

2003

Comprehensive Annual Financial Report

For the Year Ended December 31, 2003

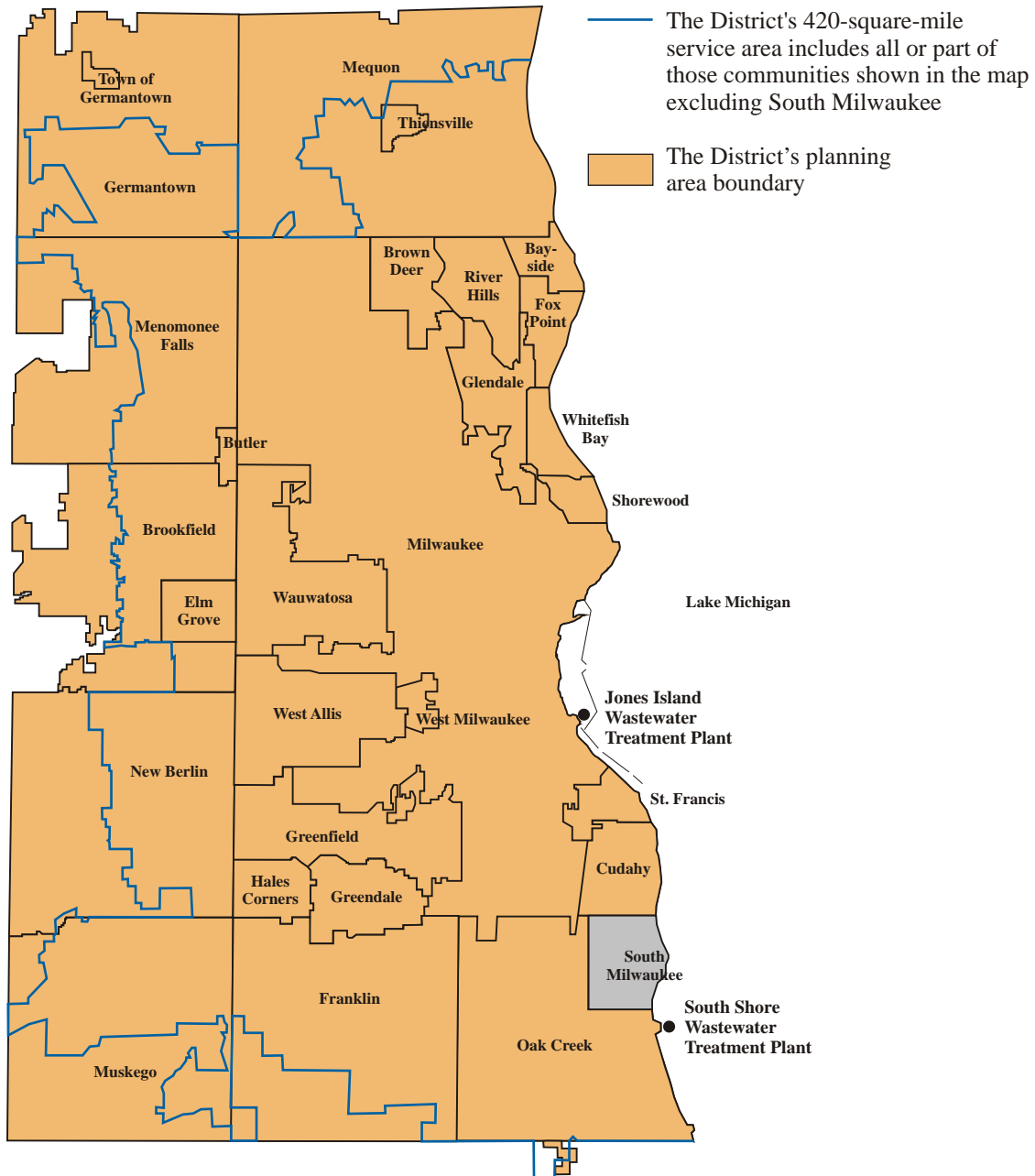


*Milwaukee Metropolitan Sewerage District
Milwaukee, Wisconsin*



Preserving The Environment •
Improving Water Quality

Milwaukee Metropolitan Sewerage District



2003 Comprehensive Annual Financial Report

For the year ended December 31, 2003



Estabrook Aqueduct



Date of Incorporation

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

Finance and Administrative Staff

Mark Kaminski,
CPA, Acting Controller/Treasurer

Steven Kreklow,
Manager, Budget and Financial Planning

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Introductory Section

Commission Organization Chart

MMSD Commissioners

Dennis Grzezinski, Chair
Timothy Seider, Vice Chair

Jeannette Bell	Michael S. D'Amato
Robert C. Brunner	Fredrick G. Gordon
Bill Christofferson	Candice Owley
Spencer Coggs	Dale J. Richards
Preston D. Cole	

Policy, Finance and Personnel Committee

Candice Owley, Chair
Bill Christofferson, Vice Chair
Robert C. Brunner
Spencer Coggs
Timothy Seider
Dennis Grzezinski, Ex-Officio

Operations Committee

Jeannette Bell, Chair
Preston D. Cole, Vice Chair
Michael S. D'Amato
Fredrick G. Gordon
Dale J. Richards
Dennis Grzezinski, Ex-Officio

Executive Director

Kevin L. Shafer, P.E.

Director Office of the Commission

Fran Ashley-Jordan

Commissioners of the Milwaukee Metropolitan Sewerage District



Dennis Grzezinski
Commission Chair
Law Office of
Dennis M. Grzezinski



Timothy Seider
Commission Vice Chair
Mayor
City of Greenfield

Jeannette Bell
Mayor
City of West Allis

Robert C. Brunner
Village President
Village of River Hills

Bill Christofferson
Consultant

Spencer Coggs
State Senator

Preston D. Cole
Environmental Services
Superintendent
City of Milwaukee

Michael S. D'Amato
3rd District Alderman
City of Milwaukee

Fredrick G. Gordon
7th District Alderman
City of Milwaukee

Candice Owley
President
Federation of Nurses
and Health Professionals,
Local 5001

Dale J. Richards
Former Mayor
City of Oak Creek

District Staff

Kevin L. Shafer, P.E.
Executive Director

Fran Ashley-Jordan
Director of the
Office of the Commission

Michael J. McCabe
Director of Legal Services

Michael Martin
Director of Technical Services

Principal Advisors

KPMG LLP
Independent Auditors

Foley & Lardner
Bond Counsel

Message from the Chairman

It is with great pride that I can say for the first time, “We had zero rain related overflows for an entire year.” The Milwaukee Metropolitan Sewerage District (MMSD) made history in 2003 by accomplishing that goal, a true watershed that took years of hard work, planning and some help from Mother Nature. The Milwaukee area did experience a dry year in 2003, but we've had dry years before and overflows occurred.

One dry weather overflow of 90,000 gallons occurred in 2003, the result of a contractor's error, which should have never happened. Every other drop of rain and wastewater that got into our system was treated to high standards and returned to Lake Michigan. In fact, we have not had a single violation of our effluent pollution limits at either of our treatment plants for more than six years now. MMSD cleaned 62.4 billion gallons of wastewater in 2003, enough to fill the inside of Miller Park, floor to ceiling, 135 times.



Dennis Grzezinski
Milwaukee
Metropolitan Sewerage
District Chairman

I am just as proud of our strong financial management. Thanks to efforts made in 2003, our residential customers will continue to receive wastewater treatment and flood management services for less than one dollar a day in 2004. MMSD Commissioners, despite skyrocketing healthcare costs, passed an overall 2004 budget that will cost taxpayers the same amount of money that they paid in 2003, an economically responsible move that fully funds our ongoing overflow reduction plan. The District did take action to curb healthcare costs by initiating several changes that will help save money.

On the same theme of cost effectiveness, a 2003 report conducted by MMSD, the Milwaukee Metropolitan Association of Commerce and the City of Milwaukee Department of Public Works shows that the Milwaukee area is one of the most affordable metropolitan areas in the United States for water and wastewater treatment combined. Our region stands to gain from this economic news, particularly since many other cities around the country face dramatic increases in sewer charges as they begin dealing with the daunting task of reducing their sewage overflows as we have done already at MMSD.

Our rates include flood management projects that

help protect life and property from the 100-year flood. We're conserving land at an aggressive pace to guard our customers against future flooding. There are numerous cases we can point to in our region where, years ago, homes and business were constructed on safe land, but those homes are now in a flood plain due to upstream development. In 2003, the District purchased a total of 261 acres of land to offset the effects of development on downstream neighbors. Known as the Conservation Plan, the District has purchased a total of 373 acres since 2001. MMSD has earmarked \$15 million dollars for this effort over a 10-year period.

Major work is also underway on improving our treatment plants and upgrading the District's sewer system. Also, we're adding over 25 percent more storage capacity to the Deep Tunnel system so that, when it rains and the treatment plants are at maximum capacity, we have capacity to safely store the wastewater that would otherwise spill into local rivers and Lake Michigan.

Finally, critical work is underway on a blueprint for the future of water quality in the Milwaukee area. MMSD is in a long-range planning mode to identify what needs to be done to accommodate growth and to protect water quality in a cost effective manner through the year 2020. We're calling it the Water Quality Initiative and are working closely on the project with the Southeastern Wisconsin Regional Planning Commission and the Wisconsin Department of Natural Resources.

The effort places a strong emphasis on public involvement, science-based decision-making and watersheds. When rain falls, it does not obey county or city limit signs. Water reacts to nature's boundaries that funnel runoff from rain and melting snow to the nearest river or lake within a watershed. The Water Quality Initiative will identify multiple sources of pollution in watersheds and examine where and how it makes the most sense to spend money on fixing problems.

In a paradigm shift in planning, we'll focus on how to improve water quality, not just how much wastewater is conveyed, stored and treated. The study area includes the watersheds and the water resources within them, not just the traditional municipal boundaries within MMSD's service area and the sewer pipes needed to serve them.

It's an exciting time at the District. We have a lot of hard work ahead planning and building ways to protect and improve water quality. But, we also have a tremendous challenge to educate the public on all of the threats to clean water. After all, every drop counts.

Highlights

Future flooding risks reduced by preserving the past

MMSD made significant strides in its efforts to prevent damaging floods without the use of concrete and engineered solutions. The District is working hard to preserve undeveloped land through the Conservation Plan, an innovative non-structural flood management program that permanently protects key land that has sponge-like water absorbing soils.

The Conservation Plan identifies privately owned properties in areas that are expected to have major growth in the next 20 years. Sales are voluntary. All of the land acquired will remain open space, providing water quality benefits and the ability to naturally store rain and melting snow in critical areas. Wetlands maintenance and restoration at these sites will provide water storage. Preserving the properties also saves wildlife habitat and creates recreational opportunities for people living in the region.

One of the great benefits of the Conservation Plan is the formation of key partnerships throughout the Milwaukee region. Each property acquired will be owned and managed by a local community or land trust and subject to a conservation easement held by MMSD. This will ensure that the land remains open space in perpetuity.

MMSD hired The Conservation Fund (TCF) to run the Conservation Plan. TCF is a national non-profit conservation organization that forges partnerships to protect America's legacy of land and water resources. TCF performs high volume real estate transactions for local land trusts and government agencies throughout the country.



Highlights



2003 Effluent Quality At South Shore Wastewater Treatment Plant

	<u>BOD</u> <u>mg/L</u>	<u>TSS</u> <u>mg/L</u>	<u>TP</u> <u>mg/L</u>	<u>Fecal</u> <u>Coliform</u> <u>Number/</u> <u>100 mL</u>
Average Effluent Quality	8.6	5.5	0.63	32
Maximum Monthly	14	3.4	0.84	59
Minimum Monthly	4.0	0.5	0.50	10
Monthly Contract Standard	15	15	1	100
Monthly DNR Permit Limit	30	30	1	400

2003 Effluent Quality At Jones Island Wastewater Treatment Plant

	<u>BOD</u> <u>mg/L</u>	<u>TSS</u> <u>mg/L</u>	<u>TP</u> <u>mg/L</u>	<u>Fecal</u> <u>Coliform</u> <u>Number/</u> <u>100 mL</u>
Average Effluent Quality	9.4	6.8	0.36	44
Maximum Monthly	12	10	0.41	56
Minimum Monthly	6.6	3.8	0.31	24
Monthly Contract Standard	15	15	0.5	100
Monthly DNR Permit Limit	30	30	1	400



Treatment plants qualify for excellence awards in 2003

The Jones Island Wastewater Treatment Plant and South Shore Wastewater Treatment Plant both qualified for “Gold” Peak Performance Awards in 2003 from the Association of Metropolitan Sewerage Agencies (AMSA).

To receive “Gold” performance awards, a treatment plant must go an entire year without having a single violation of its discharge permit. After five consecutive years of “Gold” awards, a treatment plant

is eligible for a “Platinum” award. Both of MMSD's treatment plants have received either “Gold” or “Platinum” awards for seven consecutive years.

United Water Services Inc., a private firm hired to operate and maintain MMSD's treatment plants and sewer system, received a bonus of \$100,000 in 2003 for accomplishing contract bonus limits for biochemical oxygen demand (BOD) and total suspended solids (TSS).

MMSD holds United Water to discharge limits that are twice as stringent as the District's discharge permit with the State of Wisconsin.



March 26, 2004

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, 2003.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in the report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive 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.

KPMG 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 year ended December 31, 2003, 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.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended December 31, 2003, 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 and small areas in the City of Franklin and the City of Oak Creek that are not likely to receive sewer service from the District within 10 years. 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.

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. The District's total service area encompasses 420-square miles.

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 District encompasses the diversified economic structure of the metropolitan Milwaukee area with strong manufacturing and service sectors. Metropolitan Milwaukee is well known for having a highly skilled, hard working labor force.

The Milwaukee metropolitan area, as stated above, has a reputation as a major manufacturing center, particularly as a world leader in capital equipment production. Many nationally known companies are located in the District. These companies participate in some of today's most dynamic markets including small engines, energy management, and medical imaging equipment.

Metropolitan Milwaukee is one of the world's leaders in manufacturing industrial controls, x-ray apparatus, mining machinery, hoists, industrial cranes and monorails as well as speed changers, drives and gears. Printing, publishing, advertising, graphic arts and meat processing and paper products are the leading service and soft goods industries.

The District is also Wisconsin's cultural, commercial and financial center reflected in the large service-related sector of the economy. Milwaukee has become one of the nation's leading centers for transaction processing. Large service firms employing thousands of Milwaukee area residents are headquartered in the District.

The stability of the District's business and residential area has long been strengthened by financial resources

provided through some of the largest banks in the Midwest. There are numerous savings and loan associations, credit unions, investment banks and other financial establishments in the District service area.

Long-term Financial Planning

The District maintains six-year financing plans for its Operation and Maintenance (O&M) and Capital budgets. A key long-term financing objective for the O&M budget has been to maintain stable user charge billings through 2002 and limit increases thereafter to the rate of inflation. 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 efficiency of operation. The 2004 operating budget includes the following initiatives to improve overall organizational effectiveness and achieve long-term cost savings:

- Implement changes in health care plan design for active and retired employees.
- Enhance electronic communications capacity through the creation of positions to maintain and improve the District's web sites and software and hardware infrastructure.
- Integrate strategic planning, quality improvement, performance appraisal, and employee development and compensation systems to make them more effective tools for improving service delivery.

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:

- A stable tax rate of \$1.70 per \$1,000 of equalized property value, after a one-time rate decrease in 2004 to \$1.59.
- 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 \$828 million in capital project expenditures from 2004 through 2009, primarily for improvements to treatment plants, conveyance facilities, watercourse improvements and facilities planning. By 2006 the District expects to provide environmentally responsible flood protection to 95% of the structures identified by the Watercourse System Management Plan as located in the regional floodplain, and prevent new exposure from occurring due to development in the planning area. The six-year capital improvements program furthers the District's commitment to eliminate sanitary sewer overflows consistent with state and federal policies; by 2007 the completed 2020 Facilities Plan is expected to establish design standards and operational practices pertinent to the elimination of sanitary sewer overflows.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. government, its agencies and instrumentalities, short-term, rated (A2, P2, F2 or higher) commercial paper, and the state government pooled fund. The District's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. At no time during the year did the District leverage its portfolio.

At December 31, 2003, of the District's investments, 29.8% were invested in obligations of the U.S. government, its agencies and instrumentalities, 23.6% were invested in the fully insured state government pooled investment fund and 45.5% of the investments were in commercial paper. 72.8% of all District funds invested had a maturity of less than 180 days at December 31, 2003. The average yield on District investments during 2003 was 1.88%.

Risk Management

The District's risk management program policy sets the objectives of the risk management program as follows:

- Maintain a safe environment for employees and the public affected by District operations.
- Further the District policy that the party who best controls the risk shall be responsible for the risk.
- Protect the District against financial devastation caused by catastrophic losses.
- Minimize the total cost of risk.

The District's policy is to retain financial responsibility for risk of loss that does not present catastrophic loss potential unless other factors, including lack of adequate premium savings and the need for insurer-provided risk services, make a purchase of insurance desirable. The District retains all risk involving comprehensive general liability claims.

The District maintains an Owner Controlled Insurance Program (OCIP) that covers workers' compensation, primary general liability insurance, excess liability insurance, and builder's risk insurance coverage for capital construction projects. In 2002 the District expanded the OCIP to include environmental and professional liability coverage for its capital improvement program.

Pension and Other Postretirement Benefits

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

provides retirement, disability, and death benefits to plan members and beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the City. 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.

The District provides postretirement health and life insurance to employees in accordance with union contracts and Commission Policy. The District adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This standard requires that the expected cost of postretirement health and life insurance benefits be charged to expense during the years the employees render service.

Additional information on the District's pension arrangements and postretirement benefits can be found in Notes 10 and 11 to the financial statements.

Operating Contract

On January 5, 1998, the District signed a 10-year agreement with United Water Services Milwaukee LLC (UWS) for the operation of the District's two wastewater treatment plants, biosolids management and field operations. The agreement is expected to save the District's ratepayers more than \$140 million over the term of the contract. UWS agreed to meet the requirements of the contract to maintain the District's excellent Wisconsin Pollution Discharge Elimination System permit compliance record, District facilities, and the District's commitment to clean water in the Milwaukee area. At the end of the first five years of the 10-year agreement, the District has calculated that it has saved over \$3.9 million more than was originally projected at the five-year point of the contract.

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 UWS 10-year agreement.

AWARDS AND ACKNOWLEDGEMENTS

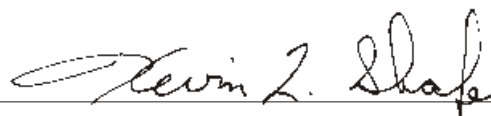
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2002. This was the 25th consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the

District published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

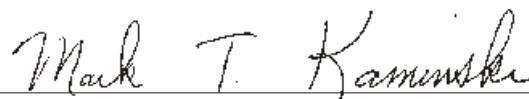
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated January, 2003. In order to qualify for the distinguished Budget Presentation Award, the District's budget document was judged to be proficient in several categories. These categories include presentation as a policy document, financial plan, operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Accounting Department. Staff diligently and faithfully contributed to the continued improvement of the District's accounting function and preparation of this report. Their professional expertise, experience and judgment have been invaluable to us and to the overall efficiency of the District. We would like to thank the members of the Communications and Graphics staffs, for without their efficient and dedicated services, the preparation of this report could not have been accomplished on a timely basis. We would also like to thank the Commission for providing the policy direction that allows us to pursue sound financial management practices.



Kevin L. Shafer, P.E.
Executive Director



Mark T. Kaminski, CPA
Acting Controller/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, 2002. This is the 25th 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.

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, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Edward J. Haney
President

Jeffrey R. Emen
Executive Director



South Branch Creek

Financial Section



777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

Policy, Finance, and Personnel Committee
Milwaukee Metropolitan Sewerage District:

We have audited the accompanying basic financial statements of the Milwaukee Metropolitan Sewerage District (the District) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2004, on our consideration of the Milwaukee Metropolitan Sewerage District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 17 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

March 26, 2004



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

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 year ended December 31, 2003. 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 10-13 of this report.

FINANCIAL HIGHLIGHTS

- The District's net assets of \$2.3 billion remained consistent over the course of this year's operation, increasing by \$18.9 million or 0.8%.
- The District's unrestricted net assets show a deficit of \$22.3 million. The District has elected to fund its liability related to postretirement benefits other than pensions (health and life insurance) as it comes due rather than when it is incurred. This has resulted in the District recording a \$52.3 million liability related to these benefits which has reduced its unrestricted net asset amount. At December 31, 2003, the current year portion of this liability was \$4.0 million.
- During 2003, the District received \$69 million in loan proceeds from the State of Wisconsin Clean Water Fund Loan Program. In February 2003, \$69 million in general obligation bonds were issued to fund future expenditures on various capital projects. In December 2003, the District issued \$38.1 million of refunding bonds as a partial refunding of the District's Series 2001 A, General Obligation Sewerage System Bonds. The issuance of this new debt, along with other general obligation debt, brings the District's outstanding debt at December 31, 2003, to \$660 million. This is an increase of \$108.7 million over the balance at December 31, 2002. The District's debt limit rate increased to 1.46% as compared to the District's statutory limit of 5%.
- Investment income declined by \$1 million or 19.7% in 2003. The decrease was the result of the Federal Reserve maintaining low short-term interest rates throughout 2003 with the federal funds rate declining to 1.0% by year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$2,331,263,000 at the close of the most recent fiscal year.

As can be seen in Table A-1 below, the largest portion of the District's net assets (95.2 % at December 31, 2003) 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 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.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>Percentage Increase (Decrease) 2003 Versus 2002</u>
Current and Other Assets	\$312,562	\$250,804	\$283,877	24.6%
Capital Assets	<u>2,870,177</u>	<u>2,806,247</u>	<u>2,714,867</u>	2.3
Total Assets	<u>3,182,739</u>	<u>3,057,051</u>	<u>2,998,744</u>	4.1
Long-Term Liabilities Outstanding	692,638	577,275	550,606	20.0
Other Liabilities	<u>158,838</u>	<u>167,371</u>	<u>146,658</u>	(5.1)
Total Liabilities	<u>851,476</u>	<u>744,646</u>	<u>697,264</u>	14.3
Invested in Capital Assets, Net of Related Debt	2,218,210	2,243,756	2,230,665	(1.1)
-Restricted	135,374	88,994	86,845	52.1
-Unrestricted	<u>(22,321)</u>	<u>(20,345)</u>	<u>(16,030)</u>	9.7
Total Net Assets	<u>\$2,331,263</u>	<u>\$2,312,405</u>	<u>\$2,301,480</u>	0.8%

A portion of the District's net assets (5.8%) represents resources that are subject to external restrictions on how they may be used. As noted previously under "Financial Highlights", the District shows a \$22.3 million deficit in unrestricted net assets at December 31, 2003 and \$20.3 million deficit at December 31, 2002. These deficits do not mean that the District does not have the resources available to pay its operating bills in the following year. Rather, it is the result of the District electing to fund its long-term liability related to postretirement benefits other than pensions (health and life insurance) as it comes due rather than when it is incurred. The total long-term liability related to this benefit was \$48.3 million at December 31, 2003 and \$44.6 million at December 31, 2002.

As can be seen from Table A-1, net assets increased by \$18.9 million in 2003 after increasing \$10.9 million in 2002. The increase in net assets for 2003 and 2002 is

directly related to the District's implementation of its six-year capital improvements program plan. The increase in current and other assets at December 31, 2003 is primarily the result of less than anticipated capital disbursements in 2003, causing the District to have a higher amount of investments at December 31. This compares with a decrease in current and other assets at December 31, 2002, shown above in Table A-1, which resulted from the District disbursing the remaining proceeds from its 2001 issuance of \$96 million in general obligation debt.

While the Summary of Net Assets (Table A-1) shows the change in our financial position the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table A-2, for the fiscal year ended 2003, total revenues increased, \$13.1 million or 9.8% and expenses increased by \$580 thousand or 0.5%.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>	Percentage Increase (Decrease) 2003 Versus 2002
Operating Revenues:				
Sewer User Charges	\$45,090	\$43,425	\$43,370	3.8%
Fertilizer	5,902	5,325	5,754	10.8
Other	298	205	373	45.4
Total Operating Revenues	51,290	48,955	49,497	4.8
Nonoperating Revenues	95,248	84,450	69,286	12.8
Total Revenues	<u>146,538</u>	<u>133,405</u>	<u>118,783</u>	9.8
Operating Expenses:				
Systems - Operation and Maintenance	36,889	38,111	37,401	(3.2)
Laboratory and Research Services	1,997	1,934	2,377	3.3
Industrial Waste and Conveyance Monitoring	2,968	2,827	2,962	5.0
Finance, Engineering and Administration	14,636	13,660	13,921	7.1
Depreciation	<u>61,207</u>	<u>58,841</u>	<u>57,858</u>	4.0
Total Operating Expenses	117,697	115,373	114,519	2.0
Nonoperating Expense	<u>10,130</u>	<u>11,874</u>	<u>10,317</u>	(14.7)
Total Expenses	<u>127,827</u>	<u>127,247</u>	<u>124,836</u>	0.5
Income (Loss) Before Capital Contributions	18,711	(6,158)	(6,053)	203.8
Capital Contributions	147	4,767	1,742	(96.9)
Changes in Net Assets	18,858	10,925	(4,311)	
Beginning Net Assets	2,312,405	2,301,480	2,305,791	
Ending Net Assets	<u>\$2,331,263</u>	<u>\$2,312,405</u>	<u>\$2,301,480</u>	

The major factors, which drove these results, include:

- The increase in total operating revenues was due to a stronger economy in 2003. Although sewer user charge billings had a budgeted 2% increase, greater than expected wasteloads resulted in a 3.8% increase over 2002 sewer user charges. The District's Milorganite revenue ended three consecutive years of declining revenue. Increased competition continues to exert pressure on future Milorganite revenue. Staff continues to work on implementing short-term improvement measures and developing long-term strategies that will provide more attractive opportunities for improving and stabilizing Milorganite revenue.
- Nonoperating revenues increased \$10.8 million or 12.8%. Capital charges to communities outside the District increased by \$8.6 million in 2003 due to lower credits related to watercourse expenditures. Capital charges related to watercourse improvement projects can only be collected from communities outside the District, which are tributary to the watercourse being improved. In 2002 watercourse expenditures decreased by \$22.7 million from the prior year. In addition, the tax levy billed to member communities increased in 2003 by \$4.2 million as the result of a 6.1% increase in the equalized valuation of member communities, while the tax rate remained unchanged.
- The decrease in nonoperating expenses in 2003 reflects a greater amount of interest expense being capitalized to construction projects.

The decrease in capital contributions in 2003 is due to the fact that future capital projects that have received grant awards have yet to enter the construction phase of the project. Capital contributions will be recognized as soon as eligible construction expenditures are incurred.

For the fiscal year ended 2002, total revenues increased \$14.6 million and expenses increased by \$2.4 million. The major factors, which drove these results, include:

- Total operating revenues for 2002 remained relatively stable in a weak economy. The District's Milorganite revenue declined for the third straight year as increased competition continued to exert pressure on Milorganite revenue.
- Nonoperating revenues increased \$15.2 million or 21.9%. Capital charges to communities outside the District increased by \$8.5 million in 2002 due to lower credits related to watercourse expenditures. Capital charges related to watercourse improvement projects can only be collected from communities outside the District, which are tributary to the watercourse being improved. In 2002 watercourse expenditures decreased by \$22.8 million from the prior year. In addition, the tax levy billed to member communities increased in 2002 by \$5.6 million as the result of a 9.1% increase in the equalized valuation of member communities, while the tax rate remained unchanged.

- The increase in nonoperating expenses in 2002 reflects a full year of interest expense on the \$96 million general obligation bonds issued in September of 2001.

The increase in capital contributions is the result of a \$5.9 million grant awarded to the District by the EPA in the fall of 2001, related to the Central Metropolitan Interceptor Sewer Project. During 2002, the District earned \$4.1 million of the grant award.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2003, the District's investment in capital assets amounted to \$2.9 billion (net of accumulated depreciation) as shown in Table A-3 below. The \$48.9 million increase in machinery and equipment for 2003 was primarily the result of equipment additions for preliminary treatment, clarifiers and aeration at South Shore and instrumentation and control capital improvements at both wastewater treatment plants. The \$38 million increase in intercepting sewers was primarily the result of the completing nine Central Metropolitan Interceptor Sewer project segments during 2003. Finally, the \$36.7 million increase in watercourse improvements was primarily due to completion of flood control projects in the Milwaukee River and Root River watersheds.

District capital expenditures are expected to increase in 2004, due primarily to continued implementation of its 2010 Facilities Plan, the District's Watercourse System Management Plan, and the Central Metropolitan Sewer

Project. Under the District's current six-year capital expenditure forecast, project expenditures peak in 2004 at \$208 million with expenditures totaling \$828 million over the six-year period, 2004 through 2009. Actual project expenditures totaled \$117 million and \$134 million in 2003 and 2002 respectively.

During 2002, the \$43.6 million increase in watercourse improvements was primarily due to the final completion of portions of the Lincoln Creek Environmental Restoration and Flood Control Project. The \$23.5 million increase in Machinery and Equipment for 2002 was primarily the result of capital improvements made to the District's grit handling system at its South Shore Plant. Finally, the \$11.3 million increase in intercepting sewers was the result of the completion of five interceptor sewer projects during 2002, ranging in cost from \$0.5 million to \$4.5 million.

More detailed information about the District's capital assets is presented in Note 7 to the financial statements.

Debt Administration

General obligation indebtedness outstanding at December 31, 2003 amounted to \$660 million. Included in this amount are \$316.6 million of general obligation bonds issued by the District.

The remaining balance of \$343.5 million represents funds received by the District through the State of Wisconsin Clean Water Fund Loan Program, which provides low interest loans for use in the construction of wastewater treatment facilities. Interest on these loans is payable semi-annually with interest rates ranging from 2.5% to 4.953%.

Table A-3
Capital Assets (000's)

	2003	2002	2001	Percentage Increase (Decrease) 2003 Versus 2002
Land & Land Improvements	\$49,398	\$47,794	\$47,040	3.4%
Buildings	792,357	792,827	792,301	(0.1)
Machinery & Equipment	589,686	540,789	517,296	9.0
Aeration and Clarifier Tanks	62,692	62,692	62,692	0.0
Watercourse Improvements	162,900	126,192	82,639	29.1
Intercepting Sewer System	1,642,059	1,604,082	1,592,810	2.4
Construction in Progress	307,580	307,871	238,089	(0.1)
Subtotal	3,606,672	3,482,247	3,332,867	3.6
Less: Accumulated Depreciation	(736,495)	(676,000)	(618,000)	8.9
Net Property, Plant and Equipment	<u>\$2,870,177</u>	<u>\$2,806,247</u>	<u>\$2,714,867</u>	2.3%

During 2003 the District issued \$69 million in general obligation bonds, 20-year level debt service, dated February 1, 2003, with a true interest rate of 4.267%.

On December 15, 2003, the District issued \$38.1 million in general obligation refunding bonds, 20-year level debt service, with a true interest rate of 4.042%. 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 all future debt service payments on \$38.1 million of General Obligation Sewerage System Bonds, Series 2001 at December 31, 2003, \$51.9 million remains outstanding on the 2001 Series A bonds.

The District's bonds continue to have the same ratings as they have carried since 1997. These ratings are as follows:

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

Additional information on the District's long-term debt can be found in Note 8 to the financial statements and Exhibits B9 to B12 in the statistical section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The average unemployment rate for Milwaukee County was 7.1 percent for 2003, which is a slight increase from a rate of 7.0 percent a year ago. This compares to the state's unemployment rate of 5.6 percent and the national rate of 6.0 percent.
- Inflation in the metropolitan area continues to be lower than the national consumer price index.
 - ◆ Milwaukee's inflation rate was 2.1% for 2003.
 - ◆ The average U.S. city rate was 2.3% for 2003.
- The equalized valuation for the District's service area increased by 6.2 percent in 2003, while 2003 user charge wasteloads changed as follows:
 - ◆ Billable flows down 1.2%.
 - ◆ Pounds of Biochemical Oxygen Demand (BOD) down 1.7%.
 - ◆ Pounds of Total Suspended Solids (TSS) down 0.7%.

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

The District approved a \$58.2 million 2004 Operation and Maintenance Budget, an increase of \$0.8 million or 1.3% from 2003. The District's user charge billings are budgeted to increase 0.7% in 2004 to about \$45.1 million. The average 2004 District residential charge is \$73.57. Prior to the 1998 agreement with United Water Services Milwaukee LLC for the operation of the District's two wastewater treatment plants, biosolids management and field operations, the average annual District residential charge was about \$85. The District's six-year forecast projects user charges billings to increase after 2004 at the rate of inflation.

The District's Commission approved a 2004 Capital Budget that reduced the tax rate to \$1.59 per \$1,000 of equalized value. Included in the Capital Budget was a six-year financing plan that projected an increase in the tax rate to \$1.70 per \$1,000 of equalized value beginning in 2005 and remaining at that rate through 2009.

As mentioned earlier, the current six-year financing plan anticipates peak capital project expenditures in 2004 as a result of continued implementation of the 2010 Facilities Plan, Central Metropolitan Interceptor Sewer Improvements and construction expenses related to major watercourse projects on the Menomonee River watershed. The planning process continues in 2004 for the 2020 Facilities Plan. This represents the first step in a multi-year planning effort to determine District capital improvement needs through the year 2020.

REQUESTS FOR INFORMATION

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

Exhibit A1

Statements of Net Assets

For the Years Ended December 31, 2003 and 2002
Milwaukee Metropolitan Sewerage District

	2003	2002
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$10,982	\$7,988
Investments (note 4)	12,434	12,131
Receivables:		
Billed sewer user charges	4,244	4,131
Unbilled sewer user charges	6,989	7,206
Fertilizer sales	1,339	1,346
Other	436	772
Inventories:		
Operating and maintenance supplies (note 5)	2,204	2,033
Fertilizer	1,352	1,117
Total current assets	39,980	36,724
Restricted assets:		
Cash and cash equivalents (note 3)	9,967	19,977
Investments (note 4)	167,866	105,212
Receivables:		
Tax levy	71,530	71,946
Capital charges – municipalities outside the District	18,312	9,882
Grant funds (note 6)	–	1,082
Other	1,320	3,060
Prepaid expenses	3,587	2,921
Total restricted assets	272,582	214,080
Capital assets, at cost (note 7):		
Land	29,860	28,256
Land improvements	19,538	19,538
Buildings	792,357	792,827
Aeration and clarifier tanks	62,692	62,692
Machinery and equipment	589,686	540,789
Intercepting sewer system	1,642,059	1,604,082
Watercourse improvement	162,900	126,192
Construction in progress	307,580	307,871
	3,606,672	3,482,247
Less accumulated depreciation	(736,495)	(676,000)
Net capital assets	2,870,177	2,806,247
Total assets	\$3,182,739	\$3,057,051



	2003	2002
	<i>(In Thousands)</i>	
Liabilities		
Current liabilities (payable from current assets):		
Accounts payable	\$8,286	\$6,597
Accrued salaries and wages	90	595
Postretirement benefits (notes 8 and 11)	4,021	3,850
Accrued vacation pay	1,015	955
Other	446	468
	<hr/>	
Total current liabilities (payable from current assets)	13,858	12,465
	<hr/>	
Current liabilities (payable from restricted assets):		
Accounts payable	14,549	29,677
Retainers payable	1,651	3,490
Accrued interest	5,240	4,665
Deferred revenues	89,274	88,442
Long-term obligations due within one year (note 8)	34,437	28,632
	<hr/>	
Total current liabilities (payable from restricted assets)	145,151	154,906
	<hr/>	
Total current liabilities payable from current and restricted assets	159,009	167,371
	<hr/>	
Noncurrent liabilities:		
Retainers payable (note 2)	6,464	2,395
Long-term obligations (note 8):		
General obligations bonds	313,084	253,955
Clean Water Fund loans	323,404	275,239
Postretirement benefits – long term (notes 8 and 12)	48,310	44,586
Accrued vested sick pay (note 8)	1,205	1,100
	<hr/>	
Total noncurrent liabilities	692,467	577,275
	<hr/>	
Total liabilities	851,476	744,646
	<hr/>	
Commitments and contingencies (notes 7, 9, and 10)		
Net Assets		
Invested in capital assets, net of related debt	2,218,210	2,243,756
Restricted - Capital projects	86,185	44,793
Restricted - Equipment replacement	39,951	43,000
Restricted - Debt service	9,238	1,201
Unrestricted	(22,321)	(20,345)
	<hr/>	
Total net assets	\$2,331,263	\$2,312,405
	<hr/> <hr/>	

See accompanying notes to financial statements.

Exhibit A2

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended December 31, 2003 and 2002
Milwaukee Metropolitan Sewerage District

	2003	2002
	<i>(In Thousands)</i>	
Operating revenues:		
Sewer user charges	\$45,090	\$43,425
Fertilizer	5,902	5,325
Other	298	205
Total operating revenues	51,290	48,955
Operating expenses:		
Systems - operation and maintenance (note 5)	36,889	38,111
Laboratory and research services	1,997	1,934
Industrial waste and conveyance monitoring	2,968	2,827
Finance, engineering and administration	14,636	13,660
Depreciation	61,207	58,841
Total operating expenses	117,697	115,373
Operating loss	(66,407)	(66,418)
Nonoperating revenues (expenses):		
Property taxes	71,860	67,667
Investment income	3,965	4,937
Net decrease in fair value of investments	(1,067)	(274)
Interest expense	(10,130)	(11,874)
Capital charges – communities outside the District	19,678	11,051
Loss on disposal of capital assets	(302)	(529)
Other	1,114	1,598
Total nonoperating revenues (expenses), net	85,118	72,576
Income before capital contributions	18,711	6,158
Capital contributions (note 5)	147	4,767
Change in net assets	18,858	10,925
Net assets at beginning of year	2,312,405	2,301,480
Net assets at end of year	\$2,331,263	\$2,312,405

See accompanying notes to financial statements.

Exhibit A3

Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002
Milwaukee Metropolitan Sewerage District

	2003	2002
	<i>(In Thousands)</i>	
Cash flow from operating activities:		
Receipts from customers and users	\$54,499	\$50,788
Payments to suppliers	(55,874)	(30,705)
Payments to employees	(10,928)	(12,107)
Net cash provided by (used in) operation activities	(12,303)	7,976
Cash flow from non-capital and related financing activities:		
Property taxes	73,108	70,499
Cash flow from capital and related financing activities:		
Proceeds from Clean Water Fund loans	68,739	52,289
Proceeds from issuance of general obligation debt	115,462	-
Acquisition and construction of capital assets	(123,226)	(150,190)
Principal payments on long-term obligations	(67,130)	(26,167)
Interest paid on long-term obligations (net of capitalized interest)	(12,122)	(11,482)
Deferred refunding loss	(1,980)	-
Proceeds from sale of capital assets	17	101
Government grant receipts	1,082	4,254
Capital charges – municipalities outside the District	11,248	12,544
Contributed capital – United Water Services Milwaukee LLC	148	154
Net cash used in capital and related financing activities	(7,762)	(118,497)
Cash flow from investing activities:		
Investment income	3,965	4,937
Purchase of investments	(11,650,688)	(13,266,136)
Proceeds from sale and maturity of investments	11,586,664	13,328,685
Net cash provided by (used in) investing activities	(60,059)	67,486
Net increase (decrease) in cash and cash equivalents	(7,016)	27,464
Cash and cash equivalents at beginning of year	27,965	501
Cash and cash equivalents at end of year	\$20,949	\$27,965
Cash and cash equivalents as presented in the accompanying statements of net assets:		
Current	\$10,982	\$7,988
Restricted	9,967	19,977
	\$20,949	\$27,965
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(66,407)	\$(66,418)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	61,207	58,841
Postretirement benefits	3,895	4,164
Other nonoperating revenue	2,187	(872)
Changes in current assets and liabilities:		
Current receivables	447	2,705
Inventories	(406)	535
Accounts payable and other liabilities	(13,226)	9,021
Net cash provided by (used in) operating activities	\$(12,303)	\$7,976
Non-cash investing activities:		
Decrease in fair value of investments	\$(1,067)	\$(274)

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2003 and 2002

(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. It encompasses most of the territorial area of Milwaukee County and the portion of the Village of Bayside, which is in Ozaukee County, and excludes all of the City of South Milwaukee and areas in the City of Franklin and the City of Oak Creek that are not likely to receive sewer service from the District within ten years. 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 treatment plant 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 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 which come under the criteria for inclusion. The District is not a component unit of any other government entity.

(2) Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to government entities. As permitted by accounting principles generally accepted in the United States of America, the District has elected to apply only Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989.

The following is a summary of the more significant policies.

(a) Financial Statement Presentation and Basis of Accounting

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property tax revenue, grants, and contributions. On an accrual basis, revenue from property taxes is recognized in the period the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2003 that will be collected in 2004 are recorded as receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. 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.

(b) Cash Equivalents

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

(c) 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 \$40.0 and \$43.0 million in 2003 and 2002, respectively.

(d) Sewer User Charges

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

(e) Capital Contributions

Capital contributions consist of Federal and state grants and funds from Milwaukee County used to finance capital expenditures. Federal and state grant receivables are recognized as the related capital project expenditures are incurred.

(f) Investments

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

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

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 Treasurer of the State of Wisconsin. The SIF is not registered with the Securities and Exchange Commission (SEC), but operates under the statutory authority of Wisconsin Chapter 25. The District's investment in the Pool is reported at fair value in the statements of net assets. 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 4). 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.

(g) Inventories

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

(h) Property Taxes

Property taxes levied have been designated by the District's Commission to be legally available for capital expenditures and debt service requirements in the ensuing year. Taxes levied in 2003, to be collected in 2004, of \$71.5 million, have been included in deferred revenue in the statement of net assets at December 31, 2003 and are available for expenditure in 2004. Taxes levied in 2002, to be collected in 2003, of \$71.9 million have been included in deferred revenue in the statement of net assets at December 31, 2002.

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

Notes to Financial Statements Continued

December 31, 2003 and 2002

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.

(i) Capital Assets

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

Interest is capitalized on constructed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated.

Depreciation is provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land and improvements	36
Buildings	25-50
Aeration and clarifier tanks	75
Machinery and equipment	11-36
Intercepting sewer system	50-100
Watercourse improvements	50-100

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

(j) Vacation and 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. Vacation pay and other sick pay are accrued as earned. The frozen sick pay of \$109,000 at December 31, 2003 and 2002, is not expected to be paid within a year and is therefore classified as a long-term liability.

(k) 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.

(l) Bond Premiums, Discounts, and Issuance Costs

Bond premiums and discounts, as well as issuance costs 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(m) Net Assets

Net assets are displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - 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 net assets 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 assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(n) Classification of Revenues & 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 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.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(p) New Accounting Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risks disclosed in the notes to the financial statements. The District will implement Statement No. 40 beginning with the year ended December 31, 2004.

(q) Reclassification

Certain amounts in the 2002 basic financial statements have been reclassified to conform with the classifications used in 2003.

(3) Cash and Cash Equivalents

Deposits at December 31, 2003 and 2002 include certificates of deposit. The carrying value and bank balances of the District's deposits were \$1,202,000 and \$1,204,000 at December 31, 2003 and 2002, respectively.

The District's deposits are categorized below to indicate the level of risk assumed by the District at December 31, 2003 and 2002. Category 1 includes deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes uncollateralized deposits. Deposits are carried at cost, which approximates market, and include interest.

Deposits (in thousands) at December 31, 2003 are categorized as follows:

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
	<i>(In Thousands)</i>				
Deposits	<u>\$1,201</u>	<u>\$-</u>	<u>\$1</u>	<u>\$1,202</u>	\$1,202
Deposits classified as investments (note 4)					(1,202)
Commercial paper					<u>20,949</u>
Total cash and cash equivalents					<u>\$20,949</u>

Deposits (in thousands) at December 31, 2002 are categorized as follows:

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
	<i>(In Thousands)</i>				
Deposits	<u>\$1,202</u>	<u>\$-</u>	<u>\$2</u>	<u>\$1,204</u>	\$1,204
Deposits classified as investments (note 4)					(1,204)
Commercial paper					<u>27,965</u>
Total cash and cash equivalents					<u>\$27,965</u>

Notes to Financial Statements Continued

December 31, 2003 and 2002

(4) Investments

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, highly rated commercial paper, repurchase agreements, and the State government pooled investment fund.

The District's investments are categorized below to indicate the level of custodial risk assumed by the District at December 31, 2003 and 2002. Category 1 includes investments which are insured or registered in the District's name or securities held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments held by the counter party, or by its trust department or agent, but not in the District's name.

The District's investments (in thousands) are reported at fair value. Investments at December 31, 2003 are categorized as follows:

	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
	<i>(In Thousands)</i>			
Categorized:				
Commercial paper	\$90,846	—	—	\$90,846
U.S. Treasury notes	7,990	—	—	7,990
Other Government-backed debt securities	53,053	—	—	53,053
Corporate notes	<u>1,011</u>	<u>—</u>	<u>—</u>	<u>1,011</u>
	<u>\$152,900</u>	<u>—</u>	<u>—</u>	<u>152,900</u>
Noncategorized:				
Municipal Investors Service Corporation Class Pool				11
Local Government Investment Pool				47,136
Deposits classified as investments				1,202
Commercial paper				<u>(20,949)</u>
Total investments				<u>\$180,300</u>

Investments (in thousands) at December 31, 2002 are categorized as follows:

	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
	<i>(In Thousands)</i>			
Categorized:				
Commercial paper	\$27,965	—	—	\$27,965
U.S. Treasury notes	10,893	—	—	10,893
Other Government-backed debt securities	49,406	—	—	49,406
Corporate notes	<u>2,992</u>	<u>—</u>	<u>—</u>	<u>2,992</u>
	<u>\$91,256</u>	<u>—</u>	<u>—</u>	<u>91,256</u>
Noncategorized:				
Municipal Investors Service Corporation Class Pool				11
Local Government Investment Pool				52,837
Deposits classified as investments				1,204
Commercial paper				<u>(27,965)</u>
Total investments				<u>\$117,343</u>

In accordance with the District's investment policy, the District invests in government-backed debt securities. These securities are reported at fair value on the statement of net assets and are based on the cash flows from interest and principal of the underlying debt. As a result, the securities are sensitive to prepayments, which may result from a decline in interest rates. For example, if the interest rates decline, and the underlying debt is refinanced, thereby prepaying the debt underlying the securities, the cash flow from interest payments is reduced and the value of the securities decline. The District invests in government-backed debt securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

(5) Operating Expenses

The Milwaukee Metropolitan Sewerage District Commission approved a 10-year contract effective March 1, 1998 with the United Water Services Milwaukee LLC (UWS) for the operation of the District's two wastewater treatment plants, biosolids management, and field operations, while retaining ownership of the assets. The operation and maintenance fee is subject to adjustments based on the Consumer Price Index for all urban consumers in the Milwaukee area, and was approximately \$32.8 million and \$32.3 million for the years ended December 31, 2003 and 2002, respectively. The District continues to operate its industrial waste pretreatment program, engineering, central lab monitoring and research, Milorganite® sales, marketing, and distribution.

As part of the contract, UWS has agreed to provide approximately \$3.4 million of specific capital improvements throughout the term of the contract. In addition, as part of the contract, the District transferred custody of the operating and maintenance supplies inventory to UWS on March 1, 1998 while the District retains 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 receivables or payables.

(6) Federal and State Grants

The District has been awarded Federal grant funds for planning, design, and construction, and state grant funds for construction from the Wisconsin Department of Natural Resources (DNR). Under present regulations, grants may be awarded by the U.S. Environmental Protection Agency and the DNR to reimburse 50% to 85% of the eligible cost of approved projects.

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

	<u>Available Grant Funds</u>	<u>Outstanding Grants Receivable</u>		<u>Total</u>
		<u>Billed</u>	<u>Unbilled</u>	
	<i>(In Thousands)</i>			
December 31, 2003:				
Federal	\$1,592	—	—	—
State	<u>785</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$2,377</u>	<u>—</u>	<u>—</u>	<u>—</u>
December 31, 2002:				
Federal	\$1,589	—	\$528	\$528
State	<u>785</u>	<u>—</u>	<u>554</u>	<u>554</u>
	<u>\$2,374</u>	<u>—</u>	<u>\$1,082</u>	<u>\$1,082</u>

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

Planning costs incurred on construction projects which have not been finalized, architectural and engineering costs not billed due to procedural compliance limitations, construction costs incurred, but unpaid, and state advance commitments not yet billable comprise the majority of the unbilled amount at December 31, 2002.

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.

Notes to Financial Statements Continued

December 31, 2003 and 2002

(7) Capital Assets

Capital assets activity for the year ended December 31, 2003 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
<i>(In Thousands)</i>					
Capital assets not being depreciated:					
Land	\$28,256	\$1,604	\$-	\$-	\$29,860
Construction in progress	307,871	123,384	-	(123,675)	307,580
Total capital assets not being depreciated	336,127	124,988	-	(123,675)	337,440
Capital assets being depreciated:					
Land improvements	19,538	-	-	-	19,538
Buildings	792,827	-	470	-	792,357
Aeration and clarifier tanks	62,692	-	-	-	62,692
Machinery and equipment	540,789	468	561	48,990	589,686
Intercepting sewer system	1,604,082	-	-	37,977	1,642,059
Watercourse improvements	126,192	-	-	36,708	162,900
Total capital assets being depreciated	3,146,120	468	1,031	123,675	3,269,232
Less accumulated depreciation:					
Land improvements	6,055	548	-	-	6,603
Buildings	180,391	14,887	302	-	194,976
Aeration and clarifier tanks	13,574	837	-	-	14,411
Machinery and equipment	201,404	19,719	410	-	220,713
Intercepting sewer system	262,052	23,075	-	-	285,127
Watercourse improvements	12,524	2,141	-	-	14,665
Total accumulated depreciation	676,000	61,207	712	-	736,495
Total capital assets being depreciated, net	2,470,120	(60,739)	319	123,675	2,532,737
Total capital assets, net	\$2,806,247	\$64,249	\$319	\$-	\$2,870,177

Capital assets activity for the year ended December 31, 2002 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
<i>(In Thousands)</i>					
Capital assets not being depreciated:					
Land	\$28,256	\$-	\$-	\$-	\$28,256
Construction in progress	238,089	150,424	457	(80,185)	307,871
Total capital assets not being depreciated	266,345	150,424	457	(80,185)	336,127
Capital assets being depreciated:					
Land improvements	18,784	-	-	754	19,538
Buildings	792,301	53	-	473	792,827
Aeration and clarifier tanks	62,692	-	-	-	62,692
Machinery and equipment	517,296	374	1,014	24,133	540,789
Intercepting sewer system	1,592,810	-	-	11,272	1,604,082
Watercourse improvements	82,639	-	-	43,553	126,192
Total capital assets being depreciated	3,066,522	427	1,014	80,185	3,146,120
Less accumulated depreciation:					
Land improvements	5,508	547	-	-	6,055
Buildings	165,498	14,893	-	-	180,391
Aeration and clarifier tanks	12,738	836	-	-	13,574
Machinery and equipment	184,108	18,137	841	-	201,404
Intercepting sewer system	239,353	22,699	-	-	262,052
Watercourse improvements	10,795	1,729	-	-	12,524
Total accumulated depreciation	618,000	58,841	841	-	676,000
Total capital assets being depreciated, net	2,448,522	(58,414)	173	80,185	2,470,120
Total capital assets, net	\$2,714,867	\$92,010	\$630	\$-	\$2,806,247

The District has construction contract commitments of approximately \$73.2 million and \$106.8 million as of December 31, 2003 and 2002, respectively.

(8) Long-term Obligations

Changes in long-term obligations for the year ended December 31, 2003 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>(In Thousands)</i>					
General obligation bonds	\$258,145	\$107,105	\$(48,690)	\$316,560	\$14,365
Plus unamortized premium	6,606	8,357	(2,038)	12,925	-
Less deferred loss on defeasance and refunding	(101)	(1,981)	46	(2,036)	-
Total bonds payable	264,650	113,481	(50,682)	327,449	14,365
State of Wisconsin					
Clean Water Fund	293,176	68,739	(18,439)	343,476	20,072
Subtotal	557,826	182,220	(69,121)	670,925	34,437
Vested sick pay	1,190	248	(143)	1,295	90
Other postretirement benefits	48,436	8,333	(4,438)	52,331	4,021
Total	\$607,452	\$190,801	\$(73,702)	\$724,551	\$38,548

Changes in long-term obligations for the year ended December 31, 2002 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>(In Thousands)</i>					
General obligation bonds	\$268,065	\$-	\$(9,920)	\$258,145	\$10,695
Plus unamortized premium	7,000	-	(394)	6,606	-
Less deferred loss on defeasance and refunding	(1,218)	-	1,117	(101)	-
Total bonds payable	273,847	-	(9,197)	264,650	10,695
State of Wisconsin					
Clean Water Fund	257,134	52,289	(16,247)	293,176	17,937
Subtotal	530,981	52,289	(25,444)	557,826	28,632
Vested sick pay	1,720	309	(839)	1,190	90
Other postretirement benefits	44,272	8,093	(3,929)	48,436	3,850
Total	\$576,973	\$60,691	\$(30,212)	\$607,452	\$32,572

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 4.04% to 4.96%. Debt service requirements are as follows:

Year	Principal	Interest	Total
<i>(In Thousands)</i>			
2004	\$14,365	\$15,904	\$30,269
2005	14,500	15,594	30,094
2006	15,165	14,786	29,951
2007	15,815	14,017	29,832
2008	16,590	13,135	29,725
2009-2013	95,600	51,684	147,284
2014-2018	104,645	24,891	129,536
2019-2022	39,880	4,513	44,393
Total	\$316,560	\$154,524	\$471,084

Notes to Financial Statements Continued

December 31, 2003 and 2002

The District has received funds through the state of Wisconsin Clean Water Fund loan program, which has replaced grant funding for the construction of wastewater treatment facilities. Interest on these loans is payable semiannually at varying interest rates ranging from 2.50% to 4.95%. Principal is payable annually in varying amounts. Debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		<i>(In Thousands)</i>	
2004	\$20,072	\$9,331	\$29,403
2005	20,723	8,793	29,516
2006	24,467	8,180	32,647
2007	25,132	7,506	32,638
2008	25,815	6,813	32,628
2009-2013	113,535	23,654	137,189
2014-2018	75,000	10,924	85,924
2019-2023	38,732	1,706	40,438
Total	\$343,476	\$76,907	\$420,383

The District has outstanding loan commitments of \$89.1 million and \$130.7 million at December 31, 2003 and 2002, respectively, from the State of Wisconsin Clean Water Fund loan program. These commitments will be utilized for future construction of wastewater treatment facilities.

On February 5, 1997, the District completed an in-substance cash defeasance on \$158,000,000 of outstanding General Obligation Capital Purpose Bonds Series 1992A with monies received from a settlement as well as additional cash, of which \$99,000,000 remained outstanding as of December 31, 2003. The funds were used to purchase United States Treasury Securities - State and Local Government Series (SLGS) which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. The difference between the funds used to purchase the SLGS and net carrying amount of the old debt was a loss of \$324,000 which is reported in the accompanying financial statements as a reduction to long-term obligations and is being amortized as a component of interest expenses through 2005. The unamortized defeasance loss was \$60,718 and \$101,000 as of December 31, 2003 and 2002, respectively.

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 all future debt service payments on \$37,995,000 of General Obligation Capital Purpose Bonds, Series 2001A. At December 31, 2003, \$51,910,000 remains outstanding on the Bonds Series 2001A. 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 \$1,975,000 as of December 31, 2003.

During February 2003, the District issued \$69,000,000 of General Obligation bonds. The proceeds were used to fund capital asset expenditures. Interest payments are due semi-annually beginning October 1, 2003, and interest rates range from 1.14% to 4.83%. Principal payments are due annually, commencing October 1, 2004 and ending October 1, 2022.

Interest and debt issuance costs 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 \$13.6 million and \$9.6 million in 2003 and 2002, respectively.

A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31, 2003 follows (in thousands):

2003 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$46,207,048
Statutory debt limit rate - Wisconsin Statutes Section 67.03	<u>5%</u>

Statutory debt limit	2,310,352
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General obligation indebtedness:	
Outstanding bonds issued by the District Clean Water Fund loans	(316,560) <u>(343,476)</u>

Legal debt margin	<u>\$1,650,316</u>
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A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31, 2002 follows (in thousands):

2002 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$43,268,487
Statutory debt limit rate - Wisconsin Statutes Section 67.03	<u>5%</u>

Statutory debt limit	2,163,424
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General obligation indebtedness:	
Outstanding bonds issued by the District Clean Water Fund loans	(258,145) <u>(293,176)</u>

Legal debt margin	<u>\$1,612,103</u>
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(9) 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 purchases commercial insurance to provide coverage for losses from theft of, damage to, or destructions of assets; health insurance; environmental liability; and 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 is improbable 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 includes claims incurred but not reported (IBNRs) totaling \$1.2 million and \$6.8 million as of December 31, 2003 and 2002, respectively.

	<u>2003</u>	<u>2002</u>
	(In Thousands)	

Unpaid claims, beginning of year	\$6,782	\$250
Current year claims and changes in estimates	(4,240)	6,624
Claim payments	<u>(1,367)</u>	<u>(92)</u>
Unpaid claims, end of year	<u>\$1,175</u>	<u>\$6,782</u>

(10) Contingencies

(a) Litigation

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

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

Department of Natural Resources (DNR)

In 1976, the District sued the DNR concerning certain discharge limitations in the permits issued to the District. The DNR counterclaimed for \$690,000 in forfeitures and an injunction against continued inappropriate discharges. The DNR dismissed parts of its

Notes to Financial Statements Continued

December 31, 2003 and 2002

claim for forfeitures contained in its counterclaim. The remaining claim for \$580,000 in forfeitures has not been resolved.

LeSaffre Yeast Corporation vs. the District

In 2001, LeSaffre Yeast Corporation filed suit against the District for alleged contamination of a high capacity well located on the Red Star Yeast facility. This case was settled in 2003.

State of Wisconsin vs. the District

In 2002, the Wisconsin Department of Justice filed suit, alleging violations of prohibitions on the discharge of sewage from separated sewerage systems. The State and the District have reached a tentative agreement on this litigation, which will result in an injunction which would require the District to expend an estimated approximately \$690 million through 2010 on upgrades to the District's collection system. The upgrades to the system are already reflected in future capital budgets.

Friends of Milwaukee's Rivers vs. the District

In 2002, two environmental organizations filed suit alleging substantially the same violations as alleged in the State of Wisconsin litigation referenced above. These organizations seek penalties, attorney fees, and additional injunctive relief to that sought in the State's lawsuit. The case was dismissed by the district court in 2003 and the environmental organizations appealed. Argument on the appeal was heard March 2004. The maximum additional exposure from this litigation has not been determined.

(b) Claims of Property Owners

Claim by Wispark Holdings LLC/SAKS, Inc.

A notice of claim was filed in 2001 for alleged damages to the foundation of the Boston Store property and parking structure to the west of the Boston Store. Damage is alleged to have occurred as the result of building settlement due to groundwater draw down from the District construction projects. Maximum exposure is \$10,877,912.

(c) Claims from Construction Contractors

In connection with the construction of improvements of the sewerage system, the District has received various cost reimbursement claims from contractors in addition to the lawsuits described above. The claims request the District to pay contractors for work performed which was allegedly not included in the original contract proposals.

The contractors maintain that the additional work performed was caused by situations outside of their control and the costs incurred for this work should be added to the original contract. An estimate of the additional liability for amounts to be paid to contracts for work performed as of December 31, 2003 and 2002 has been provided in the accompanying financial statements.

(11) Retirement System

All full-time and other eligible employees of the District are members of the Employees' Retirement System of the City of Milwaukee (the System), a cost sharing multiple employer defined benefit pension plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the City of Milwaukee. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 603, Milwaukee, WI 53202.

Plan members are required by charter ordinance of the City of Milwaukee to contribute, or have contributed on their behalf, 5.5% of their salary or wages to the System. The District is required to contribute the remaining amounts necessary to fund the System. Starting in 1970, the District has contributed the 5.5% on behalf of the employees. Contributions for District employees are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Employer contribution rate:			
Employee requirement	5.5%	5.5%	5.5%
Employer's contribution	—	—	—
	<u>5.5%</u>	<u>5.5%</u>	<u>5.5%</u>
District contribution (in thousands):			
Employee	\$739	\$692	\$645
Employer	—	—	—
	<u>\$739</u>	<u>\$692</u>	<u>\$645</u>

(12) Other Postretirement Benefits

The District provides postretirement health and life insurance in accordance with union contracts and Commission policy. Employees, covered by union agreements, who retire from the District on or after attaining age 55, with at least 10 years of creditable service, or before age 55, with at least 20 years of creditable service, are eligible for postretirement health insurance. Management employees, covered by Commission policy, who retire from the District on or after attaining age 60, with at least 10 years of creditable service are eligible for postretirement health insurance.

Currently, 393 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 involve deductibles and co-pays.

Effective March 1, 1998 the District curtailed the plans as a result of the transfer of 290 employees to United Water Services in conjunction with the privatization of the District's operations (see note 5).

The District adopted a policy, similar to commercial enterprises, which requires that the expected cost of postretirement health and life insurance benefits be charged to expense during the years the employees render service. The District has elected to amortize the unfunded obligation of \$55.4 million at January 1, 1993, over a period of 20 years.

Postretirement benefit expense includes the following components:

	<u>2003</u>	<u>2002</u>
	<i>(In Thousands)</i>	
Service cost	\$570	\$429
Interest cost on accumulated postretirement benefit obligation	4,595	4,638
Net amortization	<u>2,771</u>	<u>2,530</u>
Postretirement benefit expense	<u>\$7,936</u>	<u>\$7,597</u>

The funded status of the plans on an aggregate basis follows:

	<u>2003</u>	<u>2002</u>
	<i>(In Thousands)</i>	
Accumulated postretirement benefit obligation:		
Retirees	\$37,878	\$40,537
Fully eligible participants	16,287	23,366
Other active participants	<u>14,508</u>	<u>5,311</u>
Total accumulated postretirement benefit obligation	68,673	69,214
Unrecognized transition obligation	(24,707)	(27,478)
Unrecognized actuarial gain	<u>8,365</u>	<u>6,700</u>
Accrued postretirement benefit cost liability	<u>\$52,331</u>	<u>\$48,436</u>

For measurement purposes, a benefit cost trend rate of 10% and 11% annually was assumed in 2003 and 2002, respectively. This rate gradually decreases to 5.5% through 2009 and remains level thereafter. The benefit cost trend rate has a significant effect on the amounts reported. Increasing the assumed benefit cost trend rates by 1% each year would increase the accumulated postretirement benefit obligation (APBO) at December 31, 2003 by 15% and the aggregate service and interest cost components of postretirement benefit expense for 2003 by 17%. Decreasing the assumed benefit cost trend rates by 1% each year would decrease the APBO at December 31, 2003 by 12% and the aggregate service and interest cost components of postretirement benefit expense for 2003 by 14%. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25% and 6.75% as of December 31, 2003 and 2002.

MMSD's Mission

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



Auer Aqueduct



Northwest Side Relief Sewer
at County Grounds

Statistical Section

Exhibit B1

Operating Expenses

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	2003	2002	2001	2000
	<i>(In Thousands)</i>			
Systems - Operation and Maintenance	\$36,889	\$38,111	\$37,401	\$36,143
Laboratory and Research Services	1,997	1,934	2,377	2,749
Industrial Waste and Conveyance Monitoring	2,968	2,827	2,962	3,154
Finance, Engineering and Administration	14,636	13,660	13,921	12,140
Depreciation	61,207	58,841	57,858	58,891
	\$117,697	\$115,373	\$114,519	\$113,077



1999	1998	1997	1996	1995	1994
<i>(In Thousands)</i>					
\$36,778	\$36,466	\$45,306	\$46,347	\$44,810	\$40,779
2,633	2,504	3,467	3,813	3,686	3,642
2,727	2,612	2,953	2,770	2,723	2,483
10,106	10,314	15,265	15,251	14,100	12,004
58,440	57,121	49,953	50,666	52,657	44,683
\$110,684	\$109,017	\$116,944	\$118,847	\$117,976	\$103,591

Exhibit B2

Operating Revenues by Source

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Year	Total Operating Revenue	Sewer User Charges
2003	\$51,290,371	\$45,089,811
2002	48,955,337	43,425,188
2001	49,497,386	43,370,135
2000	50,880,204	44,503,420
1999	51,735,670	44,932,994
1998	58,803,156	52,645,570
1997	62,551,828	53,880,863
1996	63,085,909	56,195,686
1995	63,754,995	57,779,033
1994	63,526,240	57,953,024



Fertilizer	Other
\$5,902,447	\$298,113
5,325,141	205,008
5,754,297	372,954
6,004,002	372,782
6,568,425	234,251
5,834,298	323,288
6,297,354	2,373,611
5,887,236	1,002,987
5,729,721	246,241
5,209,825	363,391

Exhibit B3

Sewer User Charges

Municipalities Within District

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	2003	2002	2001	2000
City of Milwaukee	\$27,489,444	\$26,419,674	\$26,357,142	\$27,503,771
City of Wauwatosa	1,910,819	1,928,005	1,995,544	2,015,832
City of West Allis	2,305,548	2,207,287	2,197,358	2,262,162
City of Cudahy	1,093,070	999,034	1,042,008	1,101,515
City of Glendale	550,990	530,390	591,838	569,774
City of St. Francis	274,879	280,640	324,910	313,996
City of Greenfield	1,177,932	1,153,965	1,174,868	1,154,166
City of Oak Creek	1,085,358	1,040,728	1,029,039	1,048,934
City of Franklin	996,375	899,485	893,759	829,499
Village of Shorewood	411,911	403,858	413,552	412,612
Village of Whitefish Bay	432,131	422,677	422,774	418,019
Village of Fox Point	219,917	216,928	218,593	216,916
Village of West Milwaukee	602,654	653,792	624,949	668,908
Village of River Hills	51,645	52,791	55,842	49,356
Village of Bayside	140,458	132,390	145,147	147,858
Village of Brown Deer	463,801	451,170	448,277	453,972
Village of Hales Corners	261,288	257,975	262,380	267,727
Village of Greendale	420,799	411,277	434,347	429,472
	<u>\$39,889,019</u>	<u>\$38,462,066</u>	<u>\$38,632,327</u>	<u>\$39,864,489</u>



1999	1998	1997	1996	1995	1994
\$27,896,641	\$32,582,879	\$33,028,525	\$35,806,523	\$37,096,922	\$36,875,637
2,080,202	2,388,511	2,369,281	2,446,143	2,492,294	2,575,979
2,223,153	2,624,513	2,622,885	2,851,343	2,865,733	2,979,710
1,065,613	1,254,750	1,215,986	1,168,641	1,182,034	1,211,284
589,400	691,563	681,639	722,832	736,298	762,218
310,829	374,352	347,124	371,091	379,129	365,305
1,104,729	1,310,265	1,258,364	1,324,500	1,337,618	1,340,120
999,335	1,198,045	1,122,180	1,144,464	1,101,201	1,093,049
821,776	911,232	859,868	865,511	858,841	844,548
406,928	452,731	464,217	501,319	517,034	538,329
421,881	495,927	479,468	441,874	513,765	539,525
220,761	259,934	251,500	260,726	268,564	281,061
717,563	978,432	2,225,077	1,134,582	1,221,636	1,243,211
50,961	59,150	59,135	61,979	61,182	70,767
147,977	174,661	165,750	173,671	183,010	165,139
471,490	547,025	549,176	573,593	599,992	611,906
266,323	307,159	297,669	305,261	304,794	312,505
458,729	546,700	519,832	543,782	563,817	573,821
\$40,254,291	\$47,157,829	\$48,517,676	\$50,697,835	\$52,283,864	\$52,384,114

Exhibit B4

Sewer User Charges

Municipalities Outside District

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	2003	2002	2001	2000
City of Brookfield	\$630,092	\$553,570	\$537,128	\$538,384
City of Mequon	635,213	599,060	582,216	578,231
City of Muskego	565,325	556,271	537,029	535,822
City of New Berlin	1,085,950	1,059,337	1,064,800	1,056,638
City of South Milwaukee (1)	20,084	18,730	18,842	16,438
Village of Butler	108,744	104,372	109,815	112,622
Village of Elm Grove	186,586	185,885	194,612	183,180
Village of Germantown	783,477	712,641	584,571	511,885
Village of Menomonee Falls	1,068,111	1,060,010	991,901	990,763
Village of Thiensville	95,306	92,381	96,147	95,123
Caddy Vista Sanitary District	21,904	20,865	20,747	19,345
	<u>\$5,200,792</u>	<u>\$4,963,122</u>	<u>\$4,737,808</u>	<u>\$4,638,431</u>

(1) Household Hazardous Waste Program Charges Only



1999	1998	1997	1996	1995	1994
\$548,288	\$652,226	\$631,330	\$661,017	\$692,777	\$712,049
663,460	668,110	648,351	658,602	678,749	687,306
543,665	632,994	600,690	601,715	611,902	638,425
1,032,462	1,209,644	1,157,831	1,174,947	1,197,196	1,234,709
17,006	10,714	11,106	8,722	—	—
108,828	140,455	145,770	167,060	149,148	144,299
180,737	213,394	208,237	212,155	222,109	235,093
564,303	665,330	686,708	720,564	687,458	643,065
900,076	1,155,917	1,136,164	1,151,728	1,108,371	1,123,395
97,910	114,207	112,630	116,469	120,196	122,899
21,968	24,750	24,370	24,872	27,263	27,670
\$4,678,703	\$5,487,741	\$5,363,187	\$5,497,851	\$5,495,169	\$5,568,910

Exhibit B5

Sewer User Charge Rates

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Year	Flow (Cents Per 1,000 Gallons)	Biochemical Oxygen Demand (BOD) (Cents Per Pound)	Total Suspended Solids (TSS) (Cents Per Pound)	Connection Charge (Dollars Per Year)
2003	\$0.4389	\$0.0785	\$0.0728	\$15.09
2002	0.4817	0.0557	0.0695	14.43
2001	0.4718	0.0415	0.0851	14.35
2000	0.4107	0.0446	0.1095	11.94
1999	0.4235	0.0431	0.1074	12.91
1998	0.5038	0.0519	0.1176	16.67
1997	0.4371	0.0566	0.1284	16.03
1996	0.4293	0.0742	0.1348	13.70
1995	0.4403	0.0649	0.1408	16.90
1994	0.5212	0.0476	0.1322	20.28

Volumetric rate computed for domestic strength sewage using the equivalencies of 310 mg/1 BOD equals 2.585 pounds per thousand gallons and 370 mg/1 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 boundaries.



Volumetric (Dollars Per 1,000 Gallons)	Average Household (Dollars Per Year)
\$0.866365	\$72.72
0.840145	71.15
0.841670	72.01
0.863985	71.50
0.866241	72.68
1.000936	85.98
0.979638	84.35
1.036972	85.96
1.042727	89.88
1.052236	93.67

Exhibit B6

Twenty Largest Sewer Users

For the Fiscal Year Ended December 31, 2003
Milwaukee Metropolitan Sewerage District

Name of Business	Type of Business	2003 User Charge
Miller Brewing Company	Brewery	\$2,077,544
LeSaffre Yeast Corporation	Food preparation	1,329,469
Milwaukee Water Works	Water utility	608,802
Emmber Foods	Meat packing plant	413,773
International Malting USA	Malt manufacturing	314,411
Patrick Cudahy Inc.	Process meat products	308,454
Southeastern Wisc Product	Food preparation	270,113
Gehl Guernsey Farms Inc.	Food preparation	220,787
D.R. Diedrich & Co.	Leather tanning and finishing	182,865
MC Zoological Gardens	Zoo	152,080
Milwaukee County Dhhs	Health services	151,617
Chris Hansen's Lab	Miscellaneous food preparation	155,598
Marquette University	University	112,965
St. Luke's Medical Center	Hospital	109,697
VA Clement J. Zablocki	Hospital	101,205
University of Wis-Milw	University	92,498
Wisconsin Paperboard Corp.	Paperboard mill	82,943
Master Lock	Manufacturer of hardware	78,320
Ladish	Iron & steel manufacturing	78,068
Cudahy Tanning	Leather tanning and finishing	<u>73,182</u>
		<u>\$6,914,391</u>

Exhibit B7

Tax Levies and Tax Rates

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Tax Levy of	Tax Levies	Tax Rate Per \$1,000 Equalized Valuation
2003	\$71,530,000	\$1.59
2002	71,946,000	1.70
2001	67,756,000	1.70
2000	62,174,000	1.70
1999	59,415,000	1.70
1998	57,117,000	1.70
1997	54,855,000	1.70
1996	52,900,000	1.70
1995	80,561,000	2.65
1994	87,000,000	3.00

The various municipalities within the District's legal boundary initially collect District taxes together with local and school 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 in the same priority as school districts and vocational, technical and adult education districts. All municipalities are required to turn delinquent District taxes over 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.

Exhibit B8

Equalized Value of Taxable Property

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	Real Property	Personal Property	Total
2003	\$43,484,994,181	\$1,576,954,346	\$45,061,948,527
2002	40,695,870,170	1,619,811,713	42,315,681,883
2001	38,155,725,101	1,713,379,130	39,869,104,131
2000	34,950,446,271	1,604,809,723	36,555,255,994
1999	33,463,211,132	1,476,531,071	34,939,742,203
1998	31,572,865,133	2,039,774,714	33,612,639,847
1997	30,351,363,894	1,910,793,058	32,262,156,952
1996	29,298,155,123	1,819,285,876	31,117,440,999
1995	28,511,383,743	1,885,663,824	30,397,047,567
1994	27,149,822,778	1,850,183,196	29,000,005,974

Real property is defined to include land itself as well as all the buildings and improvements on the land.

Personal property is defined to include all goods, wares, merchandise, chattels, and effects, of any nature or description, having any real or marketable value, and not included in the term real property.

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

Equalized valuations net of Tax Increment District adjustments of January 1 of the year indicated are for the following year tax levies. Information provided by Department of Revenue – State of Wisconsin.

Exhibit B9

Ratio of Bonded Debt to Equalized Valuation and Bonded Debt Per Capita

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Year	Population (Estimated)(1)	Equalized Value (2)	Metropolitan Sewerage District Bonded Debt (3)	Percentage of Bonded Debt to Equalized Value	Bonded Debt Per Capita
2003	920,034	\$45,061,948,527	\$660,035,606	1.46%	\$717.40
2002	919,776	42,315,681,883	551,320,967	1.30	599.41
2001	918,722	39,869,104,131	525,198,977	1.32	571.66
2000	933,845	36,555,255,994	417,507,154	1.14	447.08
1999	935,549	34,939,742,203	412,443,947	1.18	440.86
1998	935,832	33,612,639,847	431,167,500	1.28	460.73
1997	937,160	32,262,156,952	439,375,433	1.36	468.84
1996	942,703	31,117,440,999	640,994,331	2.06	679.95
1995	944,100	30,397,047,567	670,120,935	2.20	709.80
1994	948,175	29,000,005,974	714,890,188	2.47	753.96

- (1) Estimates based on data from the Department of Administration, State of Wisconsin.
- (2) Equalized value net of Tax Increment District adjustments as of January 1 of year indicated for following year tax levy, per State of Wisconsin, Department of Revenue.
- (3) Bonded debt stated as of December 31 of the year indicated.

Exhibit B10

Statement of Bonded Debt Limit

December 31, 2003
Milwaukee Metropolitan Sewerage District

2003 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$46,207,048,027
Statutory debt limit rate – Wisconsin Statutes Section 67.03	<u>5%</u>
Statutory debt limit	2,310,352,401
General obligation indebtedness:	
Outstanding bonds issued by the District	316,560,000
Clean Water Fund Loans	<u>343,475,606</u>
Legal debt margin	<u><u>\$1,650,316,795</u></u>

Exhibit B1

Ratio of Annual Debt Service for General Bonded Debt to Total Operating Expenses

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Fiscal Year	Principal	Interest	Total Debt Service	Expenses	Ratio of Debt Service to Total Operating Expense
2003 (1)	\$29,134,173	\$23,707,665	\$52,841,838	\$117,697,909	.449
2002	26,167,400	20,393,276	46,560,676	115,373,371	.404
2001	31,352,644	16,776,777	48,129,421	114,519,681	.420
2000	29,684,246	15,871,016	45,555,262	113,076,800	.403
1999	28,767,158	16,763,441	45,530,599	110,684,732	.403
1998	27,735,936	17,700,600	45,436,536	109,017,041	.417
1997 (2)	47,202,251	22,721,060	69,923,311	116,944,162	.600
1996	57,907,522	35,016,992	92,924,514	118,846,950	.782
1995	56,548,158	38,434,422	94,982,580	117,975,960	.805
1994	57,052,233	41,759,164	98,811,397	103,591,246	.954

(1) The principal and interest amounts for 2003 do not reflect the December 15, 2003 in-substance cash defeasance on \$37,995,000 of General Obligation Sewerage System Bonds Series 2001A.

(2) The principal and interest amounts for 1997 do not reflect the February 5, 1997 in-substance cash defeasance of General Obligation Capital Purpose Bonds Series 1992A nor do they reflect the August 12, 1997 in-substance cash defeasance of General Obligation Capital Purpose Bonds Series 1990A.

Exhibit B12

Computation of Overlapping Debt

For the Fiscal Year Ended December 31, 2003
Milwaukee Metropolitan Sewerage District

Name of Government Unit	Net Debt Outstanding	Percentage of Debt Within District Boundary	Amount of Debt Within District Boundary
Villages and Cities:			
Village of Bayside	\$12,948,298	100.00%	\$12,948,298
Village of Brown Deer	8,035,000	100.00	8,035,000
Village of Fox Point	10,095,000	100.00	10,095,000
Village of Greendale	4,057,000	100.00	4,057,000
Village of Hales Corners	4,305,000	100.00	4,305,000
Village of River Hills	1,820,000	100.00	1,820,000
Village of Shorewood	17,257,717	100.00	17,257,717
Village of West Milwaukee	3,695,000	100.00	3,695,000
Village of Whitefish Bay	16,091,260	100.00	16,091,260
City of Cudahy	21,242,222	100.00	21,242,222
City of Franklin	28,800,000	95.33	27,455,040
City of Glendale	22,420,930	100.00	22,420,930
City of Greenfield	0	100.00	0
City of Milwaukee	539,740,487	100.00	539,740,487
City of Oak Creek	10,575,000	99.58	10,530,585
City of Saint Francis	1,405,000	100.00	1,405,000
City of Wauwatosa	24,160,598	100.00	24,160,598
City of West Allis	50,875,560	100.00	50,875,560
Total Villages and Cities	<u>\$777,524,072</u>		<u>\$776,134,697</u>



Name of Government Unit	Net Debt Outstanding	Percentage of Debt Within District Boundary	Amount of Debt Within District Boundary
School Districts:			
Brown Deer	\$5,202,683	100.00%	\$5,202,683
Cudahy	14,410,000	100.00	14,410,000
Fox Point – Bayside	7,100,000	100.00	7,100,000
Franklin	26,800,000	95.43	25,575,240
Glendale – River Hills	400,000	100.00	400,000
Greendale	2,860,000	100.00	2,860,000
Greenfield	13,190,000	100.00	13,190,000
Maple Dale – Indian Hill	1,850,000	100.00	1,850,000
Milwaukee	120,340,960	100.00	120,340,960
Milwaukee Area Technical			
College	76,575,000	79.51	60,884,783
Nicolet High School	0	100.00	0
Oak Creek – Franklin	30,293,029	98.95	29,974,952
Saint Francis	6,488,175	100.00	6,488,175
Shorewood	6,765,000	100.00	6,765,000
Wauwatosa	0	100.00	0
WestAllis –			
West Milwaukee	15,255,000	92.32	14,083,416
Whitefish Bay	7,430,000	100.00	7,430,000
Whitnall	6,045,000	100.00	6,045,000
Total School Districts	<u>341,004,847</u>		<u>322,600,209</u>
MILWAUKEE COUNTY			
County Purposes	500,187,238	97.64	488,382,819
Total Villages and Cities	<u>777,524,072</u>		<u>776,134,697</u>
Total Overlapping Debt	<u><u>\$1,618,716,157</u></u>		<u><u>\$1,587,117,725</u></u>

Exhibit B13

Twenty-five Largest Taxpayers

2003 Equalized Valuation
Milwaukee Metropolitan Sewerage District

	Name of Business	Type of Business	Equalized Valuation	Percentage of Total Equalized Valuation
1	Mayfair Property Inc.	Shopping Mall	\$233,799,034	0.52%
2	US Bank Corp.	Banking	228,653,994	0.51
3	Northwestern Mutual Life Insurance Co.	Insurance	195,766,732	0.43
4	Harley-Davidson Inc.	Manufacturing of motorcycles	148,757,600	0.33
5	Teachers' Insurance and Annuity	Insurance	143,462,238	0.32
6	M&I Marshall & Ilsley Bank	Banking	134,734,918	0.30
7	Towne Realty Inc.	Real estate	110,802,891	0.25
8	Metropolitan Associates	Real estate	95,965,797	0.21
9	Marcus Corporation/ Milwaukee City Center	Hotels, theaters & restaurants	90,372,103	0.20
10	Bre Southridge Mall LLC	Real estate	82,967,336	0.18
11	Great Lakes Reit LLP	Real estate	76,149,212	0.17
12	Miller Brewing Company	Brewery	74,395,500	0.17
13	Centerpoint Properties	Real estate	67,618,242	0.15
14	100 E. Wisconsin Ave. Joint Venture	Real estate	58,046,095	0.13
15	Opus Real Estate	Real estate	51,189,471	0.11
16	American Stores Property Inc. (Jewel/Osco)	Retail food stores	50,710,870	0.11
17	Flanders Westborough	Real estate	49,729,367	0.11
18	Anthony A. Palermo	Real estate	47,899,075	0.11
19	Johnson Controls Inc.	Manufacturing of automotive batteries & seating, building controls & plastic containers	46,211,700	0.10
20	Occidental	Real estate	45,716,573	0.10
21	Rockwell Automation	Manufacturing of electrical/ electronic products	45,057,500	0.10
22	Banc One Wisconsin Corporation	Banking	45,023,417	0.10
23	Journal Sentinel	Newspaper	43,800,000	0.10
24	Dayton-Hudson (Marshall Fields, Target)	Retailer	42,859,197	0.10
25	Corrigan Properties	Real estate	39,082,983	0.09
			\$2,248,771,845	4.99%

Exhibit B14

Financial Resources of Banks - Milwaukee County

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	Number of Institutions	Bank Deposits (Millions)	Bank Assets (Millions)
2003	(1)	\$ (1)	\$ (1)
2002	25	29,567	42,144
2001	29	31,603	46,386
2000	29	23,166	34,510
1999	21	16,760	27,110
1998	20	23,182	34,218
1997	21	20,584	30,178
1996	22	18,505	26,663
1995	22	14,157	21,252
1994	24	13,714	20,117

(1) Information not available

Source - Department of Financial Institutions Annual Report

Exhibit B15

Schedule of Insurance in Force

December 31, 2003
Milwaukee Metropolitan Sewerage District

Insurance Program for General Operations

Type of Coverage	Name of Company	Policy Number	Policy Period		Limit of Coverage	Premium
			From	To		
Property	Local Government Property Insurance Fund	180660	6/1/2003	6/1/2004	Fire, Lightning, Extended Coverage Full Replacement Costs Values \$876,640,478 Business Interruption \$7,000,000 \$100,000 Deductible-Property \$500 Deductible-Equipment	\$139,518
Boiler & Machinery	Continental Casualty Insurance Company	BM1078570793	6/1/2003	6/1/2004	\$50,000,000 Aggregate \$7,000,000 Business Interruption \$1,000,000 Extra Expense \$100,000 Deductible	\$127,882
Commercial Vehicle	The St. Paul Companies, Inc.	GP09310681	6/1/2003	6/1/2004	\$1,000,000 CSL \$1,000,000 UM/UIM \$5,000 Medical Payment \$250 Deductible Comprehensive \$1,000 Deductible Collision	\$22,685
Excess Vehicle	Landmark American Insurance Company	LHA023282	9/2/2003	6/1/2004	\$10,000,000 Excess of Primary	\$13,816
Commercial Crime	Travelers Insurance Co.	008 BY 103302315BM	6/1/2003	6/1/2004	\$5,000,000 Employee Dishonesty \$5,000,000 Forgery & Alteration \$5,000,000 Computer Fraud \$50,000 Deductible	\$13,526
Excess Workers' Compensation	Midwest Employers Casualty Co.	3348-SO-WI	6/1/2003	6/1/2004	Workers' Compensation - Statutory \$1,000,000 Employer's Liability \$350,000 Deductible	\$52,876
Environmental Liability - Owner's Pollution	American International Specialty Lines Co.	PLS 267-68-89	2/25/1999	2/25/2004	\$5,000,000 Each Incident \$100,000 Deductible	\$61,800
Protection & Indemnity with Collision Liability (Marine)	Continental Casualty Insurance Company	H0864488	6/1/2003	6/1/2004	\$1,000,000 Each Occurrence \$2,500 Deductible	\$10,250

The District retains all risk involving comprehensive general liability claims.



Owner Controlled Insurance Program for Capital Projects

Type of Coverage	Name of Company	Policy Number	Policy Period		Limit of Coverage	Premium
			From	To		
Commercial General Liability for Projects (Except Northwest Side Relief)	Hartford Fire Insurance Company	83CLR-QW7600	6/2/1999	6/2/2004	\$6,000,000 Aggregate \$2,000,000 Bodily Injury & Property \$2,000,000 Personal Injury \$100,000 Fire Damage	\$8,247,366
Workers' Compensation for Projects (Except Northwest Side Relief)	Hartford Fire Insurance Company	83WBR-QW7601	6/2/1999	6/2/2004	Workers' Compensation-Statutory \$1,000,000 Employer's Liability	Included in General Liability Premium
Commercial General Liability for Northwest Side Relief Project	St. Paul Fire & Marine Insurance Company	KK1201023	10/1/2002	10/1/2006	\$2,000,000 Each Occurrence \$6,000,000 Aggregate	\$3,373,528
Workers' Compensation for Northwest Side Relief Project	St. Paul Fire & Marine Insurance Company	WVW1237000	10/1/2002	10/1/2006	Workers' Compensation-Statutory \$1,000,000 Employer's Liability	Included in General Liability Premium
Builder's Risk for Projects of \$5 Million or Less	Zurich America Insurance Company	MBR45502073	6/1/2003	6/1/2004	\$50,000,000 Aggregate \$25,000,000 Flood \$25,000,000 Earthquake \$1,000,000 Debris Removal \$50,000 Deductible (Tunnels) \$100,000 Deductible (Flood) \$100,000 Deductible (Earthquake) \$25,000 Deductible (All Other Losses)	\$50,000
Builder's Risk for Northwest Side Relief Project	Zurich America Insurance Company	IM 455207200	6/1/2003	11/1/2005	\$50,000,000 Aggregate \$2,500,000 Debris Removal \$250,000 Deductible	\$556,104
Commercial Umbrella Liability	National Union Fire Insurance Company	BE701-41-66	6/2/1999	6/1/2004	\$50,000,000 Bodily Injury & Property Damage \$50,000,000 General Aggregate \$50,000,000 Products/Completed Aggregate \$10,000 Deductible	\$200,000
Professional Liability for Northwest Side Relief Project*	Lexington Insurance	048 3465	8/27/2002	12/31/2005	\$25,000,000 Each Claim \$25,000,000 Aggregate \$500,000 Deductible	\$414,060
Professional Liability for Projects* (Except Northwest Side Relief)	Lexington Insurance	048 3466	8/27/2002	12/31/2007	\$25,000,000 Each Claim \$50,000,000 Aggregate \$100,000 Deductible	\$2,657,400
Environmental Liability - Owner's Pollution	Chubb Environmental Solutions	3730-59-20	11/1/2002	11/1/2010	\$10,000,000 Each Claim \$40,000,000 Aggregate \$250,000 Deductible	\$467,445
Environmental Liability - Contractor's Pollution	Chubb Environmental Solutions	3730-59-19	11/1/2002	11/1/2010	\$10,000,000 Each Claim \$40,000,000 Aggregate \$250,000 Deductible	\$715,526

*For professional liability coverage the Architect/Engineer firm is the named insured and responsible for the policy deductible.

Exhibit B16

Miscellaneous Operating Statistics

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

	2003	2002	2001	2000	1999
Millions of gallons of sewage treated	62,094	70,473	78,381	78,718	79,956
Approximate number of employees:					
Administrative	83	89	93	90	95
Engineering	61	52	49	45	43
Plant operating and laboratory	75	73	71	73	77
	219	214	213	208	215
Fertilizer (Milorganite):					
Tonnage shipped	44,742	46,621	45,851	50,879	51,747
Average selling price per ton shipped	\$126.67	\$121.62	\$119.00	\$118.25	\$123.81
Tonnage produced	47,701	41,344	48,570	50,787	48,187



1998	1997	1996	1995	1994
80,516	82,455	82,303	85,184	79,723
94	99	113	126	129
38	96	112	118	119
81	321	335	352	361
213	516	560	596	609
46,455	49,631	48,468	49,309	57,799
\$122.17	\$124.13	\$122.87	\$112.91	\$105.48
45,873	51,153	46,868	51,052	49,850

Exhibit B17

Population by Municipality

December 31, 2003
Milwaukee Metropolitan Sewerage District

Municipality	Year								Percentage Change 1996-2003
	2003	2002	2001	2000	1999	1998	1997	1996	
Bayside	4,300	4,329	4,337	4,688	4,766	4,769	4,810	4,830	-11.0%
Brown Deer	12,044	12,118	12,151	12,322	12,294	12,341	12,441	12,471	-3.4%
Cudahy	18,323	18,410	18,437	19,243	19,019	18,915	18,864	18,872	-2.9%
Fox Point	6,992	6,990	6,923	7,089	7,127	7,152	7,166	7,189	-2.7%
Franklin (1)	31,467	30,749	30,199	28,804	27,780	27,186	26,591	25,726	22.3%
Glendale	13,071	13,121	13,337	14,041	14,064	13,960	14,126	14,241	-8.2%
Greendale	14,169	14,283	14,373	15,444	15,473	15,401	15,441	15,239	-7.0%
Greenfield	36,000	35,776	35,568	36,257	36,300	35,632	35,593	35,449	1.6%
Hales Corners	7,699	7,759	7,783	7,843	7,879	7,821	7,850	7,818	-1.5%
Milwaukee	595,245	595,958	595,508	605,572	608,150	610,654	612,740	620,609	-4.1%
Oak Creek (1)	30,856	29,826	29,232	27,479	26,766	25,842	24,975	23,915	29.0%
River Hills	1,620	1,633	1,636	1,624	1,632	1,643	1,648	1,646	-1.6%
St. Francis	8,755	8,777	8,812	9,350	9,389	9,425	9,451	9,323	-6.1%
Shorewood	13,578	13,724	13,746	13,900	13,908	14,008	14,062	14,083	-3.6%
Wauwatosa	46,802	46,930	47,179	48,755	49,039	49,064	49,335	49,299	-5.1%
West Allis	60,923	61,114	61,164	63,322	63,769	63,712	63,653	63,576	-4.2%
West Milwaukee	4,149	4,170	4,191	4,173	4,195	4,242	4,253	4,259	-2.6%
Whitefish Bay	14,041	14,109	14,146	13,939	13,999	14,065	14,161	14,158	-0.8%
Total District population	920,034	919,776	918,722	933,845	935,549	935,832	937,160	942,703	
Total population served by the District (2)	1,058,742	1,057,404	1,054,627	1,065,603	1,064,809	1,062,364	1,062,356	1,065,282	
1996 = 100%	99.4%	99.260%	99.0%	100.0%	100.0%	99.7%	99.7%	100.0%	
Total state population	5,490,718	5,453,896	5,400,449	5,310,406	5,274,827	5,234,350	5,192,298	5,142,999	
1996 = 100%	106.8%	106.1%	105.0%	103.3%	102.6%	101.8%	101.0%	100.0%	

(1) Total population is reported for Franklin and Oak Creek. Portions of these municipalities lie outside the District.

(2) Includes all or parts of the following communities outside the District: Brookfield, Butler, Elm Grove, Germantown, Menomonee Falls, Mequon, Muskego, New Berlin, Thiensville and Caddy Vista Sanitary District.

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

Exhibit B18

Labor Force Statistics - Milwaukee County

For the Fiscal Years Ended December 31, 1994 Through 2003
Milwaukee Metropolitan Sewerage District

Fiscal Year	Labor Force	Employment	Unemployment	Unemployment Rate	
				Milwaukee County	National Average
2003	487,689	452,886	34,803	7.1%	6.0%
2002	483,695	449,972	33,723	7.0	5.8
2001	480,641	453,604	27,037	5.6	5.4
2000	494,973	473,576	21,397	4.3	4.0
1999	482,652	464,426	18,226	3.8	4.2
1998	493,412	475,645	17,947	3.6	4.5
1997	491,344	471,311	20,033	4.1	4.9
1996	488,522	468,707	19,485	4.1	5.4
1995	479,992	461,056	18,936	3.9	5.6
1994	486,500	462,000	24,500	5.0	6.1

Source: Wisconsin Department of Workforce Development and Bureau of Labor Statistics.



Flushing Station

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