities	21,059	1,250	10,750
U.S. Treasuries	8,902	2,608	3,574
Local Government			
Investment Pool	127,770	127,770	-
Corporate Bonds	5,989	1,811	3,173
Money Market	10,001	10,001	-
Certificates of Deposit	803	803	-
Total Cash and Investments	<u>\$171,749</u>	<u>\$141,468</u>	<u>\$14,952</u>

The checking account bank balance was \$113,000 and \$57,300 at December 31, 2016 and 2015, 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 2016 and 2015, 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 2016 and 2015, investments with maturities of less than 180 days, based on par value, comprised on average, 82.8% and 82.3%, 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, 2016 and 2015. The District's investment in corporate bonds at December 31, 2016 and 2015, ranged from AA+ to AA- by Standard & Poor's, or Aaa to A1 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, 2016 and 2015, 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, 2016, the District had more than 5% of the District's investments in the following issuer:

Issuer	Percentage
Federal National Mortgage Association	6.24

As of December 31, 2015, no single issuer had more than 5% of the District's investments.

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 \$300,000 and \$800,000 at December 31, 2016 and 2015. These deposits, excluding \$7,000 of accrued interest at December 31, 2016 and \$2,800 of accrued interest at December 31, 2015, are fully insured through a combination of federal and state deposit insurance.

FAIR VALUE MEASUREMENT

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- > Level 1 inputs are quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date. Examples include U.S. Treasury securities and equity securities from active markets. The hierarchy gives the highest priority to Level 1 inputs.
- > Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly. Examples include government agency securities and derivatives valued using prices for similar locations or products on published exchanges.

Notes to Financial Statements Continued

> Level 3 inputs are unobservable inputs for an asset or liability.

The following valuation methods were used for the Districts' recurring fair value measurements as of December 31, 2016 and 2015:

> Corporate Bonds, U.S. Instrumentalities and U.S. Treasuries classified in Level 1 of the fair value hierarchy are valued using quoted market prices and all fall under the level 1 category.

The District has the following recurring fair value measurements as of December 31, 2016 and 2015:

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Corporate Bonds	\$ 6,035	\$ -	\$ -	\$ 6,035
U.S. Instrumentalities	22,055	-	-	22,055
U.S. Treasuries	6,322	-	-	6,322
Total Investments	<u>\$34,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,412</u>

Investment Type	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Corporate Bonds	\$ 5,989	\$ -	\$ -	\$ 5,989
U.S. Instrumentalities	21,059	-	-	21,059
U.S. Treasuries	8,902	-	-	8,902
Total Investments	<u>\$35,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,950</u>

NOTE 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, 2016 were \$45,507,000 and for the year ended December 31, 2015 were \$45,774,000. 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.

NOTE 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:

	Total Grant Awards	Outstanding Grants Receivable		Total
		Billed	Unbilled	
		(In Thousands)		
December 31, 2016:				
Federal	\$ 6,312	\$ 350	\$ -	\$ 350
State and other	1,002	564	15	579
Totals	<u>\$ 7,314</u>	<u>\$ 914</u>	<u>\$ 15</u>	<u>\$ 929</u>
December 31, 2015:				
Federal	\$ 6,765	\$ 886	\$ -	\$ 886
State and other	1,012	1,146	-	1,146
Totals	<u>\$ 7,777</u>	<u>\$ 2,032</u>	<u>\$ -</u>	<u>\$ 2,032</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.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

	Balance, Beginning of Year	Additions	Deductions	Adjustments	Balance, End of Year
Capital assets not being depreciated:					
Land	\$ 74,635	\$ 1,785	\$ 500	\$ -	\$ 75,920
Construction in progress	230,193	75,135	99,320	-	206,008
Total Capital Assets Not Being Depreciated	304,828	76,920	99,820	-	281,928
Capital assets being depreciated:					
Land easements	19,618	41,644	-	-	61,262
Land improvements	19,549	493	-	-	20,042
Buildings	812,940	2,530	204	-	815,266
Aeration and clarifier tanks	86,242	12	-	-	86,254
Machinery and equipment	896,058	40,956	392	-	936,622
Intercepting sewer system	2,476,451	1,353	195	-	2,477,609
Interceptor rights	24,589	-	-	-	24,589
Watercourse improvements	356,208	5,174	-	-	361,382
Total Capital Assets Being Depreciated	4,691,655	92,162	791	-	4,783,026
Less accumulated depreciation:					
Land easements	3,948	892	-	-	4,840
Land improvements	12,674	322	-	-	12,996
Buildings	377,757	15,849	204	-	393,402
Aeration and clarifier tanks	40,542	1,190	-	-	41,732
Machinery and equipment	458,960	33,082	263	-	491,779
Intercepting sewer system	624,196	35,226	195	-	659,227
Interceptor rights	1,229	492	-	-	1,721
Watercourse improvements	55,223	5,010	-	-	60,233
Total Accumulated Depreciation	1,574,529	92,063	662	-	1,665,930
Total Capital Assets Being Depreciated, Net	3,117,126	99	129	-	3,117,096
Total Capital Assets, Net	<u>\$ 3,421,954</u>	<u>\$ 77,019</u>	<u>\$ 99,949</u>	<u>\$ -</u>	<u>\$ 3,399,024</u>

Capital assets activity for the year ended December 31, 2015 was as follows:

	Balance, Beginning of Year	Additions	Deductions	Adjustments	Balance, End of Year
Capital assets not being depreciated:					
Land	\$ 73,102	\$ 1,533	\$ -	\$ -	\$ 74,635
Construction in progress	220,532	62,164	52,488	(15)	230,193
Total Capital Assets Not Being Depreciated	293,634	63,697	52,488	(15)	304,828
Capital assets being depreciated:					
Land easements	18,576	1,042	-	-	19,618
Land improvements	19,549	-	-	-	19,549
Buildings	803,028	9,912	-	-	812,940
Aeration and clarifier tanks	86,242	-	-	-	86,242
Machinery and equipment	884,280	12,206	428	-	896,058
Intercepting sewer system	2,454,256	22,195	-	-	2,476,451
Interceptor rights	24,589	-	-	-	24,589
Watercourse improvements	349,075	7,133	-	-	356,208
Total Capital Assets Being Depreciated	4,639,595	52,488	428	-	4,691,655
Less accumulated depreciation:					
Land easements	3,524	424	-	-	3,948
Land improvements	12,262	412	-	-	12,674
Buildings	362,198	15,559	-	-	377,757
Aeration and clarifier tanks	39,374	1,168	-	-	40,542
Machinery and equipment	427,406	31,982	428	-	458,960
Intercepting sewer system	589,265	34,931	-	-	624,196
Interceptor rights	738	491	-	-	1,229
Watercourse improvements	50,285	4,938	-	-	55,223
Total Accumulated Depreciation	1,485,052	89,905	428	-	1,574,529
Total Capital Assets Being Depreciated, Net	3,154,543	(37,417)	-	-	3,117,126
Total Capital Assets, Net	<u>\$ 3,448,177</u>	<u>\$ 26,280</u>	<u>\$ 52,488</u>	<u>\$ (15)</u>	<u>\$ 3,421,954</u>

The District had construction contract commitments of approximately \$19,251,000 and \$7,666,000 as of December 31, 2016 and 2015, respectively.

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General obligation bonds	\$ 305,615	\$ -	\$ (35,575)	\$ 270,040	\$ 37,100
Plus unamortized premium	10,053	-	(1,570)	8,483	-
Total Bonds Payable	315,668	-	(37,145)	278,523	37,100
State of Wisconsin Clean Water Fund	654,384	13,075	(56,275)	611,184	56,668
Subtotal	970,052	13,075	(93,420)	889,707	93,768
Intergovernmental loan	23,460	-	(1,158)	22,302	2,288
Other long term debt	2,706	-	(2,706)	-	-
Other postretirement benefits	46,126	9,584	(5,416)	50,294	-
Net Pension liability	2,189	5,886	-	8,075	-
Vested sick pay	895	-	(118)	777	325
Total	<u>\$ 1,045,428</u>	<u>\$ 28,545</u>	<u>\$ (102,818)</u>	<u>\$ 971,155</u>	<u>\$ 96,381</u>

Notes to Financial Statements Continued

Changes in long-term obligations for the year ended December 31, 2015 were as follows:

	Beginning Balance	Additions	Reductions (In Thousands)	Ending Balance	Due within One Year
General obligation bonds	\$ 233,835	\$ 147,765	\$ (75,985)	\$ 305,615	\$ 35,575
Plus unamortized premium	4,121	8,053	(2,121)	10,053	-
Total Bonds Payable	237,956	155,818	(78,106)	315,668	35,575
State of Wisconsin Clean Water Fund	689,893	19,402	(54,911)	654,384	56,275
Subtotal	927,849	175,220	(133,017)	970,052	91,850
Intergovernmental loan	24,589	-	(1,129)	23,460	1,157
Other long term debt	3,484	-	(778)	2,706	2,706
Other postretirement benefits	41,906	9,344	(5,124)	46,126	-
Net Pension liability	-	2,189	-	2,189	-
Vested sick pay	955	-	(60)	895	350
Total	\$ 998,783	\$ 186,753	\$ (140,108)	\$ 1,045,428	\$ 96,063

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 2.30% to 4.45% (effective interest rate of 3.19%). Debt service requirements are as follows:

Year	Principal	Interest	Subsidy*	Total
(In Thousands)				
2017	\$ 37,100	\$ 11,020	\$ (619)	\$ 47,501
2018	20,725	9,225	(590)	29,360
2019	21,410	8,307	(557)	29,160
2020	22,275	7,439	(523)	29,191
2021	23,225	6,485	(487)	29,223
2022-2026	68,460	22,029	(1,833)	88,656
2027-2031	54,590	9,572	(589)	63,573
2032-2034	22,255	1,581	-	23,836
Total	\$ 270,040	\$ 75,658	\$ (5,198)	\$ 340,500

*The subsidy is based on the original 35% federal interest subsidy provided by the federal government. During fiscal year 2016 interest subsidies received were reduced by 6.8% and during federal fiscal year 2017, the subsidy payments have been reduced by 6.9%. 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 1.96% to 4.95% (effective interest rate of 2.96%). Principal is payable annually in varying amounts. Debt service requirements are as follows:

Year	Principal	Interest	Total
(In Thousands)			
2017	\$ 56,668	\$ 14,590	\$ 71,258
2018	57,223	13,124	70,347
2019	58,254	11,631	69,885
2020	58,772	10,119	68,891
2021	56,919	8,640	65,559
2022-2026	214,936	26,177	241,113
2027-2031	99,789	5,981	105,770
2032-2036	8,623	306	8,929
Total	\$ 611,184	\$ 90,568	\$ 701,752

The District has outstanding loan commitments available of \$13,041,369 and \$25,780,700 at December 31, 2016 and 2015, 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 constructed 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 made 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, 2016 is \$22,302,341. Debt service requirements are as follows:

Year	Principal	Interest	Total
(In Thousands)			
2017	\$ 2,288	\$ 1,878	\$ 4,166
2018	1,215	478	1,693
2019	1,245	448	1,693
2020	1,275	417	1,692
2021	1,307	385	1,692
2022-2026	7,032	1,420	8,452
2027-2031	7,940	499	8,439
Total	\$ 22,302	\$ 5,525	\$ 27,827

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 position. 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 \$234,000 as of December 31, 2016. The remaining balance on the Series 2003I Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$12,045,000 and \$17,640,000 respectively.

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 position. 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 \$70,000 as of December 31, 2016. The remaining balance on the Series 2005A Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$46,395,000 and \$50,105,000 respectively.

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 \$190,000 as of December 31, 2016. The remaining balance on the Series 2007A Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$21,390,000 and \$41,770,000, 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. On October 21, 2015, \$42,725,000 of callable maturities of the 2008F bonds were funded with the issuance of the 2015C General Sewerage System Bonds. The new service life of the remaining debt is through 2018. The remaining balance on the Series 2008F Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$6,315,000 and \$9,275,000, 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, 2016 and 2015 included in general obligation bonds is \$36,865,000 and \$39,060,000, respectively.

On May 6, 2015, the District issued \$100,000,000 of General Obligation Sewerage System Bonds, Series 2015A with an average interest rate of 3.7 percent. The proceeds are being used to fund district capital improvements. The remaining balance on the Series 2015A Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$100,000,000.

On October 21, 2015, the District issued \$47,765,000 of General Sewer System Refunding Bonds, Series 2015C, with an average interest rate of 2.16 percent to advance refund \$42,720,000 of outstanding bonds, Series 2008F, with an average interest rate of 4.76 percent. The net proceeds of \$48,369,000 (including premium of \$683,000 after payment of \$257,000 in underwriting fees and other issuance costs) were used to purchase U.S. 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 2008F. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the statement of net assets. 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 \$4,443,000, which was reported in the accompanying financial statements as a loss to long-term obligations and is being amortized as a component of interest expense through 2028. The unamortized refunding loss was \$3,962,000 as of December 31, 2016. The remaining balance on the Series 2008F Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$6,315,000 and \$9,275,000, respectively. The remaining balance on the Series 2015C Bonds at December 31, 2016 and 2015, included in general obligation bonds, is \$47,030,000 and \$47,765,000. The cash flow requirements on the old bonds prior to the refunding was \$61,442,000 from 2008 through 2028. The cash flow requirements on the new bonds are \$56,195,000 from 2016 through 2028. The refunding resulted in an economic gain of \$3,380,000.

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. As of December 31, 2016 the loan had been paid in full. The remaining balance at December 31, 2015, was \$2,706,000.

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 \$4,127,000 and \$5,627,000 in 2016 and 2015, respectively. A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31 follows:

	2016	2015
(In Thousands)		
2016 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$ 59,145,533	\$ 57,445,674
Statutory debt limit rate - Wisconsin Statutes Section 67.03	5%	5%
Statutory Debt Limit	2,957,277	2,872,284
General obligation indebtedness:		
Outstanding bonds issued by the District	(270,040)	(305,615)
Clean Water Fund Program loans	(611,184)	(654,385)
Legal Debt Margin	\$ 2,076,053	\$ 1,912,284

NOTE 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 position includes claims incurred but not reported (IBNR) totaling approximately \$120,000 and \$140,000 as of December 31, 2016 and 2015, respectively.

Notes to Financial Statements Continued

	2016	2015	2014
	(In Thousands)		
Unpaid claims, beginning of year	\$ 140	\$ 6,176	\$ 1,425
Claim payments	(108)	(6,174)	(461)
Current year claims and changes in estimates	88	138	5,212
Unpaid Claims, End of Year	\$ 120	\$ 140	\$ 6,176

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, 2016 and 2015, the IBNR reported in other current liabilities is \$560,000 and \$440,000, respectively.

	2016	2015	2014
	(In Thousands)		
Unpaid claims, beginning of year	\$ 440	\$ 440	\$ 410
Claims and premiums paid	(8,458)	(8,062)	(8,289)
Current year claims and changes in estimates	8,578	8,062	8,319
Unpaid Claims, End of Year	\$ 560	\$ 440	\$ 440

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

NOTE 9 - CONTINGENCIES AND COMMITMENTS

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:

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

Milwaukee County Circuit Court Case No. 13-CV-0850

Plaintiffs seek, under terms of an easement, \$2.3 million in damages alleged to have occurred as result of 2010 flooding of buildings due to inadequate MMSD facilities. On July 29, 2015, the circuit court granted the District's motion for summary judgment and dismissed the case; plaintiffs appealed and the Wisconsin Court of Appeals affirmed dismissal. In early 2017, the Wisconsin Supreme Court accepted plaintiffs' appeal; settlement terms were subsequently finalized and the appeal was dismissed by the Wisconsin Supreme Court on April 13, 2017.

Bee Bus Line, Inc. v. MMSD

Milwaukee County Circuit Court Case No. 201-CV-004012

Plaintiff landowner filed this case in May, 2016, to appeal the award of compensation paid by the District under the statutory condemnation process; plaintiff asserts a property value of \$1.16 million, which is higher than the appraisals support. MMSD believes it will prevail in this matter.

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. The area for proposed remediation extends for roughly 8,000 linear feet (1.5 miles). The District has submitted a Risk Based Work Plan, which U.S. EPA has approved for the remediation of Basin H. The estimated cost to implement the Work Plan is between \$2.5 and \$3.8 million. The District has notified its insurance carriers of this liability, and expects this to be a covered 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 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.

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, 2016 the District had commitments to purchase \$1,867,112 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, 2015, the District had commitments to purchase \$3,582,407 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.

NOTE 10 - RETIREMENT SYSTEM

The District implemented GASB No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received from the Employees' Retirement System.

General Information About the Pension Plan

Plan description. 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. Detailed information about the pension plan's fiduciary net position is available in these separately issued financial statements. 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. As of December 31, 2016 and 2015, the System recognized \$1,532,962 and \$1,517,102 in contributions from the District.

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

At December 31, 2016 and 2015, the utility reported a liability (asset) of \$8,075,000 and \$2,189,000, respectively for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuations as of January 1, 2015 and 2014 rolled forward to December 31, 2015 and 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating employees. At December 31, 2015, the District's proportion was 1.9201%, which was a decrease of 0.0086% from its proportion measured as of December 31, 2014. At December 31, 2014, the District's proportion was 1.9287%, which was an increase of 0.6707% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2016 and December 31, 2015, the District recognized pension expense of \$2,840,807 and \$1,512,480.

The District reported deferred outflows of resources related to pensions from the following sources as of December 31:

Deferred Outflows of Resources	2016	2015
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan	7,430,000	2,464,000
Changes in actuarial assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,000	14,000
Employer contributions subsequent to the measurement date	2,880,819	2,855,818
Total	\$ 10,325,819	\$ 5,333,818

The District reported deferred inflows of resources related to pensions from the following sources as of December 31:

Deferred Inflows of Resources	2016	2015
Differences between expected and actual experience	\$ (439,000)	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan	-	-
Changes in actuarial assumptions	(76,000)	-
Total	\$ (515,000)	\$ -

Deferred outflows related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in future periods. The District reported \$2,855,819 in contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 1,862,188	(160,939)
2018	1,862,188	(160,939)
2019	1,862,188	(160,939)
2020	1,858,436	(32,183)
Thereafter	-	-
Total	\$ 7,445,000	\$ (515,000)

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

Actuarial valuation date	January 1, 2015
Measurement date of net pension liability (asset)	December 31, 2015
Actuarial cost method	Entry Age Normal – Level Percentage of Pay
Asset valuation method	Market Value
Investment Rate of Return	8.25% for calendar years through 2017, and 8.50% thereafter
Discount rate	8.5049%
Inflation	3.00%
Salary increases	
General City	3.0% - 7.5%
Police & Fire	3.0% - 14.4%
Mortality	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6-year setback.

Actuarial assumptions are based on an experience study for the period January 1, 2007 – December 31, 2011.

Long-term Expected Rate of Return. The long term expected rate of return on pension plan investments was determined using Callan Associates' 10 year geometric capital market projections. Projected long term rates of return for each major asset class in the Retirement System's target asset allocation as of December 31, 2016, are summarized in the following table:

Notes to Financial Statements Continued

Asset Class	Policy	Actual	Long-term Expected Rate of Return
Domestic Equity	25.0%	28.70%	9.22%
International Equity	20.0%	21.40%	7.14%
Global Equity	10.0%	7.03%	8.00%
Fixed Income/Cash	25.0%	24.98%	2.28%
Real Estate	7.0%	8.38%	6.91%
Real Assets	3.0%	0.0%	5.45%
Private Equity	5.0%	3.84%	12.40%
Absolute Return	5.0%	5.67%	4.68%
	100.0%	100.0%	

Discount rate The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the utility's proportionate share of the net pension liability (asset) to changes in the discount rate The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 8.50 percent, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50 percent) or 1-percentage-point higher (9.50 percent) than the current rate:

Proportionate Share of Net Pension Liability (Asset)	1% Decrease (7.50%)	Current Discount Rate (8.50%)	1% Increase (9.50%)
2016	\$ 18,981,000	\$ 8,075,000	\$ (1,120,000)
2015	13,035,000	2,189,000	(6,948,000)

NOTE 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, 495 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, 2016 and 2015 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:

	2016	2015
	(In Thousands)	
Annual required contribution	\$ 10,731	\$ 10,362
Interest on net OPEB obligation	848	829
Adjustment to annual required contribution	(1,996)	(1,847)
Annual OPEB cost	9,583	9,344
Contributions made	(5,415)	(5,124)
Increase in Net OPEB Obligation	4,168	4,220
Net OPEB Obligation - Beginning of Year	46,126	41,906
Net OPEB Obligation - End of Year	\$ 50,294	\$ 46,126

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015 and 2014 was as follows:

Fiscal Year Ended	Annual OPEB Cost (In Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (In Thousands)
2016	\$ 9,583	56.5%	\$ 50,294
2015	9,344	54.8%	46,126
2014	9,561	47.8%	41,906

The funded status of the plan as of December 31, 2016 and 2015, the most recent actuarial valuation dates, was as follows:

	2016	2015
	(In Thousands)	
Actuarial accrued liability (AAL)	\$ 189,300	\$ 190,520
Actuarial value of plan assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 189,300	\$ 190,520
Funded ratio (actuarial value of plan assets / AAL)	-	-
Covered payroll (active plan members)	\$ 20,077	\$ 19,900
UAAL as a percentage of covered payroll	943%	957%

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 2016 Annual OPEB Cost was calculated using the actuarial assumptions of 1.73% investment rate of return and an annual healthcare cost trend rate of 8.5% initially. The 2015 Annual OPEB Cost was calculated using the actuarial assumptions of 1.84% investment rate of return and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% 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.

NOTE 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, 2016 are as follows:

Year ending December 31:	
2017	\$ 344,769
2018	179,568
2019	182,817
2020	185,131
2021	185,510
2022 through 2026	241,522
2027 through 2031	65,705
2032 through 2036	65,705
2037 through 2041	65,705
2042 through 2046	65,705
2047 through 2051	65,705
2052 through 2056	65,705
2057 through 2058	26,282
Total Minimum Lease Receipts	\$ 1,739,829

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016 are:

Year ending December 31:	
2017	\$ 67,574
2018	7,142
2019	7,270
2020	7,402
2021	7,402
2022-2026	36,810
2027-2031	36,510
2032-2036	36,510
2037-2041	2,800
Total Minimum Lease Payments	209,420
Less current installments of obligations under operating leases	(67,574)
Obligations under Operating Leases, Excluding Current Installments	\$ 141,846

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.

NOTE 13 - CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

The District adopted GASB Statement No. 68 effective January 1, 2015. The cumulative effect of implementation is reflected as a change in net position as follows:

	(In Thousands)
Net pension assets January 1, 2015	\$ 400
Deferred outflows January 1, 2015	1,401
Cumulative Effect of Change in Accounting Principle	\$ 1,801

NOTE 14 - SUBSEQUENT EVENT

The Commission has authorized the issuance of approximately \$80 million in additional bonds which are anticipated to be issued in June of 2017.

Required Supplementary Information

MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

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
(In Thousands)						
12/31/2016	\$ -	\$ 189,300	\$ 189,300	0%	\$ 20,077	943%
12/31/2015	-	190,520	190,520	0%	19,900	957%
12/31/2014	-	178,564	178,564	0%	20,043	891%

SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) Employee's Retirement System

	2016	2015
Employer's proportion of the net pension liability (asset)	1.920076700%	1.928696500%
Employer's proportionate share of the net pension liability (asset)	\$ 8,075,000	\$ 2,189,000
Employer's covered-employee payroll (calendar 2015)	\$ 7,030,000	\$ 16,655,000
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	47.42%	13.14%
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.76%	97.76%

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS Employee's Retirement System

	2016	2015
Contractually required contributions	\$ 1,532,962	\$ 1,517,102
Contributions in relation to the contractually required contributions	\$ 1,532,962	\$ 1,517,102
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll (calendar year)	\$ 17,752,000	\$ 17,030,000
Contributions as a percentage of covered-employee payroll	8.64%	8.91%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of benefit terms: There were no changes in benefit terms.

Changes of assumption: There were no changes in assumptions.

See accompanying independent auditors' report.

Statistical Section

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



EXHIBIT B-1

Net Position By Components

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	Fiscal Year				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In Thousands)				
Investment in Capital Assets	\$2,489,929	\$2,471,795	\$2,486,416	\$2,464,531	\$2,466,406
Restricted - Capital Projects and Programs	43,412	50,887	34,527	46,210	37,633
Restricted - Equipment Replacement	14,667	14,509	14,411	14,411	14,411
Restricted - Debt Service	25,339	31,130	25,541	26,518	24,829
Unrestricted	<u>(6,470)</u>	<u>(3,887)</u>	<u>(4,382)</u>	<u>4,131</u>	<u>10,905</u>
	<u>\$2,566,877</u>	<u>\$2,564,434</u>	<u>\$2,556,513</u>	<u>\$2,555,801</u>	<u>\$2,554,184</u>

Fiscal Year				
<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(In Thousands)				
\$2,505,430	\$2,481,000	\$2,436,462	\$2,343,490	\$2,363,207
21,158	17,781	46,899	105,391	60,236
14,916	16,066	16,066	17,116	19,181
5,801	16,568	11,650	10,745	5,539
<u>14,488</u>	<u>17,288</u>	<u>20,726</u>	<u>26,813</u>	<u>33,427</u>
<u>\$2,561,793</u>	<u>\$2,548,703</u>	<u>\$2,531,803</u>	<u>\$2,503,555</u>	<u>\$2,481,590</u>

EXHIBIT B-2

Change In Net Position

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<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>
2016	\$ 86,261	\$ 181,117	\$(94,856)	\$ 95,439	\$ 583	\$ 1,860	\$ 2,443
2015	83,609	175,417	(91,808)	94,858	3,050	3,070	6,120
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

EXHIBIT B-3

Operating Revenue by Source

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<u>Year</u>	<u>Total Operating Revenue</u>	<u>Sewer User Charge</u>	<u>Fertilizer</u>	<u>Other</u>
	(In Thousands)			
2016	\$ 86,261	\$ 76,582	\$ 9,054	\$ 625
2015	83,609	73,940	8,603	1,066
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

EXHIBIT B-4

Operating Expenses

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<u>Year</u>	<u>Total Operating Expenses</u>	<u>System-Operation & Maintenance</u>	<u>Laboratory & Research Services</u>	<u>Industrial Waste & Conveyance Monitoring</u>	<u>Finance, Engineering & Administration</u>	<u>Depreciation</u>
				(In Thousands)		
2016	\$181,117	\$ 57,348	\$ 2,582	\$ 3,470	\$ 25,756	\$ 91,961
2015	175,417	57,618	2,388	3,274	22,231	89,906
2014	175,605	58,754	2,449	3,444	23,311	87,647
2013	167,921	57,130	2,448	3,227	22,331	82,785
2012	162,924	55,177	2,511	3,458	21,803	79,975
2011	158,675	56,896	2,170	3,280	20,121	76,208
2010	153,985	55,218	2,115	3,794	21,310	71,548
2009	152,909	58,055	2,339	3,774	19,610	69,131
2008	148,024	55,267	2,463	3,745	18,298	68,251
2007	134,114	43,627	2,375	3,818	17,418	66,876



EXHIBIT B-5

Nonoperating Revenue and Expenses

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<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>
2016	\$ 95,439	\$ 95,798	\$ 25,912	\$ 799	\$(22,816)	\$ (1,766)	\$ (649)	\$ (1,839)
2015	94,858	93,239	28,433	402	(23,450)	(791)	(515)	(2,460)
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

EXHIBIT B-6

User Charge Revenue by Municipality Within the District

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

Municipality	Fiscal Year				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
City of Cudahy	1,960,292	\$ 1,804,675	\$ 1,618,550	\$ 1,507,280	\$ 1,613,522
City of Franklin	2,202,361	2,143,999	2,040,662	2,006,441	1,914,760
City of Glendale	1,008,386	953,839	900,806	934,241	923,834
City of Greenfield	2,107,906	2,036,361	1,945,286	1,944,800	1,964,108
City of Milwaukee	43,968,676	42,484,064	40,235,500	40,211,422	40,081,180
City of Oak Creek	2,367,729	2,222,514	2,133,231	2,069,149	1,991,631
City of St. Francis	585,989	561,119	540,392	540,870	555,621
City of Wauwatosa	3,259,792	3,178,030	2,961,982	2,997,566	3,115,200
City of West Allis	4,066,099	3,896,350	3,726,150	3,717,622	3,716,622
Village of Bayside	238,959	234,505	239,170	230,494	240,845
Village of Brown Deer	809,479	777,074	735,633	721,924	731,400
Village of Fox Point	375,364	372,582	363,849	361,777	359,258
Village of Greendale	792,771	796,170	788,101	742,539	715,631
Village of Hales Corners	469,508	456,334	436,428	434,642	428,409
Village of River Hills	89,271	88,063	84,893	84,355	85,807
Village of Shorewood	709,321	691,074	676,706	662,621	673,288
Village of West Milwaukee	944,055	961,138	917,770	971,000	1,105,930
Village of Whitefish Bay	<u>731,223</u>	<u>724,679</u>	<u>697,095</u>	<u>687,053</u>	<u>694,737</u>
Total Within the District	<u>\$66,687,181</u>	<u>\$64,382,570</u>	<u>\$61,042,204</u>	<u>\$60,825,796</u>	<u>\$60,911,783</u>



Fiscal Year				
<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,656,103	\$ 1,805,096	\$ 1,855,515	\$ 1,648,318	\$ 1,164,578
1,925,628	1,931,327	1,800,766	1,634,272	1,298,726
931,804	912,462	875,951	813,768	632,667
1,962,998	1,957,031	1,872,833	1,710,028	1,389,123
40,329,654	41,323,722	40,763,430	36,321,630	28,697,714
2,005,209	2,052,065	1,905,558	1,729,957	1,372,215
496,818	368,714	365,919	355,315	348,830
3,088,718	3,144,526	2,924,523	2,727,814	2,128,407
3,721,541	3,679,178	3,443,449	3,166,204	2,579,476
240,213	229,068	216,064	201,819	162,826
719,455	710,976	679,053	639,618	502,707
369,485	363,502	346,870	323,564	252,475
733,597	720,827	705,538	628,698	511,200
433,212	429,876	413,923	383,953	310,346
89,742	88,543	83,757	77,198	61,807
678,964	659,074	658,519	581,999	463,811
1,006,938	895,309	1,062,403	1,074,960	830,606
<u>698,033</u>	<u>682,223</u>	<u>449,142</u>	<u>742,922</u>	<u>429,466</u>
<u>\$61,088,112</u>	<u>\$61,953,519</u>	<u>\$60,423,213</u>	<u>\$54,762,037</u>	<u>\$43,136,980</u>

EXHIBIT B-7

User Charge Revenue by Municipality Outside the District

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

Municipality	Fiscal Year				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
City of Brookfield	\$ 985,854	\$ 969,822	\$ 917,553	\$ 898,795	\$ 897,586
City of Mequon	1,281,186	1,234,929	1,206,940	1,094,553	1,119,264
City of Muskego	1,130,497	1,132,336	1,092,905	1,054,548	1,041,072
City of New Berlin	1,956,174	1,978,663	1,859,908	1,818,911	1,827,310
City of South Milwaukee*	30,568	25,146	30,496	28,042	27,588
Village of Butler	404,769	224,889	175,348	174,544	171,463
Village of Caledonia	25,636	27,062	26,174	25,528	25,639
Village of Elm Grove	337,961	337,445	325,919	310,463	297,649
Village of Germantown	1,613,777	1,536,335	1,387,769	1,413,618	1,278,930
Village of Menomonee Falls	1,936,950	1,897,058	1,777,329	1,745,112	1,799,637
Village of Thiensville	<u>191,595</u>	<u>193,249</u>	<u>186,370</u>	<u>181,708</u>	<u>180,254</u>
Total Outside the District	<u>\$ 9,894,967</u>	<u>\$ 9,556,934</u>	<u>\$ 8,986,711</u>	<u>\$ 8,745,822</u>	<u>\$8,666,392</u>

* Household Hazardous Waste Program Charges Only



Fiscal Year				
<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 956,248	\$ 935,751	\$ 903,262	\$ 838,566	\$ 664,314
1,077,743	1,056,814	1,018,547	940,919	742,754
1,024,359	1,004,530	969,988	890,734	690,680
1,764,458	1,776,161	1,717,723	1,604,871	1,259,612
25,225	27,456	26,594	25,121	26,673
182,373	177,528	183,573	163,199	130,138
26,407	25,047	25,597	24,837	18,795
301,897	308,781	300,991	277,573	220,216
1,190,224	1,185,985	1,046,395	1,196,558	988,965
1,750,504	1,721,685	1,670,983	1,546,221	1,227,280
<u>182,594</u>	<u>181,356</u>	<u>172,849</u>	<u>159,329</u>	<u>125,486</u>
<u>\$8,482,032</u>	<u>\$ 8,401,094</u>	<u>\$ 8,036,502</u>	<u>\$ 7,667,928</u>	<u>\$ 6,094,913</u>



EXHIBIT B-8

User Charge Rates

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<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>
2016	\$1.11377	\$0.11869	\$0.16275	\$21.71
2015	0.96079	0.11781	0.15807	30.21
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

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</u> (Dollars Per 1,000 Gallons)	<u>Average</u> Household (Dollars Per Year)	<u>Million of Gallons</u> of Sewage <u>Treated</u>
\$1.922831	\$122.42	68,200
1.753133	125.17	67,100
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



EXHIBIT B-9

Wastewater Loadings by Customer Class

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

PARAMETER	Fiscal Year				
	2016	2015	2014	2013	2012
<u>Billable Flow (1,000 Gallons)</u>					
RESIDENTIAL	16,864,146	17,640,483	17,769,153	17,613,063	17,879,709
NON-CERTIFIED COMMERCIAL	10,416,779	10,297,948	10,399,901	10,353,855	10,833,579
CERTIFIED COMMERCIAL	1,679,723	1,602,378	1,684,463	1,710,422	1,819,600
CERTIFIED INDUSTRIAL	<u>3,819,379</u>	<u>3,754,697</u>	<u>3,675,147</u>	<u>3,936,045</u>	<u>4,199,362</u>
TOTALS	<u>32,780,027</u>	<u>33,295,507</u>	<u>33,528,663</u>	<u>33,613,385</u>	<u>34,732,250</u>
<u>Biochemical Oxygen Demand (Pounds)</u>					
RESIDENTIAL	43,593,817	45,600,648	45,940,473	45,536,920	46,226,302
NON-CERTIFIED COMMERCIAL	26,927,382	26,620,196	26,888,015	26,768,965	28,009,249
CERTIFIED COMMERCIAL	3,595,322	3,550,589	3,673,331	3,663,473	3,855,902
CERTIFIED INDUSTRIAL	<u>42,082,946</u>	<u>38,786,074</u>	<u>39,320,945</u>	<u>43,583,211</u>	<u>41,248,840</u>
TOTALS	<u>116,199,467</u>	<u>114,557,507</u>	<u>115,822,764</u>	<u>119,552,569</u>	<u>119,340,293</u>
<u>Total Suspended Solids (Pounds)</u>					
RESIDENTIAL	52,042,750	54,438,534	54,832,149	54,350,489	55,173,312
NON-CERTIFIED COMMERCIAL	32,146,176	31,779,465	32,092,121	31,950,040	33,430,370
CERTIFIED COMMERCIAL	4,302,174	4,244,553	4,380,708	4,366,923	4,544,170
CERTIFIED INDUSTRIAL	<u>19,499,076</u>	<u>18,590,657</u>	<u>18,622,057</u>	<u>18,653,681</u>	<u>19,999,548</u>
TOTALS	<u>107,990,176</u>	<u>109,053,209</u>	<u>109,927,035</u>	<u>109,321,133</u>	<u>113,147,400</u>
<u>Connections</u>					
RESIDENTIAL	265,067	264,492	264,015	264,034	264,013
NON-CERTIFIED COMMERCIAL	37,409	37,137	37,160	37,164	37,483
CERTIFIED COMMERCIAL	1,979	1,995	2,000	2,030	2,014
CERTIFIED INDUSTRIAL	<u>684</u>	<u>694</u>	<u>699</u>	<u>721</u>	<u>715</u>
TOTALS	<u>305,139</u>	<u>304,318</u>	<u>303,874</u>	<u>303,949</u>	<u>304,225</u>

Fiscal Year				
<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
18,320,590	18,967,992	19,320,420	19,698,689	20,026,541
10,536,191	10,446,335	10,630,049	11,023,024	11,287,080
1,703,993	1,727,538	1,719,087	1,811,252	1,831,139
<u>4,281,621</u>	<u>4,233,640</u>	<u>4,428,295</u>	<u>4,949,082</u>	<u>4,940,546</u>
<u>34,842,396</u>	<u>35,375,505</u>	<u>36,097,851</u>	<u>37,482,047</u>	<u>38,085,306</u>
47,366,157	49,039,952	49,951,014	50,928,990	51,776,620
27,240,384	27,008,069	27,482,929	28,498,927	29,181,616
3,657,812	3,700,567	3,708,026	3,782,908	3,846,072
<u>40,762,360</u>	<u>36,817,277</u>	<u>37,344,665</u>	<u>33,061,583</u>	<u>32,762,861</u>
<u>119,026,713</u>	<u>116,565,865</u>	<u>118,486,634</u>	<u>116,272,408</u>	<u>117,567,169</u>
56,533,775	58,531,540	59,618,952	60,786,216	61,797,902
32,512,699	32,235,413	32,802,206	34,014,850	34,829,671
4,297,500	4,344,976	4,342,935	4,425,570	4,496,269
<u>19,664,094</u>	<u>19,073,819</u>	<u>18,840,371</u>	<u>18,401,146</u>	<u>19,091,693</u>
<u>113,008,068</u>	<u>114,185,748</u>	<u>115,604,464</u>	<u>117,627,782</u>	<u>120,215,535</u>
263,867	264,190	263,862	264,212	264,518
37,104	37,168	37,286	37,245	37,005
1,991	1,937	1,980	2,075	2,078
<u>718</u>	<u>742</u>	<u>746</u>	<u>760</u>	<u>760</u>
<u>303,679</u>	<u>304,037</u>	<u>303,873</u>	<u>304,292</u>	<u>304,361</u>

EXHIBIT B-10

Ten Largest Sewer Users

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<u>Customer</u>	<u>Type of Business</u>	<u>2016</u>		<u>2007</u>	
		<u>Sewer Revenue</u> <u>Amount</u>	<u>%</u>	<u>Sewer Revenue</u> <u>Amount</u>	<u>%</u>
MillerCoors	Brewery	\$ 3,350,360	4.4%	\$ 1,947,137	4.0%
D.R. Diedrich & Co.	Leather tanning and finishing	880,823	1.2%	449,246	0.9%
Patrick Cudahy	Process meat products	754,097	1.0%	286,547	0.6%
Milwaukee Water Works	Water utility	568,587	0.7%	363,021	0.7%
Gehl Guernsey Farms Inc.	Food preparation	482,291	0.6%	332,837	0.7%
Wisconsin Paperboard	Paperboard mill	462,651	0.6%	156,911	0.3%
Chris Hansen/Maple	Food preparation	431,481	0.6%	223,747	0.5%
Malteurop North America	Malt manufacturing	424,995	0.6%		
Jonas Adv Waste Hi-Mar	Centralized Waste Treater	277,346	0.4%		
Milwaukee County DHHS	Health services	272,897	0.4%		
Campbell Soup Supply Company	Food preparation			310,663	0.6%
ADM Malting	a Malt manufacturing			479,988	1.0%
Cargil Meat Solutions	b Meat packing plants			350,733	0.7%
Subtotal (10 largest)		\$ 7,905,528	10.3%	\$ 4,900,830	10.0%
Balance from other customers		68,676,620	89.7%	44,331,063	90.0%
Grand Totals		\$ 76,582,148	100.0%	\$ 49,231,893	100.0%

a Consolidated to Malteurop North America

b Closed Milwaukee Operations



Property Tax Information

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<u>Year</u>	<u>Equalized Value of Taxable Property</u>	<u>Tax Levies</u>	<u>Tax Rate Per \$1,000 Equalized Value</u>
2016	\$ 56,188,121,100	\$ 98,380,000	\$ 1.75
2015	55,010,987,700	95,980,000	1.74
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

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, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	Fiscal Year			
	2016	2015	2014	2013
Equalized Value ⁽¹⁾	\$ 59,145,532,800	\$ 57,445,674,300	\$ 57,151,739,300	\$ 56,031,757,800
Debt Limit (5% of equalized value) ⁽²⁾	<u>\$ 2,957,276,640</u>	<u>\$ 2,872,283,715</u>	<u>\$ 2,857,586,965</u>	<u>\$ 2,801,587,890</u>
Outstanding Bonds Issued by the District	\$ 270,040,000	\$ 305,615,000	\$ 233,835,000	\$ 265,665,000
Clean Water Fund Program Loans	<u>611,184,396</u>	<u>654,385,332</u>	<u>689,893,418</u>	<u>704,591,497</u>
Total General Obligation Debt ⁽³⁾	<u>\$ 881,224,396</u>	<u>\$ 960,000,332</u>	<u>\$ 923,728,418</u>	<u>\$ 970,256,497</u>
Legal Debt Margin	<u>\$ 2,076,052,244</u>	<u>\$ 1,912,283,383</u>	<u>\$ 1,933,858,547</u>	<u>\$ 1,831,331,393</u>
Percentage of Bonded Debt to Equalized Value	1.49%	1.67%	1.62%	1.73%

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

(2) Per Wisconsin Statutes Section 67.03

(3) In accordance with GASB 44 the debt applicable to the limit may be offset only by amounts that the applicable law expressly allows. Wisconsin Statute 67.03 states that the aggregate indebtedness of the entity is subject to the debt limit.

Fiscal Year					
2012	2011	2010	2009	2008	2007
\$ 56,637,438,900	\$ 59,760,633,490	\$ 61,995,778,776	\$ 65,340,474,863	\$ 66,735,584,066	\$ 65,642,217,041
<u>\$ 2,831,871,945</u>	<u>\$ 2,988,031,675</u>	<u>\$ 3,099,788,939</u>	<u>\$ 3,267,023,743</u>	<u>\$ 3,336,779,203</u>	<u>\$ 3,282,110,852</u>
\$ 296,380,000 <u>712,633,839</u>	\$ 309,080,000 <u>661,199,044</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>
<u>\$ 1,009,013,839</u>	<u>\$ 970,279,044</u>	<u>\$ 983,785,024</u>	<u>\$ 892,725,569</u>	<u>\$ 906,720,697</u>	<u>\$ 768,559,326</u>
<u>\$ 1,822,858,106</u>	<u>\$ 2,017,752,631</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>
1.78%	1.62%	1.59%	1.37%	1.36%	1.17%



EXHIBIT B-13

Per Capita Debt, Personal Income and Unemployment Rate

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<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>
2016	\$ 881,224,396	927,947	Not Available	-	\$ 949.65	-	5.1%
2015	960,000,332	928,743	\$ 41,201,661	\$ 44,363	1,033.66	2.33%	5.8%
2014	923,728,418	928,689	39,697,233	42,745	994.66	2.33%	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%

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, 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<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	\$11,328,871	100.00%	\$ 11,328,871
Village of Brown Deer	\$20,579,654	100.00%	20,579,654
Village of Fox Point	\$10,525,618	100.00%	10,525,618
Village of Greendale	\$24,100,000	100.00%	24,100,000
Village of Hales Corners	\$6,457,617	100.00%	6,457,617
Village of River Hills	\$5,386,239	100.00%	5,386,239
Village of Shorewood	\$53,790,259	100.00%	53,790,259
Village of West Milwaukee	\$15,036,756	100.00%	15,036,756
Village of Whitefish Bay	\$63,973,848	100.00%	63,973,848
City of Cudahy	\$30,779,314	100.00%	30,779,314
City of Franklin	\$32,625,228	100.00%	32,625,228
City of Glendale	\$33,845,000	100.00%	33,845,000
City of Greenfield	\$77,045,000	100.00%	77,045,000
City of Milwaukee	\$924,538,203	100.00%	924,538,203
City of Oak Creek	\$97,330,000	100.00%	97,330,000
City of Saint Francis	\$11,315,714	100.00%	11,315,714
City of Wauwatosa	\$109,710,000	100.00%	109,710,000
City of West Allis	<u>72,539,052</u>	100.00%	<u>72,539,052</u>
Total Cities and Villages	\$ 1,600,906,373		\$ 1,600,906,373
School Districts:			
Brown Deer	\$ 24,370,994	100.00%	\$ 24,370,994
Cudahy	13,697,000	100.00%	13,697,000
Fox Point-Bayside	3,690,000	100.00%	3,690,000
Franklin	29,120,000	100.00%	29,120,000
Glendale-River Hills	3,227,169	100.00%	3,227,169
Greendale	23,705,000	100.00%	23,705,000
Greenfield	55,765,876	100.00%	55,765,876
Maple Dale-Indian Hill	3,457,938	100.00%	3,457,938
Milwaukee Area Technical College	104,295,000	78.52%	81,892,434
Milwaukee Public	87,504,542	100.00%	87,504,542
Nicolet High School	6,450,000	100.00%	6,450,000
Oak Creek-Franklin	95,215,000	100.00%	95,215,000
Shorewood	20,960,000	100.00%	20,960,000
Saint Francis	11,215,000	100.00%	11,215,000
Wauwatosa	-	-	-
West Allis-West Milwaukee	20,224,647	92.99%	18,806,899
Whitefish Bay	13,330,000	100.00%	13,330,000
Whitnall	<u>610,000</u>	100.00%	<u>610,000</u>
Total School Districts	\$ 516,838,166		\$ 493,017,852
Milwaukee County	\$ 648,079,858	98.03%	\$ 635,312,685
Total Overlapping Debt	<u>\$ 2,765,824,397</u>		<u>\$ 2,729,236,910</u>

Source: Milwaukee County Department of Administration, Wisconsin Department of Revenue.

EXHIBIT B-15

Ten Largest Taxpayers for Milwaukee County

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

<u>Name of Business</u>	<u>Type of Business</u>
MAYFAIR MALL LLC	SHOPPING MALL
NORTHWESTERN MUTUAL LIFE INSURANCE CO.	INSURANCE
BAYSHORE TOWN CENTER LLC	SHOPPING MALL
US BANK CORP	BANKING
MANDEL GROUP	REAL ESTATE
WAL-MART/SAM'S CLUB	RETAILER
SOUTHRIDGE MALL & PLAZA	SHOPPING MALL
METROPOLITAN ASSOCIATES	REAL ESTATE
JUNEAU VILLAGE/PROSPECT TOWER/KATZ PROPERTIES	REAL ESTATE
MARCUS CORP./MILW.CITY CENTER/PFISTER	HOTELS, THEATERS, CONVENTION CENTER
Harley-Davidson	Manufacturer of Motorcycles
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

2016		2007	
Equalized Valuation	Percentage of Total Equalized Valuation	Equalized Valuation	Percentage of Total Equalized Valuation
\$ 460,215,737	0.80%	\$ 293,129,657	0.45%
437,036,816	0.76%	287,143,953	0.45%
329,958,311	0.58%	307,466,125	0.48%
256,265,799	0.45%	282,363,879	0.44%
190,253,802	0.33%		
161,184,849	0.28%		
158,074,653	0.28%	126,253,239	0.20%
132,677,023	0.23%	150,332,160	0.23%
130,439,592	0.23%		
119,011,415	0.21%	138,360,208	0.21%
		123,662,500	0.19%
		116,900,444	0.18%
		110,634,952	0.17%
<u>\$2,375,117,997</u>	<u>4.15%</u>	<u>\$ 1,936,247,117</u>	<u>3.00%</u>



EXHIBIT B-16

Population by Municipality

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

Municipality	Fiscal Year										Percentage
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	Change 2007-2016
Bayside	4,365	4,376	4,376	4,380	4,380	4,383	4,300	4,170	4,172	4,181	4.4%
Brown Deer	12,305	12,217	12,157	12,086	12,065	12,001	11,999	11,720	11,705	11,715	5.0%
Cudahy	18,192	18,250	18,224	18,227	18,247	18,253	18,267	18,650	18,620	18,530	-1.8%
Fox Point	6,678	6,690	6,676	6,630	6,644	6,665	6,701	6,803	6,818	6,821	-2.1%
Franklin	35,741	35,655	35,702	35,810	35,520	35,504	35,451	33,700	33,550	33,380	7.1%
Glendale	12,724	12,753	12,773	12,845	12,808	12,833	12,872	12,980	12,990	12,970	-1.9%
Greendale	14,123	14,135	14,144	14,165	14,123	14,027	14,046	13,950	13,995	14,025	0.7%
Greenfield	36,404	36,473	36,687	36,770	36,740	36,672	36,720	36,300	36,270	36,140	0.7%
Hales Corners	7,652	7,670	7,678	7,691	7,683	7,685	7,692	7,646	7,646	7,640	0.2%
Milwaukee	594,667	595,787	595,993	596,500	595,425	595,525	594,833	584,000	590,870	590,190	0.8%
Oak Creek	35,206	34,791	34,707	34,695	34,530	34,495	34,451	32,600	32,470	32,410	8.6%
River Hills	1,577	1,581	1,584	1,587	1,591	1,593	1,597	1,634	1,641	1,621	-2.7%
St. Francis	9,458	9,475	9,465	9,462	9,452	9,448	9,365	8,936	8,952	8,877	6.6%
Shorewood	13,134	13,178	13,183	13,189	13,174	13,177	13,162	13,360	13,425	13,440	-2.3%
Wauwatosa	47,160	46,947	46,766	46,705	46,320	46,380	46,396	45,800	45,880	45,930	2.7%
West Allis	60,164	60,329	60,272	60,300	60,300	60,365	60,411	60,600	60,370	60,410	-0.4%
West Milwaukee	4,181	4,193	4,197	4,205	4,200	4,206	4,206	4,029	4,047	4,034	3.6%
Whitefish Bay	<u>14,216</u>	<u>14,243</u>	<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>	2.8%
Total District population	<u>927,947</u>	<u>928,743</u>	<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>	
Total population served by the District (2)	<u>1,075,208</u>	<u>1,074,811</u>	<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>	
2007 = 100%	101.6%	101.5%	101.5%	101.5%	101.3%	101.2%	99.4%	99.6%	100.3%	100.0%	
Total state population	<u>5,775,120</u>	<u>5,753,324</u>	<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>	
2007 = 100%	102.2%	101.9%	101.5%	101.2%	101.0%	100.8%	100.7%	100.7%	100.5%	100.0%	

(1) Includes all or parts of the following communities 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, 2007 AND 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

Employer	2016			2007		
	Employees	Percentage of Total	Rank	Employees	Percentage of Total	Rank
Aurora Health Care Inc.	25,696	5.65%	1	17,384	3.93%	1
Ascension Wisconsin	15,000	3.30%	2	12,000	2.71%	2
Froedtert Health	10,059	2.21%	3			
Kohl's Corp.	7,500	1.65%	4	6,700	1.51%	6
Quad/Graphics Inc.	7,500	1.65%	5	7,000	1.58%	4
GE Healthcare	6,000	1.32%	6	6,462	1.46%	7
The Medical College of Wisconsin Inc.	5,290	1.16%	7			
Northwestern Mutual	5,000	1.10%	8	5,000	1.13%	9
ProHealth Care	4,772	1.05%	9	5,000	1.13%	10
Children's Hospital and Health System	4,512	0.99%	10			
Roundy's Inc.				7,532	1.70%	3
Marshall & Ilsley Corp.				6,869	1.55%	5
Wisconsin Energy Corp.				5,177	1.17%	8
Total for Ten Largest	<u>91,329</u>	<u>20.10%</u>		<u>79,124</u>	<u>17.88%</u>	
Total Milwaukee County Employment	454,475	100.00%		442,497	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, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	Full-time Equivalent Employees as of December 31,				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Engineering/Inspection/Construction/Water Quality</u>					
Engineering	20	44	43	46	47
Planning	53	29	32	27	27
Contract Compliance	8	8	7	6	6
Lab/Monitoring	54	60	63	60	60
<u>Administration</u>					
Office of the Executive Director	2	5	5	5	5
Legal Services	6	6	6	7	7
Internal Services	<u>68</u>	<u>63</u>	<u>63</u>	<u>65</u>	<u>65</u>
Total Employees	<u>211</u>	<u>215</u>	<u>219</u>	<u>216</u>	<u>217</u>

Source:

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



Full-time Equivalent
Employees as of December 31,

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
49	52	54	49	58
27	28	24	25	26
7	6	6	6	6
68	68	70	69	70
6	5	9	8	8
7	8	8	8	7
<u>67</u>	<u>65</u>	<u>67</u>	<u>65</u>	<u>63</u>
<u>231</u>	<u>232</u>	<u>238</u>	<u>230</u>	<u>238</u>



EXHIBIT B-19

Operating and Capital Indicators

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 THROUGH 2016
MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

	Fiscal Year			
	2016	2015	2014	2013
Wastewater Treatment				
Miles of Sewers	360	362	362	347
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)	68,200	67,100	68,300	73,900
Percentage of Wastewater Captured	99.8%	98.9%	99.5%	98.5%
Percentage of Treatment Capacity Utilized	56.47%	55.71%	56.70%	61.30%
Number of Inline Storage System Events	46	47	47	42
Number of Overflows	2*	2*	3*	2
Greenseams Acres Acquired to Date	3,433	3,183	3,058	2,682
Household Hazardous Waste (lbs collected) ¹	1,155,611	832,357	909,919	866,609
Milorganite® Production (tons)	40,274	43,816	45,408	47,954
Milorganite® Tons Sold	43,728	43,284	45,498	47,672
Average selling price per ton shipped	\$220.22	\$ 198.52	\$ 178.57	\$ 164.15

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.

*Revised



Fiscal Year					
<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
356	356	321	321	310	310
2	2	2	2	2	2
600	600	600	600	600	600
521	521	521	494	494	494
60,100	74,100	71,300	72,200	77,600	67,400
99.9%	99.5%	96.2%	98.3%	95.1%	99.2%
49.90%	61.50%	59.20%	59.90%	64.40%	56.00%
47	51	40	37	42	44
1	1	8	6	5	6
2,500	2,348	2,254	2,034	1,848	1,621
977,176	965,804	992,266	1,095,425	998,113	1,306,475
45,203	49,376	48,817	45,338	40,786	27,693
41,378	36,073	36,685	39,277	35,792	32,722
\$ 185.89	\$ 196.49	\$ 192.71	\$ 189.61	\$ 181.75	\$ 150.24

MMSD's Mission

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



JONES ISLAND WATER RECLAMATION FACILITY

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COMMUNITY OUTREACH





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