

**New Issue – Book Entry Only**

**Rating: Moody’s “Aa3”**

*In the opinion of Co-Bond Counsel, assuming continued compliance with the requirements of the Internal Revenue Code of 1986, under existing law interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes, will not constitute an item of tax preference for purposes of the federal alternative minimum tax imposed on corporations and individuals, and is not included in adjusted current earnings for computing the alternative minimum tax imposed on corporations. See “TAX EXEMPTION” herein for a more detailed discussion of some of the federal income tax consequences of owning the Bonds. Interest on the Bonds is exempt from present Wisconsin income taxes.*



**\$ 25,000,000**  
**REDEVELOPMENT AUTHORITY**  
**OF THE CITY OF MILWAUKEE, WISCONSIN**  
**REDEVELOPMENT REVENUE BONDS, SERIES 2010**  
**(SUMMERFEST PROJECT)**

**SECURITY:** The Bonds are not general obligation bonds and are not secured by the general credit of the Redevelopment Authority of the City of Milwaukee, Wisconsin (the “Authority”) or the City of Milwaukee, Wisconsin (the “City”) or by the City’s taxing powers. The Authority has no taxing powers. **The Bonds are limited obligations of the Authority payable primarily from the revenues received directly or indirectly from Milwaukee World Festival, Inc., a Wisconsin nonstock, nonprofit corporation, as project owner (the “Project Owner”), as described herein. In addition, pursuant to a Cooperation Agreement between the Authority and the City, the City has agreed to consider making an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund which would be available for payment of debt service with respect to the Bonds, all as more fully discussed herein. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS” and “RISK FACTORS” herein.**

**MATURITY SCHEDULE**

| <b>Maturity Date</b> | <b>Amount</b> | <b>Interest Rate</b> | <b>Price</b> | <b>Maturity Date</b> | <b>Amount</b> | <b>Interest Rate</b> | <b>Price</b> |
|----------------------|---------------|----------------------|--------------|----------------------|---------------|----------------------|--------------|
| <b>(August 1)</b>    |               |                      |              | <b>(August 1)</b>    |               |                      |              |
| 2012                 | \$ 985,000    | 1.00 %               | 100%         | 2020                 | \$1,200,000   | 4.00 %               | 100%         |
| 2013                 | 995,000       | 1.50                 | 100          | 2021                 | 1,245,000     | 4.20                 | 100          |
| 2014                 | 1,010,000     | 2.00                 | 100          | 2022                 | 1,300,000     | 4.40                 | 100          |
| 2015                 | 1,030,000     | 2.50                 | 100          | 2023                 | 1,355,000     | 4.50                 | 100          |
| 2016                 | 1,055,000     | 2.75                 | 100          | 2024                 | 1,420,000     | 4.60                 | 100          |
| 2017                 | 1,080,000     | 3.15                 | 100          | 2025                 | 1,485,000     | 4.70                 | 100          |
| 2018                 | 1,115,000     | 3.50                 | 100          | 2026                 | 1,555,000     | 4.75                 | 100          |
| 2019                 | 1,155,000     | 3.75                 | 100          |                      |               |                      |              |

\$7,015,000 5.00% Term Bonds Due August 1, 2030 Priced 100%

The date of the obligations shall be the date of issuance. The Bonds shall be subject to optional redemption, as described herein. Interest on the Bonds will be payable on August 1, 2011, and semiannually thereafter on February 1 and August 1 of each year.



**BOOK-ENTRY-ONLY FORM:** The Bonds will be issued in fully registered book-entry-only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). U.S. Bank National Association, as trustee (the “Trustee”) will act as Registrar and Paying Agent. The Bonds are issued in denominations of \$5,000 or any multiples thereof. See “DESCRIPTION OF BONDS” herein.

The Bonds are offered, subject to prior sale, when, as, and if accepted by the Underwriter and subject to an opinion as to the validity and tax exemption by Reinhart Boerner Van Deuren, s.c., and Gonzalez Saggio & Harlan LLP, as Co-Bond Counsel and certain other conditions. In addition, certain legal matters will be passed upon for the Underwriter by Davis & Kuelthau, s.c. It is expected that delivery of the Bonds will be made through the facilities of DTC on or about December 29, 2010 against payment therefor.

**This cover page contains certain information for quick reference only. It is not a summary of the Bonds. Prospective investors should read this Official Statement in its entirety, giving particular attention to the section captioned “RISK FACTORS,” in order to obtain information essential to the making of an informed investment decision.**

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PROSPECTIVE INVESTORS. STATEMENTS CONTAINED HEREIN THAT INVOLVE ESTIMATES OR MATTERS OF OPINION ARE INTENDED AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT.

THIS OFFICIAL STATEMENT (INCLUDING THE APPENDICES) WAS PREPARED RELYING ON INFORMATION OF THE AUTHORITY, THE CITY, THE PROJECT OWNER AND OTHER SOURCES AND WHILE BELIEVED TO BE RELIABLE, IS NOT GUARANTEED AS TO COMPLETENESS OR ACCURACY.

THE BONDS HAVE NOT BEEN REGISTERED UNDER SECURITIES ACT OF 1933 NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON CERTAIN EXEMPTIONS SET FORTH IN SUCH ACTS. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS WHEREIN THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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**\$ 25,000,000**  
**REDEVELOPMENT AUTHORITY OF THE**  
**CITY OF MILWAUKEE, WISCONSIN**  
**REDEVELOPMENT REVENUE BONDS, SERIES 2010**  
**(SUMMERFEST PROJECT)**

**INTRODUCTORY STATEMENT**

This Official Statement sets forth information about the issuance by the Redevelopment Authority of the City of Milwaukee, Wisconsin (the "Authority") of \$25,000,000 Redevelopment Revenue Bonds, Series 2010 (Summerfest Project) (the "Bonds").

The Bonds are limited obligations of the Authority payable solely from certain funds and accounts established under the Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), including the payments, revenues and income derived by the Authority pursuant to the terms of (i) one or more loan agreements (collectively, the "Loan Agreements"), (ii) two promissory notes payable to the order of the Authority in the aggregate principal amount of \$25,000,000 (the matters described in (i) and (ii) being collectively referred to herein as the "Loan Payments"), (iii) the Cooperation Agreement, dated December 1, 2010, (the "Cooperation Agreement"), between the City and the Authority, and (iv) the Debt Service Reserve Fund, which will be funded in an amount equal to the maximum amount of principal and interest on the Bonds scheduled to come due in any calendar year (the "Debt Service Reserve Fund" and together with the Loan Payments and the matters described in the Cooperation Agreement being collectively referred to herein as the "Pledged Revenues").

The Authority will lend the proceeds of the Bonds to Milwaukee World Festival, Inc., a Wisconsin nonstock, nonprofit corporation (the "Project Owner") to finance the project described in Appendix C (the "Project"). The loan will initially be evidenced by two separate promissory notes from the Project Owner to the Authority, one in the original principal amount of \$8,134,727.50 ("Promissory Note A"), and the other in the original principal amount of \$16,865,272.50 ("Promissory Note B", together with Promissory Note A, the "Initial Promissory Notes"). As described under "PLAN OF FINANCE," the Project Owner will either (1) use all of the proceeds of the Bonds loaned to it by the Authority to finance the Project, or (2) use a portion of the proceeds to finance the Project and the Debt Service Reserve Fund deposit and use the remaining portion to prepay Promissory Note B, in which case the Authority will make a new loan to a newly created limited liability company (the "LLC Borrower"), which will issue its promissory note to the Authority to evidence that loan ("Promissory Note C"). If the Authority makes a loan to the LLC Borrower, the LLC Borrower will indirectly make that amount available to the Project Owner to finance a portion of the Project. The Project Owner and, if established and advanced a loan by the Authority, the LLC Borrower are collectively referred to herein as the "Borrowers". Promissory Note A and Promissory Note B or, if issued, Promissory Note C are collectively referred to herein as the "Promissory Notes". Pursuant to the Loan Agreements, the Borrowers will agree to make Loan Payments in amounts and at times sufficient to provide for the payment of the principal of and interest on the Bonds. The Project Owner's obligations to make Loan Payments will be evidenced by Promissory Note A and Promissory Note B. The LLC Borrower's obligations to make a portion of the Loan Payments will be evidenced by Promissory Note C.

Pursuant to the Cooperation Agreement, the City will agree to consider allocating or appropriating funds as necessary to replenish the balance of the Debt Service Reserve Fund from time to time.

Pursuant to the Indenture, the Authority will pledge, assign, grant a security interest in and confirm to the Trustee all of the Authority's right, title and interest in and to the Promissory Notes, the Loan Agreements (other than the Unassigned Rights, as defined herein), the Cooperation Agreement and the Pledged Revenues to secure payment of the Bonds.

This Official Statement briefly describes the Authority, the City, the Project, the Project Owner, the Bonds, the source of payment and security for the Bonds (including the Loan Agreements, the Promissory Notes and the Cooperation Agreement), and the Indenture. The descriptions and summaries herein do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. See "MISCELLANEOUS" for information regarding availability of the documents.

## **THE AUTHORITY**

The Authority is a redevelopment authority created by the City pursuant to the laws of the State of Wisconsin, particularly Section 66.1333 of the Wisconsin Statutes (the "Act"). The Authority is authorized under the Act to issue revenue bonds of the character of the Bonds and to finance projects of the character of the Project. The Authority adopted a resolution on November 18, 2010 authorizing the issuance and sale of the Bonds and is expected to adopt an amended and restated resolution on December 16, 2010 to approve the final finance structure.

## **THE CITY**

The City is a municipal corporation and a political subdivision of the State of Wisconsin. The City and the Authority will enter into the Cooperation Agreement, wherein the City will pledge its moral obligation to consider making an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund established under the Indenture.

The City is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is Wisconsin's largest city with a population of approximately 584,000 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Metropolitan Statistical Area ("MSA") includes the principal cities of Milwaukee, Waukesha and West Allis, in the counties of Milwaukee, Ozaukee, Waukesha and Washington, and has a population of nearly 1.5 million.

The City was incorporated as a city on January 31, 1846 pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, in operation under a Home Rule Charter since 1874, has a council-mayor form of government.

APPENDICES A and B to this Official Statement provide information about the City and its financial condition. The Bonds are not general obligations of the City. See "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS."

## **DESCRIPTION OF THE PROJECT**

### **General**

The Project consists of (1) improvements to be made to the property known as the Henry J. Maier Festival Grounds located on the City's lakefront (the "Festival Grounds"), specifically the south end thereof and (2) improvements to be made to property adjacent to the Festival Grounds (collectively with the Festival Grounds, the "Property"). The Festival Grounds are leased by the Project Owner from the City pursuant to a written lease agreement effective as of January 1, 2001 and amended as of February 1, 2005 and January 6, 2010 (as amended, the "Lease"). A more detailed description of the Project is contained in the information set forth at Appendix C.

### **The Project Owner**

Milwaukee World Festival, Inc. is a nonstock, nonprofit corporation organized under Wisconsin's Non-Stock Corporation Law that operates an annual eleven-day music festival known as "Summerfest" on the Festival Grounds. The Project Owner also subleases the Festival Grounds to various community and commercial organizations that conduct ethnic festivals and other events on the Festival Grounds.

Appendices C and D to this Official Statement provide information about the Project Owner and its financial condition, and the Project.

**The Lease**

The term of the Lease commenced on January 1, 2001, and will terminate on December 31, 2030. Pursuant to the Lease, the Project Owner agrees (among other things) to (i) pay rent pursuant to the rent schedule set forth in the Lease; (ii) pay any taxes, assessments, and charges on the Festival Grounds; (iii) keep the Festival Grounds in good order and condition; and (iv) maintain or cause to be maintained insurance in amounts and types required under the Lease.

**Financing**

The Bonds are being issued to finance (i) costs associated with the Project financing, (ii) certain of the costs of the Project, (iii) a portion of interest on the Bonds, and (iv) a deposit to the Debt Service Reserve Fund. The financing may be accomplished in part through the use of intermediaries (as more particularly described in “PLAN OF FINANCE”).

**SOURCES AND USES OF FUNDS**

The Authority expects that the proceeds of the Bonds and other funds for the Project will be used by the Project Owner as follows:

**SOURCES:**

|   |    |                             |
|---|----|-----------------------------|
| Par amount of Bonds                       | \$ | 25,000,000.00               |
| Project Owner Contribution <sup>(1)</sup> |    | <u>7,140,827.50</u>         |
| Total Sources                             | \$ | <u><u>32,140,827.50</u></u> |

**USES:**

|  |    |                             |
|--|----|-----------------------------|
| Project Costs <sup>(2)</sup>                     | \$ | 29,473,600.00               |
| Costs of Issuance <sup>(3)</sup>                 |    | 500,000.00                  |
| Authority Fee                                    |    | 187,500.00                  |
| Debt Service Reserve Fund Deposit <sup>(4)</sup> |    | <u>1,979,727.50</u>         |
| Total Uses                                       | \$ | <u><u>32,140,827.50</u></u> |

(1) Initially, the contribution will be in the form of Project Owner equity, but in the event the NMTC Investment is made, the contribution would be restructured to be equity and the new market tax credit financing.

(2) Includes \$ 22,520,272.50 which will be deposited into the Construction Fund

(3) Includes underwriting discount, legal fees, trustee fees, rating agency fees and other miscellaneous expenses incurred in connection with the issuance of the Bonds.

(4) The deposit in the Debt Service Reserve Fund is an amount equal to the Debt Service Reserve Fund Requirement. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS.”

## **SOURCE OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The Bonds do not constitute general obligations of the Authority or the City and shall not constitute or give rise to a charge against their general credit or the City's taxing powers. The Authority has no taxing powers.

The Bonds are limited obligations of the Authority payable by it solely from the Pledged Revenues, which consist of revenues and income derived by or for the account of the Authority from or for the account of the Borrowers or the City pursuant to the terms of the Loan Agreements, the Promissory Notes and the Cooperation Agreement, including, without limitation (i) all cash and securities held from time to time in the Trust Funds, and the investment earnings thereon, and (ii) all Loan Payments by the Borrowers pursuant to the Loan Agreements and the Promissory Notes; but excluding any amounts derived by the Authority for its own account pursuant to the enforcement of certain rights to indemnity and reimbursement of expenses (the "Unassigned Rights"). In addition, pursuant to the Cooperation Agreement, the City will agree to consider making an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund.

### **The Loan Agreements and Promissory Notes**

The loan agreement entered into with the Project Owner on the date of issuance of the Bonds sets forth the obligations of the Authority to issue, sell and deliver the Bonds and lend the Bond proceeds to the Project Owner, in exchange for the Initial Promissory Notes (the "Direct Loan Agreement"). The Direct Loan Agreement sets forth the manner in which the Bond proceeds will be delivered by the Authority to the Trustee and deposited into and disbursed from the Trust Funds by the Trustee.

The Direct Loan Agreement and Initial Promissory Notes set forth the obligations of the Project Owner to cause completion of the Project and the Project Owner's unconditional obligation to make the Loan Payments. The Initial Promissory Notes, taken together, will be in an aggregate principal amount equal to the principal amount of the Bonds. The maturity dates of the principal installments of the Initial Promissory Notes correspond to the maturity dates and sinking fund payment dates of the Bonds. The unpaid principal installments of the Initial Promissory Notes will bear interest at rates sufficient to provide for the payment of all interest that accrues on the Bonds. The Direct Loan Agreement provides that the Project Owner's obligations to pay principal and interest on the Initial Promissory Notes are discharged to the extent that the corresponding principal and interest payments on the Bonds are made from the Bond Fund (including from investment earnings on the Debt Service Reserve Fund). The debt obligations of the Project Owner under the Direct Loan Agreement and the Initial Promissory Notes will be direct, unsecured obligations of the Project Owner.

The Direct Loan Agreement further provides that, before August 1, 2011, the Project Owner will be entitled to prepay Promissory Note B and the accrued interest thereon (and thereby prepay a portion of the loan) and request that the Authority make an additional loan to the LLC Borrower in an amount equal to the amount of principal so prepaid upon the Authority's approval of the new market tax credit financing documents. In that event, the Authority and the LLC Borrower would enter into a separate loan agreement (the "Leverage Loan Agreement"), pursuant to which the LLC Borrower would deliver its Promissory Note C to the Authority.

The Leverage Loan Agreement and Promissory Note C will set forth the obligations of the LLC Borrower to cause completion of the Project and the LLC Borrower's unconditional obligation to make a portion of the Loan Payments. Promissory Note A and Promissory Note C (collectively, the "Successor Promissory Notes"), taken together, will be in an aggregate principal amount equal to the principal amount of the Bonds. The maturity dates of the principal installments of the Successor Promissory Notes will

correspond to the maturity dates and sinking fund payment dates of the Bonds. The unpaid principal installments of the Successor Promissory Notes will bear interest at rates sufficient to provide for the payment of all interest that accrues on the Bonds. The Leverage Loan Agreement will provide that the LLC Borrower's obligations to pay principal and interest on Promissory Note C are discharged to the extent that the corresponding principal and interest payments on the Bonds are made from the Bond Fund. The debt obligations of the LLC Borrower under the Leverage Loan Agreement and Promissory Note C will be direct, unsecured obligations of the LLC Borrower.

Pursuant to the Direct Loan Agreement and (if applicable) the Project Loan Agreement (as described under "PLAN OF FINANCE – Project Loan Agreement"), the Project Owner will be subject to certain covenants concerning the payment of taxes, licenses, utilities and governmental charges; the completion, maintenance and operation of the Property; the maintenance of insurance; and certain other matters regarding the character and continued operation of the Property.

The Project Owner and LLC Borrower will each agree to maintain its corporate existence and not to dissolve or otherwise dispose of all or substantially all of its assets and to not consolidate with or merge into another entity (other than the merger of the LLC Borrower into the Project Owner) unless (a)(i) in the case of a merger or consolidation other than one in which the Project Owner or LLC Borrower is the continuing entity or (ii) in the case of the sale of all or substantially all of the assets of the Project Owner or LLC Borrower, the entity formed by such consolidation, or into which the Project Owner or LLC Borrower shall have been merged, or to which such assets have been sold, shall be an entity organized under the laws of the United States or a state thereof and shall unconditionally assume the obligation to perform and observe the agreements and obligations of the Borrowers under the Loan Agreements and the applicable Promissory Note(s), (b) the City shall consent to such transaction, and (c) an opinion of Co-Bond Counsel shall be obtained that such transaction does not impair the validity of, or federal tax exempt status of interest on, the Bonds. Subject to the terms of the Leverage Loan Agreement, the LLC Borrower may merge into the Project Owner or transfer all or substantially all of its assets to the Project Owner at any time, so long as the Project Owner assumes the LLC Borrower's obligations under the Leverage Loan Agreement and Promissory Note C.

Acceleration of the Bonds pursuant to the Indenture shall constitute an event of default under the Loan Agreements. See "SUMMARY OF THE INDENTURE – Events of Default; Remedies" for a discussion of the circumstances under which the Bonds may be accelerated.

In the event the LLC Borrower is established and funded as described under "PLAN OF FINANCE – Structure Under a New Markets Tax Credit Financing", the Authority shall forbear from (a) accelerating the payment of all or part of the amounts due under the Promissory Notes, (b) filing or participating in the filing of any involuntary bankruptcy proceeding with respect to the Borrowers or (c) taking any other action to enforce its rights and remedies (excluding any rights or remedies specifically related to the Cooperation Agreement) under the Loan Agreements, the Indenture or the Promissory Notes until the end of a seven year period commencing at the closing of the tax credits financing. After that period, the Authority will be free to take such actions as are permitted under the Loan Agreements and the Promissory Notes.

The Authority will pledge and assign to the Trustee all of the Authority's right, title and interest in and to the Promissory Notes and the Loan Agreements and all of the Authority's rights to receive payments thereunder, except that the Authority reserves the right to enforce the Unassigned Rights in its own name and for its own account.

### **The Cooperation Agreement and Moral Obligation Pledge**

The Cooperation Agreement sets forth the City's moral obligation pledge (the "Moral Obligation Pledge"), wherein the City will agree to consider making an allocation from current appropriations or an appropriation under the City's next budget to fund deficiencies in the Debt Service Reserve Fund established under the Indenture as a result of the Borrowers' failure to make required Loan Payments. If the balance in the Debt Service Reserve Fund is, as of the second Business Day after August 1 of any year,

less than the Debt Service Reserve Fund Requirement of \$1,979,727.50, the Trustee, pursuant to the Indenture, is required to notify the City, certain City officials, and the Authority. Thereafter, the City will consider allocating or appropriating funds in the amount of such deficiency consistent with the City's normal budget process. In the event that the City allocates or appropriates such funds, the City will lend such funds to the Authority for deposit into the Debt Service Reserve Fund. The procedure for determining whether a deficiency in the Debt Service Reserve Fund exists and providing notice is discussed more fully under "SUMMARY OF THE INDENTURE – Trust Funds."

### **Reimbursement Agreement**

Pursuant to a Reimbursement Agreement to be entered into by and between the City and the Project Owner (the "Direct Reimbursement Agreement"), the Project Owner will agree to reimburse the City for any payment made under the Cooperation Agreement. If a loan is made to the LLC Borrower, the LLC Borrower will enter into a similar Reimbursement Agreement with the City (the "Leverage Reimbursement Agreement" and together with the Direct Reimbursement Agreement, the "Reimbursement Agreements"), under which it agrees to make payments to the City solely from the proceeds of payments made by the Project Owner under the Project Loan Agreement received by the LLC Borrower. The Project Owner's obligations under Reimbursement Agreement (and, if applicable, under the Project Loan Agreement as described in "PLAN OF FINANCE – Project Loan Agreement") will be secured by a security interest in substantially all of the Project Owner's property for the benefit of the City under the Reimbursement Agreement. The LLC Borrower's obligations under the Leverage Reimbursement Agreement will be secured by a pledge of the LLC Borrower's equity interest in any other Finance Intermediaries (as described under "RISK FACTORS – Finance Intermediaries"). The Reimbursement Agreements and the collateral pledged by the Borrowers are only for the benefit of the City. The Bondholders will have no security interest in the collateral pledged by the Borrowers or in any other property of the Borrowers.

### **Trust Funds**

The Trust Funds, including but not limited to, the Debt Service Reserve Fund, established under the Indenture secure payment of the Bonds. All of the Trust Funds created under the Indenture are described under "SUMMARY OF THE INDENTURE – Trust Funds."

## **THE BONDS**

### **General**

The Bonds will be designated "Redevelopment Revenue Bonds, Series 2010 (Summerfest Project)," as originally issued will be dated as of the date of issuance, will be issued as fully registered bonds in denominations of \$5,000 or any multiple thereof, and will become due on August 1 of the years shown on the cover. The Bonds will bear interest at the rates shown on the cover. Interest shall be payable (i) semi-annually on February 1 and August 1 of each year commencing on August 1, 2011 and (ii) as to particular Bonds, on the redemption date thereof. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. To the extent permitted by law, overdue, principal and interest shall bear interest at the same rate as was borne by the Bonds with respect to which the payment was delinquent.

The Bonds will be issued pursuant to and in full compliance with the Constitution and laws of the State of Wisconsin and pursuant to resolutions adopted by the Authority.

## **Trustee and Paying Agent**

U.S. Bank National Association will act as trustee and paying agent (the “Trustee”). See “SUMMARY OF THE INDENTURE.” Pursuant to the Loan Agreements, the Borrowers will agree to pay the Trustee its customary fees for acting as Trustee under the Indenture and reimburse the Trustee for its ordinary and necessary expenses incurred in carrying out its obligations pursuant to the Indenture. Upon an Event of Default, the Trustee’s fees and expenses would be payable from the Pledged Revenues as described under “SUMMARY OF THE INDENTURE - Events of Default; Remedies.”

## **Optional Redemption of Bonds at Election of the Borrower**

Upon prepayment of the Promissory Notes, at any time on or after August 1, 2019, the Bonds shall be subject to redemption, in whole or in part, on any day. If less than all outstanding Bonds are to be redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee from the stated maturities selected by the Borrower, or in the absence of such selection, then in the inverse order of their stated maturity dates. Within a stated maturity, the particular Bonds or portions thereof to be redeemed shall be selected as described under “BOOK ENTRY ONLY SYSTEM – Bonds in Book-Entry Form Only” or “BOOK ENTRY ONLY SYSTEM – Discontinuance of Book-Entry-Only System – Selection of Bonds for Redemption,” as applicable.

The redemption price for any such redemption shall be 100% of the principal amount of Bonds so redeemed, plus accrued interest to the redemption date, and without premium.

## **Optional Redemption of Bonds Upon Occurrence of Certain Extraordinary Events**

The Bonds shall be subject to redemption, in whole but not in part, on any day (provided that, in the event the Project Owner proceeds with tax credit financing as described in “PLAN OF FINANCE – Structure under a New Markets Tax Credit Financing”, such date must not precede the end of a seven-year period commencing at the closing of the tax credits financing) if within 90 days after the occurrence of any of the following events, the Borrowers shall elect to prepay the Promissory Notes in accordance with the Loan Agreements:

(a) The Property shall have been damaged or destroyed to such an extent that, in the opinion of the Project Owner expressed in a Project Owner’s Certificate filed with the Authority and the Trustee following such damage or destruction, (i) the completion of the Project will be delayed for at least six months, (ii) it is not practicable or desirable to rebuild, repair or restore the Project within a period of six consecutive months following such damage or destruction, or (iii) the Project Owner is or will be thereby prevented from carrying on its normal operations at the Property for a period of at least six consecutive months;

(b) Title to or the temporary use of all or substantially all of the Property shall have been taken under the exercise of the power of eminent domain by any governmental authority to such extent that, in the opinion of the Project Owner expressed in a Project Owner’s Certificate filed with the Authority and the Trustee (i) the completion of the Project will be delayed for at least six months, or (ii) the Project Owner is or will be thereby prevented from carrying on its normal operations at the Property for a period of at least six consecutive months.

(c) Any court or administrative body of competent jurisdiction shall enter a judgment, order or decree requiring the Project Owner to cease all or any substantial part of its operations at the Property to such extent that, in the opinion of the Project Owner expressed in a Project Owner’s Certificate filed with the Authority and the Trustee, the Project Owner is or will be thereby prevented from carrying on its normal operations at the Property for a period of at least six consecutive months; or

(d) As a result of any changes in the Constitution of the State of Wisconsin or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal),

the Loan Agreements shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Loan Agreements, or unreasonable burdens or excessive liabilities shall have been imposed on the Authority, the Project Owner or the LLC Borrower as a consequence of having the Bonds, the Promissory Notes or the loan under the Project Loan Agreement (as described in “PLAN OF FINANCE – Project Loan Agreement”) outstanding, including without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreements.

The redemption price for any such redemption shall be 100% of the principal amount of Bonds so redeemed, plus accrued interest to the redemption date, and without premium.

**Mandatory Sinking Fund Redemption**

The Bonds maturing on August 1, 2030 are Term Bonds (as defined in the Indenture) and are subject to mandatory redemption by operation of a sinking fund on the Sinking Fund Payment Dates and in the amounts set forth as follows:

| <b>Mandatory Sinking<br/>Fund Payment Dates<br/>(August 1)</b> | <b>Mandatory Sinking Fund<br/>Payment Amounts</b> |
|--|---|
| 2027   | \$1,625,000                                       |
| 2028   | 1,710,000   |
| 2029   | 1,795,000   |
| 2030 (maturity)  | 1,885,000   |

Term Bonds will be redeemed at a price equal to 100% of the principal amount of Term Bonds being redeemed plus the full amount of the unpaid interest which has accrued on such Term Bonds and which will accrue to the date that such Term Bonds are redeemed, provided that, at the direction of the Borrower received at least sixty (60) days prior to the Sinking Fund Payment Date, the principal amount of the Term Bonds to be redeemed on any Sinking Fund Payment Date shall be reduced by the principal amount of the Term Bonds which (i) had been redeemed or purchased by the Authority, the City, the Borrower, or the Trustee and canceled by the Trustee at least sixty (60) days prior to such Sinking Fund Payment Date and (ii) had not previously formed the basis for such reduction.

**Notice and Effect of Redemption**

Notice of the call for any redemption of Bonds prior to maturity shall be given by mailing a copy of the redemption notice by first class mail not less than 30 nor more than 60 days prior to the redemption date to the registered owner (which, so long as the Bonds are in book-entry-only form, shall be DTC or its nominee) of each Bond to be redeemed at the address shown on the Bond register maintained by the Trustee.

All notices of redemption shall (a) identify the Bonds to be redeemed by name, CUSIP number, date of issue, interest rate and maturity date and, if only a portion of the Bonds are to be redeemed, the certificate numbers and the respective principal amounts to be redeemed, (b) identify the redemption date, (c) state the redemption price, (d) state that interest on the Bonds or the portions thereof called for redemption will cease to accrue from the redemption date if funds sufficient for their redemption and available for that purpose are on deposit with the Trustee on the redemption date, and (e) state that payment for the Bonds will be made on the redemption date at the designated office of the Trustee during normal business hours upon the surrender of the Bonds to be redeemed. Neither the failure to mail such notice, nor any defect in any notice so mailed, with respect to any particular Bond shall affect the validity of any proceedings for redemption of any other Bond.

All Bonds or portions thereof so called for redemption shall cease to bear interest on the specified redemption date.

## **RISK FACTORS**

This section describes possible risks to owners of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or described here.

**Limited Source for Payments.** The Bonds are limited obligations of the Authority. The only source of payment for the Bonds will be the Pledged Revenues. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – General.” Failure to realize the Pledged Revenues may result in delayed payment or non-payment of the Bonds.

**Project Owner.** No assurance can be given that the Project Owner will be able to make its required payments under the Direct Loan Agreement and (if applicable) the Project Loan Agreement. The Project Owner’s failure to make such loan payments on a timely basis could result in a failure to make debt service payments on the Bonds on a timely basis to the extent unpaid Loan Payments exceed the amounts available in the Bond Fund and the Debt Service Reserve Fund to make debt service payments on the Bonds. In particular, the Project Owner’s revenues are generally limited to those it collects from the operation of the Festival Grounds, including sponsorships, admission fees, commissions from the sale of food beverages and merchandise and license fees from sub-leasing the Festival Grounds. The Project Owner’s principal expenses will include the administration and operation of the Festival Grounds and the payment of rent under the Lease. Although the sources of revenue the Project Owner receives depend in large part on the level of sponsorships and attendance at Summerfest and other events held at the Festival Grounds, its rent and debt service expenses are fixed. A decline in attendance or reductions in sponsorships for other reasons could adversely affect the ability of the Project Owner to make payments under the Direct Loan Agreement and (if applicable) the Project Loan Agreement. Attendance is dependent upon a variety of factors, including weather, the availability of popular entertainers, and competition from other events.

Moreover, a failure by the Project Owner to make rental payments under the Lease or to make its loan payments could result in the City’s termination of the Lease. A failure by the Project Owner to make required payments due under the Reimbursement Agreement could result in the City terminating the Project Owner’s leasehold interest in the Festival Grounds and/or foreclosing on the property of the Project Owner. Either such event would severely limit the Project Owner’s ability to generate revenues, and make its loan payments. In such event, payment of principal of and interest on the Bonds would likely depend upon the ability and willingness of the City to honor its Moral Obligation Pledge to make an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund pursuant to the Cooperation Agreement.

**Finance Intermediaries.** In the event the tax credit financing occurs, no assurance can be given that the limited liability companies created to accomplish that financing, including, the LLC Borrower (collectively, the “Finance Intermediaries”) (as more particularly described in “PLAN OF FINANCE – Structure under a New Market Tax Credit Financing”) will be able to make the respective payments they are called upon to make under the related documents (including the Leverage Loan Agreement, Promissory Note C and the Project Loan Agreement). Failure of a Finance Intermediary to make its payments on a timely basis could result in a failure to make debt service payments on the Bonds on a timely basis to the extent unpaid Loan Payments exceed the amounts available in the Bond Fund and the Debt Service Reserve Fund to make debt service payments on the Bonds. Since each of the Finance Intermediaries’ revenues are limited to those that are directly or indirectly collected from the Project Owner (as more particularly addressed above), if the Project Owner fails to make its payments under the Project Loan Agreement, the Finance Intermediaries would not be expected to have any source of funds to honor their respective payment obligations. In such event, payment of principal of and interest on the Bonds would likely depend upon the ability and willingness of the City to honor its Moral Obligation Pledge to make an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund pursuant to the Cooperation Agreement.

**The City.** To the extent that any insufficiency in the revenues actually received from the Borrowers exceeds the amounts available in the Debt Service Reserve Fund and the Bond Fund, payment of sums due on the Bonds will depend upon the City taking steps necessary to allocate or appropriate the required sums pursuant to the Cooperation Agreement. The making of such allocation or appropriation is not and will not be a legal obligation enforceable by any party against the City. The availability of funds from the City would depend upon the approval by the Common Council and Mayor of such allocations or appropriations in each year that there is a deficiency in the Debt Service Reserve Fund. The ability and willingness of the City to make such allocations or appropriations could be affected by a variety of economic or political factors.

**Tax Matters.** Co-Bond Counsel will opine that interest on the Bonds will be excludable from the gross income of the owners thereof for federal income tax purposes. However, Co-Bond Counsel's opinions are conditioned on continuing compliance by the Authority and the Borrowers with representations and covenants with respect to arbitrage and other tax matters contained in the Indenture, the Loan Agreements and certain certificates to be delivered on the date of issuance of the Bonds. Failure to comply with such representations and covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactively to their issue date. In such event, the value of the Bonds for purposes of resale and the after-tax rate of return on the Bonds may fall prior to maturity. Furthermore, certain categories of investors may be subject to federal income tax consequences as discussed under "TAX MATTERS."

**Interest Rates.** The interest rate on the Bonds is fixed to maturity. In the future, prevailing interest rates may rise resulting in a reduction in the value of the Bonds (particularly the Bonds with later maturities) for purposes of resale prior to maturity.

**Acceleration.** The Indenture provides that the maturity of the Bonds may (subject to limits in the event the Project Owner proceeds with tax credit financing as described in "PLAN OF FINANCE – Structure under a New Markets Tax Credit Financing") be accelerated at the direction of the City upon a payment default by a Borrower under its Reimbursement Agreement and the City's payment to the Trustee of funds sufficient to pay the principal of and interest on the Bonds then outstanding. The effect of such an acceleration would be similar to an early redemption of the Bonds at par. Thus, in evaluating the Bonds as an investment, prospective Bond owners should not assume that they have protection against early retirement of the Bonds. See "SUMMARY OF THE INDENTURE – Events of Default; Remedies" for a discussion of the other circumstances under which the Bonds may be accelerated.

Although the Indenture permits (subject to the limitations described under "SUMMARY OF THE INDENTURE – Forbearance") acceleration of the maturities of the Bonds and the Promissory Notes as one of the remedies in the case of an event of default, the ability of the Trustee on behalf of the Bondholders to collect amounts due upon an acceleration of the maturities of all of the Bonds may be limited. The City's obligation under the Cooperation Agreement is only to consider annual appropriations to replenish deficiencies in the Debt Service Reserve Fund. The Cooperation Agreement has no provisions for the City to pay any amount in excess of the Debt Service Reserve Fund shortfall (unless the City elects to direct an acceleration of the Bonds as a result of a default under the Reimbursement Agreement, and to pay the entire amount due with respect to the Bonds). Moreover, no collateral will be pledged by either of the Borrowers to secure the payment of the Bonds or the Promissory Notes. Thus, it is not expected that there would be any source of payment of the entire amount due with respect to the Bonds if the maturities of the Bonds were accelerated following an event of default.

**Forbearance.** The Indenture and Direct Loan Agreement provide that in the event the NMTC Equity Investment is made, and the Leverage Loan Agreement will provide, the Trustee and the Authority will forbear from (a) accelerating the payment of all or part of the amounts due under the Bonds and the Promissory Notes, (b) filing or participating in the filing of any involuntary bankruptcy proceeding with respect to the Borrowers or (c) taking any other action to enforce their rights and remedies (excluding any rights or remedies specifically related to the Cooperation Agreement) under the Indenture, the Loan

Agreements or the Promissory Notes during the seven year period beginning on the closing of the tax credits financing.

**Rating.** The Bond rating, when issued, reflects only the views of the rating agency, and an explanation of the significance of such rating may be obtained therefrom. The Bond rating is dependent upon the rating of the City, among other things. There is no assurance that the Bond or City ratings will remain in effect for any given period of time or that they will not be revised, either upward or downward, or withdrawn entirely, by the rating agency if, in its judgment, circumstances so warrant. A reduction or withdrawal of the Bond rating could adversely affect the market price of the Bonds.

**Secondary Market.** No representation is made herein concerning the future existence of a secondary market for the Bonds. Accordingly, prospective purchasers of the Bonds should be prepared to hold their Bonds to maturity or prior redemption, if any.

**Book-Entry-Only System.** The timely credit of payments for principal and interest on the Bonds to the accounts of the beneficial owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC Participants or Indirect Participants (as each term is defined in “BOOK-ENTRY-ONLY SYSTEM”). Since the notice of redemption or other notices to holders of these obligations will be delivered by the Trustee to DTC only, there may be a delay or failure by DTC, DTC participants, or indirect participants to notify the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

**Enforcement of Legal Instruments Limited.** The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State, the United States of America and other governmental authorities, including police powers exercised for the benefit of the public health and welfare, and by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, and by general principles of equity.

**Forward-Looking Statements.** This Official Statement, and particularly the information contained under the captions “DESCRIPTION OF THE PROJECT,” “PLAN OF FINANCE,” “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS,” “ESTIMATED SOURCES AND USES OF FUNDS,” “RISK FACTORS,” and Appendices A and C, contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect,” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

## PLAN OF FINANCE

The Authority will loan the proceeds of the Bonds to the Project Owner on the date of issuance of the Bonds. The Project Owner will use some or all of the proceeds of the Bonds loaned by the Authority to pay costs of the Project. If the Project Owner obtains an allocation of new markets tax credits, it will prepay Promissory Note B, and direct the Authority to make a separate loan to the LLC Borrower as described below under “PLAN OF FINANCE– Structure under a New Markets Tax Credit Financing”, in which event the Project Owner and the LLC Borrower will each be Borrowers under their respective Loan Agreements. If the Project Owner does not obtain such an allocation, the Project Owner will remain the sole borrower.

### Structure under a New Markets Tax Credit Financing

Under the Internal Revenue Code, investors in projects within certain qualifying areas may be eligible for tax credits for federal income tax purposes. The Property is located in such an area. The

Project Owner intends to seek, and expects to obtain, an allocation of new markets tax credits with respect to the Project.

If an allocation of new markets tax credits is obtained with respect to the Project, subject to the conditions below, the Project Owner will repay Promissory Note B, and request the Authority to make a separate loan to the LLC Borrower. In that event, the LLC Borrower will enter into the Leverage Loan Agreement with the Authority and deliver Promissory Note C to the Authority, and will be a “Borrower” for purposes of the Leverage Loan Agreement and the Indenture. In such event, either the LLC Borrower or a separate, newly created limited liability company to which the LLC Borrower loans such proceeds (the LLC Borrower or such other limited liability company being referred to as the “Investment Fund”) will use those proceeds, together with an equity investment made by a tax credits investor (the “Tax Credits Investor”), to make a capital contribution (the “NMTC Equity Investment”) in a newly created limited liability company (the “Finance Subsidiary”). The Finance Subsidiary would use the capital contribution to make two loans to the Project Owner – one (the “Bond Loan”) in an amount equal to the amount loaned by the Authority directly or indirectly to the Investment Fund, and the other (the “Tax Credits Loan”) in an amount equal to the capital contributed to the Investment Fund by the Tax Credits Investor. Both loans would be for the sole purpose of paying the Project costs.

The Project Owner would execute and deliver its promissory notes to the Finance Subsidiary, in principal amounts equal to the respective amounts of the Bond Loan and the Tax Credits Loan. The promissory note in respect to Bond Loan would be on terms identical to Promissory Note B delivered by the LLC Borrower to the Authority to secure the payment of the Bonds. The proceeds of the Bond Loan and the Tax Credits Loan would be held in escrow by the Trustee, as escrow agent. The Project Owner would be entitled to use the funds to pay or reimburse itself for the Project Costs upon requisition submitted to the escrow agent and approved by the City.

The Investment Fund would be established for the sole purpose of making the NMTC Equity Investment in the Finance Subsidiary. It would have no substantial assets other than the amount loaned by the Authority or the LLC Borrower (as the case may be), which it would immediately use to make the NMTC Equity Investment into the Finance Subsidiary. If the LLC Borrower were to use the proceeds of its loan from the Authority to make a loan to the Investment Fund, then the Investment Fund would execute and deliver its promissory note to the LLC Borrower, in principal amounts and on terms identical to Promissory Note C delivered by the LLC Borrower to the Authority to secure the payment of the Bonds. The Investment Fund would have no substantial liabilities other than its obligation to repay its promissory note.

The Finance Subsidiary would be established for the sole purpose of participating in the financing of the Project. It would have no substantial assets other than the capital contributed or loaned by the Investment Fund, which it would immediately use to make the Bond Loan and the Tax Credits Loan to the Project Owner, and promissory notes of the Project Owner evidencing its obligations to repay the Bond Loan and the Tax Credits Loan. The Finance Subsidiary would have no substantial liabilities.

The Finance Subsidiary’s organizational documents would require it to make payments to the Investment Fund (as distributions to the Finance Subsidiary’s sole member) in amounts equal to the payments received by the Finance Subsidiary from the Project Owner with respect to the Bond Loan and the Tax Credits Loan. The Leverage Loan Agreement will require the LLC Borrower to apply any such amounts allocable to the Bond Loan to the payment of Promissory Note C.

**Any tax credits would not be available to the owners of the Bonds, but would be available solely to the Tax Credits Investor or any third parties to which the Tax Credits Investor may assign such tax credits.**

The Direct Loan Agreement will condition the Investment Fund’s ability to make the NMTC Equity Investment into the Finance Subsidiary on (a) the investment being made before August 1, 2011, (b) the Investment Fund and the Finance Subsidiary becoming a party to the Tax Agreement, (c) the Trustee being furnished with an opinion of Co-Bond Counsel to the effect that the contribution and the structure

contemplated under the documents related thereto (the “NMTC Documents”) will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, (d) approval by the Authority of the NMTC Documents, and (e) delivery of a reimbursement agreement between the Investment Fund and the City.

### **Project Loan Agreement**

In the event the Project Owner proceeds with tax credit financing as described under “PLAN OF FINANCE– Structure under a New Markets Tax Credit Financing” above, in addition to the Leverage Loan Agreement, there will be one or more other loan agreements governing payment of amounts that will ultimately be paid to the LLC Borrower for it to make the requisite payments under the Leverage Loan Agreement and Promissory Note C. Specifically, there may be a loan agreement between LLC Borrower, as lender, and the Investment Fund, as borrower (if the LLC Borrower is not itself the Investment Fund), and there will be a loan agreement between the Finance Subsidiary, as lender, and the Project Owner, as borrower (collectively, the “Project Loan Agreement”). The Indenture and Leverage Loan Agreement will include various limitations with respect to the Project Loan Agreement, including limitations on amendments.

### **Possible Merger or Assignment and Dissolution of Borrower into Project Owner**

Subject to the conditions below, that the Project Owner may obtain ownership of the LLC Borrower from the Tax Credits Investor, and thereafter may determine to merge the LLC Borrower into the Project Owner. In such event, Project Owner would be required to assume the LLC Borrower’s obligations under Promissory Note C and the Leverage Loan Agreement, and would become the sole “Borrower” for purposes of the Indenture and the Leverage Loan Agreement. The Leverage Loan Agreement will require (a) the approval by the Authority of the assignment and assumption agreement between the LLC Borrower and the Project Owner, and (b) receipt by the Trustee of an opinion of Co-Bond Counsel that such merger or assignment will not adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes.

### **Structure without New Markets Tax Credit Financing**

There is no assurance that an allocation of new markets tax credits will be obtained with respect to the Project. If no such allocation is obtained, no Finance Intermediaries will be organized, and the Project Owner will remain the sole Borrower under the Indenture, the Direct Loan Agreement, and the Initial Promissory Notes. In that case, all of the proceeds of the Bonds would be held by the Trustee, and the Project Owner would be entitled to use the funds to pay or reimburse itself for the Project Costs upon requisition submitted to the Trustee and approved by the City as described under “SUMMARY OF THE INDENTURE – Trust Funds – Construction Fund”.

### **Deposit to 2001 Bond Fund**

Contemporaneously with the loan of Bond proceeds by the Authority to the Project Owner, the Project Owner will be required to make a deposit of approximately \$ 12,032,037.50 to secure its reimbursement obligation to the City with respect to bonds issued by the Authority in 2001 to finance prior improvements to the Festival Grounds (the “2001 Bonds”). The deposit will be in an amount equal to amounts necessary to redeem the entire outstanding principal amount of the 2001 Bonds on August 1, 2011, and to pay interest due on and before the redemption date. Once the 2001 Bonds are redeemed, the City will be released from its moral obligation pledge that was made with respect to the 2001 Bonds on terms similar to those described under “The Cooperation Agreement and Moral Obligation Pledge”

## SUMMARY OF THE INDENTURE

### Trust Funds

The following described trust funds (collectively, the “Trust Funds”) are created under the Indenture to be held in the custody of the Trustee for the uses and purposes provided in the Indenture:

- Debt Service Reserve Fund
- Bond Fund
- Redemption Fund
- Cost of Issuance Fund
- Construction Fund

Each Trust Fund is summarized below.

#### Debt Service Reserve Fund.

The Trustee shall deposit into the Debt Service Reserve Fund (i) the Debt Service Reserve Fund Requirement in an amount equal to \$ 1,979,727.50, from the proceeds of the Bonds, (ii) any amounts paid by the City pursuant to the Cooperation Agreement to the extent moneys in the Debt Service Reserve Fund have then been transferred to the Bond Fund and (iii) any additional moneys which a Borrower, the Authority or the City may deliver to the Trustee, from time to time, with the instruction that such moneys be deposited into the Debt Service Reserve Fund. The Debt Service Reserve Fund Requirement is equal to the maximum amount of principal of and interest on the Bonds scheduled to come due in any calendar year.

In the event that the principal or interest on the Bonds becomes due and the moneys in the Bond Fund are insufficient for making such payments, the Trustee shall transfer amounts on deposit in the Debt Service Reserve Fund to the Bond Fund to be used to make such payments.

In the event that at any time the moneys in the Bond Fund and the Debt Service Reserve Fund equal or exceed the amount of all payments remaining of principal of and interest on the Bonds, (assuming the Bonds bear interest at the applicable interest rates to the respective maturity dates, or an earlier redemption date for which the Trustee has given notice of redemption or has been given irrevocable instructions to give such notice), the Trustee shall transfer amounts in the Debt Service Reserve Fund to the Bond Fund to be used to make such payments.

The Trustee shall compare the Debt Service Reserve Fund requirement and the balance in the Debt Service Reserve Fund on the second Business Day after August 1 each year. If on any such date the balance in the Debt Service Reserve Fund, Bond Fund and Redemption Fund shall exceed the payments of principal and interest due on the Bonds, the Trustee shall transfer such excess amount to the Bond Fund to be used to pay principal and interest payments on the Bonds. If on any such date the balance in the Debt Service Reserve Fund is below the Debt Service Reserve Fund Requirement, the Trustee shall, within two days, notify the City and the Authority in writing of such deficiency and the amount of such deficiency and shall request payment of the full amount thereof pursuant to the Cooperation Agreement and the Moral Obligation Pledge. The Trustee shall deposit all amounts paid by the City pursuant to such demand, promptly upon receipt thereof, into the Debt Service Reserve Fund.

Investment earnings on the Debt Service Reserve Fund will be for the account of the Bond Fund, provided that the Debt Service Reserve Fund Requirement is satisfied.

Bond Fund. The Trustee will deposit into the Bond Fund (i) all Loan Payments (except prepayments) by the Borrowers under the Promissory Notes or the Loan Agreements, and (ii) moneys required to be transferred to the Bond Fund from the Debt Service Reserve Fund or other Trust Funds or from Pledged Revenues in accordance with the Indenture.

All money in the Bond Fund will be used solely for the payment of interest on the Bonds and for the payment of principal of Bonds when due (whether at maturity, by acceleration or call for redemption or otherwise).

Investment earnings on the Bond Fund will be for the account of the Bond Fund.

Redemption Fund. The Trustee shall deposit into the Redemption Fund (i) all prepayments by the Borrowers on the Promissory Notes (except a prepayment of Promissory Note B by the Project Owner in connection with its obtaining an allocation of new markets tax credits with respect to the Project as described under “PLAN OF FINANCE – Structure under a New Markets Tax Credit Financing”) and (ii) moneys required to be transferred to the Redemption Fund from other Trust Funds in accordance with the Indenture.

Money in the Redemption Fund may be (i) transferred to the Bond Fund when and as required to pay the principal of any Bonds called for redemption in accordance with the Indenture, (ii) transferred to the Bond Fund to pay the final payments of principal on the Bonds, or (iii) to the extent not needed for the purposes described in clauses (i) and (ii), used at the direction of a Borrower in a Borrower’s Certificate to purchase Bonds for cancellation; provided, however, the purchase price for any Bond shall not exceed the principal amount of such Bond, plus any accrued and unpaid interest thereon.

Investment earnings on the Redemption Fund will be for the account of the Bond Fund.

Cost of Issuance Fund. The Trustee will deposit into the Cost of Issuance Fund, \$ 187,500 received from the proceeds of the Bonds. The Trustee is directed to disburse money to pay or reimburse the Project Owner for costs of issuance of the Bonds.

Investment earnings on the Cost of Issuance Fund will be for the account of the Construction Fund.

Construction Fund. The Trustee will deposit into the Construction Fund (i) the balance of the proceeds received from the sale of the Bonds, after depositing the appropriate amounts in the Cost of Issuance Fund and Debt Service Reserve Fund, and (ii) additional amounts that the Project Owner may deliver from time to time for that purpose. This amount will be applied to costs of the Project, upon requisition by the Project Owner meeting the requirements contained in the Direct Loan Agreement. If the Project Owner proceeds with the new market tax credits financing as described in “PLAN OF FINANCE – Structure under a New Markets Tax Credit Financing” the Project Owner may apply amounts in the Construction Fund to prepay Promissory Note B.

In an Event of Default (as described below), the Trustee may (i) with the consent of the City, make disbursements from the Construction Fund, without authorization of the Project Owner, for the payment of costs necessary to complete the Project, or (ii) to the extent consistent with an opinion of Co-Bond Counsel to the effect that such application will not result in an Event of Taxability (as defined in the Indenture), apply moneys in the Construction Fund to the payment of principal and interest on the Bonds pursuant to the Indenture.

Investment earning on the Construction Fund will be for the account of the Construction Fund.

### **Investment of Trust Moneys**

The Trust Funds shall be invested by the Trustee in one or more of the following types of investments (“Qualified Investments”): (i) direct full faith and credit obligations of the United States of America (“Government Obligations”); (ii) securities as to which the timely payment of both principal and interest are unconditionally guaranteed by the United States of America; (iii) obligations of Banks of Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks and Federal National Mortgage Association; (iv) interest-bearing accounts, time deposits, and certificates of deposit issued by any bank, trust company or national banking association (including the Trustee and any

affiliate of the Trustee) which has capital, surplus, and undivided profits in excess of \$10,000,000, but in no event shall the amount invested at any one time, in interest-bearing accounts, time deposits, and certificates of deposit issued by any one bank, trust company, or national banking association equal or exceed 20% of the capital, surplus, and undivided profits of such bank, trust company, or national banking association; (v) commercial paper issued by domestic corporations which is rated not less than A-1 by Standard & Poor's Ratings Services (or an equivalent rating from another national rating agency); (vi) any fund or other pooling arrangement (including but not limited to mutual funds and/or unit investment trusts) which exclusively purchases and holds the investments itemized in (i) through (v) above (including but not limited to funds managed by the Trustee or repurchase agreements fully collateralized by such investments); or (vii) investment agreements or guaranteed investment contracts with any financial institution (including an insurance company) which is rated, or the unsecured long-term debt of which is rated, at least in the "AA" category, or its equivalent, by at least one national rating agency; provided, however, that if the conditions of any investment rating assigned or to be assigned to any series of Bonds require an exclusion of or limitation on any of the foregoing, the term "Qualified Investments" shall conform to such conditions.

Each investment shall be held by or under the control of the Trustee and shall be deemed at all times to be part of the particular Trust Fund in which such moneys were held. Income and profit from any such investment shall be credited to the Trust Fund for whose account the investment was made, except that in the case of the Debt Service Reserve Fund and the Redemption Fund, such income and profit shall be credited to the Bond Fund and in the case of the Cost of Issuance Fund, such income and profit shall be credited to the Construction Fund. Any net loss realized and resulting from any such investment shall be charged to the particular Trust Fund for whose account the investment was made. All such investments and reinvestments shall be made in investments having a maturity not later than the estimated time when the moneys so invested will be needed for the purposes of the Trust Fund of which they are a part.

Money in the Bond Fund shall be invested only in Government Obligations.

#### **Events of Default; Remedies**

If any of the following events occur, it is an "Event of Default":

(a) Default in the due and punctual payment of the principal of or interest on any Bond whether at the stated maturity thereof or upon proceedings for redemption thereof, or upon the acceleration of maturity thereof.

(b) Default in the performance or observance of any of the covenants, agreements or conditions on the part of the Authority contained in the Indenture or in the Bonds and the continuance thereof for a period of 60 days after written notice given to the Authority by the Trustee or to the Trustee and the Authority by the owners of not less than 25% in aggregate principal amount of Bonds then outstanding.

(c) An "event of default" (as defined therein) has occurred under the Reimbursement Agreement due to the Borrower's failure to pay amounts due and owing thereunder, and the City has deposited with the Trustee funds sufficient to pay the principal of and interest on the Bonds then outstanding.

Upon the occurrence of an Event of Default set forth in (a) above, the Trustee may, and shall upon the written request of the owners of not less than 25% in aggregate principal amount of Bonds then outstanding (but subject to the provisions described under "SUMMARY OF INDENTURE – Forbearance" below), by notice in writing delivered to the Authority and the Borrower, declare the principal of all Bonds then outstanding and the interest accrued on such outstanding Bonds immediately due and payable, and such principal and interest will become immediately due and payable.

Upon the occurrence of an Event of Default set forth in (c) above, the Trustee shall (but subject to the provisions described under "SUMMARY OF INDENTURE – Forbearance" below), by notice in

writing delivered to the Authority and the Borrower, declare the principal of all Bonds then outstanding and the accrued interest on such outstanding Bonds immediately due and payable, and such principal and interest shall become immediately due and payable.

Upon the occurrence of an Event of Default, the Trustee may, in addition to acceleration, pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of and interest on the Bonds or on the Promissory Notes.

The Trustee, as an assignee of the rights and interests of the Authority in and to the Loan Agreements and the Cooperation Agreement, shall enforce such of its rights and the rights of the Authority under the Loan Agreements and the Cooperation Agreement as it shall deem necessary or appropriate. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bond owners.

If an Event of Default shall have occurred, and if requested so to do by the owners of at least 25% in aggregate principal amount of Bonds then Outstanding and if indemnified as provided in the Indenture, the Trustee shall be obliged to exercise such one or more of its rights and powers as the Trustee, being advised by counsel, shall deem most expedient in the interest of the Bond owners.

The owners of a majority in aggregate principal amount of Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, and after providing sufficient indemnity therefor, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, costs, expenses, liabilities and advances incurred or made by the Trustee, be deposited into the Bond Fund and all moneys held or deposited in the Bond Fund during the continuance of an Event of Default shall be applied, in the order of priority as follows:

(a) Unless the principal of all the Bonds has become or shall have been declared due and payable, all such moneys shall be applied: First, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest including interest (to the extent permitted by law) on overdue installments of interest at the same rates per annum as borne by such Bonds, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due, in the order of their due dates, with interest (to the extent permitted by law) on such Bonds from the respective dates upon which they became due at the same rates per annum as borne by such Bonds and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal, with interest (to the extent permitted by law) on such principal from the respective dates on which such principal became due, due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable (unless such declaration shall thereafter have been rescinded as provided in the Indenture), all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon all of the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

The Trustee is authorized to fix the date for such application of funds and to give such notice as it may deem appropriate.

### **Forbearance**

The Indenture provides that in the event the Project Owner proceeds with tax credit financing as described in “PLAN OF FINANCE – Structure under a New Markets Tax Credit Financing”, the Trustee shall forbear from (a) accelerating the payment of the amounts due under the Bonds, (b) filing or participating in the filing of any involuntary bankruptcy proceeding with respect to the Borrowers or (c) taking any other action to enforce its rights and remedies (excluding any rights or remedies specifically related to the Cooperation Agreement) under the Indenture, the Loan Agreements or the Promissory Notes during the seven year period beginning on the closing of the tax credits financing.

### **Supplemental Indentures**

The Indenture may be amended or supplemented, without the consent of the Bond owners, by a supplemental indenture authorized by a resolution of the Authority filed with the Trustee, for one or more of the following purposes: (i) to add additional covenants of the Authority or to surrender any right or power in the Indenture conferred upon the Authority, and (ii) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture and which, in the judgment of the Trustee, shall not adversely affect the interest of the owners of the Bonds.

The Indenture may be amended or supplemented with the consent of Borrower and the approval of the Bond owners owning in aggregate not less than a majority in principal amount of the then outstanding Bonds (“Requisite Consent”); provided that no amendment shall be made which affects the rights of some, but less than all, of the outstanding Bonds without the Requisite Consent of the Bond owners affected by such amendment. In addition, the unanimous written consent of the Bond owners shall be required for any amendment with respect to (i) the amount or due date of any principal or interest payment upon any Bonds, and (ii) the provisions of the Indenture pertaining to amending the Promissory Notes, the Loan Agreements or the Cooperation Agreement, and supplemental indentures.

### **Amendments to the Loan Agreements, Promissory Notes, Cooperation Agreement and Tax Agreement**

The Authority and the Trustee may, without the consent of or notice of the Bonds, agree to any amendment, change or modification of the Loan Agreements, the Promissory Notes, the Cooperation Agreement or the Tax Agreement for any of the following purposes: (i) to add additional covenants of the Borrowers or the City or to surrender any right or power therein conferred upon the Borrowers or to add security for the performance of their respective obligations; (ii) to make such other provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions of the Indenture, in the judgment of the Trustee, shall not adversely affect the interests of the Bond owners; and (iii) in the case of the Direct Loan Agreement and Tax Agreement, to accommodate the NMTC Equity Investment by the Investment Fund in accordance and compliance with the Direct Loan Agreement.

Except for the amendments, changes or modifications provided above, the Authority and the Trustee are precluded from consenting to any amendment of the Loan Agreements or Promissory Notes without giving notice and obtaining the Requisite Consent of the owners of the Bonds; provided that, no amendment shall be consented to which affects the rights of some, but less than all, of the owners of the then outstanding Bonds without the Requisite Consent of the Bond owners affected by such amendment. In addition, the Trustee shall not without the unanimous written consent of the Bond owners consent to any amendment which would (i) decrease the amounts payable on the Promissory Notes, (ii) change the dates

of payment of principal of or interest on the Promissory Notes or (iii) change the Borrowers' unconditional agreements to make payments to the Trustee

#### **Amendments to the Project Loan Agreement.**

The consent of the Authority and the Requisite Consent of the Bondholders will be needed to amend or waive certain provisions of the Project Loan Agreement (if applicable).

#### **RATING**

Moody's Investors Service, Inc. has assigned a rating of "Aa3" to the Bonds. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

#### **BOOK-ENTRY-ONLY SYSTEM**

Information concerning The Depository Trust Company ("*DTC*"), New York, NY, and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriter, the Bond Trustee or the Borrower.

#### **Bonds in Book-Entry Form**

Beneficial ownership in the Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the "*Book-Entry System*") maintained by DTC. If the Bonds are taken out of the Book-Entry System and delivered to owners in physical form, as contemplated hereinafter under "Discontinuance of Book-Entry Only System," the following discussion will not apply to the Bonds.

#### **DTC and its Participants**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with the Trustee as custodian for DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust

companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds in denominations of any multiple of \$5,000 under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“*Beneficial Owner*”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Authority or the Bond Trustee on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants

will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

### **Discontinuance of DTC Services**

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered to Bond owners and the provisions described below under “Discontinuance of Book-Entry Only System” shall apply.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

### **Use of Certain Terms in Other Sections of the Official Statement**

In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, reference in other sections of this Official Statement to owners of such Bonds should be read to include any person for whom a Participant acquires an interest in Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

### **Disclaimer**

None of the Authority, the Borrowers nor the Bond Trustee will have any responsibility or obligation to any DTC Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participant or Indirect Participant, (iii) the payment by DTC or any OTC Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds, (iv) the delivery by DTC or any DTC Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the applicable Bond Indenture to be given to Holders of Bonds, (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds, or (vi) any consent given or other action taken by DTC as a Holder of the Bonds.

The Authority, the Borrowers and the Trustee cannot and do not give any assurances that DTC, the DTC Participants or the Indirect Participants will distribute to the Beneficial Owners of the Bonds (i) payments of principal or redemption price of or interest on the Bonds, (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC. DTC Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission, and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

### **Discontinuance of Book-Entry-Only System**

As described under “Book-Entry-Only System” above, the use of the system of book-entry transfers may be discontinued at any time. In such event, Bond certificates would be printed and delivered to Beneficial Owners of the Bonds, and the following provisions would apply.

*Denominations, Transfer of Bonds*

The Bonds are issuable as fully registered Bonds in denominations of any multiple of \$5,000. The Bonds are transferable or exchangeable for Bonds of different authorized denominations upon presentation at the designated corporate trust office of the Trustee together with a written assignment acceptable to the Trustee and duly executed by the registered owner or such owner's authorized legal representative. The person in whose name a Bond is registered will be deemed the owner thereof for all purposes of the Indenture. The Trustee is not required to register the transfer of or to exchange any Bond (i) during the 15 days next preceding the mailing of any redemption notice, or (ii) after such Bond has been selected for redemption. The Bond owner requesting any registration of transfer or exchange of Bonds shall pay any resulting tax or other governmental charge. In the event any Bond is mutilated, lost, stolen or destroyed, the Authority shall execute and the Trustee shall authenticate a new Bond of like date and denomination in accordance with the provisions therefore in the Indenture, and the Authority and the Trustee may charge the owner of such Bond with their reasonable fees and expenses in this connection and may also require satisfactory indemnity in the cases of Bonds lost, stolen, or destroyed.

#### *Manner of Payment*

Except in the case of interest in default, interest will be paid on each interest payment date by check drawn by the Trustee payable to the order of the persons in whose names the Bonds were registered at the close of business on the record date for such interest. The record date for each interest payment date shall be the fifteenth (15<sup>th</sup>) day of the calendar month immediately preceding the calendar month of the date of payment of such interest. Interest in default will be paid on the dates and by reference to record dates selected by the Trustee in its discretion. Principal of the Bonds payable to maturity or upon proceedings for redemption thereof shall be payable to the registered owners thereof upon presentation surrender of the Bonds at the Trustee's designated office.

#### *Selection of Bonds for Redemption*

If less than all outstanding Bonds are to be redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee from the stated maturities selected by the Borrower, or in the absence of such selection, in the inverse order of their stated maturity dates, and within a stated maturity by lot. The Bonds are subject to redemption in part, in multiples of \$5,000.

### **TAX EXEMPTION**

#### **General**

The opinions of Co-Bond Counsel and the descriptions of the tax laws contained in this Official Statement are based on laws and official interpretations of them which are in existence on the date the Bonds are issued. There can be no assurance that those laws or the interpretation of them will not change or that new laws will not be enacted or regulations issued while the Bonds are outstanding in a manner that would adversely affect the value of an investment in the Bonds or the tax treatment of the interest paid on the Bonds. The Indenture does not require a redemption of, or an increase in the interest rate borne by, the Bonds if it is determined that the interest on the Bonds is not excluded from gross income for federal or state income tax purposes or is an item of tax preference for purposes of the alternative minimum tax imposed on corporations and individuals. Were such an event to occur, it may have an adverse effect on the market price of the Bonds and cause a reduction in the after-tax yield to Bondowners.

#### **Federal Income Tax Opinion of Co-Bond Counsel**

The form of the opinions of Reinhart Boerner Van Deuren s.c. and Gonzalez Saggio & Harlan LLP, Co-Bond Counsel, is attached hereto as Appendix E.

#### **Other Federal Income Tax Considerations**

The Internal Revenue Code contains numerous provisions which could adversely affect the value of an investment in the Bonds for particular Bondowners. For example, (i) Section 265 of the Internal

Revenue Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense that is allocable to carrying and acquiring tax-exempt obligations, provided that a financial institution may be able to deduct a portion of its interest expense that is allocable to carrying and acquiring tax-exempt obligations, including the Bonds, depending on the amount of certain tax-exempt obligations held by such financial institution that were issued in 2009 and 2010, (ii) interest on the Bonds may affect the federal income tax liabilities of life insurance companies and, with respect to insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Internal Revenue Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Internal Revenue Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of the Subchapter S corporation is passive investment income, and (v) Section 86 of the Internal Revenue Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account receipts or accruals of interest on the Bonds in determining gross income. There may be other provisions of the Internal Revenue Code which could adversely affect the value of an investment in the Bonds for particular Bondholders. Investors should consult their tax advisors to determine how the provisions described under this heading and other provisions of the Internal Revenue Code relating to the ownership of tax-exempt obligations apply to them.

### **Wisconsin Tax Matters**

The Act provides that Bonds of the Authority together with interest thereon and income therefrom are exempt from Wisconsin taxes. While income from such Bonds is exempt from Wisconsin individual, fiduciary and corporation income taxes, it must be included in the measure of the tax for Wisconsin corporate-franchise-tax purposes. In the opinion of Co-Bond Counsel, except as provided in the previous sentence, interest on the Bonds is exempt from present Wisconsin income taxes.

### **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the approval of the law firms of Reinhart, Boerner, Van Deuren, s.c., and Gonzalez Saggio & Harlan LLP, as Co-Bond Counsel. Co-Bond Counsel have reviewed the information appearing in the Official Statement describing the Bonds, the security therefore, and the Federal income tax status thereof, particularly the information appearing under the captions "THE BONDS," "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS," "SUMMARY OF THE INDENTURE," "TAX EXEMPTION," and "LEGAL MATTERS." Except as set forth above, Co-Bond Counsel have not passed upon the fairness, accuracy, or completeness of this Official Statement or the Appendices hereto, and no person is entitled to rely upon such firms' limited participation as an assumption of responsibility for or as an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained in any portion of this Official Statement other than those sections described above. Appendix E sets forth the form of opinions expected to be delivered by Co-Bond Counsel.

Certain legal matters will be passed upon for the Authority and the City by the office of the City Attorney.

Certain legal matters will be passed upon for the Project Owner by its counsel, the law firm of Foley & Lardner LLP.

Certain legal matters will be passed upon for the Underwriter by its counsel, the law firm of Davis & Kuelthau, s.c.

## **NO LITIGATION**

There is no pending or, to the knowledge of the City, the Project Owner or the Authority, threatened litigation against the City, the Project Owner or the Authority which in any way questions or affects the validity of the Bonds, the Cooperation Agreement, the Direct Loan Agreement, or any proceedings or transactions relating to the issuance, sale, or delivery of the Bonds, and the execution and delivery of the Indenture, the Cooperation Agreement, or the Direct Loan Agreement or which may affect the development, construction, or completion of the Project.

## **UNDERWRITING**

Robert W. Baird & Co. Incorporated (the “Underwriter”), has agreed, subject to the terms of a Bond Purchase Agreement, to purchase all of the Bonds. The Underwriter has agreed to purchase Bonds at an aggregate purchase price of \$ 24,687,500.00. The Underwriter has agreed to re-offer the Bonds at the public offering prices or yields set forth on the cover of this Official Statement. In connection with the underwriting, the Underwriter may agree to pay a fee to North Milwaukee State Bank. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices, and such prices may be changed, from time to time, by the Underwriter. The Underwriter’s obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all the Bonds if any purchased.

## **CONTINUING DISCLOSURE**

Securities and Exchange Commission Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Rule”), imposes continuing disclosure obligations on the issuers of certain state and municipal securities to permit participating underwriters to offer and sell the issuer’s securities. Pursuant to Rule 15c2-12(b)(5)(i), the City and the Project Owner will enter into a Continuing Disclosure Agreement with the Trustee, for the benefit of the Bondholders, whereby the City and the Project Owner will agree to provide annual reports to the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access System (“EMMA”). The annual reports will consist of annual audited financial statements of the City (if available, and unaudited financials if not available) and the Project Owner. The Trustee will provide timely notice to EMMA of any failure of the City or Project Owner to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement.

The City and the Project Owner will also agree in the Continuing Disclosure Agreement to provide notice to EMMA within ten (10) days of the occurrence of any of the events listed below:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue or other material notices or determinations with respect to the tax status of the Bonds or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Bondholders, if material.
8. Bond calls, if material, and tender offers.

9. Defeasance of the Bonds or any portion thereof.
10. Any release, substitution or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar events of the City or Project Owner;
13. The consummation of a merger, consolidation, or acquisition involving the City or Project Owner or the sale of all or substantially all of the assets of the City or Project Owner, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee if material.

The City had an annual report due on June 30, 2010 under a previous undertaking executed by the City. The report was not timely filed. However, the information was subsequently filed with the MSRB through the EMMA system, and the City is presently in compliance in all material respects with all previous undertakings under the Rule.

Failure of the City or Project Owner to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Indenture or the Loan Agreements.

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**MISCELLANEOUS**

The foregoing summaries and explanations do not purport to be comprehensive and are expressly made subject to the exact provisions of the complete documents referred to herein. For details of all terms and conditions, prospective purchasers are referred to the Loan Agreements, the Promissory Notes, the Cooperation Agreement and the Indenture, copies of which may be obtained from the Underwriter. The Appendices attached hereto are a part of this Official Statement. Any matters in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

**REDEVELOPMENT AUTHORITY OF  
THE CITY OF MILWAUKEE**

By: /s/ Lois A. Smith  
Chairperson

**CITY OF MILWAUKEE, WISCONSIN**

By: /s/ W. Martin Morics  
Comptroller

## APPENDIX A

### THE CITY OF MILWAUKEE

#### General

The City is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. The City is Wisconsin's largest city with a population of approximately 584,000 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Metropolitan Statistical Area ("MSA") includes the principal cities of Milwaukee, Waukesha and West Allis, in the counties of Milwaukee, Ozaukee, Waukesha and Washington, and has a population of nearly 1.5 million.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

The City was incorporated as a city on January 31, 1846, pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council-mayor form of government.

#### CITY OF MILWAUKEE SELECTED ECONOMIC DATA

| <u>Year</u> | <u>Population</u> | <u>Adjusted Gross<br/>Income Per<br/>Return</u> |
|-------------|-------------------|---|
| 2009        | 584,000           | N/A   |
| 2008        | 590,870           | \$33,144  |
| 2007        | 590,190           | 33,225  |
| 2006        | 590,370           | 32,370  |
| 2005        | 592,765           | 30,988  |
| 2004        | 593,920           | 29,922  |

Sources: Wisconsin Department of Administration, Demographic Service Center and the Wisconsin Department of Revenue, Division of Research and Analysis.

*(The remainder of this page has been intentionally left blank.)*

## **Public Services and Facilities**

The City, employing approximately 7,307 people (some in a seasonal capacity), is charged with primary responsibility for public safety (via its police, fire and health departments); public works (including refuse removal and a City-owned water utility); various cultural and recreational services including a library system; and general municipal administration. City government also participates in housing and neighborhood programs through separate housing and redevelopment authorities. These two latter authorities have the ability to borrow directly and issue revenue backed financings.

Other major local governmental units and their related government services are the Milwaukee Public Schools (education); Milwaukee County (parks, airport/mass-transit/highways, social services and court system); Milwaukee Metropolitan Sewerage District (wastewater treatment); and the Milwaukee Area Technical College (higher education). Wisconsin Statutes require the City to issue debt for Milwaukee Public Schools. The other governmental units listed each have the statutory authority to issue general obligation debt.

Two special purpose governmental units exist with the ability to borrow and tax on a limited revenue basis. The first is the Southeastern Wisconsin Professional Baseball Park District (the “SWPBP District”), a public entity created by State legislation, encompassing southeastern Wisconsin counties, including Milwaukee County, to finance construction/operations of a new baseball facility (“Miller Park”) for the National League Milwaukee Brewers baseball club. Miller Park opened in March, 2001. The SWPBP District has issued \$199 million of revenue bonds supported by a five-county, one-tenth of one percent sales tax and other ancillary revenue streams. In addition, \$45 million of lease certificates of participation have been issued by the SWPBP District to finance acquisition and installation of facility equipment, scoreboards, etc.

The second special purpose governmental unit is the Wisconsin Center District (“WC District”), a public entity created by State legislation, which oversees construction/operation of the Midwest Airlines Center, the City’s major convention complex. This complex also includes the US Cellular Arena and the Milwaukee Auditorium facilities, formerly known as “MECCA”. The Midwest Airlines Center was financed by \$185 million of revenue bonds issued by the WC District and secured by a pledge of dedicated sales tax revenues from lodging, restaurant, and vehicle rentals collected in the WC District. Phase One of the Midwest Airlines Center was completed during 1998. Phase Two was completed in 1999. In 2001, the WC District issued \$30 million of bonds to renovate the Milwaukee Auditorium which was renamed, the Milwaukee Theatre.

In addition to the facilities noted above, the City is home to a modern 17,000+ seat indoor sports and concert venue, the Bradley Center, located in the heart of downtown. This facility serves the National Basketball Association Milwaukee Bucks, the Marquette University Golden Eagles basketball team and the Milwaukee Admirals International Hockey League club. The City also boasts the lakefront Milwaukee Art Museum as well as a major symphony, ballet and opera companies, and other theatre and performing arts.

May 4, 2001 marked the unveiling of Milwaukee Art Museum’s new expansion and renovation, which combines art, dramatic architecture and landscape design. The Quadracci Pavilion, the first Santiago Calatrava-designed building in the United States, features a 90-foot high glass-walled reception hall enclosed by the Burke Brise Soleil, a sunscreen that can be raised or lowered creating a unique moving sculpture.

Finally, the Milwaukee area is the site of a number of higher education institutions including Marquette University, the University of Wisconsin – Milwaukee, Alverno College, Mount Mary College and the Milwaukee School of Engineering.

## **Employee Relations**

Approximately 6,070 of the City’s full-time employees are members of nineteen different bargaining units represented by unions. One labor agreement covering approximately 200 employees expired on December 31, 2006, and two labor agreements covering approximately 1,650 police and firefighters expired on December 31, 2009. The remaining sixteen agreements are in place through December 31, 2011.

## Building Permits

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 2005 through December 2009.

### General Total

| <u>Year</u> | <u>Value</u>  | <u>Permits Issued</u> |
|-------------|---------------|-----------------------|
| 2005        | \$529,251,733 | 2,599                 |
| 2006        | 424,763,947   | 2,655                 |
| 2007        | 336,748,300   | 2,405                 |
| 2008        | 249,992,533   | 2,067                 |
| 2009        | 290,326,431   | 1,723                 |

### Residential Building

| <u>Year</u> | <u>Single Family</u> |                   | <u>Multi-Family</u> |                   | <u>Total</u>  |                   | <u>Permits Issued</u> |
|-------------|----------------------|-------------------|---------------------|-------------------|---------------|-------------------|-----------------------|
|             | <u>Value</u>         | <u># Of Units</u> | <u>Value</u>        | <u># Of Units</u> | <u>Value</u>  | <u># Of Units</u> |                       |
| 2005        | \$33,751,976         | 193               | \$113,713,239       | 500               | \$147,465,215 | 693               | 231                   |
| 2006        | 25,146,380           | 162               | 95,804,142          | 519               | 120,950,522   | 681               | 189                   |
| 2007        | 24,940,117           | 160               | 123,505,408         | 677               | 148,445,525   | 837               | 187                   |
| 2008        | 15,632,811           | 90                | 63,975,007          | 509               | 79,607,818    | 599               | 104                   |
| 2009        | 7,269,207            | 59                | 37,354,152          | 409               | 44,623,359    | 468               | 72                    |

### Commercial Building

| <u>Year</u> | <u>Value</u>  | <u>Permits Issued</u> |
|-------------|---------------|-----------------------|
| 2005        | \$166,425,515 | 106                   |
| 2006        | 134,084,138   | 113                   |
| 2007        | 82,501,318    | 105                   |
| 2008        | 59,502,236    | 74                    |
| 2009        | 127,122,466   | 37                    |

### Public Building

| <u>Year</u> | <u>Value</u> | <u>Permits Issued</u> |
|-------------|--------------|-----------------------|
| 2005        | \$51,889,921 | 49                    |
| 2006        | 38,009,733   | 243                   |
| 2007        | 19,791,921   | 140                   |
| 2008        | 9,107,611    | 85                    |
| 2009        | 10,808,648   | 107                   |

### Alterations and Additions

| <u>Year</u> | <u>Value</u>  | <u>Permits Issued</u> |
|-------------|---------------|-----------------------|
| 2005        | \$163,471,082 | 2,213                 |
| 2006        | 131,719,554   | 2,110                 |
| 2007        | 86,009,536    | 1,973                 |
| 2008        | 101,774,868   | 1,804                 |
| 2009        | 107,771,958   | 1,506                 |

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

## Leading Business and Industrial Firms Located Within Milwaukee County

The listing of large employers in the Milwaukee County area which follows, reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list which includes only employers with the majority or all of their employment in Milwaukee County.

| Employer  | 2009<br>Employment<br>Estimates | Type of Business or Service                       |
|---|---------------------------------|---|
| Aurora Health Care  | 21,570                          | Healthcare  |
| U.S. Government (Includes Zablocki V.A. Medical Center)   | 11,100                          | Government  |
| Milwaukee Public Schools                                  | 10,943                          | Education   |
| Wheaton Franciscan Healthcare                             | 9,371                           | Healthcare  |
| Wal-Mart Stores   | 7,682                           | Discount retail stores and warehouse clubs        |
| City of Milwaukee   | 7,307                           | Government  |
| Roundy's Supermarket                                      | 6,800                           | Retail grocer                                     |
| Quad Graphics   | 6,600                           | Commercial printing                               |
| GE Healthcare Technologies                                | 6,000                           | Medical imaging, healthcare services              |
| Kohl's Corporation  | 5,920                           | Specialty department stores                       |
| Milwaukee County  | 5,708                           | Government  |
| Columbia-St. Mary's                                       | 5,371                           | Healthcare provider                               |
| Northwestern Mutual Life                                  | 5,000                           | Insurance   |
| Medical College of Wisconsin                              | 4,833                           | Medical school/academic/health care               |
| Froedtert Memorial Lutheran Hospital and Community Health | 4,446                           | Healthcare  |
| M&I Marshall & Ilsley                                     | 4,230                           | Holding company banking/finance and data services |
| AT & T Wisconsin  | 4,200                           | Communications                                    |
| WE Energies   | 4,150                           | Electric/natural gas utility                      |
| Harley-Davidson Motor Company                             | 3,819                           | Manufacturer, motorcycles                         |
| Pro Healthcare, Inc.                                      | 3,619                           | Healthcare provider                               |
| University of Wisconsin-Milwaukee                         | 3,531                           | Education   |
| Children's Hospital of Wisconsin                          | 3,385                           | Healthcare  |
| Target Corporation  | 3,318                           | Discount department store chain                   |
| Rockwell Automation (formerly Allen-Bradley)              | 3,300                           | Manufacturer, electrical/electronic products      |
| U. S. Bank  | 3,281                           | Finance, banking                                  |
| Walgreens Co.   | 3,010                           | Retail drugstore chain                            |

*Source: The 2010 Business Journal Book of Lists. Employer contacts July 2009, April 2010.*

## EMPLOYMENT AND INDUSTRY

The City's economic structure reveals a diversified economy with strong service and manufacturing sectors. The service sector (service, finance, insurance, real estate and retail trade) employs over 69% of the workforce. Manufacturing firms employ 17% of the workforce. The area is not dominated by any large employers. Less than two percent of the manufacturers have employment levels greater than 500. Less than one percent of the employers in finance, insurance and services have more than 500 employees.

### Annual Unemployment Rates

(Not Seasonally Adjusted)

| <u>Year</u> | <u>City of<br/>Milwaukee</u> | <u>Milwaukee<br/>- Waukesha-West Allis<br/>Metropolitan Statistical Area</u> | <u>State of<br/>Wisconsin</u> | <u>United States</u> |
|-------------|------------------------------|--|-------------------------------|----------------------|
| 2009        | 11.0%                        | 8.7%   | 8.5%                          | 9.3%                 |
| 2008        | 6.6                          | 4.8  | 4.7                           | 5.8                  |
| 2007        | 7.2                          | 5.1  | 4.9                           | 4.6                  |
| 2006        | 7.0                          | 4.9  | 4.7                           | 4.6                  |
| 2005        | 7.2                          | 5.0  | 4.8                           | 5.1                  |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Ten Largest Taxpayers With 2009 Assessed Valuations

|   |                |
|---|----------------|
| US Bank Corporation                     | \$ 263,926,353 |
| Northwestern Mutual Life Ins.           | 213,000,793    |
| Marcus Corp/Milw City Center/Pfister    | 120,185,927    |
| Metropolitan Associates                 | 111,511,122    |
| NNN 411 East Wisconsin LLC              | 97,266,997     |
| Crichton-Hauck/Shoreline/Juneau Village | 96,441,024     |
| Towne Realty                            | 92,659,346     |
| M & I Marshall & Ilsley Bank            | 88,383,582     |
| 100 E. Wisconsin Ave Joint Venture      | 77,769,874     |
| Renaissant LaFayette Apts               | 67,129,278     |

Source: City of Milwaukee, Assessor's Office January 2010.

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## **FINANCIAL INFORMATION**

### **Budgeting**

Each department and agency prepares its own detailed estimate of needs for the ensuing fiscal year that is filed with the Mayor not later than the second Tuesday in May of each year, at which time the Comptroller submits his statement of anticipated non-property tax revenues in accordance with City Charter provisions. Under the City Charter, changes to these non-property tax revenue estimates can be made only by the Comptroller. The Mayor holds hearings on departmental spending requests during July and August at the times and places the Mayor or Common Council by ordinance directs. The Mayor submits a proposed budget to the Common Council on or before September 28th of each year. This budget includes the Comptroller's anticipated non-property tax revenues. Subsequent to receipt of the budget by the Common Council, its Committee on Finance and Personnel reviews the Mayor's proposed expenditure budget. The Mayor and Common Council hold a public hearing on the entire budget no later than the 30th day of October. The Common Council subsequently adopts a property tax levy, but cannot change the Comptroller's anticipated revenues budget. The final budget must be adopted by the 14th of November. The City is under no State or local levy limits with respect to its General, Capital or Debt Service Funds.

### **CITY CAPITAL IMPROVEMENTS PLAN**

The City's 2009-2014 Capital Improvements Plan ("CIP") describes planned capital improvement projects and programs, together with proposed financing. Some school purpose improvements are financed by the City for the Milwaukee Public Schools, but are not included in the CIP.

The six-year City CIP municipal spending plan totals \$1,352 million. About \$867 million or 64% of planned spending is intended to preserve the City's existing infrastructure facilities (streets, sewers, alleys, bridges, etc.). The remaining 36% is for expansion purposes.

Surface transportation accounts for approximately 30% of the CIP, (or about \$406 million). 31% (\$423 million) is planned for environmental projects including sewer and water improvements plus forestry and subsurface remediation projects. \$266 million of capital spending (20%) is planned for economic development projects. These projects are mainly Tax Incremental District related or Port of Milwaukee capital improvements. The remaining 19% (\$257 million) is planned for general governmental, health and safety, grant and aid, culture and recreation purposes.

The portion of the six-year CIP to be financed by the property tax levy totals about \$385 million (28%). This, in turn, is composed of direct tax levy funding of \$12 million (1%) and tax levy supported debt financing of \$373 million (27%). Cash revenues including Federal and State grants, developer financing and other sources, total \$358 million (27%) of planned CIP spending. An additional \$201 million (15%) is to be financed by City debt to be repaid with tax increment district revenues. The remaining \$407 million (30%) of the municipal purpose CIP is to be financed by self-supported debt issued for special assessments, water, sewer and parking purposes.

The Adopted 2010 Capital Improvements Budget totals \$178 million compared to a 2009 Budget of \$224 million and a 2010 CIP projection of \$228 million. Major categories include \$63 million of public works projects (streets, buildings, etc.), \$44 million of water and sewer projects, and \$39 million of economic development projects.

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**APPENDIX B**

**Audited Financial Statements of  
The City of Milwaukee, Wisconsin  
For the year ended December 31, 2009**

**Selected Sections of the Comprehensive Annual Financial Report**

**The complete Comprehensive Annual Financial Report can be downloaded at the City  
Comptroller's web page at:**

**[www.milwaukee.gov](http://www.milwaukee.gov)**

The independent auditor has not been engaged to perform, and has not performed since the date of its report (a portion of which is included herein), any procedures on the financial statements addressed in the report nor on this Official Statement.

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CITY OF MILWAUKEE  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
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 FOR THE YEAR ENDED DECEMBER 31, 2009

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## **INTRODUCTORY SCETION**

Pages 2-16 Omitted



**KPMG LLP**  
777 East Wisconsin Avenue  
Milwaukee, WI 53202-5337

## Independent Auditors' Report

The Honorable Members  
Common Council  
City of Milwaukee, Wisconsin:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milwaukee, Wisconsin (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Housing Authority of the City of Milwaukee, the Redevelopment Authority of the City of Milwaukee, the Milwaukee Economic Development Corporation, and the Neighborhood Improvement Development Corporation, which represents 100% of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 City'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 audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 19 through 34 and 96 through 98 are not required parts of the basic financial statements, but are 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 express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, miscellaneous financial data and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section, miscellaneous financial data, and statistical section have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 30, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

Milwaukee, Wisconsin  
July 30, 2010

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

Within this section of the City of Milwaukee Comprehensive Annual Financial Report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended December 31, 2009. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This *Management Discussion and Analysis* (MD&A) should be read in conjunction with the City's basic financial statements, which follow this discussion. Additional information is available in the letter of transmittal, which precedes Management's Discussion and Analysis. The MD&A focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

**FINANCIAL HIGHLIGHTS**

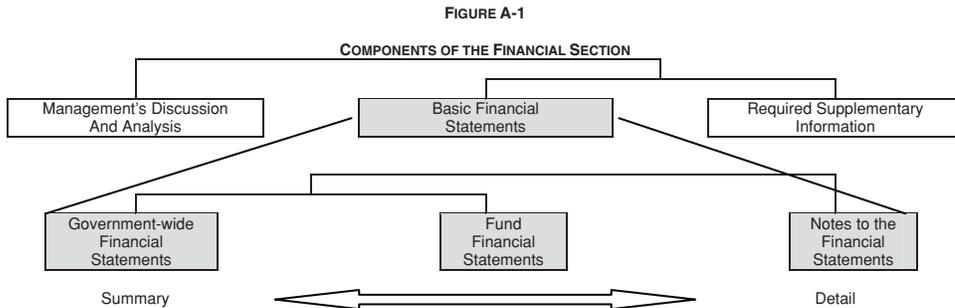
- The assets of the City of Milwaukee exceeded its liabilities at the close of fiscal year 2009 by \$929 million (net assets); \$248 million in governmental activities and \$681 million in business-type activities. Governmental activities' unrestricted assets are a deficit of \$283 million. This indicates that the City is financing long-term liabilities as they come due rather than when they are incurred. The City's net assets decreased 4% compared to the previous year of \$972 million.
- The vast majority of the City's net assets are capital assets, most of which do not generate revenues by their use or sale – Total net assets are comprised of the following:
  - Capital assets, including property and equipment, net of related debt and accumulated depreciation – \$1,018 million.
  - Restricted net assets, limited by constraints imposed externally such as debt covenants, grantors, laws, or regulations – \$175 million.
  - Unrestricted net assets – (\$264) million.
- The City's total 2009 year-end other post-employment benefits (OPEB) obligation is \$127 million; an increase of 63% from the 2008 obligation of \$78 million. The obligation is based on an actuarial valuation as of January 1, 2009, which indicates the actuarial accrued liability for benefits was \$960 million over a 30-year amortization period.
- Total liabilities of the City increased by \$91 million to \$1,735 million. The long-term portion of total liabilities (\$1,098 million) consists of \$127 million for OPEB, \$907 million for outstanding debt and \$64 million for compensated absences, claims, and judgments.
- City governmental expenses exceeded combined program revenues by \$689 million. General revenues and transfers of \$630 million resulted in a \$59 million decrease of net assets for the year. Business-type activities produced an increase of net assets of 2% over 2008, generating a \$16 million surplus in 2009.
- For governmental activities, program revenue supported 19% of the total expenses for 2009. Property taxes and other taxes represented 32% of the primary government's governmental activities' expenses, state aids for the General Fund equaled 32% and miscellaneous revenues and transfers supported 10% of the expenses. Expenses exceeded revenues and transfers by 7% in 2009.
- For business-type activities, program revenue supported 132% of the expenses for 2009; and, in total exceeded the expenses by \$56 million. Miscellaneous revenue net of transfers out reduced this excess to \$16 million for the year.
- The City's total governmental funds reported total ending fund balances of \$226 million this year. Compared to the prior year ending fund balance of \$203 million, an increase of \$23 million resulted by year end 2009; an 11% increase.
- The General Fund balance at year-end 2009 totaled \$71 million – a \$2 million reduction compared to 2008 (-3%). This ending Fund balance is about 10% of General Fund expenditures and transfers.
- The operating expenditures of the General Fund were \$18 million less than budgeted. This favorable variance is a result of savings from general government departments of \$15 million, public safety departments of \$2 million, and a combined savings of \$1 million in other departments. Savings included \$9.5 million from the wage supplement account due to delays in filling positions, two furlough days and savings on snow plowing operations due to the mild winter. In addition, savings of \$3.5 million were realized in the non-departmental account for contingencies, \$2 million in Police and other Public Safety departments' operating accounts and the remaining \$3 million from all other operating accounts of various departments.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

- General obligation bonds and notes payable increased by \$19 million during the current fiscal year from \$761 million to \$780 million. The key factors contributing to this increase were scheduled and early retirement of general obligation debt of \$281 million and the issuance of \$300 million in new general obligation bonds and notes for the continuing funding of capital projects and the issuance of debt on behalf of the Milwaukee Public Schools.
- The City issued General Obligation Cash-flow Promissory Notes for \$116 million in advance of receipt of the State Shared Revenues. With the receipt of these revenues, an amount equal to the debt was transferred to the Debt Service Fund.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the City's basic financial statements. The basic financial statements consist of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, (3) **Notes** to the financial statements. This report also includes other (4) **Required Supplementary Information**. Figure A-1 shows how the required parts of the annual report are arranged and relate to one another.



The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that the government operates like businesses, such as the water and the sewer maintenance systems.
  - Fiduciary fund statements provide information about the financial relationships—like various benefit plans for the City's employees—in which the City is solely a trustee or agent for the benefit of others to whom the resources belong.

A summary of the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain are depicted in table Figure A-2. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

FIGURE A-2  
 MAJOR FEATURES OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

|   | Government-Wide Statements   | Fund Financial Statements   |  |  |
|---|--|---|--|--|
|   |  | Governmental Funds  | Proprietary Funds  | Fiduciary Funds  |
| Scope                                   | Entire entity (except fiduciary funds)   | The day-to-day operating activities of the city for basic governmental services   | The day-to-day operating activities of the city for business-type enterprises  | Instances in which the City administers resources on behalf of others, such as employee benefits   |
| Required financial statements           | * Statement of net assets<br>* Statement of activities                             | * Balance Sheet<br>* Statement of revenues, expenditures and changes in fund balances   | * Statement of net assets<br>* Statement of revenues, expenses, and changes in net assets<br>* Statement of cash flows | * Statement of fiduciary net assets<br>* Statement of changes in fiduciary net assets              |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus                                    | Modified accrual and current financial resources measurement focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus, except agency funds do not have measurement focus |
| Type of asset and liability information | All assets and liabilities, both financial and capital, short-term and long-term   | Current assets and liabilities that come due during the year or soon thereafter; capital assets and long-term liabilities   | All assets and liabilities, both financial and capital, short-term and long-term                                       | All assets held in a trustee or agency capacity for others and all liabilities                     |
| Type of inflow and outflow information  | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during year, regardless of when cash is received or paid                                     | All additions and deductions during the year, regardless of when cash is received or paid          |

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide a broad overview of the City's finances, in a manner similar to a private-sector business and include both long-term and short-term information about the City's financial status. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. All of the activities of the City, except those of a fiduciary nature, are included.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets indicate whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the property tax base and the condition of the roads are also needed to assess the overall health of the City.

The government-wide financial statements of the City of Milwaukee are reported into three categories on these statements—governmental activities, business-type activities, and component units. A total column for the City is also provided.

- The *governmental activities* include the basic services of the City including general government (administration), police, fire, public works, health, culture, and development services. Taxes and general revenues generally support these activities.
- The *business-type activities* include the private sector type activities such as the water, sewer user charge, sewer maintenance, parking, and port. User charges or fees primarily support these activities.
- The *component units* include four other entities in its report. The Housing Authority and the Redevelopment Authority of the City of Milwaukee, Milwaukee Economic Development Corporation and the Neighborhood Improvement Development Corporation. Although legally separate, these component units are important because the City has financial accountability responsibility.

**Fund Financial Statements**

The City's major funds begin with Exhibit A-1. The fund financial statements provide detailed information about the most significant funds; not the City as a whole. The accounts of the City are organized on the basis of funds. Each fund is a separate fiscal and accounting entity with a self-balancing set of accounts including assets, liabilities, equities, revenues and expenditures or expenses, which is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

CITY OF MILWAUKEE  
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FOR THE YEAR ENDED DECEMBER 31, 2009

The City has three fund types: governmental and proprietary which use the modified accrual and the accrual methods of accounting, respectively, and fiduciary funds.

- **Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on the modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine if more or fewer financial resources are available to be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in the reconciliation at the bottom of the fund financial statements.
- **Proprietary funds:** Operations which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control and other purposes. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.
- **Fiduciary funds:** The City is the trustee, or fiduciary, for its pension and other employee benefit trusts and various miscellaneous private purpose trusts. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets in Exhibits C-1, C-2 and H-1. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

#### **Notes to the Financial Statements**

The notes which follow Exhibits 1 through D-2 provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information to demonstrate legal budgetary compliance for each major fund for which an annual budget is adopted. Required supplementary information is presented in Exhibit E-1. A *Schedule of Funding Progress* relating to retiree health and life insurance is depicted in Exhibit E-2.

#### **Combining and Individual Fund Statements and Schedules and Miscellaneous Financial Data**

Combining schedules provide detail in connection with nonmajor governmental funds and nonmajor enterprise funds. Individual fund statements provide greater detail, presented as compared with the final amended budget for the General Fund, and each nonmajor special revenue fund. Capital Projects are also presented in detail by major category (i.e. streets, sewers) within the Miscellaneous Financial Data Section. See Exhibits F-1 through I-9.

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole. The net assets and net expenses of governmental and business-type activities are depicted separately below. Table 1 focuses on the net assets and Table 2 focuses on the changes in net assets.

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 FOR THE YEAR ENDED DECEMBER 31, 2009

**Table 1**  
**Summary of Statement of Net Assets**  
*(Thousands of Dollars)*

|  | Governmental Activities |            | Business-type Activities |            | Total<br>Primary Government |            |
|--|-------------------------|------------|--------------------------|------------|-----------------------------|------------|
|  | 2008                    | 2009       | 2008                     | 2009       | 2008                        | 2009       |
| Current and other assets .....                           | \$ 796,030              | \$ 839,138 | \$ 109,611               | \$ 99,970  | \$ 905,641                  | \$ 939,108 |
| Capital assets .....                                     | 955,475                 | 929,995    | 755,598                  | 795,192    | 1,711,073                   | 1,725,187  |
| Total assets .....                                       | 1,751,505               | 1,769,133  | 865,209                  | 895,162    | 2,616,714                   | 2,664,295  |
| Long-term obligations .....                              | 878,734                 | 948,158    | 151,810                  | 149,645    | 1,030,544                   | 1,097,803  |
| Other liabilities .....                                  | 565,616                 | 572,852    | 48,277                   | 64,488     | 613,893                     | 637,340    |
| Total liabilities .....                                  | 1,444,350               | 1,521,010  | 200,087                  | 214,133    | 1,644,437                   | 1,735,143  |
| Net assets:  |                         |            |                          |            |                             |            |
| Invested in Capital assets, net of<br>related debt ..... | 559,343                 | 367,061    | 607,122                  | 650,478    | 1,166,465                   | 1,017,539  |
| Restricted .....   | 143,951                 | 164,011    | 10,935                   | 30,551     | 154,886                     | 194,562    |
| Unrestricted .....                                       | (396,139)               | (282,949)  | 47,065                   | -          | (349,074)                   | (282,949)  |
| Total net assets .....                                   | \$ 307,155              | \$ 248,123 | \$ 665,122               | \$ 681,029 | \$ 972,277                  | \$ 929,152 |

Net assets of the City's governmental activities decreased 19% to \$248 million for 2009. These net assets are restricted as to use in the amount of \$164 million or are invested in capital assets in the amount of \$367 million (buildings, roads, bridges, etc) less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net assets deficit (\$283 million) at the end of the year does not mean that the City does not have adequate financial resources available to pay its bills next year. Instead, it is because the City's annual budgets do not include the full amounts needed to finance future liabilities arising from property and casualty claims, and to pay for unused employee vacation and sick days, and debt not issued for City capital assets. The City will include these amounts in future years' budgets as they come due.

The net assets of business-type activities increased 2% to \$681 million in 2009. The City generally can only use these net assets to finance the continuing operations of its specific enterprise activities.

Long-term obligations for governmental activities increased 8% and for business-type activities decreased 1% from 2008 due primarily to the issuance and retirement of long-term debt and the recording of the OPEB obligation.

Total assets, including capital assets increased \$47 million or 2% from 2008. Capital assets of the primary government decreased 3% from the previous year due to the allocation of completed projects in Construction in Progress to Buildings offset by the removal of original costs. For 2009, the Water Works and the Sewer Maintenance Funds have 92% of the City's total capital assets related to business-type activities. These are the City's two largest enterprise funds (business-type). The Water Works capital assets (49%) consist primarily of water mains and related water facilities and plants; and, the Sewer Maintenance Fund (43%) includes all the various sewer mains and connections.

**Changes in net assets.** City revenues less expenses yields the change in net assets. The City's total program and general revenues totaled \$754 million for the governmental activities. Of revenues, 36% comes from property and other taxes and 46% comes from intergovernmental revenues (state aids, federal and state grants). Charges for services category represents only 12% of the total revenues, and the remaining 6% coming from licenses, permits, fines and forfeits and miscellaneous other sources.

The City's governmental activity expenses cover a range of services, with 39% related to public safety (fire and police, neighborhood services). Program revenues generated only about 19% of the revenue needed to support the cost of governmental activities. General City revenues, taxes and State aids provide the remaining funds. Total governmental activities expenditures exceeded revenues and transfers by \$59 million (7%). However, business-type activities revenues exceeded its expenses by \$16 million (9%). Chart 1, Expenses and Program Revenues – Governmental Activities and Chart 2 Expenses and Program Revenues – Business-type Activities depict this comparison by major function.

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Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

**Table 2**  
**Changes in Net Assets**  
*(Thousands of Dollars)*

|   | <u>Governmental Activities</u> |                   | <u>Business-type Activities</u> |                   | <u>Total<br/>Primary Government</u> |                   |
|---|--------------------------------|-------------------|---------------------------------|-------------------|-------------------------------------|-------------------|
|   | 2008                           | 2009              | 2008                            | 2009              | 2008                                | 2009              |
| Revenues:                                     |                                |                   |                                 |                   |                                     |                   |
| Program revenues:                             |                                |                   |                                 |                   |                                     |                   |
| Charges for services .....                    | \$ 86,410                      | \$ 91,057         | \$ 203,512                      | \$ 213,032        | \$ 289,922                          | \$ 304,089        |
| Operating grants and contributions .....      | 77,032                         | 73,694            | -                               | -                 | 77,032                              | 73,694            |
| Capital grants and contributions .....        | -                              | -                 | 10,203                          | 18,674            | 10,203                              | 18,674            |
| General revenues:                             |                                |                   |                                 |                   |                                     |                   |
| Property taxes and other taxes .....          | 257,210                        | 270,191           | -                               | -                 | 257,210                             | 270,191           |
| State aids for General Fund .....             | 271,100                        | 272,337           | -                               | -                 | 271,100                             | 272,337           |
| Miscellaneous .....                           | 61,949                         | 47,217            | 979                             | 120               | 62,928                              | 47,337            |
| Total revenues .....                          | <u>753,701</u>                 | <u>754,496</u>    | <u>214,694</u>                  | <u>231,826</u>    | <u>968,395</u>                      | <u>986,322</u>    |
| Expenses                                      |                                |                   |                                 |                   |                                     |                   |
| General government .....                      | 208,608                        | 207,504           | -                               | -                 | 208,608                             | 207,504           |
| Public safety .....                           | 314,935                        | 331,409           | -                               | -                 | 314,935                             | 331,409           |
| Public Works .....                            | 174,629                        | 167,983           | -                               | -                 | 174,629                             | 167,983           |
| Health .....                                  | 20,830                         | 22,995            | -                               | -                 | 20,830                              | 22,995            |
| Culture and recreation .....                  | 20,639                         | 22,901            | -                               | -                 | 20,639                              | 22,901            |
| Conservation and development .....            | 61,693                         | 50,683            | -                               | -                 | 61,693                              | 50,683            |
| Capital contribution to                       |                                |                   |                                 |                   |                                     |                   |
| Milwaukee Public Schools .....                | 6,474                          | 5,153             | -                               | -                 | 6,474                               | 5,153             |
| Contributions .....                           | 22,177                         | 21,026            | -                               | -                 | 22,177                              | 21,026            |
| Interest on long-term debt .....              | 28,368                         | 23,985            | -                               | -                 | 28,368                              | 23,985            |
| Water .....                                   | -                              | -                 | 64,562                          | 67,946            | 64,562                              | 67,946            |
| Sewer Maintenance .....                       | -                              | -                 | 29,167                          | 34,847            | 29,167                              | 34,847            |
| Parking .....                                 | -                              | -                 | 25,078                          | 24,659            | 25,078                              | 24,659            |
| Port of Milwaukee .....                       | -                              | -                 | 4,182                           | 3,811             | 4,182                               | 3,811             |
| Metropolitan Sewerage District User Charges.  | -                              | -                 | 40,219                          | 44,545            | 40,219                              | 44,545            |
| Total expenses .....                          | <u>858,353</u>                 | <u>853,639</u>    | <u>163,208</u>                  | <u>175,808</u>    | <u>1,021,561</u>                    | <u>1,029,447</u>  |
| Increase in net assets before transfers ..... | (104,652)                      | (99,143)          | 51,486                          | 56,018            | (53,166)                            | (43,125)          |
| Transfers .....                               | <u>38,052</u>                  | <u>40,111</u>     | <u>(38,052)</u>                 | <u>(40,111)</u>   | -                                   | -                 |
| Increase in net assets .....                  | (66,600)                       | (59,032)          | 13,434                          | 15,907            | (53,166)                            | (43,125)          |
| Net assets – Beginning .....                  | <u>373,755</u>                 | <u>307,155</u>    | <u>651,688</u>                  | <u>665,122</u>    | <u>1,025,443</u>                    | <u>972,277</u>    |
| Net assets – Ending .....                     | <u>\$ 307,155</u>              | <u>\$ 248,123</u> | <u>\$ 665,122</u>               | <u>\$ 681,029</u> | <u>\$ 972,277</u>                   | <u>\$ 929,152</u> |

**Governmental Activities**

Revenues for the City's governmental activities totaled \$754 million, while total expenses totaled \$854 million for 2009. All revenues, excluding transfers, are supporting 88% of the total expenses; 93% with transfers. Comparable data for 2008 indicates 88% of all revenues, excluding transfers supported the 2008 expenses and, 92% with transfers.

Property taxes represent 36% of the total revenues for 2009 compared to 34% for 2008; a 2% increase in this category. The increase in revenues is primarily due to an increase in collections; however, the City of Milwaukee's share of the Tax Rate increased eight cents (from \$8.01 in 2008 to \$8.09 in 2009 [per \$1,000 of Assessed Value]). State aids for the General Fund of \$272 million increased by \$1 million or 0.4% in 2009. The combined property taxes and State aids comprised approximately 72% of the total revenues for governmental funds in 2009 compared to 70% in 2008. Charges for services equaled 12% of the total revenues in 2009 compared to 11% in 2008.

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Governmental activities expenses decreased by \$5 million (0.6%) in 2009 to \$854 million. Expenses for general government, which comprise 24% of the total expenses, decreased 0.5% in 2009. Public safety expenses represent the largest category of governmental activities or 39% of the total expenses for 2009 which is an increase of 5% over 2008. Due to the mild snowfall during 2009, public works expenses decreased 4% over 2008.

**Chart 1**  
**2009 Expenses and Program Revenues - Governmental Activities**

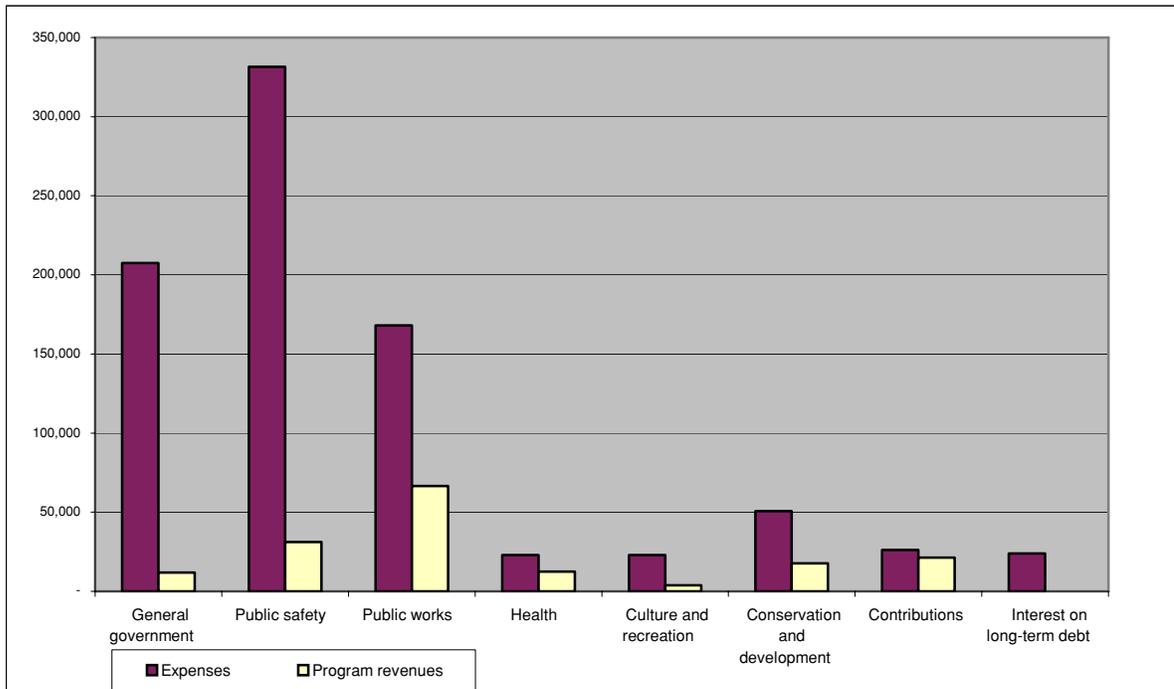


Table 3 presents the cost of each of the City's largest programs as depicted in the Chart 1 above, as well as each program's net costs (total cost less the revenues generated by the activities). General government includes most City departments, such as: Mayor, Common Council, Administration, Employee Relations, Municipal Court, City Attorney, Comptroller and Treasurer. Public safety includes Fire, Police and Neighborhood Services. "Net cost" shows the financial placed on the city taxpayers by each of these functions.

CITY OF MILWAUKEE  
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**Table 3**  
**Governmental Activities**  
*(Thousand of Dollars)*

|  | <b>Total Cost<br/>of Services</b> |                          | <b>Net Cost<br/>of Services</b> |                          |
|--|-----------------------------------|--------------------------|---------------------------------|--------------------------|
|  | <b>2008</b>                       | <b>2009</b>              | <b>2008</b>                     | <b>2009</b>              |
| General government .....                   | \$ 208,608                        | \$ 207,504               | \$ 194,038                      | \$ 195,668               |
| Public safety .....                        | 314,935                           | 331,409                  | 283,373                         | 300,285                  |
| Public works .....                         | 174,629                           | 167,983                  | 115,234                         | 101,405                  |
| Health .....                               | 20,830                            | 22,995                   | 9,556                           | 10,496                   |
| Culture and recreation .....               | 20,639                            | 22,901                   | 17,120                          | 19,094                   |
| Conservation and development .....         | 61,693                            | 50,683                   | 40,103                          | 33,076                   |
| Contributions .....                        | 28,651                            | 26,179                   | 7,119                           | 4,879                    |
| Interest on long-term debt .....           | 28,368                            | 23,985                   | 28,368                          | 23,985                   |
| <b>Total Governmental Activities .....</b> | <b><u>\$ 858,353</u></b>          | <b><u>\$ 853,639</u></b> | <b><u>\$ 694,911</u></b>        | <b><u>\$ 688,888</u></b> |

The Table 3 above indicates that the cost of services not funded with direct program revenue for governmental activities decreased in 2009 to \$689 million from \$695 million in 2008 or 1% change. Because such a small portion of total costs are supported by program revenue, the remainder of the total costs of service must be funded by general City taxes and State aids.

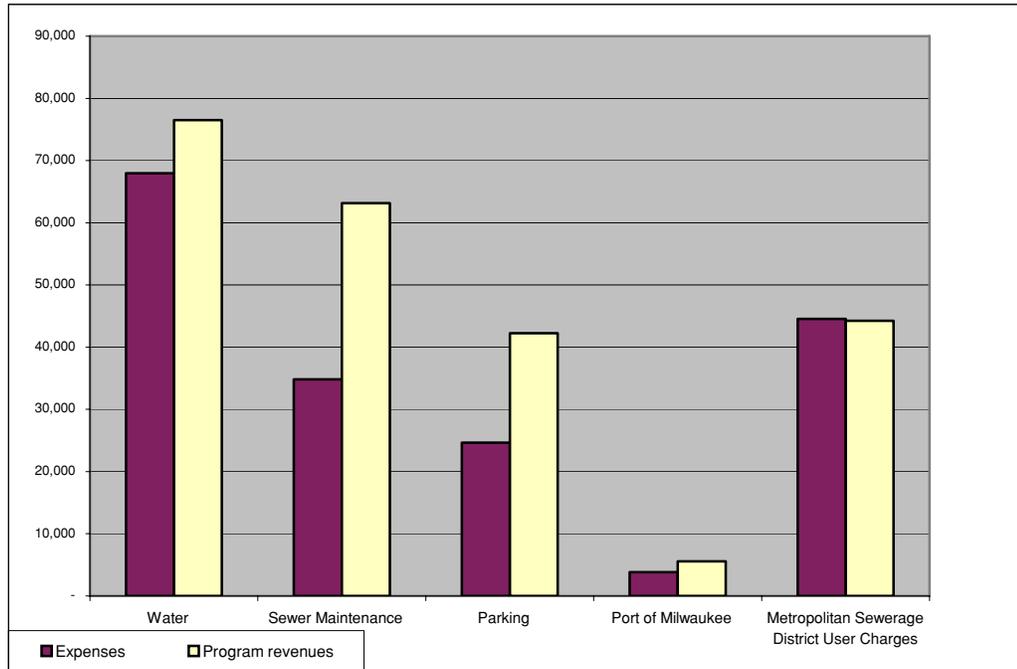
**Business-type Activities**

The three major enterprises or business-type activities for the City of Milwaukee are water services, sewer maintenance and parking operations. The Water Works had operating expenses of \$67 million and operating income of \$6 million. The Sewer Maintenance produced a net operating income of \$27 million after incurring expenses of \$21 million. The City parking facilities operating expenses during 2009 were \$24 million with net operating income of \$18 million.

Business-type revenues on Table 2 increased by \$17 million in 2009 compared to 2008, or 8%. Total expenses and transfers of all enterprise funds of the City increased \$15 million, from \$201 million in 2008 to \$216 million in 2009 (+7%). Overall, 2009 year-end Total Net Assets increased by \$16 million to \$681 million, or +2%.

CITY OF MILWAUKEE  
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**Chart 2**  
**2009 Expenses and Program Revenues - Business-type Activities**



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City uses fund accounting consistent with finance related legal requirements and external government accounting standards..

**Governmental Funds**

Governmental Funds are reported in the fund based financial statements with a focus on the annual inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. In particular, the Reserved for Tax Stabilization account in the General Fund serves as one useful measure of the City's net resources available for financing subsequent year's budget. This budgeted reserve is intended to help stabilize year-to-year fluctuations in the City property tax rate. Types of Governmental Funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

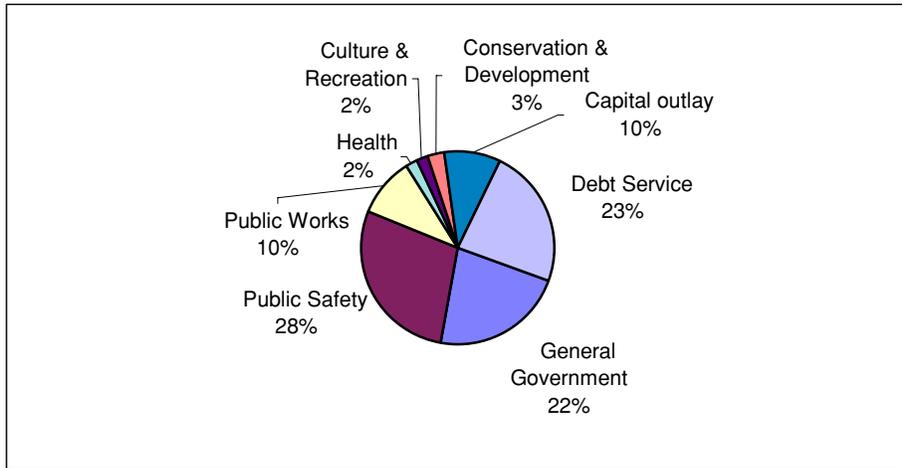
As the City completed 2009, its Governmental Funds (as presented in the balance sheet on Exhibit A-1) reported a combined fund balance of \$226 million, an increase of \$23 million or 11% over 2008. The General Obligation Debt Service Fund and the Public Debt Amortization Fund generated nearly \$18 million of this increase. Non-major governmental funds produced a positive change from operations of \$6 million. The Capital Projects Fund balance increased by about \$1 million, although the total Fund balance remains negative (\$36 million). This negative balance persists because the City of Milwaukee typically borrows to fund authorized capital projects only after expenditures for these projects. This practice minimizes City borrowing costs and facilitates compliance with Federal IRS regulations. Debt issued for capital projects totaled \$84 million in 2009 compared to \$125 million in 2008.

The total reserves of the General Fund decreased 2% to \$71 million from \$73 million in 2008. This decrease was due to a reduction in required reserves for encumbrances, carryovers and inventory. Of the total year-end 2009 General Fund fund balance of \$71 million, \$29 million is reserved and available for 2011 and subsequent years' budgets, compared to \$20 million at year-end 2008 (+45%).

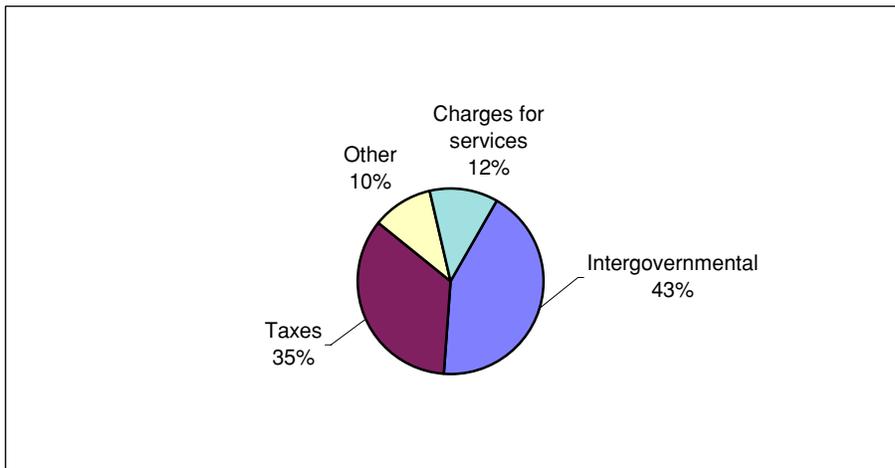
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Chart 3 and 4 graphically depict spending by function and revenues by source for all governmental funds.

**Chart 3**  
**2009 City Spending by Function - Governmental Funds**



**Chart 4**  
**2009 Revenues by Source - Governmental Funds**



Revenues for governmental functions overall totaled \$776 million in the fiscal year ended December 31, 2009 (+3%). Expenditures for governmental funds totaled \$1,024 million (+0.9%). Expenditures exceeded revenues by \$248 million. Other financing sources closed the gap, leaving a total net increase in governmental fund balances of \$23 million for the year compared to an increase of \$18 million in 2008. Other financing sources include, proceeds from issuance of debt, refunding payment and issuance premiums; transfers from enterprise funds; and receipt of loans receivable transferred from the Neighborhood Improvement Development Corporation component unit.

CITY OF MILWAUKEE  
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*Major Governmental Funds*

The General Fund is the City's primary operating fund and the largest funding source for day-to-day services. The fund balance of the General Fund decreased by \$2 million or 2%. Revenues and other financing sources totaled approximately \$744 million and expenditures and other financing uses totaled approximately \$746 million - detailed in Table 4 below. While revenues growth remained consistent with the prior year (increasing by 5% over 2008), expenditures increased by 1% over 2008, with expenditures exceeding revenues by 8%. Other Financing Sources (consisting of debt proceeds and transfers in from other funds), exceeded Other Financing Uses (consisting of transfers out to other funds) by \$45 million. This excludes the budgeted use of funds from the Reserve for Tax Stabilization account. Twenty-two million was budgeted from the Reserve for Tax Stabilization to fund the 2009 General Fund budget. This was a decrease of \$7 million from 2008.

Total General Fund revenues for 2009 totaled \$582 million. The largest revenue category is intergovernmental at \$272 million with 47% of the total revenue. The second largest revenue source is Property Taxes with \$156 million or 27%. Charges for Services, which includes revenues for services provided by City departments, comprises 16% or \$91 million. These three categories combined comprise 90% of the total revenues for 2009. The largest increase in revenues compared to 2008 was the Other category with a 55% increase.

The following table (Table 4) presents a summary of revenues and expenditures of the General Fund compared to prior year:

**Table 4**  
**General Fund**  
**Summary of Revenues, Expenditures and Other Financing Sources and Uses**  
*(Thousands of Dollars)*

| Revenues and Other Financing Sources                    |                       |                       |             | Expenditures and Other Financing Uses                   |                   |                   |          |
|---|-----------------------|-----------------------|-------------|---|-------------------|-------------------|----------|
| Revenues:   | 2008                  | 2009                  | % Change    | Expenditures:   | 2008              | 2009              | % Change |
| Property taxes .....                                    | \$ 141,573            | \$ 156,410            | 10.5%       | General government.....                                 | \$ 221,023        | \$ 222,809        | 0.8%     |
| Other taxes .....                                       | 4,839                 | 3,504                 | -27.6%      | Public safety.....                                      | 266,370           | 276,060           | 3.6%     |
| Licenses and permits .....                              | 12,918                | 12,186                | -5.7%       | Public works.....                                       | 103,149           | 97,093            | -5.9%    |
| Intergovernmental .....                                 | 271,100               | 272,337               | 0.5%        | Health.....   | 10,118            | 10,446            | 3.2%     |
| Charges for services .....                              | 86,410                | 91,057                | 5.4%        | Culture and recreation .....                            | 16,782            | 17,329            | 3.3%     |
| Fines and forfeits .....                                | 5,277                 | 4,802                 | -9.0%       | Conservation and<br>development .....                   | 3,456             | 4,230             | 22.4%    |
| Contributions received .....                            | 21,532                | 21,300                | -1.1%       | -   | -                 | -                 | -        |
| Other .....   | 12,864                | 19,967                | 55.2%       | Total Expenditures ....                                 | 620,898           | 627,967           | 1.1%     |
| <b>Total Revenues .....</b>                             | <b>556,513</b>        | <b>581,563</b>        | <b>4.5%</b> |   |                   |                   |          |
| <b>Other Financing Sources</b>                          |                       |                       |             | <b>Other Financing Uses</b>                             |                   |                   |          |
| Debt proceeds .....                                     | 91,600                | 119,000               | 29.9%       | Transfers out .....                                     | 92,080            | 118,081           | 28.2%    |
| Transfers in .....                                      | 47,019                | 43,834                | -6.8%       | Total Expenditures<br>and other Financing<br>Uses ..... | <u>\$ 712,978</u> | <u>\$ 746,048</u> | 4.6%     |
| <b>Total Revenues and<br/>Other Financing Sources .</b> | <b><u>695,132</u></b> | <b><u>744,397</u></b> | <b>7.1%</b> |   |                   |                   |          |
| Excess of Revenues<br>over Expenditures .....           | <u>(64,385)</u>       | <u>(46,404)</u>       | 27.9%       |   |                   |                   |          |
| Net Change in<br>Fund Balance .....                     | <u>\$ (17,846)</u>    | <u>\$ (1,651)</u>     | 90.7%       |   |                   |                   |          |

Beginning in 2006, the City began issuing General Obligation Cash-Flow Promissory Notes (rather than Revenue Anticipation Notes) in advance of receipt of the State Shared Revenues. For 2009, \$116 million was issued. With the adoption of the 2009 budget, an amount equal to the estimated debt principal and interest on this debt is appropriated to the General Obligation Debt Service Fund.

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The City maintains two separate debt service funds. The General Obligation Debt Service Fund accounts for resources accumulated and payments made for principal and interest on the City's outstanding general obligation debt. The Public Debt Amortization Fund is governed by State Statutes Section 67.101 whereby accumulated resources can be used for the retirement of the public debt. The General Obligation Debt Service Fund increased its fund balance from \$71 million to \$81 million or 14%. Total revenues of the General Obligation Debt Service increased from \$102 million 2008 to \$103 million in 2009. Revenues combined with *Other Financing Sources* totaled \$328 million; expenditures combined with *Other Financing Uses* totaled \$318 million; resulting in a *net increase in Fund Balance* for year end 2009 of \$10 million.

Capital Projects Funds are used to account for the financial resources segregated for the acquisition, construction, or repair of major capital facilities other than those financed by proprietary funds. At year end, 2009 showed a fund balance deficit of \$36 million (an increase in the fund balance of \$1 million compared to a fund balance deficit of \$37 million in 2008). In 2009, total debt proceeds amounted to \$84 million as compared to \$125 million in 2008, a 33% decrease. Total revenues decreased 15% from \$20 million to \$17 million; expenditures decreased from \$115 million to \$98 million or 14%. The issuance of bonds and notes during 2009 for capital purposes combined with revenues and transfers were sufficient to cover the current year's expenditures and also reduced the 2009 year end deficit in fund balance by \$1 million.

### **Proprietary Funds**

The proprietary fund statements provide information on both short and long-term financial status, focusing on net assets and the change in net assets as a result of operations.

At the end of the fiscal year, the total unrestricted net assets for all enterprise funds were \$19 million. This was a decrease from \$47 million at December 31, 2008 or 59%. This decrease consists of \$14 million in Water Works, \$13 million in Sewer Maintenance, \$0.3 million in Parking and \$0.3 million in the nonmajor enterprise funds.

In 2009, operating revenues of the enterprise funds totaled \$212 million (+4%); total operating expenses increased to \$160 million in 2009 (+5%). The Water Works is the largest enterprise activity for the City, comprising approximately 34% of the total operating revenues. The Sewer Maintenance Fund comprises 23% of the total operating revenues. Both funds primarily bill customers based on water consumption. For 2009, Water Works operating revenues decreased 0.6% while Sewer Maintenance operating revenues increased 18%; all other enterprise funds combined increased by 3%. Water Works non-operating revenues for 2009 are mainly composed of interest income. Investment income decreased by 87%, or 582,000, from 2008. Other miscellaneous non-operating revenue also decreased from \$194,000 to \$63,000 in 2009. These miscellaneous revenues (fees for servicing of branch water mains and water tapping services) decreased 68% from 2008.

The Water Works incurred total expenses of \$68 million for 2009 compared to \$65 million for 2008. Excluding depreciation expense, operating expenses increased over the previous year by \$3 million or 7%. The non-operating expenses (interest expense) of the Water Works decreased by \$142,000 due to the declining principal balances on outstanding debt.

Excluding the Water Works, total operating expenses of all other enterprises funds increased 4% over 2008.

### **General Fund Budgetary Highlights**

For the fiscal year ended December 31, 2009, the General Fund revenue budget exceeded actual revenues by \$2 million. Actual 2009 General Fund revenues also exceeded that of the prior year. General Fund actual revenues totaled \$560 million in 2009, a \$25 million (5%) increase over 2008. Property Taxes and Other Revenues increased by 10% and 55%, respectively. Noteworthy increases over 2008 actual revenue include a \$6 million increase in Other Revenue relating to the withdrawal of Employees' Retirement System funds to provide the required pension contribution and \$3 million (1/2 of total) in Vehicle Registration Fees received for various street maintenance expenses. Property Taxes increased nearly \$15 million due to a slight increase in the tax rate for City purposes of eight cents (from \$8.01 to \$8.09 per \$1,000 of Assessed Value). All other categories (Other Taxes, Licenses and permits, Intergovernmental, Charges for Services and Fines and forfeits) increased by over \$3 million or 0.9%. A major Other Revenue decrease was interest on investments, declining by \$3 million or 86%. The average interest earnings rate was 0.746% compared to 2.743% in 2008 with an increase in the average investable balance from \$218.2 million in 2008 to \$238.3 million in 2009.

The year 2009 also produced an unexpended budget surplus of \$18 million. The general government category contributed \$15 million; public safety had a surplus by \$2 million. Public works, health culture and recreation and conservation and development, in the aggregate, added nearly \$1 million. These savings included \$9.5 million from the wage supplement account due to delays in filling positions, two furlough days and savings on snow plowing operations due to the mild winter. In

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

addition, savings of \$3.5 million was realized in the non-departmental account for departments' contingencies primarily earmarked for snow operations. The remaining savings of \$5 million was achieved with \$2 million from various Police operating accounts and \$3 million from all other operating accounts of various departments.

During 2009, the Common Council adopted four resolutions which increased the General Fund appropriations due to greater than anticipated revenues. These increased revenues provided departments an additional \$404,000 in appropriation authority.

The original budget for expenditures includes the adopted budget plus the encumbrances carried over from 2008 less the encumbrances carried over to 2010. The final budget includes the original budget as defined plus appropriations authorized for carryover from 2008 by the Common Council less those appropriations authorized for carryover to 2010. In addition, certain appropriations are budgeted in a general non-departmental account (i.e. contingency) and are only transferred from this account to specific departments during the year to expend after authorization by the Common Council. These appropriation adjustments are part of the final budget. As detailed in the Required Supplementary Information Section, Exhibit E-1 shows both the original 2009 General Fund expenditure budget of \$616 million and the final budget of \$625 million. This is a 4% increase over the final 2008 budget of \$600 million. The original General Fund revenue budget totaled \$563 million with the final budget increasing approximately \$99,000. This is a 5% increase over the final 2008 revenue budget of \$538 million.

The General Fund Schedule of Expenditures-Budget and Actual (Exhibit I-9) details current year expenditures by department.

The City's General Fund's beginning fund balance of \$73 million as reported on the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance differs from the General Fund's budgetary fund balance reported in the budgetary comparison schedule by the amount of the budgeted withdrawal from the Reserve for Tax Stabilization of \$22 million.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's capital assets for governmental and business-type activities as of December 31, 2009 total \$1,725 million (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements other than buildings, machinery and equipment, furniture and furnishings, non-utility property, and construction in progress. The total increase in the City's capital assets for the current fiscal year was \$14 million or 0.8%. Governmental activities' capital assets decreased \$25 million or a 3% decrease from 2008. Business-type activities' capital assets increased \$40 million or 5% at the end of 2009. A schedule comparing the assets by type for 2008 and 2009 for both governmental and business-type activities is depicted in Table 5 below. The net change in assets as detailed in Note 4 reports that additions were \$79 million and deletions were \$104 million for 2009 for governmental activities. The Sewer Maintenance Fund had a net change in capital assets that resulted in an increase of \$31 million. Of the Sewer Maintenance Fund's net assets at year end, 99% relate to the sewer mains infrastructure. Infrastructure net assets of the Water Works Fund comprise 65% of its total net assets with 27% consisting of machinery and equipment. The total net change in all Water Works net assets was an increase of 3%.

Debt issued to finance tax incremental districts (TID) totals \$158 million outstanding at year end. The majority of these expenditures have no related assets for TID, so the net increase in TID debt reduces unrestricted net assets by an equal amount. In addition, debt issued for school purposes at year end was \$93 million. The Milwaukee Public Schools (MPS) is a separate governmental entity. By State Statute, MPS cannot issue its own debt. As a result, the City issues debt for school purposes. The City has the option of providing funds from its treasury or issue debt to finance school construction, operations and/or maintenance. The City chooses to issue debt. The MPS's assets are not an asset of the City and, as a result, capital expenditures for school purposes also reduce unrestricted net assets by an equal amount.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Table 5**  
**Capital Assets**  
 (net of depreciation)  
 (Thousands of Dollars)

|  | <u>Governmental Activities</u> |                       | <u>Business-type Activities</u> |                       | <u>Total</u><br><u>Primary Government</u> |                         |
|--|--------------------------------|-----------------------|---------------------------------|-----------------------|---|-------------------------|
|  | 2008                           | 2009                  | 2008                            | 2009                  | 2008                                      | 2009                    |
| Capital assets not being depreciated:      |                                |                       |                                 |                       |   |                         |
| Land .....                                 | \$ 163,797                     | \$ 164,250            | \$ 18,167                       | \$ 18,167             | \$ 181,964                                | \$ 182,417              |
| Construction in progress .....             | 123,768                        | 40,839                | 61,966                          | 18,095                | 185,734                                   | 58,934                  |
| Capital assets being depreciated:.....     |                                |                       |                                 |                       |   |                         |
| Buildings .....                            | 194,782                        | 257,076               | 85,421                          | 89,407                | 280,203                                   | 346,483                 |
| Infrastructure .....                       | 1,355,649                      | 1,377,383             | 713,333                         | 802,717               | 2,068,982                                 | 2,180,100               |
| Improvements other than<br>buildings ..... | 11,573                         | 11,687                | 7,717                           | 7,717                 | 19,290                                    | 19,404                  |
| Machinery and equipment .....              | 162,573                        | 164,265               | 212,266                         | 215,306               | 374,839                                   | 379,571                 |
| Nonutility property .....                  | -                              | -                     | 5,509                           | 5,509                 | 5,509                                     | 5,509                   |
| Accumulated depreciation .....             | <u>(1,056,667)</u>             | <u>(1,085,505)</u>    | <u>(348,781)</u>                | <u>(361,726)</u>      | <u>(1,405,448)</u>                        | <u>(1,447,231)</u>      |
| <br>Total .....                            | <br><u>\$ 955,475</u>          | <br><u>\$ 929,995</u> | <br><u>\$ 755,598</u>           | <br><u>\$ 795,192</u> | <br><u>\$ 1,711,073</u>                   | <br><u>\$ 1,725,187</u> |

**Debt**

At year-end, the City had \$780 million in general obligation bonds and notes, \$48 million in State loans, and \$58 million in revenue bonds outstanding as itemized in Table 6.

New debt (excluding refunding bonds) issued for general obligation bonds and notes totaled \$234 million, of which \$6 million related to Water Works, Sewer Maintenance, and Parking Enterprises.

The City continues to maintain high investment grade ratings from the three major rating agencies. A rating of AA+ from Fitch Ratings, AA from Standard and Poor's Corporation, and Aa2 from Moody's Investors Service, Inc, were received on the City's February 2009 general obligation bond issues.

The City's gross general obligation debt per capita, excluding enterprise fund debt, was \$1,127 at the end of 2008 and \$1,155 at the end of 2009; an 8.6% increase from the prior year. As of December 31, 2009, the City's outstanding net general obligation debt for governmental activities was 2.09% of the City's total taxable value of property. (Statistical Section - Table 9) The legal debt limit is 7% of equalized property value, including Milwaukee Public Schools debt, which also is issued by the City. Excluding the 2% limit on School debt, the City has a 5% legal debt limit and has reached about 43.3% of this limit. The City issues general obligation notes to purchase a portion of General Fund delinquent taxes. During 2009, notes were issued in the amount of approximately \$24.7 million. Collections on these taxes and related interest will be used to meet the related debt service requirements.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Table 6**  
**Outstanding Debt**  
**General Obligation and Revenue Bonds**  
*(Thousand of Dollars)*

|  | Governmental Activities |                   | Business-type Activities |                   | Total<br>Primary Government |                   |
|--|-------------------------|-------------------|--------------------------|-------------------|-----------------------------|-------------------|
|  | 2008                    | 2009              | 2008                     | 2009              | 2008                        | 2009              |
| General obligation bonds and notes<br>(backed by the City) ..... | \$ 725,670              | \$ 742,752        | \$ 34,970                | \$ 36,803         | \$ 760,640                  | \$ 779,555        |
| State loans .....  | -                       | -                 | 49,653                   | 48,002            | 49,653                      | 48,002            |
| Revenue bonds (backed<br>by specific fee revenues) .....         | -                       | -                 | 61,170                   | 57,515            | 61,170                      | 57,515            |
| <b>Total .....</b>   | <b>\$ 725,670</b>       | <b>\$ 742,752</b> | <b>\$ 145,793</b>        | <b>\$ 142,320</b> | <b>\$ 871,463</b>           | <b>\$ 885,072</b> |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATE**

The average unemployment rate within the city of Milwaukee for 2009 is 11%, three percentage points above that of 2008. City of Milwaukee per capita income for the most recent fiscal year available (2008) was \$36,880 - a 2.4% increase from 2007. The City's population over the last five years is depicted in the table below. This data is estimated from the Wisconsin Department of Revenue used in the distribution of State Shared Taxes and differs from the U.S. Census Bureau.

|      |         |
|------|---------|
| 2005 | 592,765 |
| 2006 | 590,370 |
| 2007 | 590,190 |
| 2008 | 590,870 |
| 2009 | 584,000 |

The 2010 adopted City Budget is about \$1.4 billion with a General Fund budget of \$684 million. The General Fund budget increased 3% over the 2008 budget of \$667 million. In 2010, the City will expend \$120 million for health insurance and related costs compared to \$115 million budgeted for 2009, an increase of 4%. A major decrease from 2009 is the cost of salaries and wages. Recent and pending labor contract settlements and related constraints on cost of living rate increases, direct salaries, vacation pay, holiday pay and other salary constraints worked to reduce City personnel budgets for 2010. This decrease totals \$42 million below 2009 or a minus 9%. Estimated Full-time Equivalent (FTE) employment for all General Fund departments decreased by 361 FTE with the Police Department and the Fire Department showing a decrease of 177 and 64 FTE, respectively. The Department of Public Works decreased by 65 FTE's for 2010. The City reached agreements with its largest labor union (District Council (DC) 48) holding wage rates for 2010 and 2011 at 2009 levels, with progression steps not awarded. Also, the City increased mandatory furloughs to four furlough days for both 2010 and 2011.

Total property taxes levied for all funds of the City in 2009 for 2010 purposes increased \$.80 per thousand dollars of assessed valuation to a rate of \$8.89. The 2008 for 2009 rate increased \$.08 (from \$8.01 to \$8.09).

The total City property tax levy increased from \$237 million for 2009 to \$247 million for 2010 (+4%). The property tax levy will provide \$90 million for general City purposes in 2010. This represents a decrease of \$34 million from 2009 or -27%. The 2010 General City Purpose budget includes \$96 million in estimated revenue for City charges for services rendered, an increase of \$9 million. A City Solid Waste Fee is the largest revenue source in this category and is expected to generate \$32 million for 2010. This fee represents 34% of the total charges for services in the 2010 budget. The Street Sweeping and Leaf Collection Fee is expected to generate \$12 million for 2010 (+21%) This Fee now comprises 13% of the total charges for services for 2010 compared to 12% in 2009.

Estimated General City Purposes intergovernmental revenues, primarily from the State of Wisconsin, are projected to total \$271 million; a slight decrease of \$1 million from 2009.

CITY OF MILWAUKEE  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

Revenue increases were also implemented in City enterprise funds for 2010 including the following: the Sewer Maintenance Fee was raised from \$86 to \$95, and the Storm Water Fee increased from \$47 to \$56. To offset the costs of certain service levels in the 2010 budget, the Council also raised the Overnight Parking Permit Fee from \$44 to \$55 per year.

The City remains in sound financial condition, as demonstrated by the financial statements and schedules included in this report. The General Fund Reserve for Tax Stabilization remained stable at \$42 million for both 12/31/08 and 12/31/09. Moreover, that portion of the Reserve for Tax Stabilization available for future years increased from \$20 million at year-end 2008 to \$29 million at year-end 2009 (+45%). With expected continuing limitations on State Shared Revenue, growing health care and post employment costs and other fiscal pressures, the City is taking action to restrain spending and increase revenues in 2010.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the City's finances and to demonstrate the City's accountability for the taxes and other funding received. If you have questions about this report or need additional financial information, contact the City of Milwaukee, Office of the City Comptroller, Office, City Hall, 200 East Wells Street Room 404, Milwaukee, WI 53202.

**BASIC  
FINANCIAL  
STATEMENTS**

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

CITY OF MILWAUKEE  
**STATEMENT OF NET ASSETS**  
 December 31, 2009  
 (Thousands of Dollars)

Exhibit 1

|  | Primary Government         |                             |                         | Component<br>Units    |
|--|----------------------------|-----------------------------|-------------------------|-----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                   |                       |
| <b>Assets</b>                              |                            |                             |                         |                       |
| Cash and cash equivalents .....            | \$ 238,763                 | \$ 38,743                   | \$ 277,506              | \$ 55,778             |
| Investments .....                          | 2,855                      | -                           | 2,855                   | 10,347                |
| Receivables (net):                         |                            |                             |                         |                       |
| Taxes .....                                | 214,885                    | -                           | 214,885                 | 2,837                 |
| Accounts .....                             | 27,981                     | 42,774                      | 70,755                  | -                     |
| Unbilled accounts .....                    | 1,225                      | 15,060                      | 16,285                  | -                     |
| Special assessments .....                  | 12,889                     | -                           | 12,889                  | -                     |
| Notes and loans .....                      | 65,554                     | -                           | 65,554                  | 89,124                |
| Accrued interest .....                     | 215                        | 113                         | 328                     | 4,443                 |
| Due from component units .....             | 18,295                     | -                           | 18,295                  | -                     |
| Due from primary government .....          | -                          | -                           | -                       | 410                   |
| Due from other governmental agencies ..... | 247,078                    | -                           | 247,078                 | 19,412                |
| Inventory of materials and supplies .....  | 7,075                      | 2,616                       | 9,691                   | -                     |
| Inventory of property for resale .....     | 26                         | -                           | 26                      | 8,225                 |
| Prepaid items .....                        | 254                        | 40                          | 294                     | 926                   |
| Deferred charges .....                     | 2,043                      | 370                         | 2,413                   | 1,056                 |
| Other assets .....                         | -                          | 254                         | 254                     | 451                   |
| <b>Total Noncapital Assets .....</b>       | <b><u>839,138</u></b>      | <b><u>99,970</u></b>        | <b><u>939,108</u></b>   | <b><u>193,009</u></b> |
| Capital assets:                            |                            |                             |                         |                       |
| Capital assets not being depreciated:      |                            |                             |                         |                       |
| Land .....                                 | 164,250                    | 18,167                      | 182,417                 | 56,526                |
| Construction in progress .....             | 40,839                     | 18,095                      | 58,934                  | 3,179                 |
| Capital assets being depreciated:          |                            |                             |                         |                       |
| Buildings .....                            | 257,076                    | 89,407                      | 346,483                 | 488,043               |
| Infrastructure .....                       | 1,377,383                  | 802,717                     | 2,180,100               | 789                   |
| Improvements other than buildings .....    | 11,687                     | 7,717                       | 19,404                  | 1,725                 |
| Machinery and equipment .....              | 164,265                    | 215,306                     | 379,571                 | 3,509                 |
| Nonutility property .....                  | -                          | 5,509                       | 5,509                   | -                     |
| Accumulated depreciation .....             | <u>(1,085,505)</u>         | <u>(361,726)</u>            | <u>(1,447,231)</u>      | <u>(244,430)</u>      |
| <b>Total Capital Assets .....</b>          | <b><u>929,995</u></b>      | <b><u>795,192</u></b>       | <b><u>1,725,187</u></b> | <b><u>309,341</u></b> |
| <b>Total Assets .....</b>                  | <b><u>1,769,133</u></b>    | <b><u>895,162</u></b>       | <b><u>2,664,295</u></b> | <b><u>502,350</u></b> |

CITY OF MILWAUKEE  
**STATEMENT OF NET ASSETS**  
 December 31, 2009  
 (Thousands of Dollars)

Exhibit 1 (Continued)

|   | Primary Government         |                             |                   | Component<br>Units |
|---|----------------------------|-----------------------------|-------------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total             |                    |
| <b>LIABILITIES</b>                                    |                            |                             |                   |                    |
| Accounts payable .....                                | \$ 34,965                  | \$ 17,246                   | \$ 52,211         | \$ 11,099          |
| Accrued expenses .....                                | 32,764                     | 2,767                       | 35,531            | 13,103             |
| Accrued interest payable .....                        | 10,064                     | 960                         | 11,024            | -                  |
| Internal balances .....                               | (43,490)                   | 43,490                      | -                 | -                  |
| Due to component units .....                          | 410                        | -                           | 410               | -                  |
| Due to other governmental agencies .....              | 355                        | -                           | 355               | 2,442              |
| Deferred revenue .....                                | 309,784                    | 25                          | 309,809           | 4,074              |
| Revenue anticipation notes payable .....              | 228,000                    | -                           | 228,000           | -                  |
| Other payables .....                                  | -                          | -                           | -                 | -                  |
| Other liabilities .....                               | -                          | -                           | -                 | 7,300              |
| Due to primary government:                            |                            |                             |                   | -                  |
| Due within one year .....                             | -                          | -                           | -                 | 1,408              |
| Due in more than one year .....                       | -                          | -                           | -                 | 16,887             |
| Long-term obligations:                                |                            |                             |                   | -                  |
| Due within one year .....                             | 108,973                    | 11,787                      | 120,760           | 4,494              |
| Due in more than one year .....                       | <u>839,185</u>             | <u>137,858</u>              | <u>977,043</u>    | <u>133,613</u>     |
| <b>Total Liabilities .....</b>                        | <u>1,521,010</u>           | <u>214,133</u>              | <u>1,735,143</u>  | <u>194,420</u>     |
| <b>NET ASSETS</b>                                     |                            |                             |                   |                    |
| Invested in capital assets, net of related debt ..... | 367,061                    | 650,478                     | 1,017,539         | 187,782            |
| Restricted for:                                       |                            |                             |                   |                    |
| Debt Service .....                                    | 163,870                    | 11,159                      | 175,029           | 10,546             |
| Other purposes .....                                  | 141                        | -                           | 141               | 8,095              |
| Unrestricted .....                                    | <u>(282,949)</u>           | <u>19,392</u>               | <u>(263,557)</u>  | <u>101,507</u>     |
| <b>Total Net Assets .....</b>                         | <u>\$ 248,123</u>          | <u>\$ 681,029</u>           | <u>\$ 929,152</u> | <u>\$ 307,930</u>  |

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit 2

| Functions/Programs                                     | Expenses            | Program Revenues     |                                    |                                  |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
|  |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary government:</b>                             |                     |                      |                                    |                                  |
| Governmental Activities:                               |                     |                      |                                    |                                  |
| General government .....                               | \$ 207,504          | \$ 9,011             | \$ 2,825                           | \$ -                             |
| Public safety .....                                    | 331,409             | 16,649               | 14,475                             | -                                |
| Public works .....                                     | 167,983             | 62,553               | 4,025                              | -                                |
| Health .....   | 22,995              | 1,078                | 11,421                             | -                                |
| Culture and recreation .....                           | 22,901              | 1,482                | 2,325                              | -                                |
| Conservation and development .....                     | 50,683              | 284                  | 17,323                             | -                                |
| Capital contribution to Milwaukee Public               |                     |                      |                                    |                                  |
| Schools .....  | 5,153               | -                    | -                                  | -                                |
| Contributions .....                                    | 21,026              | -                    | 21,300                             | -                                |
| Interest on long-term debt .....                       | 23,985              | -                    | -                                  | -                                |
| <b>Total Governmental Activities .....</b>             | <b>853,639</b>      | <b>91,057</b>        | <b>73,694</b>                      | <b>-</b>                         |
| Business-type Activities:                              |                     |                      |                                    |                                  |
| Water .....  | 67,946              | 73,132               | -                                  | 3,353                            |
| Sewer Maintenance .....                                | 34,847              | 48,199               | -                                  | 14,975                           |
| Parking .....  | 24,659              | 42,245               | -                                  | -                                |
| Port of Milwaukee .....                                | 3,811               | 5,212                | -                                  | 346                              |
| Metropolitan Sewerage District                         |                     |                      |                                    |                                  |
| User Charges .....                                     | 44,545              | 44,244               | -                                  | -                                |
| <b>Total Business-type Activities .....</b>            | <b>175,808</b>      | <b>213,032</b>       | <b>-</b>                           | <b>18,674</b>                    |
| <b>Total Primary Government .....</b>                  | <b>\$ 1,029,447</b> | <b>\$ 304,089</b>    | <b>\$ 73,694</b>                   | <b>\$ 18,674</b>                 |
| <b>Component units:</b>                                |                     |                      |                                    |                                  |
| Housing Authority .....                                | \$ 92,230           | \$ 20,366            | \$ 50,727                          | \$ 13,677                        |
| Redevelopment Authority .....                          | 18,131              | 5,497                | 5,543                              | 4,140                            |
| Milwaukee Economic Development Authority               | 3,601               | 3,340                | 906                                | -                                |
| Neighborhood Improvement Development Corporation ..... | 1,783               | 888                  | 372                                | -                                |
| <b>Total Component Units .....</b>                     | <b>\$ 115,745</b>   | <b>\$ 30,091</b>     | <b>\$ 57,548</b>                   | <b>\$ 17,817</b>                 |

General revenues:  
 Property taxes and other taxes .....

State aids for General Fund .....

Miscellaneous .....

Transfers .....

Total General Revenues and Transfers .....

Change in Net Assets .....

Net Assets - Beginning .....

**Net Assets - Ending .....**

The notes to the financial statements are an integral part of this statement.

| <b>Net (Expenses) Revenue and Changes in Net Assets</b> |                                     |                          |                            |
|---|-------------------------------------|--------------------------|----------------------------|
| <b>Primary Government</b>                               |                                     |                          |                            |
| <b>Governmental<br/>Activities</b>                      | <b>Business-type<br/>Activities</b> | <b>Total</b>             | <b>Component<br/>Units</b> |
| \$ (195,668)  |                                     | \$ (195,668)             |                            |
| (300,285)   |                                     | (300,285)                |                            |
| (101,405)   |                                     | (101,405)                |                            |
| (10,496)  |                                     | (10,496)                 |                            |
| (19,094)  |                                     | (19,094)                 |                            |
| (33,076)  |                                     | (33,076)                 |                            |
| (5,153)   |                                     | (5,153)                  |                            |
| 274   |                                     | 274                      |                            |
| <u>(23,985)</u>   |                                     | <u>(23,985)</u>          |                            |
| <u>(688,888)</u>  |                                     | <u>(688,888)</u>         |                            |
| -   | \$ 8,539                            | 8,539                    |                            |
| -   | 28,327                              | 28,327                   |                            |
| -   | 17,586                              | 17,586                   |                            |
| -   | 1,747                               | 1,747                    |                            |
| <u>-</u>  | <u>(301)</u>                        | <u>(301)</u>             |                            |
| <u>-</u>  | <u>55,898</u>                       | <u>55,898</u>            |                            |
| <u>(688,888)</u>  | <u>55,898</u>                       | <u>(632,990)</u>         |                            |
|   |                                     |                          | \$ (7,460)                 |
|   |                                     |                          | (2,951)                    |
|   |                                     |                          | 645                        |
|   |                                     |                          | <u>(523)</u>               |
|   |                                     |                          | <u>(10,289)</u>            |
| 270,191   | -                                   | 270,191                  | -                          |
| 272,337   | -                                   | 272,337                  | -                          |
| 47,217  | 120                                 | 47,337                   | 4,371                      |
| <u>40,111</u>   | <u>(40,111)</u>                     | <u>-</u>                 | <u>-</u>                   |
| <u>629,856</u>  | <u>(39,991)</u>                     | <u>589,865</u>           | <u>4,371</u>               |
| (59,032)  | 15,907                              | (43,125)                 | (5,918)                    |
| <u>307,155</u>  | <u>665,122</u>                      | <u>972,277</u>           | <u>313,848</u>             |
| <b><u>\$ 248,123</u></b>                                | <b><u>\$ 681,029</u></b>            | <b><u>\$ 929,152</u></b> | <b><u>\$ 307,930</u></b>   |

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**FUND  
FINANCIAL  
STATEMENTS**

CITY OF MILWAUKEE  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit A-1

|  | General                  |
|--|--------------------------|
| <b>ASSETS</b>  |                          |
| Assets:  |                          |
| Cash and cash equivalents .....  | \$ 46,884                |
| Investments .....  | 141                      |
| Receivables (net):   |                          |
| Taxes .....  | 141,577                  |
| Accounts .....   | 25,712                   |
| Unbilled accounts .....  | 1,225                    |
| Special assessments .....  | -                        |
| Notes and loans .....  | 37                       |
| Accrued interest .....   | 145                      |
| Due from other funds .....   | 76,750                   |
| Due from component units .....   | 1,538                    |
| Due from other governmental agencies .....   | 441                      |
| Advances to other funds .....  | 12,036                   |
| Inventory of materials and supplies .....  | 6,801                    |
| Inventory of property for resale .....   | 26                       |
| Prepaid items .....  | 254                      |
| <b>Total Assets .....</b>  | <b><u>\$ 313,567</u></b> |
| <b>LIABILITIES AND FUND BALANCES</b>   |                          |
| Liabilities:   |                          |
| Accounts payable .....   | \$ 21,345                |
| Accrued expenses .....   | 32,183                   |
| Due to other funds .....   | 1,891                    |
| Due to component units .....   | 1                        |
| Due to other governmental agencies .....   | -                        |
| Deferred revenue .....   | 186,791                  |
| Revenue anticipation notes payable .....   | -                        |
| Advances from other funds .....  | -                        |
| <b>Total Liabilities .....</b>   | <b><u>242,211</u></b>    |
| Fund Balances:   |                          |
| Reserved for debt service .....  | -                        |
| Reserved for delinquent taxes receivable .....   | -                        |
| Reserved for economic development .....  | -                        |
| Reserved for encumbrances, prepaids, and carryovers .....  | 21,919                   |
| Reserved for inventory .....   | 6,827                    |
| Reserved for mortgage trust .....  | 141                      |
| Reserved for environmental remediation .....   | 303                      |
| Reserved for tax stabilization - 2010 .....  | 13,070                   |
| Reserved for tax stabilization - 2011 and subsequent years' budgets and advances<br>to other funds ..... | 29,096                   |
| Unreserved:  |                          |
| Undesignated .....   | -                        |
| Special assessment (deficit) .....   | -                        |
| <b>Total Fund Balances .....</b>   | <b><u>71,356</u></b>     |
| <b>Total Liabilities and Fund Balances .....</b>   | <b><u>\$ 313,567</u></b> |

*The notes to the financial statements are an integral part of this statement.*

| General<br>Obligation<br>Debt<br>Service | Public<br>Debt<br>Amortization | Capital<br>Projects     | Nonmajor<br>Governmental<br>Funds | Total                    |
|--|--------------------------------|-------------------------|-----------------------------------|--------------------------|
| \$ 124,411                               | \$ 44,229                      | \$ 4,361                | \$ 18,878                         | \$ 238,763               |
| -  | 2,714                          | -                       | -                                 | 2,855                    |
| 57,126                                   | -                              | 2,795                   | 13,387                            | 214,885                  |
| -  | -                              | 2,054                   | 215                               | 27,981                   |
| -  | -                              | -                       | -                                 | 1,225                    |
| -  | -                              | 12,889                  | -                                 | 12,889                   |
| 24,752                                   | 21,245                         | -                       | 19,520                            | 65,554                   |
| 17                                       | 53                             | -                       | -                                 | 215                      |
| -  | -                              | -                       | 714                               | 77,464                   |
| 16,562                                   | -                              | 138                     | 57                                | 18,295                   |
| 228,000                                  | -                              | 6,042                   | 12,595                            | 247,078                  |
| -  | -                              | -                       | -                                 | 12,036                   |
| -  | -                              | 274                     | -                                 | 7,075                    |
| -  | -                              | -                       | -                                 | 26                       |
| -  | -                              | -                       | -                                 | 254                      |
| <b><u>\$ 450,868</u></b>                 | <b><u>\$ 68,241</u></b>        | <b><u>\$ 28,553</u></b> | <b><u>\$ 65,366</u></b>           | <b><u>\$ 926,595</u></b> |
| \$ 8                                     | \$ -                           | \$ 8,366                | \$ 5,246                          | \$ 34,965                |
| 6  | -                              | 295                     | 280                               | 32,764                   |
| 3,269                                    | -                              | 21,509                  | 7,305                             | 33,974                   |
| -  | -                              | 262                     | 147                               | 410                      |
| -  | -                              | -                       | 355                               | 355                      |
| 138,805                                  | -                              | 22,570                  | 9,749                             | 357,915                  |
| 228,000                                  | -                              | -                       | -                                 | 228,000                  |
| -  | -                              | 12,036                  | -                                 | 12,036                   |
| <u>370,088</u>                           | <u>-</u>                       | <u>65,038</u>           | <u>23,082</u>                     | <u>700,419</u>           |
| 80,780                                   | 68,241                         | -                       | 14,849                            | 163,870                  |
| -  | -                              | -                       | 10,830                            | 10,830                   |
| -  | -                              | -                       | 829                               | 829                      |
| -  | -                              | 2,017                   | -                                 | 23,936                   |
| -  | -                              | 274                     | -                                 | 7,101                    |
| -  | -                              | -                       | -                                 | 141                      |
| -  | -                              | -                       | -                                 | 303                      |
| -  | -                              | -                       | -                                 | 13,070                   |
| -  | -                              | -                       | -                                 | 29,096                   |
| -  | -                              | (27,929)                | 15,776                            | (12,153)                 |
| -  | -                              | (10,847)                | -                                 | (10,847)                 |
| <u>80,780</u>                            | <u>68,241</u>                  | <u>(36,485)</u>         | <u>42,284</u>                     | <u>226,176</u>           |
| <b><u>\$ 450,868</u></b>                 | <b><u>\$ 68,241</u></b>        | <b><u>\$ 28,553</u></b> | <b><u>\$ 65,366</u></b>           | <b><u>\$ 926,595</u></b> |

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CITY OF MILWAUKEE  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit A-2

Fund balances - total governmental funds \$ 226,176

Amounts reported for governmental activities in the statement of net assets (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

|  |               |         |
|--|---------------|---------|
| Land   | \$ 164,250    |         |
| Buildings, net of \$72,025 accumulated depreciation                        | 185,051       |         |
| Infrastructure, net of \$911,616 accumulated depreciation                  | 465,767       |         |
| Improvements other than buildings, net of \$7,731 accumulated depreciation | 3,956         |         |
| Machinery and equipment, net of \$94,133 accumulated depreciation          | 70,132        |         |
| Construction in progress   | <u>40,839</u> |         |
|  |               | 929,995 |

Deferred charges for debt issuance costs are not available to pay for current-period expenditures and therefore are deferred in the funds. 2,043

Some revenues are deferred in the funds because they are not available to pay current period's expenditures.

|   |               |        |
|---|---------------|--------|
| Taxes to be collected after year-end                          | 10,539        |        |
| Special assessments to be collected after year-end            | 11,627        |        |
| Other revenues to be collected after year-end                 | 1,213         |        |
| Notes and loans receivable to repay long-term bonds and notes | <u>24,752</u> |        |
|   |               | 48,131 |

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.

|  |                 |                  |
|--|-----------------|------------------|
| Accrued interest payable                     | (10,064)        |                  |
| Bonds and notes payable                      | (742,752)       |                  |
| Deferred amount on refunding                 | 4,000           |                  |
| Unamortized premiums                         | (23,839)        |                  |
| Compensated absences                         | (38,904)        |                  |
| Net other postemployment benefits obligation | (122,944)       |                  |
| Claims and judgments                         | <u>(23,719)</u> |                  |
|  |                 | <u>(958,222)</u> |

Total net assets of governmental activities (Exhibit 1) **\$ 248,123**

CITY OF MILWAUKEE  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit A-3

|   | <b>General</b>          |
|---|-------------------------|
| <b>Revenues:</b>  |                         |
| Property taxes .....                                    | \$ 156,410              |
| Other taxes .....                                       | 3,504                   |
| Special assessments .....                               | -                       |
| Licenses and permits .....                              | 12,186                  |
| Intergovernmental .....                                 | 272,337                 |
| Charges for services .....                              | 91,057                  |
| Fines and forfeits .....                                | 4,802                   |
| Contributions received .....                            | 21,300                  |
| Other .....   | 19,967                  |
| Total Revenues .....                                    | <u>581,563</u>          |
| <b>Expenditures:</b>                                    |                         |
| <b>Current:</b>   |                         |
| General government .....                                | 222,809                 |
| Public safety .....                                     | 276,060                 |
| Public works .....                                      | 97,093                  |
| Health .....  | 10,446                  |
| Culture and recreation .....                            | 17,329                  |
| Conservation and development .....                      | 4,230                   |
| Capital outlay .....                                    | -                       |
| <b>Debt Service:</b>                                    |                         |
| Principal retirement .....                              | -                       |
| Interest .....  | -                       |
| Bond issuance costs .....                               | -                       |
| Total Expenditures .....                                | <u>627,967</u>          |
| Excess (Deficiency) of Revenues over Expenditures ..... | <u>(46,404)</u>         |
| <b>Other Financing Sources (Uses):</b>                  |                         |
| General obligation bonds and notes issued .....         | 119,000                 |
| Proceeds current refunding .....                        | -                       |
| Payment current refunding .....                         | -                       |
| Loans receivable activities .....                       | -                       |
| Issuance premium .....                                  | -                       |
| Transfers in .....                                      | 43,834                  |
| Transfers out .....                                     | (118,081)               |
| Total Other Financing Sources and Uses .....            | <u>44,753</u>           |
| Net Change in Fund Balances .....                       | (1,651)                 |
| Fund Balances - Beginning .....                         | <u>73,007</u>           |
| <b>Fund Balances - Ending .....</b>                     | <b><u>\$ 71,356</u></b> |

*The notes to the financial statements are an integral part of this statement.*

| General<br>Obligation<br>Debt<br>Service | Public<br>Debt<br>Amortization | Capital<br>Projects       | Nonmajor<br>Governmental<br>Funds | Total                    |
|--|--------------------------------|---------------------------|-----------------------------------|--------------------------|
| \$ 70,606                                | \$ -                           | \$ 6,506                  | \$ 5,310                          | \$ 238,832               |
| 23,879                                   | 2,908                          | -                         | -                                 | 30,291                   |
| -  | -                              | 2,418                     | -                                 | 2,418                    |
| -  | -                              | -                         | -                                 | 12,186                   |
| 1,202                                    | -                              | 4,641                     | 53,958                            | 332,138                  |
| 2,441                                    | -                              | -                         | -                                 | 93,498                   |
| -  | -                              | -                         | -                                 | 4,802                    |
| -  | -                              | -                         | -                                 | 21,300                   |
| 4,938                                    | 1,992                          | 3,667                     | 10,118                            | 40,682                   |
| <u>103,066</u>                           | <u>4,900</u>                   | <u>17,232</u>             | <u>69,386</u>                     | <u>776,147</u>           |
| 315                                      | 3                              | -                         | 4,198                             | 227,325                  |
| -  | -                              | -                         | 14,475                            | 290,535                  |
| -  | -                              | -                         | 4,025                             | 101,118                  |
| -  | -                              | -                         | 11,421                            | 21,867                   |
| -  | -                              | -                         | 2,325                             | 19,654                   |
| -  | -                              | -                         | 24,068                            | 28,298                   |
| -  | -                              | 98,003                    | -                                 | 98,003                   |
| 205,228                                  | -                              | -                         | -                                 | 205,228                  |
| 31,941                                   | -                              | -                         | -                                 | 31,941                   |
| 463                                      | -                              | -                         | -                                 | 463                      |
| <u>237,947</u>                           | <u>3</u>                       | <u>98,003</u>             | <u>60,512</u>                     | <u>1,024,432</u>         |
| <u>(134,881)</u>                         | <u>4,897</u>                   | <u>(80,771)</u>           | <u>8,874</u>                      | <u>(248,285)</u>         |
| -  | -                              | 83,845                    | 24,680                            | 227,525                  |
| 66,585                                   | -                              | -                         | -                                 | 66,585                   |
| (71,800)                                 | -                              | -                         | -                                 | (71,800)                 |
| -  | -                              | -                         | (250)                             | (250)                    |
| 9,437                                    | -                              | -                         | -                                 | 9,437                    |
| 149,201                                  | 3,695                          | 200                       | -                                 | 196,930                  |
| (9,002)                                  | (200)                          | (2,408)                   | (27,128)                          | (156,819)                |
| <u>144,421</u>                           | <u>3,495</u>                   | <u>81,637</u>             | <u>(2,698)</u>                    | <u>271,608</u>           |
| 9,540                                    | 8,392                          | 866                       | 6,176                             | 23,323                   |
| <u>71,240</u>                            | <u>59,849</u>                  | <u>(37,351)</u>           | <u>36,108</u>                     | <u>202,853</u>           |
| <b><u>\$ 80,780</u></b>                  | <b><u>\$ 68,241</u></b>        | <b><u>\$ (36,485)</u></b> | <b><u>\$ 42,284</u></b>           | <b><u>\$ 226,176</u></b> |

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CITY OF MILWAUKEE  
**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit A-4

|   |                |                           |
|---|----------------|---------------------------|
| Net change in fund balances - total governmental funds (Exhibit A-3)  |                | \$ 23,323                 |
| Amounts reported for governmental activities in the statement of activities are different because:  |                |                           |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$33,775) exceeded depreciation expense (\$47,702) in the current period less loss on disposals (\$11,553)   |                |                           |
|   | (25,480)       | (25,480)                  |
| Notes and loans receivable to repay long-term bonds and notes   |                | 10,897                    |
| Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.  |                |                           |
| Taxes accrued in prior years  | \$ 1,068       |                           |
| Special assessments deferred revenue beginning of the year \$12,922 less deferred at end of the year \$11,627   | (1,295)        |                           |
| Other revenues deferred at year end   | <u>1,213</u>   |                           |
|   |                | 986                       |
| The issuance of long-term debt (bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. |                |                           |
| Debt issued:  |                |                           |
| Bonds and notes issued  | (294,110)      |                           |
| Issuance premiums   | (9,437)        |                           |
| Issuance costs  | 463            |                           |
| Repayments:   |                |                           |
| Principal retirement  | 277,028        |                           |
| Amortization:   |                |                           |
| Premiums  | 8,480          |                           |
| Issuance costs  | (470)          |                           |
| Deferred amount on refunding  | <u>(1,197)</u> |                           |
|   |                | (19,243)                  |
| Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. The adjustment combines the net changes of the following balances.        |                |                           |
| Compensated absences  | (7,696)        |                           |
| Net other postemployment benefits obligation  | (47,239)       |                           |
| Claims and judgments  | 4,747          |                           |
| Accrued interest on bonds and notes   | <u>673</u>     |                           |
|   |                | <u>(49,515)</u>           |
| Changes in net assets of governmental activities (Exhibit 2)  |                | <b><u>\$ (59,032)</u></b> |

*The notes to the financial statements are an integral part of this reconciliation.*

CITY OF MILWAUKEE  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
 DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit B-1

|  | Water<br>Works | Sewer<br>Maintenance | Parking       | Nonmajor<br>Enterprise<br>Funds | Total          |
|--|----------------|----------------------|---------------|---------------------------------|----------------|
| <b>ASSETS</b>                              |                |                      |               |                                 |                |
| Current Assets:                            |                |                      |               |                                 |                |
| Cash and cash equivalents .....            | \$ 6,565       | \$ -                 | \$ 21,019     | \$ -                            | \$ 27,584      |
| Restricted cash and cash equivalents ..... | 667            | 1,823                | -             | -                               | 2,490          |
| Receivables (net):                         |                |                      |               |                                 |                |
| Accounts .....                             | 14,092         | 14,675               | 718           | 13,289                          | 42,774         |
| Unbilled accounts .....                    | 9,882          | 2,283                | -             | 2,895                           | 15,060         |
| Accrued interest .....                     | 4              | 109                  | -             | -                               | 113            |
| Due from other funds .....                 | 4,446          | 719                  | -             | 1,074                           | 6,239          |
| Due from other governmental agencies ..... | -              | -                    | -             | -                               | -              |
| Inventory of materials and supplies .....  | 2,616          | -                    | -             | -                               | 2,616          |
| Prepaid items .....                        | 40             | -                    | -             | -                               | 40             |
| Deferred charges .....                     | -              | 370                  | -             | -                               | 370            |
| Other assets .....                         | 254            | -                    | -             | -                               | 254            |
| Total Current Assets .....                 | <u>38,566</u>  | <u>19,979</u>        | <u>21,737</u> | <u>17,258</u>                   | <u>97,540</u>  |
| Noncurrent assets:                         |                |                      |               |                                 |                |
| Restricted cash and cash equivalents ..... | -              | 8,669                | -             | -                               | 8,669          |
| Capital assets:                            |                |                      |               |                                 |                |
| Capital assets not being depreciated:      |                |                      |               |                                 |                |
| Land .....                                 | 1,936          | -                    | 8,440         | 7,791                           | 18,167         |
| Construction in progress .....             | 15,635         | 16                   | 2,435         | 9                               | 18,095         |
| Capital assets being depreciated:          |                |                      |               |                                 |                |
| Buildings .....                            | 24,135         | -                    | 51,788        | 13,484                          | 89,407         |
| Infrastructure .....                       | 338,510        | 448,298              | -             | 15,909                          | 802,717        |
| Improvements other than buildings .....    | -              | -                    | 5,429         | 2,288                           | 7,717          |
| Machinery and equipment .....              | 202,027        | 4,419                | 4,068         | 4,792                           | 215,306        |
| Nonutility property .....                  | 5,509          | -                    | -             | -                               | 5,509          |
| Accumulated depreciation .....             | (193,770)      | (111,415)            | (34,793)      | (21,748)                        | (361,726)      |
| Net Capital Assets .....                   | <u>393,982</u> | <u>341,318</u>       | <u>37,367</u> | <u>22,525</u>                   | <u>795,192</u> |
| Total Noncurrent Assets .....              | <u>393,982</u> | <u>349,987</u>       | <u>37,367</u> | <u>22,525</u>                   | <u>803,861</u> |
| Total Assets .....                         | <u>432,548</u> | <u>369,966</u>       | <u>59,104</u> | <u>39,783</u>                   | <u>901,401</u> |

CITY OF MILWAUKEE  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
 DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit B-1 (Continued)

|   | Water<br>Works    | Sewer<br>Maintenance | Parking          | Nonmajor<br>Enterprise<br>Funds | Total             |
|---|-------------------|----------------------|------------------|---------------------------------|-------------------|
| <b>LIABILITIES</b>  |                   |                      |                  |                                 |                   |
| Current Liabilities:  |                   |                      |                  |                                 |                   |
| Accounts payable .....  | \$ 3,849          | \$ 2,788             | \$ 1,121         | \$ 9,488                        | \$ 17,246         |
| Accrued expenses .....  | 1,242             | 772                  | 573              | 180                             | 2,767             |
| Accrued interest payable .....  | 280               | -                    | 188              | 44                              | 512               |
| Compensated absences .....  | 1,248             | -                    | -                | -                               | 1,248             |
| Due to other funds .....  | 9,492             | 27,958               | -                | 12,279                          | 49,729            |
| Deferred revenue .....  | -                 | -                    | 25               | -                               | 25                |
| General obligation debt payable - current .....                               | 2,507             | 270                  | 1,492            | 430                             | 4,699             |
| Revenue bonds payable - current .....   | 939               | -                    | -                | -                               | 939               |
| <b>Total Current Liabilities</b> .....  | <u>19,557</u>     | <u>31,788</u>        | <u>3,399</u>     | <u>22,421</u>                   | <u>77,165</u>     |
| Current Liabilities Payable from Restricted Assets:                           |                   |                      |                  |                                 |                   |
| Revenue bonds payable .....   | -                 | 4,901                | -                | -                               | 4,901             |
| Accrued interest payable .....  | -                 | 448                  | -                | -                               | 448               |
| <b>Total Current Liabilities Payable from<br/>    Restricted Assets</b> ..... | <u>-</u>          | <u>5,349</u>         | <u>-</u>         | <u>-</u>                        | <u>5,349</u>      |
| Noncurrent Liabilities:   |                   |                      |                  |                                 |                   |
| General obligation debt .....   | 13,131            | 6,897                | 10,164           | 2,317                           | 32,509            |
| Revenue bonds payable .....   | 8,461             | 92,758               | -                | -                               | 101,219           |
| Other post employment benefits obligation .....                               | 2,400             | 904                  | 673              | 153                             | 4,130             |
| <b>Total Noncurrent Liabilities</b> .....                                     | <u>23,992</u>     | <u>100,559</u>       | <u>10,837</u>    | <u>2,470</u>                    | <u>137,858</u>    |
| <b>Total Liabilities</b> .....  | <u>43,549</u>     | <u>137,696</u>       | <u>14,236</u>    | <u>24,891</u>                   | <u>220,372</u>    |
| <b>Net Assets:</b>  |                   |                      |                  |                                 |                   |
| Invested in capital assets, net of related debt .....                         | 368,944           | 236,492              | 25,711           | 19,778                          | 650,925           |
| Restricted for Debt Service .....   | 667               | 10,492               | -                | -                               | 11,159            |
| Unrestricted .....  | 19,388            | (14,714)             | 19,157           | (4,886)                         | 18,945            |
| <b>Total Net Assets</b> .....   | <u>\$ 388,999</u> | <u>\$ 232,270</u>    | <u>\$ 44,868</u> | <u>\$ 14,892</u>                | <u>\$ 681,029</u> |

The notes to the financial statements are an integral part of this statement.

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CITY OF MILWAUKEE  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**ENTERPRISE FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit B-2

|   | Water<br>Works    | Sewer<br>Maintenance | Parking          | Nonmajor<br>Enterprise<br>Funds | Total             |
|---|-------------------|----------------------|------------------|---------------------------------|-------------------|
| Operating Revenues:                                   |                   |                      |                  |                                 |                   |
| Charges for Services:                                 |                   |                      |                  |                                 |                   |
| Water sales .....                                     | \$ 59,051         | \$ -                 | \$ -             | \$ -                            | \$ 59,051         |
| Statutory sewer user fee .....                        | -                 | -                    | -                | 42,878                          | 42,878            |
| Sewer maintenance fee .....                           | -                 | 48,199               | -                | -                               | 48,199            |
| Rent .....  | -                 | -                    | 7,574            | 5,106                           | 12,680            |
| Fire protection service .....                         | 6,421             | -                    | -                | -                               | 6,421             |
| Parking meters .....                                  | -                 | -                    | 4,653            | -                               | 4,653             |
| Parking permits .....                                 | -                 | -                    | 3,165            | -                               | 3,165             |
| Vehicle towing .....                                  | -                 | -                    | 5,471            | -                               | 5,471             |
| Parking forfeitures .....                             | -                 | -                    | 20,879           | -                               | 20,879            |
| Other .....   | 7,597             | -                    | 3                | 1,366                           | 8,966             |
| <b>Total Operating Revenues .....</b>                 | <b>73,069</b>     | <b>48,199</b>        | <b>41,745</b>    | <b>49,350</b>                   | <b>212,363</b>    |
| Operating Expenses:                                   |                   |                      |                  |                                 |                   |
| Milwaukee Metropolitan Sewerage District charges ..   | -                 | -                    | -                | 39,666                          | 39,666            |
| Employee services .....                               | -                 | 8,522                | 7,857            | 1,901                           | 18,280            |
| Administrative and general .....                      | 6,054             | -                    | -                | 55                              | 6,109             |
| Depreciation .....                                    | 13,328            | 4,759                | 2,533            | 936                             | 21,556            |
| Transmission and distribution .....                   | 22,483            | -                    | -                | 3,450                           | 25,933            |
| Services, supplies, and materials .....               | -                 | 7,916                | 13,713           | 928                             | 22,557            |
| Water treatment .....                                 | 14,339            | -                    | -                | -                               | 14,339            |
| Water pumping .....                                   | 7,884             | -                    | -                | -                               | 7,884             |
| Billing and collection .....                          | 2,819             | -                    | -                | 1,274                           | 4,093             |
| <b>Total Operating Expenses .....</b>                 | <b>66,907</b>     | <b>21,197</b>        | <b>24,103</b>    | <b>48,210</b>                   | <b>160,417</b>    |
| <b>Operating Income .....</b>                         | <b>6,162</b>      | <b>27,002</b>        | <b>17,642</b>    | <b>1,140</b>                    | <b>51,946</b>     |
| Nonoperating Revenues (Expenses):                     |                   |                      |                  |                                 |                   |
| Investment income .....                               | 88                | 32                   | -                | -                               | 120               |
| Grant Revenue .....                                   | -                 | 14,632               | -                | -                               | 14,632            |
| Interest expense .....                                | (1,039)           | (3,552)              | (556)            | (146)                           | (5,293)           |
| Gain (Loss) on disposal of fixed assets .....         | -                 | -                    | -                | -                               | -                 |
| Other .....   | 63                | (10,098)             | 500              | 106                             | (9,429)           |
| <b>Total Nonoperating Revenues (Expenses) .....</b>   | <b>(888)</b>      | <b>1,014</b>         | <b>(56)</b>      | <b>(40)</b>                     | <b>30</b>         |
| <b>Income before Contributions and Transfers.....</b> | <b>5,274</b>      | <b>28,016</b>        | <b>17,586</b>    | <b>1,100</b>                    | <b>51,976</b>     |
| Capital contributions .....                           | 3,353             | 343                  | -                | 346                             | 4,042             |
| Transfers in .....                                    | -                 | -                    | -                | 670                             | 670               |
| Transfers out .....                                   | (9,440)           | (9,300)              | (19,940)         | (2,101)                         | (40,781)          |
| <b>Change in Net Assets .....</b>                     | <b>(813)</b>      | <b>19,059</b>        | <b>(2,354)</b>   | <b>15</b>                       | <b>15,907</b>     |
| <b>Total Net Assets - Beginning .....</b>             | <b>389,812</b>    | <b>213,211</b>       | <b>47,222</b>    | <b>14,877</b>                   | <b>665,122</b>    |
| <b>Total Net Assets - Ending .....</b>                | <b>\$ 388,999</b> | <b>\$ 232,270</b>    | <b>\$ 44,868</b> | <b>\$ 14,892</b>                | <b>\$ 681,029</b> |

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit B-3

|   | Water<br>Works         | Sewer<br>Maintenance    | Parking                 | Nonmajor<br>Enterprise<br>Funds | Total                   |
|---|------------------------|-------------------------|-------------------------|---------------------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                        |                         |                         |                                 |                         |
| Receipts from customers and users .....                                     | \$ 67,381              | \$ 45,406               | \$ 41,005               | \$ 48,808                       | \$ 202,600              |
| Receipts from interfund services provided .....                             | 5,408                  | -                       | -                       | -                               | 5,408                   |
| Payments to suppliers .....   | (22,063)               | (7,244)                 | (13,902)                | (45,001)                        | (88,210)                |
| Payments to employees .....   | (24,860)               | (8,102)                 | (7,623)                 | (1,844)                         | (42,429)                |
| Payments from other funds .....   | -                      | 15,078                  | -                       | 1,714                           | 16,792                  |
| Payments to other funds .....   | (4,604)                | -                       | -                       | (2,285)                         | (6,889)                 |
| <b>Net Cash Provided by Operating Activities.....</b>                       | <b><u>21,262</u></b>   | <b><u>45,138</u></b>    | <b><u>19,480</u></b>    | <b><u>1,392</u></b>             | <b><u>87,272</u></b>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                     |                        |                         |                         |                                 |                         |
| Miscellaneous nonoperating revenue .....                                    | 63                     | 14,632                  | -                       | -                               | 14,695                  |
| Other nonoperating expenses .....   | -                      | (10,098)                | -                       | -                               | (10,098)                |
| Transfers from other funds .....  | -                      | -                       | -                       | 670                             | 670                     |
| Transfers to other funds .....  | (9,440)                | (9,300)                 | (19,940)                | (2,101)                         | (40,781)                |
| <b>Net Cash Used for Noncapital Financing<br/>Activities .....</b>          | <b><u>(9,377)</u></b>  | <b><u>(4,766)</u></b>   | <b><u>(19,940)</u></b>  | <b><u>(1,431)</u></b>           | <b><u>(35,514)</u></b>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b>        |                        |                         |                         |                                 |                         |
| Capital contributions .....   | -                      | -                       | -                       | 1,346                           | 1,346                   |
| Proceeds from sale of bonds and notes .....                                 | 225                    | 3,863                   | 2,595                   | -                               | 6,683                   |
| Acquisition of property, plant, and equipment .....                         | (20,530)               | (35,196)                | (1,314)                 | (642)                           | (57,682)                |
| Retirement of bonds, notes, and revenue bonds .....                         | (2,905)                | (5,020)                 | (1,722)                 | (508)                           | (10,155)                |
| Interest paid .....   | (1,114)                | (3,734)                 | (571)                   | (157)                           | (5,576)                 |
| Other .....   | -                      | -                       | 500                     | -                               | 500                     |
| <b>Net Cash Used for Capital and<br/>Related Financing Activities .....</b> | <b><u>(24,324)</u></b> | <b><u>(40,087)</u></b>  | <b><u>(512)</u></b>     | <b><u>39</u></b>                | <b><u>(64,884)</u></b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                        |                         |                         |                                 |                         |
| Investment income .....   | 119                    | (73)                    | -                       | -                               | 46                      |
| <b>Net Increase (Decrease) in Cash and Cash<br/>Equivalents .....</b>       | <b><u>(12,320)</u></b> | <b><u>212</u></b>       | <b><u>(972)</u></b>     | <b><u>-</u></b>                 | <b><u>(13,080)</u></b>  |
| Cash and Cash Equivalents - Beginning .....                                 | 19,552                 | 10,280                  | 21,991                  | -                               | 51,823                  |
| <b>Cash and Cash Equivalents - Ending .....</b>                             | <b><u>\$ 7,232</u></b> | <b><u>\$ 10,492</u></b> | <b><u>\$ 21,019</u></b> | <b><u>\$ -</u></b>              | <b><u>\$ 38,743</u></b> |

CITY OF MILWAUKEE  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit B-3 (Continued)

|  | Water<br>Works   | Sewer<br>Maintenance | Parking          | Nonmajor<br>Enterprise<br>Funds | Total            |
|--|------------------|----------------------|------------------|---------------------------------|------------------|
| Cash and Cash Equivalents at Year-End Consist of:  |                  |                      |                  |                                 |                  |
| Unrestricted Cash .....  | \$ 6,565         | \$ -                 | \$ 21,019        | \$ -                            | \$ 27,584        |
| Restricted Cash .....  | 667              | 10,492               | -                | -                               | 11,159           |
|  | <u>\$ 7,232</u>  | <u>\$ 10,492</u>     | <u>\$ 21,019</u> | <u>\$ -</u>                     | <u>\$ 38,743</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET<br>CASH PROVIDED BY OPERATING ACTIVITIES:                   |                  |                      |                  |                                 |                  |
| Operating income .....   | \$ 6,162         | \$ 27,002            | \$ 17,642        | \$ 1,140                        | \$ 51,946        |
| Adjustments to reconcile operating income (loss) to net<br>cash provided by (used for) operating activities: |                  |                      |                  |                                 |                  |
| Depreciation .....   | 13,328           | 4,759                | 2,533            | 936                             | 21,556           |
| Changes in assets and liabilities:   |                  |                      |                  |                                 |                  |
| Receivables .....  | (703)            | (2,611)              | (714)            | (615)                           | (4,643)          |
| Due from other funds .....   | 1,370            | (182)                | -                | (540)                           | 648              |
| Due from other governmental agencies .....   | -                | -                    | -                | 73                              | 73               |
| Inventories .....  | (285)            | -                    | -                | -                               | (285)            |
| Prepaid items .....  | 408              | -                    | -                | -                               | 408              |
| Other assets .....   | 31               | -                    | -                | -                               | 31               |
| Accounts payable .....   | 519              | 672                  | (188)            | 371                             | 1,374            |
| Accrued liabilities .....  | (387)            | 96                   | (3)              | 2                               | (292)            |
| Net other postemployment benefits obligation .....   | 819              | 324                  | 236              | 56                              | 1,435            |
| Due to other funds .....   | -                | 15,078               | -                | (31)                            | 15,047           |
| Deferred revenue .....   | -                | -                    | (26)             | -                               | (26)             |
| Net Cash Provided by Operating Activities .....  | <u>\$ 21,262</u> | <u>\$ 45,138</u>     | <u>\$ 19,480</u> | <u>\$ 1,392</u>                 | <u>\$ 87,272</u> |

Non-cash Activities:

During the year, water mains and related property, installed by others were deeded to the Water Works in the amount of \$3.4 million.

During the year, the Sewer Maintenance Fund removed infrastructure assets costing \$64,608 with a net value of \$0, and, received donated assets in the amount of \$342,482.

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit C-1

|   | Pension<br>and Other<br>Employee<br>Benefit<br>Trusts | Private-<br>Purpose<br>Trusts | Agency<br>Funds          |
|---|---|-------------------------------|--------------------------|
| <b>ASSETS</b>   |   |                               |                          |
| Cash and cash equivalents .....                         | \$ 402  | \$ 2,158                      | \$ 336,934               |
| Investments .....                                       | <u>-</u>  | <u>2,887</u>                  | <u>-</u>                 |
| Total Assets .....                                      | <u>402</u>  | <u>5,045</u>                  | <u><b>\$ 336,934</b></u> |
| <b>LIABILITIES</b>                                      |   |                               |                          |
| Liabilities:  |   |                               |                          |
| Accounts payable .....                                  | -   | 10                            | 1,511                    |
| Due to other governmental agencies .....                | <u>-</u>  | <u>-</u>                      | <u>335,423</u>           |
| Total Liabilities .....                                 | <u>-</u>  | <u>10</u>                     | <u><b>\$ 336,934</b></u> |
| Net Assets  |   |                               |                          |
| Employees' pension benefits<br>and other purposes ..... | <u><b>\$ 402</b></u>                                  | <u><b>\$ 5,035</b></u>        |                          |

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit C-2

|  | <b>Pension<br/>and Other<br/>Employee<br/>Benefit<br/>Trusts</b> | <b>Private-<br/>Purpose<br/>Trusts</b> |
|--|--|--|
| <b>Additions</b>   |  |  |
| Contributions:   |  |  |
| Plan members .....   | \$ 1,331   | \$ -                                   |
| Private donations .....  | -  | 2,564                                  |
| Total Contributions .....  | 1,331  | 2,564                                  |
| Investment earnings:   |  |  |
| Net appreciation in<br>fair value of investments, dividends and interest ..... | -  | 6                                      |
| Total Additions .....  | 1,331  | 2,570                                  |
| <b>Deductions</b>  |  |  |
| Benefits .....   | 1,280  | -                                      |
| Fees remitted from Trust .....   | -  | 2,084                                  |
| Other .....  | -  | 1,401                                  |
| Total Deductions .....   | 1,280  | 3,485                                  |
| Change in Net Assets .....   | 51   | (915)                                  |
| Net Assets - Beginning .....   | 351  | 5,950                                  |
| Net Assets - Ending .....  | <b>\$ 402</b>  | <b>\$ 5,035</b>                        |

*The notes to the financial statements are an integral part of this statement.*

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
 DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit D-1

|   | Housing<br>Authority | Redevelopment<br>Authority | Milwaukee<br>Economic<br>Development<br>Corporation | Neighborhood<br>Improvement<br>Development<br>Corporation | Total          |
|---|----------------------|----------------------------|---|---|----------------|
| <b>ASSETS</b>                                   |                      |                            |   |   |                |
| Current Assets:                                 |                      |                            |   |   |                |
| Cash and cash equivalents .....                 | \$ 28,001            | \$ 17,204                  | \$ 8,872  | \$ 1,701  | \$ 55,778      |
| Investments .....                               | 3,247                | 6,800                      | -   | 300   | 10,347         |
| Receivables (net):                              |                      |                            |   |   |                |
| Accounts .....                                  | 2,465                | 229                        | 55  | 88  | 2,837          |
| Notes and loans .....                           | 33,264               | 19,247                     | 36,261  | 352   | 89,124         |
| Accrued interest .....                          | 4,042                | 121                        | 152   | 128   | 4,443          |
| Due from primary government .....               | -                    | 382                        | 28  | -   | 410            |
| Due from other governmental agencies .....      | 1,933                | 962                        | 16,517  | -   | 19,412         |
| Inventory of property for resale .....          | -                    | 4,811                      | 1,594   | 1,820   | 8,225          |
| Prepaid items .....                             | 878                  | 48                         | -   | -   | 926            |
| Deferred charges .....                          | 236                  | 820                        | -   | -   | 1,056          |
| Other assets .....                              | 372                  | -                          | 79  | -   | 451            |
|   | <u>74,438</u>        | <u>50,624</u>              | <u>63,558</u>                                       | <u>4,389</u>  | <u>193,009</u> |
| Total Noncapital Assets .....                   |                      |                            |   |   |                |
| Capital assets:                                 |                      |                            |   |   |                |
| Capital assets not being depreciated:           |                      |                            |   |   |                |
| Land and land improvements .....                | 39,898               | 16,628                     | -   | -   | 56,526         |
| Construction in progress .....                  | 3,179                | -                          | -   | -   | 3,179          |
| Capital assets being depreciated:               |                      |                            |   |   |                |
| Buildings .....                                 | 394,102              | 93,941                     | -   | -   | 488,043        |
| Infrastructure .....                            | -                    | 789                        | -   | -   | 789            |
| Improvements other than buildings .....         | 882                  | 843                        | -   | -   | 1,725          |
| Machinery and equipment .....                   | 3,311                | -                          | 198   | -   | 3,509          |
| Accumulated depreciation .....                  | (236,076)            | (8,201)                    | (153)   | -   | (244,430)      |
|   | <u>205,296</u>       | <u>104,000</u>             | <u>45</u>   | <u>-</u>  | <u>309,341</u> |
| Total Capital Assets, Net of Depreciation ..... |                      |                            |   |   |                |
| Total Assets .....                              | <u>279,734</u>       | <u>154,624</u>             | <u>63,603</u>                                       | <u>4,389</u>  | <u>502,350</u> |

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
 DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit D-1 (Continued)

|  | Housing<br>Authority | Redevelopment<br>Authority | Milwaukee<br>Economic<br>Development<br>Corporation | Neighborhood<br>Improvement<br>Development<br>Corporation | Total             |
|--|----------------------|----------------------------|---|---|-------------------|
| <b>LIABILITIES</b>                                   |                      |                            |   |   |                   |
| Current Liabilities:                                 |                      |                            |   |   |                   |
| Accounts payable .....                               | \$ 5,669             | \$ 3,185                   | \$ 2,226  | \$ 19   | \$ 11,099         |
| Accrued expenses .....                               | 4,879                | 8,224                      | -   | -   | 13,103            |
| Due to other governmental agencies .....             | 1,150                | 1,289                      | 3   | -   | 2,442             |
| Deferred revenue .....                               | 3,074                | 667                        | -   | 333   | 4,074             |
| Other liabilities .....                              | <u>3,004</u>         | <u>3,238</u>               | <u>849</u>  | <u>209</u>  | <u>7,300</u>      |
| Total Current Liabilities .....                      | <u>17,776</u>        | <u>16,603</u>              | <u>3,078</u>  | <u>561</u>  | <u>38,018</u>     |
| Due to primary government:                           |                      |                            |   |   |                   |
| Due within one year .....                            | 1,323                | -                          | 31  | 54  | 1,408             |
| Due in more than one year .....                      | <u>-</u>             | <u>15,436</u>              | <u>1,451</u>  | <u>-</u>  | <u>16,887</u>     |
| Total Due to Primary Government .....                | <u>1,323</u>         | <u>15,436</u>              | <u>1,482</u>  | <u>54</u>   | <u>18,295</u>     |
| Long-term obligations:                               |                      |                            |   |   |                   |
| Due within one year .....                            | 4,494                | -                          | -   | -   | 4,494             |
| Due in more than one year .....                      | <u>45,245</u>        | <u>84,178</u>              | <u>4,190</u>  | <u>-</u>  | <u>133,613</u>    |
| Total Noncurrent Liabilities .....                   | <u>49,739</u>        | <u>84,178</u>              | <u>4,190</u>  | <u>-</u>  | <u>138,107</u>    |
| Total Liabilities .....                              | <u>68,838</u>        | <u>116,217</u>             | <u>8,750</u>  | <u>615</u>  | <u>194,420</u>    |
| <b>NET ASSETS:</b>                                   |                      |                            |   |   |                   |
| Invested in capital assets, net of related debt .... | 158,013              | 29,769                     | -   | -   | 187,782           |
| Restricted .....                                     | 5,099                | 4,395                      | 8,095   | 1,052   | 18,641            |
| Unrestricted .....                                   | <u>47,784</u>        | <u>4,243</u>               | <u>46,758</u>                                       | <u>2,722</u>  | <u>101,507</u>    |
| Total Net Assets .....                               | <u>\$ 210,896</u>    | <u>\$ 38,407</u>           | <u>\$ 54,853</u>                                    | <u>\$ 3,774</u>   | <u>\$ 307,930</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF MILWAUKEE  
**COMBINING STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
*(Thousands of Dollars)*

Exhibit D-2

|   |                         | Program Revenues                         |  |                  |
|---|-------------------------|--|--|------------------|
| Expenses  | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                  |
| <b>Housing Authority</b>                          |                         |  |  |                  |
| Low income housing .....                          | \$ 92,230               | \$ 20,366                                | \$ 50,727                              | \$ 13,677        |
| <b>Redevelopment Authority</b>                    |                         |  |  |                  |
| Prevention and elimination of blight .....        | 18,131                  | 5,497                                    | 5,543                                  | 4,140            |
| <b>Milwaukee Economic Development Corporation</b> |                         |  |  |                  |
| Increase employment and expansion of business ..  | 3,601                   | 3,340                                    | 906                                    | -                |
| <b>Neighborhood Improvement Development Corp.</b> |                         |  |  |                  |
| Housing improvements .....                        | <u>1,783</u>            | <u>888</u>                               | <u>372</u>                             | <u>-</u>         |
| Total Component Units .....                       | <u>\$115,745</u>        | <u>\$ 30,091</u>                         | <u>\$ 57,548</u>                       | <u>\$ 17,817</u> |

General revenues:

Miscellaneous .....

Total General Revenues .....

Change in Net Assets .....

Net Assets - Beginning.....

Net Assets - Ending .....

*The notes to the financial statements are an integral part of this statement.*

| Net (Expense) Revenue<br>and Changes in Net Assets |                            |   |   |                          |
|--|----------------------------|---|---|--------------------------|
| Housing<br>Authority                               | Redevelopment<br>Authority | Milwaukee<br>Economic<br>Development<br>Corporation | Neighborhood<br>Improvement<br>Development<br>Corporation | Total                    |
| \$ (7,460)   | \$ -                       | \$ -  | \$ -  | \$ (7,460)               |
| -  | (2,951)                    | -   | -   | (2,951)                  |
| -  | -                          | 645   | -   | 645                      |
| <u>-</u>   | <u>-</u>                   | <u>-</u>  | <u>(523)</u>  | <u>(523)</u>             |
| <u>(7,460)</u>                                     | <u>(2,951)</u>             | <u>645</u>  | <u>(523)</u>  | <u>(10,289)</u>          |
| <u>3,252</u>                                       | <u>385</u>                 | <u>717</u>  | <u>17</u>   | <u>4,371</u>             |
| <u>3,252</u>                                       | <u>385</u>                 | <u>717</u>  | <u>17</u>   | <u>4,371</u>             |
| (4,208)  | (2,566)                    | 1,362   | (506)   | (5,918)                  |
| <u>215,104</u>                                     | <u>40,973</u>              | <u>53,491</u>                                       | <u>4,280</u>  | <u>313,848</u>           |
| <b><u>\$ 210,896</u></b>                           | <b><u>\$ 38,407</u></b>    | <b><u>\$ 54,853</u></b>                             | <b><u>\$ 3,774</u></b>                                    | <b><u>\$ 307,930</u></b> |

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**NOTES  
TO THE  
FINANCIAL  
STATEMENTS**

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. Reporting Entity**

The City of Milwaukee (the "City") was incorporated on January 31, 1846, and operates under a Council-Mayor form of government. These financial statements present the City (the primary government) and other organizations, including component units, for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are legally separate organizations for which the elected officials of the City are accountable. The City is considered financially accountable if it appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to or burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the primary government.

**Discretely Presented Component Units**

The component units columns in the government-wide financial statements includes the financial data of the City's component units. They are reported in a separate column to emphasize that they are legally separate from the City. The City has the following discretely presented component units:

*Housing Authority* - This entity is used to account for the Federal and State grants relating primarily to low-income housing and rental assistance programs. The entire governing board is appointed by the Mayor of the City. The daily operations of the Housing Authority of the City of Milwaukee (HACM) are managed by City employees.

*Redevelopment Authority* - The Redevelopment Authority of the City of Milwaukee (RACM) is responsible for activities related to the prevention and elimination of blighted conditions in the City. The City appoints all members of the Board and approves the budget.

*Milwaukee Economic Development Corporation* - The Milwaukee Economic Development Corporation (MEDC) is a non-profit organization formed to promote economic development within the City. The principal objective of the corporation is to benefit the community by fostering increased employment through expansion of business and industry within the metropolitan Milwaukee area. MEDC's primary source of funds is interest on loans originally granted through the City.

*Neighborhood Improvement Development Corporation* - The Neighborhood Improvement Development Corporation (NIDC) is a nonprofit organization established to promote reinvestment in both housing and commercial structures within the City. NIDC programs encourage private lending institutions and property owners to make improvements to the community's homes and businesses. Corporate officers of NIDC are provided by the City and daily operations are managed by City employees.

Financial statements of the individual component units can be obtained from their respective administrative offices. Addresses of the component units are as follows: HACM, 809 North Broadway, 3<sup>rd</sup> Floor, Milwaukee, Wisconsin 53202; RACM, 809 North Broadway, 2<sup>nd</sup> Floor, Milwaukee, Wisconsin 53202; MEDC, 809 North Broadway, 2<sup>nd</sup> Floor, Milwaukee, Wisconsin 53202; and NIDC, 841 North Broadway, Room 105, Milwaukee, Wisconsin 53202.

The basic financial statements exclude the accounts of the Wisconsin Center District, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, World Festivals Inc. ("Summerfest") and the Employees' Retirement System of the City of Milwaukee, because these entities operate with separate governing boards and do not meet the criteria established by the GASB Statement 14 as component units of the City. The Milwaukee Metropolitan Sewerage District (MMSD) is a special purpose municipal corporation created to provide sewerage treatment services in the Milwaukee metropolitan area. The City is responsible for paying usage charges within its jurisdiction. These amounts, in turn, are billed by the City to its water customers. The City has no equity interest in MMSD. Financial statements for MMSD can be obtained from its administrative office.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

**Related Organizations**

*Milwaukee Area Workforce Investment Board*

The Milwaukee Area Workforce Investment Board (MAWIB) was established to provide job training, employment services, and workforce development within Milwaukee County. MAWIB acts as the recipient, dispenser, and administer of funding provided under the Workforce Development Act for Milwaukee County.

The Governor designated the Mayor of the City of Milwaukee as Milwaukee County's chief local elected officer for the Workforce Investment Act of 1998. The directors of the MAWIB are appointed by the Mayor in accordance with the Workforce Investment Act. The City is not legally obligated for any of MAWIB obligations or debt. The City is not entitled to access funds of the Milwaukee Area Workforce Investment Board.

**B. Basis of Presentation**

**Government-wide Statements.** The government-wide statement of net assets and statement of activities report the overall financial activity of the City, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) fines, fees, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues and expenses are a result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of rents, sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting these criteria are reported as nonoperating expenses. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General Fund** – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

**General Obligation Debt** – This fund accounts for the resources accumulated and payments made for principal and interest on the City's outstanding long-term general obligation debt.

**Public Debt Amortization** – This fund accounts for one-third of all interest on general City investments and interest on Fund investments for the retirement of debt. The Public Debt Amortization Fund is governed by Section 67.101 of the Wisconsin Statutes for the retirement of the public debt. See Note 7 for further discussion.

**Capital Projects Fund** – The Capital Projects Fund is used to account for the financial resources segregated for the acquisition or construction of major capital expenditures other than those financed by proprietary funds.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

The City reports the following major enterprise funds:

**Water Works** – All activities necessary to provide water services to residents of the City and outlying areas. Fund activities include administration, billing and collection, operations, maintenance and financing.

**Sewer Maintenance** – This fund accounts for the maintenance of the City's sewer system. Wisconsin State Statutes Section 66.0821, permit municipalities to implement sewer fees to recover the costs of operation, maintenance, repair, and depreciation of sewer collection and transportation facilities. Sewer maintenance costs are recovered through a user fee rather than through the property tax.

**Parking** – This fund accounts for revenues derived from parking meters, parking permits, rentals and leasing of parking facilities, and other revenues attributable to parking. The revenues are used to defray administrative and operational costs related to parking operations, and to acquire landscape and construct parking lots and structures.

Additionally, the City reports the following fiduciary fund types:

**Pension and Other Employee Benefit Trusts** – This fund accounts for resources for employee flexible spending plans.

**Private Purpose Trust** – These funds account for resources legally held in trust for use by various individuals, governmental entities, and nonpublic corporations. All resources of these funds, including any earnings on invested resources, may be used to support each trust's initiatives.

**Agency** – These funds account for taxes and deposits collected by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

**C. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property tax revenue, grants, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. Taxes levied in 2009 that will be collected in 2010 are recorded as receivable and deferred revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Revenue from grants and other contributions are 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 City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues, excluding property taxes, to be available if they are collected within 90 days of the end of the current year. Property taxes are considered to be available if they are collected within 60 days of the end of the current year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources, which are susceptible to accrual include property taxes, state shared revenues, grants, contributions, and interest. All other revenue sources including licenses, permits, fines, and forfeits are considered to be measurable and available only when cash is received.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**D. Cash and Cash Equivalents**

For purposes of the statements of cash flows, all highly liquid investments (including restricted cash and investments) purchased with a maturity of three months or less are considered to be cash equivalents. The City manages a cash and investment pool to maximize return on funds while providing liquidity to meet day-to-day obligations. Each fund's equity in the City's investment pool is considered to be a cash equivalent, since the funds can deposit or effectively withdraw cash at anytime without prior notice or penalty. The Housing Authority considers amounts on deposit with fiscal agents to be investments and not cash equivalents due to their restrictive nature.

**E. Investments**

Investments, primarily consisting of fixed income securities, are reported at fair value based on quoted market prices. Commercial paper, which is short term, defined as having an original maturity of one year or less, and highly liquid is carried at amortized cost. Investment transactions are recorded on the trade date. Under Wisconsin Statutes, one-third of all interest on pooled cash and investments is allocated to the Public Debt Amortization Fund. The remaining two-thirds is credited to the General Fund. Each fund type's portion of pooled cash and investments is included in the cash and cash equivalents line on the Statement of Net Assets/Balance Sheet.

Wisconsin Statutes permit the City to invest funds not immediately needed in any of the following:

- Time deposits maturing within three years in any credit union, bank, savings bank, trust company, or savings and loan association, which are authorized to transact business in the State of Wisconsin.
- Bonds or securities issued or guaranteed by the Federal government.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the State of Wisconsin, as well as bonds issued by a local exposition district, a local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority.
- Local Government Investment Pool - Investment Fund of the State of Wisconsin. The Local Government Pooled Investment Fund is an external investment pool administered by the State of Wisconsin. The fair value of the City's investment in the fund is the same as the value of the pooled shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin Statutes.
- Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- Any Security that matures or that may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating, which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, Inc., or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- Securities of open-end management investment companies or investment trusts (mutual funds) if the portfolio is limited to (a) bonds and securities issued by the federal government or a commission, board, or other instrumentality of the federal government, (b) bonds that are guaranteed as to principal and interest by the federal government or a commission, board, or other instrumentality of the federal government, and (c) repurchase agreements that are fully collateralized by these bonds or securities.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

**F. Property Taxes**

Property taxes are recorded as receivables and deferred revenues in the taxing fund in the year levied because the taxes are restricted to funding the succeeding year's budget appropriations. Property tax payments received prior to year-end are also reflected in the taxing fund. Property taxes are recognized in the appropriate funds as revenues in the succeeding year when they are collected and available to finance City services. If not collected at year-end, the delinquent property taxes are reflected as receivables and deferred revenues. Delinquent property taxes and related interest are recognized as revenues when collected.

The allowance for uncollectible property taxes is based on an analysis of the delinquent property taxes and, in management's judgment, represents an amount adequate to provide for potential uncollectible taxes. The allowance is increased by provisions charged against revenues and is reduced by taxes receivable written off.

The City, through its Special Revenue Fund - Delinquent Tax, issues general obligation short-term promissory notes to finance the purchase of the most recent delinquent taxes from its General Fund. Collections on these delinquencies are used for the associated debt service requirements.

**G. Accounts Receivable**

Accounts receivables are presented net of allowances. The amount of the General Fund allowance as of December 31, 2009 is \$2,877,000.

**H. Unbilled Services**

Unbilled water and sewer services at year-end are recognized as revenues and receivables in the accompanying financial statements.

**I. Special Assessments**

Special assessments consist of capital projects constructed through non-special assessment debt. In governmental fund financial statements, special assessments are recorded as receivables and deferred revenues when the related capital outlays are made and are recorded as revenues when due and payable. In the government-wide financial statements, special assessments are recorded as receivables and capital contribution revenue when the capital outlays are made. All special assessments are due when billed and may be paid on an installment basis with interest. Special assessment receivables that become delinquent are added to the general tax roll. The method of enforcing collections is the same as for general city taxes with like force and effect.

**J. Notes and Loan Receivables**

The General Fund, the Special Revenue Fund - Community Development Block Grant, and Neighborhood Improvement Development Corporation hold notes and loans receivable from individuals, small businesses, and corporations in the Milwaukee area that are secured by primary or secondary security interests in real estate or other assets. The City periodically analyzes the collectibility of the notes and loans that are not insured and provides allowances as considered necessary. The amount of the allowance in the nonmajor governmental fund is \$9,543,000 as of December 31, 2009.

The City creates tax incremental districts (TID) to issue debt to fund redevelopment projects. Pursuant to a cooperation agreement between the City, the Redevelopment Authority of the City of Milwaukee (Authority), and the Milwaukee Economic Development Corporation (Corporation), the City provides the Authority and the Corporation with the funds necessary to carry out the loan to a private developer to finance the redevelopment projects. Loan repayments to the Authority and the Corporation from the private developer, including interest income as well as other project income, are transferred to the City until the City's loan has been repaid or the TID expires. The City reflects these loans as notes receivable and deferred revenue in governmental fund financial statements based on an amount estimated to be repaid from the Authority and the Corporation.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**K. Inventories**

Inventories of materials and supplies are stated at moving average cost, based upon perpetual recordkeeping systems and periodic cycle counts of quantities on hand. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories in governmental funds are reserved for in fund balance, because inventories are not expendable available financial resources.

**L. Prepaid Items**

Cash payments benefiting future periods have been recorded as prepaid items. They will be reflected as expenditures or expenses when incurred in the subsequent year. Prepaid items in governmental funds are reserved for in fund balance, because prepaids are not expendable available financial resources.

**M. Capital Assets**

Capital assets, which includes property, plant, and equipment, and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. General infrastructure assets, such as roads, bridges, curbs, gutters, streets, sidewalks, and drainage and lighting systems, acquired prior to January 1, 2002 are reported at estimated historical cost using deflated replacement cost. Capital assets are depreciated using the straight-line method. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major capital outlays for capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Interest expenses incurred during construction were not capitalized as part of the additions to capital assets.

Capitalization thresholds and the estimated useful lives for the City and component units are as follows:

| Capital Asset Category             | Capitalization Threshold | Estimated Useful Life |
|------------------------------------|--------------------------|-----------------------|
| Infrastructure                     | \$ 5,000                 | 5-50 years            |
| Land                               | 5,000                    | N/A                   |
| Land Improvements                  | 5,000                    | N/A                   |
| Site Improvements                  | 5,000                    | 3-50                  |
| Buildings                          | 5,000                    | 10-60                 |
| Building Improvements              | 5,000                    | 10-45                 |
| Machinery and equipment            | 5,000                    | 3-25                  |
| Works of Art, Historical Treasures | 5,000                    | N/A                   |

**N. Pension Contributions**

The employer's share of the annual contribution is recorded in the proprietary funds and government-wide financial statements as an expense when the liability is incurred and in the governmental funds as an expenditure when the liability is liquidated with expendable available financial resources.

**O. Compensated Absences**

The liability for compensated absences reported in the government-wide, proprietary, and fiduciary fund financial statements consists of unpaid, accumulated vacation, and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and include salary related costs (e.g. social security and Medicare tax). A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City employees accrue sick leave in accordance with labor agreements or Section 350-37 of the Code of Ordinances.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

**P. Claims and Judgments**

The liability for claims and judgments is reported in the government-wide, proprietary, and fiduciary fund financial statements when they are both probable and estimable. A liability for claims and judgments is reported in governmental funds only if they have matured (i.e. are due). The City accrues environmental remediation obligations when related liabilities are probable and reasonably estimable. These accruals generally are recognized no later than completion of a remedial feasibility study and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

**Q. Bond Premiums, Discounts, and Issuance Costs**

In the government-wide and proprietary fund financial statements, 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The City records bond premiums for governmental fund types in the General Obligation Debt Service Fund.

**R. Advance Refundings of Debt**

In the government-wide and proprietary fund financial statements, gains and losses from advance refundings of debt resulting in defeasance are deferred and amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt using the effective interest method. Bonds payable are reported net of the applicable deferred amount.

**S. Fund Balances**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes.

**T. Net Assets**

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

**Invested in Capital Assets, Net of Related Debt** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – This 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 City's policy to use restricted resources first, then unrestricted resources when they are needed.

**Unrestricted** – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

**U. Interfund Transactions**

The City has the following types of interfund transactions:

**Loans** – amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds. The noncurrent portions of long-term interfund loans receivable are reported as advances.

**Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

**Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursement is reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return, including payments in lieu of taxes, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

**V. 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 and expenses during the reporting period. Actual results could differ from those estimates.

**W. New Accounting Pronouncements**

In June, 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The City will implement this Statement beginning with the year ending December 31, 2010; however, the City does not expect the implementation of the Statement to have a significant impact on its financial statements.

In June, 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The City will implement this Statement beginning with the year ending December 31, 2010; however, the City does not expect the implementation of the Statement to have a significant impact on its financial statements.

In February, 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy primarily based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. This Statement also clarifies the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type. The City will implement this Statement beginning with the year ending December 31, 2011.

**X. Reclassifications**

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**2. DEPOSITS AND INVESTMENTS**

**A. Primary Government**

The description of the City's deposit and investment policy is discussed in Note 1 D and E.

As of December 31, 2009, the City's deposits and investments are as follows:

|   | <b>Investment Maturities (in Years)</b> |                    |                 |               | <b>Credit Rating</b> |
|---|---|--------------------|-----------------|---------------|----------------------|
|   | <b>Fair Value</b>                       | <b>Less than 1</b> |                 |               |                      |
|   |   |                    | <b>1-5</b>      | <b>6-10</b>   |                      |
| <b>Governmental and Business-type activities:</b> |   |                    |                 |               |                      |
| <i>Investment type</i>                            |   |                    |                 |               |                      |
| Pooled Deposits and Investments .....             | \$ 172,066                              | \$ 172,066         | \$ -            | \$ -          | see below            |
| Segregated Deposits and Investments               |   |                    |                 |               |                      |
| Interest Checking .....                           | 2,135                                   | 2,135              | -               | -             | not rated            |
| Wisconsin Local Government                        |   |                    |                 |               |                      |
| Investment Pool .....                             | 94,777                                  | 94,777             | -               | -             | not rated            |
| U.S. Treasury strips .....                        | 2,714                                   | 1,098              | 1,104           | 512           | AAA                  |
| Treasuries (Fiscal Agent) .....                   | 8,669                                   | 8,669              | -               | -             | AAA                  |
|   | <u>\$ 280,361</u>                       | <u>\$ 278,745</u>  | <u>\$ 1,104</u> | <u>\$ 512</u> |                      |
| <b>Fiduciary activities:</b>                      |   |                    |                 |               |                      |
| <i>Investment type</i>                            |   |                    |                 |               |                      |
| Investments in the Pool .....                     | \$ 327,794                              | \$ 327,794         | \$ -            | \$ -          | see below            |
| Other Deposits .....                              | 457                                     | 457                | -               | -             | not rated            |
| Segregated Deposits and Investments               |   |                    |                 |               |                      |
| Wisconsin Local Government                        |   |                    |                 |               |                      |
| Investment Pool .....                             | 11,413                                  | 11,413             | -               | -             | not rated            |
| U.S. Treasury strips .....                        | 2,717                                   | 414                | 1,589           | 714           | AAA                  |
|   | <u>\$ 342,381</u>                       | <u>\$ 340,078</u>  | <u>\$ 1,589</u> | <u>\$ 714</u> |                      |

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Pooled Deposits and Investments**

The City maintains a cash and investment pool (Pool) that is available for use by all the funds, except for Debt Service Funds, Water Works Enterprise Fund, and component entities. Each fund's share of pooled cash and investments is included in the cash and cash equivalents line on the Statement of Net Assets/Balance Sheet.

As of December 31, 2009, the City had the following investments and maturities in the Pool:

|  | <b>Investment Maturities (in Years)</b> |                    |             |             | <b>Credit Rating</b> |
|--|---|--------------------|-------------|-------------|----------------------|
|  | <b>Fair Value</b>                       | <b>Less than 1</b> | <b>1-5</b>  | <b>6-10</b> |                      |
| <i>(Thousands of Dollars)</i>          |   |                    |             |             |                      |
| <b>Pooled Deposits and Investments</b> |   |                    |             |             |                      |
| Bank Demand Deposits .....             | \$ 32,634                               | \$ 32,634          | \$ -        | \$ -        | not rated            |
| Other Deposits .....                   | 793                                     | 793                | -           | -           | not rated            |
| <b>Deposits and Investments</b>        |   |                    |             |             |                      |
| Interest Checking .....                | 376,328                                 | 376,328            | -           | -           | not rated            |
| Wisconsin Local Government             |   |                    |             |             |                      |
| Investment Pool .....                  | 71,947                                  | 71,947             | -           | -           | not rated            |
| Government Money Market .....          | 108                                     | 108                | -           | -           | AAA                  |
| Certificates of Deposits .....         | 18,050                                  | 18,050             | -           | -           | not rated            |
|  | <u>\$ 499,860</u>                       | <u>\$ 499,860</u>  | <u>\$ -</u> | <u>\$ -</u> |                      |

**Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the City's deposits may not be returned. Per Common Council the City Treasurer shall require collateralization of certificates of time deposit (including interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of \$650,000. As of December 31, 2009, the City's bank balances of \$372,000 were subject to custodial credit risk as they were neither insured nor collateralized.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the City's investments will decrease as a result of an increase in interest rates. The City's investment policy does not explicitly limit investment maturities. However, the City manages its exposure to interest risk based on the anticipated cash flow needs of the City and limiting the amount of pooled investments to \$60,000,000 with maturities greater than one year.

**Credit risk**

Credit risk is the risk that the City will not recover its investments due to the ability of the counterparty to fulfill its obligations. Wisconsin Statutes expressly limit the City to invest in certain allowable investments as listed in Note 1. E. The City's investment policy generally does not further limit its investment choices.

**B. Component Units**

**Deposits and Investments**

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts. An additional \$400,000 is covered by the State Deposit Guarantee Fund.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the Component Unit investments are exposed to losses as a result of increases in interest rates.

CITY OF MILWAUKEE  
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**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation.

The Component Units have the following investments on December 31, 2009:

|  | <b>Investment Maturities (in Years)</b> |                    |             |               |                       | <b>Credit Rating</b> |
|--|---|--------------------|-------------|---------------|-----------------------|----------------------|
|  | <i>(Thousands of Dollars)</i>           |                    |             |               |                       |                      |
| <b>Component Units:</b>                  | <b>Fair value</b>                       | <b>Less than 1</b> | <b>1-2</b>  | <b>8-10</b>   | <b>10 and greater</b> |                      |
| Local Government Investment Pool         | \$ 21,516                               | \$ 21,516          | -           | -             | -                     | not rated            |
| U.S. Treasury Money Market Fund          | 9,052                                   | 9,052              | -           | -             | -                     | Aaa                  |
| U.S. Agencies                            |   |                    |             |               |                       |                      |
| Government National Mortgage Association | 798                                     | 11                 | -           | 787           | -                     | Aaa                  |
| Certificates of Deposit                  | 7,100                                   | 7,100              | -           | -             | -                     | N/A                  |
|  | <u>\$ 38,466</u>                        | <u>\$ 37,679</u>   | <u>\$ -</u> | <u>\$ 787</u> | <u>\$ -</u>           |                      |

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the Component Units deposits may not be returned.

As of December 31, 2009 Component Units bank balances exposed to Custodial Credit Risk are as follows:

|  | <b>Bank Balance</b> | <b>Uninsured and Uncollateralized</b> |
|--|---------------------|---------------------------------------|
| Housing Authority                                | \$ 10,451,419       | \$ 1,035,237                          |
| Redevelopment Authority                          | 11,223,071          | 197,225                               |
| Milwaukee Economic Development Corporation       | 8,164,045           | 1,176,037                             |
| Neighborhood Improvement Development Corporation | 2,011,086           | 725,954                               |

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the component unit will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2009, the Redevelopment Authority had \$9,052,000 of investments exposed to custodial credit risk as uninsured and uncollateralized.

CITY OF MILWAUKEE  
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**3. PROPERTY TAXES**

The City's property taxes are levied on or before December 31, on the assessed (taxable) value as of the prior January 1, for all general property located in the City. Taxes become a lien against the property upon filing the roll in the Office of the City Clerk. This generally takes place in December. The taxes are due January 31, but may be paid in ten monthly installments without interest from January through October. Foreclosure can be commenced after one year from date of delinquency.

The City purchases property taxes receivable from other taxing authorities at the unpaid amounts to facilitate the collection of the taxes. The purchases are a financing arrangement and are not included in property tax revenues. Also, delinquent water and sewer charges and special assessment receivables are transferred to the General Fund at the unpaid amounts.

At December 31, 2009, delinquent property taxes include delinquent sewer and water charges and special assessments by year levied, tax deeded property, and allowance for uncollectible taxes. These delinquent property taxes are reported as part of taxes receivable in the General Fund and Special Revenue Fund - Delinquent Tax and consist of the following:

|   | <b>City<br/>Levy</b> | <b>Purchased<br/>Taxes<br/>Receivable</b> | <b>Total</b>         |
|---|----------------------|---|----------------------|
| <i>(Thousands of Dollars)</i>   |                      |   |                      |
| 2004 and prior .....  | \$ 918               | \$ 1,365                                  | \$ 2,283             |
| 2005 .....  | 391                  | 596                                       | 987                  |
| 2006 .....  | 925                  | 1,397                                     | 2,322                |
| 2007 .....  | 3,321                | 5,027                                     | 8,348                |
| 2008 .....  | <u>11,513</u>        | <u>18,355</u>                             | <u>29,868</u>        |
| <br>Total delinquent property taxes receivable .....                        | <br><u>\$ 17,068</u> | <br><u>\$ 26,740</u>                      | <br>43,808           |
| <br>Property taxes receivable on foreclosed property .....                  |                      |   | <br>15,784           |
| <br>Less: Allowance for uncollectible taxes .....                           |                      |   | <br><u>(17,231)</u>  |
| <br>Net delinquent property taxes receivable, including tax deeded property |                      |   | <br><u>\$ 42,361</u> |

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009 was as follows:

|   | <b>Balance<br/>01-01-09</b> | <b>Additions</b>              | <b>Deletions</b>         | <b>Balance<br/>12-31-09</b> |
|---|-----------------------------|-------------------------------|--------------------------|-----------------------------|
|   |                             | <i>(Thousands of Dollars)</i> |                          |                             |
| <b>Governmental activities</b>  |                             |                               |                          |                             |
| <i>Capital assets not being depreciated:</i>  |                             |                               |                          |                             |
| Land .....  | \$ 163,797                  | \$ 510                        | \$ 57                    | \$ 164,250                  |
| Construction in progress .....  | <u>123,768</u>              | <u>9,628</u>                  | <u>92,557</u>            | <u>40,839</u>               |
| Total capital assets not being depreciated .....                                      | <u>287,565</u>              | <u>10,138</u>                 | <u>92,614</u>            | <u>205,089</u>              |
| <i>Capital assets being depreciated:</i>  |                             |                               |                          |                             |
| Buildings .....   | 194,782                     | 81,709                        | 19,415                   | 257,076                     |
| Infrastructure.....   | 1,355,649                   | 23,941                        | 2,207                    | 1,377,383                   |
| Improvements other than buildings .....   | 11,573                      | 195                           | 81                       | 11,687                      |
| Machinery and equipment .....   | <u>162,573</u>              | <u>10,349</u>                 | <u>8,657</u>             | <u>164,265</u>              |
| Total capital assets being depreciated .....  | <u>1,724,577</u>            | <u>116,194</u>                | <u>30,360</u>            | <u>1,810,411</u>            |
| Less accumulated depreciation for:  |                             |                               |                          |                             |
| Buildings .....   | 74,784                      | 5,468                         | 8,227                    | 72,025                      |
| Infrastructure .....  | 883,878                     | 29,945                        | 2,207                    | 911,616                     |
| Improvements other than buildings .....   | 7,469                       | 338                           | 76                       | 7,731                       |
| Machinery and equipment .....   | <u>90,536</u>               | <u>11,951</u>                 | <u>8,354</u>             | <u>94,133</u>               |
| Total accumulated depreciation .....  | <u>1,056,667</u>            | <u>47,702</u>                 | <u>18,864</u>            | <u>1,085,505</u>            |
| Total capital assets being depreciated, net ....                                      | <u>667,910</u>              | <u>68,492</u>                 | <u>11,496</u>            | <u>724,906</u>              |
| <b>Government activity capital assets, net .....</b>                                  | <b><u>\$ 955,475</u></b>    | <b><u>\$ 78,630</u></b>       | <b><u>\$ 104,110</u></b> | <b><u>\$ 929,995</u></b>    |
| Depreciation expense for governmental activities was charged to functions as follows: |                             |                               |                          |                             |
| General government .....  |                             |                               |                          | \$ 350                      |
| Public safety .....   |                             |                               |                          | 7,949                       |
| Public works .....  |                             |                               |                          | 38,656                      |
| Health .....  |                             |                               |                          | 221                         |
| Culture and recreation .....  |                             |                               |                          | <u>526</u>                  |
| Total .....   |                             |                               |                          | <u>\$ 47,702</u>            |

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
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| <b>Business-type activities</b>                  | <b>Balance<br/>01-01-09</b> | <b>Additions</b>              | <b>Deletions</b> | <b>Balance<br/>12-31-09</b> |
|--|-----------------------------|-------------------------------|------------------|-----------------------------|
|  |                             | <i>(Thousands of Dollars)</i> |                  |                             |
| <b>Water Works</b>                               |                             |                               |                  |                             |
| <i>Capital assets not being depreciated:</i>     |                             |                               |                  |                             |
| Land .....                                       | \$ 1,936                    | \$ -                          | \$ -             | \$ 1,936                    |
| Construction in progress .....                   | 10,975                      | 22,967                        | 18,307           | 15,635                      |
| Total capital assets not being depreciated ..... | <u>12,911</u>               | <u>22,967</u>                 | <u>18,307</u>    | <u>17,571</u>               |
| <i>Capital assets being depreciated:</i>         |                             |                               |                  |                             |
| Buildings .....                                  | 21,292                      | 2,994                         | 151              | 24,135                      |
| Infrastructure .....                             | 331,142                     | 8,528                         | 1,160            | 338,510                     |
| Machinery and equipment .....                    | 201,582                     | 6,785                         | 6,340            | 202,027                     |
| Nonutility property .....                        | 5,509                       | -                             | -                | 5,509                       |
| Total capital assets being depreciated .....     | <u>559,525</u>              | <u>18,307</u>                 | <u>7,651</u>     | <u>570,181</u>              |
| Less accumulated depreciation for:               |                             |                               |                  |                             |
| Buildings .....                                  | 14,663                      | 721                           | 803              | 14,581                      |
| Infrastructure .....                             | 78,324                      | 3,770                         | 1,165            | 80,929                      |
| Machinery and equipment .....                    | 94,906                      | 8,837                         | 6,471            | 97,272                      |
| Nonutility property .....                        | 783                         | 205                           | -                | 988                         |
| Total accumulated depreciation .....             | <u>188,676</u>              | <u>13,533</u>                 | <u>8,439</u>     | <u>193,770</u>              |
| Total capital assets being depreciated, net .... | <u>370,849</u>              | <u>4,774</u>                  | <u>(788)</u>     | <u>376,411</u>              |
| Water Works capital assets, net .....            | <u>383,760</u>              | <u>27,741</u>                 | <u>17,519</u>    | <u>393,982</u>              |
| <b>Sewer Maintenance</b>                         |                             |                               |                  |                             |
| <i>Capital assets not being depreciated:</i>     |                             |                               |                  |                             |
| Construction in progress .....                   | 46,304                      | 16                            | 46,304           | 16                          |
| Total capital assets not being depreciated ..... | <u>46,304</u>               | <u>16</u>                     | <u>46,304</u>    | <u>16</u>                   |
| <i>Capital assets being depreciated:</i>         |                             |                               |                  |                             |
| Infrastructure .....                             | 366,635                     | 81,727                        | 64               | 448,298                     |
| Machinery and equipment .....                    | 4,320                       | 99                            | -                | 4,419                       |
| Total capital assets being depreciated .....     | <u>370,955</u>              | <u>81,826</u>                 | <u>64</u>        | <u>452,717</u>              |
| Less accumulated depreciation for:               |                             |                               |                  |                             |
| Infrastructure .....                             | 104,765                     | 4,415                         | 64               | 109,116                     |
| Machinery and equipment .....                    | 1,955                       | 344                           | -                | 2,299                       |
| Total accumulated depreciation .....             | <u>106,720</u>              | <u>4,759</u>                  | <u>64</u>        | <u>111,415</u>              |
| Total capital assets being depreciated, net .... | <u>264,235</u>              | <u>77,067</u>                 | <u>-</u>         | <u>341,302</u>              |
| Sewer Maintenance capital assets, net .....      | <u>310,539</u>              | <u>77,083</u>                 | <u>46,304</u>    | <u>341,318</u>              |

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
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|   | Balance<br>01-01-09      | Additions                     | Deletions               | Balance<br>12-31-09      |
|---|--------------------------|-------------------------------|-------------------------|--------------------------|
|   |                          | <i>(Thousands of Dollars)</i> |                         |                          |
| <b>Parking</b>  |                          |                               |                         |                          |
| <i>Capital assets not being depreciated:</i>            |                          |                               |                         |                          |
| Land .....  | \$ 8,440                 | \$ -                          | \$ -                    | \$ 8,440                 |
| Construction in progress .....                          | 4,687                    | 663                           | 2,915                   | 2,435                    |
| Total capital assets not being depreciated .....        | <u>13,127</u>            | <u>663</u>                    | <u>2,915</u>            | <u>10,875</u>            |
| <i>Capital assets being depreciated:</i>                |                          |                               |                         |                          |
| Buildings .....   | 50,645                   | 1,143                         | -                       | 51,788                   |
| Improvements other than buildings .....                 | 5,429                    | -                             | -                       | 5,429                    |
| Machinery and equipment .....                           | 1,645                    | 2,423                         | -                       | 4,068                    |
| Total capital assets being depreciated .....            | <u>57,719</u>            | <u>3,566</u>                  | <u>-</u>                | <u>61,285</u>            |
| Less accumulated depreciation for:                      |                          |                               |                         |                          |
| Buildings .....   | 28,003                   | 2,047                         | -                       | 30,050                   |
| Improvements other than buildings .....                 | 3,394                    | 218                           | -                       | 3,612                    |
| Machinery and equipment .....                           | 863                      | 268                           | -                       | 1,131                    |
| Total accumulated depreciation .....                    | <u>32,260</u>            | <u>2,533</u>                  | <u>-</u>                | <u>34,793</u>            |
| Total capital assets being depreciated, net ....        | <u>25,459</u>            | <u>1,033</u>                  | <u>-</u>                | <u>26,492</u>            |
| Parking capital assets, net .....                       | <u>38,586</u>            | <u>1,696</u>                  | <u>2,915</u>            | <u>37,367</u>            |
| <b>Other business-type activities:</b>                  |                          |                               |                         |                          |
| <i>Capital assets not being depreciated:</i>            |                          |                               |                         |                          |
| Land .....  | 7,791                    | -                             | -                       | 7,791                    |
| Construction in progress .....                          | -                        | 9                             | -                       | 9                        |
| Total capital assets not being depreciated .....        | <u>7,791</u>             | <u>9</u>                      | <u>-</u>                | <u>7,800</u>             |
| <i>Capital assets being depreciated:</i>                |                          |                               |                         |                          |
| Buildings .....   | 13,484                   | -                             | -                       | 13,484                   |
| Infrastructure—port.....                                | 15,556                   | 368                           | 15                      | 15,909                   |
| Improvements other than buildings .....                 | 2,288                    | -                             | -                       | 2,288                    |
| Machinery and equipment .....                           | 4,719                    | 408                           | 335                     | 4,792                    |
| Total capital assets being depreciated .....            | <u>36,047</u>            | <u>776</u>                    | <u>350</u>              | <u>36,473</u>            |
| Less accumulated depreciation for:                      |                          |                               |                         |                          |
| Buildings .....   | 6,796                    | 259                           | -                       | 7,055                    |
| Infrastructure—port.....                                | 8,736                    | 352                           | 12                      | 9,076                    |
| Improvements other than buildings .....                 | 1,616                    | 90                            | -                       | 1,706                    |
| Machinery and equipment .....                           | 3,977                    | 235                           | 301                     | 3,911                    |
| Total accumulated depreciation .....                    | <u>21,125</u>            | <u>936</u>                    | <u>313</u>              | <u>21,748</u>            |
| Total capital assets being depreciated, net ....        | <u>14,922</u>            | <u>(160)</u>                  | <u>37</u>               | <u>14,725</u>            |
| Other business-type activities, net .....               | <u>22,713</u>            | <u>(151)</u>                  | <u>37</u>               | <u>22,525</u>            |
| <b>Business-type activity capital assets, net .....</b> | <b><u>\$ 755,598</u></b> | <b><u>\$ 106,369</u></b>      | <b><u>\$ 66,775</u></b> | <b><u>\$ 795,192</u></b> |

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|  | <b>Balance<br/>01-01-09</b> | <b>Additions</b>              | <b>Deletions</b>       | <b>Balance<br/>12-31-09</b> |
|--|-----------------------------|-------------------------------|------------------------|-----------------------------|
|  |                             | <i>(Thousands of Dollars)</i> |                        |                             |
| <b>Component Units</b>                           |                             |                               |                        |                             |
| <i>Capital assets not being depreciated:</i>     |                             |                               |                        |                             |
| Land .....                                       | \$ 54,187                   | \$ 3,322                      | \$ 983                 | \$ 56,526                   |
| Construction in Progress .....                   | <u>2,301</u>                | <u>2,808</u>                  | <u>1,930</u>           | <u>3,179</u>                |
| Total capital assets not being depreciated ..... | <u>56,488</u>               | <u>6,130</u>                  | <u>2,913</u>           | <u>59,705</u>               |
| <i>Capital assets being depreciated:</i>         |                             |                               |                        |                             |
| Buildings .....                                  | 480,524                     | 9,689                         | 2,170                  | 488,043                     |
| Infrastructure .....                             | 789                         | -                             | -                      | 789                         |
| Improvements other than buildings .....          | 1,531                       | 194                           | -                      | 1,725                       |
| Machinery and equipment .....                    | <u>3,277</u>                | <u>555</u>                    | <u>323</u>             | <u>3,509</u>                |
| Total capital assets being depreciated .....     | <u>486,121</u>              | <u>10,438</u>                 | <u>2,493</u>           | <u>494,066</u>              |
| Less accumulated depreciation for:               |                             |                               |                        |                             |
| Buildings .....                                  | 229,574                     | 13,014                        | 1,136                  | 241,452                     |
| Infrastructure .....                             | 13                          | 27                            | -                      | 40                          |
| Improvements other than buildings .....          | 207                         | 117                           | -                      | 324                         |
| Machinery and equipment .....                    | <u>2,704</u>                | <u>229</u>                    | <u>319</u>             | <u>2,614</u>                |
| Total accumulated depreciation .....             | <u>232,498</u>              | <u>13,387</u>                 | <u>1,455</u>           | <u>244,430</u>              |
| Total capital assets being depreciated, net .... | <u>253,623</u>              | <u>(2,949)</u>                | <u>1,038</u>           | <u>249,636</u>              |
| <b>Component units capital assets, net .....</b> | <b><u>\$ 310,111</u></b>    | <b><u>\$ 3,181</u></b>        | <b><u>\$ 3,951</u></b> | <b><u>\$ 309,341</u></b>    |

**5. DEFERRED REVENUE**

Deferred revenue is recorded in the governmental funds for amounts not yet available and for resources received prior to being earned by the City. Related revenue is recognized when these amounts become available or when earned. The composition of the deferred revenue balances in the governmental funds as of December 31, 2009 is as follows:

|                                    | <b>General</b>    | <b>General<br/>Obligation<br/>Debt<br/>Service</b> | <b>Capital<br/>Projects</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> | <b>Total</b>      |
|------------------------------------|-------------------|--|-----------------------------|--|-------------------|
|                                    |                   | <i>(Thousands of Dollars)</i>                      |                             |  |                   |
| Current property taxes .....       | \$ 176,991        | \$ 97,499  | \$ 4,767                    | \$ -                                       | \$ 279,257        |
| Delinquent property taxes .....    | 7,982             | -  | -                           | 2,557                                      | 10,539            |
| Unearned revenue .....             | 1,818             | -  | 6,176                       | 7,036                                      | 15,030            |
| Long-term receivables .....        | -                 | 41,306   | -                           | 156  | 41,462            |
| Unbilled special assessments ..... | <u>-</u>          | <u>-</u>   | <u>11,627</u>               | <u>-</u>                                   | <u>11,627</u>     |
| Total .....                        | <u>\$ 186,791</u> | <u>\$ 138,805</u>                                  | <u>\$ 22,570</u>            | <u>\$ 9,749</u>                            | <u>\$ 357,915</u> |

CITY OF MILWAUKEE  
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**6. SHORT-TERM DEBT**

During 2009, the City issued and repaid \$116,000,000 of General Obligation Cash Flow Promissory Notes, Series 2009 R3 (G.O. CFNs). The G.O. CFNs were issued for the purpose of financing the City's operating budget on an interim basis pending receipt of State of Wisconsin shared revenue payments due in November, 2009.

As of December 31, 2008, the City had outstanding \$210,000,000 of short-term Revenue Anticipation Notes (RANs) on behalf of Milwaukee Public Schools. In 2009, the City repaid the outstanding balance and issued \$228,000,000 short-term RANs for the same purpose. The new notes bear interest at the rate of 2% and will mature on June 30, 2010. The liability and related receivable to repay the revenue anticipation notes are recorded in the Debt Service Fund.

CITY OF MILWAUKEE  
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**7. LONG-TERM OBLIGATIONS**

**A. Changes in Long-Term Obligations**

Changes in long-term obligations for the year ended December 31, 2009 were as follows:

|  | Balance<br>01-01-09 | Additions                     | Deductions        | Balance<br>12-31-09 | Amounts<br>Due within<br>One Year |
|--|---------------------|-------------------------------|-------------------|---------------------|-----------------------------------|
|  |                     | <i>(Thousands of Dollars)</i> |                   |                     |                                   |
| <b>Governmental activities:</b>                    |                     |                               |                   |                     |                                   |
| General obligation bonds and notes                 |                     |                               |                   |                     |                                   |
| City .....   | \$ 637,897          | \$ 278,060                    | \$ 266,651        | \$ 649,306          | \$ 91,279                         |
| Milwaukee Public Schools .....                     | 87,773              | 16,050                        | 10,377            | 93,446              | 10,247                            |
| Deferred amount on refundings .....                | (5,197)             | -                             | (1,197)           | (4,000)             | -                                 |
| Unamortized premiums .....                         | 22,882              | 9,437                         | 8,480             | 23,839              | -                                 |
| Compensated absences .....                         | 31,208              | 9,792                         | 2,096             | 38,904              | 3,011                             |
| Net other postemployment benefits obligation ..... | 75,705              | 74,005                        | 26,766            | 122,944             | -                                 |
| Claims and judgments .....                         | 28,466              | 10,233                        | 14,980            | 23,719              | 4,436                             |
| Total governmental activities .....                | <u>\$ 878,734</u>   | <u>\$ 397,577</u>             | <u>\$ 328,153</u> | <u>\$ 948,158</u>   | <u>\$ 108,973</u>                 |
| <b>Business-type activities</b>                    |                     |                               |                   |                     |                                   |
| <b>Water Works</b>                                 |                     |                               |                   |                     |                                   |
| General obligation bonds and notes .....           | \$ 17,050           | \$ 225                        | \$ 1,990          | \$ 15,285           | \$ 2,507                          |
| Deferred amount on refundings .....                | (357)               | -                             | (140)             | (217)               | -                                 |
| Unamortized premiums .....                         | 751                 | -                             | 181               | 570                 | -                                 |
| Revenue bonds .....                                | 10,315              | -                             | 915               | 9,400               | 939                               |
| Compensated absences .....                         | 1,108               | 1,701                         | 1,561             | 1,248               | 1,248                             |
| Net other postemployment benefits obligation ..... | 1,581               | 1,932                         | 1,113             | 2,400               | -                                 |
| Total Water Works .....                            | <u>30,448</u>       | <u>3,858</u>                  | <u>5,620</u>      | <u>28,686</u>       | <u>4,694</u>                      |
| <b>Sewer Maintenance</b>                           |                     |                               |                   |                     |                                   |
| General obligation bonds and notes .....           | 3,934               | 3,500                         | 267               | 7,167               | 270                               |
| State Loans .....                                  | 49,653              | 362                           | 2,013             | 48,002              | 2,061                             |
| Revenue bonds .....                                | 50,855              | -                             | 2,740             | 48,115              | 2,840                             |
| Unamortized premiums .....                         | 1,755               | -                             | 213               | 1,542               | -                                 |
| Net other postemployment benefits obligation ..... | 580                 | 764                           | 440               | 904                 | -                                 |
| Total Sewer Maintenance .....                      | <u>106,777</u>      | <u>4,626</u>                  | <u>5,673</u>      | <u>105,730</u>      | <u>5,171</u>                      |
| <b>Parking</b>                                     |                     |                               |                   |                     |                                   |
| General obligation bonds and notes .....           | 10,743              | 2,595                         | 1,722             | 11,616              | 1,492                             |
| Deferred amount on refundings .....                | (153)               | -                             | (39)              | (114)               | -                                 |
| Unamortized premiums .....                         | 203                 | -                             | 49                | 154                 | -                                 |
| Net other postemployment benefits obligation ..... | 437                 | 557                           | 321               | 673                 | -                                 |
| Total Parking .....                                | <u>11,230</u>       | <u>3,152</u>                  | <u>2,053</u>      | <u>12,329</u>       | <u>1,492</u>                      |
| <b>Other Enterprise Funds</b>                      |                     |                               |                   |                     |                                   |
| General obligation bonds and notes .....           | 3,243               | -                             | 508               | 2,735               | 430                               |
| Deferred amount on refundings .....                | (36)                | -                             | (9)               | (27)                | -                                 |
| Unamortized premiums .....                         | 51                  | -                             | 12                | 39                  | -                                 |
| Net other postemployment benefits obligation ..... | 97                  | 131                           | 75                | 153                 | -                                 |
| Total Other Enterprise .....                       | <u>3,355</u>        | <u>131</u>                    | <u>586</u>        | <u>2,900</u>        | <u>430</u>                        |
| Total business-type activities .....               | <u>\$ 151,810</u>   | <u>\$ 11,767</u>              | <u>\$ 13,932</u>  | <u>\$ 149,645</u>   | <u>\$ 11,787</u>                  |

CITY OF MILWAUKEE  
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|  | Balance<br>01-01-09 | New<br>Issues   | Repayments      | Balance<br>12-31-09 | Amounts<br>Due within<br>One Year |
|--|---------------------|-----------------|-----------------|---------------------|-----------------------------------|
| <i>(Thousands of Dollars)</i>          |                     |                 |                 |                     |                                   |
| <b>Component Units</b>                 |                     |                 |                 |                     |                                   |
| Revenue bonds .....                    | \$ 97,199           | \$ -            | \$ 2,806        | \$ 94,393           | \$ 515                            |
| Unamortized discounts .....            | (104)               | -               | (7)             | (97)                | -                                 |
| Notes payable .....                    | 40,719              | 5,068           | 4,523           | 41,264              | 3,647                             |
| Advance from other organizations ..... | -                   | -               | -               | -                   | -                                 |
| Compensated Absences.....              | 854                 | 252             | -               | 1,106               | 332                               |
| Net other postemployment benefits..... | 991                 | 562             | 112             | 1,441               | -                                 |
| Total component units .....            | <u>\$ 139,659</u>   | <u>\$ 5,882</u> | <u>\$ 7,434</u> | <u>\$ 138,107</u>   | <u>\$ 4,494</u>                   |

**B. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities for the City and for Milwaukee Public Schools. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are secured by the full faith and unlimited taxing power of the City. The debt for governmental activities will be retired by future property tax levies and other resources accumulated in the Debt Service Funds. The debt for business-type activities (i.e. Water Works, Sewer Maintenance, Parking, and Port of Milwaukee Enterprise Funds) will be retired by revenues from those operations or, if the revenues are not sufficient, by future tax levies. During the year ended December 31, 2009, general obligation bonds totaling \$2,433,000 were issued. \$143,000 was issued to finance capital improvements, \$1,350,000 for school purposes and \$940,000 for business-type activities.

Use of Public Debt Amortization Fund for retirement of the public debt is governed by the Wisconsin Statutes. The Statutes provide that when total principal and accrued interest in the Public Debt Amortization Fund is substantially equal to the outstanding general obligation bonds and notes, the resources in the fund shall be applied to make annual interest and principal payments on that debt to maturity. The Statutes provide, in part, that "The Public Debt Commission may, however, at any time, apply the fund, not to exceed in any one year 40% of the balance in said fund on the preceding December 31, to acquire for cancellation general obligation bonds or notes prior to their maturity dates at prices not to exceed principal plus accrued interest to date of maturity, but the fund shall not be decreased below \$2,000,000 as a result of such purchases and cancellations." Principal sources of revenue are one-third of all interest on general City investments and interest on Fund investments. As authorized by the Statutes, the Public Debt Amortization Fund may purchase for investment or for cancellation, notes issued by the General Fund to fund operations.

Through 2009, \$148,100,647 has been borrowed and outstanding for forty-eight tax incremental districts (TID). Total debt service requirements associated with these debt issues amounts to \$185,480,436. Active Tax increments received through 2009 total \$150,858,554. In any year in which TID debt service requirements for the ensuing year are greater than total tax increments received, the shortfall is funded by the property tax levy.

Under the Wisconsin Statutes, the City is required, if requested by the Board of Milwaukee Public Schools, and if approved by referendum, to issue general obligation bonds to finance purchases of school sites and to construct or remodel school buildings. No such bonds are currently outstanding. The \$93,446,000 of Milwaukee Public School long-term debt outstanding at December 31, 2009 consists of a portion of the City's general obligation bonds and notes that has been designated for school purposes. Under the Wisconsin Statutes, the City has title to the land and buildings of the Milwaukee Public Schools. However, the City does not control the use of the assets or receive the proceeds upon disposition of the assets. At June 30, 2009, the historical costs of the land and buildings as reported by Milwaukee Public Schools was approximately \$995,883,000. These assets are excluded from the financial statements of the City.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**C. Revenue Bonds**

The City issues revenue bonds to provide funds for water and sewer improvements. As such, they are not backed by the general credit or taxing powers of the City. During 2009, the City received loans from the State for the Clean Water Fund Program permitted under State Statutes to provide financial assistance for specific Sewer Maintenance Enterprise Fund projects for a total of \$362,000. The loans will be repaid from revenues of the Sewer Maintenance Enterprise Fund.

**D. Notes Payable**

The City issues installment notes to provide funds for various public improvement projects, cash flow for the school district, and purchases of delinquent taxes. During the year ended December 31, 2009, installment loans totaling \$41,612,000 were issued. \$12,352,000 was issued to finance capital improvements, \$2,700,000 for school purposes, \$1,880,000 for business-type activities and \$24,680,000 to purchase 2008's delinquent taxes.

During 2009, the City continued to issue General Obligation Commercial Paper Promissory Notes 2008 Program Series C2 totaling \$61,800,000. \$55,300,000 was issued to finance capital improvements, \$3,500,000 for business-type activities and \$3,000,000 for general fiscal requirements of the City. The notes are a direct general obligation of the City payable from taxes levied without limitation as to rate or amount. Following is a summary of the General Obligation Commercial Paper Promissory Notes issued (in thousands), which is included in the totals for the general obligation bonds and notes in the long-term obligation table in footnote 7(a) above:

| <b>Balance<br/>01-01-09</b> | <b>Additions</b> | <b>Deletions</b> | <b>Balance<br/>12-31-09</b> |
|-----------------------------|------------------|------------------|-----------------------------|
| 104,600                     | 61,800           | 76,400           | 90,000                      |

In order to provide a source for payment of the principal and interest on the General Obligation Commercial Paper Promissory Notes, on January 1, 2008, the City entered into an irrevocable letter of credit and reimbursement agreement with a bank. The letter of credit and reimbursement agreement has an authorized maximum draw of \$125 million, and expires on December 1, 2012. Each advance on the letter of credit is due and payable on the 60<sup>th</sup> day following the date of the draw; however, the agreement allows the bank to make a three-year term loan available upon each advance not repaid within 60 days, for which payments will begin one year after the date the term loan began. Principal payments on the term loan shall be made quarterly. Interest is required to be paid monthly, and the rate varies based on the period the advance is outstanding, as follows:

| <u>Period Outstanding</u>        | <u>Interest Rate</u> |
|----------------------------------|----------------------|
| 30 days or less                  | Prime rate           |
| 31 days to 60 days               | Prime rate plus 1%   |
| Greater than 60 days (term loan) | Prime rate plus 2%   |

Further, under the terms of the letter of credit agreement, the City has agreed to meet various covenants, which includes maintaining an above investment grade rating on its outstanding indebtedness. As of December 31, 2009, the City had no outstanding draws on the letter of credit.

**E. Qualified Schools Construction Bonds Payable**

During the year ended December 31, 2009, the City issued Qualified Schools Construction Bonds totaling \$12,000,000 to finance schools construction projects which is included in the totals for the general obligation bonds and notes in the long-term obligation table in footnote 7(a) above.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**F. Debt Service Requirements**

The maturities of the outstanding principal and related interest requirements are as follows:

| Year                            | General Obligation Debt |                   | Revenue Bonds Payable |                  | Total Debt Service |
|---------------------------------|-------------------------|-------------------|-----------------------|------------------|--------------------|
|                                 | Principal               | Interest          | Principal             | Interest         |                    |
| <i>(Thousands of Dollars)</i>   |                         |                   |                       |                  |                    |
| <b>Governmental activities</b>  |                         |                   |                       |                  |                    |
| 2010 .....                      | \$ 101,526              | \$ 28,828         | \$ -                  | \$ -             | \$ 130,354         |
| 2011 .....                      | 72,874                  | 24,979            | -                     | -                | 97,853             |
| 2012 .....                      | 64,290                  | 21,775            | -                     | -                | 86,065             |
| 2013 .....                      | 60,545                  | 18,797            | -                     | -                | 79,342             |
| 2014 .....                      | 55,000                  | 15,916            | -                     | -                | 70,916             |
| 2015-2019 .....                 | 288,547                 | 44,789            | -                     | -                | 333,336            |
| 2020-2024 .....                 | 83,369                  | 8,779             | -                     | -                | 92,148             |
| 2025-2029 .....                 | 16,601                  | 169               | -                     | -                | 16,770             |
| Total .....                     | <u>\$ 742,752</u>       | <u>\$ 164,032</u> | <u>\$ -</u>           | <u>\$ -</u>      | <u>\$ 906,784</u>  |
| <b>Business-type activities</b> |                         |                   |                       |                  |                    |
| <b>Water Works</b>              |                         |                   |                       |                  |                    |
| 2010 .....                      | \$ 2,507                | \$ 762            | \$ 939                | \$ 236           | \$ 4,444           |
| 2011 .....                      | 2,981                   | 643               | 964                   | 211              | 4,799              |
| 2012 .....                      | 2,506                   | 502               | 989                   | 185              | 4,182              |
| 2013 .....                      | 2,116                   | 367               | 1,015                 | 158              | 3,656              |
| 2014 .....                      | 2,301                   | 258               | 1,042                 | 131              | 3,732              |
| 2015-2019 .....                 | 2,799                   | 226               | 4,451                 | 239              | 7,715              |
| 2020-2024 .....                 | 75                      | 9                 | -                     | -                | 84                 |
| Total .....                     | <u>\$ 15,285</u>        | <u>\$ 2,767</u>   | <u>\$ 9,400</u>       | <u>\$ 1,160</u>  | <u>\$ 28,612</u>   |
| <b>Sewer Maintenance</b>        |                         |                   |                       |                  |                    |
| 2010 .....                      | \$ 270                  | \$ 176            | \$ 4,901              | \$ 3,399         | \$ 8,746           |
| 2011 .....                      | 272                     | 165               | 5,053                 | 3,226            | 8,716              |
| 2012 .....                      | 273                     | 153               | 5,213                 | 3,039            | 8,678              |
| 2013 .....                      | 293                     | 141               | 5,390                 | 2,837            | 8,661              |
| 2014 .....                      | 296                     | 129               | 5,578                 | 2,621            | 8,624              |
| 2015-2019 .....                 | 4,932                   | 415               | 31,207                | 9,559            | 46,113             |
| 2020-2024 .....                 | 831                     | 63                | 27,491                | 3,313            | 31,698             |
| 2025-2029 .....                 | -                       | -                 | 11,284                | 515              | 11,799             |
| Total .....                     | <u>\$ 7,167</u>         | <u>\$ 1,242</u>   | <u>\$ 96,117</u>      | <u>\$ 28,509</u> | <u>\$ 133,035</u>  |
| <b>Parking</b>                  |                         |                   |                       |                  |                    |
| 2010 .....                      | \$ 1,492                | \$ 526            | \$ -                  | \$ -             | \$ 2,018           |
| 2011 .....                      | 1,424                   | 460               | -                     | -                | 1,884              |
| 2012 .....                      | 1,268                   | 395               | -                     | -                | 1,663              |
| 2013 .....                      | 1,146                   | 337               | -                     | -                | 1,483              |
| 2014 .....                      | 1,127                   | 283               | -                     | -                | 1,410              |
| 2015-2019 .....                 | 3,541                   | 757               | -                     | -                | 4,298              |
| 2020-2024 .....                 | 1,618                   | 160               | -                     | -                | 1,778              |
| Total .....                     | <u>\$ 11,616</u>        | <u>\$ 2,918</u>   | <u>\$ -</u>           | <u>\$ -</u>      | <u>\$ 14,534</u>   |

CITY OF MILWAUKEE  
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| Year                          | General Obligation Debt |                  | Revenue Bonds Payable |                 | Total Debt Service |
|-------------------------------|-------------------------|------------------|-----------------------|-----------------|--------------------|
|                               | Principal               | Interest         | Principal             | Interest        |                    |
| <i>(Thousands of Dollars)</i> |                         |                  |                       |                 |                    |
| <b>Other Enterprise</b>       |                         |                  |                       |                 |                    |
| 2010 .....                    | \$ 430                  | \$ 133           | \$ -                  | \$ -            | \$ 563             |
| 2011 .....                    | 429                     | 111              | -                     | -               | 540                |
| 2012 .....                    | 388                     | 89               | -                     | -               | 477                |
| 2013 .....                    | 350                     | 70               | -                     | -               | 420                |
| 2014 .....                    | 341                     | 52               | -                     | -               | 393                |
| 2015-2019 .....               | 696                     | 87               | -                     | -               | 783                |
| 2020-2024 .....               | 101                     | 6                | -                     | -               | 107                |
| Total .....                   | <u>\$ 2,735</u>         | <u>\$ 548</u>    | <u>\$ -</u>           | <u>\$ -</u>     | <u>\$ 3,283</u>    |
| <b>Total Component Units</b>  |                         |                  |                       |                 |                    |
| 2010 .....                    | \$ 3,648                | \$ 1,336         | \$ 515                | \$ 713          | \$ 6,212           |
| 2011 .....                    | 141                     | 1,249            | 535                   | 689             | 2,614              |
| 2012 .....                    | 149                     | 1,240            | 795                   | 660             | 2,844              |
| 2013.....                     | 159                     | 1,230            | 990                   | 630             | 3,009              |
| 2014.....                     | 171                     | 1,218            | 1,195                 | 598             | 3,182              |
| 2015-2019 .....               | 6,265                   | 5,821            | 6,715                 | 2,414           | 21,215             |
| 2020-2024 .....               | 2,390                   | 5,073            | 19,953                | 1,325           | 28,741             |
| 2025-2029 .....               | 262                     | 4,803            | 40,670                | 613             | 46,348             |
| 2030-2034.....                | 365                     | 4,702            | 23,025                | 133             | 28,225             |
| 2035-2039 .....               | 2,299                   | 4,119            | -                     | -               | 6,418              |
| 2040-2044 .....               | 4,904                   | 3,226            | -                     | -               | 8,130              |
| 2045-2049 .....               | 16,946                  | 1,602            | -                     | -               | 18,548             |
| 2050-2054 .....               | 2,330                   | 765              | -                     | -               | 3,095              |
| 2055-2059.....                | 1,235                   | 450              | -                     | -               | 1,685              |
| Total .....                   | <u>\$ 41,264</u>        | <u>\$ 36,834</u> | <u>\$ 94,393</u>      | <u>\$ 7,775</u> | <u>\$ 180,266</u>  |

**G. Debt Limit**

Wisconsin Statutes limit direct general obligation borrowing in the amount equivalent to 7% of the equalized valuation of taxable property. The Statutes further provide that within the 7% limitation, borrowing for school construction purposes may not exceed 2% of the equalized valuation and borrowing for general city purposes may not exceed 5% of the equalized valuation. At December 31, 2009, the City's legal debt margin was \$1,559,252,000. Of this amount, \$645,150,000 was for school purposes and \$914,102,000 was for City purposes.

**H. Refundings**

During February 2009, the City issued General Obligation Promissory Notes, Series 2009 N1 with a par amount of \$51,568,000 and interest rates from 2.5% to 5% and Corporate Purpose Bonds, Series 2009 B2 with a par amount of \$15,017,000 and interest rates from 4% to 5%. The current refunding of \$71,800,000 General Obligation Commercial Paper Promissory Notes will provide long-term financing for temporary borrowing.

In prior years, the City defeased certain general obligation bonds by placing the proceeds from new general obligation bonds in an irrevocable trust to provide all future debt service payments on the bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At December 31, 2009, \$108,855,000 of bonds outstanding are considered defeased, which includes debt defeased during the current year.

CITY OF MILWAUKEE  
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**I. Conduit Debt**

From time to time, the City has issued revenue bonds in order to provide financing to private sector entities for the purpose of acquiring, constructing, or rehabilitating housing units and for retiring the existing debt associated with housing units. These obligations are primarily secured by mortgage or revenue agreements on the associated projects and, together with the interest obligation, are payable solely by the developers from leased rentals and other funds or revenues. In addition, these obligations do not constitute indebtedness of the City, as the City has no responsibility for the debt beyond the resources provided by related leases or loans. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The aggregate amount of all revenue bonds outstanding at December 31, 2009 is approximately \$47,996,000 for the City and \$579,000,000 for RACM.

**8. RETIREMENT PLANS**

**Pension Benefits**

*Plan Description* – The City makes contributions to the Employees' Retirement System of the City of Milwaukee (the "System"), a cost-sharing multiple-employer defined benefit pension plan, on behalf of all eligible City employees. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The City Charter assigns the authority to establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 610, Milwaukee, WI 53202.

*Funding Policy* – Plan members are required to contribute, or have contributed on their behalf, a percentage of their annual earnable compensation equal to 5.5%, 7%, 7%, and 7% for general City employees, police officers, firefighters, and elected officials, respectively. New hires who are not sworn police/fire must pay 1.6% of pensionable earnings for 8 years to fund the cost of benefit escalators due to the Global Pension Settlement. The City is required to contribute the actuarially determined amount. The City Charter assigns the authority to establish and amend contribution requirements. The City's contributions to the System for the years ending December 31, 2009, 2008, and 2007, were \$19,294,000, \$23,532,000, and \$23,330,000, respectively, equal to the required contributions on behalf of the plan members for each year.

**Other Postemployment Benefits**

The City provides other postemployment benefits (OPEB) to its retirees for health and life insurance.

*Plan Description.* The City provides a single-employer defined benefit healthcare plan and life insurance administered by both the City and Milwaukee's Employee Retirement System (MERS). The City provides medical insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City. Aside from the Basic Plan, this includes a Health Maintenance Organization (HMO) plan currently offered to active employees. The City provides full health insurance coverage to general City employees who retire at age 55, but less than age 65, with 30 years of creditable service or at age 60, but less than age 65, with 15 years of creditable service until the age of 65. Management employees retiring beginning in 2004 at age 55, but less than 65, pay a portion of health insurance the same as active management employees. In accordance with a "percentage formula" as provided in labor agreements, the City provides between 65% and 100% of the cost of the Basic Plan coverage for firefighters and police officers who retire with 25 years of creditable service and having attained at least the age of 52 but less than 60. Upon reaching the age of 60 but prior to the age of 65, the City provides full health insurance coverage for firefighters and police officers with single enrollment status. The City contribution for firefighters and police officers between the ages of 60 and 65 with family enrollment status is the greater of 100% of the cost of single enrollment in the Basic Plan or an amount determined using the "percentage formula." The "percentage formula" used to determine the City contribution in the labor agreements is based on the amount of unused sick leave at retirement.

After attaining the age of 65 and having completed a minimum of 15 years of creditable service, all retirees are eligible to enroll in a "subsidized plan" for medical insurance. Under this plan, the City contributes 25% of the base rate toward retirees enrolled in the Basic Plan, while the retiree pays 75% of the base rate and 100% of the major medical rate. For those retirees enrolled in an HMO, the City contributes a 25% subsidy of the applicable HMO premium.

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In addition to medical insurance, the City allows its employees to continue life insurance coverage under the Group Life Insurance Plan offered to active employees in accordance with Section 350-25 of the Code of Ordinances. The base amount of coverage for general City employees is equal to the employee's annual basic salary to the next higher thousand dollars. The base amount of coverage for firefighters and police officers is equal to one and one-half the employee's annual basic salary to the next higher thousand dollars.

General City employees retiring at age 55 or older with 20 years of service or at age 60 regardless of years of service and covered under the group life insurance plan at retirement are eligible to continue coverage at the level on the date prior to their date of retirement. Firefighters and police officers retiring at age 52 or older with 20 years of service or at age 57 regardless of years of service and covered under the group life insurance plan at retirement are eligible to continue coverage up to their base amount of coverage on the date prior to their date of retirement. Prior to age 65, all retirees are required to pay the full premium rates as established by the insurance carrier, less an adjustment for estimated dividends. The rates established are group rates applied consistently to all employees, without regard to age or health. Upon reaching the age of 65, those retirees still part of the group life plan have their coverage reduced in accordance with the reduction schedule in effect on their last day physically at work, with the City assuming all future premiums.

*Funding Policy.* The contribution of plan members and the City are established and may be amended by the City. The required contribution for medical, and life insurance for retirees is based on a pay-as-you-go financing. Medical benefits provided through the basic health care plan are self-insured. For 2009, the City paid approximately \$27,613,000 and \$1,102,000, respectively, toward medical and life insurance for retirees.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 *Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan (pay-as-you basis), and the changes in the City's net OPEB obligation:

|   |                       |
|---|-----------------------|
| ARC .....                                     | \$ 76,855,000         |
| Interest on Net OPEB Obligation .....         | 3,528,000             |
| Adjustment to ARC .....                       | <u>(2,994,000)</u>    |
| Annual OPEB Cost .....                        | 77,389,000            |
| Contribution made .....                       | <u>28,715,000</u>     |
| Increase in net OPEB Obligation .....         | 48,674,000            |
| Net OPEB obligation - beginning of year ..... | <u>78,400,000</u>     |
| Net OPEB obligation - end of year .....       | <u>\$ 127,074,000</u> |

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <b>Annual Cost and Net OPEB Liability</b> |                         |   |                            |
|---|-------------------------|---|----------------------------|
| <b>Year Ended</b>                         | <b>Annual OPEB Cost</b> | <b>Percentage of Annual OPEB Cost Contributed</b> | <b>Net OPEB Obligation</b> |
| 12/31/2007                                | \$ 67,600,000           | 43.5%   | \$ 38,200,000              |
| 12/31/2008                                | 73,100,000              | 45.0%   | 78,400,000                 |
| 12/31/2009                                | 77,389,000              | 37.1%   | 127,074,000                |

*Funded Status and Funding Progress.* As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$959,562,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$959,562,000. The covered payroll (annual payroll of active employees covered by the plan) was \$419,811,000 and the ratio of the UAAL to the covered payroll was 229 percent.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions.* The retiree healthcare valuation was based on the projected unit credit (PUC) cost method. The PUC method produces an explicit normal cost and actuarial accrued liability. The normal cost and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement. Depending on the demographic characteristics of the current group and new entrants in the future, this method could produce stable annual costs, in the aggregate, when expressed as a percentage of pay.

The OPEB valuation uses a discount rate assumption of 4.5% based on the City's projected short-term investment rate of return. The healthcare cost trends rate is 9% initially, and reduced by decrements to the ultimate rate of 4.5% after 10 years. The actuarial assumption for wage inflation is 3.5%. The amortization of the unfunded actuarial accrued liability is based on a level percentage of pay over a 30-year open amortization period.

#### **Terminal Leave Payments**

Upon retirement, employees receive a portion of their unused sick leave as terminal leave, in accordance with labor contracts and Section 350-38 of the Code of Ordinances. Firefighters whose normal hours of work exceed 40 hours per week receive between \$45 and \$65 for each work shift equivalent of unused sick leave. Firefighters whose normal hours of work average 40 hours per week receive between \$21 and \$30 for each work shift equivalent of unused sick leave. Police officers receive payment for up to 55 days of unused sick leave at base pay. Management pay plan employees are entitled to payment of 30% of unused sick leave (maximum 960 hours) plus one-half of the sick leave days accumulated during the last twelve months of service for up to six additional days for a total maximum of 42 days at the rate of pay at retirement. Substantially all remaining City employees receive up to 30 days for unused sick leave as terminal leave, although some bargaining units receive slightly different benefits in accordance with related labor agreements. In 2009, approximately \$8,657,000 was paid for sick leave from all funds. At December 31, 2009, accumulated sick leave earned but not taken totaled approximately \$175,212,000 determined on the basis of current salary rates.

Terminal leave pay is funded on a pay-as-you-go basis and provided for in the salary budgets of the respective departments annually. In 2009, terminal leave payments totaled \$2,096,000 to employees retiring during the year. As of December 31, 2009, the City has accrued approximately \$20,748,000 in the government-wide statements for future terminal leave payments. This amount is included under the unfunded compensated absences of \$38,904,000 with the remainder accrued vacation leave of \$18,156,000.

## **9. FUND EQUITY**

### **Reserved for Tax Stabilization and Advances to Other Funds**

The Reserved for Tax Stabilization, \$42,166,000 at December 31, 2009, is governed by the City's Code of Ordinances. This reserve includes an amount for advances of \$12,036,000 from the general fund to the capital projects fund. The general fund has advanced this amount to fund special assessment projects. The availability of the \$12,036,000 for Tax Stabilization is contingent upon future collection of the special assessments receivable. All General Fund appropriation balances not encumbered or carried over are reserved for tax stabilization in subsequent years. The total amount that can be withdrawn from the Reserved for Tax Stabilization in any one year is an amount that prevents an increase of more than 3% in the City's property tax rate, as defined, and is anticipated to be available as of April 15 of the year covered by the budget. Such amount must be included in the adopted budget, which requires a majority affirmative vote of the Common Council. Fund withdrawals not needed to stabilize the tax rate can be made for up to 50% of the available balance, but require a three-fourths affirmative vote of the Common Council.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Fund deficit**

The Capital Projects Fund had a deficit fund balance of \$36,485,000 as of December 31, 2009, which is the result of expending funds for construction in advance of issuing general obligation bonds. The City plans to eliminate the fund deficit through the issuance of general obligation bonds in 2010.

**10. INTERFUND RECEIVABLE AND PAYABLE BALANCES AND NET TRANSFERS**

The individual interfund receivable and payable balances at December 31, 2009:

|              |                                   | Due From                      |                                   |                |                              |                                 |               |
|--------------|-----------------------------------|-------------------------------|-----------------------------------|----------------|------------------------------|---------------------------------|---------------|
|              |                                   | General<br>Fund               | Nonmajor<br>Governmental<br>Funds | Water<br>Works | Sewer<br>Maintenance<br>Fund | Nonmajor<br>Enterprise<br>Funds | Total         |
|              |                                   | <i>(Thousands of Dollars)</i> |                                   |                |                              |                                 |               |
| Due To       | General Fund .....                | \$ -                          | \$ 714                            | \$ 1,177       | \$ -                         | \$ -                            | \$ 1,891      |
|              | General Obligation Debt .....     | -                             | -                                 | 3,269          | -                            | -                               | 3,269         |
|              | Capital Projects .....            | 21,509                        | -                                 | -              | -                            | -                               | 21,509        |
|              | Nonmajor Governmental Funds ..... | 7,305                         | -                                 | -              | -                            | -                               | 7,305         |
|              | Water Works .....                 | 7,699                         | -                                 | -              | 719                          | 1,074                           | 9,492         |
|              | Sewer Maintenance .....           | 27,958                        | -                                 | -              | -                            | -                               | 27,958        |
|              | Nonmajor Enterprise Funds ...     | <u>12,279</u>                 | <u>-</u>                          | <u>-</u>       | <u>-</u>                     | <u>-</u>                        | <u>12,279</u> |
| Totals ..... | <u>\$ 76,750</u>                  | <u>\$ 714</u>                 | <u>\$ 4,446</u>                   | <u>\$ 719</u>  | <u>\$ 1,074</u>              | <u>\$ 83,703</u>                |               |

Balances resulted from the timing differences between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) funds overdraw their share of pooled cash or when there are transactions between funds where one fund does not participate in the City's pooled cash.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

Interfund transfers for the year ended December 31, 2009 were as follows:

| Funds Transferred To            | Fund Transferred From            | Amount                                   | Purpose                              |
|---------------------------------|----------------------------------|--|--------------------------------------|
| <b>General Fund</b>             | General Obligation Debt          | \$ 4,642                                 | Funding for debt payments            |
|                                 | Nonmajor Governmental Funds      | 8,260                                    | Subsidize uncollected property taxes |
|                                 | Nonmajor Governmental Funds      | 7  | Grant variance closeouts             |
|                                 | Water Works                      | 9,440                                    | Payment in Lieu of taxes             |
|                                 | Parking                          | 1,252                                    | Payment in Lieu of taxes             |
|                                 | Parking                          | 18,132                                   | Subsidy for operations               |
|                                 | Nonmajor Enterprise Funds        | <u>2,101</u>                             | Excess earnings of Port              |
|                                 |                                  | <b>Subtotal General Fund</b>             | <b><u>43,834</u></b>                 |
| <b>General Obligation Debt</b>  | General                          | 116,000                                  | Funding for cash flow debt           |
|                                 | General                          | 2,076                                    | Funding for debt payments            |
|                                 | Capital Projects                 | 2,408                                    | Tax Incremental District closeouts   |
|                                 | Nonmajor Governmental Funds      | 18,861                                   | Funding for debt payments            |
|                                 | Sewer Maintenance                | 9,300                                    | Subsidy for operations               |
|                                 | Parking                          | <u>556</u>                               | Subsidy for operations               |
|                                 |                                  | <b>Subtotal Debt Service</b>             | <b><u>149,201</u></b>                |
| <b>Public Debt Amortization</b> | General Obligation Debt          | <u>3,695</u>                             | Funding for debt payments            |
|                                 |                                  | <b>Subtotal Public Debt Amortization</b> | <b><u>3,695</u></b>                  |
| <b>Capital Projects</b>         | Public Debt Amortization         | <u>200</u>                               | Subsidy for operations               |
|                                 |                                  | <b>Subtotal Capital Projects</b>         | <b><u>200</u></b>                    |
| <b>Nonmajor Enterprise</b>      | General Fund                     | 5  | Subsidy for operations               |
|                                 | General Obligation Debt          | <u>665</u>                               | Funding for debt payments            |
|                                 |                                  | <b>Subtotal Nonmajor Proprietary</b>     | <b><u>670</u></b>                    |
|                                 | <b>Total Interfund Transfers</b> | <b><u>\$ 197,600</u></b>                 |                                      |

Transfers are used to (1) move revenues from the fund that statute or budget requires collection from to the fund that statute or budget required to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**11. BALANCES BETWEEN THE CITY AND COMPONENT UNITS**

Balances due to and due from component units as of December 31, 2009:

| <b>Component Unit Payable</b>   | <b>Primary<br/>Government's<br/>Receivable</b><br><i>(Thousands of Dollars)</i> |
|---|---|
| Due from HACM for reimbursable expenditures .....   | \$ 1,323  |
| Due from HACM for payment in lieu of taxes .....  |   |
| Due from RACM for loans issued to developers for<br>the purpose of renovations and improvements to<br>existing parcels of real estate ..... | 15,111  |
| Due from RACM for reimbursable expenditures .....   | 326   |
| Due from MEDC for tax incremental district loans .....  | 1,482   |
| Due from NIDC for home and Community Development<br>Block grants .....  | 48  |
| Due from NIDC for reimbursements for expenditures .....   | <u>5</u>  |
| <br>Total .....   | <br><u>\$ 18,295</u>  |

| <b>Component Unit Receivable</b>                                       | <b>Primary<br/>Government's<br/>Payable</b><br><i>(Thousands of Dollars)</i> |
|--|--|
| Due to RACM for tax incremental projects.....                          | \$ 123   |
| Due to RACM for urban renewal projects.....                            | 139  |
| Due to RACM Community Development Block grants and<br>Home grants..... | 120  |
| Due to MEDC Community Development Block grants and<br>Home grants..... | <u>28</u>  |
| <br>Total .....  | <br><u>\$ 410</u>  |

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**12. OPERATING LEASES**

The City is the lessor for various properties under operating lease agreements expiring at various dates through 2009 and beyond. Certain leases contain provisions for possible renewal at term of the lease.

Scheduled minimum lease payments for years ending December 31 are as follows:

| Year                          | Amount           |
|-------------------------------|------------------|
| <i>(Thousands of Dollars)</i> |                  |
| 2010                          | \$ 5,447         |
| 2011                          | 4,520            |
| 2012                          | 4,202            |
| 2013                          | 4,212            |
| 2014                          | 3,529            |
| 2015-2019                     | 14,050           |
| 2020-2024                     | 6,472            |
| 2025-2029                     | 2,851            |
| 2030 and beyond               | <u>7,121</u>     |
| Total                         | <u>\$ 52,404</u> |

**13. COMMITMENTS AND CONTINGENCIES**

**Claims and Other Legal Proceedings**

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employee or natural disaster. With certain exceptions, it is not the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for reasonably estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. Current settlements are paid from the General Fund and recorded as expenditures when paid in the fund based statements. The liabilities are recorded in the government-wide financial statements.

Under Wisconsin Statutes, the amount recoverable by any person for any damages, injuries, or death in any action founded on fact against the City, agencies, officials, officers, or employees cannot exceed \$50,000, with certain exceptions.

The City is self-insured for workers' compensation, health insurance (basic plan), uninsured motorist motor vehicle coverage for City employees, and general liability. Liabilities are reported when it is probable that a loss can be reasonable estimated. These losses include an estimate of claims that have been incurred but not reported. Liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other economic and social factors. Claims are paid from the General Fund and recorded as expenditures when paid in the fund based financial statements. The liabilities are recorded in the government-wide financial statements.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

The liabilities recorded as long-term debt in the government-wide financial statements at December 31, 2009 are as follows:

|                                       |               |
|---------------------------------------|---------------|
| General liability claims .....        | \$ 11,395,000 |
| Workers' compensation claims .....    | 7,765,000     |
| Unemployment claims .....             | 1,018,000     |
| Health insurance claims .....         | 2,043,000     |
| Pollution remediation obligation..... | 1,498,000     |

Changes in the balances of claim liabilities during the past two years are as follows:

|  | <b>2008</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| Beginning of year liability .....                  | \$ 25,021,000        | \$ 28,466,000        |
| Current year claims and changes in estimates ..... | 11,245,000           | 10,233,000           |
| Claim payments .....                               | <u>(7,800,000)</u>   | <u>(14,980,000)</u>  |
| End of year liability .....                        | <u>\$ 28,466,000</u> | <u>\$ 23,719,000</u> |

The Milwaukee Police Association (MPA) alleged that The Milwaukee Employees' Retirement System (ERS) was prohibited by City ordinance from spending more than \$3 million to purchase and install a computer information system. It is estimated that the total cost of ERS information system is approximately \$25 million. The MPA suit was subsequently voluntarily dismissed in 2005 and a clone case was brought by the Milwaukee Police Supervisors Organization (MPSO). Another union, the Association of Law Enforcement Allied Services Personnel (ALEASP), has joined the lawsuit as a plaintiff. The dispute in the case is over the interpretation of the section of the City ordinance that transferred all administrative, operational, and investment expenses for the City to ERS. On November 11, 2009, each defendant filed its motion for summary judgment.

On October 24, 2004, a claimant attended a party in the city that was hosted by a Milwaukee police officer and a number of other police officers had been invited. At some point, a number of the off-duty officers became involved in an altercation with the claimant who alleges that he was beaten for no reason and he did suffer severe injuries. The off-duty officers claim that they became involved with the claimant only after they suspected that he had stolen a badge from one of them. They also claim that the claimant resisted their efforts to obtain physical control of him. On-duty police were also called to the scene and claimant alleges that they, too, used excessive force on him and failed to stop the use of excessive force by those off-duty officers who were striking him. In addition to issues concerning the cause of the altercation, its actual participants, and its course, there is a substantial question of whether the off-duty officers involved in the matter were acting within the scope of their employment. All proceedings had been stayed pending the outcome of criminal trials. The county prosecutor charged three of the off-duty officers with crimes, but in April 2006 two were found not guilty and the jury could not reach a final verdict as to one charge against the third. Federal authorities indicted eight officers, with civil rights violations, and those cases, proceeded to trial in July 2007. Three of the officers were found guilty and one was acquitted. The other four officers entered into plea agreements. Now that all criminal trials have concluded, the court approved a discovery period. Discovery, including expert testimony, has been extended through November 1, 2010 and dispositive motions are due December 31, 2010.

**Environmental Liabilities**

The nature and sources of the City's pollution remediation obligation are asbestos abatement, underground storage tanks, PBC pollution, and contaminated properties. The probability-weighted expected cash flow measurement technique is used in determining the amount of liability. This involves determining a range of probabilities or likelihoods that different probable outlays will be necessary and calculating a weighted average of these outlays. There is a potential for changes in the estimated pollution remediation obligation due to third-party contracts and City labor costs changes, amendments to regulatory requirements and rules, and previously unknown conditions. The estimated costs of \$563,000 to address PBC pollution could increase if the Environment Protection Agency (EPA) does not approve the City's proposed cleanup methods. The EPA could require the City to do additional testing and remediation, resulting in greater costs to the City. The City qualifies for the State of Wisconsin *Municipal Liability Exemption Program* for contaminated properties. As long as the City is protective of human health environment, clean up is not required. The City generally cleans up contaminated properties based on remediation grants awarded to the City. The City does not expect to receive any non-grant revenues from insurance or other parties to reduce the City's liability for pollution remediation.

CITY OF MILWAUKEE  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2009

During 2009, the City spent \$306,000 in pollution remediation-related activities. At December 31, 2009, the City has an outstanding liability of \$1.5 million related to pollution remediation obligations.

The City is exposed to numerous environmental liabilities, the most significant of which relate to seven landfills. Two of the seven landfills have been closed. Of the remaining four landfills that are no longer accepting waste, the Wisconsin Department of Natural Resources has imposed closure requirements on the North College Avenue Site, which the City substantially closed during 2000. The Hartung landfill, which is used exclusively for clean fill, is expected to be closed within three years. The City has accrued \$690,000 in the government-wide financial statement, as part of general liability claims, for landfill closure related to the four sites. These amounts are based upon what it would cost to perform all closure activities in 2001. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost's*, establishes requirements for disclosure of closure and postclosure requirements for all municipal solid waste landfills receiving solid waste after October 9, 1991. The City's landfills have not accepted waste of this type since 1976 and is therefore not required to accrue for closure and postclosure care in accordance with GASB Statement No. 18.

#### **Construction Commitments**

The governmental activities and the Water Works Fund (enterprise) have construction commitments of \$31,633,000 and \$7,060,155, respectively, for various capital improvement projects at December 31, 2009.

#### **Intergovernmental grants**

Intergovernmental awards received by the City are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for expenditures, which are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements at December 31, 2009.

#### **14. SUBSEQUENT EVENTS**

On February 19, 2010, the City issued \$137,565,000 of general obligation short-term promissory notes for the purpose of financing various public improvement projects of the City. The notes mature on February 1 of each year beginning 2011 until 2020. Interest is payable on February 1 and August 1 commencing August 1, 2010.

On February 19, 2010, the City issued \$7,970,000 of general obligation corporate purpose bonds for the purpose of financing various public improvement projects of the City. These bonds mature on February 1 of each year beginning 2021 until 2027. Interest is payable on February 1 and August 1 commencing August 1, 2010.

On April 15, 2010, the City issued \$147,000,000 of general obligation cash flow promissory notes financing the City's operating budget until the receipt of State shared revenues. These notes mature on December 15, 2010 with interest.

On April 15, 2010, the City issued \$49,420,000 of general obligation corporate purpose bonds for the purpose of financing various public improvement projects of the City. These bonds mature on May 1 of each year beginning 2011 until 2027. Interest is payable on May 1 and November 1 commencing November 1, 2010.

On June 15, 2010, the City issued \$37,300,000 of general obligation corporate purpose bonds (Qualified School Construction Bonds) for the purpose of financing schools construction projects. These bonds mature on February 15, 2027. Interest is payable on February 15 and August 15 commencing August 15, 2010.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

CITY OF MILWAUKEE  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit E-1

|   | <u>Budgeted Amounts</u>    |                         | <b>Actual -<br/>Amounts<br/>Budgetary<br/>Basis</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---|----------------------------|-------------------------|---|---|
|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> |   |   |
| <b>Revenues:</b>  |                            |                         |   |   |
| Property taxes .....  | \$ 164,629                 | \$ 164,629              | \$ 156,410  | \$ (8,219)                                  |
| Other taxes .....   | 5,103                      | 5,103                   | 3,504   | (1,599)                                     |
| Licenses and permits .....  | 13,138                     | 13,138                  | 12,186  | (952)                                       |
| Intergovernmental .....   | 272,252                    | 272,252                 | 272,337   | 85  |
| Charges for services .....  | 83,328                     | 83,427                  | 91,057  | 7,630                                       |
| Fines and forfeits .....  | 5,593                      | 5,593                   | 4,802   | (791)                                       |
| Other .....   | <u>18,530</u>              | <u>18,530</u>           | <u>19,967</u>                                       | <u>1,437</u>                                |
| <b>Total Revenues .....</b>   | <u><b>562,573</b></u>      | <u><b>562,672</b></u>   | <u><b>560,263</b></u>                               | <u><b>(2,409)</b></u>                       |
| <b>Expenditures:</b>  |                            |                         |   |   |
| <b>Current:</b>   |                            |                         |   |   |
| General government .....  | 223,306                    | 217,243                 | 202,066   | 15,177                                      |
| Public safety .....   | 270,389                    | 278,323                 | 276,060   | 2,263                                       |
| Public works .....  | 91,925                     | 97,448                  | 97,093  | 355   |
| Health .....  | 10,233                     | 10,486                  | 10,446  | 40  |
| Culture and recreation .....  | 16,743                     | 17,330                  | 17,329  | 1   |
| Conservation and development .....  | <u>3,896</u>               | <u>4,665</u>            | <u>4,230</u>  | <u>435</u>                                  |
| <b>Total Expenditures .....</b>   | <u><b>616,492</b></u>      | <u><b>625,495</b></u>   | <u><b>607,224</b></u>                               | <u><b>18,271</b></u>                        |
| <b>Deficiency of Revenues over Expenditures .....</b>                               | <u><b>(53,919)</b></u>     | <u><b>(62,823)</b></u>  | <u><b>(46,961)</b></u>                              | <u><b>15,862</b></u>                        |
| <b>Other Financing Sources (Uses):</b>  |                            |                         |   |   |
| General obligation bonds and notes issued .....                                     | -                          | 3,000                   | 119,000   | 116,000                                     |
| Transfers in .....  | 31,746                     | 36,389                  | 43,834  | 7,445                                       |
| Transfers out .....   | -                          | (5)                     | (118,081)   | (118,076)                                   |
| Contributions received .....  | 27,698                     | 28,003                  | 21,300  | (6,703)                                     |
| Contributions used .....  | (27,627)                   | (27,888)                | (20,743)  | 7,145                                       |
| Use of fund balance - reserved for tax stabilization ...                            | <u>22,379</u>              | <u>22,379</u>           | <u>22,379</u>                                       | <u>-</u>                                    |
| <b>Total Other Financing Sources and Uses .....</b>                                 | <u><b>54,196</b></u>       | <u><b>61,878</b></u>    | <u><b>67,689</b></u>                                | <u><b>5,811</b></u>                         |
| <b>Net Change in Fund Balance .....</b>   | <b>277</b>                 | <b>(945)</b>            | <b>20,728</b>                                       | <b>21,673</b>                               |
| <b>Fund Balance - Beginning (Excludes Reserved for<br/>Tax Stabilization) .....</b> | <u><b>50,628</b></u>       | <u><b>50,628</b></u>    | <u><b>50,628</b></u>                                | <u><b>-</b></u>                             |
| <b>Fund Balance - Ending .....</b>  | <u><b>\$ 50,905</b></u>    | <u><b>\$ 49,683</b></u> | <u><b>\$ 71,356</b></u>                             | <u><b>\$ 21,673</b></u>                     |

**Explanation of Differences of Budget to GAAP:**

For budget purposes, the fund balance - reserved for tax stabilization is reflected as other financing sources whereas for accounting purposes, it is reflected as part of fund balance. The difference between the fund balance on a GAAP basis compared with budget basis is \$22.379 million at January 1, 2009.

Contributions received and used for budget purposes are reported as other financing sources, but for GAAP are considered to be revenues and expenditures.

See accompanying independent auditors' report.

CITY OF MILWAUKEE  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
 FOR THE YEAR ENDED DECEMBER 31, 2009  
 (Thousands of Dollars)

Exhibit E-2

**Retiree Health and Life Insurance**

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Liability (AAL) - Projected Unit Credit | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|---|---------------------|--------------|-----------------|---|
| 7/1/2007                 | -                         | \$ 806,300,000                                    | \$ 806,300,000      | 0.0%         | \$ 412,731,863  | 195.4%                                  |
| 7/1/2008                 | -                         | 880,700,000                                       | 880,700,000         | 0.0%         | 425,360,370     | 207.0%                                  |
| 1/1/2009                 | -                         | 959,562,000                                       | 959,562,000         | 0.0%         | 419,811,361     | 228.6%                                  |

*See accompanying independent auditors' report.*

CITY OF MILWAUKEE  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Budgets and Budgetary Accounting**

City departments are required to submit their annual budget requests for the ensuing year to the Mayor by the second Tuesday in May. The Department of Administration, Division of Budget and Management Analysis, acting as staff for the Mayor, reviews the request in detail with the departments during June and July. After all of the requests have been reviewed, the Mayor submits his proposed Executive Budget to the Common Council. The City Charter requires that this be done on or before September 28. The Common Council must complete its review and adopt the budget on or before November 14. Once adopted, Common Council approval is required to amend the total appropriations by a department, the legal level of control for each budget. During the year, various amendments were made to the budget including carryovers of appropriations and encumbrances, and internal transfers.

Annual budgets are legally adopted by the Common Council for some but not all governmental funds. Annual budgets are not adopted for Special Revenue Fund - Delinquent Tax, Debt Service Fund - Public Debt Amortization and Capital Projects Funds. The Debt Service Fund - General Obligation Debt uses a non-appropriated budget. Budgets for Capital Projects Funds are prepared for the project life, rather than for the standard current fiscal year. Therefore, project appropriations for these budgets lapse at the conclusion of the project. All other appropriations lapse at the end of the current fiscal year. Governmental funds for which annual budgets have been adopted are included in the accompanying Required Supplementary Information Budgetary Comparison Schedule and in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

**Schedule of Funding Progress – Actuarial Methods and Assumptions**

|                            |                         |
|----------------------------|-------------------------|
| Valuation date             | January 1, 2009         |
| Actuarial cost method      | Projected unit credit   |
| Amortization method        | Level-dollar            |
| Amortization period        | 30 years (open)         |
| Actuarial assumptions:     |                         |
| Investment rate of return  | 4.5%                    |
| Projected salary increases | 3.5%                    |
| Health care inflation rate | 20.4% initial HMO       |
|                            | 7.7% initial Basic Plan |
|                            | 4.5% ultimate           |

**REMAINDER OF FINANCIAL SECTION**

Combined and Individual Fund Statements and Schedules  
Miscellaneous Financial Data

**STATISTICAL SECTION**

Pages 99-158 Omitted

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**APPENDIX C**

**GENERAL INFORMATION ABOUT THE PROJECT OWNER AND THE PROJECT**

**MILWAUKEE WORLD FESTIVAL, INC.**

[SEE ATTACHED]

## **MILWAUKEE WORLD FESTIVAL, INC.**

### **The Corporation**

Milwaukee World Festival, Inc. (the “Corporation”) is a Wisconsin nonstock, nonprofit corporation and is an educational organization within the meaning of Section 501(c) (3) of the Internal Revenue Code of 1986. The Corporation is not subject to federal or state income taxation.

The Corporation currently leases approximately 72 acres of lakefront property, known as the Henry Maier Festival Park, located at 200 North Harbor Drive in the City of Milwaukee, Wisconsin (referred to hereinafter as the “Summerfest Grounds”) from the City and its Board of Harbor Commissioners. The Corporation operates and produces an 11-day music festival, known as Summerfest, on the property. In addition, the Corporation works closely with other organizations in the production of a number of single day events and multi-day ethnic and cultural festivals, as well as with local concert promoters holding events in the 24,000-seat Marcus Amphitheater, which is also located on the Summerfest Grounds.

### **History and Background**

The Corporation is an independent, private corporation, which was founded in 1967 to implement Summerfest at the direction of the late Mayor Henry Maier. The Corporation was created for the purpose of organizing and producing a multi-day event to offer low-cost entertainment to area residents. In addition, community leaders hoped that the event would revitalize Milwaukee’s downtown and bring the community together. Summerfest debuted in 1968 at 35 separate locations throughout the city, and was moved to its present location on Milwaukee’s lakefront in 1970. The objective of the Corporation is to offer the people of Milwaukee and the broader market area a festival that reaches everyone with diverse music, entertainment, food, cultural and educational experiences. Throughout its 43 year history, the Corporation has achieved and continues to achieve the initial goals set forth, producing the world’s largest music festival.

Regional and national entertainers perform at the festival grounds’ 11 stage areas. More than 45 Milwaukee-area establishments operate food and beverage operations at the festival, providing a diverse selection of cuisine for its patrons. Additional activities include marketplaces for shopping, sports demonstrations, a children’s playzone, and other special programs.

Traditionally, Summerfest annually draws in excess of 800,000 patrons. Throughout the festival season the number of patrons attending at all events on the Summerfest Grounds exceeds 1,400,000.

### **Summerfest Grounds**

The Corporation and the City recently agreed to an amendment of the Corporation’s lease (the “Lease”) for the Summerfest Grounds. The Lease term was extended an additional ten years and continues through December 31, 2030. Annual rent payments under the Lease increase gradually from \$1,337,307 in 2011 to \$1,954,724 in 2029 and \$3,949,186 in 2030, the final year of the extended term, subject to certain adjustments.

The grounds are intended for the production of festivals and single-day events. Patrons enter the Summerfest Grounds through a number of turnstiles at the three main entrance gates at the north, mid, and south ends of the grounds. The festival site has been improved with permanent buildings, green space, walkways and several permanent and temporary stages throughout the park. With the exception of the Marcus Amphitheater, all of the stages are designed to accommodate general admission seating. The Marcus Amphitheater is located at the south end of the site and seats approximately 24,000 in a combination of undercover reserved pavilion seats, and bench and lawn seating. Temporary and permanent food vendor buildings are located throughout the grounds, and the majority of the vendor buildings are situated around the various stage areas. In addition to the stages, the facility also features a sports court; a children’s play area and theater; and some concession and vending areas. Grassy areas are utilized either for activities or as patron respite areas. The Corporation’s administrative offices are also located on site, with staff offices in two separate buildings. Various storage facilities are also located on the grounds.

In addition to the leased Summerfest Grounds, the Corporation also owns several properties contiguous to the grounds.

## **The Project**

The Corporation, has designated the project to be financed in part with the Bonds as the “South End Project” (hereinafter the “Project”). The Project area is approximately 22 acres on the south end of the Summerfest Grounds and does not include the Marcus Amphitheater. The Project will be completed in two phases.

Phase 1 includes demolition of buildings that were built in the 1950’s and converted a number of years ago to their most recent use as food vendor locations and restrooms. The demolition also includes the south gate, Briggs and Stratton stage area, south restroom building, the box office and structures near the Marcus Amphitheater forecourt, most of which were built more than 25 years ago and would require significant improvements, if not demolished. Demolition related to Phase 1 began on October 4, 2010.

The new south gate structure will be moved to the west of its current location, still within the Summerfest Grounds leasehold. The new south gate will include a new box office, customer service areas, restrooms and service locations for Summerfest-related operations. The new south gate location and structure will ease ingress and egress to the Summerfest Grounds during Summerfest and other events.

Phase 1 will also include a new Briggs and Stratton “Big Backyard” stage area, which will enhance the live music experience for all Summerfest patrons, and provide more flexibility for use by the Ethnic and Cultural Festivals that occur throughout the festival season at the Summerfest Grounds. Additionally, this area will have new food vendor locations, additional restrooms, and vendor areas, all while preserving mature trees that compliment the Big Backyard.

The Marcus Amphitheater forecourt area and adjacent vendor locations will receive upgrades and enhancements during Phase 1. The renovations to this area, together with the replacement of buildings referenced above, will also include new restaurant and bar equipment, new stage equipment, loading docks, furniture, fixtures and equipment for the new box office and back stage service locations. Perimeter fencing, parking lot expansion and repairs, extensive signage and landscaping are all part of Phase 1. Phase 1 is expected to be substantially completed by June 1, 2011.

Phase 2 will begin in the fall of 2011 and be completed on or before June 1, 2012. Phase 2 is primarily concentrated in the Southeast portion of the Summerfest Grounds (the area that currently includes the Classic Rock Stage), and is still in the design stage.

Under the terms of the Lease, all capital improvement projects planned for the grounds must be approved by the Board of Harbor Commissioners. In addition, various departments of the City have the authority to review the projects. Phase 1 improvements for the festival site have received the approval from the Board of Harbor Commissioners.

The overall budget for Phases 1 and 2 is approximately \$29,473,600. The Project will be financed in part through the issuance of the Bonds, and the Corporation expects to contribute up to \$7,118,000, in capital reserve funds to the Project.

The architects for the Project are Eppstein Uhen Architects. Hunzinger Construction Company has been selected as the construction manager for the Project. Pursuant to the Lease, the Corporation has committed to a goal of using a minimum of 25% emerging business enterprise contractors for its total expenditures, including all construction.

## **Management of the Corporation**

*Board of Directors*

The Corporation is managed by a Board of Directors composed of 25 voting directors from the private and public sectors. In addition, nonvoting honorary directors are appointed on an annual basis. Thirteen of the voting directors are elected by the Board of Directors for staggered three-year terms. Each of these directors holds office for a term of three years or until such director's successor shall have been duly elected or appointed or until such director's death, resignation or removal. These directors may be re-elected or re-appointed to serve more than one term in office; however, they may not serve more than two successive three-year terms. A former director may be re-elected or re-appointed to the Board after one year has passed from his or her previous term. Nine of the voting directors are selected by other parties, subject to approval by the Corporation's board of directors. Each of these directors serves a one-year term on the board. Three of these directors are selected by the primary sponsoring entity of each of three large festival stages, currently Briggs & Stratton, Inc., Harley-Davidson, Inc., and MillerCoors LLC. Three directors representing the nine ethnic festivals that are held on the festival grounds are selected by the board of directors of United Festivals, Inc. One director is selected by each of the Mayor of the City of Milwaukee, the President of the Common Council of the City of Milwaukee and the County Executive of the County of Milwaukee, but cannot include an elected or appointed official of the City of Milwaukee, the County of Milwaukee or the State of Wisconsin, or an employee of the City. Finally, the City Comptroller serves *ex officio* as a director at any time that the Corporation has an outstanding bond issue through the City of Milwaukee.

Officers of the Board include a President, First Vice President, Second Vice President, Secretary and Treasurer.

The Corporation's Board of Directors is as follows:

| <b><u>Name</u></b> |           | <b><u>Principal Occupation</u></b>                                 |
|--------------------|-----------|--|
| Jane               | Anderson  | Executive Director, Milwaukee Irish Festivals, Inc.                |
| Ihsan              | Atta      | Arab World Festival Representative & Opus Corporation              |
| Joanne             | Bischmann | VP of Communications, Harley-Davidson USA                          |
| Genyne             | Edwards   | Principal, Edwards Ingenuity                                       |
| Beverly            | Greenberg | Retired  |
| Charles            | Harvey    | VP Diversity & PR, Johnson Controls                                |
| John               | Hiller    | Transition Director – Governor-elect Scott Walker                  |
| William            | Hurwitz   | VP & General Manager, Milwaukee Radio Alliance, LLC                |
| Ted                | Kellner   | Partner, Fiduciary Management, Inc.                                |
| Colin              | Lancaster | Partner, Ravellum Capital Advisors                                 |
| J. Michael         | Lauer     | CFO/EVP, MGIC Investment Corporation                               |
| Kim                | Marotta   | Director of Corporate Social Responsibility, MillerCoors LLC       |
| Marc               | Marotta   | Partner, Foley & Lardner LLP                                       |
| Timothy            | McMurtry  | Account Executive, Mueller Communications, Inc.                    |
| Daniel             | Minahan   | President & COO, Continental Properties Company, Inc.              |
| W. Martin          | Morics    | Comptroller, City of Milwaukee                                     |
| H. Carl            | Mueller   | President, Mueller Communications, Inc.                            |
| Bob                | Quinn     | Executive VP- Finance & Admin., Milwaukee Brewers Baseball Club    |
| Andrew             | Randall   | President (Ohio), TriState Capital Bank                            |
| Sara               | Rogers    | Executive VP, Wisconsin State AFL-CIO                              |
| Thomas             | Savage    | Senior VP of Administration, Briggs & Stratton                     |
| Howard             | Schnoll   | Senior VP, RBC Wealth Management                                   |
| Timothy            | Sheehy    | Executive Director, Metropolitan Milwaukee Association of Commerce |
| Howard             | Sosoff    | Managing Director (Milwaukee), BDO Seidman, LLP                    |
| John               | Warren    | Indian Summer Festival & Wisconsin State Golf Association          |
| Gregory            | Wesley    | Partner, Gonzalez, Saggio & Harlan, LLP                            |
| Michael            | White     | Owner & Chairman, Rite-Hite Corporation                            |

The Corporation's officers are as follows:

|                                      |
|--------------------------------------|
| Daniel Minahan, Chairman             |
| Don Smiley, President                |
| Ted Kellner, First Vice President    |
| Howard Sosoff, Second Vice President |
| Gregory Wesley, Secretary            |
| Michael White, Treasurer             |

*Senior Management*

The day-to-day operations of the Corporation are managed by the senior staff who report to the President/Chief Executive Officer ("CEO"). The CEO reports directly to the Board of Directors. Brief biographies of the CEO and senior staff are set forth below:

**Don Smiley, President and Chief Executive Officer.** Mr. Smiley has considerable experience in the entertainment and marketing industry. Prior to joining the Corporation, he served as the Chairman of Pro Player Stadium, home of the Miami Dolphins and Florida Marlins, where he was responsible for event management during the 1995 NFL Super Bowl, professional sports, concerts and other events. He simultaneously served as President of the Florida Marlins Baseball Club and led the team to the World Series title in 1997. He began his career with the Marlins at the team's inception and held positions in the sales department and as Vice President of Marketing.

Additionally, Don was involved with Blockbuster Entertainment Corp. at its beginning stages. While at Blockbuster, Don served as an Assistant to the Chairman of the Board, and worked with the franchising, real estate, merchandising operations and branding programs, and helped grow Blockbuster into a position of world leadership in the video rental and entertainment industry. Don has also successfully served as Marketing Director of the Honda Classic golf tournament, one of the top events on the PGA Tour, and as Vice President of Marketing for Huizenga Holdings.

Years with Corporation: 6. Education: Bachelor of Science degree in Communications from the University of Wisconsin-Oshkosh.

**Bob Babisch, Vice President of Entertainment.** A 34-year veteran of Milwaukee World Festival and highly respected member of the entertainment industry, Mr. Babisch manages a \$6 million annual entertainment budget for Summerfest. In addition to leading the music production team during Summerfest, he oversees the music portion of events held on the grounds or in the Marcus Amphitheater throughout the summer season. He has close working relationships with major talent agencies and management firms and has been a featured speaker at industry events such as Pollstar's Concert Industry Consortium.

Years with Corporation: 34. Education: Bachelor of Fine Arts-Theater, Teaching Certificate University of Wisconsin-Milwaukee.

**Susan Landry CPA, Vice President and Chief Financial Officer.** Ms. Landry is responsible for developing and implementing financial policies and procedures. She also directs all of the organization's accounting functions, develops and maintains planning and budgeting functions, analyzes and interprets fiscal trends, oversees the audit by independent accountants and prepares financial management reports. In addition, she oversees the beverage, admissions, parking, and box office operations as well as the Information Technology Department.

Years with Corporation: 19. Education: Bachelor of Administration-Accounting, University of Wisconsin-Milwaukee.

**John Boler, Vice President of Sales & Marketing.** Mr. Boler manages an internal department of six, as well as external resources. He is responsible for leading the company's marketing and sales strategy consisting of

corporate sales, including 70 sponsorships and over 500 Business Group Sales clients; seat licensing programs; vendor relationships; advertising and public relations plans.

Years with Corporation: 5. Education: Business Administration and Marketing at the Universities of Wisconsin – LaCrosse and Milwaukee.

**Frank Nicotera, Chief Administrative Officer/General Counsel.** Mr. Nicotera joined the Corporation in 2006, and is responsible for all legal matters, purchasing, human resources, risk management, and insurance. With over 30 years of experience as an attorney and a senior executive in both the private and public sectors, he has considerable experience representing clients in banking, real estate development, commercial transactions, entertainment, and copyright matters.

Years with Corporation: 4. Education: Bachelor of Arts degree from Marquette University in 1977; Juris Doctor from Tulane University School of Law in 1980. He is admitted to practice in Louisiana and Tennessee, and registered as in-house counsel in Wisconsin.

**Michael DeMarco, Security Director.** Mr. DeMarco, a former Federal Bureau of Investigation agent, is responsible for security and crowd management, as well as relations with local law enforcement and emergency services.

Years with Corporation: 14. Education: Bachelor of Administration-Accounting, Farleigh Dickenson University.

#### *Staff*

The Senior Management team works in conjunction with the staff to manage the day-to-day operations of the Corporation. With the exception of the President, there are no contracts with the full-time employees. A breakdown of full-time employees by department, including senior management, is as follows:

| <u>Department</u>             | <u>Full-time Employees</u> |
|-------------------------------|----------------------------|
| Accounting                    | 6                          |
| Administration                | 1                          |
| Art & Graphic Design          | 2                          |
| Business Development          | 1                          |
| Box Office                    | 2                          |
| Concessions                   | 1                          |
| Design and Construction       | 3                          |
| Entertainment                 | 3                          |
| Facility and Event Operations | 7                          |
| Information Technology        | 4                          |
| Legal                         | 1                          |
| Marketing & Public Relations  | 2                          |
| President                     | 1                          |
| Sales                         | 4                          |
| Security                      | <u>5</u>                   |
| Total                         | 43                         |

#### **Summary of Selected Financial Information**

The table below sets forth statements of activities of the Corporation for the years ended December 31, 2009 and 2008, which has been summarized from audited financial statements of the Corporation. The table also summarizes the unaudited statements of activities for the nine-month ended September 30, 2010 and 2009. The following financial information should be read in conjunction with the audited financial statements and related notes, which are included as Appendix D to this Official Statement.

|                                     | Fiscal Year Ended<br>December 31 |                     | Nine Months Ended<br>September 30<br>(Unaudited) |                     |
|-------------------------------------|----------------------------------|---------------------|--|---------------------|
|                                     | <u>2009</u>                      | <u>2008</u>         | <u>2010</u>                                      | <u>2009</u>         |
| Operating revenue                   | \$32,839,750                     | \$35,088,644        | \$34,388,107                                     | \$32,836,986        |
| Operating expenses                  | <u>(21,495,013)</u>              | <u>(21,613,103)</u> | <u>(22,932,403)</u>                              | <u>(21,188,881)</u> |
| Operating margin                    | 11,344,737                       | 13,475,541          | 11,455,704                                       | 11,648,105          |
| General and administrative expenses | (11,188,247)                     | (10,948,525)        | (7,596,991)                                      | (7,711,819)         |
| Other income                        | <u>429,916</u>                   | <u>4,322,016</u>    | <u>118,425</u>                                   | <u>304,993</u>      |
| Increase in unrestricted net assets | <u>\$ 586,406</u>                | <u>\$ 6,849,032</u> | <u>\$ 3,977,138</u>                              | <u>\$ 4,241,279</u> |

### Management's Discussion and Analysis

#### *Statements of activities for the years ended December 31, 2009 and 2008*

Total increase in unrestricted net assets for the fiscal years ended December 31, 2009 and 2008 were \$586,406 and \$6,849,032, respectively. The 2008 increase in unrestricted net assets included a one-time contribution to capital improvement projects of \$3.4 and \$1.1 million from events that were not scheduled to occur in 2009. The balance of the decrease in 2009 was due to the impact of the economy on corporate sponsorships, and business group sales. Notwithstanding the economy, Summerfest grew attendance and consumer spending in 2009. The balance of the reserve funds at the end of 2009 was \$25.1 million, which increased by \$4.4 million over 2008.

#### *Statements of activities for the nine months ended September 30, 2010 and 2009*

Total increase in unrestricted net assets for the nine months ended September 30, 2010 and 2009 was \$3,977,138 and \$4,241,279, respectively. The amount decreased primarily due to the results of a new event and other one-time events from 2009 that did not occur in 2010. The new event was a two-day event that suffered an entire day of rain. Summerfest's net operating revenue increased by \$104,334.

**The increase in unrestricted net assets for the nine-month period is not indicative of year-end results.** The nine-month period includes Summerfest, which generates approximately 94.1% of annual operating revenues. The remaining three months generate only nominal revenues but continue to produce general and administrative expenses, thereby decreasing the unrestricted net asset figure considerably by year-end. The percentages of the Corporation's operating margins attributable to various activities are shown below:

|                                     | <u>2009</u>   | <u>2008</u>   |
|-------------------------------------|---------------|---------------|
| Summerfest (including sponsorships) | 94.1%         | 90.9%         |
| Concerts                            | 1.7           | 1.2           |
| Other Events                        | <u>4.2</u>    | <u>7.9</u>    |
| Total                               | <u>100.0%</u> | <u>100.0%</u> |

The components of the operating revenue attributable to Summerfest are shown below:

|   | <u>2009</u>   | <u>2008</u>   |
|---|---------------|---------------|
| Sponsorships                                      | 33.5%         | 36.7%         |
| Food and beverage revenue                         | 22.2          | 21.6          |
| Admissions tickets (gate and advance public sale) | 12.7          | 12.2          |
| Concerts  | 27.5          | 24.9          |
| Other   | <u>4.1</u>    | <u>4.6</u>    |
| Total   | <u>100.0%</u> | <u>100.0%</u> |

The success of Summerfest is largely dependent on the generation of revenue through corporate sponsorship. Local, regional and national companies support the event, and their participation has a direct impact on the quality of the festival. The Corporation's annual cash and in-kind sponsorships total approximately \$10.3 million.

The balance of the revenues depends heavily on many factors, including weather, the availability of popular entertainers, and competing events. Attendance varies year-to-year based those factors. The goal is for attendance to fall within the range of 825,000 to 900,000 people. Total attendance at Summerfest for the past five years is set forth in the table below:

| <u>Year</u> | <u>Summerfest Attendance</u> |
|-------------|------------------------------|
| 2006        | 864,866                      |
| 2007        | 892,005                      |
| 2008        | 831,024                      |
| 2009        | 835,679                      |
| 2010        | 856,254                      |

#### **Possible Establishment of Foundation**

The Corporation expects to establish a separate foundation, as a support organization for the Corporation, and to transfer a substantial portion of its reserve funds to the foundation. The Corporation does not expect that the establishment of such a foundation and the transfer of reserve funds will adversely affect its operations or its ability to make payments with respect to the Bonds or to meet its other obligations.

**APPENDIX D**

**THE PROJECT OWNER'S FINANCIAL STATEMENTS**

[See Attached]

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**MILWAUKEE WORLD FESTIVAL, INC.**

**Financial Statements for the Years Ended  
December 31, 2009 and 2008 and Independent  
Auditors' Report**

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## Message from the Chairman



As Chairman of the Board of Milwaukee World Festival, Inc., I am very pleased to report the organization achieved profitability during one of the most devastating economic periods in U.S. history, while continuing to deliver on the goals of quality and value set forth by the Board of Directors for 2009.

Though the economic recession presented significant challenges for Summerfest, Milwaukee World Festival, Inc. managed to achieve its fifth consecutive year of profitability, generating net income of \$586,406 while increasing its reserve funds by \$4,363,402. After this contribution to the reserve funds, the capital reserve fund balance now totals \$13.8 million.

However, though Summerfest successfully grew attendance and consumer spending on tickets, food and beverage during the event, revenue from corporate sponsorships and business group ticket sales were impacted considerably.

Achieving profitability is a significant accomplishment for any organization in 2009; particularly ones that are operating in the leisure or entertainment sectors. Considering the countless companies that were hurt financially this year, the fact Milwaukee World Festival, Inc. achieved any level of profitability is very commendable.

Summerfest successfully protected its “share of wallet” by listening to customers and responding with relevant offerings in the market and at the event. Delivering an even greater value proposition at Summerfest was key to address customer needs, successfully operate and compete in 2009. The overriding approach was anchored by maintaining the quality of the music and event while creating additional ways to help customers “stretch their dollar” on admissions, food and beverages. As a result, Summerfest’s attendance increased by 4,655 to 835,679 which was within the range the organization had planned and budgeted for of 825,000 to 900,000. Overall, Henry Maier Festival Park maintained solid season long attendance of 1,403,962.

This year’s marketing strategy continued to focus on offering and communicating value and quality. To that end, the organization increased spending on ground stage talent. Summerfest’s lineup included Bon Jovi, Kenny Chesney, Stevie Wonder, John Legend, Kid Rock, The Fray, Kiss, Earth, Wind & Fire, Chicago, George Strait, No Doubt, Bob Dylan, Willie Nelson, Matisyahu, The Offspring, Elvis Costello, Anthony Hamilton, Shinedown, Staind, Judas Priest, Phil Vassar, The Wailers, Heart, Robert Randolph and the Family Band, Dropkick Murphys, Frankie Beverly and Maze, Rise Against, Rancid, Loverboy, Buddy Guy, Train, Huey Lewis and the News, Flogging Molly, The Roots, Jason Aldean, Los Lonely Boys, Lupe Fiasco, Barenaked Ladies, Sara Evans, BoDeans, Spoon, and hundreds more.

President and Chief Executive Officer, Don Smiley, once again led the organization to these successful results. Don continued his emphasis on quality, implemented another aggressive operating budget and helped create additional programs and business relationships to generate revenue and promote the festival. As a key example of its focus on quality, Summerfest reconfigured the M&I/Fiduciary Management Classic Rock Stage and audience area to improve the customer experience. The plan called for relocating and positioning the stage, which expanded the capacity of the area to accommodate 9,300 fans, up from approximately 6,000. Additionally, the changes improved

pedestrian ingress and egress traffic flow, sightlines, and in general made the area more comfortable for patrons and sponsors.

Some of 2009's new value offers included "Kapco's 2 Buck Tuesday", which provided patrons admission for only \$2 from Noon until 8:00 pm on June 30. In addition, on the first four days of the festival patrons received a free Gate Giveaway item for being one of the first 5,000 patrons through the gates during a specified time. Items included a window cling from U.S. Cellular (June 25), a guitar keychain from DeVry University (June 26), a coupon book valued at over \$75 from the Marcus Hotels and Resorts (June 27) and a Summerfest cup koozie and coupon from Chipotle (June 28).

Additional new sponsorships and partnerships that helped Summerfest remain profitable in 2009 included: Ashley Furniture, Subaru, Eventful, Johnsonville, Sirius XM Radio, Sennheiser, 94.5 Lake FM, Chili's, Auntie Anne's Pretzels and Oakland Trattoria. These partners helped Summerfest offer patrons value and quality through relevant music, food, beverage and entertainment offerings.

The national and international spotlight turned to Summerfest as it was featured in USA Today, Newsweek Magazine, BBC World News, the New York Post, Air China's Wings of China, the Chicago Sun-Times, Rolling Stone Magazine, the Chicago Tribune and Europe's Classic Rock Magazine, as well as in hundreds of additional print news stories in Wisconsin, Illinois and beyond. Summerfest received over 2,000 online mentions in the months leading up to the festival and over 800 television mentions locally in just one month.

Summerfest.com once again proved to be a tremendous marketing extension internationally. In a six month period leading up and through the event, Summerfest.com attracted 4,392,204 visitors, up 6.5% from 2008. Hits originated from 185 countries and reached 428,730,195. The site included daily music lineups, news, grounds and transportation maps, brochures, various promotions, as well as interactive forums, blogs and photo galleries while the Media Player streamed an amazing 2,073,155 songs from Summerfest artists. New this year, the site also featured exclusive behind the scenes videos, artist interviews and live performances. Summerfest.com continues to be an exciting digital marketing asset for the event and its sponsors.

These impressive results would not have happened without the perseverance and dedication of everyone who works to make Summerfest and this organization world-class. I want to thank and commend Don Smiley and the entire staff of Milwaukee World Festival, Inc. for their commitment and hard work. Their strategic planning and continued focus directly impacts the quality of the events and the financial state of our organization.

Moving forward, Milwaukee World Festival, Inc. will continue to dedicate its resources to developing relationships, partnerships, the property, and the event while maximizing its tangible and intangible assets.

Sincerely,



Dan Minahan  
Chairman of the Board  
Milwaukee World Festival, Inc.

# MILWAUKEE WORLD FESTIVAL, INC.

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Milwaukee World Festival, Inc.:

We have audited the accompanying statements of financial position of Milwaukee World Festival, Inc. (the "Festival") as of December 31, 2009 and 2008, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Festival's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Milwaukee World Festival, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Milwaukee, Wisconsin  
February 19, 2010

# MILWAUKEE WORLD FESTIVAL, INC.

## STATEMENTS OF FINANCIAL POSITION YEARS ENDED DECEMBER 31

| ASSETS  | 2009                 | 2008                 |
|---|----------------------|----------------------|
| CURRENT ASSETS:   |                      |                      |
| Cash and cash equivalents (Note 2)  | \$ 6,814,063         | \$ 10,570,661        |
| Investments (Note 2)  | 18,300,000           | 10,180,000           |
| Accounts receivable, less allowance for doubtful accounts<br>of \$161,064 in 2009 and \$173,980 in 2008       | 4,033,431            | 4,021,825            |
| Inventories (Note 2)  | 48,904               | 65,470               |
| Prepaid expenses  | 414,251              | 286,249              |
| Accrued interest receivable   | 110,451              | 50,743               |
| Total current assets  | <u>29,721,100</u>    | <u>25,174,948</u>    |
| ASSETS LIMITED AS TO USE BY TRUSTEE (Notes 2 and 3):  |                      |                      |
| Debt service reserve  | 1,488,922            | 1,574,020            |
| PROPERTY AND EQUIPMENT (Notes 2, 4 and 7):  |                      |                      |
| Land  | 86,928               | 86,928               |
| Buildings   | 474,903              | 472,903              |
| Equipment   | 6,674,627            | 6,253,008            |
| Leasehold improvements:   |                      |                      |
| Amphitheater  | 15,421,194           | 15,374,799           |
| Improvements  | <u>38,747,549</u>    | <u>38,724,157</u>    |
|   | 61,405,201           | 60,911,795           |
| Less accumulated depreciation and amortization  | <u>(36,038,399)</u>  | <u>(32,945,990)</u>  |
| Property and equipment, net   | <u>25,366,802</u>    | <u>27,965,805</u>    |
| OTHER ASSETS:   |                      |                      |
| Accounts receivable (Note 6)  | 12,628,777           | 15,594,798           |
| Investments (Note 5)  | 357,504              | 300,968              |
| Prepaid rent (Notes 2 and 7)  | 1,000,000            | 1,100,000            |
| Deferred financing fees, less accumulated amortization<br>of \$206,504 in 2009 and \$181,346 in 2008 (Note 2) | <u>268,350</u>       | <u>293,508</u>       |
| Total other assets  | 14,254,631           | 17,289,274           |
| TOTAL ASSETS  | <u>\$ 70,831,455</u> | <u>\$ 72,004,047</u> |

See notes to financial statements

# MILWAUKEE WORLD FESTIVAL, INC.

## STATEMENTS OF FINANCIAL POSITION YEARS ENDED DECEMBER 31

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| LIABILITIES AND NET ASSETS                 | 2009                 | 2008                |
|--|----------------------|---------------------|
| CURRENT LIABILITIES:                       |                      |                     |
| Accounts payable                           | \$ 241,155           | \$ 58,135           |
| Accrued expenses (Note 7)                  | 1,086,474            | 1,022,145           |
| Deferred revenues (Note 2)                 | 3,215,278            | 2,953,464           |
| Current portion of long-term debt (Note 8) | <u>890,000</u>       | <u>855,000</u>      |
| Total current liabilities                  | 5,432,907            | 4,888,744           |
| LONG - TERM DEBT - Less current portion:   |                      |                     |
| Bonds (Note 8)                             | 11,490,000           | 12,380,000          |
| Other                                      | 207,504              | 75,968              |
| OTHER - Rent (Notes 2 and 7)               | 2,164,356            | 1,775,411           |
| NON - CURRENT DEFERRED REVENUES (Note 2)   | <u>11,250,292</u>    | <u>13,183,934</u>   |
| TOTAL LIABILITIES                          | 30,545,059           | 32,304,057          |
| UNRESTRICTED NET ASSETS                    | 40,286,396           | 39,699,990          |
| <br>                                       |                      |                     |
| TOTAL LIABILITIES AND NET ASSETS           | <u>\$ 70,831,455</u> | <u>\$72,004,047</u> |

See notes to financial statements

# MILWAUKEE WORLD FESTIVAL, INC.

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31

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|  | 2009                 | 2008                 |
|--|----------------------|----------------------|
| OPERATING REVENUES (Notes 2, 9, 12 and 13):      |                      |                      |
| Summerfest                                       | \$ 30,899,873        | \$ 31,890,414        |
| Concerts   | 545,064              | 433,776              |
| Other events and revenues                        | <u>1,394,813</u>     | <u>2,764,454</u>     |
|  | <u>32,839,750</u>    | <u>35,088,644</u>    |
| OPERATING EXPENSES (Notes 2 and 9):              |                      |                      |
| Summerfest                                       | 19,375,656           | 19,351,123           |
| Concerts   | 89,555               | 93,363               |
| Other events and expenses                        | 676,249              | 933,007              |
| Seasonal expenses                                | 1,353,553            | 1,235,610            |
|  | 21,495,013           | 21,613,103           |
| Income before other income/ (expense)            | 11,344,737           | 13,475,541           |
| OTHER INCOME/ (EXPENSES) (Note 10):              |                      |                      |
| General, administrative and fund-raising expense | (10,577,178)         | (10,315,843)         |
| Interest expense                                 | (598,645)            | (632,682)            |
| Interest income                                  | 350,364              | 816,676              |
| Net realized and unrealized gain on investments  | 55,552               | -                    |
| Capital Project funding                          | 24,000               | 3,424,000            |
| Other  | <u>(14,424)</u>      | <u>81,340</u>        |
| Total other (expenses), net                      | <u>(10,760,331)</u>  | <u>(6,626,509)</u>   |
| INCREASE IN UNRESTRICTED NET ASSETS              | 584,406              | 6,849,032            |
| NET ASSETS, BEGINNING OF YEAR                    | <u>39,699,990</u>    | <u>32,850,958</u>    |
| NET ASSETS, END OF YEAR                          | <u>\$ 40,284,396</u> | <u>\$ 39,699,990</u> |

See notes to financial statements

# MILWAUKEE WORLD FESTIVAL, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31

|  | 2009                | 2008                 |
|--|---------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                      |
| Increase in unrestricted net assets  | \$ 586,406          | \$ 6,895,270         |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: |                     |                      |
| Depreciation and amortization  | 3,200,686           | 3,386,254            |
| Loss on disposal of property and equipment   |                     | 1,803                |
| Change in operating assets and liabilities:  |                     |                      |
| Accounts receivable  | 2,954,415           | (2,893,198)          |
| Inventories  | 16,566              | (14,853)             |
| Prepaid expenses   | (87,709)            | 459,085              |
| Accounts payable   | 183,020             | (367,463)            |
| Accrued expenses   | 453,275             | 257,806              |
| Deferred revenues  | (1,671,828)         | 306,580              |
| Net cash provided by operating activities  | <u>5,634,831</u>    | <u>8,031,284</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                      |
| Purchase of property, leaseholds and equipment   | (576,526)           | (4,489,839)          |
| Purchase of investments  | (26,395,846)        | (13,329,509)         |
| Proceeds from sale of investments  | 18,304,407          | 16,047,651           |
| Proceeds from sale of property and equipment   |                     | 1,500                |
| Net cash used in investing activities  | <u>(8,667,964)</u>  | <u>(1,770,197)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                      |
| Payments of long-term obligations  | (855,000)           | (820,000)            |
| Increase in other long-term obligations  | 131,536             | 75,968               |
| Net cash (used in) financing activities  | <u>(723,464)</u>    | <u>(744,032)</u>     |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS   | (3,756,597)         | 5,517,055            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | <u>10,570,661</u>   | <u>5,053,606</u>     |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 6,814,063</u> | <u>\$ 10,570,661</u> |
| <b>SUPPLEMENTARY INFORMATION:</b>  |                     |                      |
| Cash paid for: Interest  | \$ 612,864          | \$ 643,888           |
| Cash paid for: Taxes   | <u>\$ 45,518</u>    | <u>\$</u>            |

See notes to financial statements

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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### 1. ORGANIZATION

Milwaukee World Festival, Inc. (the “Festival”) is a not-for-profit corporation operating exclusively for charitable and educational purposes. Activities of the Festival include the production of various events, primarily, an annual festival in the Milwaukee metropolitan area known as Summerfest, and the coordination with various organizations that produce ethnic and cultural festivals each year. All of the aforementioned activities are directed toward promoting an understanding by members of the general public of different ethnic cultures, educating the general public in the histories and traditions of various nationalities, providing activities and recreation available to the general public, promoting ethnic and racial harmony in the community, promoting civic pride and providing employment opportunities for the community’s youth. The Festival’s main revenue sources are Summerfest sponsor donations and income from Summerfest, including ticket, food, and beverage sales.

Food and Beverage, LLC, wholly owned by the Festival, is the holder of the license under which the Festival may sell beer, wine and other beverages for festival and concert activities. All income and expense attributable to these activities is reported in the Festival’s financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation* - The accompanying financial statements are prepared on the accrual basis of accounting. Net assets are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Festival and changes therein are classified as unrestricted.

*Fair Value Measurement* – Accounting principles generally accepted in the United States of America establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

*Level 1* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

*Level 2* Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

*Level 3* Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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*Cash Equivalents* – The Festival considers all temporary cash investments with maturities of three months or less when purchased to be cash equivalents. All cash and cash equivalents are held at two financial institutions. On December 31, 2009, all cash balances for each bank account, in aggregate, were covered by the Federal Deposit Insurance Corporation, except for \$6,564,063. Of the \$6,564,063, \$6,490,000 in certificates of deposit are collateralized by the Festival's bank with pledged eligible collateral with a market value equal to at least 100% of total deposits with the bank. On December 31, 2008, all cash balances for each bank account, in aggregate, were covered by the Federal Deposit Insurance Corporation, except for \$10,320,661. Short-term investments with maturities of 90 days or less are classified as cash equivalents. Cash and cash equivalents primarily consisted of certificates of deposit, which were carried at cost. The cost of the certificates of deposit approximated their fair value at December 31, 2009 and 2008.

*Investments* - Certificate of Deposits (CD's) with maturities of more than 90 days but less than 12 months are classified as current investments, which are carried at cost. The cost of the certificates of deposit approximated their fair value at December 31, 2009 and 2008. On December 31, 2009 current investments consisted of \$18,300,000 in CD's ranging from 182 to 364 days. The entire investment of \$18,300,000 are collateralized by the Festival's bank with pledged eligible collateral with a market value equal to at least 100% of total deposits with the bank. On December 31, 2008 current investments consisted of \$10,180,000 in CD's ranging from 112 to 363 days. The CD's are not covered by the Federal deposit Insurance Corporation at December 31, 2009 and 2008.

*Inventories* - Inventories are valued at lower of actual cost (specific identification) or market (net realizable value).

*Property and Equipment* - Land, buildings, equipment, and leasehold improvements in excess of \$1,000 are stated at cost at the date of acquisition or fair market value at the date of donation. Depreciation and amortization are provided on the straight-line method over the shorter of the estimated useful lives of the assets or the lease term, as follows:

| <b>Assets</b>           | <b>Years</b> |
|-------------------------|--------------|
| Buildings               | 20           |
| Leasehold improvements: |              |
| Amphitheater            | 20           |
| Other                   | 10           |
| Equipment               | 3-5          |

The Festival periodically assesses the recoverability of property and equipment. Long-lived assets are reviewed for impairment when indications of potential impairment, based on estimated undiscounted future cash flows exist. Management believes there are no long-lived assets that are impaired at December 31, 2009.

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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*Assets Limited as to Use* - Assets limited as to use consist of assets held by a trustee under an indenture agreement.

*Rent* - Prepaid rent is recognized as rent paid in advance and is amortized over the life of the original lease that terminates on December 31, 2020. The minimum lease payments on operating leases (Note 7) are recognized as rent expense amortized over the life of the extended lease, which terminates on December 31, 2030.

*Deferred Financing Fees* - Costs incurred in issuing the Series 2001 bonds are being amortized over the term of the bonds using the straight-line method which approximates an effective interest method.

*Deferred Revenues* - Deferred revenues are for long-term sponsorship agreements. Expiration of the terms of the agreements ranges from 2010 to 2017. Revenue is recognized over the life of the agreement.

*Revenues* - Event and concert revenues are recognized as the event or concert takes place.

*Contributions* - Contributions, including unconditional promises to give, are recognized as revenues in the period received (Note 13). Contributions which impose restrictions that are met in the same fiscal year they are received are reported as unrestricted revenues. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Allowance is made for doubtful contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

*Advertising Expenses* - The Festival follows the policy of expensing all advertising production costs as incurred. Total advertising expenses incurred were \$5,151,168 and \$5,482,050 for the years ended December 31, 2009 and 2008, which included \$4,076,230 and \$4,452,056 of contributed and in-kind (bartered) advertising services during 2009 and 2008, respectively. Advertising expenses include advertising agency fees, production and media buys, costs associated with development and preparation of media kits and brochures and publicity.

*Income Taxes* - The Festival is organized as a not-for-profit corporation and as such is generally exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). Certain revenues that are unrelated to the charitable purpose of the Festival are subject to taxation, such as equipment rental, parking lot rental, advertising, t-shirt commissions and festival and product consulting fees. Unrelated business income tax was \$3,161 and \$41,701 for the years ended December 31, 2009 and 2008, respectively.

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Reclassifications* - Certain reclassifications have been made in the prior year financial statements to conform with the current year presentation.

### 3. ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31, 2009 and 2008, is set forth in the following table. Investments are stated at fair value.

|  | 2009                | 2008                |
|--|---------------------|---------------------|
| Held by trustee under indenture agreement: |                     |                     |
| Certificates of deposit                    | \$ 1,485,043        | \$ 1,485,043        |
| U. S. Treasury obligations                 | -                   | 72,866              |
| Interest receivable                        | 3,880               | 16,112              |
|  | <u>3,880</u>        | <u>16,112</u>       |
|  | <u>\$ 1,488,922</u> | <u>\$ 1,574,020</u> |

### 4. CHANGE IN ESTIMATE

The lives of the leasehold improvements that were limited to the length of the lease with the City of Milwaukee have been revised as of January 1, 2009, to reflect the estimated life of the asset or the extended date of the lease, December 31, 2030, whichever occurs first. The revisions were accounted for prospectively as a change in accounting estimates. As a result, the depreciation charges for the current financial year end have decreased by \$320,486

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

### 5. INVESTMENTS

The fair value measurement of investments held as of December 31, 2009 and 2008 is as follows:

| Description  | Fair Value at Reporting Date Using   |  |  |
|--|--|--|--|
|  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|  | <b>2009</b>  |  |  |
| Cash, money market, and<br>certificates of deposit | \$ 18,648  | \$ 18,648  | \$ -   |
| Equity securities                                  | 210,343  | 210,343  | -  |
| Fixed income securities                            | 113,064  | 113,064  | -  |
| Indexed funds                                      | 5,663  | 5,663  | -  |
| Commodity funds                                    | 9,786  | 9,786  | -  |
| Total fair value of investments                    | <u>\$ 357,504</u>  | <u>\$ 357,504</u>                                      | <u>-</u>   |
|  | <b>2008</b>  |  |  |
| Cash, money market, and<br>certificates of deposit | \$ 300,968   | \$ 300,968   | \$ -   |

### 6. CONCENTRATION OF RISK

Approximately 92% of the total accounts receivable included in other assets at December 31, 2009 (81% at December 31, 2008) is due from two sponsors. However, the sponsorship revenue recognized from these two sponsors at December 31, 2009 accounted for only 5% (5% at December 31, 2008) of operating revenue.

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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### 7. LEASES

The Festival leases the premises on which its operations are conducted from the Board of Harbor Commissions of the City of Milwaukee (the "City") (see Note 11 – Related Party Transactions). One member of the Festival's Board of Directors is an elected official of the City. The lease was effective January 1, 2001 for a 20 year term expiring December 31, 2020. The lease requires the Festival to pay annual rent of \$1,000,000 for 2001 increasing to \$2,442,400 in 2020, subject to certain sales tax credits on revenues generated by the Festival. Among other items, the lease requires the Festival to provide a capital contribution of \$2,000,000 for the construction of a state park adjacent to the premises. The \$2,000,000 capital contribution was paid on November 14, 2005. Upon termination of the lease agreement and upon notice from the City, the Festival is required to remove from the property all buildings or other capital improvements. For capital improvements for which a notice of removal has not been given, the Festival is required to convey title free and clear of all liens and encumbrances to the City.

Effective January 1, 2009, the lease with City was amended to extend its term by ten years so the lease term is for thirty years commencing as of January 1, 2001 and terminating on December 31, 2030. The amended lease requires the Festival to pay annual rent of \$1,000,000 for 2001 increasing to \$3,926,700 in 2030, subject to certain sales tax credits on revenues generated by the Festival. In addition, the amended lease requires payment of a supplemental service fee of \$100,000 in 2009 increasing to \$214,943 in 2030.

Future minimum lease payments under the lease with the City are as follows:

|            |                      |
|------------|----------------------|
| 2010       | \$ 1,575,549         |
| 2011       | 1,337,307            |
| 2012       | 1,350,589            |
| 2013       | 1,364,268            |
| 2014       | 1,378,344            |
| Thereafter | <u>32,094,931</u>    |
|            | <u>\$ 39,100,988</u> |

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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The Festival also leases equipment for operations under certain operating leases. Future minimum lease payments under operating leases that have initial or remaining noncancelable terms in excess of one year at December 31, 2009 are as follows:

|      |    |              |
|------|----|--------------|
| 2010 | \$ | 9,540        |
| 2011 |    | -            |
| 2012 |    | -            |
| 2013 |    | -            |
| 2014 |    | -            |
|      |    | <hr/>        |
|      | \$ | <u>9,540</u> |

Total lease expense was \$1,826,614 and \$1,410,848 for the years ended December 31, 2009 and 2008, respectively.

### 8. LONG-TERM OBLIGATION AND COMMITMENTS

To facilitate the construction of various improvements to the Festival premises in 2001 through 2004, the Festival entered into an agreement for the issuance of Redevelopment Revenue Bonds, Series 2001 (the “bonds”) by the Redevelopment Authority of the City of Milwaukee.

The Festival issued a promissory note for the principal amount of the bonds to the Redevelopment Authority and granted the Redevelopment Authority a mortgage on all real estate owned and an interest in its lease with the City. A security interest was also granted to the Redevelopment Authority on all personal property, accounts receivable, and intangible interests owned by the Festival. The Redevelopment Authority entered into a trust agreement naming U.S. Bank as trustee for the disbursement of proceeds, payments of principal and interest, and collection of debt service payments. The Redevelopment Authority assigned all of its rights under the promissory note, mortgage, and security agreement to the trustee. The trust agreement for the bonds requires the Festival to maintain a minimum amount on deposit, the “debt service reserve,” with the bond trustee.

As of December 31, 2009, the total principal amount of the bonds outstanding was \$12,380,000, with principal maturing in varying annual amounts, through August 1, 2020. The interest rates on the bonds range from 2.3% to 4.95%, depending on the length of the time to maturity for each series of bonds. The Festival makes all debt service payments directly to the trustee, who then makes payments of principal and interest to the bondholders.

# MILWAUKEE WORLD FESTIVAL, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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Scheduled principal repayments are as follows:

|            |    |                   |
|------------|----|-------------------|
| 2010       | \$ | 890,000           |
| 2011       |    | 925,000           |
| 2012       |    | 965,000           |
| 2013       |    | 1,010,000         |
| 2014       |    | 1,060,000         |
| Thereafter |    | <u>7,530,000</u>  |
|            | \$ | <u>12,380,000</u> |

### 9. MARCUS AMPHITHEATER CONCERTS

The Festival has an agreement with a promoter for the presentation of concerts at the Marcus Amphitheater. Under the terms of this agreement, the promoter agrees to identify and bring to the Festival's attention a wide variety of attractions, submit proposals, negotiate contracts and perform the promotion and certain other related activities for these attractions. Concert revenues in excess of direct concert expenses are divided between the Festival and the promoter in accordance with an agreed-upon formula. Net concert revenues of \$362,567 and \$250,000 for the years ended December 31, 2009 and 2008, respectively, are included in operating revenues on the Festival's statement of activities.

Additionally, \$1.50 per ticket facility charge, net of sales tax, is paid directly to the Festival and is not part of the concert revenues divided between the Festival and the promoter. The net facility charges of \$65,099 and \$64,469 for the years ended December 31, 2009 and 2008, respectively, are included in operating revenues on the Festival's statement of activities.

### 10. RETIREMENT SAVINGS PLAN

The Festival maintains a retirement savings plan covering staff that have attained the age of 21 years and completed at least 1,000 hours of service during the plan year. Plan contributions are determined annually by the Board of Directors. Contributions under this plan were \$462,257 and \$473,138 during 2009 and 2008, respectively, which was 15% of eligible participant salaries.

### 11. RELATED PARTY TRANSACTIONS

Certain members of the Festival's Board of Directors are employed by corporations with which the Festival does business and from which the Festival solicits contributions. The Festival recognized contributions from corporations which employ certain members of its Board of Directors \$3,581,808 and \$3,638,761 for the years ended December 31, 2009 and 2008, respectively. In addition, certain members of the Board of the Directors are employed by and/or appointed by the City of Milwaukee, lessor of the Festival's site.

## MILWAUKEE WORLD FESTIVAL, INC.

### NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2008

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#### 12. FUNCTIONAL CLASSIFICATION OF EXPENSES

Total Festival expenses, except “other,” for the years ended December 31, 2009 and 2008 are classified

|                            | <b>Program</b>       | <b>Management &amp;<br/>General</b> | <b>Fund-<br/>Raising</b> | <b>Total</b>         |
|----------------------------|----------------------|-------------------------------------|--------------------------|----------------------|
|                            | <b>2009</b>          |                                     |                          |                      |
| Operating Expenses         | \$ 21,325,950        | \$ -                                | \$ 169,063               | \$ 21,495,013        |
| General and administrative | -                    | 10,310,308                          | 266,870                  | 10,557,178           |
| Interest                   | -                    | 598,645                             | -                        | 598,645              |
| Total functional expenses  | <u>\$ 21,325,950</u> | <u>\$ 10,908,953</u>                | <u>\$ 435,933</u>        | <u>\$ 32,670,836</u> |
|                            | <b>2008</b>          |                                     |                          |                      |
| Operating Expenses         | \$ 21,489,794        | \$ -                                | \$ 123,309               | \$ 21,613,103        |
| General and administrative | -                    | 10,026,633                          | 289,210                  | 10,315,843           |
| Interest                   | -                    | 632,682                             | -                        | 632,682              |
| Total functional expenses  | <u>\$ 21,489,794</u> | <u>\$ 10,659,315</u>                | <u>\$ 412,519</u>        | <u>\$ 32,561,628</u> |

#### 13. CONTRIBUTION REVENUE AND SUPPORT

Contributions of \$5,404,644 and \$9,485,561 for the years ended December 31, 2009 and 2008, respectively, are classified as operating revenues and capital project funding for financial reporting purposes. Contributions included contributed goods of \$63,384 and \$53,599 for the years ended December 31, 2009 and 2008, respectively. Contributions included contributed services of \$3,419,286 and \$3,793,375 for the years ended December 31, 2009 and 2008, respectively. Contributed services include advertising agency fees, production and media buys, costs associated with development and preparation of media kits and brochures and publicity.

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**APPENDIX E**

**Draft Form of Legal Opinion**

**Form of Opinion of Co-Bond Counsel**

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[Closing Date]

**\$25,000,000**

**Redevelopment Authority of the City of Milwaukee, Wisconsin  
Redevelopment Revenue Bonds, Series 2010  
(Summerfest Project)**

We have acted as bond counsel in connection with the issuance by the Redevelopment Authority of the City of Milwaukee, Wisconsin (the "Issuer") of \$25,000,000 Redevelopment Authority of the City of Milwaukee, Wisconsin Redevelopment Revenue Bonds, Series 2010 (Summerfest Project) (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

The Bonds were issued pursuant to an Indenture of Trust dated as of December 1, 2010 (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), to provide funds to finance certain costs incurred by Milwaukee World Festival, Inc. (the "Project Owner"), in connection with (1) financing improvements to be made on the property known as the Henry J. Maier Festival Grounds located on the City's lakefront (the "Festival Grounds"), specifically the south end thereof and (2) the improvement of property adjacent to the Festival Grounds (collectively, with the Festival Grounds, the "Property"). The Issuer loaned the proceeds of the Bonds to the Project Owner pursuant to a Loan Agreement dated as of December 1, 2010 (the "Direct Loan Agreement") between the Issuer and the Project Owner and the Project Owner has agreed to make payments in amounts sufficient to pay when due the principal of, premium, if any, and interest on the Bonds. All of the Issuer's rights under the Direct Loan Agreement (except for certain rights with respect to indemnity and payment of administrative expenses) and the revenues therefrom have been pledged and assigned by the Issuer to the Trustee as security for payments due on the Bonds.

Pursuant to a Cooperation Agreement dated as of December 1, 2010 between the Issuer and the City of Milwaukee, Wisconsin (the "City"), the City has agreed to consider making an allocation or appropriation to fund deficiencies in the Debt Service Reserve Fund created pursuant to the Indenture.

The Bonds are payable solely from (1) payments by the Project Owner pursuant to the Direct Loan Agreement and (2) all cash and securities held by the Trustee in certain trust funds established pursuant to the Indenture and investment earnings thereon (collectively, the "Revenues").

We have not been engaged to express and we do not express any opinion with respect to (1) title to the Project or (2) the business operations or financial condition of the Project Owner or their ability to perform their obligations under the documents to which they are a party.

Pursuant to a Tax Compliance Agreement dated as of December 1, 2010 (the "Tax Agreement") among the Issuer, Project Owner, and the Trustee, the parties thereto have certified as to various facts and expectations relevant to the issue as to whether the Bonds meet the requirements of sections 103, 147 and 1400N of the Code as of the date hereof and the parties thereto have covenanted that all requirements of sections 103, 147 and 1400N of the Code will be met so long as the Bonds are outstanding. The tax exemption of interest on the Bonds depends upon and is subject to the accuracy of such certifications by the Project Owner and continued compliance with the requirements of sections 103, 147 and 1400N of the Code. The inaccuracy of such certifications or failure to comply with such requirements could cause interest on the Bonds to be deemed not exempt from federal income tax as of the date hereof or as of some future date.

We have also reviewed the certifications of the Issuer in the Tax Agreement setting forth certain estimates and expectations as to the use and investment of the proceeds of the Bonds in the context of the provisions of section 148 of the Code. The Issuer and the Project Owner have covenanted to comply with all applicable requirements of section 148 of the Code so long as the Bonds are outstanding.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents which we have deemed necessary as the basis for the opinions hereinafter expressed. As to various questions of fact material to our opinion, we have relied upon certificates of officers of the Issuer and the Trustee and of an officer of the Project Owner. In rendering this opinion, we have assumed the genuineness of all signatures (other than the officers of the Issuer who have signed the Bonds, the Indenture, the Direct Loan Agreement and the Tax Agreement), the legal competency of each person executing the Bond documents, the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as copies or drafts of documents to be executed.

Based upon the foregoing, we are of the opinion that as of the date hereof:

1. The Issuer, pursuant to Wisconsin Statutes section 66.1333, as amended, has the power to issue the Bonds and to enter into and perform its obligations under the Indenture, the Direct Loan Agreement and the Tax Agreement.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable by it solely from the Revenues. The Bonds and the interest and premium (if any) payable thereon do not constitute an indebtedness of the Issuer within the meaning of any State of Wisconsin constitutional provision or statutory limitation and do not constitute a pecuniary liability of the Issuer or a charge against its general credit.

3. The Indenture, the Direct Loan Agreement and the Tax Agreement have been duly authorized, executed and delivered by the Issuer and constitute valid, binding and enforceable obligations of the Issuer. The Indenture creates a valid lien on the Revenues and on the rights of the Issuer under the Direct Loan Agreement (except for the right to enforce certain limited provisions of the Direct Loan Agreement).

4. The interest on the Bonds is excluded from federal income tax purposes from gross income of the owners thereof. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The interest on the Bonds is not included in adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer and the Project Owner comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer and the Project Owner have agreed to comply with all those requirements. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. We express no opinion as to the matters in this paragraph with respect to interest accruing on the Bonds from and after the date the NMTC Equity Investment (as defined in the Direct Loan Agreement) has been made as referenced in Article IV of the Direct Loan Agreement or regarding other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is exempt from present Wisconsin income tax. We express no opinion as to whether interest on the Bonds is includable for purposes of determining Wisconsin's corporate franchise tax.

The rights of the owners of the Bonds and enforceability of the Bonds, the Direct Loan Agreement and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,



