

NEW ISSUE  
BOOK-ENTRY ONLY

<b>RATINGS:</b>	<b><u>Financial Guaranty Insured</u></b>	<b><u>Underlying</u></b>
Fitch:	AAA	AA
Moody's:	Aaa	Aa3
Standard & Poor's:	AAA	AA-

(See "RATINGS" herein)

*In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. (See "TAX STATUS" herein for a description of certain other provisions of law which may affect the Federal tax treatment of interest on the Series 2003 Bonds.) Interest on the Series 2003 Bonds is not exempt from State of Wisconsin income tax or franchise tax.*

**\$33,885,000**  
**CITY OF MILWAUKEE, WISCONSIN**  
**Sewerage System Revenue Bonds, Series 2003 S4**

Dated: Date of Delivery

Due: June 1, 2005 - 2023

The \$33,885,000 Sewerage System Revenue Bonds, Series 2003 S4 (the "Series 2003 Bonds") will be dated the Date of Delivery, will bear interest payable semiannually on June 1 and December 1 of each year, commencing December 1, 2003, at the rates, and will mature on June 1 in the years and amounts, as detailed on the inside cover.

The Series 2003 Bonds shall be issued by the City of Milwaukee, Wisconsin (the "City") for the purposes of financing the costs of improvements to the City's Sewerage System, funding the Reserve Account and paying the issuance expenses incurred in connection with the issuance of the Series 2003 Bonds.

The Series 2003 Bonds maturing on or after June 1, 2014 are subject to optional redemption on or after June 1, 2013 at par, as more fully described herein. (See "SERIES 2003 BONDS-Optional Redemption Prior To Maturity" herein.)

The Series 2003 Bonds will be issued only as fully registered bonds and will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as the securities depository of the Series 2003 Bonds. Individual purchases will be made in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Purchasers of the Series 2003 Bonds will not receive certificates representing their interest in the Series 2003 Bonds purchased. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The Series 2003 Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor on a parity with the City's outstanding Sewerage System Revenue Bonds, Series 2001, dated December 1, 2001 and bonds hereafter issued on a parity therewith. (See "SECURITY" herein.)

The Series 2003 Bonds are being offered when, as and if issued and subject to the legal opinion of Hawkins, Delafield & Wood, New York, New York, and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel. It is anticipated that the Series 2003 Bonds will be available for delivery to DTC on or about July 10, 2003 (the "Date of Delivery").

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Bonds.



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.*

For Further Information Contact:  
W. Martin Morics, City Comptroller and Secretary to the Public Debt Commission  
Room 404, City Hall - 200 East Wells Street - Milwaukee, Wisconsin 53202 - Phone (414) 286-2301

June 20, 2003

## MATURITY SCHEDULE

**\$33,885,000**

### **CITY OF MILWAUKEE, WISCONSIN Sewerage System Revenue Bonds, Series 2003 S4**

The Series 2003 Bonds will be dated the Date of Delivery, will bear interest at the rates shown below, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2003, and will mature on June 1 of the years and in the amounts shown below.

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
2005	\$1,310,000	3.00%	1.35%
2006	1,345,000	3.00	1.55
2007	1,380,000	3.00	1.94
2008	1,415,000	3.00	2.25
2009	1,455,000	4.00	2.56
2010	1,500,000	4.00	2.82
2011	1,545,000	5.00	3.08
2012	1,600,000	5.00	3.22
2013	1,655,000	5.00	3.35
2014	1,710,000	4.50	3.44
2015	1,780,000	4.50	3.62
2016	1,850,000	5.00	3.74
2017	1,925,000	5.00	3.86
2018	2,005,000	5.00	3.96
2019	2,090,000	5.00	4.06
2020	2,190,000	5.00	4.15
2021	2,280,000	5.00	4.24
2022	2,375,000	5.00	4.32
2023	2,475,000	4.375	4.53

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than as contained in this Official Statement in connection with the sale of these securities and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. These securities have not been registered pursuant to the Securities Act of 1933, in reliance upon exemptions contained in such Act.

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## INTRODUCTION TO THE OFFICIAL STATEMENT

The purpose of this Official Statement, including the cover page, and Appendices, is to set forth certain information concerning the City of Milwaukee (the “City”), located in Milwaukee County, Wisconsin, and to set forth information concerning the offering of \$33,885,000 Sewerage System Revenue Bonds, Series 2003 S4 of the City, dated the Date of Delivery (the “Series 2003 Bonds”). The following information is furnished solely to provide limited introductory information regarding the Series 2003 Bonds and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the Appendices hereto.

### SUMMARY STATEMENT

The following material is supported, where required, by the detailed information and financial statements appearing in this Official Statement, including the Appendices hereto.

Issuer: City of Milwaukee, Wisconsin.  
Issue: \$33,885,000 Sewerage System Revenue Bonds, Series 2003 S4.  
Dated Date: Date of delivery.  
Maturity: June 1 as shown below.  
Amounts and Maturities:

Year	Amount	Year	Amount
2005	\$1,310,000	2015	\$1,780,000
2006	1,345,000	2016	1,850,000
2007	1,380,000	2017	1,925,000
2008	1,415,000	2018	2,005,000
2009	1,455,000	2019	2,090,000
2010	1,500,000	2020	2,190,000
2011	1,545,000	2021	2,280,000
2012	1,600,000	2022	2,375,000
2013	1,655,000	2023	2,475,000
2014	1,710,000		

Interest Payment Dates: Each June 1 and December 1 beginning December 1, 2003.  
Denominations: \$5,000 or integral multiples thereof.  
Purpose: The Series 2003 Bonds are issued for the purposes of financing the costs of improvements to the City’s Sewerage System, funding the Reserve Account and paying the issuance expenses incurred in connection with the issuance of the Series 2003 Bonds.  
Security: Principal and interest on the Series 2003 Bonds will be payable solely from and secured by the funds pledged therefor on a parity with the City’s outstanding Sewerage System Revenue Bonds, Series 2001 and bonds hereafter issued on a parity therewith. (See “SECURITY” herein.)

Authority for Issuance: The Common Council of the City has authorized the issuance and sale of the Series 2003 Bonds in accordance with the provisions of Chapter 66 of the Wisconsin Statutes (the “Act”).

Form of Issuance: The Series 2003 Bonds will be issued in Book-Entry-Only form, fully registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York, which will act as security depository for the Series 2003 Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein).

Tax Status of Interest: Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, as amended (the “Code”) and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. (See “TAX STATUS” herein).

Redemption Feature: The Series 2003 Bonds maturing on or after June 1, 2014 are subject to optional redemption on or after June 1, 2013 at par, as more fully described herein. (See “SERIES 2003 BONDS-Optional Redemption Prior To Maturity” herein.)

Professionals:

Bond Counsel	Hawkins, Delafield & Wood New York, New York
	Quarles & Brady LLP Milwaukee, Wisconsin
Financial Advisor	Robert W. Baird & Co. Milwaukee, Wisconsin
Trustee	Bank One Trust Company, National Association Milwaukee, Wisconsin

Delivery: Delivery will be on or about July 10, 2003 at the expense of the City, through the facilities of The Depository Trust Company, New York, New York.

Reoffering: The public reoffering prices or yields of the Series 2003 Bonds are detailed on the inside front cover of the Final Official Statement.

Continuing Disclosure Certificate: In order to assist bidders in complying with the continuing disclosure requirements of SEC Rule 15c2-12 and as part of the City’s contractual obligation arising from its acceptance of the successful bidder’s proposal, at the time of the delivery of the Series 2003 Bonds the City will provide an executed copy of its Continuing Disclosure Certificate. (See “CONTINUING DISCLOSURE” herein).

## SERIES 2003 BONDS

### THE FINANCING PLAN

The Series 2003 Bonds shall be issued by the City of Milwaukee, Wisconsin (the "City") for the purpose of financing the costs of improvements of any plant and equipment within or without the corporate limits of the City for the collection, transportation, storage, treatment and disposal of sewage or storm water and surface water, including necessary lateral, main and interception sewers.

### SOURCES AND USES

#### Sources of Funds

Par Amount of Bonds	\$33,885,000.00
Net Premium	2,420,831.90
TOTAL SOURCES	<u>\$36,305,831.90</u>

#### Uses of Funds

Project Fund Deposits	\$33,049,541.88
Deposit to Debt Service Reserve Fund (DSRF)	2,813,131.25
Costs of Issuance (including Underwriter's Discount & bond insurance premium)	443,158.77
TOTAL USES OF FUNDS	<u>\$36,305,831.90</u>

Approximately \$12,000,000 of the Amount Available for Projects will be used for reimbursement of prior expenditures

### THE RESOLUTIONS

By way of a Bond Resolution adopted on August 2, 2001 as amended by a resolution adopted on April 15, 2003 (the "Bond Resolution") and a Series Resolution adopted on March 4, 2003, the Common Council has authorized and approved the sale of the Series 2003 Bonds including providing certain of the details and form of the Series 2003 Bonds and setting out certain covenants with respect thereto. Pursuant to the Bond Resolution, bonds may be issued thereunder in series from time to time. The City has issued and there are presently outstanding \$29,095,000 Sewerage System Revenue Bonds, Series 2001 (the "Series 2001 Bonds"). Bonds of all series issued or to be issued under the Bond Resolution are hereinafter referred to as the "Bonds".

Reference should be made to the Bond Resolution for definitions of terms not defined herein. As defined in the Bond Resolution, "Net Revenues" means with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. "Operation and Maintenance Expenses" means the costs and expenses of operating and maintaining the Sewerage System, including, without limiting the generality of the foregoing: (i) all expenses includable in the operation and maintenance expense accounts of the City relating to the Sewerage System according to generally accepted accounting principles, exclusive of debt service, capital expenditures, depreciation and tax equivalents; and (ii) to the extent not included in the preceding clause (i) or paid from the Bond proceeds or otherwise, the City's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others. "Aggregate Debt Service" means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

A summary of certain provisions of the Bond Resolution is set forth under "Summary of Bond Resolution" in Appendix D.

### MATURITY AND INTEREST RATES

The Series 2003 Bonds are to be dated the Date of Delivery and will bear interest from that date at the rates, and shall mature each June 1 in the amounts and on the dates as set forth on the inside front cover of this Official Statement. Interest on the Series 2003 Bonds will be payable on December 1, 2003 and thereafter semiannually on June 1 and December 1 of each year and is calculated on the basis of 30-day months and a 360-day year.

## **OPTIONAL REDEMPTION PRIOR TO MATURITY**

The Series 2003 Bonds with principal maturity dates on or after June 1, 2014, will be subject to redemption prior to their maturity at the option of the City on any date on or after June 1, 2013, at a price of par plus accrued interest to the date fixed for their redemption. If less than all outstanding Series 2003 Bonds are called for redemption, the Series 2003 Bonds shall be called in such order of maturity as shall be determined by the City. If less than all of the Series 2003 Bonds of any maturity are called for redemption, the particular Series 2003 Bonds of such maturity to be redeemed shall be selected by lot. Notice of redemption shall be mailed, postage prepaid, to the owners of any Series 2003 Bonds to be redeemed in whose name such Series 2003 Bonds are registered as of a record date, which shall be 45 days prior to the redemption date.

## **SECURITY**

### **Pledge of Revenues, Funds and Other Moneys**

(A) The Series 2001 Bonds and the Series 2003 Bonds will be payable on a parity with additional Series of Bonds hereafter issued pursuant to the Bond Resolution (collectively, herein referred to as the "Bonds"). The Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor. There are pledged as security for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds in accordance with their terms and the provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution: (i) the proceeds of sale of the Series 2003 Bonds pending application thereof in accordance with the provisions of the Bond Resolution or of a Series Resolution (ii) the Net Revenues, and (iii) all Funds and Accounts held under the Bond Resolution other than (a) the Rebate Fund and (b) the Subordinate Obligation Fund, including the investments, if any, in such Funds and Accounts; and the bondholders shall have a lien on, and a security interest in, such proceeds, Net Revenues, and Funds and Accounts for such purpose and subject to such provisions of the Bond Resolution. Such lien and security interest for the payment of the Bonds shall be prior and superior to the lien and security interest for the payment of Subordinate Obligations. The Bonds are additionally secured by a mortgage lien upon the Sewerage System, which shall be perfected by the recording of the Bond Resolution in the records of the City.

(B) The pledge of, and lien on, and security interest in, the proceeds of the Series 2003 Bonds and the Net Revenues as received by the City and the Funds and Accounts herein, other than the Rebate Fund and the Subordinate Obligation Fund, shall be valid and irrevocable: (i) from and after the time that, if required by State law, a financing statement is filed with respect to such pledge, lien and security interest as required by State law, and, upon such filing; or (ii), if no financing statement is so required by State law, upon delivery of the proceeds of the Series 2003 Bonds, and all the Net Revenues as received by the City and the Funds and Accounts herein, other than the Rebate Fund and the Subordinate Obligation Fund, shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice thereof.

(C) The Bonds shall be equally and ratably payable and secured under the Bond Resolution without priority by reason of date of adoption of a Series Resolution authorizing a Series of Bonds or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise; provided, however, that nothing in the Bond Resolution shall prevent the City from affording any particular Series of Bonds or particular Bonds additional or different security through a support facility or escrow funds. Bonds which are not a part of a Series for which an escrow fund, or other funds and accounts has been created to provide additional or different security shall not be entitled to the benefits of such escrow fund, or other funds and accounts except to the extent specifically provided in the Series Resolution authorizing such Series.

(D) The principal and Redemption Price (if any) of, and interest on, the Bonds shall be payable only from the Special Redemption Fund and not from any funds of the City other than the Special Redemption Fund and the Bonds shall not constitute a general obligation of the City, or create a charge upon any other revenues or property of the City, except the Net Revenues and other moneys and securities pledged under the Bond Resolution. No holder of the Bonds shall have the right to compel the exercise of the taxing power of the State or any political subdivision thereof, including the City, in connection with any default with respect to the Bonds. Each Bond shall recite in substance the provisions of this subsection (D).

(E) To additionally secure the Bonds, at the time of delivery of the Series 2003 Bonds there shall be on deposit in the Special Redemption Fund for credit to the Reserve Account therein, an amount equal to the Reserve Account Requirement for the Series 2003 Bonds which shall equal the lesser of (i) an amount equal to the maximum annual principal and interest requirements for the Series 2001 Bonds and Series 2003 Bonds, (ii) an amount equal to 10 percent (10%) of the principal amount of the Series 2003 Bonds, or (iii) 125% of the average annual principal and interest requirements for the Series 2001 Bonds and Series 2003 Bonds. The Reserve Account shall be additionally funded from the proceeds of the Series 2003 Bonds.

(F) No holder of a Series 2003 Bond shall be required to see that the moneys derived from such Series 2003 Bonds are applied to the purpose or purposes for which such Bond is issued. The validity of the Series 2003 Bonds shall neither be dependent upon nor affected by the validity or regularity of any proceedings relating to the acquisition, purchase, construction, reconstruction, improvement, betterment or extension of the Sewerage System nor the use and application of the proceeds of the Series 2003 Bonds. The Series 2003 Bonds shall contain a recital that they are issued pursuant to the Act, which recital shall be conclusive evidence of their validity and of the regularity of their issuance.

### **COVENANTS TO SECURE THE BONDS**

The City, in the Bond Resolution, covenants and agrees with the holders of all Bonds, including the Series 2003 Bonds issued pursuant to the Bond Resolution, and to the extent provided in a Series Resolution, all support facility providers, as follows:

#### **Rates and Charges**

(A) The City shall fix, charge and collect such Sewerage Services Charges as shall be required in order that in each Fiscal Year the Net Revenues shall be not less than the Net Revenue Requirement for such Fiscal Year. The failure in any Fiscal Year to comply with the foregoing rate covenant in this paragraph (A) shall not constitute an event of default if the City shall comply with the Bond Resolution as described in paragraph (B) below. "Net Revenue Requirement" means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year or such period plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year or such period.

(B) Prior to the end of each Fiscal Year, the Commissioner of Public Works of the City shall complete a review of the financial condition of the Sewerage System for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the rate covenant described in paragraph (A) above and shall by a Written Certificate of the City make a determination with respect thereto. Such review shall take into consideration the completion of any uncompleted improvement and the issuance of future Series of Bonds if necessary to finance the completion of such improvements. Such Written Certificate shall set forth a reasonably detailed statement of the actual and estimated revenues, operation and maintenance expenses, aggregate debt service, and any other estimates or assumptions upon which such determination was based, and shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such Written Certificate that the Revenues may not be so sufficient, the Commissioner of Public Works of the City shall forthwith make a study for the purpose of determining a schedule of Sewerage Service Charges which, in the opinion of the Commissioner of Public Works, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant described in paragraph (A) above and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Commissioner of Public Works may elect to cause the Consulting Engineer to make such a study and render such opinion. The Common Council of the City shall as promptly as practicable but no later than the one hundred twenty (120) days following such determination by the Commissioner of Public Works, or receipt of the Consulting Engineer's recommendation, adopt and place in effect a schedule of Sewerage Service Charges as described in this paragraph (B). The Commissioner of Public Works of the City filed the Written Certificate with the City Clerk in July 2002 and evidenced compliance with the rate covenant described in paragraph (A) above.

**Service to the City**

The reasonable cost and value of services rendered to the City by the Sewerage System by furnishing sewer services for public purposes, shall be charged against the City and shall be paid by it in quarterly installments as the service accrues, out of the current revenues of the City collected or in the process of collection, exclusive of the revenues derived from the Sewerage System and out of the tax levy of the City made by it to raise money to meet its necessary current expenses. It is found and determined in the Bond Resolution that the reasonable cost and value of such service to the City in each Fiscal Year shall be the amount necessary in the Fiscal Year which, together with the other revenues of the Sewerage System, will produce Net Revenues in each Fiscal Year equal to not less than 1.00 times the maximum aggregate Debt Service on the Bonds then outstanding plus 1.00 times the aggregate Support Facility Reimbursement Obligations then outstanding. However, such payment out of the tax levy shall be subject to (a) approval of the Public Service Commission, or successors to its function, if necessary, (b) yearly appropriations therefor and (c) applicable levy limitations, if any; but neither the Bond Resolution nor such payment shall be construed as constituting an obligation of the City to make any such appropriation over and above the reasonable cost and value of services rendered to the City and its inhabitants or make any subsequent payment over and above such reasonable cost and value. Such compensation for such service rendered to the City shall, in the manner provided above, be paid into the Revenue Fund created by the Bond Resolution.

**FUNDS AND ACCOUNTS**

**Establishment of Funds and Accounts**

(A) There was created under the Bond Resolution a special fund known as the "Sewerage System Revenue Fund" (the "Revenue Fund") into which all Revenues collected by the City have been and shall be deposited, from which the Revenues shall be appropriated and expended for operating expenses of the Sewerage System, other purposes of the Sewerage System, and in which certain working capital and operating reserves for purposes of the Sewerage System have been and shall be maintained. The Revenue Fund is considered to be a fund held under the Bond Resolution for purposes of the pledge made in Bond Resolution.

(B) There was created and established under the Bond Resolution the following additional funds of the City to be maintained so long as any Bonds are outstanding:

- (1) Operation and Maintenance Fund;
- (2) Rebate Fund;
- (3) Sewerage System Special Redemption Fund (the "Special Redemption Fund") and Reserve Account therein;
- (4) Subordinate Obligation Fund; and
- (5) Surplus Fund.

The Operation and Maintenance Fund, the Sewerage System Special Redemption Fund and Reserve Account therein and the Surplus Fund are considered to be funds held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

(C) There was also created a special fund known as the "Sewerage System Construction Fund" (the "Construction Fund") into which the proceeds of revenue bonds of the City issued to pay the costs of improvements specified to be expended from such Fund. The Construction Fund is considered to be a fund held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

**Flow of Funds**

(A) Revenues shall be collected by the City and deposited, as soon as practicable, into the Revenue Fund. From the amounts deposited in the Revenue Fund, the City shall transfer to the Operation and Maintenance Fund sufficient moneys to pay the current operation and maintenance expenses of the Sewerage System, transfer to the Rebate Fund such amount as is necessary to pay the rebate amount due the United States Treasury Department under Section 148 of the Code, if any, or to set aside as a reserve for such payment and make the transfers to other Funds and Accounts as provided in subsection (B) of Section 6.02 of the Bond Resolution.

(B) In each month, the City, after making the transfer, if any, to the Operating and Maintenance Expenses for such month and setting aside an amount sufficient to pay the Operating and Maintenance Expenses expected to be incurred for the balance of such month and making the transfer, if any, to the Rebate Fund as provided in the Bond Resolution, shall retain, apply or transfer on the fifth (5th) day prior to the end of each month, unless otherwise described below, a sufficient amount of moneys in the Revenue Fund in the following order of priority:

(1) To the Special Redemption Fund, if and to the extent required so that the balance therein shall equal the Accrued Debt Service for all Bonds outstanding and the interest accrued on all Bond Anticipation Notes outstanding on said date;

(2) To the Reserve Account in the Special Redemption Fund, if and to the extent required by a Series Resolution either (i) an amount such that the balance in the Reserve Account shall equal the Reserve Account Requirement on said date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in the Reserve Account shall be eliminated at the end of the twelfth (12th) month following the first credit;

(3) In the Revenue Fund, a reasonable and necessary amount for working capital and operating reserves;

(4) To the Subordinate Obligation Fund, the amount, if any, required to be deposited in such Fund pursuant to the resolution authorizing issuance of the Subordinate Obligations payable from such Fund; and

(5) To the Surplus Fund, such amounts as shall remain in the Revenue Fund.

(C) All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operation and Maintenance Fund as the same become due and payable and, except for the Rebate Fund, prior to any transfer or payment to other funds and accounts set forth therein.

(D) The City may, if provided in a Series Resolution authorizing the Bonds of a Series, directly pay out of the Revenue Fund reimbursements to Support Facility Providers whose Support Facilities have been drawn upon, after payments have been made to the Special Redemption Fund.

## ADDITIONAL BONDS

On April 15, 2003, the City's Common Council adopted a resolution that amended the terms of the Bond Resolution under which Additional Bonds could be issued (the "Amendment"). The consent required to make the Amendment effective was received from the insurer of the Series 2001 Bonds as permitted by the Bond Resolution. On April 16, 2003, a notice of the Amendment was published in *The Bond Buyer*. Bondholders had 60 days from the date the notice was published to challenge the amendment. No challenges were submitted before the June 15, 2003 end of the 60-day protest period.

### Conditions for the Issuance of Parity Bonds Other Than Refunding Bonds (As Amended)

(A) One or more Series of Bonds, exclusive of Refunding Bonds issued pursuant to Section 3.05 of the Bond Resolution, may be issued at any time and from time to time for any lawful use or purpose relating to the Sewerage System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions of Section 3.03 of the Bond Resolution and provision of the following documents or moneys or securities:

(1) A certified copy of the Series Resolution authorizing the issuance of the Bonds of such Series.

(2) If any Bonds of such Series are Option Bonds, a Support Facility in such an amount as would provide sufficient moneys for the purchase or redemption of all Option Bonds of such Series if the Holders thereof elected to tender for purchase or redemption the entire Aggregate Outstanding Principal amount of the Option Bonds of such Series.

(3) An opinion of Bond Counsel to the effect that: (a) the Bond Resolution, including the applicable Series Resolution authorizing the Series of Bonds, has been duly and lawfully adopted by the Common Council of the City and is a valid and legally binding instrument of the City, enforceable in accordance with the terms thereof; (b) the Bond Resolution creates a valid pledge and lien which it purports to create of the Net Revenues, moneys, securities and funds held or set aside under the Bond Resolution, subject to the application thereof to the purposes and on the terms and conditions permitted by the Bond Resolution; and (c) the Bonds of such Series are valid and legally binding limited special obligations of the City, enforceable in accordance with the terms thereof, are entitled to the benefits of the Bond Resolution and the Act, have been duly and validly authorized, issued and authenticated in accordance with law and the Bond Resolution, and do not violate the provisions of the Bond Resolution.

(4) Either:

(I) a Written Certificate of an Authorized Officer of the City based:

- (i) on audited figures, provided that such audited figures are for the most recent Fiscal Year for which an audit is available, and are for a period ending within 18 months of the date of the issuance of the proposed Series of Bonds; or
- (ii) on figures taken by an independent certified public accountant from the City's books and records, showing that the Net Revenues for any consecutive twelve (12) months' period out of twenty-four (24) months immediately preceding the month in which such Bonds are issued;

were not less than the greater of:

- (x) the sum of: (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected; and (2) the Required Deposits for such Fiscal Year or the twelve (12) month period selected; and
- (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the Written Certificate of the City;

or (II) a Written Certificate of an Authorized Officer of the City or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of:

- (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued; and
- (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued;

are estimated to be not less than the greater of:

- (x) the sum of: (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year; and (2) the Required Deposits for any such Fiscal Year; and
- (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding;

as of the date of such Written Certificate of the City or certificate of the Consulting Engineer, as the case may be. Adopted Sewerage Service Charges shall be taken into account at the time, or times, they are scheduled to be effective.

(the "Additional Bonds Requirement"). For purposes of this subsection (4): If any changes have been made and are in effect at the time of the issuance of the proposed Series of Bonds in the Sewerage Service Charges (exclusive of changes in the rates and charges for the privilege of connecting to the Sewerage System) which were not in effect during all or any part of the periods referred to in Section 3.04 (4)(I)(i) or (ii) of the Bond Resolution, or (ii), the Net Revenues for either of such respective periods may be adjusted to reflect the results which would have occurred in the Net Revenues if such changes in the Sewerage Service Charges had been in effect during all of such respective periods.

(5) Such further documents, moneys and securities as are required by the provisions of any Series Resolution.

(B) In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the Additional Bonds Requirement, the interest rate shall be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least twenty-four (24) months, the highest average interest rate borne by such Variable Rate Bonds for any 30-day period, or (ii) if no such Variable Rate Bonds are then Outstanding, the Revenue Bond Index at the time of calculation.

### **Refunding Bonds**

(A) The City by means of a Series Resolution adopted in compliance with the provisions of Section 3.03 of the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding bonds and of effecting such refunding; provided, however, that the provisions of subsection (A) of Section 3.04 of the Bond Resolution shall be complied with upon the issuance of such Series; provided, further, however, that clause (4) of subsection (A) of Section 3.04 of the Bond Resolution need not be complied with if the Refunding Bonds proposed to be issued do not mature later than the Bonds to be refunded and Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed Debt Service in any Fiscal Year on the Bonds to be refunded by more than ten percent (10%).

(B) The City by means of a Series Resolution adopted in compliance with the provisions of Section 3.03 of the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of outstanding Subordinate Obligations, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding; provided, however, that the provisions of subsection (A) of Section 3.04 of the Bond Resolution shall be complied with upon the issuance of such Series.

(C) The proceeds of the Refunding Bonds of each Series issued pursuant to Section 3.05 of the Bond Resolution shall be applied for the purposes of making deposits in such Funds and Accounts under the Bond Resolution and shall be applied to the refunding purposes thereof as shall be provided by the Series Resolution authorizing such Refunding Bonds.

### **Bond Anticipation Notes**

Bond anticipation notes ("Bond Anticipation Notes") may be issued by the City at such time as the City shall have by a Series Resolution duly adopted authorized the issuance thereof. The principal of such Bond Anticipation Notes may be paid from the proceeds of such Bond Anticipation Notes (or any renewal thereof) or from the proceeds of the Bonds in anticipation of which such Bond Anticipation Notes were issued.

**Subordinate Obligations**

(A) The City may at any time or from time to time, issue evidences of indebtedness payable out of, and which may be secured by a pledge of, such amounts in the Subordinate Obligation Fund as may from time to time be available for the purpose of payment thereof. The City may, by resolution, provide for various priorities in the liens and pledges securing Subordinate Obligations, and nothing in the Bond Resolution shall be construed so as to require that the payment of, or pledges securing, Subordinate Obligations be on a parity.

(B) Any issue of Subordinate Obligations may have such rank or priority with respect to any other issue of Subordinate Obligations as may be provided in the resolution securing such issue of Subordinate Obligations and may contain such other provisions as are not in conflict with the provisions of the Bond Resolution

# THE SEWERAGE SYSTEM

## History of Utility

The City's Sewerage System (the "Sewerage System") traces its history back to the 1860's. In 1998, the Sewerage System was changed from a department of the City to an Enterprise Fund. The City's Sewerage System consists of three types of sewers: combined, sanitary and storm, most of which are located within the boundaries of the City. Combined sewers collect both wastewater from homes and businesses and storm runoff water in a single pipe and convey this flow to an intercepting sewer operated by the Milwaukee Metropolitan Sewerage District (MMSD). Sanitary sewers collect only wastewater from homes and businesses and convey this flow to an intercepting sewer operated by the MMSD. The intercepting sewers convey the flow to area treatment plants. Storm sewers collect only storm runoff water and convey this flow to rivers, streams, etc.

Combined sewers serve approximately 35 square miles of the City and separate sanitary and storm sewers serve approximately 60.8 square miles. It should be noted that a few of the City's sewers run through a portion of adjacent communities in order to connect to an intercepting sewer or to outlet into a river. In addition, some property in other communities that is adjacent to a common boundary to the City may receive service from City facilities if it is not available from their own community.

## General Information

The Sewerage System consists of a network of combined, sanitary and storm sewers and other facilities necessary to collect wastewater from homes and businesses and storm water runoff from City streets and other surfaces. The Sewerage System then conveys this flow to the intercepting sewerage system operated by the Milwaukee Metropolitan Sewerage District. In addition to the sewer pipes, the Sewerage System also includes a variety of lift stations, pumps, detention basins, storm water inlets and catch basins, storage and operating facilities required to efficiently perform this conveyance function.

For the most part, the sewers use gravity to move the flow downstream. In a few areas of the City, the existing intercepting sewers and slope of the land does not allow only the use of gravity to move the flow. In five locations, there have been installed pump stations to lift flow from a low point up to a point where it can continue to flow by gravity. Two of the lift stations are along the lakefront, one is on the east side of the City and two are located on the far northwest side of the City.

Eighty-three by-pass pumps are installed in the sanitary sewers. The by-pass pumps operate in extreme wet weather, discharging excess flow from the sanitary sewers to either a storm sewer (79 locations) or directly to an intercepting sewer (4 locations). These by-pass pumps were installed to prevent sanitary sewers from backing up into homes during extreme wet weather.

## Distribution of Major Assets as of December 31, 2000

As of December 31, 2000, major assets of the Sewerage System were distributed as follows:

Pipelines	\$99,646,816	55%
Manhole/Catch Basins	53,971,721	30
Junction Chamber	26,683,250	15
Total	<u>\$180,301,787</u>	<u>100%</u>

**Types of Sewers**

Type of Sewer	Miles of Sewers			
	Total	<= 21" Diameter	21" Diameter < and > 54" Diameter	=> 54" Diameter
Combined	547	304	177	66
Sanitary	935	923	12	0
Storm	955	640	241	74

Type of Sewer	Age of Sewers (in Miles)					Total
	<26 Years	26 to 50 years	51 years to 75 years	76 years to 100 years	>100 Years	
Combined	127	87	61	132	140	547
Sanitary	106	456	263	110	—	935
Storm	65	518	249	123	—	955
TOTAL	<u>298</u>	<u>1,061</u>	<u>573</u>	<u>365</u>	<u>140</u>	<u>2,437</u>

**Need for Improvements**

The City continuously evaluates the condition of the Sewerage System and schedules projects to replace portions of the Sewerage System that are no longer functioning adequately. The City is working to identify and remove the sources of infiltration and inflow, or clear water, that allow this water to enter the sanitary Sewerage System. This additional flow can result in bypasses from the sanitary Sewerage System. In addition, the City operates under a Wisconsin Department of Natural Resources' Storm Water Discharge Permit, which requires the City to address water quality by reducing pollutants washing off streets and other impervious surfaces.

**CUSTOMER DATA**

Sewer System customers are categorized into four classifications: residential (including single-family and duplexes), commercial, industrial and government. A summary of each classification is listed below:

Customer Classification	2002 Billings		Number of Accounts	
	Amount	Percent	Number	Percent
Residential	\$13,114,352.00	51.18%	128,606	89.5%
Commercial	8,276,995.72	32.30	12,988	9.0
Industrial	2,603,046.31	10.16	1,460	1.0
Government	1,628,535.25	6.36	570	0.4
TOTAL	<u>\$25,622,929.28</u>	<u>100.0%</u>	<u>143,624</u>	<u>100.0%</u>

### Largest Users

Below is profile of the Milwaukee Sewer System's 15 largest customers for the year 2002.

<u>Customer</u>	<u>Usage (100 cubic feet)</u>	<u>Billing</u>	<u>Billing as Percent of Total Billed</u>
Red Star Yeast & Products	1,844,117	\$1,535,965.05	5.99%
Milwaukee Public Schools	607,069	505,627.77	1.97
Milw County - DPW	599,993	499,734.17	1.95
City of Milwaukee Housing Auth	590,973	492,221.41	1.92
S E WIS Products Co Inc	428,650	357,022.59	1.39
WE Energies Co.	396,679	330,393.94	1.29
Falk Corp	380,180	316,651.92	1.24
Emmber Foods Inc	297,441	247,738.61	0.97
St Lukes Physicians Office Bldg	260,249	216,761.10	0.85
Metropolitan Assoc.	239,405	199,400.42	0.78
Master Lock Co	218,234	181,767.10	0.71
Marquette University	200,212	166,756.20	0.65
Towne Realty Inc.	192,733	160,527.32	0.63
US Veterans Admin	185,763	154,722.00	0.60
University of WI - Milwaukee	179,543	149,541.36	0.58
TOTAL	<u>6,621,241</u>	<u>\$5,514,830.96</u>	<u>21.52%</u>

Source: City of Milwaukee, Department of Public Works.

### **History of Usage and Total Billings**

The following are the historical billed amounts for the fifteen largest Sewer Fund customers for 2001 and 2002.

<u>Customer</u>	<u>2001 Billed Amount</u>	<u>2002 Billed Amount</u>
Red Star Yeast & Products	\$1,117,134	\$1,535,965
Milw County - DPW	396,436	499,734
City of Milwaukee Housing Auth	319,926	492,221
Milwaukee Public Schools	314,602	505,628
S E WIS Products Co Inc	243,623	357,023
WE Energies Co.	—	330,394
Falk Corp	217,690	316,652
Emmber Foods Inc	156,372	247,739
St Lukes Physicians Office Bldg	154,515	216,761
Metropolitan Assoc.	—	199,400
Master Lock Co	120,226	181,767
Marquette University	111,901	166,756
Towne Realty Inc.	—	160,527
University of WI - Milwaukee	110,848	149,541
US Veterans Admin	107,591	154,722
Maynard Electric	94,686	—
Tower Automotive	88,974	—
AMPCO Metal Inc.	76,934	—
	<u>\$3,631,458</u>	<u>\$5,514,831</u>

### **Rate Information**

The rate for the City Sewer Maintenance Fee is based upon actual water consumption. Water consumption acts as a proxy for the amount of water returned to the sewer system. To account for the fact that not all water consumed is returned to the Sewerage System, several adjustments are made to account for non-sewer related water consumption.

Residential water consumption is based upon actual consumption adjusted for historical winter quarter consumption, which tends to more accurately reflect the amount of water actually returned to the Sewerage System. This compensates for water consumed by residential users that does not return to the Sewerage System, such as watering of lawns and gardens.

Industrial and commercial properties can modify their consumption amount through a certification process, which adjusts consumption to more accurately reflect the amount of water actually returned to the Sewerage System. The certification process is similar to that used by the Milwaukee Metropolitan Sewerage District (“MMSD”), except that the City’s certification process does not include MMSD’s measure of sewerage strength. This measure does not apply to the City’s sewer maintenance expenses, as the strength of sewerage has no impact on the operational cost of sewer maintenance.

After identifying water consumption, the sewer rate is calculated by dividing total sewer maintenance costs by total adjusted water usage. This yields a rate per 100 cubic feet of water consumed. This rate is then multiplied by an individual’s property’s actual adjusted water usage to determine its sewer maintenance fee. The same rate is applied to all property classifications.

Sewer Fund costs include operating, maintenance, capital improvement and debt service costs for the City’s sewer system, as well as a contingency fund to cover unanticipated expenses and administrative costs for the City of Milwaukee Water Works (the City’s water utility, which records the actual billing and collection information, revises the fee amounts as necessary, and provides customer service).

The 2002 budgeted Sewer Fee rate was \$0.8329 per 100 cubic feet of water consumed. This translated into an average annual residential fee of \$76.63. The 2000 Sewer Fund budget was the first to include capital maintenance costs in addition to operating and maintenance costs. The 2000 City Budget transferred the Relief and Relay Sewer capital program to the Sewer Fund because this program funds on-going capital maintenance and preservation of the City's Sewerage System. In order to finance this capital program, the Sewer Fund budget and rate increased. The 2002 City Budget transferred funding of street sweeping and leaf collection activities from the General Fund to the Sewer Fund. These activities are part of the city's storm water management efforts and provide direct benefits to the storm sewer system. Although amounts for street sweeping and leaf collection are collected by the Sewerage System, the services provided are not considered an operation and maintenance expense of the Sewerage System. Transfers to the City to reimburse the General Fund for services provided occur after the payment of debt service on Bonds. Other factors influencing the increase in the 2002 Sewer rate included inflationary cost increases, declining water consumption, increases in equipment expenses, and funding of a mandatory Sanitary Manhole Rehabilitation project required by MMSD.

The 2003 budgeted Sewer Fee rate is \$1.1094 per 100 cubic feet of water. This translates into an average annual residential fee of \$85.20. The 2003 Sewer Fund budget includes operating, maintenance and capital costs. In addition to inflationary cost increases, the 2003 Sewer rate increase was the result of decreased water consumption, decreased reimbursement for infiltration and inflow expenses from MMSD, increased contingency funds, increased capital debt service costs, and increased capital cash financing. Increased capital cash financing is part of a capital cash conversion policy that aims at the gradual increase in cash financing of annual sewer repair and replacement capital needs with a proportional decrease in annual revenue bond financing. A cash conversion policy is being implemented for the Sewer Maintenance Fund's capital program in order to realize long-term savings by avoiding unnecessarily high debt service costs.

**Average Residential Billing**

The following includes historical average residential billings.

Year	Annual Average Billing (Total Residential)
1998	\$26.89
1999	\$35.55
2000	\$55.66
2001	\$64.79
2002	\$76.63

*Source: City of Milwaukee Department of Administration, Budget and Management Division.*

**Collection and Billing**

Sewer maintenance charges are billed by the Milwaukee Water Works on a combined Municipal Services statement. These charges are based on consumption. Charges for Water Service, Sewer Treatment, Solid Waste and Snow and Ice Control are also included on the statement. Approximately 97% of the statements are billed on a quarterly basis with the remaining accounts billed monthly. All accounts are given 21 days to pay the bill to avoid late fees. If payments are late, a quarterly 3% late payments penalty will be charged. In October of each year, accounts that are two or more quarters delinquent will have their arrears placed on the property tax roll and billed to properties, including a 10% delinquency penalty.

The order of partial payments is dictated by the City of Milwaukee Ordinance Section 309-54-8.b. This directs application in the following order: Water Works (Fund 0410); Metropolitan Sewerage District Sewer User/Treatment (Fund 0460); Sewer Maintenance (Fund 0490); Solid Waste Charge (Fund 0470) and Snow and Ice Control (Fund 0001).

## SEWERAGE SYSTEM REVENUE BOND INDEBTEDNESS

Set forth below is the City's Sewerage System revenue indebtedness, including payments due on existing debt, as well as on the Series 2003 Bonds.

Year	Outstanding Revenue Debt		Series 2003 Bonds		Total Projected
	Principal	Interest	Principal	Interest	Debt Service Requirements
2003	\$1,000,000	\$1,339,784		\$596,423	\$2,936,207
2004	1,035,000	1,304,171		1,522,781	3,861,952
2005	1,080,000	1,259,059	\$1,310,000	1,503,131	5,152,190
2006	1,135,000	1,203,684	1,345,000	1,463,306	5,146,990
2007	1,190,000	1,152,996	1,380,000	1,422,431	5,145,427
2008	1,235,000	1,105,984	1,415,000	1,380,506	5,136,490
2009	1,285,000	1,055,584	1,455,000	1,330,181	5,125,765
2010	1,340,000	1,003,084	1,500,000	1,271,081	5,114,165
2011	1,395,000	948,384	1,545,000	1,202,456	5,090,840
2012	1,450,000	891,484	1,600,000	1,123,831	5,065,315
2013	1,520,000	822,584	1,655,000	1,042,456	5,040,040
2014	1,600,000	740,680	1,710,000	962,606	5,013,286
2015	1,685,000	654,452	1,780,000	884,081	5,003,533
2016	1,775,000	563,627	1,850,000	797,781	4,986,408
2017	1,875,000	466,643	1,925,000	703,406	4,970,049
2018	1,970,000	369,957	2,005,000	605,156	4,950,113
2019	2,070,000	273,206	2,090,000	502,781	4,935,987
2020	2,170,000	168,500	2,190,000	395,781	4,924,281
2021	2,285,000	57,125	2,280,000	284,031	4,906,156
2022	—	—	2,375,000	167,656	2,542,656
2023	—	—	2,475,000	54,138	2,529,138
<b>TOTAL</b>	<b>\$29,095,000</b>	<b>\$15,380,988</b>	<b>\$33,885,000</b>	<b>\$19,216,000</b>	<b>\$97,576,887</b>

### **Future Financing**

The capital financing needs to be supported by revenue bonding include only repair and replacement of existing City Sewerage System facilities. Any expansion of the Sewerage System financed through bonding is currently financed through issuance of the City's general obligation bonds, and any future expansion is expected to be financed in this manner. The Series 2003 Bonds represent approximately two years of revenue bond financed capital needs of the Sewerage System.

The City expects to spend approximately \$18,000,000 annually for Sewerage System repair and replacement needs, with \$11,000,000-\$16,000,000 of this amount to be financed annually through revenue bonds.

**SEWER MAINTANANCE FUND  
BALANCE SHEET  
DECEMBER 31, 2002 (Unaudited)  
(Thousands of Dollars)**

The following financial information has been prepared in accordance with GASB 34 changes, however, as of the date of the Official Statement, the audit has not yet been completed. Due to GASB 34 changes, the information is not directly comparable to 2001 financial information presented in Appendix B. The City does not intend to prepare Sewer Maintenance Fund financial information for 2001 that would be comparable to information provided for 2002.

	2002
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$588
Receivables (net):	
Accounts	6,956
Unbilled Accounts	2,848
Accrued Interest Receivable	7
Due from other funds	492
Deferred Charges	334
Total Current Assets	\$11,225
Noncurrent Assets:	
Restricted Assets	\$3,715
Infrastructure	282,603
Machinery and Equipment	1,288
Furniture and Furnishings	63
Construction work in progress	8,348
Less: Accumulated Depreciation	(86,673)
Total Noncurrent Assets	\$209,344
Total Assets	\$220,569
<b>Liabilities</b>	
Current Liabilities:	
Accounts payable	\$1,590
Accrued Expenses	1,437
Total Current Liabilities	\$3,027
Current Liabilities Payable from Restricted Assets:	
Revenue Bonds Payable	\$1,000
Accrued Interest Payable	113
Total Current Liabilities Payable	1,113
From Restricted Assets	1,113
Noncurrent Liabilities:	
Revenue Bonds Payable	\$28,095
Total Noncurrent Liabilities	28,095
Total Liabilities	\$32,235
<b>Net Assets:</b>	
Invested in capital assets net of related debt	\$176,534
Restricted net assets	3,715
Unrestricted	8,085
Total Net Assets	\$188,334

Source: Office of the Comptroller, City of Milwaukee.

**SEWER MAINTENANCE FUND  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 2002 (Unaudited)  
(Thousands of Dollars)**

The following financial information has been prepared in accordance with GASB 34 changes, however, as of the date of the Official Statement, the audit has not yet been completed. Due to GASB 34 changes, the information is not directly comparable to 2001 financial information presented in Appendix B. The City does not intend to prepare Sewer Maintenance Fund financial information for 2001 that would be comparable to information provided for 2002.

	2002
Operating Revenues	
Sewer Maintenance Fees	\$27,922
Other	85
Total Operating Revenues	\$28,007
Operating Expenses	
Employee Services	6,857
Depreciation	3,776
Services, supplies and materials	8,426
Total Operating Expenditures	\$19,059
Operating Income (Loss)	\$8,948
Non-Operating Revenues (Expenses)	
Interest Income	300
Interest Expense	(1,320)
Net Gain (Loss) on disposal of fixed assets	(60)
Total Non-Operating Revenues (Expenses)	\$(1,080)
Income (Loss) before Contributions and Transfers	7,868
Capital Contributions	(1,351)
Operating Transfers In	—
Operating Transfers Out	(3,845)
Change in Net Assets	\$2,672
Total Net Assets-Beginning	\$185,662
Total Net Assets-Ending	\$188,334

Source: Office of the Comptroller, City of Milwaukee.

**RESTATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002 (Unaudited)**  
**(Thousands of Dollars)**

The following financial information has been prepared in accordance with GASB 34 changes, however, as of the date of the Official Statement, the audit has not yet been completed. Due to GASB 34 changes, the information is not directly comparable to 2001 financial information presented in Appendix B. The City does not intend to prepare Sewer Maintenance Fund financial information for 2001 that would be comparable to information provided for 2002.

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers and users	\$28,606
Other operating cash receipts	85
Payments to suppliers	(8,015)
Payments to employees	(6,807)
Payments to other funds	(12,051)
Net Cash Provided by (used for) Operating Activities	<u>\$1,818</u>
<b>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Transfers to other funds	(3,845)
Net Cash Provided by (used for) Non Capital and Related Financing Activities	<u>(3,845)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of property, plant and equipment	(\$15,971)
Interest paid	(1,357)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(\$17,328)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Income	\$293
Net Cash Provided by (Used for) Investing Activities	<u>\$293</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(\$19,062)
Cash and Cash Equivalents-Beginning	\$23,365
Cash and Cash Equivalents-Ending	\$4,303
Cash and Cash Equivalents at Year End Consists of:	
Unrestricted Cash	\$588
Restricted Cash	3,715
	<u>\$4,303</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>	
<b>USED BY OPERATING ACTIVITIES:</b>	
Operating Income (loss)	\$8,948
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	3,776
Changes in assets and liabilities:	
Receivables	966
Due from other funds	(283)
Inventories	3
Deferred charges	15
Accounts payable	393
Accrued liabilities	51
Due to other funds	(12,051)
Net Cash Used by Operating Activities	<u>\$1,818</u>

**Non-cash Activities:**

The Sewer Maintenance Fund donated or disposed of fixed assets with a net value of \$585.

Source: Office of the Comptroller, City of Milwaukee.

**SEWER MAINTENANCE FUND**  
**PRO FORMA OPERATIONS & DEBT SERVICE-LEVEL DEBT SERVICE**  
**(Dollars in Thousands)**

	Historical				Projected				
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operations Revenues	\$8,997.0	\$15,582.0	\$18,899.0	\$28,007.0	\$28,559.0	\$28,650.0	\$28,864.0	\$28,980.0	\$29,160.0
Operating Expenses <sup>(1)</sup>	\$8,895.0	\$11,114.0	\$14,093.0	\$15,283.0	\$15,741.5	\$14,482.0	\$14,916.0	\$15,364.0	\$15,825.0
Net Income Available for Debt Service	\$102.0	\$4,468.0	\$4,806.0	\$12,724.0	\$12,817.5	\$14,168.0	\$13,948.0	\$13,616.0	\$13,335.0
Prior to the issuance of the 2003 Bonds									
Maximum Annual Debt Service	-	-	-	\$2,343.4					
Debt Service Coverage	-	-	-	5.43X					
After issuance of the 2003 Bonds									
Maximum Annual Debt Service					\$5,152.2	\$5,152.2	\$5,152.2	\$5,147.0	\$5,145.4
Debt Service Coverage					2.49X	2.75X	2.71X	2.65X	2.59X
Assuming issuance of Additional Bonds <sup>(2)</sup>									
Maximum Annual Debt Service						\$5,290.0	\$6,690.0	\$8,090.0	\$9,490.0
Debt Service Coverage						2.68X	2.08X	1.68X	1.41X
Minimum Debt Service Coverage	-	-	-	1.20X	1.20X	1.20X	1.20X	1.20X	1.20X

(1) Excludes depreciation and operating transfers. No taxes are assessed against this enterprise.

(2) Future Additional Bonds assumes bonds as discussed in the section entitled "SEWERAGE SYSTEM REVENUE BONDS INDEBTEDNESS – Future Financing".

## BOOK-ENTRY-ONLY SYSTEM

*The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a document prepared by The Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The City makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

DTC, New York, NY, will act as securities depository for the Series 2003 Bonds. The Series 2003 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 certificate will be issued for each maturity of the Series 2003 Bonds, in the aggregate principal amount of such annual maturity, and such certificates will be deposited with DTC.

DTC, the world’s largest 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. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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).

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2003 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 Series 2003 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 Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 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 Series 2003 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 Series 2003 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2003 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2003 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 Issuer or Agent, 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 [nor its nominee], Agent, or Issuer, 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 City or Agent, 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.

DTC may discontinue providing its services as depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2003 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event Series 2003 Bond certificates will be printed and delivered.

NEITHER THE CITY, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE SERIES 2003 BONDS; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE SERIES 2003 BONDS; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF SERIES 2003 BONDS.

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## LEGAL MATTERS

### LITIGATION STATEMENT

The City, and its boards, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. The City does not carry a blanket policy of insurance against tort liability. However, §893.80, Wisconsin Statutes, limits the amount recoverable in Wisconsin against a political corporation and its officers, officials or employees for acts done in their official capacity to \$50,000 in tort liability for non-automobile cases and to \$250,000 in automobile cases.

The City Attorney's office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation. Those which individually represent maximum potential loss exposure in excess of \$1 million which existed on June 20, 2003 are:

***U.S. Department of Justice Pattern and Practice Investigation-Milwaukee Police Department.*** The Equal Employment Opportunity Commission ("EEOC") conducted a pattern and practice investigation from December 1993 to September 1996. The investigation resulted in a finding of probable cause that the Fire and Police Commission ("FPC") and Milwaukee Police Department discriminated, based on race, in the areas of hiring, discipline, retaliation, and terms and conditions of employment. The EEOC sought \$5 million in total remedies for the class claims and nearly \$2 million to the individual hiring charging parties. Additionally, the EEOC requested remedies for the 15 individual "terms and conditions" charging parties in an amount totaling over \$2.5 million. The EEOC also sought an additional \$1 million in compensation to the "terms and conditions" class members. The EEOC referred the matter to the United States Department of Justice ("DOJ") in February 1997. Additional individual EEOC charges have also resulted in reasonable cause determinations and have been referred to the DOJ. The DOJ conducted a further, lengthy investigation and stated by letter dated January 2, 2001 that suit had been authorized against the City and the FPC. DOJ alleges that between 1991 and 1996, African-Americans were discriminated against in terms of differential and less favorable treatment in the hiring process (failing background investigations), and in terms and conditions of employment such as discipline, discharge, and assignment. In 2001 DOJ requested \$6.15 million in compensatory damages for a class of 100 victims of discriminatory terms and conditions of employment and an unspecified sum in back pay for a group of approximately 39 African-Americans who failed background investigations. The City considered that request unreasonable and urged DOJ re-consider its position. Since that time, DOJ has not responded. However, DOJ has declined to pursue litigation on behalf of seven of the charging parties and issued individual right to sue letters to them. To date, one suit has been served upon the City.

***Claim of the Estate of Mario Mallett.*** On April 19, 2002, a claim was filed with the City Clerk by the estate of Mr. Mario Mallett pursuant to the December 27, 2001 death of Mr. Mallett. Mr. Mallett's death occurred while he was in the custody of City police officers. The estate claims that Mr. Mallett's death was caused by the negligence of officers, in the manner in which Mr. Mallett was taken into custody and transported to a hospital. The City has given substantive attention to this claim, and anticipates that a lawsuit will be filed that raises both state negligence and federal civil rights causes of action.

***Milwaukee Police Association v. City of Milwaukee, et. al.*** The Milwaukee Employees' Retirement System (MERS) is in the process of purchasing a computerized information system to assist in the administration of the City's pension system. The cost is expected to be in the range of \$11 to \$12 million. According to an agreement between the City and the MERS, the cost of the system is to be paid entirely by MERS. In this lawsuit, the Milwaukee Police Association alleges that the agreement between City and MERS limits MERS's obligation to pay for the information system to no more than \$3 million. If the suit is successful, the City might be liable to pay the remaining \$8 to \$9 million.

With regard to other pending or threatened litigation and unasserted claims, it is the opinion of the City Attorney that such litigation and claims will not be finally determined so as to result individually or in the aggregate in a final judgment against the City which would affect its financial position or that of the Sewerage System.

### LEGAL OPINION

The legal opinion of Hawkins, Delafield & Wood, New York, New York, and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel, will be delivered to the purchasers of the Series 2003 Bonds. A draft of the legal opinion for the Series 2003 Bonds is included herein as Appendix C.

## TAX STATUS

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the Series 2003 Bonds and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2003 Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2003 Bonds. Bond Counsel renders their opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update their opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2003 Bonds.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2003 Bonds in order that interest on the Series 2003 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2003 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2003 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2003 Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2003 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2003 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2003 Bonds.

Prospective owners of the Series 2003 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2003 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation affecting municipal bonds is regularly proposed. There can be no assurance that legislation enacted or proposed by the United States Congress after the date of issuance of the Series 2003 Bonds will not have an adverse effect on the tax-exempt status or market price of the Series 2003 Bonds.

### **Original Issue Discount**

"Original issue discount" (OID) is the excess of the sum of all amounts payable at the stated maturity of a Series 2003 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2003 Bonds of that maturity were sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2003 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2003 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2003 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2003 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a Series 2003 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2003 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2003 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **State Tax Matters**

Interest on the Series 2003 Bonds is not exempt from State of Wisconsin income tax or franchise tax.

## **NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS**

The Issuer will not designate the Series 2003 Bonds as "qualified tax-exempt obligations" for purposes of Section 265 (b)(3) of the Code relating to the ability of certain financial institutions (within the meaning of Section 265(b)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

## **CONTINUING DISCLOSURE**

In order to assist an underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission, the City will provide a Continuing Disclosure Certificate (the "Certificate") to the purchaser of the Series 2003 Bonds (see "Appendix E - Form of the Continuing Disclosure Certificate"). The Certificate will constitute a written agreement, or contract, of the City for the benefit of holders of, and owners of beneficial interest in, the Series 2003 Bonds to provide certain information as described in the Certificate. The continuing obligation to provide annual financial information and notices as described in the Certificate will terminate with respect to the Series 2003 Bonds when the Series 2003 Bonds are no longer outstanding. Any failure by the City to comply with the Certificate will not constitute a default with respect to the Series 2003 Bonds. The City has not failed to comply in any material respect with any previous written contract similar to the Certificate.

## FINANCIAL ADVISOR

Robert W. Baird & Co. has been retained as Financial Advisor to the City in connection with the issuance of the Series 2003 Bonds. The Financial Advisor has requested and the City has consented to the Financial Advisor submitting bids, on behalf of underwriters, for the Series 2003 Bonds.

## UNDERWRITING

The Series 2003 Bonds have been purchased at competitive bidding conducted on June 19, 2003.

The award of the Series 2003 Bonds was made on June 20, 2003 to ABN AMRO Financial Services Inc., its co-managers and associates, if any.

The yields on the Series 2003 Bonds are detailed on the inside front cover of this Final Official Statement.

## BOND INSURANCE

Concurrently with the issuance of the Series 2003 Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Series 2003 Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2003 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Series 2003 Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Series 2003 Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 2003 Bond includes any payment of principal or interest made to an owner of a Series 2003 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Series 2003 Bonds. The Policy covers failure to pay principal of the Series 2003 Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 2003 Bonds may have been otherwise called for redemption, accelerated, or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Series 2003 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 2003 Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2003, the total capital and surplus of Financial Guaranty was approximately \$1.028 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance

Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

## **RATINGS**

The City has requested underlying ratings on the Series 2003 Bonds from FITCH Ratings, Moody's Investors Service, Inc. and from Standard & Poor's Ratings Group. FITCH Ratings, Inc. has assigned a rating of "AA" on the Series 2003 Bonds, Moody's Investors Service has assigned a rating of "Aa3" on the Series 2003 Bonds and Standard & Poor's Rating Group has assigned a rating of "AA-", on the Series 2003 Bonds.

Moody's Investors Service has assigned its municipal bond rating of "Aaa" to this issue of Series 2003 Bonds with the understanding that upon delivery of the Series 2003 Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2003 Bonds will be issued by Financial Guaranty Insurance Company.

Standard & Poor's Ratings Group has assigned its municipal bond rating of "AAA" to this issue of Series 2003 Bonds with the understanding that upon delivery of the Series 2003 Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2003 Bonds will be issued by Financial Guaranty Insurance Company.

FITCH Ratings, Inc. has assigned its municipal bond rating of "AAA" to this issue of Series 2003 Bonds with the understanding that upon delivery of the Series 2003 Bonds, a policy insuring the payment when due of the principal of and interest on the Series 2003 Bonds will be issued by Financial Guaranty Insurance Company.

The ratings, when issued, reflect only the views of the respective ratings agencies, and an explanation of the significance of such rating may be obtained therefrom. There is no assurance that the 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 respective agencies, if, in their judgment, circumstances so warrant. A revision or withdrawal of the credit rating could have an effect on the market price of the Series 2003 Bonds.

## **LEGISLATION**

The City is not aware of any pending legislation that would cause significant adverse consequences to either the Series 2003 Bonds or the financial condition of the City's Sewerage System.

## **CLOSING DOCUMENTS AND CERTIFICATES**

Simultaneously with the delivery of and payment for the Series 2003 Bonds by the Underwriter thereof, the City will furnish to the Underwriter the following closing documents, in form satisfactory to Bond Counsel:

- (1) a signature and no litigation certificate;
- (2) a tax certificate;
- (3) a certificate of delivery and payment;
- (4) the opinion as to the legality of the Series 2003 Bonds under Wisconsin law and as to the tax-exempt status of the interest thereon for federal income tax purposes with respect to the Series 2003 Bonds, rendered by Hawkins, Delafield & Wood, New York, New York and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel, in substantially the form as set forth in Appendix C;
- (5) copies of this Official Statement issued in conjunction with the Series 2003 Bonds within seven business days after the sale of the Series 2003 Bonds in accordance with SEC Rule 15c2-12(b)(3);
- (6) a Continuing Disclosure Certificate; and
- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a

material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

### **REPRESENTATIONS OF THE CITY**

To the best of its knowledge, the information in this Official Statement does not include any untrue statement of a material fact, nor does the information omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

### **ADDITIONAL INFORMATION**

Additional information may be obtained from the undersigned City Comptroller upon request.

W. MARTIN MORICS, City Comptroller and Secretary  
City of Milwaukee, Public Debt Commission  
City Hall - Room 404, 200 East Wells Street  
Milwaukee, Wisconsin 53202  
(414) 286-2301

/s/ W. Martin Morics  
Comptroller  
City of Milwaukee, Wisconsin

June 20, 2003

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**APPENDIX B**

**Audited Financial Statements of  
the City of Milwaukee, Wisconsin  
for the Year Ended December 31, 2001**

**CITY OF MILWAUKEE**  
**Financial Statements**  
**For the Year Ended December 31, 2001**  
**(Excerpts From Annual Financial Report)**

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**APPENDIX B**

**Audited General Purpose Financial Statements of  
the City of Milwaukee, Wisconsin  
for the Year Ended December 31, 2001**

**CITY OF MILWAUKEE**  
**Financial Statements**  
**For the Year Ended December 31, 2001**  
**(Excerpts From Annual Financial Report)**

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777 East Wisconsin Avenue  
Milwaukee, WI 53202

## Independent Auditors' Report

To the Honorable Members  
of the Common Council  
of the City of Milwaukee

We have audited the accompanying general purpose financial statements of the City of Milwaukee (a municipality incorporated under the laws of the State of Wisconsin) as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's Comptroller. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Milwaukee as of December 31, 2001, and results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in footnote 1 of the notes to the financial statements, during the year ended December 31, 2001, the City adopted the provisions of Governmental Accounting Standards Board Statement No.33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement No.36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

As described in footnote 13 of the notes to the financial statements, the City restated the beginning retained earnings of the enterprise funds.

**KPMG LLP**

Milwaukee, Wisconsin  
May 31, 2002



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

CITY OF MILWAUKEE  
**COMBINED BALANCE SHEET -**  
**ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS**  
**DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2000**  
*(Thousands of Dollars)*

Exhibit 1

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>				
Assets:				
Cash and cash equivalents .....	\$ 29,769	\$ 21,962	\$ 50,433	\$ 27,889
Investments .....			65,519	
Receivables (net):				
Taxes .....	21,091	8,597		
Accounts .....	19,014	2,036		2,286
Unbilled accounts .....	1,835			
Special assessments .....				13,610
Notes and loans .....	670	6,307	17,637	
Accrued interest .....	604	2	228	
Due from other funds .....	23,988			
Due from primary government .....				
Due from component units .....	3,395		18,999	
Due from other governmental agencies .....	981	11,881		10,451
Other receivables .....	12,222			
Inventory of materials and supplies .....	5,652			203
Inventory of property for resale .....	26			
Prepaid items .....	1,019			
Deferred charges .....				
Other assets .....				
Restricted Assets:				
Cash and cash equivalents .....				
Investments .....	281			
Loans receivables .....				
Land .....				
Buildings .....				
Infrastructure .....				
Improvements other than buildings .....				
Machinery and equipment .....				
Furniture and furnishings .....				
Construction work in progress .....				
Nonutility property .....				
Accumulated depreciation .....				
Other Debits:				
Resources available in Governmental Funds .....				
Resources to be Provided for:				
Retirement of general obligation debt .....				
Unfunded compensated absences .....				
Unfunded claims and judgments .....				
<b>Total Assets and Other Debits .....</b>	<b>\$ 120,547</b>	<b>\$ 50,785</b>	<b>\$ 152,816</b>	<b>\$ 54,439</b>

**LIABILITIES, FUND EQUITY AND OTHER CREDITS**

Liabilities:				
Accounts payable .....	\$ 21,716	\$ 4,953	\$	\$ 10,406
Accrued wages .....	28,155	322		424
Accrued expenses .....				

Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust and Agency	Account Groups		Totals (Memorandum Only) Primary Government	Component Units	Totals (Memorandum Only) Reporting Entity 2000 (Restated)	
		General Fixed Assets	General Long-Term Obligations			2001	(Restated)
\$ 26,803	\$ 315,964 5,405	\$	\$	\$ 472,820 70,924	\$ 33,744 18,230	\$ 506,564 89,154	\$ 373,253 91,756
	124,485			154,173		154,173	172,865
24,872				48,308	7,235	55,543	55,915
9,597				11,432		11,432	11,036
				13,610		13,610	13,233
	467			25,081	63,770	88,851	82,400
36				870	416	1,286	1,635
564				24,552		24,552	13,171
				-	973	973	2,112
				22,394		22,394	17,270
				23,313	16,686	39,999	40,620
				12,222		12,222	12,694
2,616				8,471		8,471	8,370
				26	11,274	11,300	10,954
29				1,048	2,021	3,069	2,173
367				367		367	2
367				367	1,128	1,495	1,388
23,365				23,365	1,809	25,174	3,585
	374,371			374,652	14,543	389,195	402,772
				-		-	40
19,719		39,694		59,413	40,007	99,420	98,132
80,455		132,870		213,325	294,058	507,383	464,463
265,856				265,856		265,856	
278,481				278,481		278,481	271,681
193,864		97,353		291,217	4,599	295,816	290,978
78				78	114	192	311
20,145		82,939		103,084	38,507	141,591	125,201
540				540		540	540
(246,498)				(246,498)	(139,898)	(386,396)	(278,601)
			128,874	128,874		128,874	117,488
			437,555	437,555		437,555	405,015
			33,360	33,360		33,360	30,534
			36,945	36,945		36,945	43,520
<u>\$ 701,356</u>	<u>\$ 820,692</u>	<u>\$ 352,856</u>	<u>\$ 636,734</u>	<u>\$ 2,890,225</u>	<u>\$ 409,216</u>	<u>\$ 3,299,441</u>	<u>\$ 2,886,506</u>
\$ 12,636	\$ 1,152	\$	\$	\$ 50,863	\$ 18,237	\$ 69,100	\$ 67,793
3,445				32,346	18	32,364	30,996
866				866	4,280	5,146	6,505

CITY OF MILWAUKEE  
**COMBINED BALANCE SHEET -**  
**ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS**  
**DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2000**  
*(Thousands of Dollars)*

Exhibit 1 (Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities (Continued):</b>				
Due to other funds .....	\$	\$ 8,543	\$ 1,194	\$ 617
Due to primary government .....				
Due to component units .....		973		
Due to other governmental agencies .....		776		6,284
Bonds and notes payable - current .....				
General obligation debt payable - current .....				
Deferred revenue .....	1,832	12,733	36,636	15,010
Bond anticipation notes payable .....				
Bonds and notes payable .....				
General obligation debt .....				
Unfunded compensated absences .....				
Unfunded claims and judgments .....				
Revenue bonds payable .....				
Other payables .....				12,222
Advances from other governmental agencies .....				
Other liabilities .....				
Total Liabilities .....	\$ 51,703	\$ 28,300	\$ 37,830	\$ 44,963
<b>Fund Equity and Other Credits:</b>				
Contributed capital .....	\$	\$	\$	\$
Investment in general fixed assets .....				
Retained Earnings:				
Unreserved .....				
Reserved for restricted assets .....				
Fund Balances:				
Reserved for debt service - 2002 (2001) .....		13,381	42,137	
Reserved for future retirement of general obligation debt .....		507	72,849	
Reserved for delinquent taxes receivable .....		8,597		
Reserved for encumbrances, prepaids, and carryovers .....	22,460			21,658
Reserved for inventory .....	5,678			203
Reserved for mortgage trust .....	281			
Reserved for environmental remediation .....	303			
Reserved for deferred compensation .....				
Reserved for tax stabilization - 2002 (2001) .....	11,000			
Reserved for tax stabilization - 2003 (2002) and subsequent years' budgets .....	29,122			
Unreserved:				
Special assessment (deficit) .....				(12,385)
Undesignated .....				
Total Fund Equity and Other Credits .....	\$ 68,844	\$ 22,485	\$ 114,986	\$ 9,476
Total Liabilities, Fund Equity and Other Credits .....	\$ 120,547	\$ 50,785	\$ 152,816	\$ 54,439

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

Exhibit 1 (Continued)

Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust and Agency	Account Groups		Totals (Memorandum Only) Primary Government	Component Units	Totals (Memorandum Only) Reporting Entity 2000 (Restated)	
		General Fixed Assets	General Long-Term Obligations			2001	2000
\$ 14,198	\$	\$	\$	\$ 24,552	\$	\$ 24,552	\$ 13,171
				-	22,394	22,394	17,270
				973		973	2,112
	124,805			131,865	10,809	142,674	68,085
				-	2,672	2,672	2,454
9,659				9,659		9,659	9,496
61	200,640			266,912	3,923	270,835	261,072
				-		-	6,258
	112,000			112,000	8,420	120,420	110,642
67,905			566,429	634,334		634,334	596,573
			33,360	33,360		33,360	30,534
			36,945	36,945		36,945	43,520
44,361			44,361	44,361	11,461	55,822	28,451
				12,222		12,222	12,694
				-	7,963	7,963	1,358
				-	4,914	4,914	3,324
<u>\$ 153,131</u>	<u>\$ 438,597</u>	<u>\$ -</u>	<u>\$ 636,734</u>	<u>\$ 1,391,258</u>	<u>\$ 95,091</u>	<u>\$ 1,486,349</u>	<u>\$ 1,312,308</u>
\$ 303,614	\$	\$	\$	\$ 303,614	\$ 289,516	\$ 593,130	\$ 413,259
		352,856		352,856		352,856	329,186
221,246				221,246	24,609	245,855	248,121
23,365				23,365		23,365	
				55,518		55,518	43,481
				73,356		73,356	74,007
				8,597		8,597	7,963
				44,118		44,118	43,164
				5,881		5,881	6,213
				281		281	281
				303		303	304
	374,371			374,371		374,371	387,461
				11,000		11,000	5,500
				29,122		29,122	17,909
				(12,385)		(12,385)	(11,745)
	7,724			7,724		7,724	9,094
<u>\$ 548,225</u>	<u>\$ 382,095</u>	<u>\$ 352,856</u>	<u>\$ -</u>	<u>\$ 1,498,967</u>	<u>\$ 314,125</u>	<u>\$ 1,813,092</u>	<u>\$ 1,574,198</u>
<u>\$ 701,356</u>	<u>\$ 820,692</u>	<u>\$ 352,856</u>	<u>\$ 636,734</u>	<u>\$ 2,890,225</u>	<u>\$ 409,216</u>	<u>\$ 3,299,441</u>	<u>\$ 2,886,506</u>

CITY OF MILWAUKEE  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000**  
*(Thousands of Dollars)*

Exhibit 2

	General	Special Revenue
<b>Revenues:</b>		
Property taxes .....	\$ 118,804	\$
Other taxes .....	12,688	
Special assessments .....		
Licenses and permits .....	10,485	
Intergovernmental .....	278,969	61,220
Charges for services .....	54,594	
Fines and forfeits .....	4,408	
Other .....	12,408	998
<b>Total Revenues</b> .....	<b>\$ 492,356</b>	<b>\$ 62,218</b>
<b>Expenditures:</b>		
<b>Current:</b>		
General government .....	\$ 162,628	\$ 1,619
Public safety .....	209,521	13,758
Public works .....	87,453	3,566
Health .....	11,237	11,800
Culture and recreation .....	16,948	2,202
Conservation and development .....	7,922	28,280
Other .....		
Capital outlay .....		
<b>Debt Service:</b>		
Principal retirement .....		
Interest .....		
<b>Total Expenditures</b> .....	<b>\$ 495,709</b>	<b>\$ 61,225</b>
<b>Excess of Revenues over (under) Expenditures</b> .....	<b>\$ (3,353)</b>	<b>\$ 993</b>
<b>Other Financing Sources (Uses):</b>		
Proceeds of bonds and notes .....	\$ 7,071	\$ 13,585
Payment to refunded bond escrow agent .....		
Operating transfers in .....	24,365	
Operating transfers out .....	(104)	(13,045)
Operating transfers to component units .....	(150)	
Contributions received .....	675	
Contributions used .....	(462)	
<b>Total Other Financing Sources (Uses)</b> .....	<b>\$ 31,395</b>	<b>\$ 540</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses</b> .....	<b>\$ 28,042</b>	<b>\$ 1,533</b>
<b>Fund Balances - January 1</b> .....	<b>38,894</b>	<b>21,008</b>
Residual Equity Transfers from Other Funds .....	1,921	
Residual Equity Transfers to Other Funds .....	(13)	(56)
<b>Fund Balances - December 31</b> .....	<b>\$ 68,844</b>	<b>\$ 22,485</b>

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

<u>Governmental Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum Only)</u>	
<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>Expendable</u> <u>Trust</u>	<u>2001</u>	<u>Reporting Entity</u> <u>2000</u>
\$ 69,691	\$ 2,161	\$	\$ 190,656	\$ 158,718
1,358	3,807		14,046	13,859
	8,504		3,807	3,930
			10,485	10,154
			348,693	348,157
			54,594	45,383
			4,408	18,036
<u>26,342</u>	<u>6,255</u>	<u>11,618</u>	<u>57,631</u>	<u>69,462</u>
<u>\$ 97,391</u>	<u>\$ 20,737</u>	<u>\$ 11,618</u>	<u>\$ 684,320</u>	<u>\$ 667,699</u>
\$ 2	\$	\$	\$ 164,249	\$ 159,103
			223,279	235,157
			91,019	105,374
			23,037	23,568
			19,150	19,764
			36,202	34,074
		26,195	26,195	23,054
	104,479		104,479	77,629
71,904			71,904	70,143
<u>26,581</u>			<u>26,581</u>	<u>23,733</u>
<u>\$ 98,487</u>	<u>\$ 104,479</u>	<u>\$ 26,195</u>	<u>\$ 786,095</u>	<u>\$ 771,599</u>
<u>\$ (1,096)</u>	<u>\$ (83,742)</u>	<u>\$ (14,577)</u>	<u>\$ (101,775)</u>	<u>\$ (103,900)</u>
\$ 23,216	\$ 76,853	\$	\$ 120,725	\$ 91,227
(23,216)			(23,216)	
28,686		104	53,155	37,842
(16,628)	(2,883)		(32,660)	(34,961)
			(150)	(150)
			675	536
			<u>(462)</u>	<u>(685)</u>
<u>\$ 12,058</u>	<u>\$ 73,970</u>	<u>\$ 104</u>	<u>\$ 118,067</u>	<u>\$ 93,809</u>
\$ 10,962	\$ (9,772)	\$ (14,473)	\$ 16,292	\$ (10,091)
104,443	22,732	396,555	583,632	597,123
3,484		13	5,418	473
<u>(3,903)</u>	<u>(3,484)</u>		<u>(7,456)</u>	<u>(3,873)</u>
<u>\$ 114,986</u>	<u>\$ 9,476</u>	<u>\$ 382,095</u>	<u>\$ 597,886</u>	<u>\$ 583,632</u>

**CITY OF MILWAUKEE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**  
*(Thousands of Dollars)*

Exhibit 3

	<u>Amended Budget</u>	<u>Actual on Budgetary Basis</u>	<u>General Fund Variance - Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Property taxes .....	\$ 118,804	\$ 118,804	\$ -
Other taxes .....	12,113	12,688	575
Licenses and permits .....	8,817	10,485	1,668
Intergovernmental .....	278,732	278,969	237
Charges for services .....	55,401	54,594	(807)
Fines and forfeits .....	5,510	4,408	(1,102)
Other .....	<u>13,085</u>	<u>12,408</u>	<u>(677)</u>
<b>Total Revenues .....</b>	<b><u>\$ 492,462</u></b>	<b><u>\$ 492,356</u></b>	<b><u>\$ (106)</u></b>
<b>Expenditures:</b>			
<b>Current</b>			
General government .....	\$ 171,803	\$ 162,628	\$ 9,175
Public safety .....	210,274	209,521	753
Public works .....	87,574	87,453	121
Health .....	11,370	11,237	133
Culture and recreation .....	17,351	16,948	403
Conservation and development .....	<u>8,588</u>	<u>7,922</u>	<u>766</u>
<b>Total Expenditures .....</b>	<b><u>\$ 507,060</u></b>	<b><u>\$ 495,709</u></b>	<b><u>\$ 11,351</u></b>
<b>Excess of Revenues over (under) Expenditures .....</b>	<b><u>\$ (14,598)</u></b>	<b><u>\$ (3,353)</u></b>	<b><u>\$ 11,245</u></b>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in .....	\$ 22,708	\$ 24,365	\$ 1,657
Operating transfers out .....	(104)	(104)	-
Operating transfers to component units .....	(150)	(150)	-
Contributions received .....	675	675	-
Contributions used .....	(463)	(462)	1
Use of fund balance - reserved for tax stabilization .....	<u>5,500</u>	<u>5,500</u>	<u>-</u>
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>\$ 28,166</u></b>	<b><u>\$ 29,824</u></b>	<b><u>\$ 1,658</u></b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses .....</b>	<b><u>\$ 13,568</u></b>	<b><u>\$ 26,471</u></b>	<b><u>\$ 12,903</u></b>
<b>Fund Balances - January 1 (Excludes Reserved for Tax Stabilization) .....</b>	<b><u>40,465</u></b>	<b><u>40,465</u></b>	<b><u>-</u></b>
Residual Equity Transfers from Other Funds .....	10	1,921	1,911
Residual Equity Transfers to Other Funds .....	<u>-</u>	<u>(13)</u>	<u>(13)</u>
<b>Fund Balances (Deficits) - December 31 .....</b>	<b><u>\$ 54,043</u></b>	<b><u>\$ 68,844</u></b>	<b><u>\$ 14,801</u></b>

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

Special Revenue Funds			Totals (Memorandum Only) Reporting Entity		
Amended Budget	Actual on Budgetary Basis	Variance - Favorable (Unfavorable)	Amended Budget	Actual on Budgetary Basis	Variance - Favorable (Unfavorable)
\$	\$	\$ -	\$ 118,804	\$ 118,804	\$ -
		-	12,113	12,688	575
		-	8,817	10,485	1,668
61,647	61,220	(427)	340,379	340,189	(190)
		-	55,401	54,594	(807)
		-	5,510	4,408	(1,102)
		-	13,085	12,408	(677)
<u>\$ 61,647</u>	<u>\$ 61,220</u>	<u>\$ (427)</u>	<u>\$ 554,109</u>	<u>\$ 553,576</u>	<u>\$ (533)</u>
\$ 1,558	\$ 1,558	\$ -	\$ 173,361	\$ 164,186	\$ 9,175
13,797	13,758	39	224,071	223,279	792
3,571	3,566	5	91,145	91,019	126
12,233	11,800	433	23,603	23,037	566
2,208	2,202	6	19,559	19,150	409
28,280	28,280	-	36,968	36,202	766
<u>\$ 61,647</u>	<u>\$ 61,164</u>	<u>\$ 483</u>	<u>\$ 568,707</u>	<u>\$ 556,873</u>	<u>\$ 11,834</u>
<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 56</u>	<u>\$ (14,598)</u>	<u>\$ (3,297)</u>	<u>\$ 11,301</u>
\$	\$	\$ -	\$ 22,708	\$ 24,365	\$ 1,657
		-	(104)	(104)	-
		-	(150)	(150)	-
		-	675	675	-
		-	(463)	(462)	1
		-	5,500	5,500	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,166</u>	<u>\$ 29,824</u>	<u>\$ 1,658</u>
\$ -	\$ 56	\$ 56	\$ 13,568	\$ 26,527	\$ 12,959
		-	40,465	40,465	-
		-	10	1,921	1,911
	(56)	(56)	-	(69)	(69)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,043</u>	<u>\$ 68,844</u>	<u>\$ 14,801</u>

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## CITY OF MILWAUKEE

Exhibit 4

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -  
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)**

	Enterprise Primary Government	Component Units	Totals (Memorandum Only)	
			Reporting Entity 2001	Reporting Entity 2000 (Restated)
Operating Revenues:				
Charges for services .....	\$ 187,016	\$ 22,157	\$ 209,173	\$ 147,234
Operating Expenses:				
Milwaukee Metropolitan Sewerage District charges .....	\$ 24,871	\$	\$ 24,871	\$ 26,211
Employee services .....	33,583	892	34,475	11,913
Administrative and general .....	5,202	20,025	25,227	25,303
Housing assistance payments .....		18,292	18,292	17,016
Depreciation .....	14,887	15,555	30,442	29,190
Transmission and distribution .....	16,492		16,492	16,683
Maintenance and utilities .....		15,112	15,112	13,333
Services, supplies and materials .....	34,349	104	34,453	13,353
Payment in lieu of taxes .....	8,922		8,922	9,156
Water treatment .....	8,295		8,295	7,919
Water pumping .....	4,990		4,990	5,051
Billing and collection .....	4,084		4,084	3,532
Bad debts .....		(510)	(510)	859
Interest expense and subsidies .....		80	80	88
Rehabilitation costs (cost recoveries) .....		6,460	6,460	4,174
Show expenses .....		148	148	198
Other operating expenses .....		372	372	1,220
Total Operating Expenses .....	\$ 155,675	\$ 76,530	\$ 232,205	\$ 185,199
Operating Income (Loss) .....	\$ 31,341	\$(54,373)	\$ (23,032)	\$ (37,965)
Nonoperating Revenues (Expenses):				
Federal grants and subsidies .....	\$	\$ 59,417	\$ 59,417	\$ 35,250
Interest income .....	617	3,928	4,545	6,429
Interest expense .....	(4,654)	(1,950)	(6,604)	(7,088)
Loss on early repayments of Tax Incremental Districts ..		(816)	(816)	
Net gain (loss) on sale of fixed assets .....		(197)	(197)	(12,163)
Contributions .....		129	129	139
Other .....	(401)	3,634	3,233	1,341
Total Nonoperating Revenues (Expenses) .....	\$ (4,438)	\$ 64,145	\$ 59,707	\$ 23,908
Income (Loss) before Operating Transfers .....	\$ 26,903	\$ 9,772	\$ 36,675	\$ (14,057)
Operating Transfers In .....	9,018		9,018	9,467
Operating Transfers Out .....	(29,513)		(29,513)	(12,348)
Operating Transfers from Primary Government .....		150	150	150
Net Income (Loss) before Capital Contributions.....	\$ 6,408	\$ 9,922	\$ 16,330	\$ (16,788)
Capital Contributions .....	3,593	3,041	6,634	
Net Income (Loss) .....	\$ 10,001	\$ 12,963	\$ 22,964	\$ (16,788)
Retained Earnings - January 1, as restated .....	236,475	11,646	248,121	264,909
Residual Equity Transfer to Other Funds .....	(1,865)		(1,865)	-
Retained Earnings - December 31 .....	\$ 244,611	\$ 24,609	\$ 269,220	\$ 248,121

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

CITY OF MILWAUKEE  
**COMBINED STATEMENT OF CASH FLOWS -**  
**ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000**  
*(Thousands of Dollars)*

Exhibit 5

	Enterprise Primary Government	Component Units	Totals (Memorandum Only) Reporting Entity	
			2001	2000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss) .....	\$ 31,341	\$ (54,373)	\$ (23,032)	\$ (37,965)
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by (Used for) Operating Activities:				
Depreciation .....	14,887	15,555	30,442	29,190
Bad debt expense .....		(510)	(510)	859
(Gain) loss on properties .....		(197)	(197)	11,724
Other nonoperating revenues (expenses) .....	560		560	425
(Increase) decrease in receivables .....	(2,411)	(11,037)	(13,448)	(12,346)
(Increase) decrease in due from other funds .....	50		50	(158)
(Increase) decrease in due from primary government .....		1,139	1,139	(2,094)
(Increase) decrease in due from other governmental agencies .....		2,412	2,412	(9,077)
(Increase) decrease in inventory of materials and supplies .....	(433)		(433)	1,063
(Increase) decrease in inventory of property for resale .....		513	513	4,220
(Increase) decrease in prepaid items .....	77	(355)	(278)	(126)
(Increase) decrease in deferred charges .....	(365)		(365)	(2)
(Increase) decrease in other assets .....	616	(599)	17	176
Increase (decrease) in accounts payable .....	(499)	7,690	7,191	6,265
Increase (decrease) in accrued wages .....	209		209	53
Increase (decrease) in accrued expenses .....	866	(2,225)	(1,359)	1,623
Increase (decrease) in due to other funds .....	9,465		9,465	(2,298)
Increase (decrease) in due to primary government .....		5,304	5,304	1,502
Increase (decrease) in due to other governmental agencies .....		5,208	5,208	(5,319)
Increase (decrease) in deferred revenue .....	10	(7,601)	(7,591)	6,200
Increase (decrease) in other liabilities .....		1,520	1,520	2,386
Net Cash Provided by (Used for) Operating Activities .....	\$ 54,373	\$ (37,556)	\$ 16,817	\$ (3,699)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers to other funds .....	\$ (20,755)	\$	\$ (20,755)	\$ (3,152)
Other nonoperating revenues (expenses) .....		9,297	9,297	4,179
Contributions .....		54,195	54,195	31,066
Proceeds from bonds and notes payable .....		10,596	10,596	1,765
Retirement of bonds, notes and revenue bonds .....		(3,647)	(3,647)	(773)
Residual Equity transfer to other funds .....	(1,865)		(1,865)	
Net increase (decrease) in due to primary government .....		(182)	(182)	296
Loss on early repayment of Tax Incremental Districts .....		(816)	(816)	
Operating transfer from primary government .....		150	150	150
Net Cash Provided by (Used for) Noncapital Financing Activities .....	\$ (22,620)	\$ 69,593	\$ 46,973	\$ 33,531
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital contributions .....	\$ 4,028	\$ 958	\$ 4,986	\$ 34,667
Proceeds from bond anticipation notes .....			-	6,258
Proceeds from sale of bonds and notes .....	10,440		10,440	4,891
Proceeds from sale of revenue bonds .....	29,862		29,862	
Bond issuance costs .....	(416)		(416)	
Acquisition of property, plant and equipment .....	(20,531)	(35,118)	(55,649)	(64,867)
Retirement of bonds, notes and revenue bonds .....	(15,783)	(58)	(15,841)	(8,713)
Payment to refunded bond escrow agent .....	(7,689)		(7,689)	

**CITY OF MILWAUKEE**  
**COMBINED STATEMENT OF CASH FLOWS -**  
**ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000**  
*(Thousands of Dollars)*

Exhibit 5 (Continued)

	<b>Enterprise</b>	<b>Component</b>	<b>Totals</b>	
	<b>Primary</b>	<b>Units</b>	<b>(Memorandum Only)</b>	
	<b>Government</b>	<b>Units</b>	<b>Reporting Entity</b>	
			<b>2001</b>	<b>2000</b>
				<b>(Restated)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES (Continued):</b>				
Retirement of general obligation debt .....	\$	\$	-	\$ (8,950)
Interest paid .....	(4,644)	(1,950)	(6,594)	(6,073)
Sale of land and other assets .....			-	26
Transfer to fiscal agent .....	(29,975)		(29,975)	
Transfer from fiscal agent .....	6,258		6,258	
Operating transfers to other funds .....	260		260	271
Repairs and restorations .....	(1,394)		(1,394)	(422)
Decrease in fiscal agent funds .....		487	487	11,135
Net proceeds from sale of property, plant and equipment .....			-	(1,271)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities ...</b>	<b>\$ (29,584)</b>	<b>\$ (35,681)</b>	<b>\$ (65,265)</b>	<b>\$ (33,048)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income .....	\$ 612	\$ 3,928	\$ 4,540	\$ 6,399
Increase (decrease) in fiscal agent funds .....	23,365		23,365	
Purchases of investments .....		(26,849)	(26,849)	(17,243)
Proceeds from the sale and maturity of investments .....	4,000	22,384	26,384	13,649
New loans made .....		(9,332)	(9,332)	(11,916)
Loan payments received .....		13,465	13,465	6,511
(Increase) decrease in accrued interest .....		51	51	(31)
Capital expenditures on properties .....		(1,568)	(1,568)	(2,460)
Proceeds from the sale of properties .....		753	753	877
Other .....		1,365	1,365	1,038
<b>Net Cash Provided by (Used for) Investing Activities .....</b>	<b>\$ 27,977</b>	<b>\$ 4,197</b>	<b>\$ 32,174</b>	<b>\$ (3,176)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents .....</b>	<b>\$ 30,146</b>	<b>\$ 553</b>	<b>\$ 30,699</b>	<b>\$ (6,392)</b>
<b>Cash and Cash Equivalents at January 1 .....</b>	<b>20,022</b>	<b>35,000</b>	<b>55,022</b>	<b>61,414</b>
<b>Cash and Cash Equivalents at December 31 .....</b>	<b>\$ 50,168</b>	<b>\$ 35,553</b>	<b>\$ 85,721</b>	<b>\$ 55,022</b>
<b>Cash and Cash Equivalents at December 31 Consist of:</b>				
Unrestricted cash .....	\$ 26,803	\$ 33,744	\$ 60,547	\$ 51,205
Restricted cash .....	23,365	1,809	25,174	3,817
	<b>\$ 50,168</b>	<b>\$ 35,553</b>	<b>\$ 85,721</b>	<b>\$ 55,022</b>

**Non-cash Activities:**

*Enterprise Funds:*

The Port of Milwaukee disposed of \$30 fully depreciated fixed assets during the year.  
During the year, water mains and related property, installed by others were deeded to the Water Works in the amount of \$138.  
During the year, the city transferred \$179,871,000 (net book value) of infrastructure assets to the Sewer Maintenance Fund.

*Component Units:*

Pabst Theater recorded equipment purchases of \$1,616 paid directly by the City of Milwaukee.

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

CITY OF MILWAUKEE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying general purpose financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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.

**Blended Component Units**

The City does not have any component units that are considered "blended."

**Discretely Presented Component Units**

The component units columns in the general purpose financial statements include 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.

**COMPONENT UNITS ENTERPRISE FUNDS**

*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.

*Milwaukee Economic Development Corporation* - The Milwaukee Economic Development Corporation (MEDC) is a nonstock, nonprofit 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 corporation 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.

*Pabst Theater* - The City established the Pabst Theater as a municipal theater pursuant to Wisconsin Statutes. A separate board (Pabst Theater Board) is responsible for the maintenance, supervision and operation of the theater. The City issued debt to finance building repairs and annually provides significant subsidies to the Pabst Theater.

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

Financial statements of the individual component units can be obtained from their respective administrative offices.

The general purpose 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 Governmental Accounting Standards Board (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.

**B. Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups. 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 are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

CITY OF MILWAUKEE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations. The various funds are grouped in the accompanying financial statements into eight generic fund types and three broad fund categories as follows:

**GOVERNMENTAL FUND TYPES**

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

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Grant and Aid Projects** - This Fund is used to account for Federal and State grants whose proceeds are legally restricted to expenditures for specific purposes and which are not accounted for in other special revenue funds.

**Community Development Block Grant** - The Community Development Block Grant Program receives annual grants pursuant to the Federal Housing and Community Development Act of 1974. This fund also includes amounts received under the Section 108 Loan Program. The City's Department of Administration is responsible for the planning, execution and evaluation of the Program.

**Delinquent Tax** - This Fund was established as a reserve against uncollected delinquent property taxes. Fund resources, consisting initially of bond proceeds, are used to purchase delinquent property taxes from the General Fund. Collections on these purchased receivables and related interest thereon are transferred to the General Obligation Debt Service Fund to provide for the related debt service requirements.

**Debt Service Funds** - Debt Service Funds are used to account for the accumulation of resources and the payment of principal and interest on long-term general obligation debt and expenditures incurred in connection with administration of the Public Debt Amortization Fund.

**General Obligation Debt** - Principal and interest on the City's outstanding long-term general obligation debt are paid from this Fund.

**Public Debt Amortization** - The Public Debt Amortization Fund is governed by Section 67.101 of the Wisconsin Statutes for the retirement of the public debt. See Note 5 for further discussion.

**Capital Projects Funds** - Capital Projects Funds are used to account for the financial resources segregated for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Capital Projects Funds are identified as follows:

**Bridges** - To account for the financing, construction and repair of bridges and viaducts.

**Buildings and Grounds** - To account for the financing, construction and repair of buildings and improvements to city-owned land and playgrounds.

**Sewers** - To account for the financing and construction of new and replacement storm, sanitary and combined sewer projects.

**Urban Renewal** - To account for the financing and costs of activities undertaken to prevent and eliminate blight and slum conditions.

**Streets** - To account for the financing and construction of new and replacement streets, alleys and sidewalks; and for the cost of installation of street lights, traffic lights, parking signs and communication equipment.

**Tax Incremental Districts** - To account for the financing and costs of redeveloping blighted areas which are eligible under the Wisconsin Tax Incremental law, Section 66.46 of the Wisconsin Statutes.

**Special Assessments** - To account for the financing and construction of the City's assessable projects. Upon completion, owners of benefited property are assessed for construction costs incurred.

**PROPRIETARY FUND TYPES**

**Enterprise Funds** - Enterprise Funds are used to account for operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**Metropolitan Sewerage District User Charge** - The Metropolitan Sewerage District User Charge Fund is used to account for sewerage treatment charges by the Milwaukee Metropolitan Sewerage District to the City on a "wholesale" user charge basis and the subsequent billing by the City to customers on a "retail" basis. The City adds administrative expense to the District's charges and includes the sewer user charges on the quarterly water bills.

**CITY OF MILWAUKEE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

*Parking* - The Parking Fund was established to account 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.

*Port of Milwaukee* - All activities necessary to operate and maintain the Port of Milwaukee and other related harbor activities are accounted for in this Fund.

*Sewer Maintenance* - The Sewer Maintenance Fund, in accordance with Wisconsin State Statutes Section 66.076, permits 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.

*Solid Waste* - The Solid Waste Fund is used to account for the entire Department of Public Works - Sanitation Division. State Statutes, Section 66.076, permits municipalities to implement a special charge for current services which may allocate all or part of the service costs onto the properties served. The City established the fund to recover approximately 25% of solid waste collection costs through a user fee. The remaining costs as well as snow and ice removal will be subsidized through the general fund. The fund was closed effective December 31, 2001.

*Water Works* - All activities necessary to provide water services to residents of the City and outlying areas are accounted for in this Fund. Fund activities include administration, billing and collection, operations, maintenance and financing.

#### **FIDUCIARY FUND TYPES**

*Trust and Agency Funds* - Trust and Agency Funds are used to account for assets held in trust or as an agent by the City for others. Expendable trust funds are accounted for and reported in essentially the same manner as governmental funds. Agency funds are custodial in nature and are used to account for assets held by the City as an agent for individuals, private organizations, other governmental units and other funds.

#### **Expendable Trust Funds**

*Property Tax Collection* - This Fund is used to account for advance property tax collections for the subsequent year's budget.

*Deposits and Other Trust Funds* - This Fund is used to account for the receipt and disposition of performance deposits, and for deposits the City holds in the capacity of trustee for various individuals, governmental entities and nonpublic organizations.

*Deferred Compensation* - The City's deferred compensation plan for City employees is accounted for in this fund in accordance with GASB No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.

*Agency Fund* - Monies collected by the City for other governmental entities are reported in the Agency Funds.

#### **ACCOUNT GROUPS**

*General Fixed Assets Account Group* - General fixed assets of the City, other than those reported in the enterprise fund are reported in this account group.

*General Long-Term Obligations Account Group* - General long-term debt and certain unfunded liabilities of governmental funds are accounted for in the General Long-Term Obligations Account Group.

#### **C. Measurement Focus**

The measurement focus of all governmental and expendable trust funds is the flow of current financial resources concept. Under this measurement focus, sources and uses of financial resources, including capital outlays, bond proceeds and retirement are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions, which will not be currently liquidated using expendable available financial resources, are shown in the General Long-Term Obligations Account Group. The related expenditures are recognized when the liabilities are liquidated.

The measurement focus of proprietary funds and component unit enterprise funds is on the determination of net income, financial position and cash flows. Under this measurement focus, revenues and expenses are matched using the accrual basis of accounting. All fixed assets are capitalized at historical cost and depreciated over their useful lives.

CITY OF MILWAUKEE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

**D. Basis of Accounting**

All governmental, expendable trust, and assets and liabilities of agency funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures and commitments of the current period. Significant revenues susceptible to accrual include most governmental revenues and charges for services. Licenses and permits, fines and forfeits generally are recorded as revenues when received in cash because they are not measurable until actually received. Special assessments are recognized as revenues when they are due.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred, if measurable, except for interest on general long-term debt and unfunded claims, judgments, compensated absences and pension contributions, which are recorded in the general long-term debt account group and expensed when due.

The proprietary funds and component unit enterprise funds follow the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period they are incurred.

**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.

**Investments**

Investments, primarily consisting of fixed income securities, are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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 income, including changes in the fair value of investments, is recognized as revenue in the Statements of Revenues, Expenditures, and Changes In Fund Balances and the Statements of Revenues, Expenses, and Changes in Retained Earnings. Realized gains and losses, defined as the difference between the proceeds of the sale and the original cost of the investments sold, are also included in investment income.

Accrued interest on investments is recorded as earned, since it is both measurable and available. Investment transactions are recorded on the trade date.

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 Pooled - Investment Fund of the State of Wisconsin.
- Repurchase agreements with public depositories, if the agreement is secured by federal bonds or securities.
- Any Security which matures or which 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, 2001**

**Property taxes**

Property taxes are recorded as receivables and deferred revenues in a trust 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 a trust fund. Property taxes are recognized in the appropriate governmental 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 to revenues and is reduced by taxes receivable written off.

Property taxes receivable purchased from other taxing authorities are presented in the accompanying financial statements net of an allowance for estimated uncollectible amounts.

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.

**Unbilled services**

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

**Special assessments**

Special assessments consist of capital projects constructed through non-special assessment debt. 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. 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.

**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 which 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 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 an amount estimated to be repaid from the Authority and the Corporation.

**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 are accounted for under the consumption method, whereby inventory acquisitions are recorded in inventory accounts initially and charged as expenditures or expenses when requisitioned for use. Inventories in governmental funds are reserved for in fund balance, because inventories are not expendable available financial resources.

**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.

**Property, plant and equipment**

General fixed assets are recorded as expenditures in the governmental funds when purchased or constructed. Subsequently, the general fixed assets, except for infrastructures, are capitalized in the General Fixed Assets Account Group. Infrastructure assets such as roads, bridges, curbs, gutters, streets, sidewalks and drainage and lighting systems are not recorded in the General Fixed Assets Account Group.

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Assets are recorded at historical cost or estimated historical cost. Assets received as gifts or donations are recorded at fair market value at time of receipt.

Depreciation is not recorded on general fixed assets.

Fixed assets of the proprietary funds and component units are capitalized at cost when purchased or constructed. When the fixed assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and the gain or loss on disposition is generally reflected in operations. Maintenance and repair costs are charged to operations as incurred and renewals and improvements are added to the asset accounts. Interest cost was not capitalized during construction for 2001.

Depreciation is provided over the estimated useful lives using the straight-line method. The estimated depreciation lives in years are as follows:

	Parking	Port of Milwaukee	Water Works	Sewer Maintenance	Component Units
Buildings and improvements .....	20-40	10-50	45-58		7-80
Machinery and equipment .....	10	3-40	6-56	3-7	3-20
Water transmission and distribution systems .....			64-110		

**Pension contributions**

Pension contributions made on behalf of the employees are recorded in all funds as an expenditure when the liability is incurred. The employer's share of the annual contribution is recorded in the proprietary funds 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.

**Compensated absences**

Vacation pay is recorded as a liability in the General Long-Term Obligations Account Group as the benefits accrue to the employees. Accrued vacation pay is recognized as an expenditure when liquidated with expendable available financial resources. At year end, accrued vacation pay that will not be liquidated with expendable available financial resources is reported as a liability in the General Long-Term Obligations Account Group. Vacation benefits are recorded as expenses in the proprietary funds over the periods the benefits accrue to the employees.

City employees accrue sick leave in accordance with labor agreements or Section 350-37 of the Code of Ordinances. Sick leave is recorded as an expenditure or expense when paid. Upon retirement, employees are entitled to payment for a portion of accumulated sick leave as terminal leave. The liability for terminal leave is described in Note 6.

**Claims and judgments**

Claims and judgments are recorded as liabilities when they are both probable and estimable. Claims and judgments that are expected to be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not expected to be liquidated with expendable available financial resources, a liability is recorded in the General Long-Term Obligations Account Group. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the proprietary funds as expenses when the related liabilities are incurred.

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.

**Encumbrances and carryovers**

Encumbrance accounting is employed in the governmental funds. Encumbrances of purchase orders, contracts and other commitments for the expenditure of funds are recorded as reservations of fund balance until expended. Encumbrances are not reflected as expenditures. Expenditures are recorded and encumbrances are liquidated when the services or materials are received. Appropriations not encumbered and not carried over by action of the Common Council lapse at year end. Unencumbered appropriations, authorized for carry-over, are recorded as reservations of fund balance.

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**Intergovernmental revenues**

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 2001 that will be collected in 2002 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 and the resources are available. 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.

**Interest on general obligation long-term and special assessment debt**

Interest on general obligation long-term and special assessments debt is recorded as an expenditure when due and payable from the primary government.

**Interfund transactions**

Transactions between funds are categorized as (1) quasi-external, (2) reimbursements, (3) advances or loans and (4) operating and residual equity transfers.

Quasi-external transactions primarily consist of billings for services rendered between departments and payments in lieu of taxes and are accounted for as revenues and expenditures or expenses in the funds involved if they are similar to transactions with third parties. Reimbursements for expenditures made on behalf of another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund. Advances or loans between funds are accounted for as short or long-term interfund receivables and payables.

Transfers to and from funds and component units to finance current operations are accounted for as operating transfers. Operating transfers are additions or deductions to the excess of revenues over expenditures in the governmental funds, and to net income in the proprietary funds. Transfers between the governmental and proprietary funds for the purchase or construction of fixed assets and other long-term capital needs and the return of capital to the governmental funds are accounted for as residual equity transfers. Residual equity transfers are additions or deductions to fund balances in the governmental funds and to either contributed capital or retained earnings, as appropriate, in the proprietary funds.

**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 26. 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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

As of December 31, 2001, the Debt Service Fund - General Obligation Debt has a fund balance of \$42,137,000 reserved for 2002 debt service.

All adopted budgets for the governmental funds are prepared in accordance with the modified accrual basis of accounting, except for the treatment of the fund balance - reserved for tax stabilization. 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 to budget basis is \$5,500,000 at January 1, 2001.

For 2001, expenditures did not exceed appropriations in the General Fund.

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#### GASB Pronouncements

The Governmental Accounting Standards Board (GASB) Statement No. 20 (Statement) "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" provides that proprietary funds should apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The City has elected to apply only FASB, APB and ARB materials issued on or before November 30, 1989 to the proprietary funds and component units.

#### Accounting Change

The City implemented GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues (an amendment of GASB Statement No. 33). The implementation resulted in a change in presentation of capital contributions on the statements of revenue, expenses and changes in retained earnings. Capital contributions are reflected as part of non-operating revenue as opposed to contributed capital.

#### New Accounting Pronouncements

GASB recently issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures. The City will implement GASB 34, 37, and 38 for the year ended December 31, 2002. Management is currently evaluating the impact of these statements on the results of operations and financial condition.

#### Reclassification

Certain amounts in the prior year have been reclassified to be consistent with the current year presentation.

#### Total columns on the Combined Statements - Overview

Total columns on the Combined Statements - Overview are captioned Memorandum Only and are presented for analysis purposes only. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principals generally accepted in the United States of America. Such data are not comparable to a consolidation because interfund eliminations have not been made in the aggregation of the data.

Comparative memorandum total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the City's financial position and operation. See note 13 for the impact of restated prior year amounts.

## 2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all the funds, except for Debt Service Funds, Water Works Enterprise Fund, and component entities. 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 Combined Balance Sheet. The Debt Service Funds, Water Works Enterprise Fund, and component units maintain separate cash and investments. In addition, investments are separately held by several other City funds. No violations of legal provisions for deposits and investments were committed during the year.

#### Deposits

At December 31, 2001, the reported amount of the City's deposits and cash on hand for the primary government was \$60,237,000 and the related bank balance was \$62,305,000. The carrying amounts of the City's deposits and cash on hand for the component units were \$11,041,000, and the related bank balance was \$14,299,000. Bank balances of deposits for accounts maintained by the City Treasurer in the amount of \$1,800,000 are entirely insured and \$3,327,000 are collateralized by securities held in the pledging banks' trust departments in the City's name. The remaining balance of \$57,178,000 is neither insured nor collateralized, nor was this amount significantly exceeded during the year. Of the component units deposits not in the custody of the City Treasurer, \$7,141,000 are entirely insured and \$7,158,000 are uninsured and uncollateralized at the end of the year.

#### Cash equivalents and investments

The City's primary government and component units cash equivalents and investments are categorized as either (1) insured or registered or securities held by the City or its agent in the City's name, (2) uninsured and unregistered with securities held by the counterparty's trust

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department or agent in the City's name or (3) uninsured or unregistered with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Cash and investments with fiscal agents include \$7,122,000 placed in trust for Housing Authority debt retirement, \$7,677,000 for Redevelopment Authority debt retirement and \$1,086,000 for Milwaukee Economic Development Corporation.

Primary Government:	Category (1)	Category (2)	Category (3)	Reported Amount	Fair Value
<i>(Thousands of Dollars)</i>					
U.S. Treasury Obligations .....	\$	\$ 63,352	\$	\$ 63,352	\$ 63,352
U.S. Agency Securities .....		1,011		1,011	1,011
Municipal Bonds and Notes .....		<u>7,377</u>		<u>7,377</u>	<u>7,377</u>
	<u>\$ -</u>	<u>\$ 71,740</u>	<u>\$ -</u>	<u>\$ 71,740</u>	<u>\$ 71,740</u>
Cash and Investments with Fiscal Agents .....				29,342	29,342
Local Government Pooled - Investment Fund .....				382,071	382,071
Institutional Money Market Fund .....				24,000	24,000
Deferred Compensation Investments .....				<u>374,371</u>	<u>374,371</u>
Total Cash Equivalents and Investments .....				<u>\$ 881,524</u>	<u>\$ 881,524</u>

Component Units:	Category (1)	Category (2)	Category (3)	Reported Amount	Fair Value
<i>(Thousands of Dollars)</i>					
U. S. Treasury Obligations .....	\$ 441	\$	\$ 6,008	\$ 6,449	\$ 6,449
Cash and Investments with Fiscal Agents .....				15,985	15,985
Local Government Pooled - Investment Fund .....				<u>34,851</u>	<u>34,851</u>
Total Cash Equivalents and Investments .....	<u>\$ 441</u>	<u>\$ -</u>	<u>\$ 6,008</u>	<u>\$ 57,285</u>	<u>\$ 57,285</u>

The pooled investments have not been categorized based on custodial risk because they are not securities. The relationship between the City and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditorship. 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.

**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, 2001, 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:

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	City Levy	Purchased Taxes Receivable	Total
<i>(Thousands of Dollars)</i>			
1996 and prior .....	\$ 1,483	\$ 2,516	\$ 3,999
1997 .....	334	557	891
1998 .....	488	820	1,308
1999 .....	987	1,728	2,715
2000 .....	<u>4,483</u>	<u>8,283</u>	<u>12,766</u>
 Total delinquent property taxes receivable .....	 <u>\$ 7,775</u>	 <u>\$ 13,904</u>	 <u>\$ 21,679</u>
 Property taxes receivable on foreclosed property .....			 15,849
 Less: Allowance for uncollectible taxes .....			 <u>(12,076)</u>
 Net delinquent property taxes receivable, including tax deeded property			 <u>\$ 25,452</u>

**4. 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 is as follows:

	General	Special Revenue	Debt Service	Capital Projects	Total
<i>(Thousands of Dollars)</i>					
Delinquent property taxes .....	\$ 9	\$	\$	\$	\$ 9
Unearned revenue .....	1,823	6,426			8,249
Long-term receivables .....		6,307	36,636	6,032	48,975
Unbilled special assessments .....				8,978	8,978
	<u>\$ 1,832</u>	<u>\$ 12,733</u>	<u>\$ 36,636</u>	<u>\$ 15,010</u>	<u>\$ 65,211</u>

**5. DEBT**

General obligation long-term debt, which includes \$23,882,000 designated for local improvement projects and special assessment use, consisted of 54 separate issues from 1990 through 2001 with applicable interest rates ranging between 3.40% to 10.00% as of December 31, 2001. Trust and Agency Fund bonds and notes payable consists of revenue anticipation notes maturing in 2002 with split interest rates of 2.7-3.5%. Changes in debt for 2001 were as follows:

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	Balance 01-01-01	New Issues	Repayments	Balance 12-31-01
	<i>(Thousands of Dollars)</i>			
<b>General Obligation Bonds and Notes:</b>				
City .....	\$ 430,689	\$ 114,349	\$ 78,201	\$ 466,837
Milwaukee Public Schools .....	91,814	23,590	15,812	99,592
Enterprise - City (including current maturities) .....	<u>82,737</u>	<u>10,441</u>	<u>16,224</u>	<u>76,954</u>
<b>Total .....</b>	<b>\$ 605,240</b>	<b>\$ 148,380</b>	<b>\$ 110,237</b>	<b>\$ 643,383</b>
Deferred gain /(loss) .....	<u>85</u>	<u>(228)</u>	<u>10</u>	<u>(153)</u>
<b>Total General Obligation Debt .....</b>	<b>\$ 605,325</b>	<b>\$ 148,152</b>	<b>\$ 110,247</b>	<b>\$ 643,230</b>
<b>Sewer Maintenance</b>				
Bond anticipation note .....	\$ 6,258	\$ -	\$ 6,258	\$ -
Revenue bonds .....	<u>-</u>	<u>29,095</u>	<u>-</u>	<u>29,095</u>
<b>Total Sewer Maintenance</b>	<b>\$ 6,258</b>	<b>\$ 29,095</b>	<b>\$ 6,258</b>	<b>\$ 29,095</b>
<b>Water Works</b>				
Revenue Bonds .....	<u>\$ 16,773</u>	<u>\$ -</u>	<u>\$ 744</u>	<u>\$ 16,029</u>
<b>Trust and Agency Funds:</b>				
Bonds and notes payable .....	<u>\$ 110,000</u>	<u>\$ 112,000</u>	<u>\$ 110,000</u>	<u>\$ 112,000</u>
<b>Component Units Long-Term Debt (including current maturities):</b>				
Bonds and notes - other .....	\$ 2,236	\$ 9,272	\$ 1,316	\$ 10,192
Revenue bonds - HACM .....	8,983		2,389	6,594
Revenue bonds - RACM .....	<u>4,299</u>	<u>1,468</u>	<u>-</u>	<u>5,767</u>
<b>Total Component Units Long-Term Debt (including current maturities) .....</b>	<b>\$ 15,518</b>	<b>\$ 10,740</b>	<b>\$ 3,705</b>	<b>\$ 22,553</b>
<b>Total Debt .....</b>	<b>\$ 753,874</b>	<b>\$ 299,987</b>	<b>\$ 230,954</b>	<b>\$ 822,907</b>

Certain prior year balances for the component units have been adjusted to correspond with the proper classification reflected in the Combined Balance Sheet.

**Primary Government Long-Term Debt**

General Obligation Bonds and Notes are secured by the full faith and unlimited taxing power of the City. The bonds and notes in the General Long-Term Obligations Account Group will be retired by future property tax levies and other resources accumulated in the Debt Service Funds. The bonds and notes in the Parking, Water Works, and Port of Milwaukee Enterprise Funds will be retired by revenues from these operations or, if the revenues are not sufficient, by future tax levies.

General long-term obligations do not include \$83,066,356 of City of Milwaukee Industrial Development Revenue Bonds issued in accordance with the Wisconsin Statutes. These obligations are primarily secured by revenue agreements on the associated projects and, together with the interest obligation, are payable solely by the developers, and do not constitute indebtedness of the City.

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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 percent 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 2001, \$201,138,120 has been borrowed for thirty-eight tax incremental districts (TID). Total debt service requirements associated with this debt issues amount to \$316,922,539. Tax increments received through 2001 total \$201,515,073. 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 \$99,591,254 of Milwaukee Public School long-term debt outstanding at December 31, 2001 consists of a portion of the City's general obligation bonds and notes, which 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, 2001, the historical costs of the land and buildings as reported by Milwaukee Public Schools was approximately \$626,500,000. These assets are excluded from the financial statements of the City.

During 2001, the City issued \$112,000,000 in short-term revenue anticipation notes on behalf of the Milwaukee Public Schools. These notes bear interest at the rates of 2.7%, 3.25% and 3.5% and will mature on August 29, 2002. The liability and related cash to repay the revenue anticipation notes are recorded in the Board of School Directors (agency) fund.

The Sewer Maintenance Fund Bond Anticipation Note was issued for the purpose of financing the cost of improvements to the City's sewerage system pending the issuance of sewerage system revenue bonds. Interest payments are based on the State of Wisconsin Local Government Investment Pool rate and are payable semiannually. The debt was paid upon maturity on December 15, 2001.

The Water Works Revenue Bonds were issued for the purpose of providing for the payment of the cost of constructing improvements to the Water System of the Municipality, pursuant to Article XI, Section 3, of the Wisconsin Constitution, Section 66.066 Wisconsin Statutes, and is payable only from the income and revenues derived from the operation of the Water System of the Municipality. This Bond issuance does not constitute an indebtedness of the City of Milwaukee within the meaning of any constitutional or statutory debt limitation or provision.

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, 2001, the City's legal debt margin was \$760,522,000. Of this amount, \$389,077,000 was for school purposes and \$372,659,000 was for City purposes. The ratio of aggregate indebtedness of all taxing authorities located within the City's boundaries to the equalized value of the taxable property was approximately 5.7%, including 3.9% related to direct City indebtedness at December 31, 2001.

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>					
2002 .....	\$ 78,509	\$ 31,640	\$ 763	\$ 1,770	\$ 112,682
2003 .....	69,500	28,365	1,785	1,733	101,483
2004 .....	62,517	25,071	1,840	1,676	91,104
2005 .....	59,887	21,906	1,906	1,609	85,308
2006 .....	52,530	18,788	1,983	1,532	74,933
Thereafter .....	<u>320,240</u>	<u>73,524</u>	<u>36,847</u>	<u>12,259</u>	<u>442,870</u>
Totals .....	<u>\$ 643,383</u>	<u>\$ 199,294</u>	<u>\$ 45,124</u>	<u>\$ 20,579</u>	<u>\$ 908,380</u>

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During 2001, the City defeased \$102,000,000 of Revenue Anticipation Notes which come due in the first half of 2002 by placing funds in an irrevocable trust with a financial institution. Accordingly, these obligations have been removed as liabilities of the General Fund.

In June 2001, the City issued two series of general obligation refunding bonds. The first, Series of 2001-A (tax-exempt) was in the par amount of \$26,035,000 and carried interest rates between 4 and 5% to advance refund \$24,980,000 of existing debt. The second issue, Series of 2001-B (taxable) was in the par amount of \$4,690,000 and carried interest rates between 4 and 5.625% to advance refund \$4,570,000 of existing taxable debt. Together, the net proceeds of these two issues (including original issuance premium, but exclusive of accrued interest, underwriter's discount and issuance expenses) totaled \$30,931,000. The net proceeds were utilized to purchase United States Government securities that were irrevocably placed in trust with an escrow agent for the purpose of paying all future debt service on the refunded City bonds. As a result, the refunded City bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Account Group. The City executed the two refundings solely for the purpose of reducing its total debt service payment over the remaining life of the refunded bonds. The present value savings of the two refunding issues totaled \$603,000 or 2.04% of the refunded bonds.

At December 31, 2001, a total of \$53,120,000 in outstanding general obligation bonds is considered defeased.

**Component Units Long-Term Debt**

The Housing Authority Bonds and Notes are secured by a lien on all revenues of the Housing Authority Low Income Housing Program. The Housing Authority Bonds and Notes are not a general obligation of the City, nor are they guaranteed by the City. As such, they are not backed by the general credit or taxing powers of the City.

Approximately \$3,845,000 of Redevelopment Authority bonds are payable from net revenues earned from certain veterans housing projects administered by the Housing Authority. Such revenues are pledged by the Housing Authority pursuant to a cooperation agreement entered into by the Redevelopment Authority and the Housing Authority. Under the terms of the agreement, only those revenues earned by the specified projects are pledged to repay the debt. The Redevelopment Authority bonds are not general obligations of the City, nor are they guaranteed by the City. As such, they are not backed by the general credit or taxing powers of the City.

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

Year	Bonds and Notes Payable		Revenue Bonds Payable		Total Debt Service
	Principal	Interest	Principal	Interest	
<i>(Thousands of Dollars)</i>					
2002 .....	\$ 1,772	\$ 28	\$ 900	\$ 274	\$ 2,974
2003 .....	20	28	940	222	1,210
2004 .....	22	28	1,510	179	1,739
2005 .....	23	28	1,575	115	1,741
2006 .....	25	27	570	45	667
Thereafter .....	<u>8,330</u>	<u>884</u>	<u>6,866</u>	<u>24</u>	<u>16,104</u>
Totals .....	<u>\$ 10,192</u>	<u>\$ 1,023</u>	<u>\$ 12,361</u>	<u>\$ 859</u>	<u>\$ 24,435</u>

**6. 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%, 6%, 7%, and 7% for general City employees, police officers, firefighters, and elected officials, respectively. 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, 2001, 2000, 1999, and 1998 were \$20,288,000,

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\$20,693,000, \$19,261,000, \$19,265,000, respectively, equal to the required contributions on behalf of the plan members for each year. (See Note 11)

#### Other Postemployment Benefits

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 any of the Health Maintenance Organizations (HMO) plans 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 age 60, but less than age 65, with 15 years of creditable service until the age of 65. 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 with single enrollment status and police officers with single enrollment status. The City contribution for firefighters 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.

Medical insurance for retirees is financed on a pay-as-you-go basis. Approximately 5,094 employees are eligible to receive these benefits. For 2001, the City paid approximately \$17,127,000 toward medical insurance for its retirees.

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.

For 2001, the groups rate for life insurance for the City population as a whole was approximately fifty cents per month per \$1,000 of coverage after estimated dividends. The effect on this rate as a result of including retirees in the pool is not determinable. Group life insurance for retirees age 65 or older are financed on a pay-as-you-go basis and cannot be readily separated from amounts paid on behalf of active employees. The City estimates \$925,000 out of a total \$3,398,000 for group life insurance for 2001 is attributable to approximately 5,014 retirees on the basis of the common group life rate.

#### 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 2001, approximately \$8,573,000 was paid for sick leave from all funds. At December 31, 2001, accumulated sick leave earned but not taken totaled approximately \$106,481,000 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 2001 terminal leave payments totaled \$2,102,000 to employees retiring during the year. As of December 31, 2001, the City has accrued

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approximately \$19,230,000 in the General Long-Term Obligations Account Group for future terminal leave payments. This amount is included under the unfunded compensated absences of \$33,360,000, with the remainder accrued vacation leave of \$14,130,000.

**7. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND COMPONENT UNITS**

The City maintains six enterprise funds within its primary government as follows:

- Metropolitan Sewerage District User Charge Fund (MSDUC)
- Parking Fund
- Port of Milwaukee (Port)
- Sewer Maintenance
- Solid Waste
- Water Works Fund (Water)

Selected information for 2001 with respect to these enterprises was as follows:

	MSDUC	Parking	Port	Sewer Maintenance	Solid Waste	Water	Total
	<i>(Thousands of Dollars)</i>						
Operating revenues .....	\$ 30,098	\$ 35,739	\$ 3,985	\$ 18,899	\$ 36,584	\$ 61,711	\$ 187,016
Depreciation .....		2,137	714	3,119		8,917	14,887
Other operating expense .....	29,822	18,240	2,147	14,093	34,662	41,824	140,788
Operating income (loss) .....	276	15,362	1,124	1,687	1,922	10,970	31,341
Other nonoperating revenues (expenses) .....		(1,391)	(1,118)	(100)		(1,829)	(4,438)
Operating transfers in .....		1,381	158			7,479	9,018
Operating transfers out .....		(20,422)	(1,657)		(57)	(7,377)	(29,513)
Capital contributions .....		3,593					3,593
Net income (loss) .....	276	(1,477)	(1,493)	1,587	1,865	9,243	10,001
Property, Plant and Equipment:							
Additions .....		2,592		190,255		8,217	201,064
Disposals .....			30				30
Total assets .....	9,314	54,793	20,509	229,542		387,198	701,356
Working capital .....	1,408	2,652	15	(3,436)		23,480	24,119
General long-term debt:							
General obligation .....		25,473	3,543			48,548	77,564
Revenue bonds .....				29,095		15,266	44,361
Fund equity .....	1,408	27,943	16,440	165,662		316,772	548,225

The discretely presented component units include five enterprise funds as follows:

- Pabst Theater (Pabst)
- Milwaukee Economic Development Corporation (MEDC)
- Housing Authority (HACM)
- Redevelopment Authority (RACM)
- Neighborhood Improvement Development Corporation (NIDC)

Component unit disclosures for the 2001 Balance Sheets are as follows:

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	Pabst	MEDC	HACM	RACM	NIDC	Total
	<i>(Thousands of Dollars)</i>					
<b>Assets:</b>						
Due from primary government .....	\$	\$	\$	\$	\$ 973	\$ 973
Other current assets .....	174	50,389	38,373	49,516	16,052	154,504
Property, plant and equipment (net) .....	9,834	24	220,718	6,757	54	237,387
Other long-term assets .....	388	117	8,165	7,421	261	16,352
<b>Total assets .....</b>	<b>\$ 10,396</b>	<b>\$ 50,530</b>	<b>\$ 267,256</b>	<b>\$ 63,694</b>	<b>\$ 17,340</b>	<b>\$ 409,216</b>
<b>Liabilities:</b>						
Current liabilities .....	\$ 889	\$ 118	\$ 14,422	\$ 16,587	\$ 4,000	\$ 36,016
Bonds and notes payable - long term .....			15,014	4,867		19,881
Due to the primary government .....		1,416	1,005	17,611	2,362	22,394
Other long-term liabilities .....	93	523	13,414	2,390	380	16,800
<b>Total liabilities .....</b>	<b>\$ 982</b>	<b>\$ 2,057</b>	<b>\$ 43,855</b>	<b>\$ 41,455</b>	<b>\$ 6,742</b>	<b>\$ 95,091</b>
<b>Equity:</b>						
Contributed capital .....	\$ 9,946	\$ 5,453	\$ 248,398	\$ 12,304	\$ 13,415	\$ 289,516
Retained earnings (deficit) .....	(532)	43,020	(24,997)	9,935	(2,817)	24,609
<b>Total equity .....</b>	<b>\$ 9,414</b>	<b>\$ 48,473</b>	<b>\$ 223,401</b>	<b>\$ 22,239</b>	<b>\$ 10,598</b>	<b>\$ 314,125</b>
<b>Total liabilities and equity .....</b>	<b>\$ 10,396</b>	<b>\$ 50,530</b>	<b>\$ 267,256</b>	<b>\$ 63,694</b>	<b>\$ 17,340</b>	<b>\$ 409,216</b>

Component unit disclosures for the 2001 Statement of Revenues, Expenses, and Changes in Equity are as follows:

	Pabst	MEDC	HACM	RACM	NIDC	Total
	<i>(Thousands of Dollars)</i>					
Operating revenues .....	\$ 499	\$ 2,291	\$ 16,582	\$ 3,196	\$ (411)	\$ 22,157
Operating expenses:						
Depreciation .....	202	11	15,240	88	14	15,555
Other .....	754	640	49,380	3,042	7,159	60,975
Operating income (loss) .....	(457)	1,640	(48,038)	66	(7,584)	(54,373)
Other nonoperating revenue (expense) .....	88	(97)	51,781	6,343	6,030	64,145
Operating transfers .....	150					150
Capital contributions .....	2,641		400			3,041
<b>Net income (loss) for the year .....</b>	<b>2,422</b>	<b>1,543</b>	<b>4,143</b>	<b>6,409</b>	<b>(1,554)</b>	<b>12,963</b>
Retained earnings (deficit) - beginning (restated) .....	(2,954)	41,477	(29,140)	3,526	(1,263)	11,646
<b>Retained earnings (deficit) - ending .....</b>	<b>\$ (532)</b>	<b>\$ 43,020</b>	<b>\$ (24,997)</b>	<b>\$ 9,935</b>	<b>\$ (2,817)</b>	<b>\$ 24,609</b>

The retained earnings balance for the Neighborhood Improvement Development Corporation of the City of Milwaukee has been adjusted as of January 1, 2001 to reflect an increase of \$86,000 due to miscellaneous adjustments recorded to the 2000 component unit financial statements subsequent to the issuance of the City's December 31, 2000 Comprehensive Annual Financial Report.

## 8. FUND EQUITY

### Reserved for tax stabilization

The Reserved for Tax Stabilization, \$40,122,000 at December 31, 2001, is governed by the City's Code of Ordinances. 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 three percent in the

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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.

**Fund deficit**

The Capital Projects Fund - Special Assessments fund deficit of \$12,385,000 is the result of expending funds for construction in advance of collecting assessments from the property owners. Upon project completion, the properties are assessed, thus reducing this deficit.

**Retained deficit**

Current and prior years' losses in the following proprietary funds have resulted in cumulative retained deficits with a fund equity (deficit), net of retained deficits, as indicated below. The City provides needed capital to the Enterprise Fund - Port of Milwaukee and Pabst Theater component unit.

	Net Income (Loss)	Retained Deficit	Fund Equity
<i>(Thousands of Dollars)</i>			
Enterprise Fund - Port of Milwaukee .....	\$ (1,493)	\$ (12,703)	\$ 16,440
Pabst Theater Component Unit .....	2,422	(532)	9,414
Housing Authority of the City of Milwaukee Component Unit .....	4,143	(24,997)	223,401
Neighborhood Improvement Development Corporation Component Unit .....	(1,554)	(2,817)	10,598

**Contributed capital**

The changes in the City's contributed capital accounts for its proprietary funds and component units were as follows:

	Enterprise Funds	Component Units	Total
<i>(Thousands of Dollars)</i>			
Beginning balance .....	\$ 123,743	\$ 289,516	\$ 413,259
Additions .....	<u>179,871</u>	<u>-</u>	<u>179,871</u>
Ending balance .....	<u>\$ 303,614</u>	<u>\$ 289,516</u>	<u>\$ 593,130</u>

During 2001, the City contributed \$179,871,000 (net book value) of infrastructure assets to the Sewer Maintenance Fund. The above was determined through an independent third party study.

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

The individual interfund receivable and payable balances at December 31, 2001, and the net contributions, residual and operating transfers for 2001 were as follows:

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Fund	Interfund Receivables	Interfund Payables	Net Contributions	Net Residual Transfers	Net Operating Transfers
<i>(Thousands of Dollars)</i>					
General Fund .....	\$ 23,958	\$	\$	\$ 1,908	\$ 24,111
Special Revenue Funds:					
Grant and Aid Projects .....		(7,570)		(56)	
Community Development Block Grant .....		(973)			
Delinquent Tax .....					(13,045)
Debt Service:					
General Obligation Debt .....		(1,194)		(419)	12,058
Capital Projects Funds .....		(617)		(3,484)	(2,883)
Enterprise Funds:					
Metropolitan Sewerage District User Charge ...	355				
Parking .....			3,594		(19,041)
Port of Milwaukee .....		(264)	309		(1,499)
Sewer Maintenance .....	209	(12,051)			
Solid Waste .....				(1,865)	(57)
Water Works .....		(1,883)			102
Trust and Agency Funds .....				13	104
Component Units:					
Pabst Theater .....					150
Totals .....	<u>\$ 24,552</u>	<u>\$ (24,552)</u>	<u>\$ 3,903</u>	<u>\$ (3,903)</u>	<u>\$ -</u>

**10. GENERAL FIXED ASSETS**

Changes in General Fixed Assets for the year ended December 31, 2001, were as follows:

	Balance 01-01-01	Additions	Deletions	Balance 12-31-01
<i>(Thousands of Dollars)</i>				
Land .....	\$ 39,694	\$	\$	\$ 39,694
Buildings .....	132,870			132,870
Machinery and equipment .....	93,534	5,212	1,393	97,353
Construction work in progress .....	63,088	21,306	1,455	82,939
Totals .....	<u>\$ 329,186</u>	<u>\$ 26,518</u>	<u>\$ 2,848</u>	<u>\$ 352,856</u>

**11. COMMITMENTS AND CONTINGENCIES**

**Claims and other legal proceedings**

The City is involved in numerous lawsuits arising in the normal course of business, including claims for property damage, personal injury and personnel practices, disputes over contract awards and property condemnation proceedings, and suits contesting the legality of certain taxes. Under the 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. In addition, the City is subject to environmental remediation liabilities. The amount of such liabilities is not known. In the opinion of management, any additional lawsuits not provided for in the General Long-Term Obligations Account Group and environmental remediation liabilities will not have a material adverse effect on the City's financial position as of December 31, 2001.

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The City is self-insured for workers' compensation, employee Basic Plan health and dental insurance, uninsured motorist motor vehicle coverage for City employees, and general liability claims. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably 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 in the General Fund and are recorded as expenditures when paid. Expenditures recorded in the General Fund in 2001 were \$72,845,000 (\$57,906,000 of incurred claims less \$14,939,000 recorded as long-term obligations).

At December 31, 2001, the amount of unfunded claims and judgment liabilities is \$36,945,000 and is included in unfunded claims and judgments in the General Long-Term Obligations Account Group and consists of: legal \$23,025,000, environmental \$2,730,000, unemployment \$804,000, workers' compensation \$3,851,000 and health insurance \$6,535,000. Changes in the balance of claims liabilities during 2001 consist of a reduction in legal reserves due to the Global Pension Settlement and a change in estimation of the City's reserve for health insurance. These changes are detailed as follows:

*(Thousands of Dollars)*

Balance December 31, 1998 .....	\$ 58,661
Claims and changes in estimates .....	31,825
Claim payments .....	<u>(46,966)</u>
Balance December 31, 1999 .....	\$ 43,520
Claims and changes in estimates .....	14,939
Claim payments .....	<u>(21,514)</u>
Balance December 31, 2000 .....	<u>\$ 36,945</u>

The Milwaukee Police Association filed suit against the City and the Milwaukee Employees' Retirement System as a result of a City Ordinance passed in 1995 that merged the Retirement Fund with the Duty Disability Fund. Actuarial reports indicated that if the separate funds were merged, there were sufficient assets within the Employees' Retirement System to fund all retirement and disability liabilities without currently requiring additional contributions. In 1996, the Circuit Court granted summary judgment to the plaintiff declaring the merger to be unconstitutional. The court stayed enforcement of its order, insofar as any additional contribution of the City was concerned, to give the City the opportunity to appeal. In 1998, the Court of Appeals modified the Circuit Court's judgment, and the City's petition to the Wisconsin Supreme Court to accept a discretionary appeal of the Court of Appeals' decision was denied. As a result, the City was required to make contributions to fund an unfunded liability in the Duty Disability Fund.

The City has been notified of an Equal Employment Opportunity Commission (EEOC) investigation conducted of the Fire and Police Commission and the Milwaukee Police Department. The investigation resulted in a finding of probable cause of discrimination based on race, in the areas of hiring, discipline, retaliation and terms and conditions of employment. The EEOC sought \$5,000,000 in total remedies for the class claims and approximately \$2,000,000 to the individual hiring charging parties. Additionally, the EEOC requested remedies for the individual charging parties totaling approximately \$2,500,000 and an additional \$1,000,000 in compensation to the class members.

The EEOC referred the matter to the United States Department of Justice who conducted a further investigation and stated by letter dated January 2, 2001 that suit has been authorized against the City of Milwaukee and the Fire and Police Commission on the basis of the information provided by the EEOC and upon the further information obtained from the investigation performed by the Department of Justice. The City has begun, and will continue to communicate with the Department of Justice in an effort to explore possible settlement, however it is presently unknown whether settlement can or will be effectuated. The Department of Justice has requested \$6,150,000 in compensatory damages for a class of victims.

The City has also been notified of a second EEOC investigation conducted of the hiring and employment practices for the Milwaukee Fire Department based upon charges filed by the Brotherhood of Firefighters which allege discrimination on the basis of race with respect to hiring, promotion, terms and conditions of employment and discipline. On December 10, 1999 the EEOC issued a Reasonable Cause Determination filing in respect to this investigation, resulting in a demand from the EEOC for a class-wide back-pay claims of \$12,700,000 with respect to the alleged victims. As of December 31, 2001, the City has recorded a reserve in the General Long-Term Obligations Account Group related to the above two cases.

#### Environmental Liabilities

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 \$2,730,000 in the General Long-Term Obligations Account Group 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.

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GASB Statement No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" 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.

**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, 2001.

**Conduit Debt Obligations**

From time to time, the City, as well as the Housing Authority and the Redevelopment Authority, 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, is 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, 2001 is \$83,066,356, \$56,491,000, and \$256,000,000 for the City, Housing Authority, and Redevelopment Authority, respectively.

**Job Opportunity Bond Program**

The Redevelopment Authority of the City of Milwaukee has issued certain Economic Development Bonds under the Job Opportunity Bond Program. Additional bonds may also be issued under this Program. These bonds are payable from a revenue fund to which the Authority has pledged and appropriated revenues to be received by the Authority from revenue agreements. In the event of an insufficiency of such revenues, these bonds are payable out of a program reserve fund and a common reserve fund maintained with respect to the program. In the event amounts available in these reserve funds fall below specified levels, the City has agreed, pursuant to the terms of the first amendment to the cooperation and pledge agreement, to consider making loans to the Authority to assist the Authority in maintaining the reserve funds at required levels. To date, the City has not loaned any funds for this purpose. This obligation is not enforceable by the Authority, the Trustee or the owners of the bonds against the City or the Common Council of the City or against any individual of the Council of the City or any officer or agent of the City.

**12. SUBSEQUENT EVENTS**

In March of 2002, the City issued \$32,220,000 in general obligation corporate purpose bonds for various public improvement projects of the City, \$16,025,000 of general obligation short-term promissory notes for the purpose of financing year 2001 real and personal property tax receivables and improvements to public buildings, and \$102,000,000 of Revenue Anticipation Notes for the purpose of financing the City's operating budget on an interim basis pending receipt of state shared revenue payments due in November, 2002.

In April 2002, the Common Council of the City of Milwaukee approved an agreement to transfer the City's interest in the Captain Frederick Pabst Theater to The Cudahy Foundation, a tax exempt Wisconsin Charitable Trust.

**13. RESTATEMENT**

The beginning retained earnings balance of the enterprise funds for 2001 has been restated by \$7,538,000 to capitalize fixed asset acquisitions that were improperly expensed in 2000 in the Sewer Maintenance (enterprise) fund. The net effect of this change was to increase construction in process and retained earnings at January 1, 2001 in the enterprise funds from \$9,827,000 to \$17,365,000 and \$228,937,000 to \$236,475,000, respectively.

Additionally, the prior year (2000) summarized totals for the combined balance sheet, combined statement of revenues, expenses and changes in retained earnings, and the combined statement of cash flows have also been restated to increase capital assets and retained earnings at December 31, 2000, and reduce operating expenses for the year then ended by \$7,538,000.

CITY OF MILWAUKEE  
GENERAL FUND  
COMPARATIVE BALANCE SHEET  
DECEMBER 31, 2001 AND 2000  
(Thousands of Dollars)

Exhibit A

	2001	2000
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 29,769	\$ 9,240
Receivables (net):		
Taxes .....	21,091	23,152
Accounts .....	19,014	18,918
Unbilled accounts .....	1,835	989
Notes and loans .....	670	768
Accrued interest .....	604	961
Due from other funds .....	23,988	11,917
Due from component units .....	3,395	4,892
Due from other governmental agencies .....	981	1,383
Other receivables .....	12,222	12,694
Inventory of materials and supplies .....	5,652	5,988
Inventory of property for resale .....	26	26
Prepaid items .....	1,019	366
Restricted Assets:		
Investments .....	281	281
 Total Assets .....	 <u>\$ 120,547</u>	 <u>\$ 91,575</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable .....	\$ 21,716	\$ 23,180
Accrued wages .....	28,155	27,277
Due to other funds .....		253
Deferred revenue .....	<u>1,832</u>	<u>1,971</u>
 Total Liabilities .....	 <u>\$ 51,703</u>	 <u>\$ 52,681</u>
Fund Balance:		
Reserved for encumbrances, prepaids, and carryovers .....	\$ 22,460	\$ 8,886
Reserved for inventory .....	5,678	6,014
Reserved for mortgage trust .....	281	281
Reserved for environmental remediation .....	303	304
Reserved for tax stabilization - 2002 (2001) .....	11,000	5,500
Reserved for tax stabilization - 2003 (2002) and subsequent years' budgets .....	<u>29,122</u>	<u>17,909</u>
 Total Fund Balance .....	 <u>\$ 68,844</u>	 <u>\$ 38,894</u>
 Total Liabilities and Fund Balance .....	 <u>\$ 120,547</u>	 <u>\$ 91,575</u>

CITY OF MILWAUKEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)

Exhibit B

	2001	2000
<b>Revenues:</b>		
Property taxes .....	\$ 118,804	\$ 98,456
Other taxes .....	12,688	12,808
Licenses and permits .....	10,485	10,154
Intergovernmental .....	278,969	278,434
Charges for services .....	54,594	45,383
Fines and forfeits .....	4,408	18,036
Other .....	<u>12,408</u>	<u>14,358</u>
<b>Total Revenues</b> .....	<b>\$ 492,356</b>	<b>\$ 477,629</b>
<b>Expenditures:</b>		
<b>Current:</b>		
General government .....	\$ 162,628	\$ 157,615
Public safety .....	209,521	220,879
Public works .....	87,453	100,696
Health .....	11,237	11,363
Culture and recreation .....	16,948	17,584
Conservation and development .....	<u>7,922</u>	<u>7,502</u>
<b>Total Expenditures</b> .....	<b>\$ 495,709</b>	<b>\$ 515,639</b>
<b>Excess of Revenues over (under) Expenditures</b> .....	<b>\$ (3,353)</b>	<b>\$ (38,010)</b>
<b>Other Financing Sources (Uses):</b>		
Proceeds of bonds and notes .....	\$ 7,071	\$ 1,312
Operating transfers in .....	24,365	11,213
Operating transfers out .....	(104)	(338)
Operating transfers to component units .....	(150)	(150)
Contributions received .....	675	536
Contributions used .....	<u>(462)</u>	<u>(685)</u>
<b>Total Other Financing Sources (Uses)</b> .....	<b>\$ 31,395</b>	<b>\$ 11,888</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses</b> .....	<b>\$ 28,042</b>	<b>\$ (26,122)</b>
<b>Fund Balance - January 1</b> .....	<b>38,894</b>	<b>65,023</b>
<b>Residual Equity Transfers from Other Funds</b> .....	<b>1,921</b>	<b>2</b>
<b>Residual Equity Transfers to Other Funds</b> .....	<u>(13)</u>	<u>(9)</u>
<b>Fund Balance - December 31</b> .....	<b>\$ 68,844</b>	<b>\$ 38,894</b>

CITY OF MILWAUKEE  
GENERAL FUND

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)

	Amended Budget	Actual on Budgetary Basis	Variance - Favorable (Unfavorable)	2000 Actual on Budgetary Basis
<b>Revenues:</b>				
Property taxes .....	\$ 118,804	\$ 118,804	\$ -	\$ 98,456
Other taxes .....	12,113	12,688	575	12,808
Licenses and permits .....	8,817	10,485	1,668	10,154
Intergovernmental .....	278,732	278,969	237	278,434
Charges for services .....	55,401	54,594	(807)	45,383
Fines and forfeits .....	5,510	4,408	(1,102)	18,036
Other .....	13,085	12,408	(677)	14,358
<b>Total Revenues .....</b>	<b>\$ 492,462</b>	<b>\$ 492,356</b>	<b>\$ (106)</b>	<b>\$ 477,629</b>
<b>Expenditures:</b>				
<b>Current</b>				
General government .....	\$ 171,803	\$ 162,628	\$ 9,175	\$ 157,615
Public safety .....	210,274	209,521	753	220,879
Public works .....	87,574	87,453	121	100,696
Health .....	11,370	11,237	133	11,363
Culture and recreation .....	17,351	16,948	403	17,584
Conservation and development .....	8,688	7,922	766	7,502
<b>Total Expenditures .....</b>	<b>\$ 507,060</b>	<b>\$ 495,709</b>	<b>\$ 11,351</b>	<b>\$ 515,639</b>
<b>Excess of Revenues over (under) Expenditures .....</b>	<b>\$ (14,598)</b>	<b>\$ (3,353)</b>	<b>\$ 11,245</b>	<b>\$ (38,010)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds of bonds and notes .....	\$ -	\$ -	\$ -	\$ 8,071
Operating transfers in .....	22,708	24,365	1,657	11,213
Operating transfers out .....	(104)	(104)	-	(338)
Operating transfers to component units .....	(150)	(150)	-	(150)
Contributions received .....	675	675	-	536
Contributions used .....	(463)	(462)	1	(685)
Use of fund balance - reserved for tax stabilization .....	5,500	5,500	-	11,250
<b>Total Other Financing Sources (Uses) .....</b>	<b>\$ 28,166</b>	<b>\$ 29,824</b>	<b>\$ 1,658</b>	<b>\$ 29,897</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses .....</b>	<b>\$ 13,568</b>	<b>\$ 26,471</b>	<b>\$ 12,903</b>	<b>\$ (8,113)</b>
<b>Fund Balance - January 1 (Excludes Reserved for Tax Stabilization) .....</b>	<b>40,465</b>	<b>40,465</b>	<b>-</b>	<b>55,085</b>
<b>Residual Equity Transfers from Other Funds .....</b>	<b>10</b>	<b>1,921</b>	<b>1,911</b>	<b>2</b>
<b>Residual Equity Transfers to Other Funds .....</b>	<b>-</b>	<b>(13)</b>	<b>(13)</b>	<b>(9)</b>
<b>Fund Balance - December 31 .....</b>	<b>\$ 54,043</b>	<b>\$ 68,844</b>	<b>\$ 14,801</b>	<b>\$ 46,965</b>

CITY OF MILWAUKEE  
GENERAL FUND  
SCHEDULE OF REVENUES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(Thousands of Dollars)

Exhibit D

	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<b>Property Taxes:</b>			
General .....	\$ 82,861	\$ 82,861	\$ -
Provision for Employees' Retirement .....	35,943	35,943	-
<b>Total Property Taxes .....</b>	<b>\$ 118,804</b>	<b>\$ 118,804</b>	<b>\$ -</b>
<b>Other Taxes:</b>			
Payment in lieu of taxes .....	\$ 11,004	\$ 11,263	\$ 259
Interest on city tax certificates and other taxes .....	1,109	1,425	316
<b>Total Other Taxes .....</b>	<b>\$ 12,113</b>	<b>\$ 12,688</b>	<b>\$ 575</b>
<b>Licenses and Permits:</b>			
<b>Licenses:</b>			
Business and occupational .....	\$ 2,917	\$ 3,539	\$ 622
Other .....	28	31	3
<b>Permits:</b>			
Building .....	4,974	5,873	899
Zoning .....	184	225	41
Other .....	714	817	103
<b>Total Licenses and Permits .....</b>	<b>\$ 8,817</b>	<b>\$ 10,485</b>	<b>\$ 1,668</b>
<b>Intergovernmental:</b>			
<b>State Shares Revenues:</b>			
State shared taxes .....	\$ 243,550	\$ 243,680	\$ 130
Local street aids .....	27,700	27,706	6
Payment for municipal services .....	1,800	2,007	207
Other .....	5,682	5,576	(106)
<b>Total intergovernmental .....</b>	<b>\$ 278,732</b>	<b>\$ 278,969</b>	<b>\$ 237</b>
<b>Charges for Services:</b>			
General government .....	\$ 38,860	\$ 35,155	\$(3,705)
Public safety .....	5,812	7,245	1,433
Public works .....	7,093	8,688	1,595
Health .....	955	717	(238)
Culture and recreation .....	2,126	2,295	170
Conservation and development .....	556	494	(62)
<b>Total Charges for Services .....</b>	<b>\$ 55,401</b>	<b>\$ 54,594</b>	<b>\$ (807)</b>
<b>Fines and Forfeits:</b>			
Municipal Court .....	\$ 5,510	\$ 4,408	\$(1,102)
<b>Other:</b>			
Interest on temporary investments .....	\$ 6,300	\$ 4,802	\$(1,498)
Miscellaneous .....	6,785	7,606	821
<b>Total Other .....</b>	<b>\$ 13,085</b>	<b>\$ 12,408</b>	<b>\$ (677)</b>
<b>Total .....</b>	<b>\$ 492,462</b>	<b>\$ 492,356</b>	<b>\$ (106)</b>

CITY OF MILWAUKEE  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(Thousands of Dollars)

Exhibit E

	Amended Budget	2001 Actual			Total	Variance - Favorable (Unfavorable)
		Salaries and Wages	Other Operating Costs	Equipment		
<b>General Government:</b>						
Deferred Compensation .....	\$ 987	\$ 119	\$ 612	\$ 2	\$ 733	\$ 254
Zoning Appeals .....	226	174	41		215	11
Intern Program .....	52	52			52	
Mayor .....	930	821	49	9	879	51
Common Council - City Clerk .....	6,793	4,798	1,332	216	6,346	447
Municipal Court .....	3,007	1,690	1,206	2	2,898	109
City Attorney .....	9,011	4,428	3,869	193	8,490	521
Administration .....	8,348	4,623	3,455	85	8,163	185
Employee Relations .....	76,339	3,110	72,904	13	76,027	312
Election Commission .....	889	414	401		815	74
Comptroller .....	27,885	2,600	25,038	46	27,684	201
City Treasurer .....	3,752	1,435	2,019	9	3,463	289
Assessor's Office .....	3,498	3,130	352		3,482	16
Public Debt Commission .....	523	106	359		465	58
Employee Retirement Administration ..	20,976	1,582	13,643	81	15,306	5,670
Interest Expense .....	7,610		7,610		7,610	-
Contingent Funds - Unallocated .....	588					588
Convention & Travel - Unallocated .....	32					32
Expert Witness - Unallocated .....	357					357
<b>Total General Government .....</b>	<b>\$ 171,803</b>	<b>\$ 29,082</b>	<b>\$ 132,890</b>	<b>\$ 656</b>	<b>\$ 162,628</b>	<b>\$ 9,175</b>
<b>Public Safety:</b>						
Fire and Police Commission .....	\$ 845	\$ 635	\$ 190	\$ 4	\$ 829	\$ 16
Fire Department .....	64,646	57,722	3,401	3,166	64,289	357
Police Department .....	132,439	120,957	9,783	1,467	132,207	232
Neighborhood Services .....	12,344	7,220	4,945	31	12,196	148
<b>Total Public Safety .....</b>	<b>\$ 210,274</b>	<b>\$ 186,534</b>	<b>\$ 18,319</b>	<b>\$ 4,668</b>	<b>\$ 209,521</b>	<b>\$ 753</b>
<b>Public Works:</b>						
General Office .....	\$ 3,533	\$ 2,700	\$ 755	\$ 71	\$ 3,526	\$ 7
Infrastructure .....	18,853	12,268	6,476	100	18,844	9
Support Services .....	29,704	16,625	10,805	2,170	29,600	104
Sanitation .....	27,145		27,145		27,145	-
Forestry .....	8,339	7,350	834	154	8,338	1
<b>Total Public Works .....</b>	<b>\$ 87,574</b>	<b>\$ 38,943</b>	<b>\$ 46,015</b>	<b>\$ 2,495</b>	<b>\$ 87,453</b>	<b>\$ 121</b>
<b>Health .....</b>	<b>\$ 11,370</b>	<b>\$ 9,079</b>	<b>\$ 2,147</b>	<b>\$ 11</b>	<b>\$ 11,237</b>	<b>\$ 133</b>
<b>Culture and Recreation:</b>						
Public Library .....	\$ 17,351	\$ 11,689	\$ 3,021	\$ 2,238	\$ 16,948	\$ 403
<b>Conservation and Development:</b>						
Department of City Development .....	\$ 8,688	\$ 2,934	\$ 4,988	\$ -	\$ 7,922	\$ 766
<b>Total .....</b>	<b>\$ 507,060</b>	<b>\$ 278,261</b>	<b>\$ 207,380</b>	<b>\$ 10,068</b>	<b>\$ 495,709</b>	<b>\$ 11,351</b>

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CITY OF MILWAUKEE  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2000  
(Thousands of Dollars)

Exhibit F

	General Obligation Debt	Public Debt Amortization	2001	Totals 2000
<b>ASSETS</b>				
Cash and cash equivalents .....	\$ 43,270	\$ 7,163	\$ 50,433	\$ 34,531
Investments .....		65,519	65,519	67,985
Receivables (net):				
Accounts .....			-	3,202
Notes and loans .....	17,637		17,637	18,866
Accrued interest .....	61	167	228	178
Due from other funds .....			-	387
Due from component units .....	<u>18,999</u>		<u>18,999</u>	<u>12,354</u>
<b>Total Assets</b> .....	<u>\$ 79,967</u>	<u>\$ 72,849</u>	<u>\$ 152,816</u>	<u>\$ 137,503</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds .....	\$ 1,194	\$	\$ 1,194	\$ 1,840
Deferred revenue .....	<u>36,636</u>		<u>36,636</u>	<u>31,220</u>
<b>Total Liabilities</b> .....	<u>\$ 37,830</u>	<u>\$ -</u>	<u>\$ 37,830</u>	<u>\$ 33,060</u>
Fund Balances:				
Reserved for debt service - 2002 (2001) .....	\$ 42,137	\$	\$ 42,137	\$ 30,436
Reserved for future retirement of general obligation debt .....		<u>72,849</u>	<u>72,849</u>	<u>74,007</u>
<b>Total Fund Balances</b> .....	<u>\$ 42,137</u>	<u>\$ 72,849</u>	<u>\$ 114,986</u>	<u>\$ 104,443</u>
<b>Total Liabilities and Fund Balances</b> .....	<u>\$ 79,967</u>	<u>\$ 72,849</u>	<u>\$ 152,816</u>	<u>\$ 137,503</u>

CITY OF MILWAUKEE  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)

Exhibit G

	General Obligation Debt	Public Debt Amortization	2001	Totals 2000
Revenues:				
Property Taxes:				
General property taxes .....	\$ 59,491	\$	\$ 59,491	\$ 48,973
Tax increments .....	10,200	_____	10,200	8,702
<b>Total Property Taxes .....</b>	<b>\$ 69,691</b>	<b>\$ -</b>	<b>\$ 69,691</b>	<b>\$ 57,675</b>
Other Taxes:				
Interest on delinquent taxes .....	\$	\$ 1,358	\$ 1,358	\$ 1,051
Other:				
Interest on fund investments .....	\$ 2,084	\$ 5,106	\$ 7,190	\$ 11,382
Interest on general investments .....		2,352	2,352	4,128
Interest on special assessments .....		332	332	347
Premium and accrued interest on bonds and notes sold .....	7,059		7,059	6,306
Capitalized interest .....	2,750		2,750	442
Revenue from other agencies .....	6,659	_____	6,659	8,559
<b>Total Other .....</b>	<b>\$ 18,552</b>	<b>\$ 7,790</b>	<b>\$ 26,342</b>	<b>\$ 31,164</b>
<b>Total Revenues .....</b>	<b>\$ 88,243</b>	<b>\$ 9,148</b>	<b>\$ 97,391</b>	<b>\$ 89,890</b>
Expenditures:				
General Government:				
Public Debt Commission.....	\$	\$ 2	\$ 2	\$
Debt Service:				
Principal retirement .....	63,254	8,650	71,904	70,143
Interest .....	24,927	1,654	26,581	23,733
<b>Total Expenditures .....</b>	<b>\$ 88,181</b>	<b>\$ 10,306</b>	<b>\$ 98,487</b>	<b>\$ 93,876</b>
<b>Excess of Revenues over (under) Expenditures .....</b>	<b>\$ 62</b>	<b>\$ (1,158)</b>	<b>\$ (1,096)</b>	<b>\$ (3,986)</b>
Other Financing Sources (Uses):				
Proceeds of bonds and notes .....	\$ 23,216	\$	\$ 23,216	\$
Payment to refunded bond escrow agent .....	(23,216)		(23,216)	
Operating transfers in .....	28,586		28,586	26,584
Operating transfers out .....	(16,628)	_____	(16,628)	(20,387)
<b>Total Other Financing Sources (Uses) .....</b>	<b>\$ 12,058</b>	<b>\$ -</b>	<b>\$ 12,058</b>	<b>\$ 6,197</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses .....</b>	<b>\$ 12,120</b>	<b>\$ (1,158)</b>	<b>\$ 10,962</b>	<b>\$ 2,211</b>
Fund Balances - January 1 .....	30,436	74,007	104,443	105,170
Residual Equity Transfers from Other Funds .....	3,484		3,484	462
Residual Equity Transfers to Other Funds .....	(3,903)	_____	(3,903)	(3,400)
<b>Fund Balances - December 31 .....</b>	<b>\$ 42,137</b>	<b>\$ 72,849</b>	<b>\$ 114,986</b>	<b>\$ 104,443</b>

CITY OF MILWAUKEE  
 CAPITAL PROJECTS FUNDS  
 COMBINING BALANCE SHEET  
 DECEMBER 31, 2001  
 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2000  
 (Thousands of Dollars)

Exhibit H

	Bridges	Buildings and Grounds	Sewers
<b>ASSETS</b>			
Cash and cash equivalents .....	\$ 3,664	\$ 15,520	\$ 385
Receivables (net):			
Accounts .....			1,430
Special assessments .....			
Due from other governmental agencies .....	3,001		445
Inventory of materials and supplies .....			203
Prepaid items .....			
 <b>Total Assets</b> .....	 <u><b>\$ 6,665</b></u>	 <u><b>\$ 15,520</b></u>	 <u><b>\$ 2,463</b></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable .....	\$ 1	\$ 8,108	\$ 1,057
Accrued wages .....	10	49	14
Due to other funds .....			
Due to other governmental agencies .....	709		331
Deferred revenue .....	1,274		386
Other payables .....			
 <b>Total Liabilities</b> .....	 <u><b>\$ 1,994</b></u>	 <u><b>\$ 8,157</b></u>	 <u><b>\$ 1,788</b></u>
Fund Balances:			
Reserved for encumbrances, prepaids and carryovers .....	\$ 4,671	\$ 7,363	\$ 472
Reserved for inventory .....			203
Unreserved:			
Special assessment (deficit) .....			
 <b>Total Fund Balances (Deficit)</b> .....	 <u><b>\$ 4,671</b></u>	 <u><b>\$ 7,363</b></u>	 <u><b>\$ 675</b></u>
 <b>Total Liabilities and Fund Balance</b> .....	 <u><b>\$ 6,665</b></u>	 <u><b>\$ 15,520</b></u>	 <u><b>\$ 2,463</b></u>

Urban Renewal	Streets	Tax Incremental Districts	Special Assessments	Totals	
				2001	2000
\$ 3,128	\$	\$ 5,192	\$	\$ 27,889	\$ 41,912
	856			2,286	1,647
			13,610	13,610	13,233
342	6,663			10,451	7,155
				203	199
				-	1
<u>\$ 3,470</u>	<u>\$ 7,519</u>	<u>\$ 5,192</u>	<u>\$ 13,610</u>	<u>\$ 54,439</u>	<u>\$ 64,147</u>
\$ 268	\$ 583	\$ 252	\$ 137	\$ 10,406	\$ 12,739
1	331	19		424	220
	617			617	-
	4,044		1,200	6,284	2,553
25	889		12,436	15,010	13,209
			<u>12,222</u>	<u>12,222</u>	<u>12,694</u>
<u>\$ 294</u>	<u>\$ 6,464</u>	<u>\$ 271</u>	<u>\$ 25,995</u>	<u>\$ 44,963</u>	<u>\$ 41,415</u>
\$ 3,176	\$ 1,055	\$ 4,921	\$	\$ 21,658	\$ 34,278
				203	199
			<u>(12,385)</u>	<u>(12,385)</u>	<u>(11,745)</u>
<u>\$ 3,176</u>	<u>\$ 1,055</u>	<u>\$ 4,921</u>	<u>\$(12,385)</u>	<u>\$ 9,476</u>	<u>\$ 22,732</u>
<u>\$ 3,470</u>	<u>\$ 7,519</u>	<u>\$ 5,192</u>	<u>\$ 13,610</u>	<u>\$ 54,439</u>	<u>\$ 64,147</u>

CITY OF MILWAUKEE  
 CAPITAL PROJECTS FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2001  
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
 (Thousands of Dollars)

Exhibit I

	Bridges	Buildings and Grounds	Sewers
<b>Revenues:</b>			
Property taxes .....	\$	\$ 1,824	\$
Special assessments .....			
Intergovernmental .....	537		336
Other .....		3	1,529
	<u>537</u>	<u>3</u>	<u>1,529</u>
<b>Total Revenues</b> .....	<b>\$ 537</b>	<b>\$ 1,827</b>	<b>\$ 1,865</b>
<b>Expenditures:</b>			
Capital outlay .....	<u>1,601</u>	<u>37,348</u>	<u>11,420</u>
<b>Excess of Revenues over (under) Expenditures</b> .....	<b><u>\$(1,064)</u></b>	<b><u>\$(35,521)</u></b>	<b><u>\$(9,555)</u></b>
<b>Other Financing Sources (Uses):</b>			
Proceeds of bonds and notes .....	\$ 2,873	\$ 27,350	\$ 3,545
Operating transfers out .....			
<b>Total Other Financing Sources (Uses)</b> .....	<b><u>\$ 2,873</u></b>	<b><u>\$ 27,350</u></b>	<b><u>\$ 3,545</u></b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses</b> .....	<b>\$ 1,809</b>	<b>\$ (8,171)</b>	<b>\$ (6,010)</b>
Fund Balances (Deficits) - January 1 .....	2,862	15,534	6,685
Residual Equity Transfers to Other Funds .....			
<b>Fund Balances (Deficits) - December 31</b> .....	<b><u>\$ 4,671</u></b>	<b><u>\$ 7,363</u></b>	<b><u>\$ 675</u></b>

Urban Renewal	Streets	Tax Incremental Districts	Special Assessments	Totals	
				2001	2000
\$ 150	\$ 187	\$	\$	\$ 2,161	\$ 2,587
25	7,606		3,807	3,807	3,930
<u>32</u>	<u>1,216</u>	<u>3,485</u>		<u>8,504</u>	<u>8,319</u>
				<u>6,265</u>	<u>1,947</u>
\$ 207	\$ 9,009	\$ 3,485	\$ 3,807	\$ 20,737	\$ 16,783
<u>2,498</u>	<u>26,617</u>	<u>20,548</u>	<u>4,447</u>	<u>104,479</u>	<u>77,629</u>
\$ (2,291)	\$ (17,608)	\$ (17,063)	\$ (640)	\$ (83,742)	\$ (60,846)
\$ 1,749	\$ 13,593	\$ 24,860	\$ 2,883	\$ 76,853	\$ 78,940
			(2,883)	(2,883)	(1,885)
\$ 1,749	\$ 13,593	\$ 24,860	\$ -	\$ 73,970	\$ 77,055
\$ (542)	\$ (4,015)	\$ 7,797	\$ (640)	\$ (9,772)	\$ 16,209
3,718	5,070	608	(11,745)	22,732	6,985
		(3,484)		(3,484)	(462)
\$ 3,176	\$ 1,055	\$ 4,921	\$ (12,385)	\$ 9,476	\$ 22,732

CITY OF MILWAUKEE  
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP  
STATEMENT OF GENERAL LONG-TERM OBLIGATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(Thousands of Dollars)

Exhibit J

	Balance 01-01-01	Obligations Incurred	Obligations Retired	Debt Service Funds Operations	Balance 12-31-01
<b>RESOURCES AVAILABLE AND TO BE PROVIDED FOR THE PAYMENT OF GENERAL LONG-TERM OBLIGATIONS</b>					
Resources available in Debt Service Funds .....	\$ 117,488	\$	\$	\$ 11,386	\$ 128,874
Resources to be Provided for:					
Retirement of general obligation debt .....	405,015	137,939	94,013	(11,386)	437,555
Unfunded compensated absences .....	30,534	5,306	2,480		33,360
Unfunded claims and judgments .....	43,520	14,939	21,514		36,945
<b>Total Resources Available and to be Provided .....</b>	<b><u>\$ 596,557</u></b>	<b><u>\$ 158,184</u></b>	<b><u>\$ 118,007</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 636,734</u></b>
 <b>GENERAL LONG-TERM OBLIGATIONS PAYABLE</b>					
General obligation debt .....	\$ 522,503	\$ 137,939	\$ 94,013	\$	\$ 566,429
Unfunded compensated absences .....	30,534	5,306	2,480		33,360
Unfunded claims and judgments .....	43,520	14,939	21,514		36,945
<b>Total General Long-Term Obligations Payable .....</b>	<b><u>\$ 596,557</u></b>	<b><u>\$ 158,184</u></b>	<b><u>\$ 118,007</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 636,734</u></b>

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**CITY OF MILWAUKEE**  
**ENTERPRISE FUNDS**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2001**  
**WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2000**  
*(Thousands of Dollars)*

	Metropolitan Sewerage District User Charge	Parking
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 3,072	\$ 7,539
Investments .....		
Receivables (net):		
Accounts .....	4,029	
Unbilled accounts .....	1,858	
Accrued interest .....		
Due from other funds .....	355	
Inventory of materials and supplies .....		
Prepaid items .....		
Deferred charges .....		
Other assets .....		
Restricted Assets:		
Cash and cash equivalents .....		
Land .....		9,854
Buildings .....		48,326
Infrastructure .....		
Improvements other than buildings .....		5,669
Machinery and equipment .....		474
Furniture and furnishings .....		
Construction work in progress .....		
Nonutility property .....		
Accumulated depreciation .....		(17,069)
<b>Total Assets .....</b>	<b>\$ 9,314</b>	<b>\$ 54,793</b>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable .....	\$ 7,898	\$ 923
Accrued wages .....	8	393
Accrued expenses .....		
Due to other funds .....		
General obligation debt payable - current .....		3,510
Deferred revenue .....		61
Bond anticipation notes payable .....		
General obligation debt .....		21,963
Revenue bonds payable .....		
<b>Total Liabilities .....</b>	<b>\$ 7,906</b>	<b>\$ 26,850</b>
Fund Equity:		
Contributed capital .....	\$	\$ 22,158
Retained Earnings:		
Unreserved (deficit) .....	1,408	5,785
Reserved for restricted assets .....		
<b>Total Fund Equity .....</b>	<b>\$ 1,408</b>	<b>\$ 27,943</b>
<b>Total Liabilities and Fund Equity .....</b>	<b>\$ 9,314</b>	<b>\$ 54,793</b>

Port of Milwaukee	Sewer Maintenance	Solid Waste	Water Works	Totals	
				2001	2000 (Restated)
\$	\$	\$	\$ 16,192	\$ 26,803	\$ 20,022
					4,000
894	8,758		11,291	24,972	22,112
	2,012		5,727	9,597	10,047
			36	36	29
	209			564	614
	3		2,613	2,616	2,183
			29	29	106
	367			367	2
			367	367	983
	23,365			23,365	
8,280			1,585	19,719	19,719
9,699			22,430	80,455	78,323
	265,856			265,856	
17,681			255,131	278,481	271,681
4,834	1,035		187,521	193,864	192,747
31	47			78	189
	9,978		10,167	20,145	17,365
			540	540	540
<u>(20,910)</u>	<u>(82,088)</u>		<u>(126,431)</u>	<u>(246,498)</u>	<u>(153,436)</u>
<u>\$ 20,509</u>	<u>\$ 229,542</u>	<u>\$ -</u>	<u>\$ 387,198</u>	<u>\$ 701,356</u>	<u>\$ 487,226</u>
\$ 124	\$ 1,198	\$	\$ 2,493	\$ 12,636	\$ 13,135
138	670		2,236	3,445	3,236
	866			866	
264	12,051		1,883	14,198	4,733
353			5,796	9,659	9,496
				61	51
				-	6,258
3,190			42,752	67,905	74,070
	29,095		15,266	44,361	16,029
<u>\$ 4,069</u>	<u>\$ 43,880</u>	<u>\$ -</u>	<u>\$ 70,426</u>	<u>\$ 153,131</u>	<u>\$ 127,008</u>
\$ 29,143	\$ 179,656	\$	\$ 72,657	\$ 303,614	\$ 123,743
(12,703)	(17,359)		244,115	221,246	236,475
	23,365			23,365	
<u>\$ 16,440</u>	<u>\$ 185,662</u>	<u>\$ -</u>	<u>\$ 316,772</u>	<u>\$ 548,225</u>	<u>\$ 360,218</u>
<u>\$ 20,509</u>	<u>\$ 229,542</u>	<u>\$ -</u>	<u>\$ 387,198</u>	<u>\$ 701,356</u>	<u>\$ 487,226</u>

**CITY OF MILWAUKEE  
ENTERPRISE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS (DEFICIT)  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)**

	Metropolitan Sewerage District User Charge	Parking
<b>Operating Revenues:</b>		
<b>Charges for Services:</b>		
Water sales .....	\$	\$
Statutory sewer user fee .....	28,510	
Sewer maintenance fee .....		
Solid waste fee .....		
Rent .....		6,571
Fire protection service .....		
Parking meters .....		3,779
Parking permits .....		1,893
Vehicle towing .....		3,823
Other .....	1,588	19,673
<b>Total Operating Revenues</b> .....	<b>\$ 30,098</b>	<b>\$ 35,739</b>
<b>Operating Expenses:</b>		
Milwaukee Metropolitan Sewerage District Charges .....	\$ 24,871	\$
Employee services .....		5,190
Administrative and general .....	189	
Depreciation .....		2,137
Transmission and distribution .....	1,725	
Services, supplies and materials .....		11,840
Payment in lieu of taxes .....		1,210
Water treatment .....		
Water pumping .....		
Billing and collection .....	3,037	
<b>Total Operating Expenses</b> .....	<b>\$ 29,822</b>	<b>\$ 20,377</b>
<b>Operating Income</b> .....	<b>\$ 276</b>	<b>\$ 15,362</b>
<b>Nonoperating Revenues (Expenses):</b>		
Interest income .....	\$	\$
Interest expense .....		(1,391)
Net gain (loss) on sale of fixed assets .....		
Other .....		
<b>Total Nonoperating Revenues (Expenses)</b> .....	<b>\$ -</b>	<b>\$ (1,391)</b>
<b>Income before Operating Transfers</b> .....	<b>\$ 276</b>	<b>\$ 13,971</b>
Operating Transfers In .....		1,381
Operating Transfers Out .....		(20,422)
<b>Net Income (Loss) before Capital Contributions</b> .....	<b>\$ 276</b>	<b>\$ (5,070)</b>
<b>Capital Contributions</b> .....		<b>3,593</b>
<b>Net Income (Loss)</b> .....	<b>\$ 276</b>	<b>\$ (1,477)</b>
Retained Earnings (Deficit) - January 1 .....	1,132	7,262
Residual Equity Transfers to Other Funds .....		
<b>Retained Earnings (Deficit) - December 31</b> .....	<b>\$ 1,408</b>	<b>\$ 5,785</b>

Port of Milwaukee	Sewer Maintenance	Solid Waste	Water Works	Totals	
				2001	2000 (Restated)
\$	\$	\$	\$ 54,681	\$ 54,681	\$ 54,625
				28,510	29,306
	18,815			18,815	15,582
3,985		36,584		36,584	
				10,556	7,937
			5,138	5,138	5,088
				3,779	3,492
				1,893	1,303
				3,823	3,177
	84		1,892	23,237	5,847
<u>\$ 3,985</u>	<u>\$ 18,899</u>	<u>\$ 36,584</u>	<u>\$ 61,711</u>	<u>\$ 187,016</u>	<u>\$ 126,357</u>
\$	\$	\$	\$	\$ 24,871	\$ 26,211
1,315	6,284	20,794		33,583	11,054
			5,013	5,202	4,869
714	3,119		8,917	14,887	11,786
			14,767	16,492	16,683
832	7,809	13,868		34,349	13,221
			7,712	8,922	9,156
			8,285	8,295	7,919
			4,990	4,990	5,051
			1,047	4,084	3,532
<u>\$ 2,861</u>	<u>\$ 17,212</u>	<u>\$ 34,662</u>	<u>\$ 50,741</u>	<u>\$ 155,675</u>	<u>\$ 109,482</u>
<u>\$ 1,124</u>	<u>\$ 1,687</u>	<u>\$ 1,922</u>	<u>\$ 10,970</u>	<u>\$ 31,341</u>	<u>\$ 16,875</u>
\$	\$	\$	\$ 617	\$ 617	\$ 1,132
(158)	(99)		(3,006)	(4,654)	(4,943)
				-	(439)
(960)	(1)		560	(401)	402
<u>\$ (1,118)</u>	<u>\$ (100)</u>	<u>\$ -</u>	<u>\$ (1,829)</u>	<u>\$ (4,439)</u>	<u>\$ (3,848)</u>
<u>\$ 6</u>	<u>\$ 1,587</u>	<u>\$ 1,922</u>	<u>\$ 9,141</u>	<u>\$ 26,903</u>	<u>\$ 13,027</u>
158			7,479	9,018	9,467
(1,657)		(57)	(7,377)	(29,513)	(12,348)
<u>\$ (1,493)</u>	<u>\$ 1,587</u>	<u>\$ 1,865</u>	<u>\$ 9,243</u>	<u>\$ 6,408</u>	<u>\$ 10,146</u>
				3,593	
<u>\$ (1,493)</u>	<u>\$ 1,587</u>	<u>\$ 1,865</u>	<u>\$ 9,243</u>	<u>\$ 10,001</u>	<u>\$ 10,146</u>
(11,210)	4,419	.	234,872	236,475	226,329
		(1,865)		(1,865)	
<u>\$ (12,703)</u>	<u>\$ 5,006</u>	<u>\$ -</u>	<u>\$ 244,115</u>	<u>\$ 244,611</u>	<u>\$ 236,475</u>

CITY OF MILWAUKEE  
ENTERPRISE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)

	Metropolitan Sewerage District User Charge	Parking
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss) .....	\$ 276	\$ 15,362
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by (Used for)		
Operating Activities:		
Depreciation .....		2,137
Other nonoperating revenues (expenses) .....		
(Increase) decrease in receivables .....	2,150	
(Increase) decrease in due from other funds .....	47	
(Increase) decrease in inventory of materials and supplies .....		
(Increase) decrease in prepaid items .....		30
(Increase) decrease in deferred charges .....		
(Increase) decrease in other assets .....		
Increase (decrease) in accounts payable .....	(544)	484
Increase (decrease) in accrued wages .....	7	50
Increase (decrease) in accrued expenses .....		
Increase (decrease) in due to other funds .....		(387)
Increase (decrease) in deferred revenue .....		10
	<u>          </u>	<u>          </u>
Net Cash Provided by (Used for) Operating Activities .....	\$ 1,936	\$ 17,686
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers to other funds .....	\$	\$ (19,041)
Residual Equity transfer to other funds .....	<u>          </u>	<u>          </u>
Net Cash Provided by (Used for) Noncapital Financing Activities .....	\$ -	\$ (19,041)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital contributions .....	\$	\$ 3,594
Proceeds from bond anticipation notes .....		
Proceeds from sale of bonds and notes .....		6,603
Proceeds from sale of revenue bonds .....		
Bond issuance costs .....		
Acquisition of property, plant and equipment .....		(2,592)
Retirement of bonds, notes and revenue bonds .....		(3,594)
Payment to refunded bond escrow agent .....		(4,555)
Interest paid .....		(1,381)
Sale of land and other assets .....		
Transfer to fiscal agent .....		
Transfer from fiscal agent .....		
Operating transfers to other funds .....		
Repairs and restorations .....		
	<u>          </u>	<u>          </u>
Net Cash Provided by (Used for) Capital and Related Financing Activities .....	\$ -	\$ (1,925)

Port of Milwaukee	Sewer Maintenance	Solid Waste	Water Works	Totals	
				2001	2000 (Restated)
\$ 1,124	\$ 1,687	\$ 1,922	\$ 10,970	\$ 31,341	\$ 16,875
714	3,119		8,917	14,887	11,786
(660)	(4,053)		560	560	425
	3		152	(2,411)	(2,375)
				50	(158)
	6		(433)	(433)	522
2	(367)		41	77	19
				(365)	(2)
38	(474)		616	616	528
(1)	71		(3)	(499)	2,128
	866		82	209	50
264	10,154		(566)	9,465	(2,298)
				10	(36)
<u>\$ 1,481</u>	<u>\$ 11,012</u>	<u>\$ 1,922</u>	<u>\$ 20,336</u>	<u>\$ 54,373</u>	<u>\$ 27,464</u>
\$ (1,657)	\$	\$ (57)	\$	\$ (20,755)	\$ (3,152)
		(1,865)		(1,865)	-
<u>\$ (1,657)</u>	<u>\$ -</u>	<u>\$ (1,922)</u>	<u>\$ -</u>	<u>\$ (22,620)</u>	<u>\$ (3,152)</u>
\$ 434	\$	\$	\$	\$ 4,028	\$ 3,450
711			3,126	-	6,258
	29,862			10,440	4,891
	(416)			29,862	-
	(10,384)		(7,555)	(416)	(22,048)
(309)	(6,258)		(5,622)	(20,531)	(8,950)
(8)			(3,126)	(15,783)	
(158)	(99)		(3,006)	(7,689)	(4,953)
				(4,644)	26
	(29,975)			-	
	6,258			(29,975)	
158			102	6,258	271
(1,394)				260	(422)
				(1,394)	
<u>\$ (566)</u>	<u>\$ (11,012)</u>	<u>\$ -</u>	<u>\$ (16,081)</u>	<u>\$ (29,584)</u>	<u>\$ (21,477)</u>

**CITY OF MILWAUKEE  
ENTERPRISE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000  
(Thousands of Dollars)**

	Metropolitan Sewerage District User Charge	Parking
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income .....	\$	\$
Increase in fiscal agent funds .....		
Purchase of Investments .....		
Proceeds from the sale and maturity of investments .....	_____	_____
<b>Net Cash Provided by (Used for) Investing Activities .....</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents .....</b>	<b>\$ 1,936</b>	<b>\$ (3,280)</b>
<b>Cash and Cash Equivalents at January 1 .....</b>	<b>1,136</b>	<b>10,819</b>
<b>Cash and Cash Equivalents at December 31 .....</b>	<b>\$ 3,072</b>	<b>\$ 7,539</b>
<b>Cash and Cash Equivalents at December 31 Consist of:</b>		
Unrestricted Cash .....	\$ 3,072	\$ 7,539
Restricted Cash .....	_____	_____
	<b>\$ 3,072</b>	<b>\$ 7,539</b>

**Non-cash Activities:**

The Port of Milwaukee disposed of \$30 fully depreciated fixed assets during the year.

During the year, water mains and related property, installed by others were deeded to the Water Works in the amount of \$662.

During the year, the city transferred \$179,871,000 (net book value) of infrastructure assets to the Sewer Maintenance Fund.

Port of Milwaukee	Sewer Maintenance	Solid Waste	Water Works	Totals	
				2001	2000 (Restated)
\$	\$ 23,365	\$	\$ 612	\$ 612	\$ 1,102
				23,365	
				-	(4,000)
			4,000	4,000	-
<u>\$ -</u>	<u>\$ 23,365</u>	<u>\$ -</u>	<u>\$ 4,612</u>	<u>\$ 27,977</u>	<u>\$ (2,898)</u>
\$ (742)	\$ 23,365	\$ -	\$ 8,867	\$ 30,146	\$ (63)
742			7,325	20,022	20,085
<u>\$ -</u>	<u>\$ 23,365</u>	<u>\$ -</u>	<u>\$ 16,192</u>	<u>\$ 50,168</u>	<u>\$ 20,022</u>
\$ -	\$ 23,365	\$ -	\$ 16,192	\$ 26,803	\$ 20,022
	23,365			23,365	
<u>\$ -</u>	<u>\$ 23,365</u>	<u>\$ -</u>	<u>\$ 16,192</u>	<u>\$ 50,168</u>	<u>\$ 20,022</u>

**APPENDIX C**

**DRAFT FORM OF LEGAL OPINION**

**HAWKINS, DELAFIELD & WOOD**  
 67 Wall Street  
 New York, New York 10005

**QUARLES & BRADY LLP**  
 411 East Wisconsin Avenue  
 Milwaukee, Wisconsin 53202-4497

Mr. W. Martin Morics  
 City Comptroller of the  
 City of Milwaukee  
 Milwaukee, Wisconsin

Dear Sir:

**CITY OF MILWAUKEE, WISCONSIN  
 SEWERAGE SYSTEM REVENUE BONDS,  
 SERIES 2003 S4, \$33,885,000**

At your request we have examined into the validity of an issue of \$33,885,000 principal amount of Sewerage System Revenue Bonds, Series 2003 S4 (the "2003 Bonds"), of the City of Milwaukee, Wisconsin (the "City"). The 2003 Bonds are dated as of their date of delivery, and are issued as fully registered bonds which when issued will be available for individual purchasers in book-entry form only in the denominations of \$5,000 or any integral multiple thereof. The 2003 Bonds mature on June 1 in each of the years and in the principal amounts set forth below, bearing interest from their dated date, payable on December 1, 2003 and semiannually thereafter on December 1 and June 1 of each year, at the rate per annum stated opposite such year, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
2005	\$1,310,000		2015	\$1,780,000	
2006	1,345,000		2016	1,850,000	
2007	1,380,000		2017	1,925,000	
2008	1,415,000		2018	2,005,000	
2009	1,455,000		2019	2,090,000	
2010	1,500,000		2020	2,190,000	
2011	1,545,000		2021	2,280,000	
2012	1,600,000		2022	2,375,000	
2013	1,655,000		2023	2,475,000	
2014	1,710,000				

The 2003 Bonds maturing on and after June 1, 2014 are subject to optional redemption prior to their stated maturities on any date on and after June 1, 2013 upon the terms and conditions and at the prices set forth therein.

The 2003 Bonds recite that they are issued for the purpose of financing improvements to the Sewerage System and pursuant to resolutions adopted by the Common Council of the City on August 2, 2001, March 4, 2003 and April 15, 2003, respectively (hereinafter referred to collectively as the "Resolution"), the provisions of Chapter 66 of the Wisconsin Statutes and acts supplementary thereto, the Charter of the City, and a resolution duly passed by the Commissioners of the Public Debt of the City. The 2003 Bonds further recite that they are payable solely from and equally and ratably secured solely by the net revenues derived by the City through the ownership and operation of the Sewerage System of the City which, by the terms of the Resolution, are pledged to the payment thereof, subject to the provisions of the Resolution permitting the application of such revenues to the purposes and on the terms and conditions set forth in the Resolution.

We have examined (i) the Constitution and statutes of the State of Wisconsin; (ii) the Charter of the City; (iii) certified copies of the Resolution and a certified transcript of proceedings relating to authorizing the issuance of the 2003 Bonds; (iv) such other papers, instruments, documents and proceedings as we have deemed necessary or advisable; and (v) a specimen 2003 Bond.

We have relied upon such transcript of proceedings as to the matters of facts stated therein without independent verification. We have not been engaged nor have undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2003 Bonds, and express no opinion relating thereto.

In our opinion, the 2003 Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State of Wisconsin and the Charter of the City and constitute valid and legally binding special obligations of the City, payable solely from and secured solely by the net revenues of the Sewerage System of the City pledged to the payment thereof by the Resolution subject to the prior payment from such revenues of the expenses of operation and maintenance of such Sewerage System and on a parity with other Bonds heretofore or hereafter issued under the Resolution by the City, payable from the net revenues of the Sewerage System.

It is to be understood that the rights of the holders of the 2003 Bonds under the 2003 Bonds and under the Resolution and the enforceability thereof may be subject to judicial discretion, to the valid exercise of the sovereign police powers of the State of Wisconsin and to valid bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditor's rights.

It is also our opinion that, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants as described herein, interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and

corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2003 Bonds and have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2003 Bonds from gross income under Section 103 of the Code.

We express no opinion regarding any other Federal or state tax consequences with respect to the 2003 Bonds. We have rendered this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2003 Bonds.

Very truly yours,

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The Bond Resolution contains terms and conditions relating to the issuance of the Bonds, including the Series 2003 Bonds, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive, and is subject to all of the provisions of the Bond Resolution, to which reference is hereby made. This summary uses various terms defined in the Bond Resolution. Capitalized terms used in this "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" are as set forth in the Bond Resolution.

**Pledge Made in the Bond Resolution**

The Bonds are limited special obligations of the City payable solely from and secured by the funds pledged therefor pursuant to the Bond Resolution. The City has pledged as security for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds in accordance with their terms and provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution: (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Bond Resolution or of a Series Resolution, (ii) the Net Revenues, and (iii) all Funds and Accounts held under the Bond Resolution other than (a) the Rebate Fund, and (b) the Subordinate Obligation Fund, including the investments, if any, in such Funds and Accounts; and the Bondholders shall have a lien on, and a security interest in, such proceeds, Net Revenues, and Funds and Accounts for such purpose and subject to such provisions of the Bond Resolution. Such lien and security interest for the payment of Bonds shall be prior and superior to the lien and security interest for the payment of Subordinate Obligations. The Bonds are additionally secured by a mortgage lien upon the Sewerage System which shall be perfected by the recording of the Bond Resolution in the records of the City.

The pledge of, and lien on, and security interest in, the proceeds of the Bonds and the Net Revenues as received by the City and the Funds and Accounts in the Bond Resolution, other than the Rebate Fund and the Subordinate Obligation Fund, shall be valid and irrevocable: (i) from and after the time that, if required by State law, a financing statement is filed with respect to such pledge, lien and security interest as required by State law, and, upon such filing; or (ii), if no financing statement is so required by State law, upon delivery of the proceeds of a Series of Bonds, and all the Net Revenues as received by the City and the Funds and Accounts of the Bond Resolution, other than the Rebate Fund and the Subordinate Obligation Fund, shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City irrespective of whether such parties have notice thereof.

**Additional Bonds**

One or more Series of Bonds (exclusive of Refunding Bonds), may be issued at any time and from time to time for any lawful use or purpose relating to the Sewerage System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions as set forth in the Bond Resolution, including providing, among other things, the following documents or moneys or securities:

Either (I) a Written Certificate of an Authorized Officer of the City based: (i) on audited figures, provided that such audited figures are for the most recent Fiscal Year for which an audit is available, and are for a period ending within 18 months of the date of issuance of the proposed Series of Bonds; or (ii) on figures taken by an independent certified public accountant from the City's books and records, showing that the Net Revenues for any consecutive twelve (12) months' period out of twenty-four (24) months immediately preceding the month in which such Bonds are issued were not less than the greater of: (x) the sum of (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12) month period selected, and (2) the Required Deposits for such Fiscal Year or the twelve (12) month period selected; and (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any Fiscal Year and the twelve (12)

month period selected, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the Written Certificate of the City, or (II) a Written Certificate of an Authorized Officer of the City or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued, are estimated to be not less than the greater of: (x) the sum of (1) the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, and (2) the Required Deposits for any such Fiscal Year; and (y) 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.20 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of such Written Certificate of the City or certificate of the Consulting Engineer, as the case may be.

If any changes have been made and are in effect at the time of the issuance of the proposed Series of Bonds in the Sewerage Service Charges (exclusive of changes in the rates and charges for the privilege of connecting to the Sewerage System) which were not in effect during all or any part of the periods referred to above, the Net Revenues for either of such respective periods may be adjusted to reflect the results which would have occurred in the Net Revenues if such changes in the Sewerage Service Charges had been in effect during all of such respective periods.

#### **Certain Adjustments**

In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the Additional Bonds Requirement, the interest rate shall be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least twenty-four (24) months, the highest average interest rate borne by such Variable Rate Bonds for any thirty (30) day period, or (ii) if no such Variable Rate Bonds are then Outstanding, the Revenue Bond Index at the time of calculation.

#### **Refunding Bonds**

The City by means of a Series Resolution adopted in compliance with the provisions of the Bond Resolution may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding; *provided, however*, that the provisions of the Bond Resolution are complied with upon the issuance of such Series, including all of the conditions described in "Additional Bonds" described above, except that the certificate described in "Additional Bonds" above need not be complied with if the Refunding Bonds proposed to be issued do not mature later than the Bonds to be refunded and Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed Debt Service in any Fiscal Year on the Bonds to be refunded by more than ten percent (10%).

#### **Separate Utility Systems**

Nothing contained in the Bond Resolution shall prevent the City from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities for the collection, treatment or disposal of sewage, and any incidental properties to be constructed or acquired in connection therewith, which facilities shall be a separate utility system and which bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; *provided, however*, that the City will not issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness for the purpose of acquiring or constructing such a separate utility system unless and until a report of the Consulting Engineer shall be delivered to the Comptroller to the effect that: (i) the plan for developing the separate utility system is consistent with sound planning, and the separate utility system is of such character that it would be useful to the City; (ii) the separate utility system can be economically and effectively utilized by the City; (iii) the cost of the services of the separate utility system is reasonable in comparison to alternative sources; and (iv) in the opinion of the Consulting Engineer,

the acquisition, construction or operation of such separate utility system will not result in a reduction of the Revenues below the amounts covenanted by the Bond Resolution to be maintained.

### **Service to the City**

The reasonable cost and value of services rendered to the City by the Sewerage System by furnishing sewer services for public purposes, shall be charged against the City and shall be paid by it in quarterly installments as the service accrues, out of the current revenues of the City collected or in the process of collection, exclusive of the revenues derived from the Sewerage System and out of the tax levy of the City made by it to raise money to meet its necessary current expenses. The reasonable cost and value of such service to the City in each Fiscal Year shall be the amount necessary in the Fiscal Year which, together with the other revenues of the Sewerage System, will produce Net Revenues in each Fiscal Year equal to not less than 1.00 times the maximum aggregate Debt Service on the Bonds then Outstanding plus 1.00 times the aggregate Support Facility Reimbursement Obligations then Outstanding. However, such payment out of the tax levy shall be subject to (a) approval of the Public Service Commission, or successors to its function, if necessary, (b) yearly appropriations therefor and (c) applicable levy limitations, if any; but neither the Bond Resolution nor such payment shall be construed as constituting an obligation of the City to make any such appropriation over and above the reasonable cost and value of services rendered to the City and its inhabitants or make any subsequent payment over and above such reasonable cost and value. Such compensation for such service rendered to the City shall, in the manner described above and in the Bond Resolution, be paid into the Revenue Fund created by such Bond Resolution.

### **Funds and Accounts**

The City has created a Revenue Fund into which all Revenues collected by the City have been and shall be deposited, from which the Revenues shall be appropriated and expended for operating expenses of the Sewerage System, other purposes of the Sewerage System, and in which certain working capital and operating reserves for purposes of the Sewerage System have been and shall be maintained. The Revenue Fund shall be considered to be a fund held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

The Bond Resolution also creates and establishes the following additional funds of the City to be maintained so long as any Bonds are Outstanding:

- Operation and Maintenance Fund;
- Rebate Fund;
- Special Redemption Fund and Reserve Account therein;
- Subordinate Obligation Fund; and
- Surplus Fund.

The Operation and Maintenance Fund, the Special Redemption Fund and Reserve Account therein and the Surplus Fund shall be considered to be funds held under the Bond Resolution for purposes of the pledge made in the Bond Resolution.

The Bond Resolution also creates a Construction Fund into which the proceeds of revenue bonds of the City issued to pay the costs of Improvements specified to be expended from such Construction Fund. The Construction Fund shall be considered to be a fund held under the Bond Resolution for purposes of the pledge made thereunder.

### **Revenue Fund**

From and after the time of delivery of the first Bond executed and delivered under the Bond Resolution, Revenues shall be collected by the City and deposited, as soon as practicable, into the Revenue Fund. From the amounts deposited in the Revenue Fund, the City shall transfer to the Operation and Maintenance Fund sufficient moneys to pay the current Operation and Maintenance Expenses of the Sewerage System, transfer to the Rebate Fund such amount as is necessary to pay the rebate amount due the United States Treasury Department under

Section 148 of the Code or to set aside as a reserve for such payment and make the transfers to other Funds and Accounts as provided in the Bond Resolution.

In each month, the City, after making the transfer, if any, to the Operating and Maintenance Expenses for such month and setting aside an amount sufficient to pay the Operating and Maintenance Expenses expected to be incurred for the balance of such month and making the transfer, if any, to the Rebate Fund as provided in the Bond Resolution, shall retain, apply or transfer on the fifth (5th) day prior to the end of each month, unless otherwise provided below, a sufficient amount of moneys in the Revenue Fund in the following order of priority:

- (1) To the Special Redemption Fund, if and to the extent required so that the balance therein shall equal the Accrued Debt Service for all Bonds Outstanding and the interest accrued on all Bond Anticipation Notes outstanding on said date;
- (2) To the Reserve Account in the Special Redemption Fund, if and to the extent required by a Series Resolution either (i) an amount such that the balance in the Reserve Account shall equal the Reserve Account Requirement on said date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in the Reserve Account shall be eliminated at the end of the twelfth (12th) month following the first credit;
- (3) In the Revenue Fund, a reasonable and necessary amount for working capital and operating reserves;
- (4) To the Subordinate Obligation Fund, the amount, if any, required to be deposited in such Fund pursuant to the resolution authorizing issuance of the Subordinate Obligations payable from such Fund; and
- (5) To the Surplus Fund, such amounts as shall remain in the Revenue Fund.

All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operation and Maintenance Fund as the same become due and payable and, except for the Rebate Fund, prior to any transfer or payment to other funds and accounts set forth therein.

The City may, if provided in a Series Resolution authorizing the Bonds of a Series, directly pay out of the Revenue Fund reimbursements to Support Facility Providers whose Support Facilities have been drawn upon, after payments have been made to the Special Redemption Fund.

### **Special Redemption Fund**

The City shall pay out of the Special Redemption Fund to each Paying Agent: (i) on or before each interest payment date for any of the Bonds or Bond Anticipation Notes the amount required for the interest payable on such date; (ii) on or before each principal payment date, an amount equal to the principal, if any, due on such date by reason of maturity or by reason of the payment of any Sinking Fund Installment; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of the Redemption Price of and interest on the Bonds then to be redeemed. Such amounts shall be applied by each Paying Agent on and after the due dates thereof. The City shall also pay out of the Special Redemption Fund the accrued interest included in the purchase price of Bonds purchased for retirement.

Amounts accumulated in the Special Redemption Fund by reason of the payment of any Sinking Fund Installment may be applied by the City, on or prior to the sixtieth (60th) day preceding the due date of such Sinking Fund Installment, to: (i) the purchase of Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) the redemption of such Bonds at the applicable Redemption Price, if then redeemable by their terms. All such purchases of Bonds shall: (i) be made at prices not exceeding the applicable Redemption Price of such Bonds plus accrued interest; (ii) be made as arranged by the City in such manner and from such sellers or brokers at such prices as the City shall determine; and (iii) be made to insure that delivery of the Bonds so purchased shall not occur later than the sixtieth (60th) day next preceding the redemption date to which the Sinking Fund Installment is to be applied. The applicable Redemption Price of any Bonds (or principal amount of maturing

Bonds) so purchased or redeemed shall be deemed to constitute part of the Special Redemption Fund until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the sixtieth (60th) day preceding the due date of any such Sinking Fund Installment, the City shall proceed to call for redemption on such due date Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased or redeemed pursuant to the Bond Resolution which the City has applied as a credit against such Sinking Fund Installment as provided in the Bond Resolution and as described above. The City shall pay out of the Special Redemption Fund to the appropriate Paying Agents, on or before the redemption date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

The amount, if any, credited to the Special Redemption Fund from a Series Interest Account (as hereafter defined) in the Construction Fund shall be applied to the payment of interest on the Bonds as the same becomes due and payable as provided in the Bond Resolution.

Upon any purchase or redemption as provided in the Bond Resolution and as described above of Bonds of any Series and maturity for which Sinking Fund Installments shall have been established: (i) if the principal amount of the Bonds so purchased is less than or equal to the next succeeding Sinking Fund Installment for such Series there shall be credited to the next such Sinking Fund Installment an amount equal to the principal amount of the Bonds of such Series so purchased; and (ii) if the principal amount of the Bonds so purchased is greater than the next succeeding Sinking Fund Installment, there shall be credited toward each such Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total principal amount of all such Sinking Fund Installments to be so credited or, at the option of the City, an amount equal to the next succeeding Sinking Fund Installment. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal and Redemption Price (if any) of, and interest on, the Bonds shall be held in trust for the Holders of the Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Special Redemption Fund shall be held in trust for the benefit of the Holders of all Bonds at the time outstanding, equally and ratably.

When Bonds of a Series are refunded in whole or in part or are otherwise paid in accordance with the Bond Resolution, moneys may be withdrawn from the Special Redemption Fund to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; *provided* that immediately after such withdrawal or transfer there shall be on credit to the Special Redemption Fund an amount equal to the Accrued Debt Service for the Bonds then Outstanding after taking into account such refunding or payment.

#### **Reserve Account**

If on the day preceding any principal or interest payment date, the amount in the Special Redemption Fund shall be less than Accrued Debt Service for all Bonds then Outstanding, the City shall pay out of the Reserve Account, to the extent moneys are required to be on deposit therein, to each Paying Agent for such Bonds the amount necessary to satisfy the deficiency for payment to the holders of such Bonds. Amounts so applied shall be derived first, from cash or Investments Securities on credit to the Reserve Account and second, from draws or demands on Support Facilities held as a part thereof, such draws or demands to be made *pro rata* among all such support Facilities based on the respective available amounts thereunder and upon the terms and conditions set forth in such Support Facilities.

Whenever the amounts on deposit in the Reserve Account shall exceed the Reserve Account Requirement, if any, the City shall withdraw the amount of such excess and deposit such excess to the credit of the Special Redemption Fund or the Revenue Fund, as the City shall determine.

Whenever the amount (exclusive of Support Facilities) in the Reserve Account, if any, together with the amount in the Special Redemption Fund, is sufficient to pay in full the principal or Redemption Price, if any, of and interest on all such Outstanding Bonds in accordance with their terms, the funds on credit to the Reserve Account shall be transferred to the Special Redemption Fund. Prior to said transfer, all Investment Securities held in the Reserve Account shall be liquidated by the City to the extent necessary to provide for timely payment of the principal or Redemption Price, if any, of and interest on such Bonds.

When Bonds of a Series are refunded in whole or in part or are otherwise paid in accordance with the Bond Resolution, moneys may be withdrawn from the Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; *provided* that immediately after such withdrawal or transfer there shall be on credit to the Reserve Account an amount equal to the Reserve Account Requirement, if any, for the Bonds then Outstanding after taking into account such refunding or payment.

### **Surplus Fund**

The City shall transfer from the Surplus Fund: (i) to the Special Redemption Fund and the Reserve Account therein the amount necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to satisfy any deficiencies in payments to such Funds required by the Bond Resolution; (ii) in the event of any transfer of moneys from the Reserve Account to the Special Redemption Fund or to the Reserve Account the amount of any resulting deficiency in such Fund or Account; (iii) such amount as the City may, in its discretion, determine to set aside in reserve for meeting the deficiencies referred to in clauses (i) through (ii) of this paragraph; and (iv) *provided* that all transfers and reserves therefor referred to in clauses (i) through (iii) of this paragraph shall have heretofore been made, to the Subordinate Obligation Fund the amount, if any, necessary to satisfy any deficiency therein.

Amounts in the Surplus Fund not required to meet a deficiency referred to in the Bond Resolution and as described above shall be applied to any of the following purposes:

the Costs of Improvements, or the provision of one or more reserves therefor;

the purchase at such price or prices as the City may deem advisable or redemption of any Bonds and expenses of such purchase or redemption at any time; or

for any other purpose authorized by the laws of the State of Wisconsin in connection with the Sewerage System, including reimbursement to the City of advances made by the City to the Sewerage System.

### **Construction Fund**

As soon as practicable on the date of delivery of the Bonds of a Series, there shall be deposited in the Construction Fund the amount required to be deposited therein pursuant to the Series Resolution. In addition, the City shall deposit in the Construction Fund such moneys other than proceeds of the Bonds as the City shall determine to be proper or appropriate to pay the Costs of Improvements.

The Series Resolution authorizing the issuance of any Series of Bonds (exclusive of Refunding Bonds) may create and establish one or more separate special Series Accounts in the Construction Fund, with such designation as may be appropriate. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, there shall be created in the Construction Fund a special Series Interest Account with such designation as may be appropriate.

Moneys, including proceeds of the Bonds of a Series, which are credited to the Construction Fund or Series Account shall be applied to the payment of the Costs as shall be specified in the applicable Series Resolution. Any balance remaining in the Construction Fund or such Series Account upon completion of payment of such Costs may be used for any lawful purpose of the City; *provided* that the City shall have obtained an Opinion of Counsel that any such application will not impair the exemption from Federal income taxation of interest on any of the Tax-exempt Bonds.

Moneys credited to a Series Interest Account shall be used for the purpose of paying interest on the Bonds of designated Series. On or before the fifth (5th) day preceding the end of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to a Series Interest Account, the City shall transfer from a Series Interest Account for credit to the Special Redemption Fund an amount which, together with any moneys theretofore held in the Special Redemption Fund, shall be sufficient to pay such next maturing installment of interest on such Bonds.

Payments from the Construction Fund shall be as specified in the Series Resolution authorizing the issuance of a Series of Bonds.

Moneys, including proceeds of the Bonds, in the Construction Fund, pending their application as provided in the Bond Resolution and Series Resolution shall be subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Special Redemption Fund to pay Debt Service after all transfers, have been made pursuant to and in accordance with the Bond Resolution, the City shall transfer from the Construction Fund such amount (or all remaining amounts in such Construction Fund) as is deemed necessary by the Comptroller of the City for deposit in the Special Redemption Fund, which, together with the amounts then on credit to the Special Redemption Fund, is sufficient to pay Debt Service.

#### **Operation and Maintenance Fund**

Amounts in the Operation and Maintenance Fund and any subaccount therein, pending their application, shall be subject to a prior and paramount lien and charge in favor of the Holders of the Bonds, and the Holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Bond Resolution. In the event that there is an insufficiency in the Special Redemption Fund to pay Debt Service after all transfers have been made pursuant to and in accordance with the Bond Resolution, the City shall transfer from the Operation and Maintenance Fund such amount as is deemed necessary by the Comptroller of the City for deposit in the Special Redemption Fund, which, together with the amounts then on deposit in the Special Redemption Fund, is sufficient to pay Debt Service.

Amounts in the Operation and Maintenance Fund shall be used to pay Operation and Maintenance Expenses.

#### **Investment of Funds**

Moneys in the Special Redemption Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested solely in noncallable Investment Securities which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in the Special Redemption Fund will be required for the purposes intended. Moneys in the Reserve Account not required for immediate disbursement for the purpose for which the Reserve Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested solely in, and obligations deposited in the Reserve Account shall be, noncallable Investment Securities which shall mature or be available at par at or prior to three (3) years from the date of investment thereof.

Moneys in the Revenue Fund not required for immediate disbursement for the purpose for which such Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested to the extent allowed by law, solely in, and obligations deposited in such Fund shall be, Investment Securities which shall mature or be subject to redemption or payment at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund.

Moneys in the Construction Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested to the extent allowed by law, solely in, and obligations deposited in such Fund shall be, Investment Securities which shall mature or be subject to redemption or payment at par at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund or Account.

To the extent permitted in the Bond Resolution, all income received from the investment or reinvestment of moneys in the Funds and Accounts established thereunder shall be deposited in the respective Fund and Account from which such investments are made and applied as a credit against the next succeeding deposit or credit required to be made pursuant to the Bond Resolution; *provided, however*, that, except as to the Subordinate Obligation Fund, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund and Account may be deposited in the Revenue Fund or the Construction Fund, including a Series Interest Account therein; and *provided, further, however*, that all income received from the investment or reinvestment of moneys in any Series Interest Account shall be credited to the Special Redemption Fund.

Nothing in the Bond Resolution shall prevent any Investment Securities acquired as investments of funds held under the Bond Resolution from being issued or held in book-entry form.

Neither the Comptroller of the City nor any Paying Agent shall be liable for any depreciation in value of any investments made by the City.

## COVENANTS

The City has covenanted and agreed in the Bond Resolution with the holders of all Bonds issued pursuant to the Bond Resolution as follows:

***Maintenance of the Properties of the Sewerage System; Keeping the Sewerage System in Good Repair.*** The City will: (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Sewerage System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition; (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted; and (iii) comply, or cause to be complied, with the terms and conditions of any permit or license for the Sewerage System or any part thereof issued by any Federal or State governmental agency or body and with any Federal or State law or regulation applicable to the construction, operation, maintenance and repair of the Sewerage System or requiring a license, permit or approval therefor.

***Rates and Charges.*** The City will fix, charge and collect such Sewerage Services Charges as shall be required in order that in each Fiscal Year the Net Revenues shall be not less than the Net Revenue Requirement for such Fiscal Year. The failure in any Fiscal Year to comply with the foregoing rate covenant does not constitute an Event of Default if the City shall comply with requirements described in the next paragraph.

Prior to the end of each Fiscal Year the Commissioner of Public Works of the City shall complete a review of the financial condition of the Sewerage System for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the rate covenant described in the Bond Resolution and described above and shall by a Written Certificate of the City make a determination with respect thereto. Such review shall take into consideration the completion of any uncompleted Improvement and the issuance of future Series of Bonds if necessary to finance the completion of such Improvements. Such Written Certificate shall set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, and shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such Written Certificate that the Revenues may not be so sufficient, the Commissioner of Public Works of the City shall forthwith make a study for the purpose of determining a schedule of Sewerage Service Charges which, in the opinion of the Commissioner of Public Works, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant in and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Commissioner of Public Works may elect to cause the Consulting Engineer to make such a study and render such opinion. The Common Council shall as promptly as practicable but no later than the one hundred twenty (120) days following such determination by the Commissioner of Public Works, or receipt of the Consulting Engineer's recommendation, adopt and place in effect a schedule of Sewerage Service Charges as so determined or recommended in accordance with the Bond Resolution.

***Sale, Lease or Other Disposition of Properties of the Sewerage System.*** The properties of the Sewerage System shall not be sold, mortgaged, leased or otherwise disposed of except as described below.

The properties of the Sewerage System may be sold, leased, or otherwise disposed of in their entirety if, simultaneously with such sale, lease or other disposition thereof, provision is made for the payment of all Bonds then Outstanding and such Bonds are no longer deemed Outstanding within the meaning of the Bond Resolution.

Any portion of the properties of the Sewerage System may be sold, leased, or otherwise disposed of on such terms and conditions as may be determined by the City if the value of such portion of the properties as of the date of such sale, lease or disposition does not exceed five percent (5%) of the net book assets of the Sewerage System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the City. Any part of the properties of the Sewerage System having a value as of the date of the sale, lease or disposition which exceeds five percent (5%) of the net book assets of the Sewerage System as of the last day of the preceding Fiscal Year as shown in the most recent audited financial statements of the City may be sold, leased, or otherwise disposed of if the Consulting Engineer shall certify to the City in writing that the terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Sewerage System, after taking into consideration the use by the City of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the City to comply with all covenants and conditions of the Bond Resolution. Proceeds of any sale, lease or other disposition of any portion of the properties of the Sewerage System pursuant to this paragraph shall be paid into the Special Redemption Fund and applied to the purchase or redemption of Bonds or into the Revenue Fund and applied by the City for the purpose of constructing extensions, betterments or improvements to the Sewerage System as the City shall determine.

Buildings and any other portion of the works, plant and facilities of the Sewerage System and real and personal property comprising a part thereof, which, in the opinion of the Commissioner of Public Works, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Sewerage System, or no longer necessary, material to, or useful in such operation may be sold, leased, or otherwise disposed of. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Sewerage System pursuant to this paragraph shall be paid into the Revenue Fund.

If permitted by the laws of the State, the City may transfer without consideration the properties comprising the Sewerage System to a public corporation or political subdivision of the State; *provided* such corporation or subdivision assumes all of the City's or the City's obligations and duties under the Bond Resolution.

In the event that any part of the properties of the Sewerage System shall be transferred from the City through the operation of law (including condemnation), any moneys received by the City as a result thereof shall be paid: (i) if such proceeds are not in excess of \$250,000, into the Revenue Fund; or (ii) if such proceeds are in excess of \$250,000: (a) into the Special Redemption Fund and or (b) into the Construction Fund and used to finance Improvements.

***Insurance.*** Except as provided for in the next paragraph, the City shall keep, or cause to be kept, the works, plants and facilities comprising the properties of the Sewerage System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the City, against risks of direct physical loss, damage to or destruction of the above-ground structures, and the equipment and contents therein, of the Sewerage System arising from accidents, casualties or negligence, and other causes customarily insured against, at least to the extent that similar insurance is usually carried by utilities operating like properties, including liability insurance and workman's compensation insurance; *provided, however*, that any time while any contractor engaged in constructing any part of the Sewerage System shall be fully responsible therefor, the City shall not be required to keep such part of the Sewerage System insured. All policies of insurance shall be for the benefit of the Holders of the Bonds and the City as their respective interests may appear.

In the event of any loss or damage to the properties of the Sewerage System covered by insurance, the City will: (i) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct

of the operations of the Sewerage System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$250,000 or more, the City shall determine that such repair and reconstruction not be undertaken; and (ii) if the City shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Revenue Fund. If the City does not obtain insurance from responsible insurers as provided for in the Bond Resolution, and the City fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Sewerage System, it must secure the concurrence of an independent insurance consultant. In making its decision whether to concur, the independent insurance consultant shall: (i) make an estimate of the added financial risks, if any, assumed by the City as a result of the failure to insure; (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the City's costs and charges for its services; and (iii) determine whether the added financial risk, if any, being assumed by the City is prudent in light of the savings to be realized in light of the general availability of insurance.

The City may include insurance required by the Bond Resolution as part of a blanket insurance policy of the City.

**Consulting Engineer.** The Common Council or the Commissioner of Public Works may from time to time retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of sewerage systems, preparing rate analyses, forecasting the loads and revenues of sewerage systems, preparing feasibility reports respecting the financing of sewerage systems and advising on the operation of sewerage facilities, who shall be available to advise the City, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Bond Resolution.

**Books of Account; Annual Audit.** The City will maintain and keep proper books of account relating to the Sewerage System and in accordance with generally accepted accounting principles. Within two hundred forty (240) days after the end of each Fiscal Year, the City shall cause such books of account to be audited by an independent certified public accountant. The audit required by the Bond Resolution may be part of a comprehensive audit of the City; *provided* that the Sewerage System in such audit is treated as an "enterprise fund" and the revenues and expenses of the Sewerage System are stated in a manner which permits identification by category of the sources and uses of the Revenues. A copy of each audit report shall be prepared in conformity with generally accepted accounting principles and shall be filed promptly with the Common Council.

**Punctual Payment of Bonds.** The City will duly and punctually pay, or cause to be paid, but only from the Revenues, income and other funds specified in the Bond Resolution, the principal and Redemption Price (if any) of, and interest on, each and every Bond on the dates and at the places, and in the manner provided in the Bonds according to the true intent and meaning thereof, and the City shall faithfully do and perform and at all times fully observe and keep any and all of its covenants, undertakings, stipulations and provisions contained in the Bonds and in the Bond Resolution.

**Payment of Taxes and Other Claims.** The City shall from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the properties of the Sewerage System (or any part thereof) or upon the Net Revenues or income received therefrom when the same shall become due, as well as all lawful claims for labor, material and supplies, which, if not paid, might become a lien or charge upon said properties or any part thereof, or upon the Revenues derived from the ownership or operation of the Sewerage System, or which might in any way impair the security of the Bonds, except any such assessments, charges or claims which the City shall in good faith contest as to validity.

**Extension of Payment of Bonds.** The City will not, directly or indirectly, extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Bond Resolution, to the benefit of the Bond Resolution or to any payment out of any assets of the City or the funds (except funds held in trust for the payment of particular Bonds or claims for interest

pursuant to the Bond Resolution) held by the Paying Agents, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing in the Bond Resolution shall be deemed to limit the right of the City to issue Refunding Bonds as provided in the Bond Resolution and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

***Sound Improvements and Extensions.*** The City shall not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the Sewerage System for any renewals, replacements, additions, betterments and improvements to, or extensions of, the Sewerage System which, in the sole opinion of the Commissioner of Public Works, will not properly and advantageously contribute to the conduct of the business of the Sewerage System in an efficient and economical manner unless required to do so to permit the continued operation of the Sewerage System or to preserve or protect the Sewerage System.

***Further Assurances.*** The City shall, at any and all times, insofar as it maybe authorized so to do, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming any and all of the rights, Revenues and other funds hereby pledged or charged with or assigned to the payment of the Bonds or intended so to be, or which the City or the City may hereafter become bound to pledge or charge or assign.

***Protection of Security.*** The City is duly authorized under all applicable law to create and issue the Bonds, to adopt the Bond Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Bond Resolution in the manner and to the extent provided in the Bond Resolution. The Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Bond Resolution, except as otherwise expressly provided therein, and all action on the part of the City to that end has been duly and validly taken. The Bonds are and will be valid and legally enforceable obligations of the City in accordance with their terms and the terms of the Bond Resolution. The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Bond Resolution and all the rights of the Bondholders hereto against all claims and demands of all persons whomsoever.

***Exclusion of Interest on Tax-exempt Bonds for Federal Income Taxation Purposes.*** In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Tax-exempt Bonds of any Series, the City shall comply with the provisions of the Code applicable to such Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of such Bonds, reporting of earnings on the Gross Proceeds of such Bonds, and rebates of Rebatable Amount to the United States Treasury City. In furtherance of the foregoing, the City shall comply with the Tax Certificate relating to such Bonds or such instructions as may be delivered by Bond Counsel at the time such Bonds are issued as to compliance with the Code with respect to such Bonds, as such instructions may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The City shall not take any action or fail to take any action with respect to the application and investment of Gross Proceeds of Tax-exempt Bonds or use, ownership or management of the Sewerage System or any facility or project thereof or any Improvement thereto which would cause a failure to comply with the provisions of Sections 103 and 141 to 150 of the Code, such covenant to be effective (i) throughout the term of such Bonds, and (ii) through the date that the final rebate, if any, must be made to the United States Treasury City in accordance with Section 148 of the Code with respect to such Bonds.

Notwithstanding any other provision hereof to the contrary, the City's failure to comply with the provisions of the Code applicable to the Tax-exempt Bonds of a Series shall not entitle the Holder of Bonds of any other Series, or any trustee acting on their behalf, to exercise any right or remedy provided to Holders of Bonds under the Bond Resolution based upon the City's or the City's failure to comply with the provisions of the Bond Resolution or of the Code.

**Annual Budget.** As part of the City's annual budgeting process, the City shall prepare and include a budget for the Sewerage System for the ensuing Fiscal Year. Each budget shall: (i) set forth in reasonable detail amounts required for repair, replacement or reconstruction of the Sewerage System and major or extraordinary repairs, renewals or replacements of the Sewerage System, if any, for the period to be covered by such budget; (ii) specify the amounts to be set aside for the purposes set forth in clause (i) hereof and the amounts to be deposited in the Funds created under the Bond Resolution and the amounts to be maintained in the Revenue Fund for working capital and operating reserves for such purposes for such period, and (iii) project the amounts required for such purposes for the next five Fiscal Years in such format as the Commissioner of Public Works shall determine. A copy of each such report shall be filed and maintained in the records of the City.

### **Events of Default**

Each of the following events constitutes an Event of Default under the Bond Resolution:

- (a) if payment of the principal and Redemption Price (if any) of any Bond, shall not punctually be made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);
- (b) if payment of the interest on any Bond shall not punctually be made when due;
- (c) if the provisions of any Series Resolution with respect to mandatory Sinking Fund Installment payments or the redemption of Term Bonds therefrom, as the case may be, shall not punctually be complied with at the time and in the manner specified in such Series Resolution;
- (d) if the City shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Bond Resolution or in the Bonds, on the part of the City to be performed, and such failure shall continue for ninety (90) days after written notice thereof from the Holders of not less than twenty percent (20%) of the Bonds then Outstanding; *provided*, that if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; and
- (e) if the City shall: (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness under the provisions of any Federal or state bankruptcy or similar law; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the provisions of any Federal or state bankruptcy or similar law; or (v) consent to the appointment of a receiver of the whole or any substantial part of the Sewerage System; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City, or of the whole or any substantial part of the Sewerage System.

### **Acceleration of Bonds**

If an Event of Default shall happen and shall not have been remedied, then and in every such case the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding, by notice in writing to the City, may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The right of the Holders of not less than twenty-five percent (25 %) in principal amount of the Bonds then Outstanding to make any such declaration, however, shall be subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the City under the Bond Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or provision satisfactory to the Holders of a majority in principal amount of the Bonds then Outstanding shall be made for such payment, and all defaults under the Bonds or under the Bond

Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be cured or be secured to the satisfaction of the Holders of a majority in principal amount of the Bonds then Outstanding or provision deemed by such Holders of the Bonds to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds then Outstanding, by written notice to the City, may rescind such declaration and annul such default in its entirety, but no such rescission shall extend to or affect any subsequent default or impair or exhaust any resulting right or power.

#### **Application of Revenues in an Event of Default**

During the continuance of an Event of Default as defined in items (a) through (c) of the Events of Default described above or of any other Event of Default resulting in an Event of Default as defined in items (a) through (c) of the Events of Default described above, the Revenues received by a receiver appointed pursuant to the Bond Resolution as the result of the taking of possession of the business and properties of the Sewerage System, shall be applied by the receiver: first, to the payment of all necessary and proper Operation and Maintenance Expenses of the Sewerage System and all other proper disbursements or liabilities made or incurred by the receiver; second, to the then due and overdue payments into the Special Redemption Fund, including the making up of deficiencies therein; and last, for any lawful purpose in connection with the Sewerage System.

In the event that at any time the funds held by the receiver are insufficient for the payment of the principal and Redemption Price (if any) of, and interest then due on, the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds and all Revenues and other moneys received or collected for the benefit or for the account of Holders of the Bonds by the receiver shall be applied as follows:

- (1) Unless the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper Operation and Maintenance Expenses of the Sewerage System and all other proper disbursements or liabilities made or incurred by the receiver;

Second, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

- (2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper Operation and Maintenance Expenses of the Sewerage System and all other proper disbursements or liabilities made or incurred by the receiver;

Second, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied pursuant to the foregoing paragraphs, such moneys shall be applied by the receiver at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the

amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Holders of the Bonds, their respective agents and attorneys, and all other sums payable by the City under the Bond Resolution including the principal and Redemption Price (if any) of all Bonds which shall then be payable, shall either be paid in full by or for the account of the City or provision satisfactory to the receiver shall be made for such payment, and all defaults under the Bond Resolution or the Bonds shall be made good and secured to the satisfaction of the receiver or provision deemed by the receiver to be adequate therefor, the receiver shall pay over to the City all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bondholders' Committee described in the Bond Resolution, control of the business and possession of the property of the City shall be restored to the City, and thereupon the City shall be restored to its former positions and rights under the Bond Resolution, and all Revenues shall thereafter be applied as provided in the Bond Resolution. No such payment over to the City by the receiver or resumption of this application of Revenues as provided in the Bond Resolution, shall extend to or affect any subsequent default under the Bond Resolution or impair any right consequent thereon.

#### **Suits at Law or Equity and Mandamus; Appointment of a Receiver**

If an Event of Default shall happen and shall not have been remedied, then and in every such case, but subject to the provisions, limitations and conditions as set forth in the Bond Resolution so far as the remedies thereunder are concerned, the Holder of any Bond at the time Outstanding shall be entitled, for the equal benefit and protection of all Holders of the Bonds similarly situated, to proceed, protect and enforce the rights vested in such Holder by the Bond Resolution by such appropriate judicial proceeding as such Holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Bond Resolution, or in aid of the exercise of any power granted in the Bond Resolution, or to enforce any other legal or equitable right vested in the Holders of Bonds by the Bond Resolution or by law; *provided, however*, that no judicial proceeding shall be brought seeking the appointment of a receiver to take possession of the Sewerage System or to manage, receive and apply the Revenues unless the Holders of not less than a majority in principal amount of the Bonds then Outstanding or a Bondholders' Committee representing the Holders of not less than a majority in principal amount of the Bonds then Outstanding shall have joined in or consented to such proceeding.

#### **Remedies Not Exclusive; Waivers of Default; Abandonment of Proceedings; Adverse Determination**

No remedy by the terms of the Bond Resolution conferred upon or reserved to the Holders of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given thereunder to the Holders of the Bonds or now or hereafter existing at law or in equity or by statute.

No delay or omission of any Holder of Bonds to exercise any right or power arising upon the occurrence of a default under the Bond Resolution, including an Event of Default, shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein. Every power and remedy given by this Article to the Holders of Bonds may be exercised from time to time and as often as may be deemed expedient by such Holders.

In case the Holders of the Bonds or a Bondholders' Committee formed pursuant to the Bond Resolution shall have proceeded to enforce any right under the Bond Resolution and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Holders of the Bonds or such Bondholders' Committee, then and in every such case the City and the Holders of the Bonds shall be restored to their former positions and rights under the Bond Resolution, and all rights, remedies and powers of the Holders of the Bonds shall continue as if no such proceedings had been taken.

## **Amending and Supplementing of the Bond Resolution**

***Amending and Supplementing of the Bond Resolution Without Consent of Holders of Bonds.*** The City, from time to time and at any time and without the consent or concurrence of any Holder of any Bond, may adopt a Series Resolution (i) for the purpose of providing for the issuance of Bonds pursuant to the Bond Resolution; (ii) to make any changes, modifications, amendments or deletions hereto which may be required to permit the Bond Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; or (iii) if the rights of the Holders of the Bonds then Outstanding shall not be materially adversely affected thereby, a Supplemental Resolution for any one or more of the following purposes:

1. to make any changes or corrections in the Bond Resolution as to which the City shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Bond Resolution, or to insert in the Bond Resolution such provisions clarifying matters or questions arising under the Bond Resolution as are necessary or desirable;
2. to add additional covenants and agreements of the City for the purpose of further securing the payment of the Bonds;
3. to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Bond Resolution;
4. to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Bond Resolution;
5. to grant to, or to confer upon, the Holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; and
6. to modify in any other respect any of the provisions of the Bond Resolution.

Except for Series Resolutions authorizing the issuance of Bonds pursuant hereto, the City shall not adopt any Supplemental Resolution described above and as provided for in the Bond Resolution unless in the Opinion of Counsel (which opinion may be combined with the opinion required by the Bond Resolution) the adoption of such Supplemental Resolution is permitted by the purposes described above and as provided for in the Bond Resolution and the provisions of such Supplemental Resolution do not materially adversely affect the rights of the Holders of the Bonds then Outstanding.

The City shall furnish a notice of each amendment or supplement described above and a copy of the Supplemental Resolution effecting such amendment or supplement to each Rating Agency which has rated the Bonds at least fifteen (15) days prior to the effective day of the Supplemental Resolution.

***Amendment of Bond Resolution With Consent of Holders of Bonds.*** With the consent of the Holders of not less than a majority of the Bonds then Outstanding, the City from time to time and at any time may adopt a resolution amendatory hereof or supplemental for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Bond Resolution, or modifying or amending the rights and obligations of the City thereunder, or modifying or amending in any manner the rights of the Holders of the Bonds then Outstanding; *provided, however,* that without the specific consent of the Holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions hereof shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the Redemption Price (or the redemption premium) payable upon the redemption or prepayment thereof, or (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Bond Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged thereunder, prior, superior or equal to the pledge of and lien and

charge thereon created for the payment of the Bonds except to the extent provided in the Bond Resolution; or (5) deprive any Holder of the Bonds in any material respect of the security afforded by the Bond Resolution; *provided further, however*, that without the specific consents of the Holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Bond Resolution shall (a) change the amount of any Sinking Fund Installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments, or (b) reduce the aforesaid percentage of Term Bonds, the Holders of which are required to consent to any such Supplemental Resolution. (Nothing in this paragraph, however, shall be construed as making necessary the approval of the Holders of the Bonds of the adoption of any Supplemental Resolution). A modification or amendment with respect to the Revenue Fund or the Special Redemption Fund or Reserve Account shall not be deemed a change in the terms of payments; *provided* that no such modification or amendment shall, except upon the consent of the Holders of all Bonds then outstanding affected thereby, reduce the amount or amounts required to be credited to the Special Redemption Fund or Reserve Account. If any Series of Bonds is insured as to payment of principal and interest, the insurer of such Series of Bonds shall be considered the Holder of such Bonds for purposes of the Bond Resolution.

The City shall furnish a notice of each amendment or supplement and a copy of the Supplemental Resolution effecting such amendment or supplement to each Rating Agency which has rated the Bonds at least fifteen (15) days prior to the effective day of the Supplemental Resolution.

#### **Discharge of Liens and Pledges; Bonds No Longer Outstanding and Deemed to be Paid**

Except as otherwise provided in the Bond Resolution with regard to Option Bonds, the obligations of the City under the Bond Resolution and the liens, pledges, charges, trusts, covenants and agreements of the City made or provided for therein, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding:

(i) when such Bond shall have been canceled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by or behalf of the City from moneys held under the Bond Resolution; or

(ii) as to any Bond not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal and Redemption Price (if any) of such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Paying Agent for such Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) noncallable Refunded Municipal Obligations or noncallable Government Obligations, maturing as to principal and interest in such amount and at such times as will insure, together with any cash deposit, the availability of sufficient moneys to make such payment, whichever the City deems to be in its best interest, and, if the City determines it to be in its best interest as verified by an independent nationally recognized firm of certified public accountants in a report delivered to the City and the Comptroller of the City, and all necessary and proper fees, compensation and expenses of the Comptroller of the City and the Paying Agents pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Comptroller of the City and said Paying Agents.

At such time as a Bond shall be deemed to be no longer Outstanding, as aforesaid, such Bond, except for the purposes of any payment from such moneys, Refunded Municipal Obligations or Government Obligations, shall no longer be secured by or entitled to the benefits of the Bond Resolution.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (b) of subparagraph (ii) of the second paragraph above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously given in accordance with the Bond Resolution or provision shall have been irrevocably made for the giving of such notice.

All income from all Refunded Municipal Obligations and Government Obligations in the hands of the Paying Agents which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the City for deposit in the Revenue Fund free and clear of any trust, lien, security interest, pledge or assignment securing any Bonds or otherwise existing under the Bond Resolution.

All moneys, Refunded Municipal Obligations or Government Obligations set aside and held in trust pursuant to the provisions of the Bond Resolution for the payment of Bonds (including interest and premium thereof, if any) shall be applied to and used solely for the payment of the particular Bond (including interest and premium thereof, if any) with respect to which such moneys and Investment Securities have been so set aside in trust. If moneys, Refunded Municipal Obligations or Government Obligations have been deposited or set aside with a Paying Agent for the payment of a specific Bond and such Bond shall be deemed to have been paid and to be no longer Outstanding, but such Bond shall not have in fact been actually paid in full, no amendment to the Bond Resolution shall be made without the consent of the Holder of each Bond affected thereby.

The City may at any time surrender to a Paying Agent for a Series of Bonds for cancellation by it any Bonds of such Series previously executed and delivered, which the City may have acquired in any manner whatever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding.

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate"), dated as of July 10, 2003, is executed and delivered in connection with the issuance by the City of Milwaukee, Wisconsin (the "City"), of \$33,885,000 principal amount Sewerage System Revenue Bonds, Series 2003 (the "Bonds"), and pursuant to resolutions adopted by the Common Council of the City on August 2, 2001, March 4, 2003 and April 15, 2003, respectively, and a resolution adopted by the Commissioners of the Public Debt of the City on June 20, 2003 (collectively, the "Resolution") Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

### ARTICLE I

#### Definitions

SECTION 1.1 Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the City for each fiscal year of the type contained in the Official Statement under the headings "THE SEWERAGE SYSTEM", "SEWERAGE SYSTEM REVENUE BOND INDEBTEDNESS", "SEWER MAINTENANCE FUND RESTATED STATEMENT OF REVENUES", "EXPENSES AND CHANGES IN RETAINED EARNINGS", "RESTATED STATEMENT OF CASHFLOWS", "SEWER MAINTENANCE FUND DISTRIBUTION OF MAJOR ASSETS", "SEWER MAINTENANCE FUND PRO FORMA OPERATIONS AND DEBT SERVICE-LEVEL DEBT SERVICE" thereunder, and information contained in Appendix B to the Official Statement; and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; *provided, however*, that the City may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis. "Audited Financial Statements" includes the City's Comprehensive Annual Financial Report for a fiscal year if one is prepared by the City for such fiscal year.

(3) “Counsel” means Hawkins, Delafield & Wood and Quarles & Brady LLP or such other nationally recognized Bond Counsel or counsel expert in federal securities laws, in each case acceptable to the City.

(4) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board.

(5) “Material Event” means any of the following events with respect to the Bonds, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of Bondholders;
- (viii) Bond calls other than scheduled mandatory sinking fund redemptions;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(6) “Material Event Notice” means notice of a Material Event.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 1513(b)(1) of the Securities Exchange Act of 1934.

(8) “NRMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg Municipal Repository, DPC Data Inc., FT Interactive Data and Standard & Poor’s J.J. Kenny Repository. Filing information relating to such NRMSIRs is set forth in Exhibit 1 hereto.

(9) “Official Statement” means the “final official statement” as defined in paragraph (f)(3) of the Rule.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “SID” means, at any time, a then-existing State information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(13) “State” means the State of Wisconsin.

(14) “Unaudited Financial Statements” means the same as Audited Financial Statements, except the same shall not have been audited.

(15) “Underwriter” means ABN AMRO Incorporated, as the successful bidder for the Bonds.

## ARTICLE II

### The Undertaking

SECTION 2.1 Purpose. This Certificate shall constitute a written undertaking for the benefit of the holders of the Bonds, and is being executed and delivered solely to assist the Underwriter in complying with paragraph (b)(5) of the Rule.

SECTION 2.2 Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, commencing with fiscal year beginning January 1, 2003, by no later than six months after the end of the respective fiscal year, to each NRMSIR and to the SID.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to each NRMSIR, to the MSRB and to the SID.

SECTION 2.3 Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to each NRMSIR and to the SID.

SECTION 2.4 Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner, a Material Event Notice to each NRMSIR, to the MSRB and to the SID.

(b) Upon any legal defeasance of the Bonds, the City shall provide notice of such defeasance to each NRMSIR, to the MSRB and to the SID, which notice shall state whether the Bonds to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

SECTION 2.5 Additional Disclosure Obligations. The City acknowledges and understands that other federal and State laws, including but not limited to the Securities Act of

1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

SECTION 2.6 Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

SECTION 2.7 No Previous Non-Compliance. The City represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

### ARTICLE III

#### Operating Rules

SECTION 3.1 Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC; or (ii) if such a document is an Official Statement, available from the MSRB.

SECTION 3.2 Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 3.3 Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

SECTION 3.4 Transmission of Information and Notices. Unless otherwise required by law and, in the City's sole determination, subject to technical and economic feasibility, the City shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City's information and notices.

## ARTICLE IV

### Termination, Amendment and Enforcement

#### SECTION 4.1 Termination.

(a) The City's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(b) This Certificate or any provision hereof shall be null and void in the event that the City (1) delivers to the City an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

#### SECTION 4.2 Amendment.

(a) This Certificate may be amended, by written certificate of the Comptroller of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (4) the City delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate, (2) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule, and (3) the City shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the

former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of any such amendment shall be provided by the City to (i) either the MSRB or each NRMSIR; and (ii) the SID.

SECTION 4.3 Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds. Beneficial owners of the Bonds shall be third-party beneficiaries of this Certificate.

(a) Except as provided in this subsection (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The rights of the holders of the Bonds to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of the Bonds pursuant to subsection (a) of this Section 4.3, beneficial owners shall be deemed to be holders of the Bonds for purposes of this subsection (b).

(b) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(c) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; *provided, however*, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

**EXHIBIT A**  
**to Continuing Disclosure Certificate**

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
Telephone: (609) 279-3225  
Fax: (609) 279-5962  
E-mail address: munis@bloomberg.com

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Telephone: (201) 346-0701  
Fax: (201) 947-0107  
E-mail address: nrmsir@dpdata.com

FT Interactive Data  
Attention: NRMSIR  
100 Williams Street  
New York, New York 10038  
Telephone: (212) 771-6899  
Fax: (212) 771-7390 (secondary market  
information)  
(212) 771-7391 (primary market information)  
E-mail address: NRMSIR@FTID.com

Standard & Poor's J.J. Kenny Repository  
55 Water Street, 45<sup>th</sup> Floor  
New York, New York 10041  
Telephone: (212) 438-4595  
Fax: (212) 438-3975  
E-mail address: nrmsir\_repository@sandp.com

An updated list of NRMSIRs may be found at the Securities and Exchange Commission website ([www.sec.gov](http://www.sec.gov)).

**APPENDIX F**

**FORM OF MUNICIPAL BOND INSURANCE POLICY SPECIMEN**



Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001

*A GE Capital Company*

## **Municipal Bond New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Municipal Bond New Issue Insurance Policy

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for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

*Richard M. Reif*

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

*[Signature]*

Authorized Officer

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**

**State Street Bank and Trust Company, N.A., as Fiscal Agent**