MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of Milwaukee, Wisconsin)

Basic Financial Statements and Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

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KPMG

KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Directors
Milwaukee Economic Development Corporation:

We have audited the accompanying basic financial statements of the Milwaukee Economic Development Corporation (the Corporation), a component unit of the City of Milwaukee, Wisconsin, as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. .

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

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

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

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules on pages 21 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respect in relation to the basic financial statements taken as a whole.

KPMG LLP

March 26, 2004

As financial management of Milwaukee Economic Development Corporation (the Corporation), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal years ended December 31, 2003 and 2002. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

Year Ended December 31, 2003

- The Corporation's operating income was negatively affected as 2003 continued a trend of declining interest rates, which began in 2001. As interest rates fell, borrowers used excess cash to prepay debt.
- Even with the Corporation lending out its second highest total in loans, gross loans outstanding increased only 5% during 2003 to $35,806,000 compared to $34,140,000 in 2002. The increase included new loans in the MEDC, CDBG, and EDA funds totaling $5,850,000, $2,072,000, and $1,700,000, respectively. Due to low interest rates, borrowers continued to prepay debt, mainly in the first part of 2003. Loans that matured or paid off early during 2003 were replaced, however, by loans earning a lower interest rate, generally 5% compared to 6% or higher. The overall rate of return on the portfolio has decreased from 6.00% at December 31, 2002 to 5.64% at December 31, 2003.
- Interest income and servicing fees decreased $554,069 or 25% from the previous year and were $257,688 under projected. This is primarily due to continued early payoffs as a result of the low interest rate environment, the increased volume of new loans at lower rates, the timing during the year of each, and the decrease in revenue.
- Staff expense increased 17.53% from 2002. The increase came mainly from a full year of salary and benefits from two vacant or partially vacant positions in 2002.
- After adjusting for the one time $1,550,000 grant to RACM, the increase in net assets before loan loss adjustment was $1,211,833 in 2003, compared to $922,438 in 2002. This compares favorably to the 2003 budgeted amount by $882,330.

Year Ended December 31, 2002

- The Corporation's operating income was negatively affected as 2002 continued a trend of declining interest rates, which began in 2001. As interest rates fell, borrowers used excess cash to prepay debt.
- Overall, the Corporation was able to maintain approximately the same gross loans outstanding at December 31, 2002 as 2001, $34,140,000 compared to $34,064,000, respectively. However, these loans were replaced by loans earning a lower interest rate. The overall rate of return on the portfolio has decreased from 6.24% at December 31, 2001 to 6.00% at December 31, 2002.
- Interest income earned on the loan portfolio decreased $72,000 or 3.26% from the previous year. While actual interest income was down from the previous year, it was $114,000 over projected.
- Staff expense increased 6.27% from 2001. The main increases came from increases in benefits as well as full year salaries for two loan officers hired in mid 2001.

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- Investment interest income saw the largest decrease from the previous year. Just as a lower interest rate environment negatively affected the loan portfolio, so did it affect the earnings on idle funds. Investment interest income was $298,000 down 49.51% from $590,000 in 2001.
- Increase in net assets before loan loss adjustment decreased 10.68% from 2001 to $922,000. This compares unfavorably to 2002 budgeted by 4.18%, due mainly to lower interest received on investments and higher claims against the Capital Access Program.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. This report contains supplementary information concerning the Corporation's net assets and changes in the net assets in addition to the basic financial statements themselves.

Required Financial Statements

The financial statements of the Corporation are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to private-sector business.

The balance sheets present information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net assets, which indicate improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Corporation's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Corporation

One of the most important questions asked about the Corporation's finances is "Is the Corporation as a whole better off or worse off as a result of this year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information about the Corporation's activities in a way that will help answer this question. Over time, increases or decreases in the Corporation's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other

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nonfinancial factors such as changes in economic conditions, population decline or growth, and new or changed governmental legislation.

The Corporation's Net Assets

	2003	2002
Current assets	$ 16,620,319	21,042,223
Long-term assets	35,672,865	32,085,551
Capital assets, net	15,353	24,507
Total assets	52,308,537	53,152,281
Current liabilities	1,130,682	467,511
Long-term notes payable	2,403,016	2,917,349
Total liabilities	3,533,698	3,384,860
Net assets:		
Invested in capital assets, net of related debt	15,353	24,507
Restricted	5,077,631	5,154,354
Unrestricted	43,681,855	44,588,560
Total net assets	$ 48,774,839	49,767,421

- The $4,421,904 decrease in current assets was the result of a $4,563,708 decrease in cash and cash equivalents. The decrease in cash was due to a $1,666,006 increase in gross loans receivable, a $1,550,000 grant to RACM for the purchase of land (Shops property), $861,530 that was transferred from cash to restricted cash in the Land fund, and $511,739 that was transferred from cash to restricted cash in the MEDC fund.

- The $3,587,314 increase in long-term assets was primarily due to a $1,814,896 increase in non-current loans receivable, $861,530 that was transferred from cash to restricted cash in the Land fund, $511,739 that was transferred from cash to restricted cash in the MEDC fund, and the capitalization of improvements to land owned by MEDC of $683,259 (62nd & Mill Road) offset by land sales totaling $171,598.

- The $663,171 increase in current liabilities was primarily due to a $703,262 increase in accounts payable, most of which was attributed to invoices related to improvements of land owned by MEDC (62nd & Mill Road).

- The $514,333 decrease in long term notes payable was primarily due to the reclassification of $511,739 from City of Milwaukee deposits to restricted cash.

Changes in Net Assets

	2003	2002
Operating revenues	$ 1,684,895	2,219,627
Operating expenses excluding depreciation and loan loss provision	(3,201,623)	(1,581,525)
(Increase) decrease in loan loss provision	(654,415)	372,158
Depreciation expense	(14,839)	(13,600)
Operating income (loss)	(2,185,982)	996,660
Nonoperating revenue:		
Investment income	549,382	297,936
Grants and contributions	536,379	—
Other nonoperating revenue	107,639	—
Change in net assets	(992,582)	1,294,596
Net assets, beginning of year	49,767,421	48,472,825
Net assets, end of year	$ 48,774,839	49,767,421

Year Ended December 31, 2003

The Corporation's operating income was negatively affected as 2003 continued a trend of declining interest rates, which began in 2001. As interest rates fell, borrowers used excess cash to prepay debt. Interest income earned on the loan portfolio decreased $562,918 or 26% from the previous year. Actual interest income was $257,688 under projected. Staff expense increased 17.53% from 2002. Overall staff expense increased to 46.6% of loan interest income compared to 29.7% for 2002. The increase came mainly from a full year of salary and benefits from two vacant or partially vacant positions in 2002. Overall, the increase in operating expenses was the result of a $1,550,000 grant to RACM for the purchase of land (Shops property). The increase in the loan loss provision was the result of chargeoffs totaling $296,659 and an increase in loan loss reserve due to an increase in the amount of gross loans outstanding. After adjusting for the one time $1,550,000 grant to RACM, the increase in net assets before loan loss adjustment was $1,211,833 in 2003, compared to $922,468 in 2002. This compares favorably to the 2003 budgeted amount by $882,330.

Year Ended December 31, 2002

The Corporation's operating income was negatively affected as 2002 continued a trend of declining interest rates, which began in 2001. As interest rates fell, borrowers used excess cash to prepay debt. Interest income earned on the loan portfolio decreased $72,000 or 3.26% from the previous year. While actual interest income was down from the previous year, it was $114,000 over projected. Staff expense increased 6.27% from 2001. Overall staff expense increased to 44.18% of loan interest income compared to 40.22% for 2001. The main increases came from increases in benefits as well as full year salaries for two loan officers hired in mid 2001. Increase in net assets before loan loss adjustment decreased 10.68% from 2001 to $922,468. This compares unfavorably to 2002 budgeted by 4.18%, due mainly to lower interest received on investments and higher claims against the Capital Access Program.

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Balance Sheets

December 31, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Cash and cash equivalents (note 4)	$	14,456,893	14,791,159
Restricted cash and cash equivalents (notes 4 and 8)		1,031,259	3,973,519
Investments (note 4)		813,011	430,000
Accrued interest receivable		183,874	333,767
Accounts receivable		72,605	1,332
Due from the City of Milwaukee		—	6,353
Current portion of loans receivable (note 5)		1,927,664	1,984,300
Total current assets		18,485,306	21,520,430
Noncurrent assets:			
Loans receivable, less current portion, net (note 5)		29,277,880	27,462,984
Capital assets, net of accumulated depreciation (note 6)		15,353	24,507
Real estate held for development (note 7)		1,035,172	523,511
Investments in partnerships, net (notes 4 and 9)		172,534	298,557
Due from Redevelopment Authority of the City of Milwaukee (note 10)		3,322,292	3,322,292
Total assets	$	52,308,537	53,152,281
Liabilities and Net Assets			
Current liabilities:			
Accounts payable (note 3)	$	199,233	138,297
Due to the City of Milwaukee		709,240	138,481
Closing fee deposit		8,003	7,936
Capital Access Program funds held in escrow (note 8)		204,006	150,996
SBA loan guarantee deposit		10,200	31,801
Total current liabilities		1,130,682	467,511
Noncurrent liabilities:			
Due to the City of Milwaukee (note 11)		2,403,016	2,405,610
City of Milwaukee deposits		—	511,739
Total liabilities		3,533,698	3,384,860
Net assets:			
Invested in capital assets		15,353	24,507
Restricted		5,077,361	5,154,354
Unrestricted		43,682,125	44,588,560
Total net assets		48,774,839	49,767,421
Total liabilities and net assets	$	52,308,537	53,152,281

See accompanying notes to the basic financial statements.

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

		2003	2002
Operating revenues:			
Loan interest and servicing fees	$	1,662,338	2,216,407
Loan recoveries		16,179	—
Other		6,378	3,220
Total operating revenues		1,684,895	2,219,627
Operating expenses:			
Increase (decrease) in provision for loan loss		654,415	(372,158)
Loan guarantee expense		18,146	129,639
Loan closing and servicing expense		5,720	3,152
Salaries and wages		579,795	518,399
Employee benefits		194,861	140,692
Purchased services		266,403	282,994
Legal and accounting services		171,274	104,977
Insurance		7,890	22,308
General and administrative		175,795	139,817
Marketing		55,333	95,478
Development expense		1,726,332	139,006
Miscellaneous		434	5,063
Depreciation		14,839	13,600
Total operating expenses		3,871,237	1,222,967
Operating income (loss)		(2,186,342)	996,660
Nonoperating revenues:			
Interest income		549,382	297,936
Grants and contributions		536,739	—
Other income		107,639	—
Total nonoperating revenues		1,193,760	297,936
Increase (decrease) in net assets		(992,582)	1,294,596
Net assets at beginning of year		49,767,421	48,472,825
Net assets at end of year	$	48,774,839	49,767,421

See accompanying notes to the basic financial statements.

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Receipts from principal, interest, and fees from loans	$ 8,958,681	7,977,889
Payments for new loans	(9,653,308)	(5,923,404)
Payments for Capital Access Program	(18,145)	(129,639)
Payments for salaries, wages, and employee benefits	(731,154)	(653,661)
Payments to suppliers	(677,129)	(748,731)
Payments for development programs	(1,138,139)	(138,976)
Net cash provided by (used in) operating activities	(3,259,194)	383,478
Cash flows from noncapital financing activities:		
Contributions and grants	25,000	44,340
Other miscellaneous proceeds	27,714	—
Payments on Capital Access Program	—	(128,743)
Closing fee deposits	67	(3,064)
Receipt of Capital Access Program deposits	71,155	66,064
Net increase in due to the City of Milwaukee	3,759	224,925
Net cash provided by noncapital financing activities	127,695	203,522
Cash flows from capital and related financing activities:		
Capital expenditures	(5,685)	(13,981)
Net increase in due from Redevelopment Authority of the City of Milwaukee	—	(33,899)
Net cash used in capital and related financing activities	(5,685)	(47,880)
Cash flows from investing activities:		
Net sales (purchases) of investments	(383,011)	220,000
Net purchases of land	(431,736)	—
Proceeds from investments in partnerships	126,023	20,789
Interest income	549,382	303,578
Net cash provided by (used in) investing activities	(139,342)	544,367
Net increase (decrease) in cash	(3,276,526)	1,083,487
Cash and cash equivalents at beginning of year	18,764,678	17,681,191
Cash and cash equivalents at end of year	$ 15,488,152	18,764,678

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MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Reconciliation of operating income to net cash used in operating activities:			
Operating income (loss)	$	(2,186,342)	996,660
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation		14,839	13,600
Reduction in provision for loan loss		654,415	(372,158)
Changes in operating assets and liabilities:			
Loans receivable		(2,412,675)	(75,640)
Accrued loan interest receivable		149,893	(89,502)
Accounts receivable, prepaid expenses, and other assets		(71,273)	(496)
Accounts payable and other liabilities		631,695	40,495
Capital Access Program funds held in escrow		(18,145)	(129,639)
SBA loan guarantee deposit		(21,601)	158
Net cash provided by operating activities	$	(3,259,194)	383,478
Reconciliation of cash and cash equivalents to the statement of net assets:			
Cash and cash equivalents	$	14,456,893	14,791,159
Restricted cash and cash equivalents		1,031,259	3,973,519
Cash and cash equivalents at end of year	$	15,488,152	18,764,678

See accompanying notes to the basic financial statements.

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(1) Description of Entity

The Milwaukee Economic Development Corporation (the Corporation) is a nonstock, nonprofit organization, formed in 1971 to promote economic development to benefit the citizens of the City of Milwaukee, Wisconsin (the City). The Corporation is a component unit of the City. The principal objective of the Corporation is to benefit the community by fostering increased employment opportunities and expansion of business and industry within the metropolitan Milwaukee area. The Corporation uses its own funds to participate in Federally sponsored business loan and loan guarantee programs to finance projects that achieve that objective.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

As defined by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Corporation has no component units. However, the Corporation is a component unit of the City.

(b) Basis of Accounting

The accounting policies of the Corporation conform to GAAP as applicable to governmental entities. The accounts of the Corporation, which are organized as an enterprise fund, are used to account for the Corporation's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Corporation maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses, including depreciation and amortization, are recorded when incurred.

Nonexchange transactions, in which the Corporation receives value without directly giving equal value in return, include grants and contributions. Revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Corporation on a reimbursement basis.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. The Corporation also has the option of following subsequent private-sector guidance, subject to this same limitation. The Corporation has elected not to follow subsequent private-sector guidance.

(c) ***Programs***

The Corporation administers the following programs:

MEDC Programs

General operating activities of the Corporation and its loan programs, grant funds received through the Urban Development Action Grant loan program, and the Redevelopment loan program.

Land Development Program

The goal of the Land Development Program (LDP) is to stimulate job creation and retention by making available an inventory of industrial sites ready for development in the City.

Community Development Block Grants Program

The Federal Government Community Development Block Grants (CDBG) are used to make loans for the purpose of creating jobs and stimulating reinvestment in the City.

Economic Development Administration Program

The Federal Government grants, from the Economic Development Administration (EDA) of the United States Department of Commerce and the required matching contributions made by the Corporation, are used for the establishment of a revolving loan fund for the purposes of making loans in the City's Special Impact Area as defined by EDA.

Capital Access Program

Funds received from the City, the State of Wisconsin, participating financial institutions, and funds contributed by the Corporation are used for the establishment of restricted cash reserve accounts related to loans that are extended to borrowers in the Capital Access Program (CAP) by participating financial institutions.

SBA Program

The SBP program represents servicing of SBA Sections 503 and 504 loan programs. Under the SBA 503 loan program, 90% of an eligible project's total cost is provided by private lenders and SBA 100% guaranteed debentures, with a minimum equity injection of 10%. The debentures are sold and issued in the name of the Corporation. The proceeds from the sale of debentures are then loaned to the eligible recipients under similar terms and rates. The SBA Section 504 loan program is similar to and replaces the SBA Section 503 loan program, except that the debentures are sold on the private market. As with the SBA Section 503 loan program, debenture proceeds under the SBA Section 504 loan program are loaned to eligible recipients under similar terms and rates. The financial statements of the Corporation do not reflect the activities of the SBA Section 503 or 504 loan programs, as the Corporation assigns to the SBA all rights to the notes receivable and the SBA guarantees repayment of the debentures. The Corporation services the loans receivable and debentures on behalf of the debenture holders via the use of a central servicing agent.

(d) ***Cash and Cash Equivalents***

The Corporation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents at December 31, 2003 and 2002 represent deposits in checking and savings, certificates of deposit with original maturities of less than three months, and deposits in the Wisconsin State Investment Pool (the Pool).

The Corporation invests in the Pool, which is managed by the Treasurer of Wisconsin. The Corporation's investment in the Pool is reported at fair value. The fair value of the Corporation's investment in the Pool equals the net realizable value of the Corporation's share of the Pool. The Pool is authorized by Wisconsin statutes to enter into investments on behalf of governmental entities within Wisconsin and, in certain circumstances, to enter into derivative transactions to maximize the yield on its investments. However, specific information about the Pool's derivative investments is not available to the Corporation.

(e) ***Restricted Assets***

Certain resources have been classified as restricted assets on the balance sheet because their use is limited by applicable bank and loan agreements.

(f) ***Investments***

Investments include investments in partnerships and certificates of deposit with original maturities of greater than three months. Investments in partnerships are reported at the lower of cost or fair value. Certificates of deposits are reported at cost.

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

(g) ***Capital Assets***

Capital assets, which consist primarily of equipment, are defined by the Corporation as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. Capital assets are stated at cost, net of accumulated depreciation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated useful life
Computers	3 years
Office equipment	5 years

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(h) ***Loans Receivable***

Loans receivable are recorded at cost, less the related allowance for loan losses. A periodic review of the loan portfolio is made to determine the estimated net realizable value of the related loans. The loan loss reserve is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. The adequacy of the reserve is based on an evaluation of the portfolio, past loan loss experience, current economic conditions, composition of the portfolio, and other relevant factors. Any adjustment to the provision for losses is shown as a component of operating income (loss). The Corporation considers the general lending risk associated with the loans made by the Corporation in determining the adequacy of the reserve.

(i) ***Net Assets***

Equity is displayed in three components as follows:

Invested in Capital Assets – consists of capital assets, net of accumulated depreciation.

Restricted – consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Corporation's policy to use restricted resources first, and then unrestricted resources when they are needed.

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

(j) ***Classification of Revenues***

The Corporation has classified its revenues as either operating or nonoperating. Operating revenue include activities that have the characteristics of exchange transactions including loan interest and closing fee income. Nonoperating revenue includes interest income on investments and activities that have characteristics of nonexchange transactions including Federal, state, and local grants and contributions.

(k) ***Income Taxes***

The Corporation is exempt from Federal income taxes, except for taxes pertaining to unrelated business income, under Internal Revenue Code Section 501(c)(3). No provision has been made for income taxes in the accompanying financial statements.

(l) ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the loan loss reserve, the net realizable value of other investments, and the amount due to the City for loans made with the Districts' funds. Actual results could differ from those estimates.

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(m) New Accounting Pronouncements

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

(n) Reclassifications

Certain amounts presented in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

(3) Related Party Transactions

The Corporation purchases services and rents facilities pursuant to a management agreement between the Corporation and the City. The value of these services and facilities amounted to approximately $341,000 and $315,000 for the years ended December 31, 2003 and 2002, respectively. Accounts payable include approximately $77,000 and $25,800 for these services at December 31, 2003 and 2002, respectively.

In 1988, the Corporation entered into an agreement with the Redevelopment Authority of the City of Milwaukee (the Authority) to loan the Authority $3,000,000. The Corporation also receives proceeds from the sale of bonds for the Districts of the City for the purpose of providing loans to recipients within the districts.

(4) Deposits and Investments

State statutes restrict investments of public funds. Available investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association.
- Bonds or securities of any county, city, drainage district, VTAE district, village, town, or school district of the state.
- Bonds or securities issued or guaranteed by the Federal government.
- The State and Local Government Investment Pool.

Additional restrictions may arise from local charters, ordinances, resolution, and grant obligations.

As of December 31, 2003, the Corporation's deposit balance was $6,438,512 (including $1,454,011 in certificates of deposit) and the bank balance was $6,661,205. Of the bank balance, $727,637 was covered by the Federal Depository Insurance Corporation and the remainder is uninsured and uncollateralized.

As of December 31, 2002, the Corporation's deposit balance was $8,031,758 (including $1,360,000 in certificates of deposit) and the bank balance was $8,067,430. Of the bank balance, $845,097 was covered by the Federal Depository Insurance Corporation and the remainder is uninsured and uncollateralized.

(Continued)

Investments

The Corporation's investments as of December 31, 2003 and 2002 are as follows:

Noncategorized investments		2003	2002
Wisconsin State Investment Pool	$	9,862,651	11,162,920
Investments in partnerships		172,534	298,557
	$	10,035,185	11,461,477

Noncategorized investments are not subject to categorization based on custodial risk because the relationship between the Corporation 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 Pool is an external investment pool administered by the Wisconsin State Treasurer. The fair value of the Corporation's investment is the value of the pool shares adjusted by a book value conversion factor of 99.9193%and 99.8795% at December 31, 2003 and 2002, respectively. For financial reporting purposes, deposits in the Pool are classified as cash and cash equivalents.

(5) Loans Receivable

Loans receivable and the related loan loss reserve activity for the years ended December 31, 2003 and 2002 were as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Loans receivable	$ 34,139,538	9,653,308	(7,987,302)	35,805,544
Less allowance for loan loss	(4,692,254)	(654,415)	746,669	(4,600,000)
Net loans receivable	29,447,284	8,998,893	(7,240,633)	31,205,544
Less current portion	(1,984,300)			(1,927,664)
Noncurrent loans receivable	$ 27,462,984			29,277,880

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
Loans receivable	$ 34,063,898	5,923,404	(5,847,764)	34,139,538
Less allowance for loan loss	(5,064,412)	—	372,158	(4,692,254)
Net loans receivable	28,999,486	5,923,404	(5,475,606)	29,447,284
Less current portion	(2,017,534)			(1,984,300)
Noncurrent loans receivable	$ 26,981,952			27,462,984

It is the Corporation's policy to not accrue interest on loans over 90 days past due. Delinquencies at any time in 2003, other than loans charged off, were comparable to 2002.

(6) Capital Assets

Capital asset activity for the years ended December 31, 2003 and 2002 was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Equipment	$ 54,832	5,685	—	60,517
Less accumulated depreciation	(30,325)	(14,839)	—	(45,164)
Total capital assets, net	$ 24,507	(9,154)	—	15,353

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
Equipment	$ 186,053	13,981	(145,202)	54,832
Less accumulated depreciation	(161,927)	(13,600)	145,202	(30,325)
Total capital assets, net	$ 24,126	381	—	24,507

(7) Real Estate Held for Development

In December 1997, pursuant to a cooperation agreement, the City transferred significantly all of its LDP to the Corporation, including $4,500,000 in cash and 14 properties totaling 66.1 acres with a book value of $595,495. The goals of LDP are to stimulate job creation and retention by making available an inventory of industrial sites ready for development in appropriate locations throughout the City, to aggressively market these sites, and to consistently maintain an inventory of 40 to 80 acres. The transfer combines under one organization two closely related enterprise functions – land development and small business development.

(Continued)

Of the original transfer, the Corporation held 10 of the properties at December 31, 2003, totaling 44 acres with a book value of $1,035,172.

The Corporation also participates with the City and other private developers in other land development activities.

(8) Capital Access Program

Restricted cash and cash equivalents includes deposits with financial institutions related to loans that are extended to borrowers in the CAP. The Corporation matches amounts deposited in the restricted cash reserve account by the lending bank when the loan is issued. The deposits represent a restricted account for the reimbursement of future losses incurred by CAP lenders. Claims for the reimbursement of losses are subject to the approval of the Corporation. Similarly, the Corporation's withdrawal of excess restricted funds is subject to the approval of the CAP lenders. The Corporation and the lending banks contributed ($80,730 and $71,154) and ($66,561 and $66,064), respectively, to the reserve account during the years ended December 31, 2003 and 2002, respectively. In addition, actual claims against the restricted account, net of recoveries, amounted to $36,290 and $259,279 for the years ended December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, CAP restricted cash and cash equivalents totaled $414,583 and $307,925, respectively.

(9) Investments in Partnerships

Investments in partnerships are stated at the lower of cost or market value at December 31, 2003 and 2002 as follows:

	2003		2002	
	Cost	**Carrying value**	**Cost**	**Carrying value**
Yankee Hill limited partnership interest	$ 3,525,333	—	3,525,333	—
Towne Corporate Park of Granville	172,534	172,534	298,557	298,557
Legacy Bank stock	250,000	—	250,000	—
Total	$ 3,947,867	172,534	4,073,890	298,557

(10) Due from the Redevelopment Authority of the City of Milwaukee

On June 14, 1988, the Corporation entered into an agreement with the Authority to loan the Authority $3,000,000. The loan does not bear interest and has no stated maturity date. The loan was made to allow the Authority to complete the issuance of tax-exempt bonds under the Job Opportunity Bond Fund Program. The Authority pledged the funds received from the Corporation under a "Cooperative and Pledge Agreement." The funds are available to cover any defaults of borrowers participating in the Job Opportunity Bond Fund Program. In the event of default by a borrower, these funds would be made available to the extent necessary to cover any defaults. Interest earned on these funds has been retained by the Authority and deposited in an excess revenue fund that would also be available to cover any defaults. Interest earned on these funds by the Authority totaled $30,219 and $66,061 for the years ended December 31, 2003 and 2002, respectively. The repayment of this loan by the Authority is contingent upon the repayment of loans by borrowers participating in the Job Opportunity Bond Fund Program. Currently, management of the Corporation has no knowledge of defaults related to the Job Opportunity Bond Fund Program.

During 2001, the Corporation purchased land on behalf of the Authority. The land is recorded on the Authority's books, and the Corporation has recorded a receivable of $322,292.

(11) Due to City of Milwaukee

The Corporation receives funds from the Authority for the purpose of providing loans to recipients within certain tax incremental districts (the Districts). These funds represent proceeds from the sale of bonds for the Districts of the City.

Pursuant to cooperation agreements between the Corporation and the City, receipts by the Corporation of loan repayments from the borrowers are to be transferred to the City until termination of the Districts as defined by Wisconsin statutes. The estimated lives of the Districts are based on projections made by the City. Loan repayments received by the Corporation after the Districts close may be retained and used by the Corporation based upon the cooperation agreement for each specific District. Retained funds are to be used by the Corporation to carry out its activities as defined in its corporate bylaws and Articles of Incorporation.

The City retains the right to require the Corporation to return all or a part of available repayments that have not been used or committed by the Corporation pursuant to the above conditions. The Corporation is not liable to the City for amounts not collected.

The Corporation made payments to the City of $91,654 and $86,253 during 2003 and 2002, respectively, pursuant to the cooperation agreements. The outstanding balance of the loans made using the Districts' funds at December 31, 2003 and 2002 was $2,403,016 and $2,405,610, respectively.

The portion of the net realizable value of the loans made using the Districts' funds that is scheduled to be received during the estimated lives of the Districts is estimated to be $2,403,016 and $2,405,610 at December 31, 2003 and 2002, respectively, and is reported as an amount due to the City in the accompanying financial statements to reflect the Corporation's obligation to the City pursuant to the cooperation agreements. Should these outstanding loans be prepaid in a timeframe earlier than anticipated (and prior to the closure of the related Districts), the Corporation is liable to the City for all prepayments received.

(12) Retirement Plan

The Corporation sponsors a 403(b) retirement plan for eligible employees. Eligible participants were able to contribute up to 100% of their basic annual earnings with a maximum of $12,000 during 2003. For all participants, the Corporation contributes a fixed rate of 3% of the employee's basic annual earnings. In addition, the Corporation may make a contribution matching the participant's contribution up to 3% of the employee's basic annual earnings. Participants are immediately vested in their voluntary contributions and vested 20% per year of service beginning in year two in the Corporation's contributions. The Corporation made contributions totaling $34,215 and $24,108 during the years ended December 31, 2003 and 2002, respectively, which was recognized as an expense.

(13) Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions, injuries to employees; employee health claims; unemployment compensation claims; and environmental damage for which the District purchases commercial insurance. There has been no reduction in insurance coverage from coverage in prior years. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

(14) Commitments and Contingencies

In the normal course of business, the Corporation enters into commitments to make loans. As of December 31, 2003 and 2002, there were 30 and 28 projects outstanding, amounting to $8,413,355 and $3,611,305, respectively, for which the Corporation has approved the extension of credit.

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Combining Schedule of Assets, Liabilities, and Net Assets

December 31, 2003

Assets		**MEDC**	**Land Development**
Current assets:			
Cash and cash equivalents	$	11,093,426	3,363,467
Restricted cash and cash equivalents		—	—
Investments		813,011	—
Accrued interest receivable		183,874	—
Accounts receivable		9,617	62,988
Current portion of loans receivable		1,704,705	—
Total current assets		13,804,633	3,426,455
Noncurrent assets:			
Loans receivable, less current portion, net		25,229,265	—
Capital assets, net of accumulated depreciation		15,353	—
Real estate held for development		—	1,035,172
Investments in partnerships, net		172,534	—
Due from Redevelopment Authority of the City of Milwaukee		3,000,000	322,292
Total assets	$	42,221,785	4,783,919
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	185,799	10,171
Due to the City of Milwaukee		35,214	674,026
Closing fee deposit		—	—
Capital Access Program funds held in escrow		—	—
SBA loan guarantee deposit		—	—
Total current liabilities		221,013	684,197
Noncurrent liabilities:			
Due to the City of Milwaukee		2,403,016	—
Total liabilities		2,624,029	684,197
Net assets:			
Invested in capital assets		15,353	—
Restricted		—	—
Unrestricted		39,582,403	4,099,722
Total net assets		39,597,756	4,099,722
Total liabilities and net assets	$	42,221,785	4,783,919

See accompanying independent auditors' report.

Schedule 1

CDBG	EDA	CAP	SBA Program	Total
—	—	—	—	14,456,893
76,962	462,133	473,956	18,208	1,031,259
—	—	—	—	813,011
—	—	—	—	183,874
—	—	—	—	72,605
177,280	45,679	—	—	1,927,664
254,242	507,812	473,956	18,208	18,485,306
2,406,213	1,642,402	—	—	29,277,880
—	—	—	—	15,353
—	—	—	—	1,035,172
—	—	—	—	172,534
—	—	—	—	3,322,292
2,660,455	2,150,214	473,956	18,208	52,308,537
—	3,258	—	5	199,233
—	—	—	—	709,240
—	—	—	8,003	8,003
—	—	204,006	—	204,006
—	—	—	10,200	10,200
—	3,258	204,006	18,208	1,130,682
—	—	—	—	2,403,016
—	3,258	204,006	18,208	3,533,698
—	—	—	—	15,353
2,660,455	2,146,956	269,950		5,077,361
—	—	—	—	43,682,125
2,660,455	2,146,956	269,950	—	48,774,839
2,660,455	2,150,214	473,956	18,208	52,308,537

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of Milwaukee, Wisconsin)

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended December 31, 2003

		MEDC	Land Development
Operating revenues:			
Loan interest and servicing fees	$	1,458,553	—
Loan recoveries		16,179	—
Other		6,378	—
Total operating revenues		1,481,110	—
Operating expenses:			
Increase (decrease) in provision for loan loss		459,645	—
Loan guarantee expense		—	—
Loan closing and servicing expense		5,451	—
Salaries and wages		337,042	173,406
Employee benefits		188,149	6,712
Purchased services		266,358	45
Legal and accounting services		149,631	5,611
Insurance		7,890	—
General and administrative		161,129	4,065
Marketing		44,817	10,516
Development expense		102,006	1,624,326
Miscellaneous		434	—
Depreciation		14,839	—
Total operating expenses		1,737,391	1,824,681
Operating income (loss)		(256,281)	(1,824,681)
Nonoperating revenues:			
Interest income		495,704	25,346
Grants and contributions		511,739	25,000
Other income		27,714	79,925
Total nonoperating revenues		1,035,157	130,271
Increase (decrease) in net assets		778,876	(1,694,410)
Net assets at beginning of year		38,818,880	5,794,132
Net assets at end of year	$	39,597,756	4,099,722

See accompanying independent auditors' report.

Schedule 2

CDBG	EDA	CAP	SBA Program	Total
103,368	14,825	—	85,592	1,662,338
—	—	—	—	16,179
—	—	—	—	6,378
103,368	14,825	—	85,592	1,684,895
93,770	101,000	—	—	654,415
—	—	18,146	—	18,146
—	—	—	269	5,720
—	—	—	69,347	579,795
—	—	—	—	194,861
—	—	—	—	266,403
—	—	—	16,032	171,274
—	—	—	—	7,890
—	9,640	941	20	175,795
—	—	—	—	55,333
—	—	—	—	1,726,332
—	—	—	—	434
—	—	—	—	14,839
93,770	110,640	19,087	85,668	3,871,237
9,598	(95,815)	(19,087)	(76)	(2,186,342)
12,334	13,341	2,636	21	549,382
—	—	—	—	536,739
—	—	—	—	107,639
12,334	13,341	2,636	21	1,193,760
21,932	(82,474)	(16,451)	(55)	(992,582)
2,638,523	2,229,430	286,401	55	49,767,421
2,660,455	2,146,956	269,950	—	48,774,839

Schedule 3

MILWAUKEE ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of Milwaukee, Wisconsin)

Schedule of Cash and Cash Equivalents

December 31, 2003

	Amount	Interest rate	Maturity date
M & I Bank:			
CAP Reserves – Restricted	$ 28,173	Variable	—
Associated Bank:			
Checking	1,059,768	Variable	—
Sweep	2,829,083	Variable	—
CAP Checking	59,373	—	—
SBA PCLP Loss Reserve	10,221	Variable	—
CAP Reserves – Restricted	24,983	Variable	—
CDBG Checking	76,962	Variable	—
EDA Checking	462,133	Variable	—
DCD Marketing Checking	66,914	Variable	—
Bank One:			
CAP Reserves – Restricted	74,186	Variable	—
US Bank:			
Money Market	5,463	Variable	—
CAP Reserves – Restricted	42,135	Variable	—
Certificate of Deposit	100,000	1.25%	1/16/04
Certificate of Deposit	100,000	1.25%	1/16/04
Certificate of Deposit	100,000	1.25%	1/16/04
Certificate of Deposit	41,000	1.40%	1/21/04
Certificate of Deposit	100,000	1.20%	2/27/04
Park Bank:			
Certificate of Deposit	200,000	1.30%	1/16/04
CAP Reserves – Restricted	32,554	Variable	—
Lincoln State Bank:			
CAP Reserves – Restricted	35,855	Variable	—
Legacy Bank:			
CAP Reserves – Restricted	86,927	Variable	—
North Milwaukee State Bank:			
CAP Reserves – Restricted	6,628	Variable	—
State Financial Bank:			
CAP Reserves – Restricted	11,478	Variable	—
TCF Bank:			
CAP Reserves – Restricted	12,802	Variable	—
Tri-City National Bank:			
CAP Reserves – Restricted	6,187	Variable	—
Waukesha State Bank:			
CAP Reserves – Restricted	52,676	Variable	—
LGIP	9,862,651	Variable	—
Total	$ 15,488,152		

See accompanying independent auditors' report.