

MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

2004

COMPREHENSIVE ANNUAL
FINANCIAL REPORT



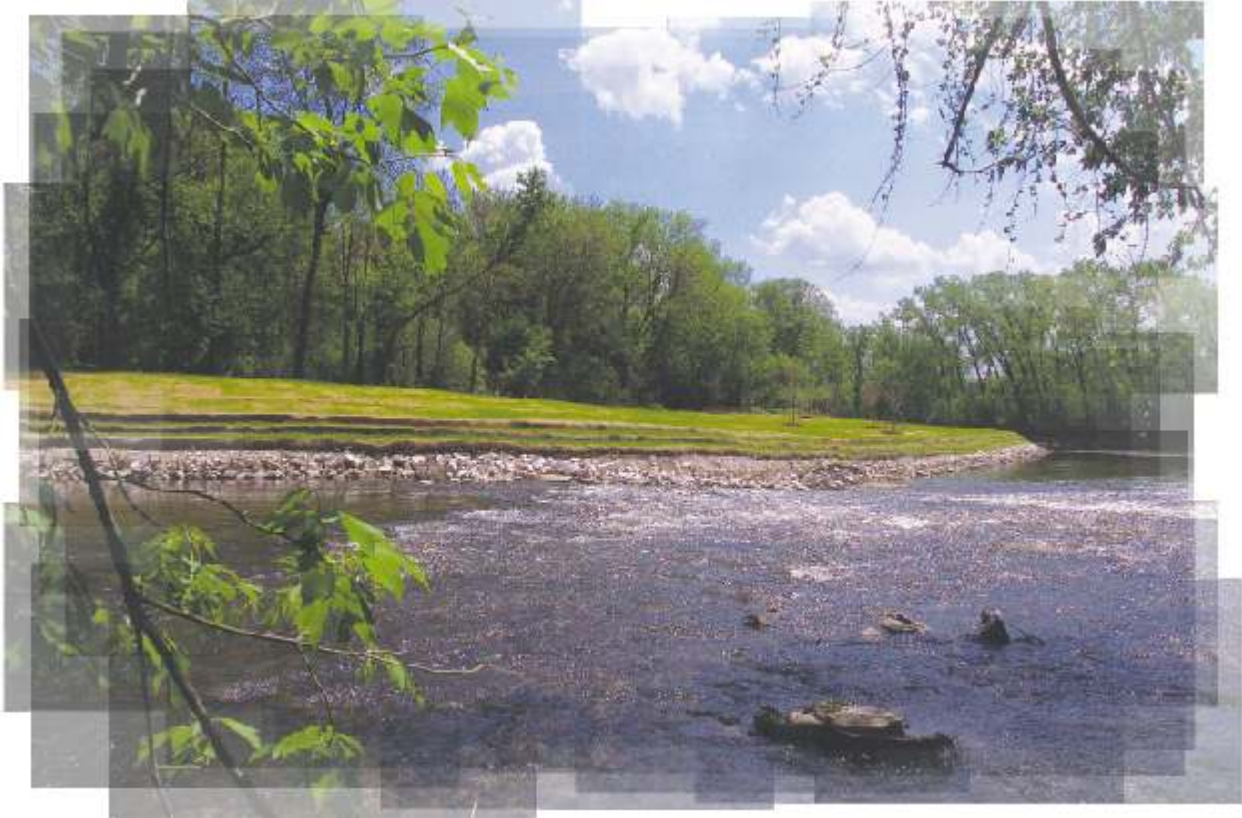
FOR THE YEAR ENDED DECEMBER 31, 2004



MILWAUKEE, WISCONSIN

2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended December 31, 2004



Hoyt Park



Date of Incorporation

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

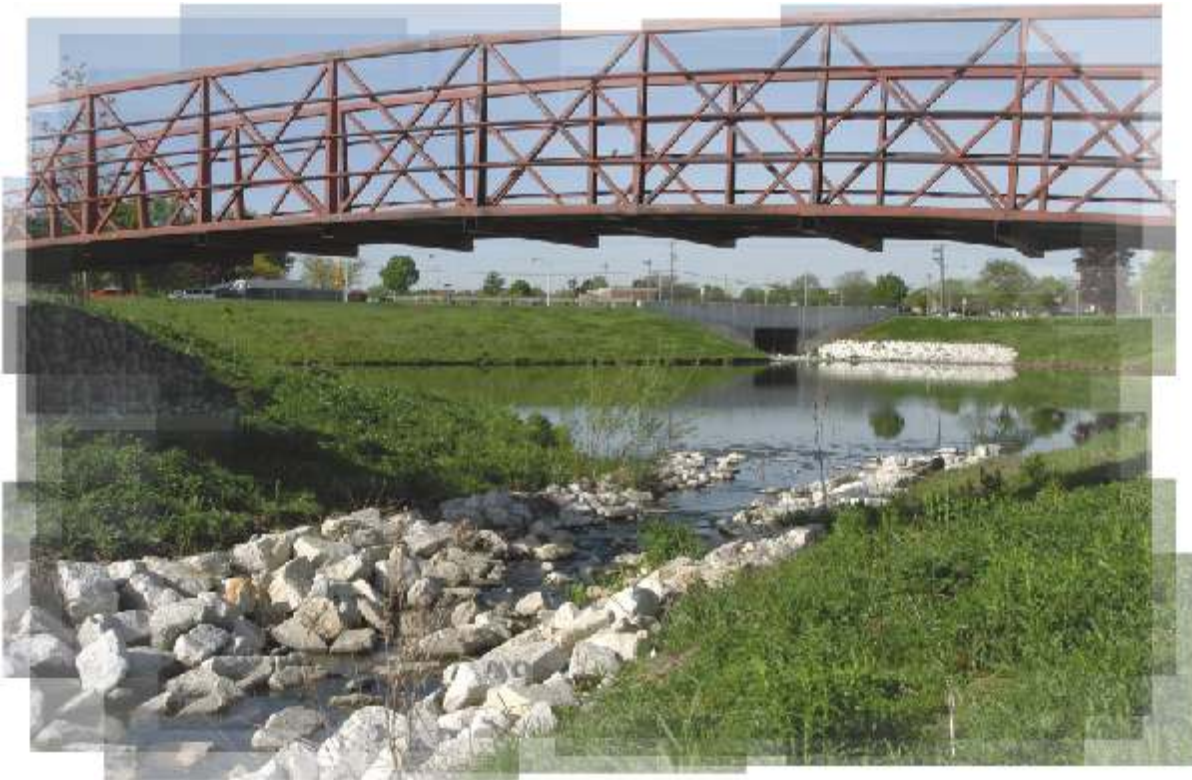
Finance and Administrative Staff

Mark T. Kaminski,
CPA, Acting Controller/Treasurer

Steven Kreklow,
Manager, Budget and Financial Planning

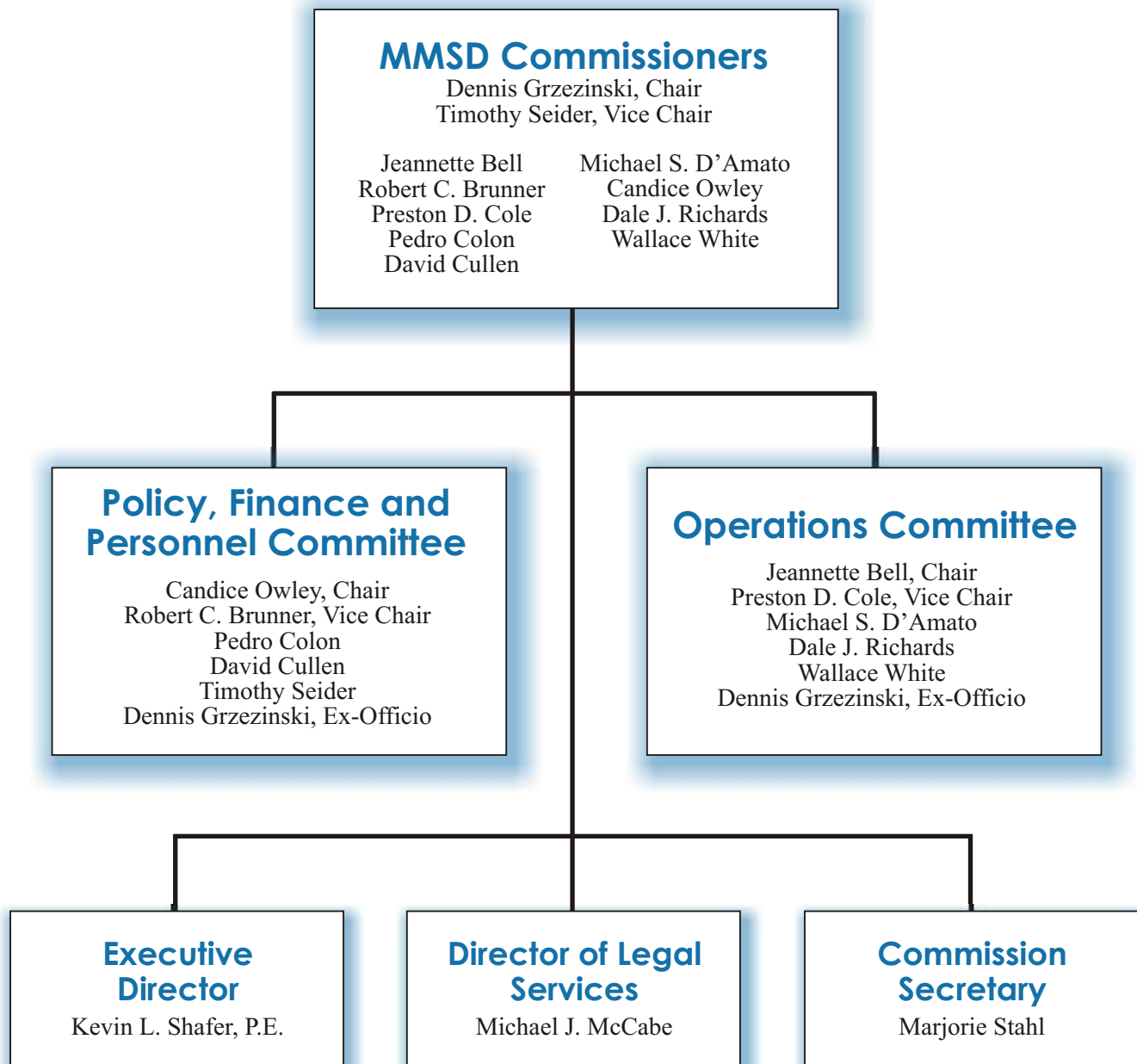
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South Branch Creek

Commission Organization Chart



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

District Staff

Kevin L. Shafer, P.E.
Executive Director

Marjorie Stahl
Commission Secretary

Michael J. McCabe
Director of Legal Services

Michael Martin
Director of Technical Services

Jeannette Bell
Mayor
City of West Allis

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

Robert C. Brunner
Village President
Village of River Hills

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

Preston D. Cole
Environmental Services
Superintendent
City of Milwaukee

Dale J. Richards
Former Mayor
City of Oak Creek

Pedro Colon
State Representative

Wallace White
Principal
W2Excel, LLC

David Cullen
State Representative

Principal Advisors

KPMG LLP
Independent Auditors

Foley & Lardner
Bond Counsel

Chairman's Message

Clean water is a regional challenge that requires a regional solution.



Dennis Grzezinski
Milwaukee Metropolitan
Sewerage District
Chairman

Those words were repeated often after spring 2004 when MMSD experienced its largest combined sewer overflow since the deep tunnel went on line in 1993. The wettest May in 110 years also caused sanitary sewer overflows in several local communities.

Wisconsin Department of Natural Resources Secretary Scott Hassett publicly stated that these

overflows were a “wake up call.” But our region's response to the problem surprised some people familiar with the 'sewer wars' of the past.

Instead of engaging in finger-pointing and political infighting, MMSD and local leaders chose to work together to build consensus on systemwide solutions. Finding common ground isn't always easy, but for Southeastern Wisconsin to successfully compete in today's global economy demands a new way of doing business.

Family supporting jobs, business growth and our quality of life depend on a clean environment. Just look at the thousands of condominiums and restaurants that have been built along Milwaukee's RiverWalk to see how clean water is spurring economic development.

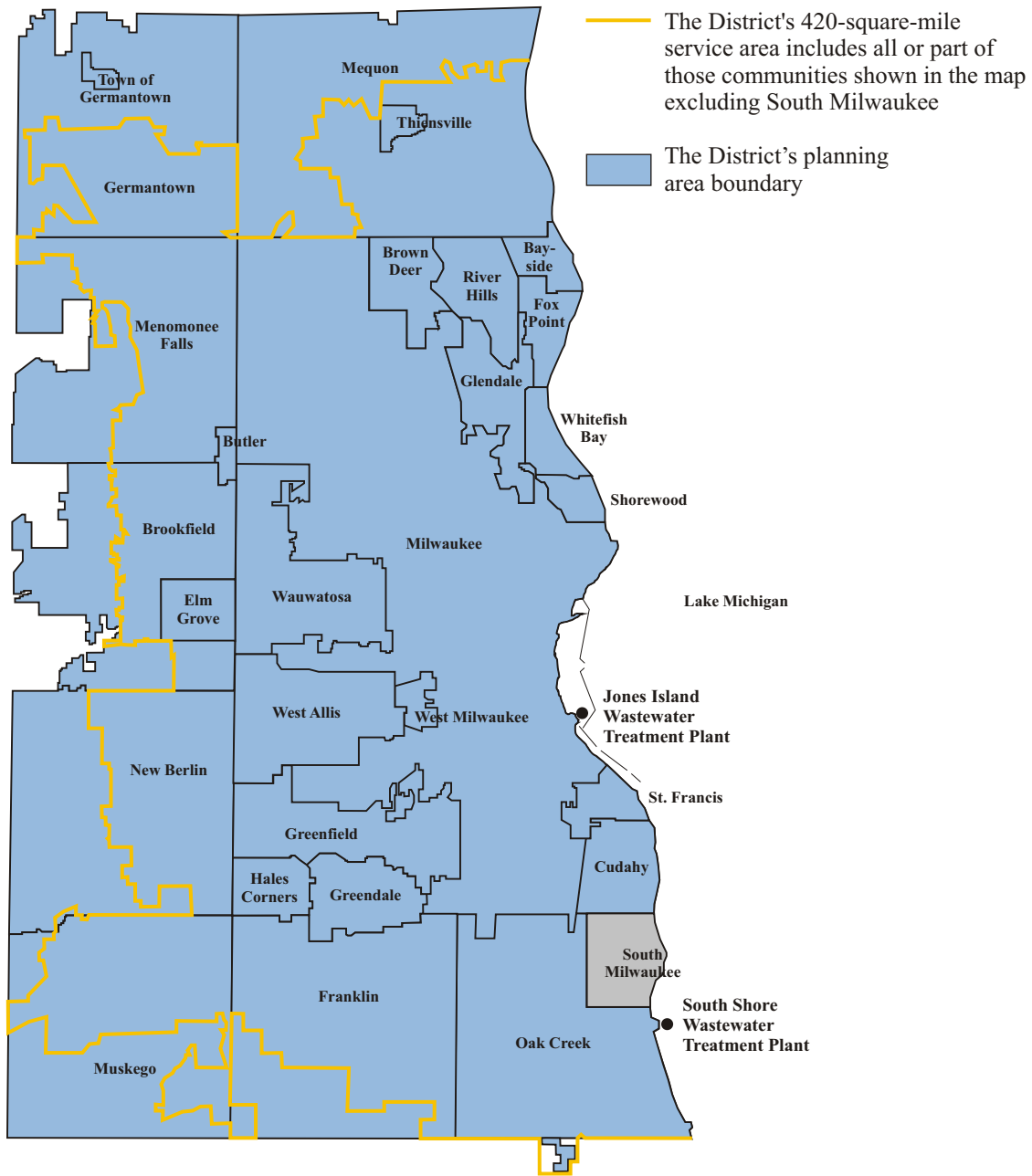
We see a heightened sense of urgency among a rapidly growing list of stakeholders working to reduce the many sources of pollution that threaten the health of waterways and beaches. MMSD through the Water Quality Initiative is committed to support these efforts to find cost effective strategies that protect our rivers and Lake Michigan.

On behalf of the 220 environmentalists who work at MMSD, I am proud to present MMSD's 2004 Comprehensive Annual Financial Report. I encourage you to take a few minutes to review this document which highlights MMSD's strong financial position and its commitment to environmental stewardship.

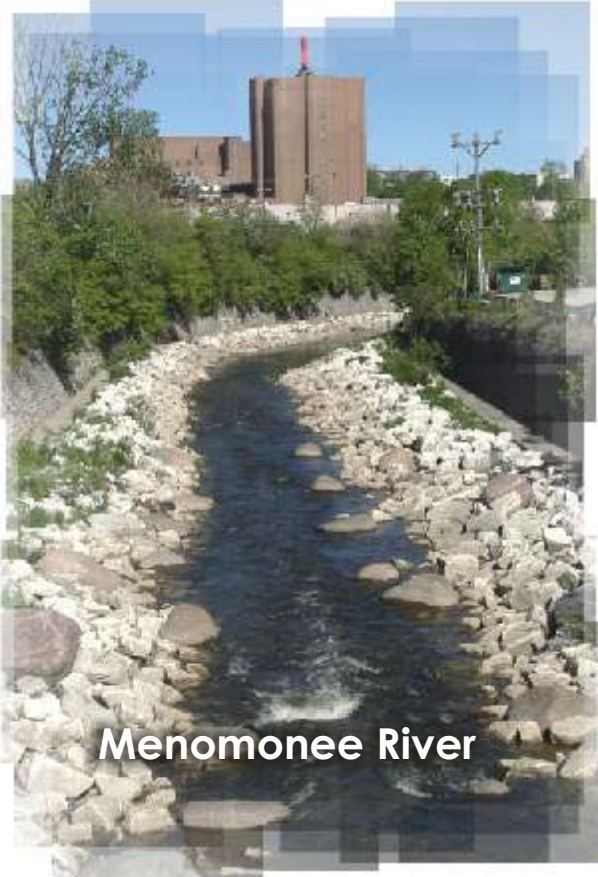
Sincerely,
Dennis Grzezinski
Chairman



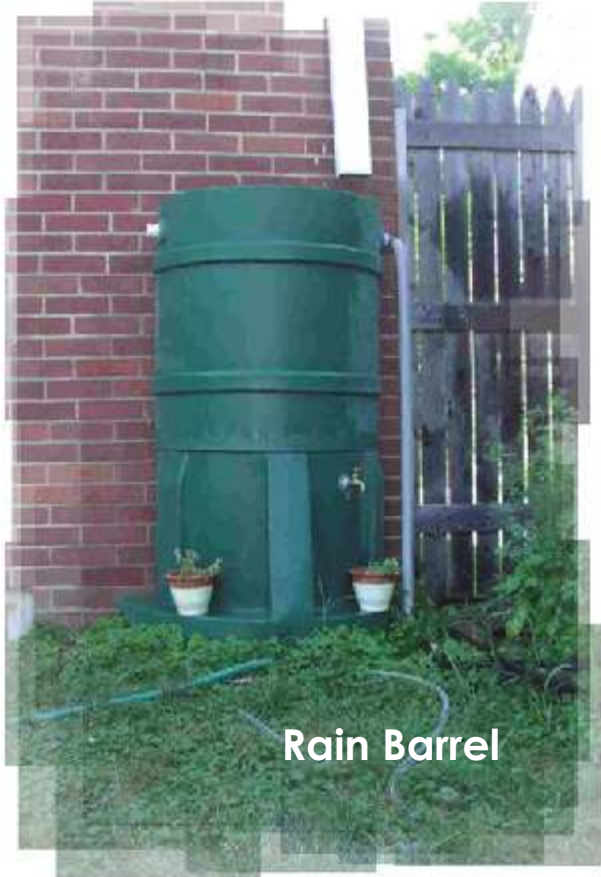
Milwaukee Metropolitan Sewerage District



Highlights



Menomonee River



Rain Barrel



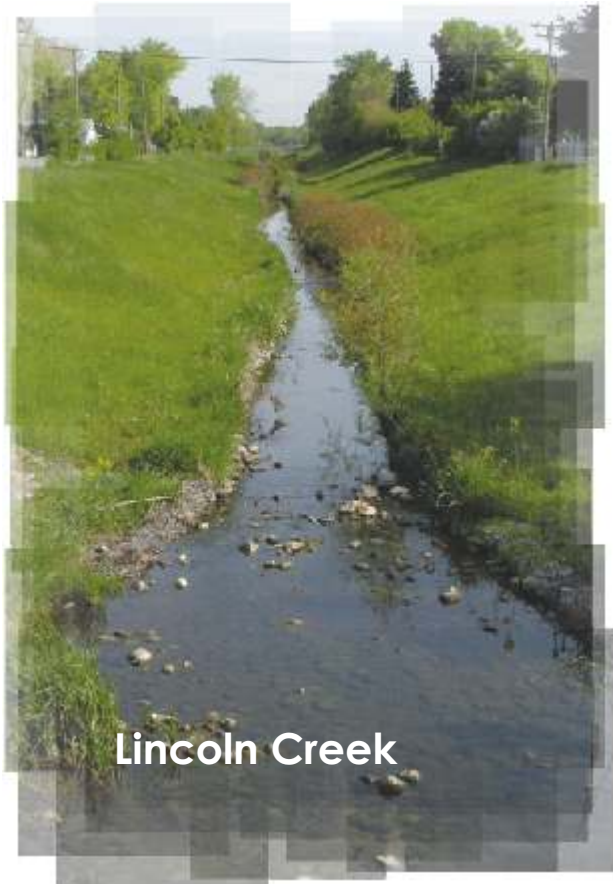
Greenseams

The challenge in storm water management is finding the optimum mix of non-structural and structural measures

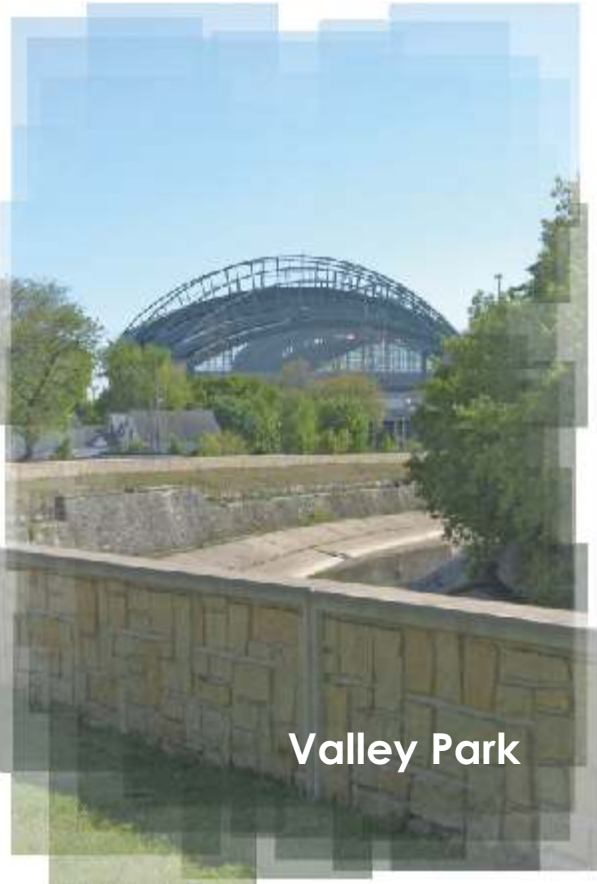


Conservation Fund

*Reducing flooding and pollution
is one way the District
carries out its mission*



Lincoln Creek



Valley Park



March 25, 2005

The Commissioners Milwaukee Metropolitan Sewerage District

Dear Commissioners:

The Milwaukee Metropolitan Sewerage District (District) hereby issues the comprehensive annual financial report of the District for the fiscal year ended December 31, 2004. This comprehensive annual financial report is prepared 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.

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, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over

financial reporting. Accordingly, KPMG expresses no such opinion. 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, 2004, 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 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.

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

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 Milwaukee metropolitan area continues to reflect economic growth and diversification. Growth in the District's taxable valuation has been steady, increasing an average of 6.8% annually over the last five years. The District's ten largest taxpayers make up only 3.1% of the total tax base. About one-half of these taxpayers are commercial real estate developers whose projects include shopping malls, office buildings, and hotels.

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

Another indicator of the Milwaukee area economy experiencing sustainable growth during 2004 is the unemployment rate. The unemployment rate in Milwaukee County declined from 7.1% in 2003 to 6.4% in 2004. This economic growth combined with the above-mentioned diversification in the area economy, provides for a stable economic profile over the long-term.

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 growth in personal income. 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 2005 operating budget includes the following initiatives to improve overall organizational effectiveness and achieve long-term cost savings:

- Ongoing health-care cost containment through plan design changes that were implemented in 2003. In addition, employees are establishing a voluntary wellness program initiative. This signals a move towards controlling health-care expenditures that is driven by employees' well being rather than administrative actions.
- The creation of twenty positions that will allow the District to improve not only direct services to its mission, but also improve internal support services.
- The inclusion of several programs to enhance the areas waterways including beach grooming services and skimmer boat operations. These programs will allow the District to remove pollutants and improve water quality on both local rivers and beaches where they are directly visible to the public before they enter District systems.

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:

- Limiting tax levy increases to the rate of growth in personal income. For 2005, this resulted in a tax rate of \$1.54 per \$1,000 of equalized property value, compared to a rate in 2004 of \$1.59 per \$1,000.
- 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 \$847 million in capital project expenditures from 2005 through 2010, primarily for improvements to treatment plants, conveyance facilities, watercourse improvements and facilities planning. By 2009 the District expects to provide environmentally responsible flood protection to 95% of 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, 2004, of the District's investments, 65.2% were invested in commercial paper, 26.7% were invested in obligations of the U.S. government, its agencies and instrumentalities and 6.4% were invested in the fully insured state government pooled investment fund. 73.8% of all District funds invested had a maturity of less than 180 days at December 31, 2004. The average yield, net of all fees, on District investments during 2004 was 1.80%.

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, builder's risk, environmental liability insurance and professional liability insurance coverage for capital construction projects.

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 11 and 12 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 six years of the 10-year agreement, the District has calculated that it has saved over \$5.1 million more than was originally projected at the six-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

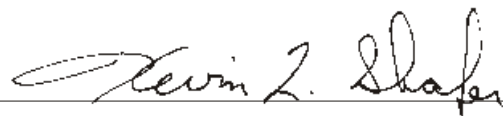
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2003. This was the 26th consecutive year

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.

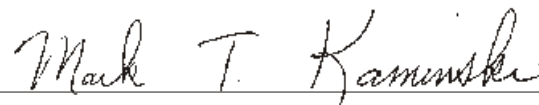
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated January 2004. 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, 2003. This is the 26th 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**

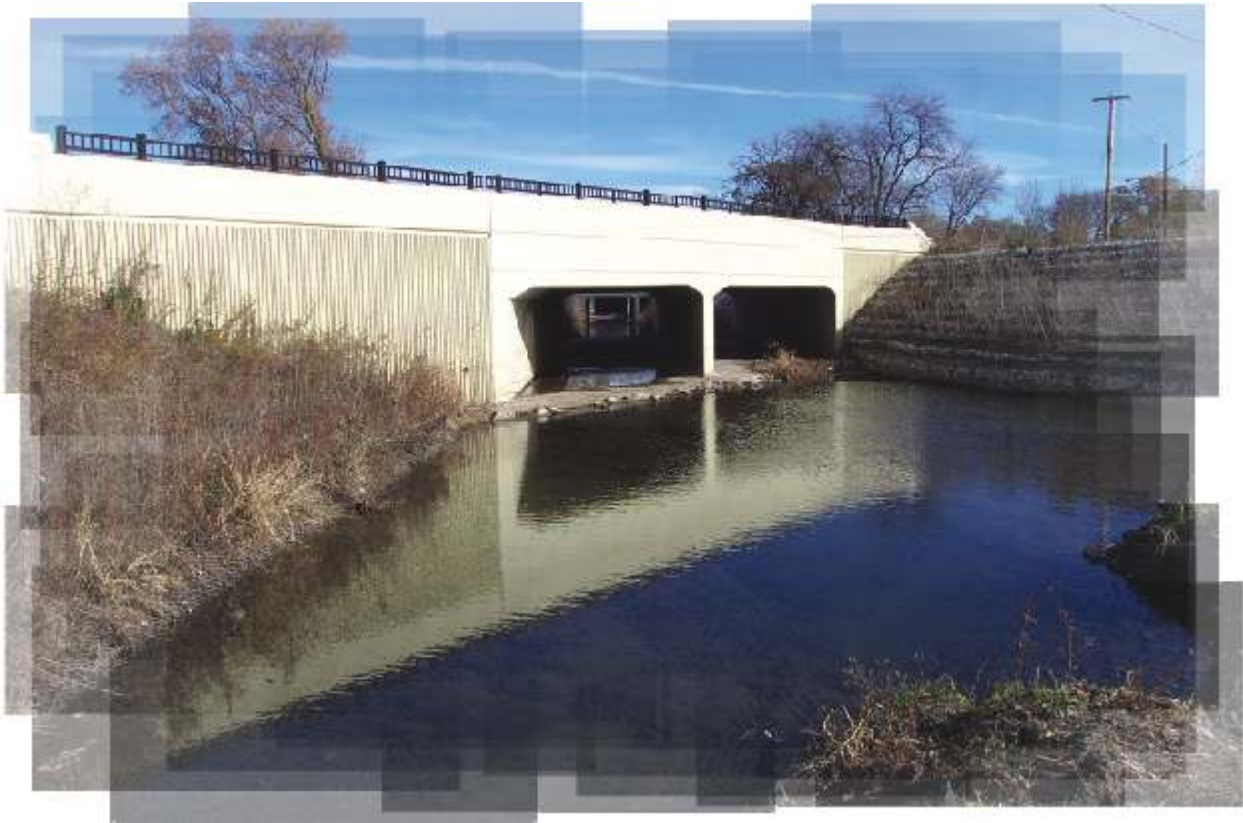
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

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.



President

Executive Director



Lincoln Creek Reach 8



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, 2004 and 2003. These financial statements are the responsibility of the management and commissioners of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 Milwaukee Metropolitan Sewerage District as of December 31, 2004 and 2003, 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 25, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 25, 2005



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 years ended December 31, 2004 and 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 \$2.35 billion remained consistent over the course of this year's operation, increasing by \$19.5 million or 0.8%.
- The District's unrestricted net assets show a deficit of \$15.6 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 \$55.9 million liability related to these benefits which has reduced its unrestricted net asset amount. At December 31, 2004, the current year portion of this liability was \$4.1 million.
- During 2004, the District received \$67.2 million in loan proceeds from the State of Wisconsin Clean Water Fund Loan Program. The issuance of this new debt, along with other general obligation debt, brings the District's outstanding debt at December 31, 2004, to \$692.6 million. This is an increase of \$32.6 million over the balance at December 31, 2003. The District's debt limit rate decreased from 1.46% to 1.42% as compared to the statutory limit rate of 5%.
- The 20.6% increase in nonoperating expenses in 2004 reflects additional interest expense due to the continued increase in outstanding debt used to fund capital projects related to the 2010 Facilities Plan.

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 approximately \$2,350,803,000 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 (94.0% at December 31, 2004) 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>2004</u>	<u>2003</u>	<u>2002</u>	Percentage Increase (Decrease) 2004 Versus 2003
Current and Other Assets	\$318,077	\$312,562	\$250,804	1.8%
Capital Assets	<u>2,928,865</u>	<u>2,870,177</u>	<u>2,806,247</u>	2.0
Total Assets	<u>3,246,942</u>	<u>3,182,739</u>	<u>3,057,051</u>	2.0
Long-Term Liabilities Outstanding	719,432	692,467	577,275	3.9
Other Liabilities	<u>176,707</u>	<u>159,009</u>	<u>167,371</u>	11.1
Total Liabilities	<u>896,139</u>	<u>851,476</u>	<u>744,646</u>	5.2
Invested in Capital Assets, Net of Related Debt	2,211,886	2,207,321	2,237,251	0.2
-Restricted	154,468	135,374	88,994	14.1
-Unrestricted	<u>(15,551)</u>	<u>(11,432)</u>	<u>(13,840)</u>	36.0
Total Net Assets	<u>\$2,350,803</u>	<u>\$2,331,263</u>	<u>\$2,312,405</u>	0.8%

A portion of the District's net assets (6.6% in 2004 and 5.8% in 2003) represents resources that are subject to external restrictions on how they may be used. As noted previously under "Financial Highlights", the District shows a \$15.6 million deficit in unrestricted net assets at December 31, 2004 and \$11.4 million deficit at December 31, 2003. 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 \$51.8 million at December 31, 2004 and \$48.3 million at December 31, 2003.

As can be seen from Table A-1, net assets increased by \$19.5 million in 2004 after increasing \$18.9 million in 2003. The increase in net assets for 2004 and 2003 is directly related to the District's implementation of its six-year capital improvements program plan. Current and other assets at December 31, 2004 increased only slightly. This compares with the 24.6% increase in current and other assets at December 31, 2003, shown above in Table A-1, which was primarily the result of less than anticipated capital disbursements in 2003, causing the District to have a higher amount of investments at December 31.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>	Percentage Increase (Decrease) 2004 Versus 2003
Operating Revenues:				
Sewer User Charges	\$44,663	\$45,090	\$43,425	(0.9%)
Fertilizer	6,338	5,902	5,325	7.4
Other	<u>752</u>	<u>298</u>	<u>205</u>	152.3
Total Operating Revenues	51,753	51,290	48,955	0.9
Nonoperating Revenues	<u>97,235</u>	<u>95,248</u>	<u>84,450</u>	2.1
Total Revenues	<u>148,988</u>	<u>146,538</u>	<u>133,405</u>	1.7
Operating Expenses:				
Systems - Operation and Maintenance	38,179	36,889	38,111	3.5
Laboratory and Research Services	2,095	1,997	1,934	4.9
Industrial Waste and Conveyance Monitoring	3,062	2,968	2,827	3.2
Finance, Engineering and Administration	14,749	14,636	13,660	0.8
Depreciation	<u>62,602</u>	<u>61,207</u>	<u>58,841</u>	2.3
Total Operating Expenses	120,687	117,697	115,373	2.5
Nonoperating Expense	<u>12,215</u>	<u>10,130</u>	<u>11,874</u>	20.6
Total Expenses	<u>132,902</u>	<u>127,827</u>	<u>127,247</u>	4.0
Income Before Capital Contributions	16,086	18,711	6,158	(14.0)
Capital Contributions	<u>3,454</u>	<u>147</u>	<u>4,767</u>	2,249.7%
Changes in Net Assets	19,540	18,858	10,925	
Beginning Net Assets	<u>2,331,263</u>	<u>2,312,405</u>	<u>2,301,480</u>	
Ending Net Assets	<u>\$2,350,803</u>	<u>\$2,331,263</u>	<u>\$2,312,405</u>	

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 above, for the fiscal year ended 2004, total revenues increased, \$2.5 million or 1.7% and expenses increased by \$5.1 million or 4.0%. The major factors, which drove these results, include:

- Although sewer user charge billings were budgeted to increase 0.7% in 2004, a slight decline in industrial wasteloads resulted in a 0.9% decrease over 2003 sewer user charges. The District's Milorganite revenue increased for the second consecutive year. 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 \$2.0 million or 2.1%. Capital charges to communities outside the District increased by \$1.7 million in 2004 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 2004 watercourse expenditures decreased by \$8.5 million from the prior year. In addition, the tax levy billed to member communities slightly decreased in 2004.

- The increase in nonoperating expenses in 2004 reflects additional interest expense due to the continued increase in outstanding debt used to fund capital projects related to the 2010 Facilities Plan.

The increase in capital contributions in 2004 is due to the construction reimbursement agreement with the Wisconsin Department of Transportation (WDOT) for the Clybourn Sewer Relocation. This interceptor sewer needed to be relocated as part of the WDOT Marquette Interchange freeway project.

For the fiscal year ended 2003, total revenues increased \$13.1 million and expenses increased by \$580,000. 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 increase of 2%, 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.

- 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004, the District's investment in capital assets amounted to \$2.9 billion (net of accumulated depreciation) as shown in Table A-3 below. The \$103 million increase in Construction in Progress for 2004 was primarily the result of Metropolitan Interceptor Sewer projects for expansion of storage capacity, conveyance capacity and sewer rehabilitation;

wet weather capacity and instrumentation and control improvements at the Jones Island plant; and development of the 2020 Facilities Plan.

During 2003, the \$49.9 million increase in machinery and equipment 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 2005, 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 2008 at \$171 million with expenditures totaling \$847 million over the six-year period, 2005 through 2010. Actual project expenditures totaled \$107 million and \$117 million in 2004 and 2003 respectively.

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, 2004 amounted to \$692.6 million. Included in this amount are \$302.2 million of general obligation bonds issued by the District.

Table A-3
Capital Assets ('000's)

	2004	2003	2002	Percentage Increase (Decrease) 2004 Versus 2003
Land & Land Improvements	\$49,398	\$49,398	\$47,794	0.0%
Buildings	792,357	792,357	792,827	0.0
Machinery & Equipment	604,821	589,686	540,789	2.6
Aeration and Clarifier Tanks	62,692	62,692	62,692	0.0
Watercourse Improvements	163,040	162,900	126,192	0.1
Intercepting Sewer System	1,644,980	1,642,059	1,604,082	0.2
Construction in Progress	410,543	307,580	307,871	33.5
Subtotal	3,727,831	3,606,672	3,482,247	3.4
Less: Accumulated Depreciation	(798,966)	(736,495)	(676,000)	8.5
Net Property, Plant and Equipment	<u>\$2,928,865</u>	<u>\$2,870,177</u>	<u>\$2,806,247</u>	2.0%

The remaining balance of \$390.4 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 2.365% to 4.953%.

During 2003 the District issued \$69 million in general obligation bonds, 20-year level debt service, dated February 1, 2003, with a true interest cost 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 cost 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 million of General Obligation Sewerage System Bonds, Series 2001A. At December 31, 2003, \$51.9 million remains outstanding on the 2001 Series A bonds.

On April 21, 2005, the District issued \$57,115,000 of General Sewerage System Refunding Bonds, Series 2005A. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on \$20,815,000 of General Obligation Sewerage System Bonds, Series 2001A, and \$38,660,000 of General Obligation Sewerage System Bonds, Series 2003D.

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

Moody's		
Investors Service	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 6.4 percent for 2004, which is a decrease from a rate of 7.1 percent a year ago. This compares to the state's unemployment rate of 4.9 percent and the national rate of 5.5 percent.
- Inflation in the metropolitan area continues to be lower than the national consumer price index.

- ▶ Milwaukee's inflation rate was 1.4% for 2004.
- ▶ The average U.S. city rate was 2.7% for 2004.
- The equalized valuation for the District's service area increased by 6.9 percent in 2004, while 2004 user charge wasteloads changed as follows:
 - ▶ Billable flows down 1.6%.
 - ▶ Pounds of Biochemical Oxygen Demand (BOD) down 2.8%.
 - ▶ Pounds of Total Suspended Solids (TSS) down 2.7%.

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

The District approved a \$61.5 million 2005 Operation and Maintenance Budget, an increase of \$3.4 million or 5.8% from 2004. The District's sewer user charge billings are budgeted to increase 4.3% in 2005 to about \$45.2 million. The average 2005 District residential charge is \$78.36. 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 2005 at a rate no higher than the growth in personal income.

The District's Commission approved a 2005 Capital Budget that reduced the tax rate to \$1.54 per \$1,000 of equalized value. Included in the Capital Budget is the current six-year financing plan which limits tax levy increases to the rate of growth in personal income, and results in a projected tax rate remaining at \$1.54 per \$1,000 of equalized value through 2010.

As mentioned earlier, the current six-year financing plan anticipates peak capital project expenditures in 2008 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 2005 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, 2004 and 2003
Milwaukee Metropolitan Sewerage District

	2004	2003
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$4,348	\$10,982
Investments (note 4)	18,118	12,434
Receivables:		
Billed sewer user charges	3,623	4,244
Unbilled sewer user charges	7,214	6,989
Fertilizer sales	1,184	1,339
Other	477	436
Inventories:		
Operating and maintenance supplies (note 5)	2,044	2,204
Fertilizer	1,986	1,352
Total current assets	38,994	39,980
Restricted assets:		
Cash and cash equivalents (note 3)	–	9,967
Investments (note 4)	167,888	167,866
Receivables:		
Tax levy	74,706	71,530
Capital charges – municipalities outside the District	27,942	18,312
Grant funds (note 6)	15	–
Other	4,262	1,320
Prepaid expenses	4,270	3,587
Total restricted assets	279,083	272,582
Capital assets, at cost (note 7):		
Land	29,860	29,860
Land improvements	19,538	19,538
Buildings	792,357	792,357
Aeration and clarifier tanks	62,692	62,692
Machinery and equipment	604,821	589,686
Intercepting sewer system	1,644,980	1,642,059
Watercourse improvement	163,040	162,900
Construction in progress	410,543	307,580
	3,727,831	3,606,672
Less accumulated depreciation	(798,966)	(736,495)
Net capital assets	2,928,865	2,870,177
Total assets	\$3,246,942	\$3,182,739

See accompanying notes to financial statements.



	2004	2003
	<i>(In Thousands)</i>	
Liabilities		
Current liabilities (payable from current assets):		
Accounts payable	\$6,172	\$8,286
Accrued salaries and wages	50	90
Postretirement benefits (notes 8 and 11)	4,144	4,021
Accrued vacation pay	1,035	1,015
Other	412	446
	<hr/>	
Total current liabilities (payable from current assets)	11,813	13,858
<hr/>		
Current liabilities (payable from restricted assets):		
Accounts payable	17,929	14,549
Retainers payable	8,941	1,651
Accrued interest	5,668	5,240
Deferred revenues	95,886	89,274
Long-term obligations due within one year (note 8)	36,470	34,437
	<hr/>	
Total current liabilities (payable from restricted assets)	164,894	145,151
	<hr/>	
Total current liabilities payable	176,707	159,009
<hr/>		
Noncurrent liabilities:		
Retainers payable (note 2)	-	6,464
Long-term obligations (note 8):		
General obligations bonds	297,963	313,084
Clean Water Fund Program loans	368,454	323,404
Postretirement benefits – long term (notes 8 and 12)	51,760	48,310
Accrued vested sick pay (note 8)	1,255	1,205
	<hr/>	
Total long-term obligations	719,432	692,467
	<hr/>	
Total liabilities	896,139	851,476
<hr/>		
Commitments and contingencies (notes 7, 9, and 10)		
Net Assets:		
Invested in capital assets, net of related debt	2,211,886	2,207,321
Restricted - Capital projects	111,838	86,185
Restricted - Equipment replacement	37,410	39,951
Restricted - Debt service	5,220	9,238
Unrestricted	(15,551)	(11,432)
	<hr/>	
Total net assets	\$2,350,803	\$2,331,263
	<hr/>	

Exhibit A2

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended December 31, 2004 and 2003
Milwaukee Metropolitan Sewerage District

	2004	2003
	<i>(In Thousands)</i>	
Operating revenues:		
Sewer user charges	\$44,663	\$45,090
Fertilizer	6,338	5,902
Other	752	298
Total operating revenues	51,753	51,290
Operating expenses:		
Systems - operation and maintenance (note 5)	38,179	36,889
Laboratory and research services	2,095	1,997
Industrial waste and conveyance monitoring	3,062	2,968
Finance, engineering and administration	14,749	14,636
Depreciation	62,602	61,207
Total operating expenses	120,687	117,697
Operating loss	(68,934)	(66,407)
Nonoperating revenues (expenses):		
Property taxes	71,424	71,860
Investment income	3,948	3,965
Net decrease in fair value of investments	(948)	(1,067)
Interest expense	(12,215)	(10,130)
Capital charges – communities outside the District	21,343	19,678
Gain (loss) on disposal of capital assets	13	(302)
Other	1,455	1,114
Total nonoperating revenues (expenses), net	85,020	85,118
Income before capital contributions	16,086	18,711
Capital contributions (note 5)	3,454	147
Change in net assets	19,540	18,858
Net assets at beginning of year	2,331,263	2,312,405
Net assets at end of year	\$2,350,803	\$2,331,263

See accompanying notes to financial statements.

Exhibit A3 Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003
Milwaukee Metropolitan Sewerage District

	<u>2004</u>	<u>2003</u>
	<i>(In Thousands)</i>	
Cash flow from operating activities:		
Receipts from customers and users	\$50,521	\$54,499
Payments to suppliers	(43,816)	(55,874)
Payments to employees	(9,908)	(10,928)
Net cash used in operation activities	<u>(3,203)</u>	<u>(12,303)</u>
Cash flow from non-capital and related financing activities:		
Tax levy receipts	74,860	73,108
Cash flow from capital and related financing activities:		
Proceeds from Clean Water Fund Program loans	67,173	68,739
Proceeds from issuance of general obligation debt	—	115,462
Acquisition and construction of capital assets	(120,451)	(123,209)
Principal payments on long-term obligations	(34,590)	(67,130)
Interest paid on long-term obligations (net of capitalized interest)	(12,836)	(12,122)
Deferred refunding loss	—	(1,980)
Government grant receipts	3,439	1,082
Capital charges – municipalities outside the District	11,713	11,248
Contributed capital – United Water Services Milwaukee LLC	—	148
Net cash used in capital and related financing activities	<u>(85,552)</u>	<u>(7,762)</u>
Cash flow from investing activities:		
Investment income	3,948	3,965
Purchase of investments	(2,538,530)	(11,650,688)
Proceeds from sale and maturity of investments	2,531,876	11,586,664
Net cash used in investing activities	<u>(2,706)</u>	<u>(60,059)</u>
Net decrease in cash and cash equivalents	<u>(16,601)</u>	<u>(7,016)</u>
Cash and cash equivalents at beginning of year	<u>20,949</u>	<u>27,965</u>
Cash and cash equivalents at end of year	<u>\$4,348</u>	<u>\$20,949</u>
Cash and cash equivalents as presented in the accompanying statements of net assets:		
Current	\$4,348	\$10,982
Restricted	—	9,967
	<u>\$4,348</u>	<u>\$20,949</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(68,934)	\$(66,407)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	62,602	61,207
Postretirement benefits	3,573	3,895
Other nonoperating revenue	1,455	1,114
Changes in current assets and liabilities:		
Current receivables and other assets	(3,115)	1,520
Inventories	(474)	(406)
Accounts payable and other liabilities	1,690	(13,226)
Net cash used in operating activities	<u>\$(3,203)</u>	<u>\$(12,303)</u>
Non-cash investing activities:		
Increase (decrease) in fair value of investments	\$948	\$(1,067)

Notes to Financial Statements

December 31, 2004 and 2003

(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 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 an appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units 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 2004 that will be collected in 2005 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 \$37.4 and \$40.0 million in 2004 and 2003, 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 2004, to be collected in 2005, of \$74.7 million, have been included in deferred revenue in the statement of net assets at December 31, 2004 and are available for expenditure in 2005. 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.

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

(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.

Notes to Financial Statements Continued

December 31, 2004 and 2003

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

	Years
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, 2004 and 2003, 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 of the financial statements. The District is required to implement this statement beginning with the year ended December 31, 2005.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement in 2005 is not expected to have a material impact of the District's basic financial statements.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards of accounting and financial reporting for other postemployment benefits ("OPEB") expense/expenditures and related OPEB liabilities or OPEB assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The District will be required to implement this statement for the year ended December 31, 2008.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34*. The objective of this statement is to enhance the usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. The District will be required to implement this statement during the year ending December 31, 2006.

(q) Reclassification

Certain amounts in the 2003 basic financial statements have been reclassified to conform with the classification used in 2004.

(3) Cash and Cash Equivalents

Deposits at December 31, 2004 and 2003 included certificates of deposit. The carrying value and bank balances of the District's deposits were \$1,204,000 and \$1,202,000 at December 31, 2004 and 2003, respectively.

The District's deposits are categorized below to indicate the level of risk assumed by the District at December 31, 2004 and 2003. 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, 2004 are categorized as follows:

	1	Category 2	3	Bank Balance	Carrying Amount
Deposits	\$1,202	\$-	\$2	\$1,204	\$1,204
Deposits classified as investments (note 4)					(1,204)
Commercial paper					4,348
Total cash and cash equivalents					<u>\$4,348</u>

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

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

Notes to Financial Statements Continued

December 31, 2004 and 2003

(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 risk assumed by the District at December 31, 2004 and 2003. 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 counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments held by the counterparty, 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, 2004 are categorized as follows:

	Category			Carrying Amount
	1	2	3	
Categorized:				
Commercial paper	\$123,550	—	—	\$123,550
U.S. Treasury notes	3,850	—	—	3,850
Other government-backed debt securities	47,423	—	—	47,423
Corporate notes	2,087	—	—	2,087
	<u>\$176,910</u>	<u>—</u>	<u>—</u>	<u>176,910</u>
Noncategorized:				
Municipal Investors Service Corporation Class Pool				11
Local Government Investment Pool				12,229
Deposits classified as investments				1,204
Commercial paper				(4,348)
Total investments				<u>\$186,006</u>

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

	Category			Carrying Amount
	1	2	3	
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	1,011	—	—	1,011
	<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				(20,949)
Total investments				<u>\$180,300</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 statements 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 ten-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 \$33.3 million and \$32.8 million for the years ended December 31, 2004 and 2003,

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 inventory.

(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:

	Available	Outstanding Grants Receivable		Total
	Grant Funds	Billed	Unbilled	
<i>(In Thousands)</i>				
December 31, 2004:				
Federal	\$ —	—	—	—
State	<u>1,053</u>	<u>—</u>	<u>15</u>	<u>15</u>
	<u>\$1,053</u>	<u>—</u>	<u>15</u>	<u>15</u>
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>

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

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

(7) Capital Assets

Capital assets activity for the year ended December 31, 2004 was as follows:

	Balances				Balances
	Beginning of Year	Additions	Deductions	Transfers	End of Year
<i>(In Thousands)</i>					
Capital assets not being depreciated:					
Land	\$29,860	\$—	\$—	\$—	\$29,860
Construction in progress	307,580	119,928	—	(16,965)	410,543
Total capital assets not being depreciated	<u>337,440</u>	<u>119,928</u>	<u>—</u>	<u>(16,965)</u>	<u>440,403</u>
Capital assets being depreciated:					
Land improvements	19,538	—	—	—	19,538
Buildings	792,357	—	—	—	792,357
Aeration and clarifier tanks	62,692	—	—	—	62,692
Machinery and equipment	589,686	1,362	131	13,904	604,821
Intercepting sewer system	1,642,059	—	—	2,921	1,644,980
Watercourse improvements	162,900	—	—	140	163,040
Total capital assets being depreciated	<u>3,269,232</u>	<u>1,362</u>	<u>131</u>	<u>16,965</u>	<u>3,287,428</u>
Less accumulated depreciation:					
Land improvements	6,603	545	—	—	7,148
Buildings	194,976	15,169	—	—	210,145
Aeration and clarifier tanks	14,411	836	—	—	15,247
Machinery and equipment	220,713	20,526	131	—	241,108
Intercepting sewer system	285,127	23,365	—	—	308,492
Watercourse improvements	14,665	2,161	—	—	16,826
Total accumulated depreciation	<u>736,495</u>	<u>62,602</u>	<u>131</u>	<u>—</u>	<u>798,966</u>
Total capital assets being depreciated, net	<u>2,532,737</u>	<u>(61,240)</u>	<u>—</u>	<u>16,965</u>	<u>2,488,462</u>
Total capital assets, net	<u>\$2,870,177</u>	<u>\$58,688</u>	<u>\$—</u>	<u>\$—</u>	<u>\$2,928,865</u>

Notes to Financial Statements Continued

December 31, 2004 and 2003

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

	Balances				Balances
	Beginning	Additions	Deductions	Transfers	
	of Year				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

The District has construction contract commitments of approximately \$66.8 million as of December 31, 2004.

(8) Long-term Obligations

Changes in long-term obligations for the year ended December 31, 2004 were as follows:

	Balances				Due
	Beginning	Additions	Reductions	Ending	
	Balance			Balance	One
	<i>(In Thousands)</i>				
General obligation bonds	\$316,560	\$-	\$(14,365)	\$302,195	\$14,500
Plus unamortized premium	12,925	-	(796)	12,129	-
Less deferred loss on defeasance and refunding	(2,036)	-	175	(1,861)	-
Total bonds payable	327,449	-	(14,986)	312,463	14,500
State of Wisconsin					
Clean Water Fund	343,476	67,173	(20,225)	390,424	21,970
Subtotal	670,925	67,173	(35,211)	702,887	36,470
Other postretirement benefits	52,331	7,904	(4,331)	55,904	4,144
Vested sick pay	1,295	106	(96)	1,305	50
Total	\$724,551	\$75,183	\$(39,638)	\$760,096	\$40,664

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

	Balances			Ending	Due
	Balance	Additions	Reductions		
	<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
Other postretirement benefits	48,436	7,928	(4,033)	52,331	4,021
Vested sick pay	1,190	105	0	1,295	90
Total	\$607,452	\$190,253	\$(73,154)	\$724,551	\$38,548

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 4.99%. Debt service requirements are as follows:

Year	Principal	Interest	Total
	<i>(In Thousands)</i>		
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	17,370	12,257	29,627
2010-2014	100,130	46,755	146,885
2015-2019	93,775	19,542	113,317
2020-2023	28,850	2,534	31,384
Total	\$302,195	\$138,620	\$440,815

The District has received loan funds through the State of Wisconsin Clean Water Fund 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 2.37% to 4.95%. Principal is payable annually in varying amounts. Debt service requirements are as follows:

Year	Principal	Interest	Total
	<i>(In Thousands)</i>		
2005	\$21,970	\$10,558	\$32,528
2006	27,558	9,898	37,456
2007	28,306	9,140	37,446
2008	29,074	8,361	37,435
2009	29,864	7,561	37,425
2010-2014	121,427	26,514	147,941
2015-2019	92,966	12,035	105,001
2020-2024	39,259	1,457	40,716
Total	\$390,424	\$85,524	\$475,948

The District has outstanding loan commitments of \$54.3 million and \$89.1 million at December 31, 2004 and 2003, respectively, from the State of Wisconsin Clean Water Fund 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 \$50,000,000 remained outstanding as of December 31, 2004. 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

Notes to Financial Statements Continued

December 31, 2004 and 2003

reduction to long-term obligations and is being amortized as a component of interest expenses through 2005. The unamortized defeasance loss was \$20,239 and \$60,718 as of December 31, 2004 and 2003, 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, 2004, \$48,530,000 remains outstanding on the Series 2001A Bonds. 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 \$1,841,000 as of December 31, 2004.

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. At December 31, 2004, \$66,265,000 remains outstanding on the Series 2003D Bonds.

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 \$13.2 million and \$13.6 million in 2004 and 2003, respectively.

A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31, 2004 follows (in thousands):

2004 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$50,018,163
Statutory debt limit rate - Wisconsin Statutes Section 67.03	5%
Statutory debt limit	2,500,908
General obligation indebtedness:	
Outstanding bonds issued by the District	(302,195)
Clean Water Fund Program loans	(390,424)
Legal debt margin	<u>\$1,808,289</u>

(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 probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. The liability for claims payable included with accounts payable in the statements of net assets includes claims incurred but not reported (IBNRs) totaling approximately \$1.08 million and \$1.2 million as of December 31, 2004 and 2003, respectively.

	2004	2003
	(In Thousands)	
Unpaid claims, beginning of year	\$1,175	\$6,782
Current year claims and changes in estimates	1	(4,240)
Claim payments	(96)	(1,367)
Unpaid claims, end of year	<u>\$1,080</u>	<u>\$1,175</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)

The DNR sought injunctive relief and statutory penalties in this case. The injunctive relief portion was settled, resulting in the 1977-1994 Water Pollution Abatement Program, which is now completed. The claim for penalties was not adjudicated. This action was administratively closed, but might be reopened by the DNR. The District does not believe it will be subject to any material liability in this matter.

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 stipulated agreement resolving this litigation, which requires the District to expend an estimated \$906 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 additional injunctive relief and civil penalties to that sought in the State's lawsuit. The case was dismissed by the district court in 2003 and the environmental organizations appealed. The matter is set for hearing in the district court on August 25, 2005. The maximum additional exposure from this litigation has not been determined.

State of Wisconsin vs. James Cape & Sons and the District

In 2004, the State has filed suit over improper construction means and methods used by the contractor and for inadvertent damage to a snake habernaculum. The District disputes most of the allegations. The contractor has acknowledged its obligation to hold the District harmless from these claims. A settlement was reached at no cost to the District, but the contractor has now ceased doing business and the status of the settlement is uncertain. The suit seeks \$1.4 million in fines. The District believes this matter will be resolved without material financial exposure to the District.

Claim by DNR Regarding May, 2004 Overflow Events

In 2004, the Wisconsin Department of Natural Resources has issued two Notices of Violation to the District with regard to alleged violations of the District's discharge permits due to sanitary sewer overflows occasioned by heavy rainfalls in May, 2004. The DNR has stated its intent to seek further relief against the District in addition to the provisions of the settlement referenced above. Statutory penalties for these types of violations are \$10,000 per day of violation. The District believes it has limited exposure from these alleged violations.

Bostco LLC and Parisian Inc. vs. the District

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. Plaintiffs have recently amended the complaint to seek injunctive relief that would require the District to line the entire tunnel system, a project estimated to cost in excess of \$300 million. The District believes it will prevail in this litigation.

E-L Enterprises Inc. vs. the District and Continental Casualty Insurance

In 2004, this owner of a building seeks monetary recovery for damages to the foundation of its building, allegedly caused by the District's construction of a sewer. The owner seeks approximately \$450,000 in damages. The District has tendered the defense to the insurer (Continental Casualty Company), which has issued its reservation of rights denying coverage. The District believes it will prevail in this litigation.

Winterthur International American Insurance Company and Eaton Corporation vs. the District

In 2004, the building owner and insurer seek to recover monetary damages for losses occasioned by flooding along Lincoln Creek following heavy rains. The suit seeks \$8.6 million. The District believes it will prevail in this matter.

Brynwood Country Club vs. the District

In 2004, the golf course claims unspecified damages and entitlement to injunctive relief arising from property damages caused by the flooding of Lincoln Creek. The District believes it will prevail in this matter.

Notes to Financial Statements Continued

December 31, 2004 and 2003

(b) Claims of Property Owners

No provision has been made in the financial statements for claims by property owners who assert the District's construction of sewerage facilities have caused physical damage to their properties. These claims are:

Claim by Bluemound Country Club

The golf course has informally asserted a claim for alleged damage to an irrigation well on the golf course related to construction of the District's Northwest Side Relief Sewer System. The District disputes the assertion of damage. The District is unable to quantify the maximum exposure at this time, but believes the amount is less than \$400,000.

Claim by Pre-Pak Produce

The building owner asserts entitlement to monetary damages for building damage allegedly resulting from construction of the District's KK/LM Inline Storage Sewer. The District previously settled a claim with regard to the same building and believes litigation of this claim will be barred by that settlement. The damages alleged are not quantified at this time, but the District believes they are less than \$200,000.

(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, 2004 and 2003 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:

	2004	2003	2002
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	\$725	\$739	\$692
Employer	—	—	—
	<u>\$725</u>	<u>\$739</u>	<u>\$692</u>

(12) Other Postretirement Benefits

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

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

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

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

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

Currently, 403 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 UWS 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:

	2004	2003
	<i>(In Thousands)</i>	
Service cost	\$776	\$570
Interest cost on accumulated postretirement benefit obligation	4,214	4,595
Net amortization	<u>2,656</u>	<u>2,771</u>
Postretirement benefit expense	<u>\$7,646</u>	<u>\$7,936</u>

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

	2004	2003
	<i>(In Thousands)</i>	
Accumulated postretirement benefit obligation:		
Retirees	\$45,404	\$37,878
Fully eligible participants	19,699	16,287
Other active participants	<u>23,101</u>	<u>14,508</u>
Total accumulated postretirement benefit obligation	88,204	68,673
Unrecognized transition obligation	(21,936)	(24,707)
Unrecognized actuarial gain	<u>(10,364)</u>	<u>8,365</u>
Accrued postretirement benefit cost liability	<u>\$55,904</u>	<u>\$52,331</u>

For measurement purposes, a benefit cost trend rate of 12% and 10% annually was assumed in 2004 and 2003, respectively. This rate gradually decreases to 5.0% through 2012. 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, 2004 by 16.0% and the aggregate service and interest cost components of postretirement benefit expense for 2004 by 24.7%. Decreasing the assumed benefit cost trend rates by 1% each year would decrease the APBO at December 31, 2004 by 14.9% and the aggregate service and interest cost components of postretirement benefit expense for 2004 by 21.9%. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 6.25% as of December 31, 2004 and 2003, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Benefits
2005	\$2,460,584
2006	2,878,684
2007	3,240,682
2008	3,721,052
2009	4,154,871
Years 2010-2014	\$28,700,306

Notes to Financial Statements Continued

December 31, 2004 and 2003

(13) Leases

Future minimum lease receipts under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2004 are as follows:

	Operating Leases
Year ending December 31:	
2005	\$176,277
2006	172,717
2007	148,710
2008	148,710
2009	138,510
2010 through 2014	433,089
2015 through 2019	45,950
2020 through 2024	45,950
2025 through 2029	45,950
2030 through 2034	45,950
2035 through 2039	45,950
2040 through 2044	45,950
2045 through 2049	45,950
2050 through 2054	45,950
2055 through 2058	<u>36,760</u>
Total minimum lease payments	<u>\$1,622,373</u>

The District has a 99-year lease running through December 31, 2058 with Point Loomis Associates Limited Partnership. This lease is for a parking lot and driveway space above a tunnel of the south bank of the Kinnickinnic River at the Point Loomis Shopping Center.

The District has a lease with Alterra Coffee for their café at the Milwaukee River Flushing Station. This lease will run through October 31, 2006 with a five-year option to renew.

The District has a lease with Southeast Wisconsin Professional Baseball Park District for five years. This lease will run through June 30, 2009.

The District has a ten-year lease running through March 31, 2013 with the City of Milwaukee at 123 North 25th Street.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2004 are:

	Operating Leases
Year ending December 31:	
2005	\$46,695
2006	48,563
2007	50,506
2008	55,526
2009	54,627
Later years, through 2014	<u>178,360</u>
Total minimum lease payments	434,277
Less current installments of obligations under operating leases	<u>46,695</u>
Obligations under operating leases, excluding current installments	<u>\$387,582</u>

The District has four lease agreements (American Tower, Cingular Tower, Hilton Hotel and Mayfair Mall) for antenna space on towers or buildings in the Milwaukee Area. The antennas serve as hubs for the District's radio communication system that is used to send and receive data from the District's remote facilities, which are located throughout the 400 square mile service area. Each lease agreement is for ten years. The American Tower, Cingular Tower and Hilton Hotel leases will end in 2012, and the Mayfair Mall lease will end in 2014.

(14) Subsequent Event

On April 21, 2005, the District issued \$57,115,000 of General Sewerage System Refunding Bonds, Series 2005A. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on \$20,815,000 of General Obligation Sewerage System Bonds, Series 2001A, and \$38,660,000 of General Obligation Sewerage System Bonds, Series 2003D.



Tunnel Boring Machine - Northwest Side Relief Sewer

Exhibit B1 Operating Expenses

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	2004	2003	2002	2001
	<i>(In Thousands)</i>			
Systems - Operation and Maintenance	\$38,179	\$36,889	\$38,111	\$37,401
Laboratory and Research Services	2,095	1,997	1,934	2,377
Industrial Waste and Conveyance Monitoring	3,062	2,968	2,827	2,962
Finance, Engineering and Administration	14,749	14,636	13,660	13,921
Depreciation	62,602	61,207	58,841	57,858
	\$120,687	\$117,697	\$115,373	\$114,519



2000	1999	1998	1997	1996	1995
<i>(In Thousands)</i>					
\$36,143	\$36,778	\$36,466	\$45,306	\$46,347	\$44,810
2,749	2,633	2,504	3,467	3,813	3,686
3,154	2,727	2,612	2,953	2,770	2,723
12,140	10,106	10,314	15,265	15,251	14,100
58,891	58,440	57,121	49,953	50,666	52,657
\$113,077	\$110,684	\$109,017	\$116,944	\$118,847	\$117,976

Exhibit B2 Operating Revenues by Source

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

Year	Total Operating Revenue	Sewer User Charges
2004	\$51,753,034	\$44,663,177
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



Fertilizer	Other
\$6,338,055	\$751,802
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

Exhibit B3

Sewer User Charges

Municipalities Within District

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	2004	2003	2002	2001
City of Milwaukee	\$27,001,904	\$27,489,444	\$26,419,674	\$26,357,142
City of Wauwatosa	1,910,796	1,910,819	1,928,005	1,995,544
City of West Allis	2,277,273	2,305,548	2,207,287	2,197,358
City of Cudahy	965,643	1,093,070	999,034	1,042,008
City of Glendale	552,387	550,990	530,390	591,838
City of St. Francis	287,324	274,879	280,640	324,910
City of Greenfield	1,206,451	1,177,932	1,153,965	1,174,868
City of Oak Creek	1,151,995	1,085,358	1,040,728	1,029,039
City of Franklin	1,006,546	996,375	899,485	893,759
Village of Shorewood	406,377	411,911	403,858	413,552
Village of Whitefish Bay	431,383	432,131	422,677	422,774
Village of Fox Point	216,338	219,917	216,928	218,593
Village of West Milwaukee	679,932	602,654	653,792	624,949
Village of River Hills	51,151	51,645	52,791	55,842
Village of Bayside	143,402	140,458	132,390	145,147
Village of Brown Deer	456,332	463,801	451,170	448,277
Village of Hales Corners	267,605	261,288	257,975	262,380
Village of Greendale	437,205	420,799	411,277	434,347
	<u>\$39,450,044</u>	<u>\$39,889,019</u>	<u>\$38,462,066</u>	<u>\$38,632,327</u>



2000	1999	1998	1997	1996	1995
\$27,503,771	\$27,896,641	\$32,582,879	\$33,028,525	\$35,806,523	\$37,096,922
2,015,832	2,080,202	2,388,511	2,369,281	2,446,143	2,492,294
2,262,162	2,223,153	2,624,513	2,622,885	2,851,343	2,865,733
1,101,515	1,065,613	1,254,750	1,215,986	1,168,641	1,182,034
569,774	589,400	691,563	681,639	722,832	736,298
313,996	310,829	374,352	347,124	371,091	379,129
1,154,166	1,104,729	1,310,265	1,258,364	1,324,500	1,337,618
1,048,934	999,335	1,198,045	1,122,180	1,144,464	1,101,201
829,499	821,776	911,232	859,868	865,511	858,841
412,612	406,928	452,731	464,217	501,319	517,034
418,019	421,881	495,927	479,468	441,874	513,765
216,916	220,761	259,934	251,500	260,726	268,564
668,908	717,563	978,432	2,225,077	1,134,582	1,221,636
49,356	50,961	59,150	59,135	61,979	61,182
147,858	147,977	174,661	165,750	173,671	183,010
453,972	471,490	547,025	549,176	573,593	599,992
267,727	266,323	307,159	297,669	305,261	304,794
429,472	458,729	546,700	519,832	543,782	563,817
\$39,864,489	\$40,254,291	\$47,157,829	\$48,517,676	\$50,697,835	\$52,283,864

Exhibit B4

Sewer User Charges Municipalities Outside District

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	2004	2003	2002	2001
City of Brookfield	\$581,986	\$630,092	\$553,570	\$537,128
City of Mequon	632,339	635,213	599,060	582,216
City of Muskego	580,112	565,325	556,271	537,029
City of New Berlin	1,097,269	1,085,950	1,059,337	1,064,800
City of South Milwaukee (1)	22,423	20,084	18,730	18,842
Village of Butler	113,512	108,744	104,372	109,815
Village of Elm Grove	187,625	186,586	185,885	194,612
Village of Germantown	810,682	783,477	712,641	584,571
Village of Menomonee Falls	1,066,847	1,068,111	1,060,010	991,901
Village of Thiensville	97,331	95,306	92,381	96,147
Caddy Vista Sanitary District	23,007	21,904	20,865	20,747
	<u>\$5,213,133</u>	<u>\$5,200,792</u>	<u>\$4,963,122</u>	<u>\$4,737,808</u>

(1) Household Hazardous Waste Program Charges Only



2000	1999	1998	1997	1996	1995
\$538,384	\$548,288	\$652,226	\$631,330	\$661,017	\$692,777
578,231	663,460	668,110	648,351	658,602	678,749
535,822	543,665	632,994	600,690	601,715	611,902
1,056,638	1,032,462	1,209,644	1,157,831	1,174,947	1,197,196
16,438	17,006	10,714	11,106	8,722	—
112,622	108,828	140,455	145,770	167,060	149,148
183,180	180,737	213,394	208,237	212,155	222,109
511,885	564,303	665,330	686,708	720,564	687,458
990,763	900,076	1,155,917	1,136,164	1,151,728	1,108,371
95,123	97,910	114,207	112,630	116,469	120,196
19,345	21,968	24,750	24,370	24,872	27,263
\$4,638,431	\$4,678,703	\$5,487,741	\$5,363,187	\$5,497,851	\$5,495,169

Exhibit B5 Sewer User Charge Rates

For the Fiscal Years Ended December 31, 1995 Through 2004
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)
2004	\$0.4508	\$0.0770	\$0.0721	\$15.38
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

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



Volumetric (Dollars Per 1,000 Gallons)	Average Household (Dollars Per Year)
\$0.872465	\$73.57
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

Exhibit B6

Twenty Largest Sewer Users

For the Fiscal Year Ended December 31, 2004
Milwaukee Metropolitan Sewerage District

Name of Business	Type of Business	2004 User Charge
Miller Brewing Company	Brewery	\$1,762,238
Lesaffre Yeast Corporation	Food preparation	1,370,614
Milwaukee Water Works	Water utility	549,767
Emmber Foods	Meat packing plant	357,107
International Malting USA	Malt manufacturing	318,609
D.R. Diedrich & Co.	Leather tanning and finishing	239,720
Southeastern Wisc Product	Food preparation	228,472
Gehl Guernsey Farms Inc.	Food preparation	225,073
Milwaukee Regional Medical Center	Health services	191,495
Patrick Cudahy Inc.	Process meat products	177,562
Chris Hansen's Lab	Miscellaneous food preparation	161,691
MC Zoological Gardens	Zoo	143,294
Marquette University	University	126,325
St. Luke's Medical Center	Hospital	102,273
VA Clement J. Zablocki	Hospital	99,596
Wisconsin Paperboard Corp.	Paperboard mill	91,312
Ladish	Iron & steel manufacturing	90,032
Coca-Cola of Wisconsin	Beverages	83,623
University of Wis-Milw	University	80,799
Master Lock	Manufacturer of hardware	78,334
		<u>\$6,477,936</u>

Exhibit B7

Tax Levies and Tax Rates

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

Tax Levy of	Tax Levies	Tax Rate Per \$1,000 Equalized Valuation
2004	\$74,706,000	\$1.54
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

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, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	Real Property	Personal Property	Total
2004	\$47,243,470,061	\$1,362,452,254	\$48,605,922,315
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

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, 1995 Through 2004
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
2004	918,105	\$48,605,922,315	\$692,618,826	1.42%	\$754.40
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

- (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, 2004
Milwaukee Metropolitan Sewerage District

2004 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$50,018,162,615
Statutory debt limit rate – Wisconsin Statutes Section 67.03	<u>5%</u>
Statutory debt limit	2,500,908,131
General obligation indebtedness:	
Outstanding bonds issued by the District	302,195,000
Clean Water Fund Program loans	<u>390,423,826</u>
Legal debt margin	<u><u>\$1,808,289,305</u></u>

Exhibit B11

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

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

Fiscal Year	Principal	Interest	Total Debt Service	Expenses	Ratio of Debt Service to Total Operating Expense
2004	\$34,589,722	\$25,265,146	\$59,854,868	\$120,687,752	.496
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

- (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, 2004
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	\$10,835,065	100.00%	\$10,835,065
Village of Brown Deer	9,843,875	100.00	9,843,875
Village of Fox Point	9,665,000	100.00	9,665,000
Village of Greendale	6,949,874	100.00	6,949,874
Village of Hales Corners	4,649,548	100.00	4,649,548
Village of River Hills	1,868,000	100.00	1,868,000
Village of Shorewood	17,073,550	100.00	17,073,550
Village of West Milwaukee	450,000	100.00	450,000
Village of Whitefish Bay	17,780,000	100.00	17,780,000
City of Cudahy	29,696,273	100.00	29,696,273
City of Franklin	24,800,000	95.46	23,674,080
City of Glendale	32,516,190	100.00	32,516,190
City of Greenfield	7,121,438	100.00	7,121,438
City of Milwaukee	551,045,233	100.00	551,045,233
City of Oak Creek	15,754,987	100.00	15,754,987
City of Saint Francis	465,000	100.00	465,000
City of Wauwatosa	22,716,673	100.00	22,716,673
City of West Allis	67,642,480	100.00	67,642,480
Total Villages and Cities	<u>\$830,873,186</u>		<u>\$829,747,266</u>



Name of Government Unit	Net Debt Outstanding	Percentage of Debt Within District Boundary	Amount of Debt Within District Boundary
School Districts:			
Brown Deer	\$5,293,893	100.00%	\$5,293,893
Cudahy	20,315,000	100.00	20,315,000
Fox Point – Bayside	1,625,000	100.00	1,625,000
Franklin	24,505,000	95.51	23,404,726
Glendale – River Hills	400,000	100.00	400,000
Greendale	1,240,000	100.00	1,240,000
Greenfield	12,170,000	100.00	12,170,000
Maple Dale – Indian Hill	1,575,000	100.00	1,575,000
Milwaukee	121,597,070	100.00	121,597,070
Milwaukee Area Technical			
College	73,105,000	79.46	58,089,233
Nicolet High School	0	100.00	0
Oak Creek – Franklin	33,385,000	99.42	33,191,367
Saint Francis	5,532,761	100.00	5,532,761
Shorewood	7,150,000	100.00	7,150,000
Wauwatosa	11,189,000	100.00	11,189,000
West Allis –			
West Milwaukee	13,625,000	92.21	12,563,613
Whitefish Bay	6,530,000	100.00	6,530,000
Whitnall	9,693,638	100.00	9,693,638
Total School Districts	<u>348,931,362</u>		<u>331,560,300</u>
MILWAUKEE COUNTY			
County Purposes	520,190,532	97.66%	508,018,074
Total Villages and Cities	<u>830,873,186</u>		<u>829,747,266</u>
Total Overlapping Debt	<u><u>\$1,699,995,080</u></u>		<u><u>\$1,669,325,640</u></u>

Exhibit B13

Twenty-five Largest Taxpayers

2004 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	\$248,424,627	0.50%
2	US Bank Corp.	Banking	235,870,548	0.47
3	Northwestern Mutual Life	Insurance	224,695,454	0.45
4	Teachers' Insurance and Annuity	Insurance	141,885,823	0.29
5	Harley-Davidson	Manufacturing of motorcycles	133,898,300	0.27
6	Covenant Health Care	Health care	133,509,741	0.27
7	M&I Marshall & Ilsley	Banking	123,586,025	0.25
8	Metropolitan Associates	Real estate	107,644,454	0.22
9	Towne Realty	Real estate	103,765,609	0.21
10	Bre Southridge Mall LLC	Real estate	97,541,621	0.20
11	Marcus	Hotels, theaters & restaurants	96,769,967	0.19
12	Miller Brewing Company	Brewery	74,066,400	0.15
13	Great Lakes Reit LLP	Real estate	65,716,002	0.13
14	100 E. Wisconsin Ave. Joint Venture	Real estate	58,824,599	0.12
15	Centerpoint Properties	Real estate	54,788,503	0.11
16	Opus Real Estate	Real estate	51,310,756	0.10
17	American Stores Property	Retail food stores	49,269,860	0.10
18	Flanders Westborough	Real estate	48,030,196	0.10
19	Johnson Controls Inc.	Manufacturing of automotive batteries & seating, building controls & plastic containers	48,022,000	0.10
20	Liberty Property Limited	Real estate	47,800,237	0.10
21	Corrigan Properties	Real estate	45,252,382	0.09
22	Occidental	Real estate	45,166,849	0.09
23	Dayton-Hudson (Marshall Fields, Target)	Retailer	43,758,559	0.09
24	Anthony A. Palermo	Real estate	43,249,184	0.09
25	Journal/Sentinel Inc.	Newspaper	43,242,700	0.09
			\$2,366,090,396	4.76%

Exhibit B14

Financial Resources of Banks - Milwaukee County

For the Fiscal Years Ended December 31, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	Number of Institutions	Bank Deposits (Millions)	Bank Assets (Millions)
2004	(1)	\$ (1)	\$ (1)
2003	26	32,317	44,216
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

(1) Information not available

Source - Department of Financial Institutions Annual Report

Exhibit B15

Schedule of Insurance in Force

December 31, 2004
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, Motor Vehicle Comprehensive and Collision	Local Government Property Insurance Fund	180680	6/1/2004	6/1/2005	Full Replacement Cost Values \$1,030,730,042 Business Interruption \$7,000,000 \$100,000 Deductible-Property \$500 Deductible-Equipment \$5,000 Deductible-Comprehensive \$5,000 Deductible-Collision	\$141,003
Boiler & Machinery	Continental Casualty Insurance Company	BM1078570793	6/1/2004	6/1/2005	\$50,000,000 Aggregate \$7,000,000 Business Interruption \$1,000,000 Extra Expense \$100,000 Deductible	\$149,266
Commercial Vehicle	St. Paul Fire & Marine Insurance Company	GP09312491	6/1/2004	6/1/2005	\$1,000,000 Liability \$1,000,000 UM/UIM \$5,000 Medical Payment	\$23,647
Commercial Vehicle Excess Liability	RSUI Indemnity Company	NHA025886	6/1/2004	6/1/2005	\$10,000,000 Excess of Primary	\$19,100
Commercial Crime	Travelers Insurance Co.	103715890	6/1/2004	6/1/2005	\$5,000,000 Employee Dishonesty \$5,000,000 Forgery & Alteration \$5,000,000 Computer Fraud \$50,000 Deductible	\$14,438
Excess Workers' Compensation	Midwest Employers Casualty Co.	EWC006454	6/1/2004	6/1/2005	Workers' Compensation-Statutory \$1,000,000 Employer's Liability \$400,000 Deductible	\$52,325
Protection & Indemnity with Collision Liability (Marine)	Continental Insurance Company	H0864488	6/1/2004	6/1/2005	\$1,000,000 Each Occurrence \$2,500 Deductible	\$12,300

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)	Employers Insurance Company of Wausau	RGC-691-434273-014	6/2/2004	6/2/2009	\$6,000,000 Aggregate \$2,000,000 Bodily Injury & Property \$2,000,000 Personal Injury \$10,000 Medical Expense	\$7,734,581
Workers' Compensation for Projects (Except Northwest Side Relief)	Employers Insurance Company of Wausau	WCC-691-434273-034	6/2/2004	6/2/2009	Workers' Compensation-Statutory \$1,000,000 Employer's Liability \$500,000 Deductible	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	MBR-4550207301	6/1/2004	6/1/2005	\$30,000,000 Aggregate \$30,000,000 Flood \$30,000,000 Earthquake \$1,000,000 Debris Removal \$25,000 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	\$1,950,000
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, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

	2004	2003	2002	2001	2000
Millions of gallons of sewage treated	74,579	62,094	70,473	78,381	78,718
Approximate number of employees:					
Administrative	79	83	89	93	90
Engineering	66	61	52	49	45
Plant operating and laboratory	72	75	73	71	73
	217	219	214	213	208
Fertilizer (Milorganite):					
Tonnage shipped	41,868	44,742	46,621	45,851	50,879
Average selling price per ton shipped	\$136.25	\$126.67	\$121.62	\$119.00	\$118.25
Tonnage produced	48,236	47,701	41,344	48,570	50,787



1999	1998	1997	1996	1995
79,956	80,516	82,455	82,303	85,184
95	94	99	113	126
43	38	96	112	118
77	81	321	335	352
215	213	516	560	596
51,747	46,455	49,631	48,468	49,309
\$123.81	\$122.17	\$124.13	\$122.87	\$112.91
48,187	45,873	51,153	46,868	51,052

Exhibit B17

Population by Municipality

December 31, 2004
Milwaukee Metropolitan Sewerage District

Municipality	Year								Percentage Change 1997-2004
	2004	2003	2002	2001	2000	1999	1998	1997	
Bayside	4,286	4,300	4,329	4,337	4,688	4,766	4,769	4,810	-10.9%
Brown Deer	11,845	12,044	12,118	12,151	12,322	12,294	12,341	12,441	-4.8%
Cudahy	18,315	18,323	18,410	18,437	19,243	19,019	18,915	18,864	-2.9%
Fox Point	6,886	6,992	6,990	6,923	7,089	7,127	7,152	7,166	-3.9%
Franklin (1)	31,804	31,467	30,749	30,199	28,804	27,780	27,186	26,591	19.6%
Glendale	13,024	13,071	13,121	13,337	14,041	14,064	13,960	14,126	-7.8%
Greendale	14,128	14,169	14,283	14,373	15,444	15,473	15,401	15,441	-8.5%
Greenfield	36,059	36,000	35,776	35,568	36,257	36,300	35,632	35,593	1.3%
Hales Corners	7,682	7,699	7,759	7,783	7,843	7,879	7,821	7,850	-2.1%
Milwaukee	593,920	595,245	595,958	595,508	605,572	608,150	610,654	612,740	-3.1%
Oak Creek	31,029	30,856	29,826	29,232	27,479	26,766	25,842	24,975	24.2%
River Hills	1,625	1,620	1,633	1,636	1,624	1,632	1,643	1,648	-1.4%
St. Francis	8,728	8,755	8,777	8,812	9,350	9,389	9,425	9,451	-7.7%
Shorewood	13,535	13,578	13,724	13,746	13,900	13,908	14,008	14,062	-3.8%
Wauwatosa	46,511	46,802	46,930	47,179	48,755	49,039	49,064	49,335	-5.7%
West Allis	60,607	60,923	61,114	61,164	63,322	63,769	63,712	63,653	-4.8%
West Milwaukee	4,142	4,149	4,170	4,191	4,173	4,195	4,242	4,253	-2.6%
Whitefish Bay	13,979	14,041	14,109	14,146	13,939	13,999	14,065	14,161	-1.3%
Total District population	918,105	920,034	919,776	918,722	933,845	935,549	935,832	937,160	
Total population served by the District (2)	1,058,595	1,058,742	1,057,404	1,054,627	1,065,603	1,064,809	1,062,364	1,062,356	
1997 = 100%	99.6%	99.7%	99.5%	99.3%	100.3%	100.2%	100.0%	100.0%	
Total state population	5,532,955	5,490,718	5,453,896	5,400,449	5,310,406	5,274,827	5,234,350	5,192,298	
1997 = 100%	106.6%	105.8%	105.0%	104.0%	102.3%	101.6%	100.8%	100.0%	

(1) Total population is reported for Franklin. Portions of this municipality 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, 1995 Through 2004
Milwaukee Metropolitan Sewerage District

Fiscal Year	Labor Force	Employment	Unemployment	Unemployment Rate	
				Milwaukee County	National Average
2004	486,813	455,797	31,016	6.4%	5.5%
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

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

MMSD's Mission

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



Milwaukee River

Overall responsibility for preparation
of this report was provided by:
*Mark T. Kaminski CPA, Acting Controller/Treasurer and
Starr M. Pentek-Schuetz Graphics Designer*

MILWAUKEE METROPOLITAN SEWERAGE DISTRICT



Preserving The Environment •
Improving Water Quality

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