

2006

Comprehensive Annual Financial Report

For The Year Ended December 31, 2006



Milwaukee Metropolitan Sewerage District
Milwaukee, Wisconsin



2006 Comprehensive Annual Financial Report

For the year ended December 31, 2006



Lake Michigan

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



Preserving The Environment •
Improving Water Quality

Table of Contents

	Reference Exhibit	Page		Reference Exhibit	Page
I. Introductory Section					
Commission Organization Chart		4	User Charge Revenue by Municipality Outside the District, for the fiscal years ended December 31, 1997 through 2006	B-7	40-41
Commissioners of the MMSD		5	User Charge Rates, for the fiscal years ended December 31, 1997 through 2006	B-8	42-43
Letter from the MMSD Chair - 2006		6	Wastewater Loadings by Customer Class, for the fiscal years ended December 31, 1997 through 2006	B-9	44-45
District Map		7	Ten Largest Sewer Users, for the fiscal years ended December 31, 1997 and 2006	B-10	46
Letter of Transmittal		8-11	Property Tax Information, for the fiscal years ended December 31, 1997 through 2006	B-11	47
GFOA Certificate of Achievement		12	Bonded Debt Limit and Ratio of Bonded Debt to Equalized Valuation, for the fiscal years ended December 31, 1997 through 2006	B-12	48-49
II. Financial Section					
Independent Auditors' Report		14	Debt Per Capita as a Percentage of Personal Income, for the fiscal years ended December 31, 1997 through 2006	B-13	50
Management's Discussion and Analysis		15-19	Computation of Overlapping Debt, for the fiscal year ended December 31, 2006	B-14	51
Basic Financial Statements					
Statements of Net Assets, December 31, 2006 and 2005	A-1	20-21	Ten Largest Taxpayers for Milwaukee County, for the fiscal years ended December 31, 1997 and 2006	B-15	52-53
Statements of Revenues, Expenses, and Changes in Net Assets, years ended December 31, 2006 and 2005	A-2	22	Population by Municipality, for the fiscal years ended December 31, 1999 through 2006	B-16	54
Statements of Cash Flows, years ended December 31, 2006 and 2005	A-3	23	Principal Employers, for the fiscal years ended December 31, 1997 and 2006	B-17	55
Notes to Financial Statements December 31, 2006 and 2005		24-30	Number of Employees by Identifiable Activity, for the fiscal years ended December 31, 1997 through 2006	B-18	56-57
III. Statistical Section					
Net Assets by Components, for the fiscal years ended December 31, 2000 through 2006	B-1	32-33	Operating and Capital Indicators, for the fiscal years ended December 31, 1997 through 2006	B-19	58-59
Change in Net Assets, for the fiscal years ended December 31, 2000 through 2006	B-2	34	MMSD's Mission		60
Operating Revenue by Source, for the fiscal years ended December 31, 1997 through 2006	B-3	35			
Operating Expenses, for the fiscal years ended December 31, 1997 through 2006	B-4	36			
Nonoperating Revenue and Expenses, for the fiscal years ended December 31, 2000 through 2006	B-5	37			
User Charge Revenue by Municipality Within the District, for the fiscal years ended December 31, 1997 through 2006	B-6	38-39			



Household Hazardous Waste Collection

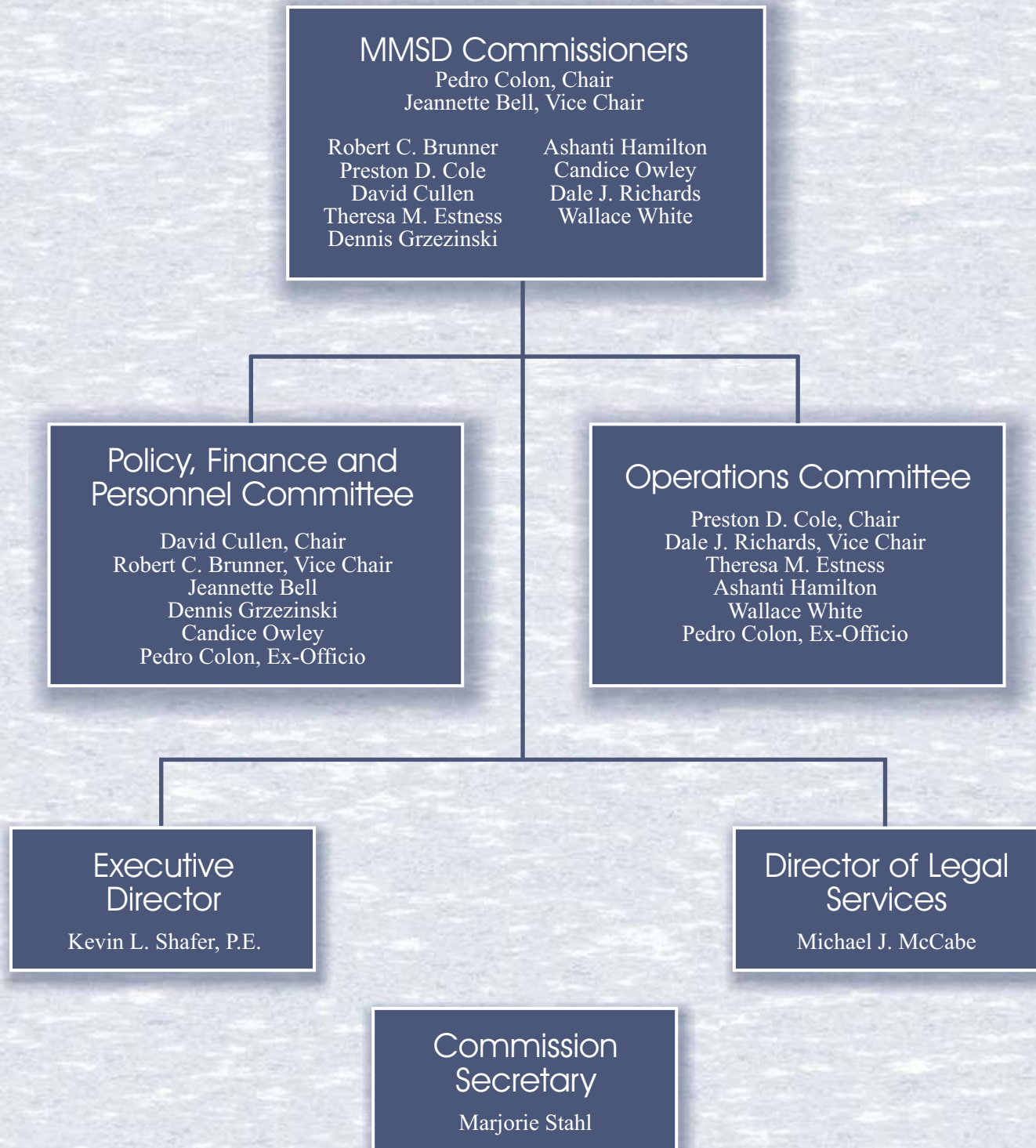


Medicine Collection



INTRODUCTORY SECTION

Commission Organization Chart



Commissioners of the Milwaukee Metropolitan Sewerage District



Pedro Colon
*Commission Chair
State Representative*



Jeannette Bell
*Commission Vice Chair
Mayor
City of West Allis*

Robert C. Brunner
*Village President
Village of River Hills*

Preston D. Cole
*Environmental Services
Superintendent
City of Milwaukee*

David Cullen
State Representative

Theresa M. Estness
*Mayor
City of Wauwatosa*

Dennis Grzezinski
*Law Office of
Dennis M. Grzezinski*

Ashanti Hamilton
*1st District Alderman
City of Milwaukee*

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

Dale J. Richards
*Former Mayor
City of Oak Creek*

Wallace White
*Principal
W2Excel, LLC*

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

Principal Advisors

KPMG LLP
Independent Auditors

Foley & Lardner
Bond Counsel

Letter from the MMSD Chair - 2006

Clean water is invaluable to our region's economic and physical health. That's why I take great pride in knowing that the Milwaukee Metropolitan Sewerage District (MMSD) treated and cleaned more than 99% of the rain and melting snow that entered the regional sewer system in 2006, slightly less than 70 billion gallons of water.



Pedro Colon
Commission Chair
State Representative

Equally as impressive, we held the line on spending, but still managed to maintain and build infrastructure with significant progress on our \$1 billion Overflow Reduction Plan. MMSD will continue to protect our environment with cost effective spending that respects the wallets and bank accounts of our customers.

Major accomplishments in 2006 include:

- ▶ Putting a new Deep Tunnel into operation that provides 89 million gallons of additional wastewater storage. The extra capacity raises MMSD's total Deep Tunnel storage to 494 million gallons.
- ▶ Construction started on the \$138 million Harbor Siphons Project that will greatly improve delivery of wastewater to the Jones

Island Wastewater Treatment Plant, reducing the risk of sewer overflows and basement backups.

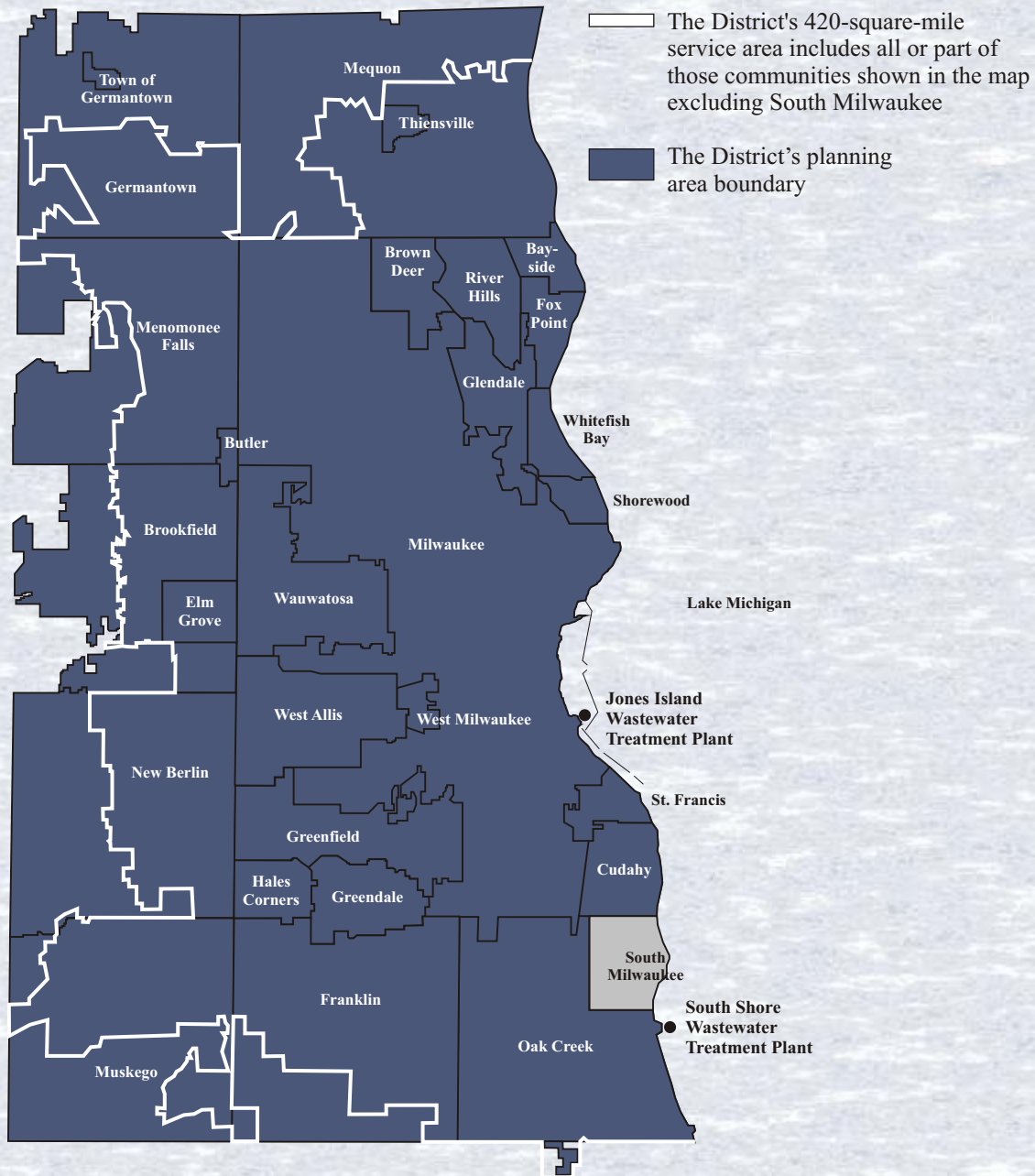
- ▶ Work kicked off on the \$84 million Milwaukee County Grounds Flood Management Project. The facility will help reduce the risk of flooding for neighbors and businesses in Wauwatosa and Milwaukee.
- ▶ Significant progress was made on the \$48 million Hart Park Flood Management Project. It will be completed in 2007.
- ▶ MMSD's land conservation program, called Greenseams, reached a major milestone with the purchase of its 1,000th acre of land.

The skyline of Milwaukee continued to change in 2006 with millions of dollars in development along our rivers and Lake Michigan. Those investments are a direct result of the massive investments this region has committed to clean water.

Sincerely,
Pedro Colon
Commission Chair



Milwaukee Metropolitan Sewerage District



May 22, 2007

**The Commissioners
Milwaukee Metropolitan Sewerage District**

Dear Commissioners:

State law requires that the Milwaukee Metropolitan Sewerage District (District) publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the District for the fiscal year ended December 31, 2006.

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, 2006, 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, 2006, 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. 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 8.6% annually over the last five years. The District's ten largest taxpayers make up only 2.8% of the total tax base. Over 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 is the stability in the unemployment rate. The unemployment rate in Milwaukee County was 5.7% in 2005 and remained at 5.7% in 2006. This economic stability combined with the above-mentioned diversification in the area economy, provides for a stable economic profile over the long-term.

Long-range Financial Planning

The District maintains long-range financing plans for its Operation and Maintenance (O&M) and Capital budgets. A key long-range financing objective for the O&M budget has been to maintain stable user charge billings from 1999 through 2002 and limit increases thereafter. The 2007 O&M budget includes only a 2% increase in user charge billings. 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 2007 operating budget includes the following initiatives to improve overall organizational effectiveness and achieve long-term cost savings:

- The completion of the analysis of options available and proposals received by the District for continued operation of the treatment plants and conveyance systems, as the District's current operating agreement with United Water Services expires on February 29, 2008. Determining the most cost-effective method (continued contracting-out versus taking back in-house) of the future operation of the plants and conveyance system is critical to limiting increases to the District's sewer user charge billings. The District has contracted with the national firm of Malcolm Pirnie to assist the District in this process.
- In the coming years there will be a significant number of District employees who will become eligible for retirement. To ensure there are qualified individuals who can fill the positions of those retiring, the development of a succession plan is critical to provide a seamless transition and minimize gaps in service and operations.
- Due to rising benefit costs and the changing marketplace offering benefits, the District continually reviews the benefits offered to employees. The 2007 budget includes changes related to health insurance, vision insurance, and sick leave policy that will be implemented in 2007, with the aim to encourage wellness visits while slowing the growth of insurance costs and making more efficient use of benefit dollars.

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 3% in 2007 and 2008 and 4.7% thereafter. For 2007, this resulted in a tax rate of \$1.30 per \$1,000 of equalized property value, compared to a rate in 2006 of \$1.42 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 \$782 million in capital project expenditures from 2007 through 2012, primarily for improvements to treatment plants, conveyance facilities, watercourse improvements and facilities planning. By the end of 2007, the District's 2020 Facilities Plan, which will identify capital improvements needed through the year 2020, is expected to be approved by the Wisconsin Department of Natural Resources. By 2010 over \$900 million in system upgrades identified in the District's 2010 Facilities Plan and Central Metropolitan Interceptor System Improvements Program will be completed, furthering the District's commitment to eliminate sanitary sewer overflows consistent with federal and state policies.

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 (A1, P1, F1 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, 2006, of the District's investments, 65.3% of the investments were in commercial paper, 24.5% were invested in obligations of the U.S. government, its agencies and instrumentalities and 6.8% were invested in the fully insured state government pooled investment fund. 81.8% of all District funds invested had a maturity of less than 180 days at December 31, 2006. The average yield, net of all fees, on District investments during 2006 was 4.64%.

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 eight years of the 10-year agreement, the District has calculated that it has saved over \$14.0 million more than was originally projected at the eight-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.

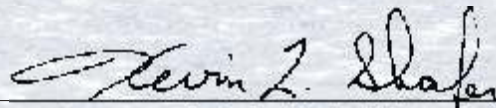
AWARDS AND ACKNOWLEDGEMENTS

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, 2005. This was the 28th 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.

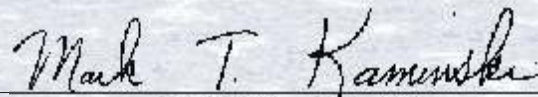
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated January 2006. 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

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, 2005

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.



A handwritten signature in black ink, appearing to read "Ronald J. Hauer".

President

A handwritten signature in black ink, appearing to read "Jeffrey L. Erwin".

Executive Director

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, 2005. This is the 28th 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.



Beach Cleaning



FINANCIAL SECTION



777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Milwaukee Metropolitan Sewerage District (the District) as of and for the years ended December 31, 2006 and 2005. 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 also includes 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, 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 15 through 19 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2007, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

May 22, 2007



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, 2006 and December 31, 2005.

FINANCIAL HIGHLIGHTS

- The District's net assets of \$2.4 billion remained consistent over the course of this year's operation, increasing by \$28.2 million or 1.2%.
- The District's unrestricted net assets show a deficit of \$25.0 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 \$68.2 million liability related to these benefits which has reduced its unrestricted net asset amount. At December 31, 2006, the current year portion of this liability was \$4.6 million.
- During 2006, the District received \$62.6 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, 2006 to \$742.0 million. This is an increase of \$17.0 million over the balance at December 31, 2005. The District's debt limit rate decreased from 1.31% to 1.19% as compared to the statutory limit rate of 5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and the amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides one way to

measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population and industrial/commercial customer growth, and new or changed government legislation.

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

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

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$2.4 billion at the close of the most recent fiscal year.

As can be seen in Table A-1, the largest portion of the District's net assets (96.1 % at December 31, 2006) 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>2006</u>	<u>2005</u>	<u>2004</u>	Percentage Increase (Decrease) 2006 Versus 2005
Current and Other Assets	\$293,965	\$325,102	\$318,077	(9.6%)
Capital Assets	<u>3,065,121</u>	<u>2,983,267</u>	<u>2,928,865</u>	2.7
Total Assets	<u>3,359,086</u>	<u>3,308,369</u>	<u>3,246,942</u>	1.5
Current Liabilities	188,799	186,648	176,707	1.2
Noncurrent Liabilities	<u>770,200</u>	<u>749,880</u>	<u>719,432</u>	2.7
Total Liabilities	<u>958,999</u>	<u>936,528</u>	<u>896,139</u>	2.4
Invested in Capital Assets, Net of Related Debt	2,307,119	2,241,063	2,222,154	2.9
-Restricted	118,013	161,279	154,468	(26.8)
-Unrestricted	<u>(25,045)</u>	<u>(30,501)</u>	<u>(25,819)</u>	(17.9)
Total Net Assets	<u>\$2,400,087</u>	<u>\$2,371,841</u>	<u>\$2,350,803</u>	1.2

A portion of the District's net assets (4.9% in 2006 and 6.8% in 2005) represents resources that are subject to external restrictions on how they may be used. As noted previously under "Financial Highlights", the District shows a \$25.0 million and \$30.5 million deficit in unrestricted net assets at December 31, 2006 and 2005, respectively. 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 \$63.6 million and \$56.5 million at December 31, 2006 and 2005, respectively.

As shown in Table A-1, current and other assets decreased \$31.1 million or 9.6% from 2005 to 2006. The primary reason for this decrease is the planned drawdown of working capital to fund capital improvements. In the latter half of 2007, the District plans to issue approximately \$64 million of general obligation bonds to assist in the

financing of its capital improvements program, the first new money bond issue since 2003. This drawdown of working capital is also the primary reason for the decrease of 26.8% in restricted assets. In addition, in 2006 the reserve requirement for the District's equipment replacement fund was lowered by the State of Wisconsin from 10% to 5% of the cost of qualified machinery and equipment. This allowed the District to transfer \$10 million of excess funding to its user charge stabilization fund, a nonrestricted reserve, reducing the deficit in unrestricted net assets. The equipment replacement fund balance at December 31, 2006 is \$22.7 million, \$12.6 million over the minimum required balance of \$10.1 million.

As can be seen from Table A-1, net assets increased by \$28.2 million in 2006 after increasing \$21.0 million in 2005. The increase in net assets for 2006 and 2005 is directly related to the District's implementation of its six-year capital improvements program plan. Current and other assets at December 31, 2005 and December 31, 2004 increased slightly.

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

	2006	2005	2004	Percentage Increase (Decrease) 2006 Versus 2005
Operating Revenues:				
User Charges	\$48,005	\$46,779	\$44,663	2.6%
Fertilizer	5,194	5,836	6,338	(11.0)
Other	340	356	752	(4.5)
Total Operating Revenues	53,539	52,971	51,753	1.1
Nonoperating Revenues:				
Property Taxes	\$76,086	\$74,619	\$71,424	2.0%
Capital Charges - Communities Outside the District	21,428	22,982	21,343	(6.8)
Other	10,402	7,628	4,468	36.4
Total Nonoperating Revenues	107,916	105,229	97,235	2.6
Total Revenues	161,455	158,200	148,988	2.1
Operating Expenses:				
Systems - Operation and Maintenance	\$41,166	\$39,418	\$38,179	4.4
Laboratory and Research Services	2,341	2,172	2,095	7.8
Industrial Waste and Conveyance Monitoring	3,524	3,370	3,062	4.6
Finance, Engineering and Administration	16,292	15,661	14,749	4.0
Depreciation	65,619	63,624	62,602	3.1
Total Operating Expenses	128,942	124,245	120,687	3.8
Nonoperating Expense	18,183	15,301	12,215	18.8
Total Expenses	147,125	139,546	132,902	5.4
Income (Loss) Before Capital Contributions	14,330	18,654	16,086	(23.2)
Capital Contributions	13,916	2,384	3,454	483.7
Changes in Net Assets	28,246	21,038	19,540	34.3
Beginning Net Assets	2,371,841	2,350,803	2,331,263	.9
Ending Net Assets	\$2,400,087	\$2,371,841	\$2,350,803	1.2

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 2006, total revenues increased, \$3.3 million or 2.6% and expenses increased by \$7.6 million or 5.4%. The major factors, which drove these results, include:

- Total user charges increased 2.1% from 2005, consistent with a budgeted increase of 2% for user charge billings.
- The District's Milorganite revenue decreased 11% or \$642,000 in 2006. The primary reason for the decrease was due to a \$778,000 decrease in the amount of Milorganite inventory at December 31, 2006. This decrease was the result of the closing of Lesaffre Yeast Corporation's Milwaukee plant, the District's second largest customer prior to 2006. While Milorganite tons sold decreased from 42.1 thousand tons in 2005 to 41.5 thousand tons in 2006, the lack of wasteloads from Lesaffre Yeast reduced the amount of production from 43.2 thousand tons in 2005 to 33.6 thousand tons in 2006. Not only did the closing of Lesaffre's Milwaukee plant reduce the quantity of wasteloads received, it also impacted the quality of the

wasteloads needed to meet Milorganite nutrient standards. 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.

- Excluding depreciation, operating expenses increased \$2.7 million or 4.5%, primarily the result of the increase in the accrual for the liability related to postretirement benefits other than pensions (health and life insurance).
- Nonoperating revenues increased \$2.7 million or 2.6%. Property taxes from member communities increased 2.0% from 2005. Capital charges to communities outside the District decreased by \$1.6 million in 2006 primarily due to a decrease in the capital rate used to bill these communities. As in 2005, the increase in other nonoperating revenue is the result of rising short-term interest rates increasing interest income.
- Even though interest expense was relatively unchanged from 2005, the increase in nonoperating expenses in 2006 reflects the decrease of \$2.5 million in the capitalization of interest expense over 2005.

The increase in capital contributions in 2006 is due to \$11.8 million in federal grant funds earned on eligible construction expenditures for the Harbor Siphons project.

For the fiscal year ended 2005, total revenues increased, \$9.2 million or 6.2% and expenses increased by \$6.6 million or 5.0%. The major factors, which drove these results, include:

- Total user charges increased 4.7% from 2004, consistent with a budgeted increase of 4.5% based on the projected growth in personal income for the Milwaukee-area customer base. The District's Milorganite revenue decreased. Increased competition continues to exert pressure on future Milorganite revenue. During 2005, the District sold 205 more tons of product than in 2004.
- Excluding depreciation, operating expenses increased \$2.5 million or 4.4%, primarily the result of rising health care costs.
- Nonoperating revenues increased \$8.0 million or 8.2%. Property taxes from member communities increased 4.5% from 2004, consistent with the projected growth in personal income for the Milwaukee-area customer base. Capital charges to communities outside the District increased by \$1.6 million in 2005 due to an increase in the equalized valuation of the service area in the communities.
- Even though interest expense was relatively unchanged from 2004, the increase in nonoperating expenses in 2005 reflects the decrease of \$2.4 million in the capitalization of interest expense over 2004.

eliminate hydraulic bottlenecks for sewage flows, and other projects to increase conveyance capacity and sewer rehabilitation; instrumentation and control improvements for wastewater treatment plants; watercourse improvements on the Menomonee River and the District's ongoing capital improvement plan. The decrease in construction in progress in 2006 results primarily from the completion of the \$135.1 million Northwest Side Relief Sewer project which was placed into service in early 2006. This project added 89 million gallons of storage capacity to the Inline Storage System.

During 2007, the District expects to incur capital expenditures for the 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 2007 at \$217.9 million with expenditures totaling \$781.9 million over the six-year period, 2007 through 2012.

The \$117.4 million increase in capital assets for 2005 was primarily the result of the completion of Metropolitan Interceptor Sewer projects for expansion of storage capacity, conveyance capacity and sewer rehabilitation; pump station improvements; instrumentation and control improvements for the conveyance system; watercourse improvements on Indian Creek and the Menomonee River and the District's ongoing capital improvement plan.

During 2005 the District recorded land easements totaling \$18.5 million, which primarily relate to a \$49 million capital project intended to address severe flooding problems along a one-mile stretch of the Menomonee River in the City of Wauwatosa. Implementation of the project requires the acquisition of 79 structures, 56 by the District and 23 of which have been previously acquired by Wauwatosa. At the time of the real estate closings by the District, title was given to Wauwatosa immediately and the District received permanent easements on the 56 properties as well as the 23 properties Wauwatosa had previously acquired and with a permanent easement on a City park.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2006, the District's investment in capital assets amounted to \$3.1 billion (net of accumulated depreciation) as shown in Table A-3 below. The \$147.3 million increase in capital assets for 2006 was primarily the result of the expenditures related to Metropolitan Interceptor Sewer projects, specifically, the Harbor Siphons project which will provide operational improvements and

Table A-3
Capital Assets
(000's)

	2006	2005	2004	Percentage Increase (Decrease) 2006 Versus 2005
Land, Land Easements & Land Improvements	\$72,074	\$67,965	\$49,398	6.0%
Buildings	792,485	792,485	792,357	0.0
Machinery & Equipment	652,058	636,583	604,821	2.4
Aeration and Clarifier Tanks	62,692	62,692	62,692	0.0
Watercourse Improvements	201,151	177,593	163,040	13.3
Intercepting Sewer System	1,877,491	1,693,310	1,644,980	10.9
Construction in Progress	334,504	414,561	410,543	(19.3)
Subtotal	3,992,455	3,845,189	3,727,831	3.8
Less: Accumulated Depreciation	(927,334)	(861,922)	(798,966)	7.6
Net Property, Plant and Equipment	<u>\$3,065,121</u>	<u>\$2,983,267</u>	<u>\$2,928,865</u>	2.7%

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

DEBT ADMINISTRATION

General obligation indebtedness outstanding at December 31, 2006 amounted to \$742.0 million. Included in this amount are \$270.2 million of general obligation bonds issued by the District.

The remaining balance of \$471.8 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%.

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.

In 2007 the District expects to refund \$103.7 million of callable maturities of its Series 1997A Refunding Bonds. As mentioned earlier, the District in the latter half of 2007 plans to issue approximately \$64 million of general obligation bonds to assist in the financing of its capital improvements program, the first new money bond issue since 2003.

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 7 to the financial statements and Exhibits B-12 to B-14 in the statistical section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The average unemployment rate for Milwaukee County was 5.7 percent for 2006, which was the same percent a year ago. This compares to the state's unemployment rate of 4.7 percent and the national rate of 4.6 percent.
- Inflation in the metropolitan area continues to be lower than the national consumer price index.
 - ▶ Milwaukee's inflation rate was 2.5% for 2006.
 - ▶ The average U.S. city rate was 3.2% for 2006.

- The equalized valuation for the District's service area increased by 10.4 percent in 2006, while 2006 user charge wasteloads changed as follows:
 - ▶ Billable flows down 2.9%.
 - ▶ Pounds of Biochemical Oxygen Demand (BOD) down 11.6%.
 - ▶ Pounds of Total Suspended Solids (TSS) down 5.8%.

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

The District approved a \$67.6 million 2007 Operation and Maintenance Budget, an increase of \$4.1 million or 6.5% from 2006. The District's sewer user charge billings are budgeted to increase 2.0%, or \$939,000, in 2007 to about \$47.1 million. The average 2007 District residential charge is \$83.36. Prior to the 1998 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 average annual District residential charge was about \$85. The District's agreement with UWS expires at the end of February 2008 and the District expects a significant increase in user charge billings for the fiscal year 2008. The increase is expected primarily because of rising energy costs, which under the favorable financial terms in the current contract, a significant portion have been absorbed by UWS.

The District's Commission approved a 2007 Capital Budget that included a tax levy of \$78.5 million, an increase of 3% over 2005's levy, reducing the tax rate from \$1.42 to \$1.30 per \$1,000 of equalized value. Included in the Capital Budget is the current six-year financing plan that limits increases to the tax levy to 3% in 2008 and 4.7% from 2009 through 2012, while reducing the tax rate to \$1.27 per \$1,000 of equalized value for the same period.

As mentioned earlier, the current six-year financing plan anticipates peak capital project expenditures in 2007 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 2007 for the 2020 Facilities Plan with approval of the Facilities Plan expected by the State of Wisconsin's Department of Natural Resources by the end of 2007. This represents the culmination of 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.**

Milwaukee Metropolitan Sewerage District

Exhibit A-1

Statements of
Net Assets

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	<i>(In Thousands)</i>	
Assets		
Current unrestricted assets:		
Cash and cash equivalents	\$ –	\$4,996
Investments	33,788	16,500
Receivables:		
Billed user charges	6,175	4,473
Unbilled user charges	7,949	7,124
Fertilizer sales	1,560	1,225
Other	350	543
Inventories:		
Operating and maintenance supplies	2,558	2,383
Fertilizer	<u>1,199</u>	<u>1,977</u>
Total current unrestricted assets	<u>53,579</u>	<u>39,221</u>
Current restricted assets:		
Cash and cash equivalents	3,953	–
Investments	125,187	168,239
Receivables:		
Tax levy	78,486	76,200
Capital charges – municipalities outside the District	23,872	25,710
Grant funds	12	28
Other	6,944	7,871
Prepaid expenses and other	<u>1,932</u>	<u>7,833</u>
Total current restricted assets	<u>240,386</u>	<u>285,881</u>
Total current assets	<u>293,965</u>	<u>325,102</u>
Capital assets, at cost:		
Land	33,991	29,882
Land easements	18,545	18,545
Land improvements	19,538	19,538
Buildings	792,485	792,485
Aeration and clarifier tanks	62,692	62,692
Machinery and equipment	652,058	636,583
Intercepting sewer system	1,877,491	1,693,310
Watercourse improvement	201,151	177,593
Construction in progress	<u>334,504</u>	<u>414,561</u>
	3,992,455	3,845,189
Less accumulated depreciation	<u>(927,334)</u>	<u>(861,922)</u>
Net capital assets	<u>3,065,121</u>	<u>2,983,267</u>
Total assets	<u>\$3,359,086</u>	<u>\$3,308,369</u>

See accompanying notes to financial statements.



Milwaukee Metropolitan Sewerage District

	<u>2006</u>	<u>2005</u>
	<i>(In Thousands)</i>	
Liabilities		
Current liabilities (payable from current assets):		
Accounts payable	\$7,174	\$5,583
Accrued salaries and wages	219	50
Postretirement benefits	4,572	4,652
Accrued vacation pay	1,150	1,070
Other	<u>543</u>	<u>558</u>
Total current liabilities (payable from current assets)	<u>13,658</u>	<u>11,913</u>
Current liabilities (payable from restricted assets):		
Accounts payable	18,094	24,993
Retainers payable	3,137	2,474
Accrued interest	5,568	5,637
Deferred revenues:		
Tax levies	78,486	76,200
Capital charges - municipalities outside the District	20,836	20,237
Long-term obligations due within one year	<u>49,020</u>	<u>45,194</u>
Total current liabilities (payable from restricted assets)	<u>175,141</u>	<u>174,735</u>
Total current liabilities payable	<u>188,799</u>	<u>186,648</u>
Noncurrent liabilities:		
Retainers payable	1,809	670
Long-term obligations:		
General obligations bonds	264,794	281,716
Clean Water Fund Program loans	438,619	409,656
Postretirement benefits – long term	63,618	56,498
Accrued vested sick pay	<u>1,360</u>	<u>1,340</u>
Total long-term obligations	<u>770,200</u>	<u>749,880</u>
Total liabilities	<u>958,999</u>	<u>936,528</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	2,307,119	2,241,063
Restricted - capital projects	88,704	116,138
Restricted - equipment replacement	22,678	35,964
Restricted - debt service	6,631	9,177
Unrestricted	<u>(25,045)</u>	<u>(30,501)</u>
Total net assets	<u>\$2,400,087</u>	<u>\$2,371,841</u>

Milwaukee Metropolitan Sewerage District
Exhibit A-2

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2006 and 2005

	2006	2005
	<i>(In Thousands)</i>	
Operating revenues:		
User charges	\$48,005	\$46,779
Fertilizer	5,194	5,836
Other	<u>340</u>	<u>356</u>
Total operating revenues	<u>53,539</u>	<u>52,971</u>
Operating expenses:		
Systems - operation and maintenance	41,166	39,418
Laboratory and research services	2,341	2,172
Industrial waste and conveyance monitoring	3,524	3,370
Finance, engineering and administration	16,292	15,661
Depreciation	<u>65,619</u>	<u>63,624</u>
Total operating expenses	<u>128,942</u>	<u>124,245</u>
Operating loss	<u>(75,403)</u>	<u>(71,274)</u>
Nonoperating revenues (expenses):		
Property taxes	76,086	74,619
Investment income	9,381	7,014
Net increase (decrease) in fair value of investments	440	(593)
Interest expense	(17,309)	(14,630)
Capital charges – communities outside the District	21,428	22,982
Gain (loss) on disposal of capital assets	(987)	185
Land contributed to municipalities	(874)	(671)
Other	<u>1,568</u>	<u>1,022</u>
Total nonoperating revenues, net	<u>89,733</u>	<u>89,928</u>
Income before capital contributions	14,330	18,654
Capital contributions	<u>13,916</u>	<u>2,384</u>
Change in net assets	28,246	21,038
Net assets at beginning of year	<u>2,371,841</u>	<u>2,350,803</u>
Net assets at end of year	<u>\$2,400,087</u>	<u>\$2,371,841</u>

See accompanying notes to financial statements.

Milwaukee Metropolitan Sewerage District

Exhibit A-3

Statements of
Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	<i>(In Thousands)</i>	
Cash flow from operating activities:		
Receipts from customers and users	\$53,448	\$54,452
Payments to suppliers	(43,052)	(46,013)
Payments to employees	(10,782)	(10,014)
Net cash used in operating activities	<u>(386)</u>	<u>(1,575)</u>
Cash flow from non-capital and related financing activities:		
Tax levy receipts	<u>76,685</u>	<u>73,676</u>
Cash flow from capital and related financing activities:		
Proceeds from Clean Water Fund Program loans	62,631	71,424
Proceeds from issuance of general obligation debt	—	62,852
Acquisition and construction of capital assets	(149,595)	(122,418)
Principal payments on long-term obligations	(45,657)	(96,138)
Interest paid on long-term obligations (net of capitalized interest)	(18,484)	(19,120)
Proceeds from the sale of capital assets	53	284
Reimbursement of construction costs	927	(3,609)
Government grant receipts	13,632	2,121
Capital charges – municipalities outside the District	23,266	25,214
Contributed capital – United Water Services Milwaukee LLC	<u>300</u>	<u>250</u>
Net cash used in capital and related financing activities	<u>(112,927)</u>	<u>(79,140)</u>
Cash flow from investing activities:		
Investment income	9,381	7,014
Purchase of investments	(2,097,659)	(1,379,520)
Proceeds from sale and maturity of investments	<u>2,123,863</u>	<u>1,380,193</u>
Net cash provided by investing activities	<u>35,585</u>	<u>7,687</u>
Net (decrease) increase in cash and cash equivalents	(1,043)	648
Cash and cash equivalents at beginning of year	<u>4,996</u>	<u>4,348</u>
Cash and cash equivalents at end of year	<u>\$3,953</u>	<u>\$4,996</u>
Cash and cash equivalents as presented in the accompanying statements of net assets:		
Current	\$—	\$4,996
Restricted	<u>3,953</u>	—
	<u>\$3,953</u>	<u>\$4,996</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(75,403)	\$(71,274)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	65,619	63,624
Postretirement benefits	7,040	5,246
Other nonoperating revenue	1,568	1,022
Changes in current assets and liabilities:		
Current receivables and other assets	(2,669)	(867)
Prepaid expenses and other	1,011	1,327
Inventories	603	(330)
Accounts payable and other liabilities	<u>1,845</u>	<u>(323)</u>
Net cash used in operating activities	<u>\$(386)</u>	<u>\$(1,575)</u>
Non-cash investing activities:		
Increase (decrease) in fair value of investments	\$440	\$(593)

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2006 and 2005

(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 10 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 that come under the criteria for inclusion. The District is not a component unit of any other government entity.

(2) Summary of Significant Accounting Policies

The accounting policies of the District conform to U.S. generally accepted accounting principles as applicable to government entities. As permitted by U.S. generally accepted accounting principles, 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.

(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) 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 statements 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.

(d) User Charges

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

(e) Inventories

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

(f) 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 \$22.7 and \$36.0 million in 2006 and 2005, respectively. Also included in restricted assets are investments, receivables, and other assets available for restricted liabilities related to the District's capital improvement program.

(g) 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 2006, to be collected in 2007, of \$78,486,000, have been included in deferred revenues in the statement of net assets at December 31, 2006, and are available for expenditure in 2007. Taxes levied in 2005, to be collected in 2006, of \$76,200,000, have been included in deferred revenues in the statement of net assets at December 31, 2005, and are available for expenditure in 2006.

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.

(h) 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. 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.

(i) Capital Assets

Capital assets, which include land, land easements, land improvements, 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.

Notes to Financial Statements Continued

December 31, 2006 and 2005

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

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

	<u>Years</u>
Land easements	50
Land 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.

(f) Vacation Pay

Vacation pay is accrued as earned. The accrued vacation pay of \$1,150,000 and \$1,070,000 at December 31, 2006 and 2005, respectively, is classified as a current 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) Deferred Revenue

On an accrual basis, revenue from property taxes and capital charges for communities outside the District are recognized in the period they are intended to finance, which is the year after the taxes are levied and the capital charges are incurred. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

(m) 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.

(n) Vested Sick Pay

Prior to 1984, it was the District's practice that employees could accumulate unused sick pay to a maximum of 240 days, and upon retirement could receive payment for one-half of their accumulated days. In 1984, the accumulated unused sick pay for management employees was frozen at the balance earned as of December 31, 1983. The Union employees continue to accumulate unused sick pay. Sick pay is accrued as earned. The frozen sick pay of the management employees is \$98,000 at December 31, 2006 and 2005, and is classified as a long-term liability. The vested sick pay of the Union employees is \$1,262,000 and \$1,242,000 at December 31, 2006 and 2005, and is classified as a long-term liability.

(o) 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."

(p) Classification of Revenues and Expenses

The District has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including sewer user charges and

fertilizer (Milorganite®) sales. Nonoperating revenue includes interest income on investments and activities that have characteristics of nonexchange transactions including federal, state, and local grants and contributions.

Operating expenses are related to the operating, managing, and maintaining of the District's sewerage system. These expenses are primarily funded by sewer user charges and sales of Milorganite®. Nonoperating expenses are related to the cost of acquiring, purchasing, adding to, leasing, planning, designing, constructing, extending, and improving all or any part of the District's sewerage system, 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.

(q) Use of Estimates

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

(r) New Accounting Pronouncements

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, 2007.

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 implementation of this statement in 2006 did not have a material impact on the District's financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, this statement is effective for financial statements for periods beginning after June 15, 2005. In the initial year of implementation, the requirements of this statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets. Financial statements for prior periods are not required to be restated. The implementation of this statement in 2006 did not have a material impact on the District's financial statements.

In October 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received for an interest in their expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2006. Earlier application of this statement is encouraged. The District will be required to implement this statement for the year ending December 31, 2007.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The objective of this Statement is to enhance the usefulness and comparability of pollution remediation obligation information reported by state and local governments by setting uniform standards requiring more timely and complete reporting of those obligations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007. Early application of this Statement is encouraged. The District will be required to implement this statement for the year ending December 31, 2008.

(s) Reclassification

Certain amounts in the 2005 financial statements have been reclassified to conform with the classification used in 2006.

Notes to Financial Statements Continued

December 31, 2006 and 2005

(3) Deposits and Investments

As of December 31, 2006, the District had the following investments and cash and cash equivalents (in thousands) and maturities:

	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-2	3-5
Commercial paper	\$101,929	101,929	-	-
U.S. Instrumentalities	37,321	15,701	10,308	11,312
U.S. Treasuries	3,186	1,189	985	1,012
Local Government				
Investment Pool	11,078	11,078	-	-
Corporate Bonds	4,151	1,075	2,083	993
Certificates of Deposit	1,310	1,310	-	-
Total Investments	<u>\$158,975</u>	<u>132,282</u>	<u>13,376</u>	<u>13,317</u>

As of December 31, 2005, the District had the following investments and cash and cash equivalents (in thousands) and maturities:

	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-2	3-5
Commercial paper	\$116,480	116,480	-	-
U.S. Instrumentalities	46,872	18,653	17,072	11,147
U.S. Treasuries	3,144	-	1,178	1,966
Local Government				
Investment Pool	13,883	13,883	-	-
Corporate Bonds	3,053	993	1,072	988
Certificates of Deposit	1,307	1,307	-	-
Total Investments	<u>\$184,739</u>	<u>151,316</u>	<u>19,322</u>	<u>14,101</u>

During 2006 and 2005, the District was in accordance with its investment policy that all investments shall be limited to maturities not exceeding five years, and the District shall maintain at least \$10,000,000 of its total investment portfolio in instruments maturing in 60 days or less. During 2006 and 2005, investments with maturities of less than 180 days, based on par value, comprised on average, 81.8% and 78.1%, respectively, of the District's month-end investment portfolio balance.

Credit risk is risk that an issuer of an investment will not fulfill its obligations to the District. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by a nationally recognized rating service at the time of purchase. The District investment policy further limits the purchase of commercial paper to issuers with a commercial paper program size of at least \$500,000,000, except for banks and companies located within the District's boundaries. As of December 31, 2006 and 2005 the District's investments in commercial paper were rated either A-1 by Standard & Poor's, F-1 by Fitch Ratings, or P-1 by Moody's Investors Service, at the time of purchase. The District's investment in corporate bonds at December 31, 2006 and 2005, are rated either AA- by Standard's & Poor's, AA- by Fitch Ratings, or Aa2 by Moody's Investors Service or higher.

As to the credit risk related to the District's investment in the Local Government Investment Pool (LGIP), the Financial Security Assurance Corporation insures LGIP investments, except for investments in U.S. Government Agencies, State of Wisconsin agencies, and Wisconsin banks, against credit loss. Further, the Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of certificates of deposit held by the LGIP.

At December 31, 2006 and 2005, the District had \$1,001,000 and \$998,000 invested in Farmer Mac, federally chartered instrumentality of the United States. There is no rating on this security, which matures June 25, 2007. All of the remaining District investment in U.S. Instrumentalities at December 31, 2006 and 2005 are rated either AAA by Standard & Poor's, AAA by Fitch Ratings, or Aaa by Moody's Investors Service.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places no limit on the amount invested in any one issuer. As of December 31, 2006, the District had more than 5% of the District's investments in the following issuers:

Issuer	Percentage
New Center Asset Trust Commercial Paper	14.92%
Rhineland Funding Commercial Paper	10.85
Federal National Mortgage Association	9.82
Eaton Vance Variable Leverage Commercial Paper	9.40
Federal Home Loan Mortgage Corporation	8.07
Black Diamond USA Funding Commercial Paper	7.30

As of December 31, 2005, the District had more than 5% of the District's investments in the following issuers:

Issuer	Percentage
Federal Home Loan Mortgage Corporation	11.18%
New Center Asset Trust Commercial Paper	9.60
Federal National Mortgage Association	8.55
Citigroup Funding Inc. Commercial Paper	7.53
Atomium Funding Corporation Commercial Paper	5.20

In the case of deposits, in which the related risk is the event of a bank failure, the District's deposits may not be returned to it. The District maintained certificates of deposit of \$1,310,000 and \$1,307,000 at December 31, 2006 and 2005, respectively. These deposits, excluding \$5,000 of accrued interest at December 31, 2006 and \$4,000 of accrued interest at December 31, 2005, are fully insured through a combination of federal and state deposit insurance.

(4) Operating Expenses

The Milwaukee Metropolitan Sewerage District Commission approved a 10-year contract effective March 1, 1998 with the United Water Services Milwaukee LLC (UWS) for the operation of the District's two wastewater treatment plants, biosolids management, and field operations, while retaining ownership of the assets. The operation and maintenance fee is subject to adjustments based on the Consumer Price Index for all urban consumers in the Milwaukee area, and was approximately \$36,214,000 and \$35,154,000 for the years ended December 31, 2006 and 2005, 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 \$3,400,000 of specific capital improvements throughout the term of the contract. As of December 31, 2006 and 2005, UWS had provided all of the capital improvements as part 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 retained ownership. At the termination of the contract, custody of the inventory reverts back to the District, and any change in the value of inventory is paid by the District or to the District. Any changes in inventory levels throughout the term of the agreement are recorded as inventory.

(5) Federal and State Grants

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

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

	Available Grant Funds	Outstanding Grants Receivable		
		Billed	Unbilled	Total
<i>(In Thousands)</i>				
December 31, 2006:				
Federal	\$ -	-	-	-
State	256	-	12	12
	<u>\$256</u>	<u>-</u>	<u>12</u>	<u>12</u>
December 31, 2005:				
Federal	\$-	-	-	-
State	278	-	28	28
	<u>\$278</u>	<u>-</u>	<u>28</u>	<u>28</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.

Notes to Financial Statements Continued

December 31, 2006 and 2005

(6) Capital Assets

Capital assets activity for the year ended December 31, 2006 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balance, End of Year
<i>(In Thousands)</i>					
Capital assets not being depreciated:					
Land	\$29,882	—	1	4,110	33,991
Construction in progress	414,561	148,884	1,892	(227,049)	334,504
Total capital assets not being depreciated	444,443	148,884	1,893	(222,939)	368,495
Capital assets being depreciated:					
Land easements	18,545	—	—	—	18,545
Land improvements	19,538	—	—	—	19,538
Buildings	792,485	—	—	—	792,485
Aeration and clarifier tanks	62,692	—	—	—	62,692
Machinery and equipment	636,583	503	184	15,156	652,058
Intercepting sewer system	1,693,310	—	44	184,225	1,877,491
Watercourse improvements	177,593	—	—	23,558	201,151
Total capital assets being depreciated	3,400,746	503	228	222,939	3,623,960
Less accumulated depreciation:					
Land easements	182	367	—	—	549
Land improvements	7,659	511	—	—	8,170
Buildings	225,315	15,168	—	—	240,483
Aeration and clarifier tanks	16,083	836	—	—	16,919
Machinery and equipment	261,488	21,461	184	—	282,765
Intercepting sewer system	332,115	24,784	23	—	356,876
Watercourse improvements	19,080	2,492	—	—	21,572
Total accumulated depreciation	861,922	65,619	207	—	927,334
Total capital assets being depreciated, net	2,538,824	(65,116)	21	222,939	2,696,626
Total capital assets, net	\$2,983,267	83,768	1,914	—	3,065,121

Capital assets activity for the year ended December 31, 2005 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balance, End of Year
<i>(In Thousands)</i>					
Capital assets not being depreciated:					
Land	\$29,860	—	98	120	29,882
Construction in progress	410,543	118,169	671	(113,480)	414,561
Total capital assets not being depreciated	440,403	118,169	769	(113,360)	444,443
Capital assets being depreciated:					
Land easements	—	—	—	18,545	18,545
Land improvements	19,538	—	—	—	19,538
Buildings	792,357	—	—	128	792,485
Aeration and clarifier tanks	62,692	—	—	—	62,692
Machinery and equipment	604,821	626	668	31,804	636,583
Intercepting sewer system	1,644,980	—	—	48,330	1,693,310
Watercourse improvements	163,040	—	—	14,553	177,593
Total capital assets being depreciated	3,287,428	626	668	113,360	3,400,746
Less accumulated depreciation:					
Land easements	—	182	—	—	182
Land improvements	7,148	511	—	—	7,659
Buildings	210,145	15,170	—	—	225,315
Aeration and clarifier tanks	15,247	836	—	—	16,083
Machinery and equipment	241,108	21,048	668	—	261,488
Intercepting sewer system	308,492	23,623	—	—	332,115
Watercourse improvements	16,826	2,254	—	—	19,080
Total accumulated depreciation	798,966	63,624	668	—	861,922
Total capital assets being depreciated, net	2,488,462	(62,998)	—	113,360	2,538,824
Total capital assets, net	\$2,928,865	55,171	769	—	2,983,267

The District has construction contract commitments of approximately \$96,652,000 as of December 31, 2006.

(7) Long-term Obligations

Changes in long-term obligations for the year ended December 31, 2006 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>(In Thousands)</i>					
General obligation bonds	\$285,335	—	(15,165)	270,170	15,815
Plus unamortized premium	13,464	—	(1,254)	12,210	—
Less deferred loss on defeasance and refunding	(1,918)	—	147	(1,771)	—
Total bonds payable	296,881	—	(16,272)	280,609	15,815
State of Wisconsin					
Clean Water Fund	439,685	62,631	(30,492)	471,824	33,205
Subtotal	736,566	62,631	(46,764)	752,433	49,020
Other postretirement benefits	61,150	11,207	(4,167)	68,190	4,572
Vested sick pay	1,390	75	(5)	1,460	100
Total	\$799,106	73,913	(50,936)	822,083	53,692

Changes in long-term obligations for the year ended December 31, 2005 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>(In Thousands)</i>					
General obligation bonds	\$302,195	57,115	(73,975)	285,335	15,165
Plus unamortized premium	12,129	5,954	(4,619)	13,464	—
Less deferred loss on defeasance and refunding	(1,861)	(217)	160	(1,918)	—
Total bonds payable	312,463	62,852	(78,434)	296,881	15,165
State of Wisconsin					
Clean Water Fund	390,424	71,424	(22,163)	439,685	30,029
Subtotal	702,887	134,276	(100,597)	736,566	45,194
Other postretirement benefits	55,904	9,247	(4,001)	61,150	4,652
Vested sick pay	1,305	117	(32)	1,390	50
Total	\$760,096	143,640	(104,630)	799,106	49,896

The District has issued general obligations bonds to provide funds for the acquisition and construction of major capital assets. All general obligation bonds are backed by the full faith and credit of the District. Interest on these bonds is payable semiannually at varying interest rates ranging from 4.04% to 4.96% (effective interest rate of 4.85%). Debt service requirements are as follows:

Year	Principal	Interest	Total
<i>(In Thousands)</i>			
2007	\$15,815	13,990	29,805
2008	16,590	13,108	29,698
2009	17,370	12,230	29,600
2010	18,205	11,300	29,505
2011-2015	104,540	41,523	146,063
2016-2020	80,945	14,894	95,839
2021-2022	16,705	1,136	17,841
Total	\$270,170	108,181	378,351

Notes to Financial Statements

Continued

December 31, 2006 and 2005

The District has received funds through the State of Wisconsin Clean Water Fund Loan Program, which has replaced grant funding for the construction of wastewater treatment facilities. Interest on these loans is payable semiannually at varying interest rates ranging from 2.37% to 4.95% (effective interest rate of 2.66%). Principal is payable annually in varying amounts. Debt service requirements are as follows:

Year	Principal	Interest	Total
		(In Thousands)	
2007	\$33,205	12,312	45,517
2008	34,238	11,431	45,669
2009	35,159	10,498	45,657
2010	37,037	9,529	46,566
2011	38,030	8,523	46,553
2012-2016	133,360	30,897	164,257
2017-2021	125,729	12,749	138,478
2022-2024	35,066	1,687	36,753
Total	\$471,824	97,626	569,450

The District has outstanding loan commitments available of \$134,976,000 and \$64,591,000 at December 31, 2006 and 2005, respectively, from the State of Wisconsin Clean Water Fund Loan Program. These commitments will be utilized for future construction of wastewater treatment facilities.

On August 12, 1997, the District issued \$196,080,000 General Obligation Capital Purpose Refunding Bonds, Series 1997A. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the General Obligation Capital Purpose Bonds, Series 1990A. Neither the defeased debt nor the funds held in trust are recorded on the District's statement of net assets. The unamortized refunding loss was \$1,573,000 as of December 31, 2006. The remaining balance on the Series 1990A Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$0. The remaining balance on the Series 1997A Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$132,825,000 and \$141,535,000, 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 future debt service payments on a portion of the General Obligation Capital Purpose Bonds, Series 2001A. Neither the defeased debt nor the funds held in trust are recorded on the District's statement of net assets. The difference between the 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 \$1,573,000 as of December 31, 2006. The remaining balance on the Series 2001A Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$20,575,000 and \$24,210,000, respectively. The remaining balance on the Series 2003I Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$37,645,000.

On April 21, 2005, the District issued \$57,115,000 of General Sewerage System Refunding Bonds, Series 2005A. The proceeds were used to purchase state and local government securities which, together with an initial cash deposit and debt service funds released, were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on a portion of the General Obligation Sewerage System Bonds, Series 2001A. Neither the defeased debt nor the funds held in trust are recorded on the District's statement of net assets. The difference between the

acquisition price and the net carrying amount of the old debt was a loss of \$217,000, which is reported in the accompanying financial statements as a reduction to long-term obligations and is being amortized as a component of interest expense through 2022. The unamortized refunding loss was \$198,000 as of December 31, 2006. The remaining balance on the Series 2001A Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$20,575,000 and \$24,210,000, respectively. The remaining balance on the Series 2003D Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$22,010,000 and \$24,830,000, respectively. The remaining balance on the Series 2005A Bonds at December 31, 2006 and 2005, included in general obligation bonds, is \$57,115,000.

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 \$8,269,000 and \$10,787,000 in 2006 and 2005, respectively.

A computation of the legal debt margin, as defined by Wisconsin Statute, as of December 31, 2006 follows:

2006 equalized valuation as determined by the Supervisor of Assessments of the Wisconsin Department of Revenue	\$62,260,061,536
Statutory debt limit rate - Wisconsin Statutes Section 67.03	5%
Statutory debt limit	3,113,003,077
General obligation indebtedness:	
Outstanding bonds issued by the District	(270,170,000)
Clean Water Fund Program loans	(471,824,272)
Legal debt margin	\$2,371,008,805

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. The District 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 it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. The liability for claims payable included with accounts payable in the statements of net assets includes claims incurred but not reported (IBNR) totaling approximately \$185,000 and \$1,090,000 as of December 31, 2006 and 2005, respectively.

	2006	2005
	(In Thousands)	
Unpaid claims, beginning of year	\$1,090	1,080
Current year claims and changes in estimates	(862)	136
Claim payments	(43)	(126)
Unpaid claims, end of year	\$185	1,090

(9) 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.

Notes to Financial Statements

Continued

December 31, 2006 and 2005

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

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 of Wisconsin and the District have reached a stipulated agreement resolving this litigation, which requires the District to expend an estimated \$906,000,000 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 matter was heard on August 25, 2005, and a decision is forthcoming. The maximum additional exposure from this litigation has not been determined. The District believes it will prevail in this litigation.

Bostco LLC and Parisian Inc. vs. the District

Suit was filed in 2003 for alleged damages to the foundation of the Boston Store property caused by groundwater draw down from construction projects of the District. Jury trial resulted in a judgment for the Plaintiff of \$100,000. The Plaintiff has appealed. The Plaintiff has obtained an injunction requiring one mile of tunnel to be lined at a cost of approximately \$16,000,000. The District has appealed. The District believes it will prevail in this litigation.

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

In 2004, the owner of a building sought monetary recovery for damages to the foundation of its building, allegedly caused by the District's construction of a sewer. The owner seeks over \$700,000 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.

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

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

Winterthur International American Insurance Company vs. MMSD

The building insurer sought to recover monetary damages for losses occasioned by flooding along Lincoln Creek Parkway following heavy rains. The suit seeks \$8,600,000 in damages, plus interest of \$3,400,000. The District believes that it will prevail in this matter.

State of Wisconsin vs. MMSD, et al.

The State of Wisconsin sued the District claiming violations of discharge permits due to sanitary sewer overflows occasioned by heavy rainfalls and alleging creation of a public nuisance with regard to contemporaneous combined sewer overflows in May, 2004. The state seeks further relief against the District in addition to the provision of the settlement referenced above. Statutory penalties for these types of violations are \$10,000/day of violation. The District believes it has no liability for the public nuisance allegations and very limited exposure for the alleged permit violations.

(b) 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 is approximately \$2,386,000 and \$2,885,000 as of December 31, 2006 and 2005, respectively, and has been accrued for in the accompanying financial statements.

(10) Retirement System

All full-time and other eligible employees of the District are members of the Employees' Retirement System of the City of Milwaukee (the System), a cost-sharing multiple employer defined benefit pension plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The 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 its share of the System. Starting in 1970, the District has contributed the 5.5% on behalf of the employees. Contributions for District employees are as follows:

	2006	2005	2004
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	\$828	773	725
Employer	—	—	—
	<u>\$828</u>	<u>773</u>	<u>725</u>

(11) Other Postretirement Benefits

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

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

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

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

Currently, 338 retirees meet those eligibility requirements. The District provides the same health coverage as offered active employees. This insurance provides approximately 100% coverage; certain health coverage options involving deductibles; and co-pays.

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 4).

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 \$55,400,000 at January 1, 1993, over a period of 20 years.

Notes to Financial Statements Continued

December 31, 2006 and 2005

Postretirement benefit expense includes the following components:

	<u>2006</u>	<u>2005</u>
	<i>(In Thousands)</i>	
Service cost	\$1,890	1,398
Interest cost on accumulated postretirement benefit obligation	5,543	4,956
Net amortization	3,753	2,893
Postretirement benefit expense	<u>\$11,186</u>	<u>9,247</u>

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

	<u>2006</u>	<u>2005</u>
	<i>(In Thousands)</i>	
Accumulated postretirement benefit obligation:		
Retirees	\$54,847	55,875
Fully eligible participants	14,128	11,695
Other active participants	31,565	35,190
Total accumulated postretirement benefit obligation	100,540	102,760
Unrecognized transition obligation	(16,393)	(19,165)
Unrecognized actuarial gain	(15,957)	(22,445)
Accrued postretirement benefit cost liability	<u>\$68,190</u>	<u>61,150</u>

For measurement purposes, a benefit cost trend rate of 10% and 11% annually was assumed in 2006 and 2005, respectively. This rate gradually decreases to 5.0% through 2014. 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, 2006 by 13.29%, and the aggregate service and interest cost components of postretirement benefit expense for 2006 by 15.05%. Decreasing the assumed benefit cost trend rates by 1% each year would decrease the APBO at December 31, 2006 by 12%, and the aggregate service and interest cost components of postretirement benefit expense for 2006 by 12.95%. The weighted-average-discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 5.50% as of December 31, 2006 and 2005, respectively.

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

Year ending December 31:	<u>Other Benefits</u>
2007	\$4,078,135
2008	4,408,672
2009	4,697,865
2010	5,107,758
2011	5,461,041
2012 through 2016	33,161,753

(12) Leases

Future minimum lease receipts under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2006 are as follows:

Year ending December 31:	
2007	\$157,673
2008	141,383
2009	144,507
2010	147,705
2011	150,980
2012 through 2016	345,826
2017 through 2021	56,205
2022 through 2026	56,205
2027 through 2031	56,205
2032 through 2036	56,205
2037 through 2041	56,205
2042 through 2046	56,205
2047 through 2051	56,205
2052 through 2056	56,205
2057 through 2058	<u>22,482</u>
Total minimum lease receipts	<u>\$1,560,196</u>

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2006 are:

Year ending December 31:	
2007	\$50,506
2008	52,526
2009	54,627
2010	56,812
2011	59,085
2012 through 2014	<u>62,463</u>
Total minimum lease payments	336,019
Less current installments of obligations under operating leases	<u>50,506</u>
Obligations under operating leases, excluding current installments	<u>\$285,513</u>

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



Tunnel Lining



STATISTICAL SECTION

Milwaukee Metropolitan Sewerage District

Exhibit B-1

Net Assets by Components

For the Fiscal Years Ended December 31, 2000 through 2006

	Fiscal Year			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In Thousands)			
Invested in Capital Assets, Net of Related Debt	\$ 2,307,119	\$ 2,241,063	\$ 2,222,154	\$ 2,218,210
Restricted - Capital Projects	88,704	116,138	111,838	86,185
Restricted - Equipment Replacement	22,678	35,964	37,410	39,951
Restricted - Debt Service	6,631	9,177	5,220	9,238
Unrestricted	<u>(25,045)</u>	<u>(30,501)</u>	<u>(25,819)</u>	<u>(22,321)</u>
	<u>\$ 2,400,087</u>	<u>\$ 2,371,841</u>	<u>\$ 2,350,803</u>	<u>\$ 2,331,263</u>

The District presents the above information retroactively to the year it implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments".



Milwaukee Metropolitan Sewerage District

Fiscal Year		
<u>2002</u>	<u>2001</u>	<u>2000</u>
(In Thousands)		
\$ 2,243,756	\$ 2,230,665	\$ 2,206,959
44,793	37,702	61,970
43,000	43,000	43,091
1,201	6,143	1,541
<u>(20,345)</u>	<u>(16,030)</u>	<u>(7,770)</u>
<u>\$ 2,312,405</u>	<u>\$ 2,301,480</u>	<u>\$ 2,305,791</u>

Milwaukee Metropolitan Sewerage District
Exhibit B-2

Change in Net Assets

For the Fiscal Years Ended December 31, 2000 through 2006

<u>Year</u>	<u>Operating Revenue</u>	<u>Operating Expenses</u>	<u>Operating Income/(Loss)</u>	<u>Total Nonoperating Revenues/(Expenses)</u> (In Thousands)	<u>Income/(Loss) Before Capital Contributions</u>	<u>Capital Contributions</u>	<u>Change In Net Assets</u>
2006	\$ 53,539	\$ 128,942	\$ (75,403)	\$ 89,733	\$ 14,330	\$ 13,916	\$ 28,246
2005	52,971	124,245	(71,274)	89,928	18,654	2,384	21,038
2004	51,753	120,687	(68,934)	85,020	16,086	3,454	19,540
2003	51,290	117,697	(66,407)	85,118	18,711	147	18,858
2002	48,955	115,373	(66,418)	72,576	6,158	4,767	10,925
2001	49,497	114,519	(65,022)	58,969	(6,053)	1,742	(4,311)
2000	50,880	113,077	(62,197)	64,314	2,117	5,640	7,757

The District presents the above information retroactively to the year it implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments".

Milwaukee Metropolitan Sewerage District

Exhibit B-3

Operating Revenue by Source

For the Fiscal Years Ended December 31, 1997 through 2006

<u>Year</u>	<u>Total Operating Revenue</u>	<u>Sewer User Charge</u> (In Thousands)	<u>Fertilizer</u>	<u>Other</u>
2006	\$ 53,539	\$ 48,005	\$ 5,194	\$ 340
2005	52,971	46,779	5,836	356
2004	51,753	44,663	6,338	752
2003	51,290	45,090	5,902	298
2002	48,955	43,425	5,325	205
2001	49,497	43,370	5,754	373
2000	50,880	44,503	6,004	373
1999	51,736	44,933	6,569	234
1998	58,803	52,646	5,834	323
1997	62,552	53,881	6,297	2,374

Milwaukee Metropolitan Sewerage District

Exhibit B-4

Operating Expenses

For the Fiscal Years Ended December 31, 1997 through 2006

<u>Year</u>	<u>Total Operating Expenses</u>	<u>System-Operation & Maintenance</u>	<u>Laboratory & Research Services</u>	<u>Industrial Waste & Conveyance Monitoring</u> (In Thousands)	<u>Finance, Engineering & Administration</u>	<u>Depreciation</u>
2006	\$128,942	\$ 41,166	\$ 2,341	\$ 3,524	\$ 16,292	\$ 65,619
2005	\$124,245	39,418	2,172	3,370	15,661	63,624
2004	\$120,687	38,179	2,095	3,062	14,749	62,602
2003	\$117,697	36,889	1,997	2,968	14,636	61,207
2002	\$115,373	38,111	1,934	2,827	13,660	58,841
2001	\$114,519	37,401	2,377	2,962	13,921	57,858
2000	\$113,077	36,143	2,749	3,154	12,140	58,891
1999	\$110,684	36,778	2,633	2,727	10,106	58,440
1998	\$109,017	36,466	2,504	2,612	10,314	57,121
1997	\$116,944	45,306	3,467	2,953	15,265	49,953

Milwaukee Metropolitan Sewerage District
Exhibit B-5

Nonoperating Revenue and Expenses

For the Fiscal Years Ended December 31, 2000 through 2006

<u>Year</u>	<u>Total Non-Operating Revenues (Expenses)</u>	<u>Property Taxes</u>	<u>Capital Charges Communities Outside the District</u>	<u>Investment Income and Change in Fair Value of Investments</u> (In Thousands)	<u>Interest Expenses</u>	<u>Gain (Loss) on Disposal of Capital Assets</u>	<u>Land Contributed to Municipalities</u>	<u>Other</u>
2006	\$ 89,733	\$ 76,086	\$ 21,428	\$ 9,821	\$ (17,309)	\$ (987)	\$ (874)	\$ 1,568
2005	89,928	74,619	22,982	6,421	(14,630)	185	(671)	1,022
2004	85,020	71,424	21,343	3,000	(12,215)	13	-	1,455
2003	85,118	71,860	19,678	2,898	(10,130)	(302)	-	1,114
2002	72,576	67,667	11,051	4,663	(11,874)	(529)	-	1,598
2001	58,969	62,133	2,564	7,808	(10,317)	(4,444)	-	1,225
2000	64,314	59,230	8,336	12,430	(12,843)	(3,942)	-	1,103

The District presents the above information retroactively to the year it implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments".

Milwaukee Metropolitan Sewerage District
Exhibit B-6

User Charge Revenue by Municipality Within the District

For the Fiscal Years Ended December 31, 1997 through 2006

Municipality	Fiscal Year				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
City of Cudahy	\$ 1,095,397	\$ 1,006,096	\$ 965,643	\$ 1,093,070	\$ 999,034
City of Franklin	1,208,857	1,121,795	1,006,546	996,375	899,485
City of Glendale	606,614	578,069	552,387	550,990	530,390
City of Greenfield	1,326,295	1,289,413	1,206,451	1,177,932	1,153,965
City of Milwaukee	28,197,896	28,163,570	27,001,904	27,489,444	26,419,674
City of Oak Creek	1,312,991	1,230,830	1,151,995	1,085,358	1,040,728
City of St. Francis	338,693	292,053	287,324	274,879	280,640
City of Wauwatosa	2,090,334	2,042,760	1,910,796	1,910,819	1,928,005
City of West Allis	2,510,275	2,303,374	2,277,273	2,305,548	2,207,287
Village of Bayside	162,669	152,333	143,402	140,458	132,390
Village of Brown Deer	501,852	480,821	456,332	463,801	451,170
Village of Fox Point	252,911	231,548	216,338	219,917	216,928
Village of Greendale	496,549	475,113	437,205	420,799	411,277
Village of Hales Corners	300,626	279,688	267,605	261,288	257,975
Village of River Hills	61,787	54,405	51,151	51,645	52,791
Village of Shorewood	445,837	448,364	406,377	411,911	403,858
Village of West Milwaukee	673,454	637,664	679,932	602,654	653,792
Village of Whitefish Bay	<u>483,864</u>	<u>430,421</u>	<u>431,383</u>	<u>432,131</u>	<u>422,677</u>
Total Within the District	\$ 42,066,901	\$ 41,218,317	\$ 39,450,044	\$ 39,889,019	\$ 38,462,066



Milwaukee Metropolitan Sewerage District

Fiscal Year				
<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$ 1,042,008	\$ 1,101,515	\$ 1,065,613	1,254,750	1,215,986
893,759	829,499	821,776	911,232	859,868
591,838	569,774	589,400	691,563	681,639
1,174,868	1,154,166	1,104,729	1,310,265	1,258,364
26,357,142	27,504,271	27,896,641	32,582,879	33,028,525
1,029,039	1,048,934	999,335	1,198,045	1,122,180
324,910	313,996	310,829	374,352	347,124
1,995,544	2,015,832	2,080,202	2,388,511	2,369,281
2,197,358	2,262,162	2,223,153	2,624,513	2,622,885
145,147	147,858	147,977	174,661	165,750
448,277	453,972	471,490	547,025	549,176
218,593	216,916	220,761	259,934	251,500
434,347	429,472	458,729	546,700	519,832
262,380	267,727	266,323	307,159	297,669
55,842	49,356	50,961	59,150	59,135
413,552	412,612	406,928	452,731	464,217
624,949	668,908	717,563	978,432	2,225,077
<u>422,774</u>	<u>418,019</u>	<u>421,881</u>	<u>495,927</u>	<u>479,468</u>
\$ 38,632,327	\$ 39,864,989	\$ 40,254,291	\$ 47,157,829	\$ 48,517,676

Milwaukee Metropolitan Sewerage District
Exhibit B-7

User Charge Revenue by Municipality Outside the District

For the Fiscal Years Ended December 31, 1997 through 2006

Municipality	Fiscal Year				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
City of Brookfield	\$ 662,935	\$ 620,430	\$ 581,986	\$ 630,092	\$ 553,570
City of Mequon	727,680	669,352	632,339	635,213	599,060
City of Muskego	678,645	664,525	580,112	565,325	556,271
City of New Berlin	1,249,252	1,159,745	1,097,269	1,085,950	1,059,337
City of South Milwaukee*	25,927	19,143	22,423	20,084	18,730
Village of Butler	124,323	115,547	113,512	108,744	104,372
Village of Caledonia	18,986	21,656	23,007	21,904	20,865
Village of Elm Grove	215,078	199,986	187,625	186,586	185,885
Village of Germantown	911,293	851,513	810,682	783,477	712,641
Village of Menomonee Falls	1,198,371	1,135,288	1,066,847	1,068,111	1,060,010
Village of Thiensville	<u>125,536</u>	<u>103,871</u>	<u>97,331</u>	<u>95,306</u>	<u>92,381</u>
Total Outside the District	<u>\$ 5,938,026</u>	<u>\$ 5,561,056</u>	<u>\$ 5,213,133</u>	<u>\$ 5,200,792</u>	<u>\$4,963,122</u>

* Household Hazardous Waste Program Charges Only



Milwaukee Metropolitan Sewerage District

Fiscal Year				
<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$ 537,128	\$ 538,384	\$ 548,288	\$ 652,226	\$ 631,330
582,216	578,231	663,460	668,110	648,351
537,029	535,822	543,665	632,994	600,690
1,064,800	1,056,638	1,032,462	1,209,644	1,157,831
18,842	16,438	17,006	10,714	11,106
109,815	112,622	108,828	140,455	145,770
20,747	19,345	21,968	24,750	24,370
194,612	183,180	180,737	213,394	208,237
584,571	511,885	564,303	665,330	686,708
991,901	990,763	900,076	1,155,917	1,136,164
96,147	95,123	97,910	114,207	112,630
<u>\$4,737,808</u>	<u>\$ 4,638,431</u>	<u>\$ 4,678,703</u>	<u>\$ 5,487,741</u>	<u>\$ 5,363,187</u>

Milwaukee Metropolitan Sewerage District

Exhibit B-8

User Charge Rates

For the Fiscal Years Ended December 31, 1997 through 2006

<u>Year</u>	<u>Flow (Cents Per 1000 Gallons)</u>	<u>Biochemical Oxygen Demand (BOD) (Cents Per Pound)</u>	<u>Total Suspended Solids (TSS) (Cents Per Pound)</u>	<u>Connection Charge (Dollars Per Year)</u>
2006	\$0.42361	\$0.08679	\$0.09753	\$23.99
2005	0.42721	0.07446	0.09041	20.58
2004	0.45077	0.07701	0.07214	15.38
2003	0.43890	0.07849	0.07277	15.09
2002	0.48173	0.05567	0.06951	14.43
2001	0.47178	0.04145	0.08514	14.35
2000	0.41071	0.04459	0.10953	11.94
1999	0.42354	0.04309	0.10736	12.91
1998	0.50384	0.05192	0.11759	16.67
1997	0.43708	0.05659	0.12841	16.03

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



Milwaukee Metropolitan Sewerage District

<u>Volumetric</u> <u>(Dollars Per</u> <u>1,000 Gallons)</u>	<u>Average</u> <u>Household</u> <u>(Dollars Per Year)</u>	<u>Million of Gallons</u> <u>of Sewage</u> <u>Treated</u>
\$0.948940	\$83.84	69,440
0.898694	78.36	62,914
0.872465	73.57	74,579
0.866365	72.72	62,094
0.840145	71.15	70,473
0.841670	72.01	78,381
0.863985	71.50	78,718
0.866241	72.68	79,956
1.000936	85.98	80,516
0.979638	84.35	82,455

Milwaukee Metropolitan Sewerage District
Exhibit B-9

Wastewater Loadings by Customer Class

For the Fiscal Years Ended December 31, 1997 through 2006

PARAMETER	Fiscal Year				
	2006	2005	2004	2003	2002
<u>Billable Flow (1,000 Gallons)</u>					
RESIDENTIAL	20,533,243	20,836,934	21,530,824	21,483,237	21,656,523
NON-CERTIFIED COMMERCIAL	11,402,418	11,618,451	11,547,408	11,966,565	12,012,446
CERTIFIED COMMERCIAL	1,817,212	1,830,504	1,786,672	2,122,312	2,310,051
CERTIFIED INDUSTRIAL	<u>4,990,285</u>	<u>5,631,645</u>	<u>5,733,155</u>	<u>5,680,189</u>	<u>5,789,083</u>
TOTALS	<u>38,743,158</u>	<u>39,917,533</u>	<u>40,598,060</u>	<u>41,252,303</u>	<u>41,768,103</u>
<u>Biochemical Oxygen Demand (Pounds)</u>					
RESIDENTIAL	53,086,645	53,871,809	55,665,793	55,542,761	55,990,771
NON-CERTIFIED COMMERCIAL	29,479,812	30,038,342	29,854,668	30,938,356	31,056,978
CERTIFIED COMMERCIAL	3,813,845	3,920,354	3,775,877	4,477,657	4,858,149
CERTIFIED INDUSTRIAL	<u>31,931,705</u>	<u>46,030,234</u>	<u>43,792,590</u>	<u>45,848,941</u>	<u>47,251,683</u>
TOTALS	<u>118,312,007</u>	<u>133,860,739</u>	<u>133,088,928</u>	<u>136,807,715</u>	<u>139,157,581</u>
<u>Total Suspended Solids (Pounds)</u>					
RESIDENTIAL	63,361,480	64,298,611	66,439,818	66,292,972	66,827,698
NON-CERTIFIED COMMERCIAL	35,185,582	35,852,214	35,632,991	36,926,425	37,068,006
CERTIFIED COMMERCIAL	4,459,543	4,594,815	4,417,226	5,223,042	5,660,996
CERTIFIED INDUSTRIAL	<u>18,711,208</u>	<u>24,411,915</u>	<u>24,115,541</u>	<u>25,659,572</u>	<u>25,810,418</u>
TOTALS	<u>121,717,813</u>	<u>129,157,555</u>	<u>130,605,576</u>	<u>134,102,011</u>	<u>135,367,118</u>
<u>Connections</u>					
Class of User:					
RESIDENTIAL	264,193	263,468	262,285	261,300	259,712
NON-CERTIFIED COMMERCIAL	36,656	36,481	36,341	36,393	35,631
CERTIFIED COMMERCIAL	2,034	2,016	1,989	1,966	2,036
CERTIFIED INDUSTRIAL	<u>816</u>	<u>863</u>	<u>905</u>	<u>923</u>	<u>913</u>
TOTALS	<u>303,699</u>	<u>302,828</u>	<u>301,520</u>	<u>300,582</u>	<u>298,292</u>



Milwaukee Metropolitan Sewerage District

Fiscal Year				
<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
21,741,458	21,936,098	21,897,188	21,925,500	21,970,860
12,065,114	12,096,984	11,925,638	12,240,159	11,985,728
2,418,458	2,426,912	2,339,268	2,293,895	2,010,234
<u>5,899,904</u>	<u>6,854,383</u>	<u>7,123,121</u>	<u>7,597,625</u>	<u>8,176,761</u>
<u>42,124,934</u>	<u>43,314,377</u>	<u>43,285,215</u>	<u>44,057,179</u>	<u>44,143,583</u>
56,210,365	56,713,588	56,612,990	56,686,187	56,803,460
31,193,144	31,275,541	30,832,544	31,645,709	30,987,900
5,101,432	4,808,511	4,714,684	4,622,194	4,176,139
<u>48,269,827</u>	<u>55,147,427</u>	<u>54,459,510</u>	<u>51,889,609</u>	<u>60,050,728</u>
<u>140,774,768</u>	<u>147,945,067</u>	<u>146,619,728</u>	<u>144,843,699</u>	<u>152,018,227</u>
67,089,790	67,690,411	67,570,343	67,657,707	67,797,679
37,230,527	37,328,872	36,800,133	37,770,685	36,985,559
5,963,379	5,583,773	5,469,883	5,348,079	4,805,508
<u>24,378,100</u>	<u>25,371,625</u>	<u>28,412,310</u>	<u>26,262,537</u>	<u>38,378,170</u>
<u>134,661,796</u>	<u>135,974,681</u>	<u>138,252,669</u>	<u>137,039,008</u>	<u>147,966,916</u>
258,393	257,486	256,324	255,267	254,182
35,736	34,618	34,163	34,088	34,046
2,110	2,103	2,079	2,056	1,963
<u>930</u>	<u>973</u>	<u>991</u>	<u>997</u>	<u>1,003</u>
<u>297,169</u>	<u>295,180</u>	<u>293,557</u>	<u>292,408</u>	<u>291,194</u>

Milwaukee Metropolitan Sewerage District

Exhibit B-10

Ten Largest Sewer Users

For the Fiscal Years Ended December 31, 1997 and 2006

Customer	Type of Business	2006		1997	
		Sewer Revenue Amount	%	Sewer Revenue Amount	%
Miller Brewing Customer	Brewery	\$ 1,883,301	3.9%	\$ 1,818,872	3.4%
D.R. Diedrich & Co.	Leather tanning and finishing	439,347	0.9%	-	-
International Malting USA	Malt manufacturing	386,390	0.8%	-	-
Milwaukee Water Works	Water utility	330,703	0.7%	805,158	1.5%
Cargil Meat Solutions	Meat packing plants	319,542	0.7%	275,887	0.5%
Campbell Soup Supply Company	Food preparation	308,259	0.6%	422,970	0.8%
Gehl Guernsey Farms Inc.	Food preparation	282,739	0.6%	-	-
Patrick Cudahy	Process meat products	218,335	0.5%	-	-
Chris Hansen Lab	Miscellaneous food preparation	197,882	0.4%	-	-
Milwaukee County Dhhs	Health services	155,782	0.3%	-	-
ADM Malting & Milling CO.	a Malt manufacturing	-	-	1,584,681	2.9%
LeSaffre Yeast Corp.	b Food preparation	-	-	1,548,100	2.9%
Pfister & Vogel Leather	c Leather tanning and finishing	-	-	813,965	1.5%
A.L. Gebhardt Company	c Leather tanning and finishing	-	-	438,942	0.8%
Froedert Malting Corporation	a Malt manufacturing	-	-	354,504	0.7%
Tower Automotive Products	b Manufacturing of vehicle frames	-	-	289,183	0.5%
Subtotal (10 largest)		\$ 4,522,280	9.4%	\$ 8,352,262	15.5%
Balance from other customers		<u>43,482,647</u>	<u>90.6%</u>	<u>45,528,601</u>	<u>84.5%</u>
Grant Totals		<u>\$ 48,004,927</u>	<u>100.0%</u>	<u>\$ 53,880,863</u>	<u>100.0%</u>

a Consolidated to International Malting

b Moved out of state

c Closed Milwaukee operations

Milwaukee Metropolitan Sewerage District

Exhibit B-11

Property Tax
Information

For the Fiscal Years Ended December 31, 1997 through 2006

<u>Year</u>	<u>Equalized Real Property</u>	<u>Equalized Personal Property</u>	<u>Equalized Total Property</u>	<u>Tax Levies</u>	<u>Tax Rate Per \$1,000 Equalized Property</u>
2006	\$ 58,756,322,375	\$ 1,589,187,861	\$ 60,345,510,236	\$ 78,486,000	\$ 1.30
2005	52,179,628,552	1,485,950,776	53,665,579,328	76,200,000	1.42
2004	47,243,470,061	1,362,452,254	48,605,922,315	74,706,000	1.54
2003	43,484,994,181	1,576,954,346	45,061,948,527	71,530,000	1.59
2002	40,695,870,170	1,619,811,713	42,315,681,883	71,946,000	1.70
2001	38,155,725,101	1,713,379,130	39,869,104,231	67,756,000	1.70
2000	34,950,446,271	1,604,809,723	36,555,255,994	62,174,000	1.70
1999	33,463,211,132	1,476,531,071	34,939,742,203	59,415,000	1.70
1998	31,572,865,133	2,039,774,714	33,612,639,847	57,117,000	1.70
1997	30,351,363,894	1,910,793,058	32,262,156,952	54,855,000	1.70

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 and 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 are net of the Tax Incremental District valuations.

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

Milwaukee Metropolitan Sewerage District
Exhibit B-12

Bonded Debt Limit and Ratio of Bonded Debt to Equalized Valuation

For the Fiscal Years Ended December 31, 1997 through 2006

	Fiscal Year			
	2006	2005	2004	2003
Equalized Value (TID) ⁽¹⁾	\$ 62,260,061,536	\$ 55,434,188,028	\$ 50,018,162,615	\$ 46,207,048,027
Debt Limit (5% of equalized value) ⁽²⁾	<u>\$ 3,113,003,077</u>	<u>\$ 2,771,709,401</u>	<u>\$ 2,500,908,131</u>	<u>\$ 2,310,352,401</u>
Outstanding bonds issued by the District	\$ 270,170,000	\$ 285,335,000	\$ 302,195,000	\$ 316,560,000
Clean water Fund Program loans	<u>471,824,272</u>	<u>439,685,252</u>	<u>390,423,826</u>	<u>343,475,606</u>
Total general obligation debt	<u>\$ 741,994,272</u>	<u>\$ 725,020,252</u>	<u>\$ 692,618,826</u>	<u>\$ 660,035,606</u>
Legal Debt Margin	<u>\$ 2,371,008,805</u>	<u>\$ 2,046,689,149</u>	<u>\$ 1,808,289,305</u>	<u>\$ 1,650,316,795</u>
Percentage of Bonded Debt to Equalized Value	1.19%	1.31%	1.38%	1.43%

(1) Equalized value which includes Tax Increment District adjustments per State of Wisconsin, Department of Revenue.

(2) Per Wisconsin Statutes Section 67.03

(3) Includes \$2,000,000 of outstanding bonds issued by Milwaukee County on behalf of the District.



Milwaukee Metropolitan Sewerage District

Fiscal Year					
2002	2001	2000	1999	1998	1997
\$ 43,268,487,183	\$ 40,835,951,231	\$ 37,313,513,494	\$ 35,537,835,203	\$ 34,094,876,147	\$ 32,636,631,252
<u>\$ 2,163,424,359</u>	<u>\$ 2,041,797,562</u>	<u>\$ 1,865,675,675</u>	<u>\$ 1,776,891,760</u>	<u>\$ 1,704,743,807</u>	<u>\$ 1,631,831,563</u>
\$ 258,145,000 <u>293,175,967</u>	\$ 268,065,000 <u>257,133,977</u>	\$ 188,875,000 <u>228,632,154</u>	\$ 205,410,000 <u>207,033,947</u>	\$ 221,675,000 <u>209,492,500</u>	\$ 238,080,000 <u>201,295,433</u>
<u>\$ 551,320,967</u>	<u>\$ 525,198,977</u>	<u>\$ 417,507,154</u>	<u>\$ 412,443,947</u>	<u>\$ 431,167,500</u>	<u>\$ 439,375,433</u>
<u>\$ 1,612,103,392</u>	<u>\$ 1,516,598,585</u>	<u>\$ 1,448,168,521</u>	<u>\$ 1,364,447,813</u>	<u>\$ 1,273,576,307</u>	<u>\$ 1,192,456,130</u>
1.27%	1.29%	1.12%	1.16%	1.26%	1.35%

Milwaukee Metropolitan Sewerage District
Exhibit B-13

Debt Per Capita as a Percentage of Personal Income

For the Fiscal Years Ended December 31, 1997 through 2006

<u>Year</u>	<u>Outstanding Debt</u>	<u>District Population</u>	<u>Milwaukee County Personal Income ⁽¹⁾ (Thousands)</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt Percentage of Personal Income</u>
2006	\$ 741,994,272	915,696	Not Available	\$ 810.31	-
2005	725,020,252	917,726	\$ 31,132,088	790.02	2.33%
2004	692,618,826	918,105	30,075,055	754.40	2.30%
2003	660,035,606	920,034	29,139,237	717.40	2.27%
2002	551,320,967	919,776	28,737,661	599.41	1.92%
2001	525,198,977	918,722	28,125,424	571.66	1.87%
2000	417,507,154	933,845	26,520,952	447.08	1.57%
1999	412,443,947	935,549	25,533,958	440.86	1.62%
1998	431,167,500	935,832	24,772,518	460.73	1.74%
1997	439,375,433	937,160	23,332,168	468.84	1.88%

(1) Source: U.S. Department of Commerce, Bureau of Economic Analysis, Milwaukee County Personal Income for 1997 through 2005. Data for 2006 is not yet available.

Milwaukee Metropolitan Sewerage District

Exhibit B-14

Computation of Overlapping Debt

For the Fiscal Year Ended December 31, 2006

<u>Name of Government Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage of Debt Within District Boundary</u>	<u>Amount of Debt Within District Boundary</u>
Villages & Cities:			
Village of Bayside	\$ 9,930,000	100.00%	\$ 9,930,000
Village of Brown Deer	17,576,594	100.00%	17,576,594
Village of Fox Point	13,470,000	100.00%	13,470,000
Village of Greendale	3,359,406	100.00%	3,359,406
Village of Hales Corners	4,795,067	100.00%	4,795,067
Village of River Hills	1,505,000	100.00%	1,505,000
Village of Shorewood	16,564,798	100.00%	16,564,798
Village of West Milwaukee	9,640,000	100.00%	9,640,000
Village of Whitefish Bay	14,020,000	100.00%	14,020,000
City of Cudahy	29,471,682	100.00%	29,471,682
City of Franklin	41,600,000	96.24%	40,035,840
City of Glendale	38,270,063	100.00%	38,270,063
City of Greenfield	15,256,878	100.00%	15,256,878
City of Milwaukee	678,333,475	100.00%	678,333,475
City of Oak Creek	12,619,987	100.00%	12,619,987
City of Saint Francis	0	-	0
City of Wauwatosa	31,995,556	100.00%	31,995,556
City of West Allis	<u>77,386,446</u>	100.00%	<u>77,386,446</u>
Total Cities and Villages	1,015,794,952		1,014,230,792
School Districts:			
Brown Deer	3,015,000	100.00%	3,015,000
Cudahy	17,234,391	100.00%	17,234,391
Fox Point-Bayside	3,745,000	100.00%	3,745,000
Franklin	19,545,000	96.19%	18,800,336
Glendale-River Hills	340,000	100.00%	340,000
Greendale	6,745,937	100.00%	6,745,937
Greenfield	14,350,000	100.00%	14,350,000
Maple Dale-Indian Hill	975,000	100.00%	975,000
Milwaukee	119,128,610	100.00%	119,128,610
Milwaukee Area Technical College	65,035,000	80.52%	52,366,182
Nicolet High School	1,700,000	100.00%	1,700,000
Oak Creek-Franklin	37,545,000	99.43%	37,330,994
Saint Francis	9,455,000	100.00%	9,455,000
Shorewood	52,760,000	100.00%	52,760,000
Wauwatosa	3,240,000	100.00%	3,240,000
West Allis-West Milwaukee	36,195,000	92.68%	33,545,526
Whitefish Bay	4,610,000	100.00%	4,610,000
Whitnall	<u>6,515,000</u>	100.00%	<u>6,515,000</u>
Total School Districts	402,133,938		385,856,975
MILWAUKEE COUNTY			
County Purposes	491,488,014	97.83%	480,822,724
Total Cities and Villages	<u>1,015,794,952</u>		<u>1,014,230,792</u>
Total Overlapping Debt	\$ <u>1,909,416,904</u>		\$ <u>1,880,910,491</u>

Milwaukee Metropolitan Sewerage District

Exhibit B-15

Ten Largest Taxpayers for Milwaukee County

For the Fiscal Years Ended December 31, 1997 and 2006

Name of Business	Type of Business	2006	
		Equalized Valuation	Percentage of Total Equalized Valuation
Mayfair Property Inc.	Shopping mall	\$ 273,773,653	0.44%
Northwestern Mutual Life Insurance Co.	Insurance	263,235,525	0.43%
US Bank Corp.	Banking	253,712,257	0.41%
Metropolitan Associates	Real estate	139,448,818	0.23%
Covenant Health Care	Health care	136,118,065	0.22%
Towne Realty	Real estate	132,481,521	0.21%
M & I Marshall & Ilsley Bank	Banking	130,600,131	0.21%
Harley-Davidson	Manufacturer of motorcycles	129,616,700	0.21%
BRE Southridge Mall LLC	Real estate	128,615,880	0.21%
Marcus Corporation/Milw. City Center/Pfister	Hotels, theaters & restaurants	126,301,080	0.20%
JMB Realty Company	a Real estate	-	-
E.C. Milwaukee Joint Venture	b Real estate	-	-
Teachers Insurance and Annuity	c Insurance	-	-
		\$ 1,713,903,630	2.78%

a Divested into the BRE Southridge Building

b Divested into the NNN 411 East Wisconsin Building

c Divested Holdings

Source:

Largest Industrial Taxpayer - Milwaukee County

Non-Industrial Taxpayer - MMSD



Milwaukee Metropolitan Sewerage District

1997		
Equalized Valuation		Percentage of Total Equalized Valuation
\$ 130,741,777		0.40%
207,970,987		0.63%
71,161,465		0.22%
91,781,984		0.28%
117,810,037		0.36%
99,632,300		0.30%
83,883,405		0.25%
188,875,452		0.57%
167,503,216		0.51%
128,071,502		0.39%
\$ 1,287,432,125		3.89%

Milwaukee Metropolitan Sewerage District

Exhibit B-16

Population by Municipality

For the Fiscal Years Ended December 31, 1999 through 2006

Municipality	Fiscal Year								Percentage Change 1999-2006
	2006	2005	2004	2003	2002	2001	2000	1999	
Bayside	4,207	4,263	4,286	4,300	4,329	4,337	4,688	4,766	-11.7%
Brown Deer	11,750	11,831	11,845	12,044	12,118	12,151	12,322	12,294	-4.4%
Cudahy	18,430	18,319	18,315	18,323	18,410	18,437	19,243	19,019	-3.1%
Fox Point	6,808	6,890	6,886	6,992	6,990	6,923	7,089	7,127	-4.5%
Franklin (1)	33,000	32,548	31,804	31,467	30,749	30,199	28,804	27,780	18.8%
Glendale	12,935	13,001	13,024	13,071	13,121	13,337	14,041	14,064	-8.0%
Greendale	14,040	14,087	14,128	14,169	14,283	14,373	15,444	15,473	-9.3%
Greenfield	36,150	36,136	36,059	36,000	35,776	35,568	36,257	36,300	-0.4%
Hales Corners	7,642	7,644	7,682	7,699	7,759	7,783	7,843	7,879	-3.0%
Milwaukee	590,370	592,765	593,920	595,245	595,958	595,508	605,572	608,150	-2.9%
Oak Creek	32,104	31,497	31,029	30,856	29,826	29,232	27,479	26,766	19.9%
River Hills	1,625	1,626	1,625	1,620	1,633	1,636	1,624	1,632	-0.4%
St. Francis	8,808	8,791	8,728	8,755	8,777	8,812	9,350	9,389	-6.2%
Shorewood	13,470	13,495	13,535	13,578	13,724	13,746	13,900	13,908	-3.2%
Wauwatosa	46,120	46,312	46,511	46,802	46,930	47,179	48,755	49,039	-6.0%
West Allis	60,300	60,515	60,607	60,923	61,114	61,164	63,322	63,769	-5.4%
West Milwaukee	4,052	4,092	4,142	4,149	4,170	4,191	4,173	4,195	-3.4%
Whitefish Bay	<u>13,885</u>	<u>13,914</u>	<u>13,979</u>	<u>14,041</u>	<u>14,109</u>	<u>14,146</u>	<u>13,939</u>	<u>13,999</u>	-0.8%
Total District population	<u>915,696</u>	<u>917,726</u>	<u>918,105</u>	<u>920,034</u>	<u>919,776</u>	<u>918,722</u>	<u>933,845</u>	<u>935,549</u>	
Total population served by the District (2)	<u>1,057,992</u>	<u>1,059,096</u>	<u>1,058,595</u>	<u>1,058,742</u>	<u>1,057,404</u>	<u>1,054,627</u>	<u>1,065,603</u>	<u>1,064,809</u>	
1999 = 100%	99.4%	99.5%	99.4%	99.4%	99.3%	99.0%	100.1%	100.0%	
Total state population	<u>5,617,744</u>	<u>5,580,757</u>	<u>5,532,955</u>	<u>5,490,718</u>	<u>5,453,896</u>	<u>5,400,449</u>	<u>5,310,406</u>	<u>5,274,827</u>	
1999 = 100%	106.5%	105.8%	104.9%	104.1%	103.4%	102.4%	100.7%	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 Village of Caledonia.

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

Milwaukee Metropolitan Sewerage District

Exhibit B-17

Principal Employers

For the Fiscal Years Ended December 31, 1997 and 2006

<u>Employer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employees</u>	<u>Percentage of Total</u>	<u>Rank</u>	<u>Employees</u>	<u>Percentage of Total</u>	<u>Rank</u>
Aurora Health Care	15,054	3.30%	1	7,877	1.68%	3
U.S. Government ⁽¹⁾	10,800	2.37%	2	9,542	2.04%	2
Covenant Health Care	9,000	1.97%	3	3,655	0.78%	8
Quad Graphics Inc. ⁽²⁾	8,000	1.75%	4	-	-	
City Of Milwaukee	7,263	1.59%	5	7,873	1.68%	4
Milwaukee Public Schools	7,137	1.56%	6	11,102	2.37%	1
Roundy Supermarkets Inc. ⁽²⁾	6,800	1.49%	7	-	-	
GE Healthcare ⁽²⁾	6,462	1.42%	8	-	-	
Kohl's Corp. ⁽²⁾	6,200	1.36%	9	-	-	
M&I Marshall & Ilsley Bank	6,139	1.34%	10	4,883	1.04%	6
Total County Employment	456,542			467,508		

(1) Includes the Clement Zablocki Medical Center

(2) Not listed in 1997

Source: Robert W. Baird & Co, Wisconsin's Workforce and Labor Market information System

Milwaukee Metropolitan Sewerage District
Exhibit B-18

Number of Employees by Identifiable Activity

For the Fiscal Years Ended December 31, 1997 through 2006

	Full-time Equivalent Employees as of December 31,				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Engineering/Inspection/Construction/Water Quality</u>					
Engineering	59	47	41	34	28 ⁽²⁾
Planning	26	29	26	27	24 ⁽²⁾
Operations Compliance	6	6	6	6	5
Operations	n/a	n/a	n/a	n/a	n/a
Lab/Monitoring	64	68	67	69	67
<u>Administration</u>					
Office of the Executive Director	8	7	6	6	2
Legal Services	7	7	8	8	8
Internal Services	<u>70</u>	<u>87</u>	<u>63</u>	<u>69</u>	<u>80</u>
Total Employees	240	251	217	219	214

(1) Employees transferred to United Water Services Milwaukee LLC per operating contract

(2) Reorganization



Milwaukee Metropolitan Sewerage District

Full-time Equivalent Employees as of December 31,

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
49	45	43	38	45
n/a	n/a	n/a	n/a	n/a
6	5	5	6	n/a
n/a	n/a	n/a	n/a	301 ⁽¹⁾
65	67	77	81	79
4	5	4	14	3
9	9	8	9	9
<u>80</u>	<u>77</u>	<u>78</u>	<u>65</u>	<u>123</u>
213	208	215	213	560

Milwaukee Metropolitan Sewerage District
Exhibit B-19

Operating and Capital Indicators

For the Fiscal Years Ended December 31, 1997 through 2006

	Fiscal Year				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Wastewater Treatment</u>					
Miles of sewers	310	310	310	310	310
Number of treatment Plants	2	2	2	2	2
Treatment Capacity (MGD)	1,094	1,005	1,005	1,005	1,005
Combined Plant Capacity (MGD)	600	600	600	600	600
Amount Treated Annually (millions of gallons)	69,400	62,914	74,579	62,094	70,473
Percentage of capacity utilized	31.69%	28.73%	34.05%	28.35%	32.18%
# of rain events	52	45	25	35	33
# of overflows	4	1	2	0	2
Household Hazardous Waste (lbs collected)	1,326,732	1,016,601	1,107,058	1,103,559	945,081
Milorganite® Production (tons)	33,566	43,175	48,236	47,701	41,344
Milorganite® Tons Sold	41,469	42,073	41,868	44,742	46,621
Average selling price per ton shipped	\$ 144.01	\$ 138.92	\$ 136.25	\$ 126.67	\$ 121.62



Milwaukee Metropolitan Sewerage District

Fiscal Year				
<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
310	310	310	310	310
2	2	2	2	2
1,005	1,005	1,005	1,005	1,005
600	600	600	600	600
78,381	78,718	79,956	80,516	82,455
35.79%	35.94%	36.51%	36.77%	37.65%
39	37	31	45	30
3	5	6	5	6
971,923	835,259	725,072	381,438	411,194
48,570	50,787	48,187	45,873	51,153
45,851	50,879	51,747	46,455	49,631
\$ 119.00	\$ 118.25	\$ 123.81	\$ 122.17	\$ 124.13

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:**

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