



**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Table of Contents

	Page
Independent Auditors' Report	1
Balance Sheets	2
Statements of Revenues, Expenses, and Changes in Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	6



777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

Board of Directors
Redevelopment Authority of the City of Milwaukee

We have audited the accompanying balance sheets of the Redevelopment Authority of the City of Milwaukee (the Authority), a component unit of the City of Milwaukee, Wisconsin, as of December 31, 2001 and 2000, and the related statements of revenue, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

April 5, 2002



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Liabilities and Fund Equity	2001	2000
Current liabilities:		
Accounts payable and accrued liabilities	\$ 994,046	452,288
Accrued interest expense payable	—	13,250
Due to MEDC	288,393	—
Current portion of long-term debt (note 6)	900,000	860,000
Total current liabilities	2,182,439	1,325,538
Long-term debt, less current portion (note 6)	4,866,654	3,439,097
Due to the City of Milwaukee (City) (note 3)	19,468,312	11,793,397
Funds held in agency (note 8)	154	687,432
Deferred environmental revenue	2,389,563	546,775
Refundable advance from the federal government	7,520,915	8,154,145
Accrued environmental remediation costs (note 9)	2,026,789	3,002,836
Due to MEDC (note 3)	3,000,000	3,000,000
Total liabilities	41,454,826	31,949,220
Commitments and contingencies (notes 8, 9, and 10)		
Fund equity:		
Contributed capital	12,303,788	12,303,788
Retained earnings	9,935,013	3,525,838
Total fund equity	22,238,801	15,829,626
Total liabilities and fund equity	\$ 63,693,627	47,778,846

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Statements of Revenues, Expenses, and Changes in Retained Earnings

Years ended December 31, 2001 and 2000

	2001	2000
Operating revenues:		
Operating subsidy from the City (note 3)	\$ 2,258,564	2,091,668
Property and parking facilities rent	111,622	249,861
Bond fees	136,975	171,525
Development fee income	688,445	130,301
Total operating revenues	3,195,606	2,643,355
Operating expenses (note 3):		
Conservation, development, and land management	2,893,169	3,010,024
Bond default expense (note 6)	—	3,114,997
Environmental remediation costs	149,606	973,756
Depreciation and amortization	87,520	155,081
Total operating expenses	3,130,295	7,253,858
Operating income (loss)	65,311	(4,610,503)
Other income (expense):		
Grant income	1,281,883	176,851
Environmental remediation revenue	1,120,076	333,144
Interest income	1,617,991	1,693,684
Interest expense	(1,023,725)	(1,025,142)
Interest subsidy from HACM	185,071	305,778
Subsidy from HACM	2,568,009	—
Gain (loss) on sale of real estate (note 7)	616,086	(4,746,422)
Other expense	(21,527)	(139,503)
Net other income (loss)	6,343,864	(3,401,610)
Net income (loss)	6,409,175	(8,012,113)
Retained earnings, beginning of year	3,525,838	11,537,951
Retained earnings, end of year	\$ 9,935,013	3,525,838

See accompanying notes to financial statements.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Operating income (loss)	\$ 65,311	(4,610,503)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,520	155,081
Donation of real estate held for redevelopment	(850,000)	(3,078,000)
(Gain) loss on sale of real estate held for redevelopment	(616,086)	6,029,963
Changes in operating assets and liabilities:		
Accounts receivable	(12,866)	(546,673)
Accounts payable and accrued liabilities	(447,539)	927,994
Net decrease (increase) in foreclosure proceeds receivable	2,833,174	(2,833,174)
Deferred revenue	1,842,788	206,457
Net cash provided by (used in) operating activities	2,902,302	(3,748,855)
Cash flows from capital and related financing activities:		
Proceeds from environmental remediation reimbursement	1,120,076	333,144
Proceeds from (payments on) long-term debt	1,380,037	(6,847,443)
Proceeds from sale of real estate held for redevelopment	594,837	736,244
Proceeds from sale of real estate	1,232,172	3,475,001
Interest paid	(1,078,313)	(971,928)
Advances to HACM	(7,464,676)	—
Payments from HACM	1,045,071	1,133,695
Proceeds from notes payable from MEDC	288,393	—
Payments on notes receivable from MEDC	809,077	166,685
Loan proceeds from the City	7,674,915	(103,028)
Proceeds from note receivable to NIDC	89,787	—
Issuance of notes receivable	(8,036,934)	(770,673)
Payments from notes receivable	1,766,246	690,298
Net decrease in refundable advance from the federal government	(633,230)	(4,238,455)
Net decrease in funds held in agency	(687,278)	(443,014)
Net increase in arbitrage rebate payable	—	(156,046)
Payments of other expenses	(21,527)	(139,503)
Net cash used in capital and related financing activities	(1,921,347)	(7,135,023)
Cash flows from noncapital and related financing activities:		
Proceeds from grant income	1,281,883	176,851
Subsidy from HACM	2,568,009	—
Net cash provided by noncapital and related financing activities	3,849,892	176,851
Cash flows from investing activities:		
Net (increase) decrease in deposits with fiscal agent	(1,707,954)	9,390,586
Interest income	1,617,991	1,693,684
Change in other assets	(1,050)	—
Net cash (used in) provided by investing activities	(91,013)	11,084,270
Net increase in cash and cash equivalents	4,739,834	377,243
Cash and cash equivalents, beginning of year	8,790,653	8,413,410
Cash and cash equivalents, end of year	\$ 13,530,487	8,790,653
Supplemental disclosure of noncash investing, capital, and financing activities:		
Interest income and expense related to MEDC note receivable and payable	\$ 56,618	58,685
Amortization expense on bond issue costs and loss due to advance refunding	53,214	53,214

See accompanying notes to financial statements.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(1) Description of Entity

The Redevelopment Authority of the City of Milwaukee (Authority) is a separate body, corporate and politic, which was created by state statute in 1958. It is directed by seven commissioners, including two aldermen, who are appointed by the Mayor and confirmed by the Common Council. The City of Milwaukee (City) includes the Authority as a discretely presented component unit in its general purpose financial statements because the City is financially accountable for the Authority. This financial accountability is evident in the appointment of all of the Authority's commissioners.

The Authority is responsible for activities related to the prevention and elimination of blight and slum conditions. Authority powers include the ability to establish redevelopment areas; take title to property; sell or lease that property for use in accordance with a redevelopment plan; assist private acquisition, improvement, and development of blighted property; and to issue bonds to finance its activities. Urban renewal and redevelopment recommendations are submitted to the Common Council for approval.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the net realizable value of real estate held for redevelopment, loan loss reserves, and environmental reserves. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

All deposits and investments with original maturities of three months or less are considered to be cash equivalents.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(d) *Real Estate Held for Redevelopment*

Property is purchased to assist private acquisition, improvement, and development for the prevention and elimination of blight and slum conditions. Properties are valued at the lower of cost or market value based on their estimated net realizable value. Any proceeds from the sale of property that was purchased with federal monies are required to be returned to the federal granting agency. A liability for \$7,520,915 and \$8,154,145 as of December 31, 2001 and 2000, respectively, included within refundable advance from the federal government, represents funds received for the purchase of real estate held for redevelopment. The net realizable value of the property is recognized as a refundable advance from the federal government.

(e) *Parking Facilities*

Parking facilities are stated at cost. Expenditures for ordinary and extraordinary maintenance and repairs are charged to expense as incurred. Betterments and additions are capitalized. The Authority sold one of the parking facilities in 2000.

(f) *Bond Issuance Costs*

Bond issuance costs are amortized over the life of the bonds.

(g) *Environmental Remediation Costs*

Expenses for environmental remediation costs are recognized when it is probable that a liability has been incurred and the amounts can be reasonably estimated. The Authority accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

(h) *Arbitrage Rebate Payable*

The Authority has one outstanding bond issue as of December 31, 2001 and 2000 that is under the authority of U.S. Treasury Regulation 1.148 regarding arbitrage profits, which requires that certain arbitrage profits be rebated to the Internal Revenue Service. The Authority believes that there are no arbitrage profits that will be rebated to the Internal Revenue Service.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(i) Conduit Debt and Other Debt Obligations

From time to time, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by mortgages, revenue agreements on the associated projects, or letters of credit. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Fees collected from private business enterprises for the issuance of the industrial revenue bonds are recognized as revenue when collected.

As of December 31, 2001, the Authority has sold approximately 85 separate issues in the total principal amount of approximately \$536 million (not including eight issues totaling \$42 million issued under the Job Opportunity Bond Fund Program). As of December 31, 2000, the Authority has sold approximately 83 separate issues in the total principal amount of approximately \$504 million (not including eight issues totaling \$42 million issued under the Job Opportunity Bond Fund Program). Approximately \$256 million and \$230 million remained outstanding at December 31, 2001 and 2000, respectively.

The Authority also has issued certain Economic Development Bonds under the Job Opportunity Bond Fund 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, the Common Council of the City, or against any individual of the Common Council of the City or any officer or agent of the City.

(j) Refundable Advance from the Federal Government

The Authority receives funds from the federal government, through the Department of Housing and Urban Development (HUD) (passed through the City's Community Development Block Grant program), to assist the Authority in accomplishing its objective of preventing and eliminating blight and slum conditions. Outstanding fund balances relating to real estate held for development are recorded as a refundable advance from the federal government in the balance sheets.

(k) Income Taxes

The Authority is not subject to income taxes, pursuant to Internal Revenue Code Section 115. Therefore, no provision has been made for income taxes in the accompanying financial statements.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(1) 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 fund type activities may 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 (ARBs) on the Committee on Accounting Procedure. The Authority has elected to apply only FASB, APB, and ARB materials issued on or before November 30, 1989.

The GASB recently issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The Authority intends to implement GASB No. 34 for the year ended December 31, 2002. Management does not believe that the adoption of GASB No. 34 will have a significant impact on the results of operations and financial condition.

(3) Related Party Transactions

The Authority is a component unit of the City of Milwaukee, Wisconsin. During 2001 and 2000, the Authority received subsidies from the City of Milwaukee for conservation, development, environmental, and land management costs of \$2,285,564 and \$2,091,668, respectively. Substantially all individuals who work for the Authority are employees of the City of Milwaukee. Wages and related fringe benefits are paid by the City of Milwaukee. No reimbursements were made to the City in 2001 and 2000. In addition, the Authority has certain operating leases (see note 7) and issued notes payable (see note 6) and amounts due to the City of Milwaukee.

As of December 31, 2001 and 2000, the City of Milwaukee had loaned \$17,755,313 and \$10,984,320, respectively, to the Authority to issue loans to developers for the purpose of renovation and improvement to existing parcels of real estate. The loans were funded through the sale of bonds within a tax incremental district, and proceeds from the loans must be returned to the City as they are received.

Pursuant to a cooperation agreement between the Authority and the Housing Authority of the City of Milwaukee (HACM), proceeds from the Authority’s Job Opportunity Bonds have been used to make rehabilitation and modernization payments on behalf of HACM’s Veterans Housing Projects. HACM has pledged the Veterans Housing Projects and project revenues for payment of the debt service of the bonds (see note 6). HACM made debt service payments on behalf of the Authority of \$1,048,405 and \$1,133,695 during 2001 and 2000, respectively. The payments made by the Authority, net of the debt service payments made by HACM, have been accounted for as an advance to HACM in the accompanying balance sheets. HACM borrowed an additional \$2,000,000 from the proceeds of the Job Opportunity Bonds in 2001 and another \$3,000,000 for general operating purposes.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

In addition, HACM paid for various operating expenses on behalf of the Authority which are reimbursed by the Authority. The amount payable to HACM was \$260,110 and \$40,818 for the years ended December 31, 2001 and 2000, respectively, and is included within accounts payable.

On June 14, 1988, the Milwaukee Economic Development Corporation (MEDC) 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 MEDC, under a "Cooperative and Pledge Agreement," to be 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, which would also be available to cover any defaults. 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.

During 1990, MEDC borrowed \$2,500,000 from the Authority to fund a redevelopment loan program. The interest rate on the borrowings approximates 7.0%. Interest earned on these funds by the Authority totaled \$56,618 and \$58,685 for the years ended December 31, 2001 and 2000, respectively. The outstanding balance on the borrowings, included in the amount due to the City of Milwaukee, was \$0 and \$809,077 at December 31, 2001 and 2000, respectively.

On July 12, 2001, the Authority entered into an agreement with the City and the Board of the Captain Fredrick Pabst Theater. Under this agreement, the Authority issued bonds in the amount of \$2,245,000 to finance a portion of a renovation project of the Captain Fredrick Pabst Theater. The Authority will lease the renovation project to the City for rental payments equivalent to the Authority's debt service on the bonds. Rental payments are due and payable on or before the last day of February for each year beginning in 2002. The lease expires in 2007, at which time the City has an option to purchase the renovation project for \$1.

(4) Deposits and Investments

Deposits and investments of public funds are restricted by state statutes. Available deposits and 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 Local Government Investment Pool.

Additional restrictions may arise from local charter ordinances, resolutions, and grant obligations.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

The carrying amount of the Authority's deposits and cash on hand was \$2,503,792 and \$1,081,891, and the related bank balance was \$2,539,156 and \$1,177,774, at December 31, 2001 and 2000, respectively. Deposits include cash and were entirely covered by federal or state deposit insurance or by collateral held by the Authority's agent in the Authority's name.

Investments are valued at fair value. The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and uncollateralized investments.

December 31, 2001				
Category				Carrying amount
1	2	3		
Investments with fiscal agents:				
U.S. Government Money Market Fund	\$ —	2,210,204	—	2,210,204
Short-term Investment Money Market Fund	—	5,267,092	—	5,267,092
Other securities	200,000	—	—	200,000
	<u>\$ 200,000</u>	<u>7,477,296</u>	<u>—</u>	<u>7,677,296</u>
State of Wisconsin Local Government				
Investment Pool				10,770,296
Cash deposits				2,503,792
				<u>\$ 20,951,384</u>

December 31, 2000				
Category				Carrying amount
1	2	3		
Investments with fiscal agents:				
U.S. Government Money Market Fund	\$ —	18,000	—	18,000
Short-term Investment Money Market Fund	—	5,824,886	—	5,824,886
Other securities	628	—	—	628
	<u>\$ 628</u>	<u>5,842,886</u>	<u>—</u>	<u>5,843,514</u>
State of Wisconsin Local Government				
Investment Pool				7,578,191
Cash deposits				1,081,891
				<u>\$ 14,503,596</u>

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(5) Notes Receivable

Notes receivable are comprised of the following at December 31, 2001 and 2000:

	<u>Interest rate</u>		<u>2001</u>	<u>2000</u>
United Community Center	6.00%	\$	414,187	491,491
Next Door Foundation	6.00		346,801	346,801
16th Street Community Center	0.00		218,883	255,107
Wisconsin Preservation Fund	0.00		200,000	200,000
Historic King Place	0.00		400,000	400,000
North Avenue Commerce Center	6.00		153,655	153,655
Assisi Homes of Wisconsin, Inc.	2.00		—	13,819
Walker's Point Development Corporation	5.50		111,689	111,689
Housing Partnership Corporation	2.00		—	5,354
Lake Bluff Apartments	7.00		—	1,500,000
City Hall Square – Component I	0.00		1,000,000	1,000,000
City Hall Square – Component I	3.00		1,350,000	1,350,000
City Hall Square – Component III	3.00		1,000,000	1,000,000
City Hall Square – Component III	3.00		1,100,000	1,100,000
G/S Partnership	7.15		313,808	330,142
Dreamland	5.90		115,040	120,499
Courtyard Marriott	6.50		2,042,201	2,108,921
Ogden Development Group, Inc.	6.00		1,818,798	1,818,798
O'Dellian Group, Inc.	6.00		299,771	296,284
Lakefront Brewery	5.00		40,000	40,000
Ivory Retail/Office	6.50		2,400,000	—
Ivory Hotel Investment	6.50		2,000,000	—
AMR Society 4 Quality	6.50		2,000,000	—
New Arcade LLC	7.10		1,636,934	—
Mr. and Mrs. Franklin Dewey	7.50		11,481	11,960
Mr. Christopher Fons	7.50		10,328	10,537
Ms. Cynthia Jones	7.00		424	12,381
Mr. Matthew Nash	6.00		14,460	15,490
Ms. Vivian Podlesnik	6.00		12,012	12,722
Louis A. Ratliff	7.50		8,789	9,338
Ms. Joyce Schramek	6.00		—	13,545
Mr. Gregory Stebbins	7.50		—	20,040
H. Schoer LTD	0.00		28,750	28,750
		\$	<u>19,048,011</u>	<u>12,777,323</u>

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(6) Long-term Debt

Long-term debt of the Authority is as follows:

	<u>Interest rate</u>	<u>Final maturity date</u>	<u>2001</u>	<u>2000</u>
Redevelopment Lease Revenue Bonds – Pabst Theater Renovation Project, Series 2001 (see note 3)	3.50 – 3.95%	2007	\$ 2,245,000	—
Redevelopment Revenue Refunding Bonds – Job Opportunity Bond Program, Series 1996	3.75 – 4.80%	2005	<u>3,845,000</u>	<u>4,705,000</u>
			6,090,000	4,705,000
Less:				
Current portion			900,000	860,000
Unamortized loss on Series 1996 advanced refunding			<u>323,346</u>	<u>405,903</u>
			<u>\$ 4,866,654</u>	<u>3,439,097</u>

The Bradley Center Parking Facilities Project Revenue Bonds were secured by the Fourth and Highland Street parking facility and gross revenues from the facility. The outstanding bonds were paid in full at the time of the sale of the parking facilities.

Aggregate annual debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 900,000	274,192	1,174,192
2003	940,000	222,288	1,162,288
2004	1,510,000	179,048	1,689,048
2005	1,575,000	114,438	1,689,438
2006	570,000	45,163	615,163
Thereafter	<u>595,000</u>	<u>23,503</u>	<u>618,503</u>
	<u>\$ 6,090,000</u>	<u>858,632</u>	<u>6,948,632</u>

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

The Authority has pledged funds which are available to cover any default of the Job Opportunity Bonds. In the event of default, deposits with the Authority's fiscal agent of \$4,080,314 and \$1,035,297 as of December 31, 2001 and 2000, respectively, would be made available to the extent necessary to cover any default. The deposits include \$3,000,000 and \$452,640 advanced from MEDC (see note 3) as of December 31, 2001 and 2000, respectively.

One participant in the Job Opportunity Bond Fund Program defaulted on its loan. During 2000, the Authority made the required principal and interest payment of \$5,948,171 on behalf of the borrower using funds held in agency by the Authority and recorded bond default expense of \$3,114,997 and foreclosure proceeds receivable of \$2,833,174. The Authority had first rights to this participant's assets in the foreclosure process. During 2001, the Authority received \$2,835,948 from foreclosure proceeds of the participant's assets.

(7) Bradley Center Parking Facility Lease Agreement

The Authority entered into a lease agreement on July 1, 1987 with the City for the use of the Bradley Center Parking Facility (the Project). The lease required quarterly payments by the City in amounts equal to the sum of the interest due on all outstanding bonds plus the principal maturities, less any amounts available in the bond fund. The lease agreement was scheduled to expire on August 1, 2006 unless terminated earlier.

During 2000, the City exercised its option to purchase the land and facilities of the Project. The purchase price of \$3,450,001 was an amount sufficient to pay principal and accrued interest on all outstanding bonds plus the amount of all outstanding trustee fees and expenses plus one dollar. The Authority incurred a loss on the early extinguishment of debt of \$48,617, which is included within the conservation, development, and land management line item of the statement of revenues, expenses, and changes in retained earnings. The Authority also incurred a loss on the sale of the Bradley Center Parking Facility, which is included in gain (loss) on sale of real estate.

(8) Funds Held in Agency

Through December 31, 2001, the Authority issued \$13,240,000 of tax-exempt bonds under the Job Opportunity Bond Fund Program to three private businesses. The outstanding balance of these bonds was \$8,550,000 and \$8,960,000 as of December 31, 2001 and 2000, respectively. The borrowers of these funds have entered into loan agreements with the Authority which have identical interest rates and principal reductions as the underlying bonds. These bond issues do not constitute an indebtedness of the Authority within the meaning of any statutory limitation and do not constitute or give rise to a charge against the Authority's general credit or taxing powers, nor is the full faith and credit of the Authority pledged to the payment of the principal or interest regarding these bonds. The Job Opportunity Bond Fund Program requires the borrowers to pay a 1% credit enhancement fee.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

The Authority has pledged funds under a Cooperative and Pledge Agreement which are available to cover any defaults of borrowers participating in the Job Opportunity Bond Fund Program. In the event of default, deposits with the Authority's fiscal agent of \$154 and \$687,432 as of December 31, 2001 and 2000, respectively, would be made available to the extent necessary to cover any default once all other reserves have been extinguished.

(9) Environmental Remediation Costs

Costs incurred to investigate and remediate contaminated real estate held for redevelopment are expensed when determined to be probable and estimable. Management has recorded a liability of \$2,026,789 and \$3,002,836 as of December 31, 2001 and 2000, respectively. The Authority believes there may be additional liabilities for properties owned, which will be estimated upon identification.

The Authority has assumed responsibility for the payment of environmental remediation costs for certain properties with potential environmental contamination that it sold in accordance with a redevelopment plan. Accrued environmental remediation costs include approximately \$665,164 at December 31, 2001 and 2000.

(10) Retirement Plan and Other Postretirement Benefits

(a) Plan Description

The Authority makes contributions to the Employees' Retirement System of the City of Milwaukee (System), a cost-sharing, multiple-employer defined benefit pension plan, on behalf of all eligible Authority 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 City. 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.

(b) Funding Policy

The Authority contributes both the employee and employer share of the required contribution. The employees' share of the annual contribution is 5.5% of their annual salary exclusive of overtime, while the employer's share is calculated based upon an actuarial valuation made at the beginning of each fiscal year. The City is required to contribute an actuarially determined amount. The City Charter assigns the authority to establish and amend contribution requirements. The Authority's contribution to the System for the years ending December 31, 2001, 2000, and 1999 was \$17,081, \$12,118, and \$9,499, respectively.

The City provides postemployment medical and life insurance coverage for substantially all retirees. Such benefits are recorded when paid. These costs are recorded in the City of Milwaukee general fund.

**REDEVELOPMENT AUTHORITY
OF THE CITY OF MILWAUKEE**
(A Component Unit of the City of Milwaukee, Wisconsin)

Notes to Financial Statements

Years ended December 31, 2001 and 2000

(11) Community Development Block Grant

The Authority was granted approval of \$21,500,000 of Community Development Block Grant funds to be used as loan funds pursuant to Section 108. The Authority has executed promissory notes payable to HUD. The City has made the required pledge of future Community Development Block Grant funds, and the Authority has used the proceeds of the notes to fund conduit financing with third-party borrowers to accomplish the program purposes. The refundable advance to HUD is \$0 and \$600,000 as of December 31, 2001 and 2000, respectively. Loans of \$1,037,490 and \$1,199,412 existed as of December 31, 2001 and 2000, respectively.